

An analysis of business-related factors on small businesses

IRMA KOTZÉ

11202203

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Study leader: Prof R.A. Lotriet

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ABSTRACT

The study was based on the evaluation of specific business-related factors concerning small businesses in the formal sector.

The purpose of this study was to gain a clear understanding of the current education level of employees in the small business industry. Income and business related costs applicable to small businesses and formal business support was also evaluated in terms of its availability to small businesses. By means of investigation it was possible to conclude to what extent small businesses contribute towards economic growth in South Africa. The South African government is definitely aware of the important role which small businesses play in economic growth and poverty reduction.

Small businesses were analysed to determine the education level of both employees and business owners. The contribution which business owners made to training and development of their employees was also investigated. The income over a period of five years were analysed to determine the financial sustainability of the businesses. The impact of business related costs and the global economic recession were also investigated to determine the future sustainability of small businesses. The empirical research was conducted at a financial institution in Klerksdorp to assess the contribution which small businesses made towards economic growth and development.

Small businesses' contribution towards education and training must be reconsidered as limited opportunities exist within small business for training. Small business owners cannot afford to send their employees away to obtain training and mainly make use of on-the-job training. SETAS must focus more on small businesses when it comes to training and alternative training methods must be reconsidered. The implementation of complex labour legislation and the minimum wages law make unskilled labour very expensive for small business owners. This must be reconsidered as small businesses cannot afford to employ additional employees. Formal business support available to small business owners were perceived not to be marketed very well although the lack of internet access may contribute to the limited knowledge in this regard. The South African government must reconsider its strategy to utilize small businesses to create jobs and to develop skills.

Key words: Small businesses in South Africa; Business-related factors; Small business support; SMMEs

OPSOMMING

Die studie is gebaseer op die evaluering van spesifieke besigheidsverwante faktore met betrekking tot klein besighede in die formele sektor.

Die doel van die studie is om te bepaal wat die huidige onderrigvlak van werknemers in die klein besigheidsindustrie is. Die inkomste van klein besighede sowel as besigheidsverwante uitgawes met betrekking tot die besighede is geëvalueer. Formele ondersteuning aan klein besighede is ook met die studie geëvalueer. Tydens die studie kan die bydrae van klein besighede tot ekonomiese groei in Suid-Afrika bepaal word. Die Suid-Afrikaanse regering is deeglik bewus van die belangrike rol wat klein besighede speel in ekonomiese groei en armoede verligting.

'n Ondersoek rakende klein besighede is gedoen om die onderrigvlak te bepaal van beide die werknemers en werkgewers van die ondernemings. Die bydrae van klein besighede tot onderrig en ontwikkeling van die werknemers is ook ondersoek. Klein besighede se inkomste is oor 'n periode van vyf jaar geanaliseer om hul finansiële stabiliteit en voortbestaan te bepaal. Die impak van besigheidsverwante kostes en die wêreldwye resessie op klein besighede is ook ondersoek om hul lewensvatbaarheid te bepaal. Die empiriese studie is uitgevoer by 'n finansiële instelling in Klerksdorp om sodoende klein besighede se bydrae tot ekonomiese groei en ontwikkeling vas te stel.

Sleutelwoorde: Klein besighede in Suid-Afrika; Besigheidsverwante faktore; Klein besigheidsondersteuning; KMMO's

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LIST OF ABBREVIATIONS

BBBEE	Broad Based Black Economic Empowerment
BRAIN	Business Referral and Information Network
CC	Close Corporation
CIPRO	Companies and Intellectual Property Registration Office
DoE	Department of Education
DoL	Department of Labour
DTI	Department of Trade and Industry
EAP	Economically Active Population
FRAIN	Franchise Advice and Information Network
FY	Financial Year
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
ISIC	Industrial Classification of all Economic Activities
KOSH	Klerksdorp, Orkney, Stilfontein, Hartbeesfontein area
LFS	Labour Force Survey
NEPA	Ntsika Enterprise Agency
NERSA	National Electricity Regulator
NSBC	National Small Business Council
SACCI	South African Chamber of Commerce and Industry
SARS	South African Revenue Service
SBDC	Small Business Development Corporation
SDL	Skills Development Levy
SEDA	Small Enterprise Development Agency
SETA	Sectoral Education and Training Authority
SIPA	Swaziland Investment Promotion Authority
SMME	Small, Medium and Micro Enterprise
STATS SA	Statistics South Africa
TAP	Tourism Activity Plan
TEA	Total (early stage) Entrepreneurial Activity
THETA	Tourism and Hospitality Education and Training Authority
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
W&R SETA	Wholesale and Retail SETA

CHAPTER 1

NATURE AND SCOPE OF STUDY

1.1 INTRODUCTION

The promotion of small businesses remains an important priority of the government of South Africa. The government is committed to ensure that the number of small businesses increase progressively since they play a critical role in the growth of the South African economy (GDP) (National Small Business Act No 102 of 1996; RSA, 1996). Small businesses are directly linked to job creation, relief of poverty, skills development, equity and redress.

Since 1994, entering the new democratic era in South Africa, the government has put measures in place to ensure that small businesses develop and become the key focus of economic policy via the motion of the developmental state. In March 1995, the government released its "*White paper on national strategy for the development and promotion of small businesses in South Africa*" (South Africa, 1995). This was the first comprehensive policy and strategy formulated for small businesses in the country by the new government. The government established different programmes to provide comprehensive support to small businesses (Ntsika Enterprise Promotion Agency, 2001). These programmes delivered and promoted the establishment of an increasing number of small businesses over the period. The government definitely face an ongoing challenge in terms of the quality and scope of offerings.

Businesses can be classified as small-, medium- and micro enterprises (SMMEs) according to the total amount of employees and annual turnover generated (see: section 2.3). In this study, all businesses with 50 and less employees will be regarded as small businesses.

A large pool of employees working for SMMEs is semi-skilled (see: section 2.3 for classification). The government has committed to address the skills problem by implementing the Skills Development Act No 97 of 1999 (RSA, 1999a). The Act provides a framework for the development of skills in the workplace by means of a levy grant scheme. The Sector Education and Training Authorities (SETAS) are responsible for the disbursement of training levies

payable by all employers in the country. A compulsory skills development levy was introduced on 1 April 2000, payable by employers who are registered with the South African Revenue Service (SARS) or by employers with an annual payroll in excess of R250 000. The levy rate is 1% of the total payroll and it is payable to the South African Revenue Services (SARS) (RSA, 1999a).

Small businesses are a strategic sector which can assist the government with its major burden to support the unemployed, develop skills and to distribute income across a broader income range (Gordhan, 2010).

1.2 PROBLEM STATEMENT

With millions of South Africans unemployed (see: 2.4.3 for unemployment figures) the government has committed itself by giving priority to the development of the small business sector. Although the development of the small business sector enjoys priority, the sector still experiences business related stumbling blocks. The new government developed the White Paper on National Strategy and Promotion of Small Business in South Africa during 1996 to address the high unemployment figure experienced by all South African citizens. SMMEs were identified by government to assist them with the enormous task of job creation. There is a direct relationship between unemployment, poverty and crime (Demombynes & Ozler, 2002:4). Major interventions are needed to address the situation.

One of the major challenges is to address the lack of skills under the majority of citizens in South Africa. The implementation of the Skills Development Act No 97 of 1998 (RSA, 1998a) enables businesses that are in possession of a training programme to be reimbursed. Job creation by small businesses contributes towards economic development and sustainable growth (Chikulo, 2003:7).

Another challenge faced by small businesses is to manage the income and business related costs in such a way that the business is sustainable over the long run and contributes towards economic growth. The South African government has developed various programs, managed by the Department of Trade and Industry (DTI), to give support (see: section 2.8) and advice to small business owners and entrepreneurs. The visibility and marketing of the program is very

limited and these shortcomings have proven to be a problem for small business owners who are in need of support and advice.

Small businesses in the formal sector of the economy industry were investigated to determine the education level of employees and financial information were collected to determine the contribution of small businesses towards economic sustainability.

1.3 OBJECTIVES OF THE STUDY

1.3.1 Primary objective

The primary objective of the research was to analyse the impact of business-related factors on small businesses. The primary objective consisted of five categories namely, the demographic information of the employer or owner; education or skills level of employees; income categories of small businesses; small business related costs; formal business support available to small business owners, and the key critical success factors related to small businesses.

One of the categories evaluated in this study was the basic education level of employees employed by small businesses in the formal sector. Research indicated that a large majority of people employed in small businesses only have a grade ten or standard eight level of education. The reason for it can be linked to the high incidence of low levels of schooling under the black community whom represents the highest percentage of the South African community. The results obtained in the survey were compared with the theoretical research results.

The second category was to evaluate the net income generated by small businesses and factors influencing income. A period of five years were analysed to identify a trend in the income levels of small businesses. The income of small businesses varied due to different economic factors. Small businesses income is influenced by variables such as the type of business, location of business and the management of the business.

The third category was to identify some of the main business related costs which have escalated the most over the last five years and reasons why those costs have increased to such

an extent. The management of costs within a business remains a main priority for long-term sustainability.

The last category was to evaluate formal business support. Business owners' knowledge in regards with the available government support programs was analysed. Other support options were also investigated.

1.3.2 Secondary objectives

The secondary objectives included in this study for investigation were as follow:

- Appointment of additional employees;
- Business duration; and
- Remuneration.

1.4 SCOPE OF THE STUDY

1.4.1 Field of study

This study focuses on a sample of small businesses (utilizing the services of a financial accountant in Klerksdorp) in the North West, Gauteng, Free State and Eastern Cape Province regions. The financial accountant's business is situated in Klerksdorp and consists out of six employees with a client base of six hundred. The largest percentage (92%) of small businesses was in the North West region (see: Table 3.1). According to Moolman (1998:27), the contribution of small businesses towards the enhancement of entrepreneurship, employment, and economic prosperity have been known for decades, and gained more momentum from the mid-nineties (South Africa, 1995). The study concentrated on five categories of business operations: education level of employees, net income and business related costs (fixed costs), formal business support available to business owners, and key critical success factors related to small businesses sustainability.

1.4.2 Geographic boundaries

The research focused on small businesses in the following geographical regions: Klerksdorp, Orkney, Stilfontein, Potchefstroom, Rustenburg, Bloemhof, Jouberton, Leeudoringstad, Lichtenburg, Ottosdal, Hartbeesfontein, Pretoria, Vierfontein, Bothaville, Port Elizabeth and Marico. The majority of business owners visited their financial accountant personally in monthly intervals.

1.5 RESEARCH METHODOLOGY

Research is a systematic process employed to increase or revise current knowledge by discovering new facts or it can also be defined as a process in which scientific methods are used to expand knowledge in a particular field of study (Welman & Kruger, 2004:2). A broad literature overview and empirical research will be employed in this study to reach the identified objectives.

1.5.1 Literature study

A broad literature review will be presented to identify the issues in current literature available regarding the impact of business-related issues on small businesses in South Africa. A broad literature overview is characterised by a logical flow of ideas; current and relevant references with consistent, appropriate referencing style; proper use of terminology and an unbiased and comprehensive view of the previous research on the topic. The literature review is conducted by making use of textbooks, journals, internet and e-mails.

The literature overview of this study was conducted on the education level of employees in the formal small business sector, and the income of small businesses over a period of five years (2004 to 2009). Factors influencing the income and costs involved in small businesses were also evaluated and the impact of the recession on small business operations. Business support available to small business owners and the key critical success factors applicable to small businesses were also investigated. The literature overview assisted the researcher with the empirical study.

1.5.2 Empirical study

The empirical research was done through the analysis of quantitative data. The questionnaire was compiled by the author and aligned with the research objectives after a thorough investigation was done on the impact of business-related factors on small businesses in South Africa. A financial accountant was also consulted in connection with the draft of the issues in the questionnaire as such a person's experience in this regard is very valuable.

A great deal of consideration was given to the content of the questionnaire, relevance and interpretation of the questions. The content of the questionnaire was explained to them after which they completed it with the assistance of their financial accountant. The questionnaire was completed in the presence of a financial accountant to obtain the correct financial information required and to ensure confidentiality. Personal interaction was to the advantage of the study and the researcher as questions by the participants could be dealt with immediately. Personal interviews also contributed towards a better response rate. The following matters formed part of the empirical study:

- A pilot study was done of all clients that visited the financial accountant's practice over the period (September and October 2009) indicated.
- A hundred participants were included in this study.
- The questionnaire was designed to analyse the impact of business-related factors on small businesses in the formal sector.
- Structured interviews were also conducted as part of the empirical research in order to explain any unknown or unfamiliar terminology and to ensure that the required financial information was obtained.

The questionnaire was developed in such a way that the questions were clear and simple. It was taken into consideration that most of the business owners did have a basic financial knowledge concerning how their businesses needed to be sustainable within the current economic environment. The questions were screened by the financial accountant for correct terminology and to ensure that questions were on par with the participant's financial background. The questionnaire was divided into different sections to highlight the five main objectives.

The sections of the structured questionnaire consisted of the following (see Appendix A):

- Section A: Background information concerning the business owner
- Section B: Educational assessment of the employees
- Section C: Income related aspects of businesses
- Section D: Small business related costs
- Section E: Formal business support and success factors

1.5.2.1 Data collection

Data were generated by means of a questionnaire which was combined with an informative interview. The questionnaire included a cover letter to explain the purpose of the study and it also assured the participants that all information will be treated as confidential and anonymously. Unfamiliar financial terminology was explained by the financial accountant to ensure a smooth and quick completion of the questionnaire. Financial statements for a five year period were recalled on a computer back-up system to obtain the specific financial information requested in the questionnaire.

Questionnaires were duplicated and kept in the office of the financial accountant. All clients that visited the practice during the period of September to the end of October 2009 were requested to complete the questionnaire. Clients visit the practice on a regular basis to hand in tax documents and to obtain financial advice.

Data were recorded and interpreted by the researcher to present the reader with conclusions and recommendations on the concerned topic. The analysis of the data was performed by the Statistical Consultation Services of the North-West University and the graphs were constructed by the author in order to visually depict the data. Conclusions and recommendations were given after gathering and interpreting the information received from the respondents.

1.6 LIMITATIONS OF THE STUDY

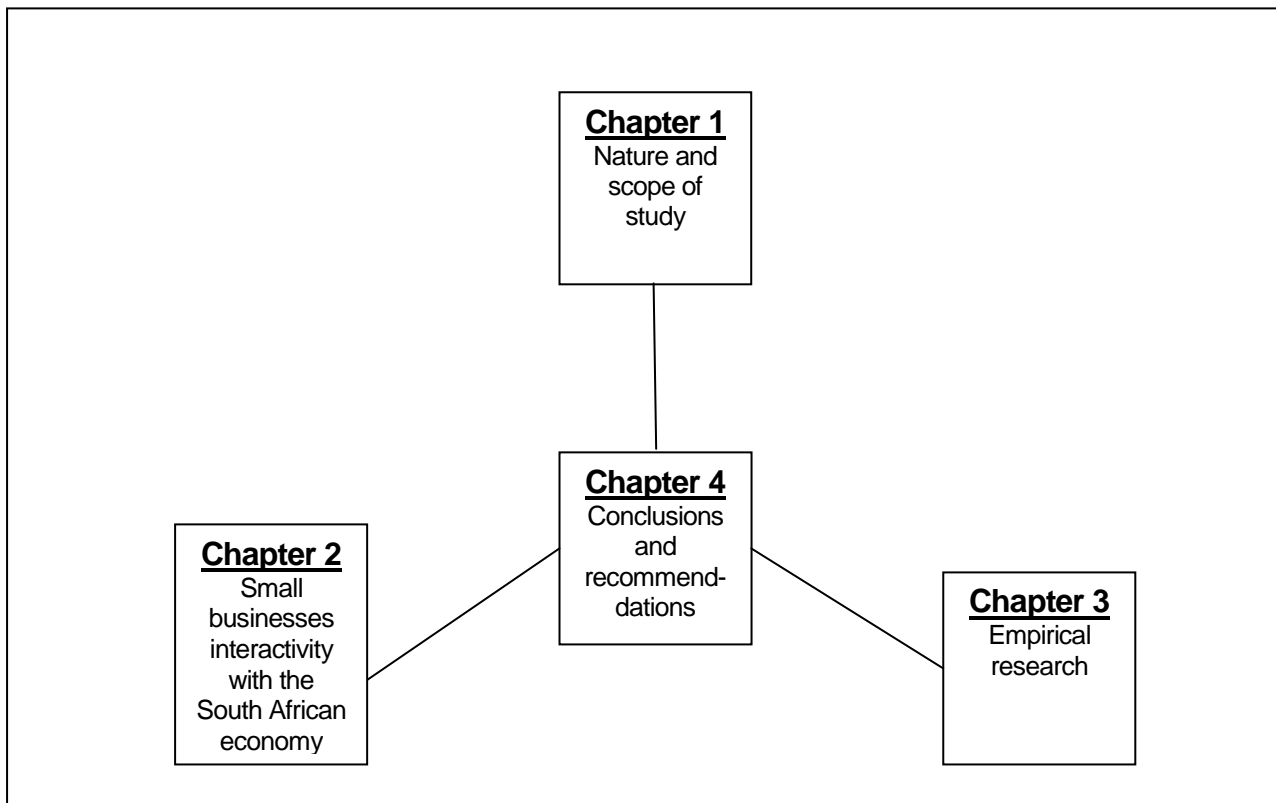
Various factors may have an effect on the research results and on the response rate. The limitations should be taken into account when the results and conclusions of this research are studied. The following limitations were identified during the study:

- A large amount of financial statements were still outstanding or incomplete upon reaching the end of the financial year in February 2009. The scenario limited the total amount of businesses which could be included in this study.
- Confidentiality was ensured and kept at all times but some business owners were still hesitant when it came to the disclosure of the remuneration of their employees.
- The basic financial background of participants was over-estimated and it necessitated personal interviews with participants.
- The Ntsika website was unavailable at times when information and statistics were required (May 2010). The website contains information in regard to the total amount of businesses that made use of DTI support programs.
- The cost, time and respondents available involved in a study of such a kind proved to be a challenge.
- Businesses which are not registered for VAT could not be included in this study. The study was a formal business analysis on registered businesses.
- Businesses that are not making use of an accountant for their financial needs are not included in this study.
- The income of businesses for a period of only five years were analysed due to a time constraint.
- Only specific business-related factors were researched due to the variety of possibilities.
- The Global Entrepreneurship Monitor of 2008 could not be used as detailed information of South African entrepreneurs profile was not included in this survey as in the 2006 survey done by Maas & Herrington (2006).

1.7 LAYOUT OF THE STUDY

The study is divided into four chapters. A chapter layout is presented in figure 1.1.

Figure 1.1 Study outlay



(Source: Own compilation)

Chapter 1 contains the scope and nature of this study. The chapter includes an introduction, problem statement as well as the primary and secondary objectives of this study. The largest percentage of participants was situated in the North West region. The research methodology, questionnaire layout and limitations also form part of chapter one. The chapter is concluded with a layout of the study.

Chapter 2 consists of a comprehensive literature review on small business interactivity in the South African economy. The literature review is based on the education level of employees commonly found in small businesses in South Africa. It further focuses on the income generated by small businesses and their contribution towards economic growth and sustainability. Business related costs associated with small business operations and the availability of formal business support to small business owners is also assessed. Small businesses are considered to be instrumental in assisting the government in its major task of addressing unemployment, poverty and crime. The attributes mentioned will also be assessed.

Chapter 3 conducts an empirical study amongst small business owners by means of a questionnaire and personal structured and non-structured interviews to form a clear picture of the impact of business-related factors on small businesses as identified.

Chapter 4 provides the conclusions and recommendations in context to the research findings obtained from the questionnaires and personal interviews. Possible recommendations in regard to the different sections are also provided.

1.8 SUMMARY

Small businesses were analysed to determine their contribution towards the South African economy (GDP) and the impact of business-related factors on small businesses. Businesses were also analysed to see if they are aligned with the National Strategy for the development and promotion of small businesses in South Africa in order to assist the government with its major challenge of job creation, poverty relief, skills development, equity and redress. The support systems available to small business owners were also investigated to encourage small business operations.

In the next chapter a comprehensive literature review will be executed on specific business-related factors on small businesses.

CHAPTER 2

SMALL BUSINESSES INTERACTIVITY WITH THE SOUTH AFRICAN ECONOMY

“The SMME (small, micro and medium sized enterprises) sector is widely regarded as the driving force in economic growth and job creation in both developed and developing countries”

(Lunsche & Barron, 1998:1)

2.1 INTRODUCTION

Small businesses have the ability to play an important role in South Africa's economy. A considerable amount of emphasis is placed on the contribution that small businesses can make towards relieving the high levels of unemployment and job creation in South Africa (Döckel & Ligthelm, 2005:54).

In 1994, the newly elected South African government has reiterated the important role the South African government plays in the creation and growth of small businesses. The South African government has also implemented a policy framework to provide an enabling environment for small businesses to grow. The White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa has come into being in March 1995 (South Africa, 1995). The South African government has identified goals regarding equity and redress; black empowerment; economic competitiveness; employment creation and poverty reduction which they want to achieve by developing and promoting small businesses in South Africa. The goals identified are researched in this chapter under the demographic background of small businesses; education level of employees; income categories of businesses and business-related costs contributing towards long-term sustainability of businesses, and formal business support available to business owners.

Small businesses play an important role in achieving these goals. A number of constraints are hampering the development of small businesses (South Africa, 1995). The Department of Trade and Industry (DTI) identified a number of constraints which are faced by small business enterprises, such as (South Africa, 1995):

- the legal and regulatory environment;
- access to markets;
- access to finance and affordable business premises;
- the acquisition of skills and managerial expertise;
- access to appropriate technology;
- the tax burden; and
- access to quality business infrastructure in poor areas.

The South African government with the aid of the DTI has implemented a range of products and services to improve small business development and sustainability. The services include access to finance and an advisory function to assist with all the aspects involved in the start-up of a new small business. The South African Revenue Services (SARS) and the National Treasury reduced the tax and cost burden on small enterprises to contribute to the development of small businesses. In the following section, a broad literature review is done on the conceptualisation of small businesses in South Africa.

2.2 CONCEPTUALISATION OF A SMALL BUSINESS

Different interpretations exist in South African literature concerning the concept of a *small business*. It is important to properly define a small business since it forms a critical part in the selection process of the companies which are assessed in this study.

Small and medium-sized enterprises in Europe are defined as firms with fewer than 250 employees, collectively employ 88 million people and account for two-thirds of the private-sector employment (Anon., 2009:63). The Small Business Administration in the United States defines a small business according to industry, size standards or average annual receipts (Small Business Administration, 2010).

The National Small Business Act (The Republic of South Africa National Small Business Act No 102 of 1996) (RSA, 1996) provides a more comprehensive definition of a small business – the Act describes a small business as a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more, including its branches or subsidiaries. The Act uses employment, turnover and assets as criteria to classify small businesses (see: Table 2.1). ***Small businesses are firms, which employ less than 50, but more than 5 workers and are more established and have more complex business practices.***

For the purpose of this study, small businesses will be classified as those organisations employing 50 employees and less within the formal industry of the economy. Formal businesses are also known as enterprises registered by the DTI. A formal business portrays the following characteristics:

- The name of the business is registered (including a physical address);
- The business is registered as a legal entity, for example, as a close corporation;
- The business is registered with the South African Revenue Services (SARS);
- The business is registered for the Skills Development Levy (SDL);
- Consists mainly of full-time employees which are working a maximum of 45 hours in any week (Basic Conditions of Employment Act No 75 of 1999) (RSA, 1999b);
- Employees are registered with the Department of Labour (Unemployment Insurance Fund);
- Employees are registered for Value Added Tax (VAT); and
- A complete set of accounting books must be kept by a bookkeeper or accountant and it must be available on the business premises.

In the next section, a detailed classification of small businesses according to the South African Small Business Amendment Act No 26 of 2003 (RSA, 2003) will be given.

2.3 FORMAL CLASSIFICATION OF SMALL BUSINESSES

In this section, the technical specifications of small businesses will be given according to sectors and sub-sectors of the economy as classified according to the South African National Small Business Amendment Act No 26 of 2003 (RSA, 2003).

The South African National Small Business Amendment Act 26 of 2003 also uses the total number of employees, total annual turnover and total gross asset value to classify small businesses in the different sectors and sub-sectors of the economy (See: Table 2.1).

Table 2.1: Classification of Small Businesses according to the National Small Business Amendment Act No 26 of 2003

Sector or sub-sectors in accordance with the standard industrial classification	size or class	Total full-time equivalent of paid employees: less than:	Total annual turnover: less than:	Total gross asset value (fixed property excluded): less than
Agriculture	Small	50	R 3.00 m	R 3.00 m
	Very small	10	R 0.50 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m
Mining & Quarrying	Small	50	R 10.00 m	R 6.00 m
	Very small	20	R 4.00 m	R 2.00 m
	Micro	5	R 0.20 m	R 0.10 m
Manufacturing	Small	50	R13.00 m	R 5.00 m
	Very small	20	R 5.00 m	R 2.00m
	Micro	5	R 0.20 m	R 0.10 m
Electricity, Gas and Water	Small	50	R13.00 m	R 5.00 m
	Very small	20	R 5.10 m	R 1.90 m
	Micro	5	R 0.20 m	R 0.10 m
Construction	Small	50	R 6.00 m	R 1.00 m
	Very small	20	R 3.00 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m
Retail, Motor and Repair Services	Small	50	R19.00 m	R 3.00 m
	Very small	10	R 4.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Small	50	R32.00 m	R 5.00 m
	Very small	10	R 6.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Catering, Accommodation and other Trade	Small	50	R 6.00 m	R 1.00 m
	Very small	10	R 5.10 m	R 0.90 m
	Micro	5	R0.20 m	R0.10 m

Table 2.1: Classification of Small Businesses according to the National Small Business Amendment Act No 26 of 2003 (continued)

Transport, Storage and Communication	Small	50	R13.00 m	R 3.00 m
	Very small	10	R 3.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Finance and Business Services	Small	50	R13.00 m	R 3.00 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m
Community, Social and Personal Services	Small	50	R 6.00 m	R 3.00 m
	Very small	10	R 1.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m

Source: National Small Business Amendment Act No 26 of 2003 (RSA, 2003)

In Table 2.1, all the sectors and sub-sectors are classified in accordance with the Standard Industrial Classification. The number of employees differs only in the very small size category of the sectors and sub-sectors as classified. The maximum number of full-time employees employed in small businesses throughout the sectors is 50. The total annual turnover and gross asset value also differ according to sector and sub-sector. The total number of full-time employees employed in small businesses was utilized in the empirical study to classify the businesses analysed. In the next section, the contribution of small businesses to the South African economy will be discussed.

2.4. THE CONTRIBUTION OF SMALL BUSINESSES TO THE SOUTH AFRICAN ECONOMY

The South African government has identified specific economic goals (see: section 2.1) which they aim to achieve by developing and promoting small business in South Africa. In the following section, the population, unemployment figures and the Gross Domestic Product (GDP) is studied and its impact on small businesses.

2.4.1 Small businesses contribution towards the Gross Domestic Product (GDP)

The contribution of small businesses towards economic growth and well-being can be measured by the GDP. GDP is our single best measure of the value of output produced by an economy. The GDP can be defined as the market value of all goods and services produced within a country in a given year (Carbaugh, 2007:14). Considering the economy as a whole,

under the model presented by SEDA (SEDA, 2007:49), the gross value added generated by SMMEs (employing less than 50 full-time employees) amounts to R572 billion (assumption 1) or to R493 billion (assumption 2) in 2006, which is an increase from R313 billion or R274 billion in 2000 (South Africa, 2008c). Percentage wise, micro, very small and small businesses account for 27% to 34% of the total GDP.

In Table 2.2, the percentage change in gross earnings can be seen according to the different industries. An increase in gross earnings in all the sectors is seen over the past year which is an indication of economic well-being. The construction industry has experienced the largest percentage increase in gross earnings during the past year which may be owing to South Africa hosting the 2010 Soccer World Cup.

Table 2.2 follows on next page

Table 2.2: Gross earnings paid to employees according to industry as classified by the Industrial Classification of all Economic Activities (ISIC)

Industry	Annual Gross Earnings end June 2010 (Rand)	Percentage (%) change between June 2009 and June 2010	Quarterly gross earnings end June 2010 (Rand)	Percentage change (%) between quarter end June 2010 and quarter end March 2010
Mining and quarrying	1766 m	11.3	308 m	1.8
Manufacturing	3963 m	11.8	621 m	1.7
Electricity, gas and water supply	499 m	14.4	103 m	2.7
Construction	2085 m	22.3	800 m	7.5
Wholesale and retail trade; repair of motor vehicles; motor cycles and personal and household goods; hotels and restaurants	3889 m	10.9	1462 m	3.8
Transport, storage and communication	2577 m	17.2	483 m	2.8
Financial intermediation; insurance; real estate and business services	7457 m	11.4	490 m	(0.7)
Community, social and personal services	15 463 m	19.2	2036 m	2.2

(Source: Statistics South Africa, 2010)

In the next section, small businesses' contribution towards formal employment is discussed by looking at the population distribution per province, the unemployment figures and the geographic location of small businesses.

2.4.2 Gross Domestic Product per province

The Gross Domestic Product (GDP) per province is an indication of the distribution of small businesses within the particular province – the larger the GDP, the higher the number of small businesses (Sanchez, 2004). In Table 2.3, the percentage GDP contribution per province is given (Statistics South Africa, 2006).

Table 2.3: Gross Domestic Product by region

Province	% GDP (at market prices) for the year 2005
Western Cape	14.7
Eastern Cape	7.9
Northern Cape	2.2
Free State	5.5
KwaZulu-Natal	16.3
North-West	6.3
Gauteng	33.7
Mpumalanga	6.7
Limpopo	6.7
Total	100

(Source: Statistics South Africa, 2006)

Gauteng, South Africa's economic powerhouse, is the most populous of the country's provinces, although it is by far the smallest geographically. Some 11.19 million people live in the province (22.4% of the total). It is followed by KwaZulu-Natal, with 10.65-million people (21.3%), the Eastern Cape with 6.74 million (13.5%), Limpopo with 5.44-million (10.9%), the Western Cape with 5.22-million (10.4%), Mpumalanga with 3.20-million (7.2%), North West with 3.2-million (6.4%) and the Free State with 2.82-million (5.7%) (Statistics South Africa, 2010).

In terms of the relative sizes of the provincial economies, Gauteng province is the largest contributor to South Africa's GDP whilst the Northern Cape is the province with the smallest contribution to South Africa's GDP.

In the following section, the unemployment figures per provinces are discussed. The unemployment figures in South Africa are also an indication of an increase in small business operations.

2.4.3 Unemployment by province

The South African government is committed to create jobs to alleviate poverty by supporting small business operations. Unemployment can be defined as those persons between the age 15 to 64 who:

- were not employed in the reference week;
- actively looking for work or tried to start a business in the four weeks preceding the survey interview;
- were available for work, that is, would have been able to start work or a business in the reference week; or
- had not actively searched for work in the past four weeks but had a job or business to start at a definite date in the future and were available (Statistics South Africa, 2010).

In Table 2.4, the unemployment figures are given for the past year by way of province.

Table 2.4: Unemployment figures by province

Province	Apr-Jun 2009 (Thousand)	Apr-Jun 2010 (Thousand)	%Year-on-year change
Eastern Cape	560	515	(8.0)
Northern Cape	129	107	(17.1)
Free State	12	11	(8.3)
KwaZulu-Natal	165	142	(13.9)
North West	56	66	17.9
Gauteng	44	27	(38.6)
Mpumalanga	42	61	45.2
Limpopo	92	84	(8.7)
South Africa	12	11	(8.3)

(Source: Statistics South Africa, 2010)

In Table 2.4, it can be seen that only two provinces experienced an increase in unemployment namely, the North West province and the Mpumalanga province. In Table 2.5, the rate of unemployment by population group is given.

Table 2.5: Unemployment rate by population group

Period	Black/African	Coloured	Indian/Asian	White	South Africa
Q3: 2009*	28.6	21.3	12.6	4.9	24.4
Q2: 2010**	29.4	22.6	10.2	6.4	25.2
Q3: 2010	29.8	22.3	8.6	5.1	25.3

Notes: * Q3: Jul –Sept; ** Q2: Apr-Jun

(Source: Statistic South Africa, 2010a)

The unemployment rate by population group has increased for all the population groups from quarter 3 in 2009 until quarter 3 in 2010 except for the Indian/Asian population group. Overall, South Africa experienced an increase in the unemployment rate. In the following section, the geographic location of small businesses is discussed.

2.4.4 Geographic location of small businesses

Different factors contribute to the geographic location of small businesses in South Africa, namely (Sanchez, 2004):

- economic growth; and
- GDP.

Gauteng province is the leading province for formal business operations; it accommodates 48% of formal businesses. The Western Cape is the second largest province where formal small businesses (19%) are concentrated. Provinces like KwaZulu-Natal, Eastern Cape and Limpopo have smaller percentages of formal businesses due to their large rural populations. In Table 2.6, the provincial distribution of small businesses in the formal sector is given.

Table 2.6: Provincial distribution of SMMEs in the formal sector

Province	Formal Sector (March 2007)
Eastern Cape	5.3%
Northern Cape	1.2%
Western Cape	19%
Free State	3.2%
KwaZulu-Natal	13.0%
North West	3.2%
Gauteng	48.1%
Mpumalanga	4.1%
Limpopo	2.9%
Total	100%

(Source: Department of Trade and Industry (South Africa, 2007))

In the following section, the National Small Business Act No 102 of 1996 (RSA, 1996) will be discussed as the South African government identified small businesses as a strategic sector to obtain their goals as identified (see: section 1.1).

2.5 THE NATIONAL SMALL BUSINESS ACT NO 102 of 1996

The White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa was tabled in Parliament on March 1995. Since the elections in April 1994 the Government became well aware of the issues of economic empowerment and growth. With millions of South Africans unemployed the government has no option but to give its full attention to the fundamental task of job creation and generating sustainable and equitable growth. The reason for identifying small businesses is that throughout the world small businesses are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. Another reason is the contribution of small businesses towards the GDP of the country.

The National Small Business Act No 102 of 1996 was implemented to support the South African government in reaching their goals. The act was amended in 2003 and is now the National Small Business Amendment Act 26 of 2003 (RSA, 2003).

The South African government has identified the following key objectives that summarise their involvement in the support and promotion of small businesses (South Africa, 1995):

- Create an enabling environment for small enterprises;
- Facilitate greater education of income, wealth and earning opportunities;
- Address the legacy of apartheid-based disempowerment of black business;
- Support the advancement of women in all business sectors;
- Create long-term jobs;
- Strengthen sector-focused economic growth;
- Level the playing fields between bigger and small playing fields between bigger and small business as well as between rural and urban businesses; and
- Prepare small businesses to comply with the challenges of an internationally competitive economy.

Besides the implementation of the National Small Business Act No 102 of 1996 to reach the objectives set by the South African government, factors were identified in the empirical study that plays an important role in the long-term sustainability of small businesses, which will be discussed in the next section.

2.6 FACTORS THAT INFLUENCE THE SUSTAINABILITY OF SMALL BUSINESSES IN THE ECONOMY

The following factors were identified by means of component factor analysis to have an impact on the sustainability of small businesses in the formal industry (see: Chapter 3):

- Demographic characteristics of employers;
- Business forms;
- Business duration;
- Fringe benefits;

- Skills development;
- Remuneration;
- Appointment of additional employees;
- Small business income;
- Broad Based Black Economic empowerment;
- Access to capital;
- Small business operating costs;
- Economic downturn;
- Formal business support;
- Affiliation with regional and local business chambers;
- Ethical code; and
- Success factors.

In the following section, all the factors identified to have an impact on small businesses' sustainability are discussed.

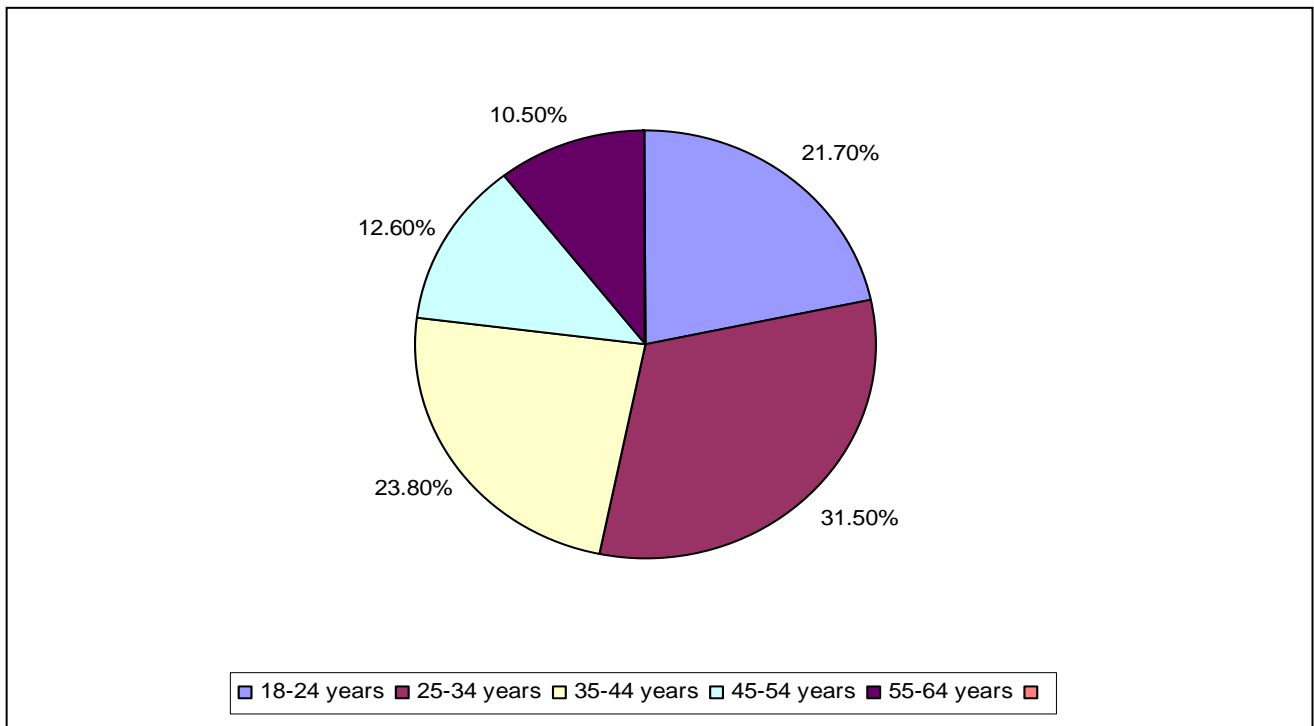
2.6.1 Demographical characteristics

A study executed by Brian Headd (2000:13) indicated that there are definite differences in the workforce employed in small businesses in comparison to large businesses. The differences are based on characteristics such as education, race, origin, age and part-time status. A large quantity of small businesses is more recent start-ups and situated in rural areas. These small businesses are associated with a lower economics of scale and commonly encompass the provision of specific services such as communication services. The workforce is different due to different employee needs and resources available at small businesses and this has a direct impact on the education level and occupations of small business employees. The level of education of employees associated with small businesses range from Grade 12 to lower levels of education. The suggestion is that small businesses play a major role in aiding those making the transition from welfare to work and may provide an explanation for the abovementioned occurrence. In this section, the demographics of small business owners will be discussed by looking at the following factors: age group, gender and education level of small business owners managing and owning small businesses.

2.6.1.1 Age profile

The 2006 GEM survey provides an age profile of respondents who are categorised as entrepreneurs within the Total (early-stage) Entrepreneurial Activity (TEA) definition. The majority of respondents (31.50%) are in the age group 25 to 34 years (see: Figure 2.1). According to the GEM survey, if one takes into account that 43% of the South African population were below 20 years of age and a further 19% between the ages of 20 and 29, it represents a positive situation where a large number of younger entrepreneurs are entering the market (Maas & Herrington, 2006:29).

Figure 2.1: Age profile of entrepreneurs in the 2006 GEM survey



(Source: Maas & Herrington, 2006:19)

In the following section, the gender and population group of persons of working age who own and manage a business are illustrated.

2.6.1.2 Gender and population

This section looks at the interaction of gender and population group among business owners of working age (15 to 65), as reflected in the Labour Force Survey (LFS) data. In Table 2.6, it is clear that the male non-African business owners dominated the formal sector in March 2005 (at

61%) and it has subsequently decreased to 48% in March 2007. Both male and female African business owners have increased respectively from 15% in March 2005 to 21% in March 2007 and 7% in March 2005 to 10% in March 2007 (South Africa, 2008b).

Table 2.7: Gender-by-population group distribution of persons of working age (15 to 65) who are owning and managing a business in the formal sector and survey period (2005 to 2007)

Gender by population group	March 2005	September 2005	March 2006	September 2006	March 2007
Female African	7%	11%	11%	9%	10%
Female Other	17%	18%	18%	22%	21%
Male African	15%	17%	16%	20%	21%
Male Other	61%	54%	55%	48%	48%
Total	100% (573 000)	100% (522 000)	100% (556 000)	100% (596 000)	100% (589 000)

Notes: * People owning and managing a business are defined as those “Working on his/her own or with a partner, in any type of business (including commercial farms)”

* “Other” population groups include Coloureds, Indians/Asians, and Whites. They are combined in the Labour Force Survey (LFS) due to their small group sizes.

(Source: Statistics South Africa, 2006)

In the next section, the education level of TEA respondents is discussed.

2.6.1.3 Education level of TEA respondents

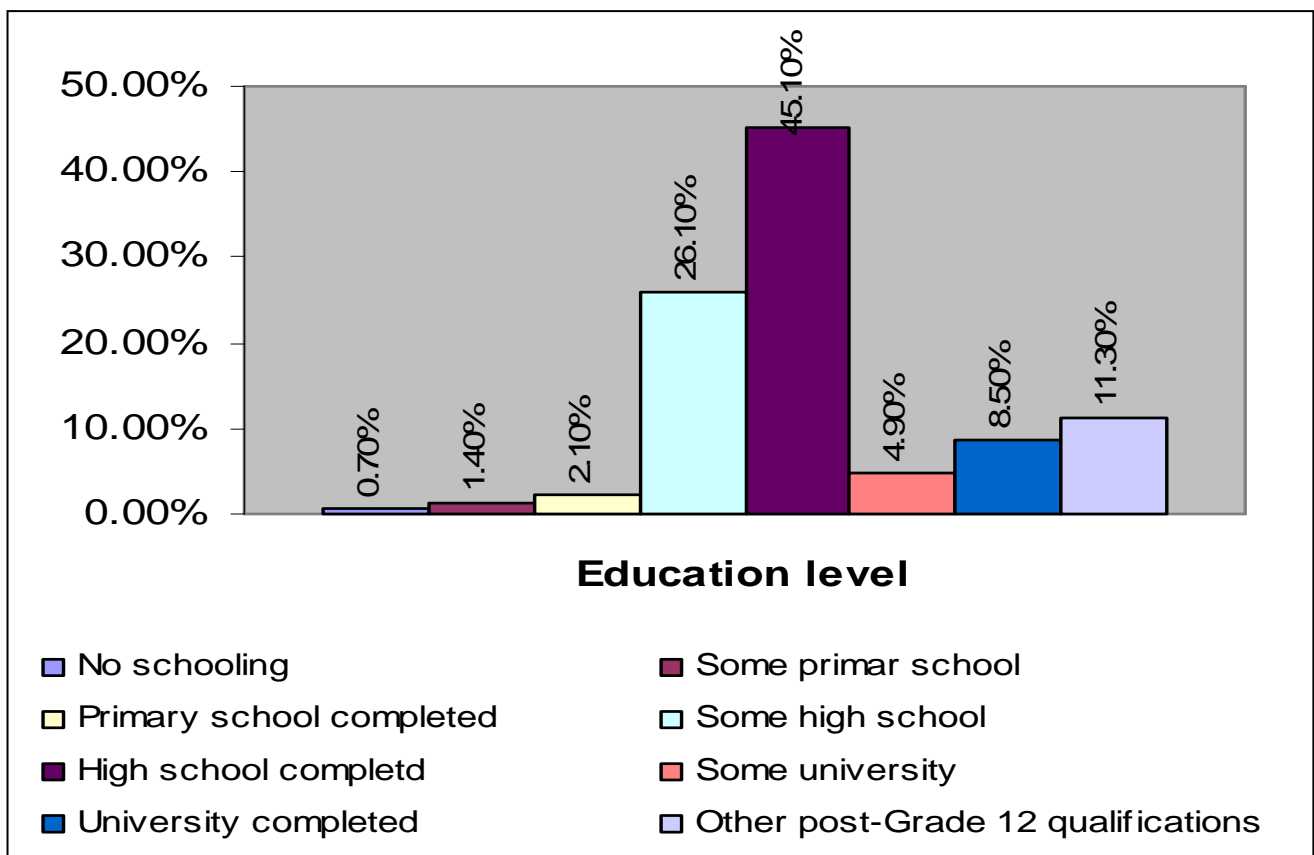
South Africa’s schooling system comprises a primary and secondary phase. The primary schooling is from grade 1 to 7 and the secondary schooling from grade 8 to 12. Grade 0 is a pre-school year before grade 1 and grade 12 is commonly referred to as matric. The following categories are utilized to classify the highest education level achieved:

- No schooling includes those who have no formal schooling as well as those who have completed grade 0.

- Incomplete primary schooling includes all those whose highest grade completed are between grades 1 and 6 inclusive.
- Incomplete secondary schooling includes those whose highest grade completed is between grades 7 and 11 inclusive. It also includes people who have a diploma but have not completed grade 12.
- Matric only is those who have completed grade 12 but have not studied further.
- Higher than matric comprises those who have completed grade 12 and then obtained further qualifications.

In Figure 2.2, Maas and Herrington (2006:30) point out that 0.7% of entrepreneurs have no schooling, 1.4% have some primary school training; 2.1% have completed primary school; 26.1% have some high school training; 45.1% have completed high school; 4.9% have some university training; 8.5% have completed university education and 11.3% have post-grade 12 qualifications like a diploma of certificate.

Figure 2.2: Primary education level of entrepreneurs in the 2006 GEM survey



(Source: Maas & Herrington, 2006:30)

In a study executed by Netswera (2001:31) on 60 small businesses in the Johannesburg-area the gender profile of respondents comprised 83% males and 17% females. The interviewed respondents were either business managers or owners, but in some instances the interviews were referred to directors, managers or employees who have a thorough understanding of the business regarding their age profile. Five percent were younger than 30 years of age and 32% between the ages of 31 to 40 while 63% were older than 40 years. The race representivity of the respondents was: 92% Whites, 5% Asians and 3% Blacks. According to Von Broembsen (2007:36), a large percentage of the black employers were involved in informal activities and they were encouraged to become involved in the formal industry. The demographic characteristics of small business owners will be researched in the empirical study. In the following section, the different business forms small business owners engage in are discussed.

2.6.2 Business forms

One of the most important considerations for small business owners and entrepreneurs are: which structure suits the business best and what are the tax advantages of the structure. There are several ways to structure the legal ownership of a business, depending on the nature of the business, the number of people involved, management capabilities, personal risk and your future plans. Business owners can choose between the following business structures: sole proprietor, partnership, close corporation (CC) or a company (Pty) Ltd. In the empirical study the business form type small business owners engage in, are researched. The business structures can be described as follows:

2.6.2.1 Sole proprietor

This model is best suited to a business which is not solely asset-driven (service-based) and in which the employer is the sole employee. Income accrues directly to the owner and there are no complicated statutory returns other than meeting basic legal and tax requirements. The disadvantage of this model is that the business is not a separate legal entity which implies that the owner is liable for, and can be sued for, the business debts, difficult to obtain capital needed for growth and the life of a proprietorship is limited to the life of its founder (Brigham & Ehrhardt, 2005:4).

2.6.2.2 Partnership

A partnership is based on the same principles as a sole proprietorship. This structure allows you to have up to twenty partners who share responsibility, skills and liability. A partnership requires a contract to formalize each person's contribution to the business, their responsibilities, profit share, means of resolving disputes, disability/death insurance, and what procedure will be followed if the partnership changes or is dissolved. Finding funds for the above business model depends on the type of security that the individual owner or partners can provide (Short et al., 2007:27).

2.6.2.3 Close corporation (CC)

Close corporations are widely used as it provides the business with a separate legal identity without the formalities of the Companies Act. This structure is ideal for companies that purchase stock on credit. A corporation has three major advantages: unlimited life; easy transferability of ownership interest and limited liability (Brigham & Ehrardt, 2005:5).

2.6.2.4 Company (Pty) Ltd.

This is also a separate legal entity in which the directors are protected from individual liability. A company can make shares available to staff as a private company (Pty) or to the public as a limited company (Ltd), and these are easily transferred from one owner to another. (Pty) Ltd. companies are subject to an annual audit (Short *et al.*, 2007:10).

The tax implications of the mentioned four business structures also play an important role when it comes to choosing a business structure that suits the owner and its business activities the best. A sole proprietor is taxed as an individual and the more the business earns, the more tax is payable. Partners in a partnership are taxed as individuals on their share of the profits, the more they earn, the more tax is payable. Close corporations do have tax benefits for the owner or owners as they may keep retained earnings in the business and delay the payment of tax. However, close corporations pay a fixed rate of tax on every rand of profit earned. (Pty) Ltd. companies pay a constant rate of tax regardless (Brigham & Ehrhardt, 2005:5) of the income level of the business and are subject to an annual audit. In the following section, new enterprise registrations in the formal sector are discussed.

2.6.3 New business registrations in the formal sector

In this section, new business registrations with Companies and Intellectual Property Registration Office (CIPRO) are discussed. The data source, CIPRO New Enterprise Register is confined to new business registrations in the formal registration. This data, however, do not cover the total SMME sector of South Africa because it excludes sole proprietors, partnerships and co-operatives.

Table 2.8 represents the number of new businesses registered with the CIPRO enterprise type, for six financial year-periods, starting with 1 April 2001 and ending with 31 March 2007.

Table 2.8: Number of new businesses registered with CIPRO by business type and period of registrations 2001-2007

Business type	Period of registrations between						Average annual growth
	1/4/01 and 31/3/02	1/4/02 and 31/3/03	1/4/03 and 31/3/04	1/4/04 and 31/3/05	1/4/05 and 31/3/06	1/4/06 and 31/3/07	
Closed corporations	90 364	107 857	116 087	135 436	199 555	240 400	21.8%
Private companies	27 811	29 570	30 670	34 564	41 504	35 666	7.0%
Non-profit (section 2.1)	1 303	1768	1 912	1 777	2 221	2 189	9.6%
Incorporated (professionals)	756	522	415	419	593	528	(3.9%)
Public companies	244	245	261	242	275	291	3.3%
External companies	127	142	144	147	141	150	2.4%
Limited by guarantee	2	0	0	1	0	0	-
Total	120 607	140 104	149 489	172 586	244 289	279 224	18.7%

(Source: South Africa, 2007)

In 2001 and 2002, there were more than 120 000 new business registrations and in 2006 and 2007 the number has increased to almost 280 000 new business registrations. The increase in

new businesses over the period 2001 to 2007 is largely due to a sharp increase in the total number of close corporations. The other business types showed a small average growth of new registrations (between 2 to 10%), with incorporated businesses recording an average negative growth rate of -4%.

Small businesses cannot be extracted from the information obtained from CIPRO New Enterprise Register. Although according to size and annual turnover only four business forms almost exclusively consist of small businesses namely: close corporations (99%), incorporated businesses (professionals) (97%), non-profit businesses (95%) and private companies (92%) (South Africa, 2008c).

In Table 2.9, the provincial distribution of new businesses registered between 1/4/06 and 31/03/07 within the four business forms are illustrated.

Table 2.9: Provincial distribution of new businesses registered between 1/4/06 and 31/03/07 within the four business forms

Province	All businesses	Four businesses forms comprising largely of SMMEs			
		Close corporations	Private companies	Non-profit (Section 21)	Incorporated (Prof)
Eastern Cape	2.1%	2.4%	0.1%	0%	0%
Free State	3.3%	3.7%	0.8%	1.2%	7.4%
Gauteng	52.8%	48.2%	82.4%	77.8%	61.9%
KwaZulu-Natal	13.7%	15.4%	3.1%	5.3%	8.9%
Limpopo province	5.1%	6.0%	0.1%	0%	0%
Mpumalanga	6.0%	7.0%	0.1%	0%	0%
North West	3.0%	3.5%	0.1%	0%	0%
Northern Cape	0.4%	0.5%	0%	0%	0.2%
Western Cape	13.4%	13.4%	13.3%	15.6%	21.6%
Total	100% (278 946)	100% (240 122)	100% (35 666)	100% (2 189)	100% (528)

Note: 278 close corporations not included because its location in terms of province is not specified

(Source: Statistics South Africa, 2007)

According to Table 2.9, the highest concentration of small businesses is located in the Gauteng province followed by KwaZulu-Natal with 13.7% and the Western Cape with 13.4%. Therefore, Gauteng is the so-called powerhouse as it hosts the largest number of small businesses and their contribution towards the GDP is the highest. In the following section, the business duration of small businesses were researched.

2.6.4 Business duration

Annual surveys are executed by the Global Entrepreneurship Monitor (GEM) on the South African population to estimate the percentage of people aged between 18 and 64 years who are actively involved in starting or managing a business which they wholly or partly own and which is less than three-and-a-half years old. This estimate is known as the Total Early-stage Entrepreneurial Activity (TEA) rate. In Table 2.10, the estimated number of entrepreneurs in South Africa, based on the GEM Survey for 2004 to 2006 is given.

Table 2.10: Estimated number of entrepreneurs in South Africa, based on GEM Survey (2004 to 2006)

Business activity stage	2004	2005	2006
Percentage of adults currently:			
Starting a business	3.90%	3.57%	3.55%
Owning and managing a business less than 3.5 years old (new businesses)	1.60%	1.58%	1.74%
Owning and managing a business older than 3.5 years (established businesses)	1.40%	1.30%	Not provided
Number of adults (18 to 64 years) currently:			
Starting a business	0.98 million	0.96 million	0.97 million
Owning and managing a business less than 3.5 years old (new businesses)	0.40 million	0.43 million	0.48 million
Owning and managing a business older than 3.5 years (established businesses)	0.35 million	0.35 million	(0.35 million)
Total	1.73 million	1.74 million	1.80 million

(Sources: Maas & Herrington, 2006:17, 20; SEDA, 2007:47)

In 2006, the TEA rate was 5.29, meaning that 5.29% of the adult South African population (18 to 64 years) were either starting or owning and managing a business that was less than 3.5 years

old at the time of the survey. The TEA rates for 2004 and 2005 were 5.40 and 5.15 respectively. Table 2.10 gives a breakdown of the TEA rate over a period of three years for adults owning and managing a business for less than 3.5 years and older than 3.5 years (South Africa, 2008c). In this study, the total number of adults starting a business has increased from 2005 to 2006. There is a definite decrease in the percentage of adults owning and managing a business for 3.5 years and less and the percentage of adults owning and managing a business for more than 3.5 years. This information is however not unsurprising as South Africa has a very high rate of business failure as an estimated 40% of new business ventures fails within the first year, 60% by the second year and 90% within the first 10 years of existence (Radipere & Van Scheers, 2005:402). The duration of businesses utilized in the empirical study were also analysed. In the following section the fringe benefits offered to employees are discussed.

2.6.5 Employee fringe benefits

The majority of small businesses in South Africa believe that they cannot afford to offer fringe benefits to their employees (Anon., 2010). This has a direct impact on the recruiting and retaining of employees. Employees are in need of benefits like medical insurance, a retirement plan, disability insurance and housing. According to a study executed by Joel Popkin (2005:67), it shows that employees of small businesses have access to fewer benefits than do employees of large businesses.

According to the National Federation of Independent Businesses (2003) small businesses poll on compensating employees, the most common employee benefits offered by small businesses to fulltime employees with at least one year's service are:

- Paid leave(offered by 75% of small businesses);
- Employee health insurance plan (61%);
- Paid sick leave (59%);
- Disability insurance or compensation (41%);
- Education reimbursement for job related studies (39%);
- Pension or retirement fund (30%);
- Life insurance (29%); and
- Dental insurance (24%).

Not all these benefits are offered by small businesses as it prove to be too expensive for small business owners; only some of these benefits are offered to remain competitive (Mdadlana, 2006:46). In the research executed on small businesses only a small percentage of businesses offers medical and pension benefits and 74.5% of the small businesses analysed did not offer any benefits to their employees.

One of the ways by which small business owners make benefits affordable is by the enforcement of requiring employee contribution. The size of employee contribution varies from a small amount each month to several hundreds of Rands. A major benefit of the co-payment plan is that it eliminates employers who do not need cover and it prevents the provision of unwanted benefits to employees. Small businesses have to comply with the Basic Conditions of Employment Act No 75 of 1997 (RSA, 1997) as stipulated by the Department of Labour. These fringe benefits include annual leave, sick leave, maternity leave, family responsibility leave, unemployment benefits and compensation benefits in the case of death or injury. Although some of the benefits are not compulsory, many businesses offer them to remain competitive. Fringe benefits remain unaffordable for small businesses and the reasons for not presenting benefits remain unknown. In the next section, the education level of employees, training methods utilized and remuneration to employees are discussed.

2.6.6 Skills development

The South African labour force consists of a large percentage of unskilled workers (23%) with limited work experience and career opportunities. Small businesses in the formal sector usually get employees who are unemployed with low skills levels which are not sufficient to qualify for employment in larger businesses. An employee who is called an unskilled worker can be defined as a person who does not have any form of schooling or education nor training. An employee with low skill levels or who is semi-skilled is a person that can read, write and receive a short period of training. In Table 2.11, detailed information is given in regard to the education level of all South African citizens aged 26 years and more.

Table 2.11: Population aged 26 years or older by highest education level and gender

Highest Education Level	Male (%)	Female (%)	Total (%)
No schooling	20	25	23
Incomplete primary	18	18	18
Incomplete secondary	39	38	39
Grade 12 only	14	13	13
Higher than Grade 12	9	7	8

(Source: Statistics South Africa, 2001)

The data in Table 2.11 were collected during the time of Census 1996 but only published in 2001 by Statistics South Africa (SSA). No recent data are available from Statistics South Africa. According to the statistics, a large percentage of the South African population has no schooling or incomplete schooling. In the population aged 26 years or more with no formal schooling, 26% of the population was African male people and 31% were female African people. It is followed by Coloureds with both 12% male and female people with no schooling. In the White population group 2% male and 1% female people did have no schooling (Statistics South Africa, 2001).

A survey executed by Chandra and Rajaratnam in 2001 stated that 30 to 45% of small businesses find it difficult to obtain skilled labour and that the largest proportion of the employees employed by small businesses are unskilled or semi-skilled and of the African race. White South Africans dominate the skilled positions in small businesses. According to McGrath (2005:111), the predominant way in which skills and knowledge are transferred is by means of "informal training". The survey indicated that between 24 to 30% of firms undertook formal training. In the empirical study (Chapter 3) the type of training (formal or informal) and the institution utilized were analysed. An important consideration arose whether business owners wanted the government to facilitate and promote skills training or if they rather wanted to make use of a private institution. Proper investigation and market research must be conducted to determine in which sectors skills training are needed.

The role of training and skills development is seen as an essential part of small businesses to promote growth and to become more competitive in the global economy. The development of skills is not the only challenge that small businesses have to face in the South African economy today. The South African government has committed them to skills development to alleviate

poverty and to create the opportunity for poorly educated adults, with minimal skills, to obtain fundamental skills.

The Skills Development Act No 97 of 1998 (RSA, 1998a) was implemented to address the problem of skills levels in the South African labour force. The Skills Development Act No 97 of 1998 was amended to define certain expressions and to broaden the purpose of the Act and is now known as the Skills Development Amendment Act No 37 of 2008 (RSA, 2008). The SETAS (Sector Education and Training Authorities) were implemented to facilitate training and education of employees of firms with a total remuneration (wage and salary) expense higher than R250 000 and about 10 employees. The levy is paid into the National Skills Fund that is utilized for the development of a skills plan for the sector and promotion of learnership programs.

In the following section, the remuneration of employees is discussed and the impact of the minimum wages enforced by the Department of Labour.

2.6.7 Remuneration

Business owners are obligated by the Department of Labour to pay their workers the minimum wage as prescribed in Tables 2.12 and 2.13. The enforcement of the minimum wage law obligated business owners to reconsider appointing new employees. This is considered to be a stumbling block by business owners who mainly employ semi-skilled workers in the small business sector. Remuneration of semi-skilled workers is directly linked to the turnover of workers as those workers will quickly change from one job to another for a few Rands more.

Small businesses that make use of professional people are obligated to remunerate them according to their qualification and skills to stay competitive in the market. Once these people obtain experience they are easily offered another job with a better salary in the medium- and large business sectors.

Table 2.12: Minimum wages for domestic workers who work more than 27 ordinary hours per week

Area A	
Bergrivier-, Breederivier-, Buffalo City-, Cape Agulhas-, Cederberg-, Drakenstein-, Emalahleni-, Emfuleni-, Gamagara-, George-, Hibiscus Coast-, Karoo Hoogland-, Kgatelopele-, Khara Hais-, Knysna-, Kungwini-, Kouga-, Langeberg-, Lesedi-, Makana-, Mangaung-, Matzikama-, Metsimaholo-, Middelburg-, Midvall-, Mngeni-, Mogale-, Mosselbaai-, Msunduzi-, Mtubatu-, Nama Khoi-, Nelson Mandela-, Nokeng tsa Taemane-, Oudtshoorn-, Overstrand-, Plettenbergbaai-, Potchefstroom-, Randfontein-, Richtersveld-, Saldanha Bay-, Sol Plaatjie-, Stellenbosch-, Swartland-, Swellendam-, Theewaterskloof-, Umdoni-, uMhlathuze-, Witzenberg Local Municipality, City of Cape Town-, City of Johannesburg-, City of Tshwane-, Ekurhuleni-, Ethekewini Metropolitan Municipality.	
Minimum rates for the period 1 December 2008 to 30 November 2009	
Area A	
Hourly Rate (R)	R6.88
Weekly Rate (R)	R309.60
Monthly Rate (R)	R1340.95
Area B	
Areas not mentioned in A	
Hourly Rate (R)	R5.63
Weekly Rate (R)	R253.35
Monthly Rate (R)	R1097.40

(South Africa, 2008a:1)

The minimum wage tables are utilized to determine if employers in the small business industry comply with the law enforced by the Department of Labour. Table 2.12 is utilized for employees working more than 27 ordinary hours per week within the different areas as determined.

Table 2.13: Minimum wages for domestic workers who work 27 ordinary hours per week or less

Area A (same as in Table 2.3)	
Minimum rates for the period 1 December 2008 to 30 November 2009	
Hourly Rate (R)	R8.12
Weekly Rate (R)	R219.24
Monthly Rate (R)	R949.97
Area B (Areas not mentioned in A)	
Hourly Rate (R)	R6.65
Weekly Rate (R)	R179.55
Monthly Rate (R)	R778.00

(Source: South Africa, 2008a:1)

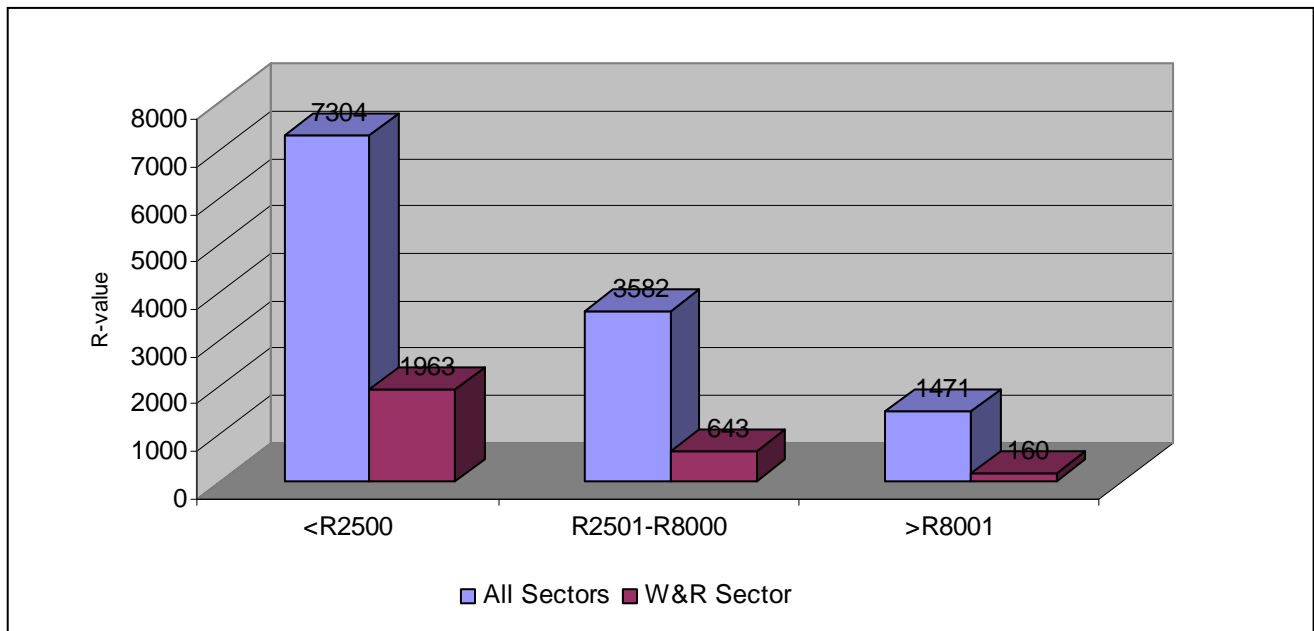
Table 2.13 provides a layout of the hourly, weekly and monthly rates for employees working less than 27 ordinary hours per week. The rates mentioned in the above tables correlate with the period utilized in the empirical study.

In Figure 2.3, the monthly income of employees is given according to two categories: the wholesale and retail (W&R) sector and all sectors. The following conclusions are made after studying Figure 2.3:

- 71% of employees in the W&R sector earn less than R2 500 whilst a mere 6% earn more than R8 001 per month;
- 59% of the total workforce of South Africa earn less than R2 500 while 12% earn more than R8 001; and
- 23% of workers in the W&R sector earn between R2 501 and R8 000 and for all sectors it is 29%.

It is evident that the W&R sector pays its employees less than the national average in terms of monthly income distribution. The negative effect of minimum wage conditions as determined by the Department of Labour (DoL) depresses international competitiveness while negatively affecting skills retention (Gordhan, 2010).

Figure 2.3: Distribution of monthly income of workers (R'000)



(Source: Statistics South Africa, 2007)

Small businesses analysed in the empirical study can be categorized to fall in area B as 58% of the businesses are situated in the Klerksdorp area also known as the Matlosana Municipality District. All respondents comply with the minimum wages as determined by the Department of Labour (DoL) although there was no salary category interval that indicated less than stipulated by the DoL due to the sensitivity thereof. Business owners were requested to indicate the minimum and maximum salary per month payable to their employees. This information obtained is discussed in the empirical chapter. In the next section, small businesses' growth is researched in terms of the appointment of additional employees.

2.6.8 Appointment of additional employees

Research done in South Africa indicated that entrepreneurs do not always choose to increase employment (Kesper, 2001:171). This is confirmed by the GEM's survey of entrepreneurs, which indicates that in 2006 only 4.8% of respondents expected to hire additional staff. This trend was similar in the previous years. Only a small percentage of business owners indicated that they are planning to hire additional employees (Maas & Herrington, 2006). The following are some of the reasons why business owners are reluctant to take on additional employees: regulations, including burdensome and inappropriate labour laws, time-consuming labour regulations, the cost of skills development including the appropriate levy and THETA (Tourism,

Hospitality and Sports Education and Training Authority) requirements (South Africa, 2008b). In the empirical research business owners were requested to indicate if they are going to employ additional employees within the next year (2010/2011). In the following section small businesses income is discussed to determine their sustainability.

2.6.9 Small businesses income

Small businesses must have a sound income (profit) to be sustainable and to contribute towards economic growth and job creation. Regardless of the type of business you have to charge a price for your service or product supplied to make a profit. Intense competition forces business owners to compare their prices for services or goods delivered with other competitors to determine a reasonable price. Under-pricing will cause small businesses to fail, while over-pricing will contribute towards losing customers to the competitor. Small businesses, as all businesses, are influenced by a constantly changing global economy that has a direct impact on the income generated by businesses. Compliance with laws implemented by the South African government makes the pressure to survive even more difficult for small business owners since contracts and tenders are subjected to BBBEE compliance. Obtaining business finance can place a heavy burden on small business owners due to the very high repayment rate or interest charged on an overdraft.

2.6.10 Broad-Based Black Economic Empowerment (BBBEE)

Broad-based Black Economic Empowerment is one of the strategies of the South African government to redress the economic legacies of apartheid. The goal of these strategies is to empower the vast majority of South Africans who are black, and who were previously excluded from meaningful participation in the economy. The Broad-Based Economic Empowerment Act No 53 of 2003 (RSA, 2004) was established to address the promotion of Black Economic Empowerment; to empower the Minister to issue codes of good practice and to publish transformation charters; to establish the Black Economic Empowerment Advisory Council and to provide for matters connected therewith (RSA, 2004). Draft preferential procurement regulations, aligned with the Broad-based Black Economic Empowerment Act No 53 of 2003 and its related strategy were published in the Government Gazette for comments by interested persons (RSA, 2009). These changes to the BBBEE Act No 53 of 2003 are not yet available as an amendment to the mentioned Act.

The South African government uses a “balanced scorecard” to measure businesses’ progress made in achieving BBBEE status. The scorecard measures three core elements of BBBEE:

- Direct empowerment through ownership and control of businesses and assets;
- Human resource development and employment equity; and
- Indirect empowerment through preferential procurement and business development.

The scorecard is issued as a Code of Good Practice. Businesses that are BBBEE compliant must have an official BBBEE verification document that is valid. In the empirical research, business owners were requested to indicate if they comply with the BBBEE Act and the impact on business operations as a result of their compliance.

2.6.11 Access to finance

The procurement of financial assistance is an ongoing challenge for most small businesses in South Africa (CDE, 2007:5). Banks have been criticized to be overly cautious when it comes to financial support for small businesses. The required amount for the operations planned will have a direct influence on deciding which path to follow to obtain finance. Traditionally, small business owners made use of commercial banks or own equity to finance their operations. These owners consisted mainly of white South Africans. As increasing black South Africans enter the small business sector, the way of obtaining finance will definitely change. At this stage, a large percentage of black owners are localised in the informal sector and information concerning where they obtain finance is limited.

Micro-lenders also play an important role when it comes to financing small businesses. Micro Finance South Africa (MFSA) has seen that small businesses are playing a more and more important role in the SA economy and they therefore want to capitalize on “macro financiers” failure to fund these businesses (Van Niekerk, 2004).

Apart from making use of Khula Enterprise Finance for obtaining finance, commercial banks were mainly utilized to obtain money to start-up new ventures and to obtain working capital. Entrepreneurs and owners are very sceptical about the high costs involved in obtaining credit from commercial banks. In 1999, only 24% of entrepreneurs borrowed money from local banks

for their new ventures (7% used banks for all their financing). In the empirical study, the business owners were requested to indicate of what kind of financing methods they made use. In the following section, the impact of certain costs involved in small businesses is discussed.

2.6.12 Small business operating costs

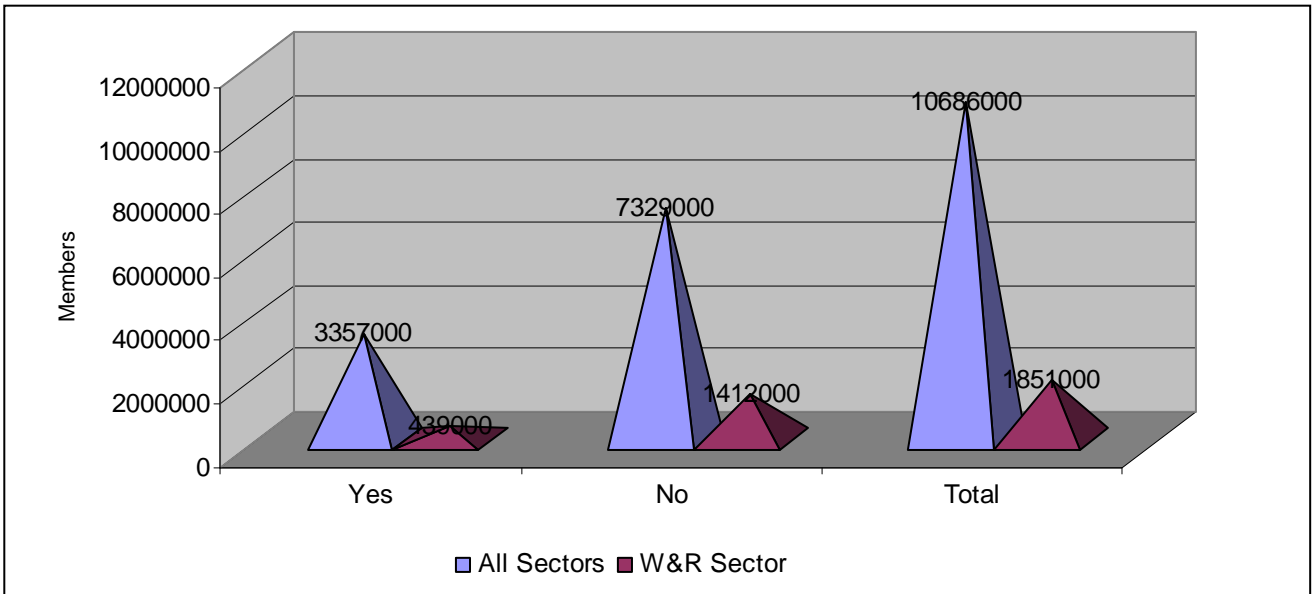
Small business owners have to manage their fixed as well as their variable costs to ensure long-run sustainability. Costs can be managed to a certain extent but a certain percentage of the costs are imposed on owners by legislation and the global economic condition in which they operate. Costs identified to have an influence on operations of small businesses are, amongst others, the percentage increase in salaries and wages imposed on owners by trade unions, fluctuations in the petrol price, ESKOM's tariff increases, stationery, and telephone and internet costs. These costs were indicated by business owners in the empirical to have an impact on their business operations.

2.6.12.1 Increase in labour remuneration and labour unrest

Salary and wage increases remain an important consideration to all employees. This is one of the most if not the most important event on the yearly calendar. More and more pressure is placed on employers to give high and competitive increases to employees. Employers are placed under immense pressure by employees who belong to unions who enforce a specific increase onto the employer especially unions like the Motor Workers Union. Trade union membership is an important indicator of the adherence to the Basic Conditions of Employment and sound industrial relations.

In figure 2.4, the trade union membership is given according to members belonging to COSATU and it is not an adequate representation of employees belonging to other unions and that are non-COSATU affiliates. Figure 2.4 indicates that 76% of the W&R employees are non-unionised, comparable with 68% for all sectors.

Figure 2.4: Trade union membership



(Source: Statistics South Africa, 2007)

All small business owners are not always in the financial position to obey the enforced salary increase as in the case of medium to large institutions.

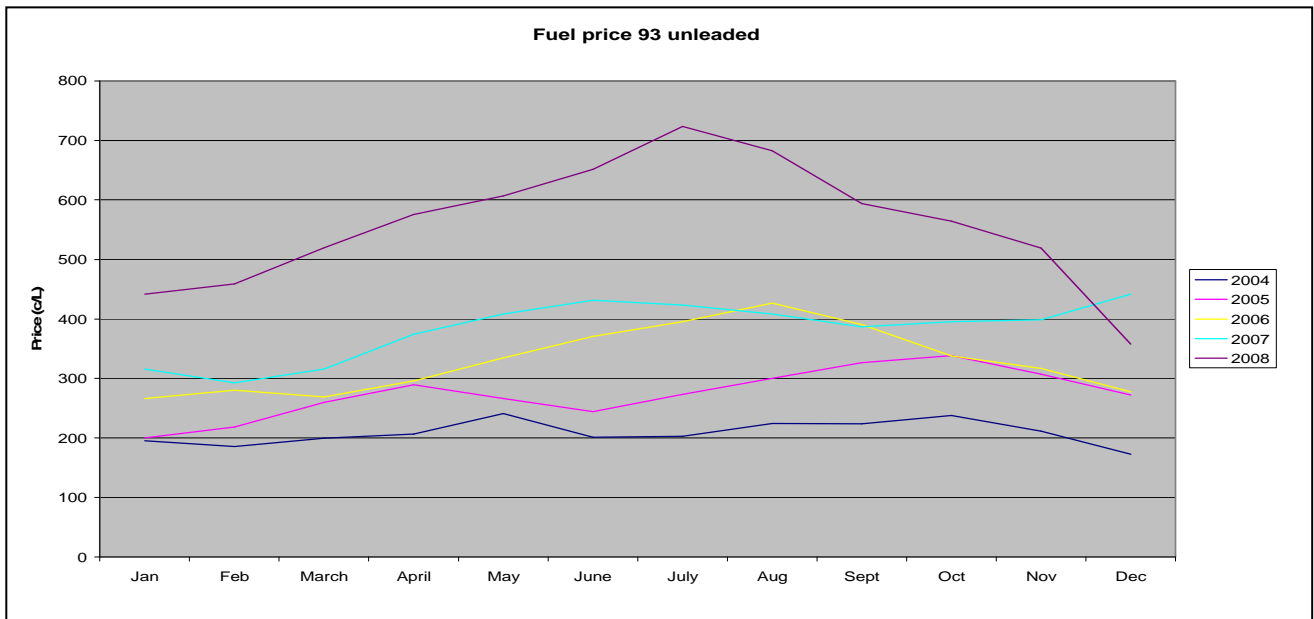
Small businesses are less vulnerable to labour strikes than in the case of medium to large companies. Strikes have a negative impact on the generated income. A strike can be defined as a partially or complete denial to work, or the interruption of work by workers of the same employer or of other employers in light to correct a grievance or difference involving the employees and employer (Article 65 of the Labour Relations Act No 66 of 1995; RSA, 1995). Small businesses employ small amounts of people and in an event of a strike some of the operations can come to a complete stand still. Long-term strikes and the demand for high wage increases are amongst some of the difficulties which are faced by small business owners. These factors have a direct impact on the long-term survival of small businesses. In the following section, the fuel price is discussed as it is identified by business owners to have an impact on their operating costs.

2.6.12.2 Fuel price

The South African fuel industry import Brent crude oil from three main sources, namely: Saudi-Arabia, Iran and Nigeria (Sartorius *et al.*, 2007:218). The exchange rate and the economic activity in these countries play an important role in the selling price of fuel in South Africa.

Monthly adjustments in the petrol price are experienced to accommodate the above mentioned factors. In figure 2.5, an example of fuel, 93 unleaded (in bond landed cost), is given for the period 2004 to 2008. Once the price of an item or service is increased due to fluctuations in the petrol price it is seldom decreased when a decrease in the petrol price is experienced. Petrol price adjustments influence businesses that are especially dependent on transport.

Figure 2.5: Fuel price of 93 unleaded



(Source: Department of Energy, South Africa, 2010)

In the following section, the impact of electricity tariffs on small business activities will be discussed.

2.6.12.3 Electricity tariffs

The Minister of Minerals and Energy, Ms Buyelwa Sonjica, said that the power failures in South Africa have influenced the growing economy negatively and they are busy with a new strategy to address the problem (Leuvenink, 2007:5). The strategy included looking at renewable resources, electricity savings and an increase in electricity tariffs. The National Electricity Regulator (NERSA) is still gradually increasing the price of electricity to enable them to address the rising demand for electricity. Eskom announced a tariff increase of 14.2% for 2008, which will increase business costs (Slabbert & Williams, 2007:1). According to Bolani of the ANC, the

electricity tariff increase would make living costs unaffordable for consumers. In May 2008, Eskom requested another increase in electricity tariffs of 53.4% (De Lange, 2008:1).

The planned increase in electricity tariffs over the next few years places an additional burden on the sustainability of especially small businesses. Operating costs will increase to such an extent that business owners will have to lay off employees or adjust their position in the market.

2.6.12.4 Crime

Crime was identified as one of the top four constraints when doing business. The negative impact of crime on businesses is a major constraint for the future development and sustainability of small businesses (McDonald, 2008:68). Small businesses are very vulnerable to crime and it has to be managed strategically to prevent small businesses from closing down.

2.7 ECONOMIC DOWNTURN

The global recession defined as a temporary economic decline during which trade and industrial activities are reduced has a direct impact on the South African economy. This can be seen in the downward curve of the economic growth rate from 5.1% in 2007 to 3.5% in 2008 and the projected growth rate of 2.6% for 2009 (Chuma, 2008:1).

Table 2.14: Economic growth rate of South Africa

Year	Growth rate (%)
2007	5.1
2008	3.5
2009	2.6

(Source: Statistics South Africa, 2010b)

Declining commodity prices and lower growth in our major trading partners will lower the demand for South African exports and this will lead to a reduction in the income of the country. The drop in global demand for locally manufactured goods will result in job losses.

One of the major financial shocks that South Africa has experienced is the sharp depreciation in the exchange rate and the prices of equities and bonds which have decreased drastically and that have a direct impact on small businesses in several ways.

Constant interaction between small business owners and the Department of Trade and Industry is necessary to obtain the goals set by the South African government. Support programs can contribute towards reaching the goals.

2.8 FORMAL SUPPORT PROGRAMS

The Department of Trade and Industry (DTI) is the government's coordinating body for all policies related to the small business sector and for all SMME support programs directly or indirectly assisted by the government. The SMME programs' purpose is to maximise small businesses' contribution towards the total economy.

The following objectives were identified by the DTI for the SMME programs presented:

- Lowering the barriers to entry to stimulate the participation and growth of small business across all sectors of the economy;
- Increasing the supply of entrepreneurial talent and opening opportunities to stimulate start-ups;
- Providing support to existing small businesses and micro-enterprises in particular, taking into account the specific factors that underline the difficulties and weaknesses that limit their growth;
- Tailoring delivery and support mechanisms to the differentiated requirements of small business; and
- Providing an effective and localised supply infrastructure.

Formal business support programs can be divided into government and non-governmental support programs. Only a few of the most important ones will be discussed in the following section.

2.8.1 Government support programs

In response to the challenges set out in the White Paper, the Centre for Small Business Support of the Department of Trade and Industry established different support institutions to support the National Business Strategy. The National Small Business Council (NSBC), Ntsika Enterprise Agency (NEPA), as well as Khula Enterprise Finance, were established to provide both financial and non-financial support to small business owners and entrepreneurs.

Ntsika Enterprise Promotion Agency is responsible for non-financial support such as marketing, training programmes, procurement advice, and technology assistance and mentoring firms. Ntsika Enterprise is an initiative of the DTI to provide small businesses access to finance and to extend their credit guarantee. The initiative started due to the inability of banks to financially support small businesses.

Provincial SMME Desks were also implemented to link provincial small businesses with the national strategy. The main reason for establishing the provincial desks was to obtain a data base of businesses in the different regions. Only two of the nine provinces were able to obtain and maintain a database of SMMEs and SMME service providers (Ntsika, 2001).

Limited research was executed to prove the effectiveness of the support systems implemented by the DTI in support of the National Business Strategy. There was a general distrust by SMME owners in the support institutions and awareness was insufficient due to limited human resources. According to Chandra and Rajaratnam (2001), only two thirds of the SMMEs that participated in the survey (1999) were aware of the programs presented by the DTI and less than one third were aware of the Ntsika and Khula programs. Finally, black entrepreneurs did make more use of SMME support programmes than their white counterparts.

2.8.2 Non-government SMME-support programs supported by Department of Trade and Industry (DTI)

Besides the SMME programs supported by the DTI, a number of non-governmental organisations has also seen the light. The following non-governmental organisations are supported by the DTI: Ntsika Enterprise Promotion Agency, Khula Enterprise Finance, Industrial Development Corporation, Business Referral and Information Network (BRAIN), Small Business

Foundation, Business Partners Limited, Tourism Enterprise Program, Franchise Advice and Information Network (FRAIN), National Co-ordinating Office for Manufacturing Advisory Centres (Namac) and BizAssist.

All the non-governmental organisations mentioned are utilized by the DTI in their different capacities:

- Ntsika;
- Khula;
- BRAIN;
- FRAIN;
- Namac Trust;
- Business Partners Limited; and
- Tourism Enterprise Program.

The role that Ntsika Enterprise Promotion Agency and Khula Enterprise play were already discussed in section 2.8.1. Both these agencies are also non-governmental organisations utilized by the DTI.

2.8.2.1 Business referral and Information Network (BRAIN)

BRAIN is a comprehensive online initiative offering basic information and essential service links to entrepreneurs.

2.8.2.2 The Franchise Advice and Information Network (FRAIN)

FRAIN supply high quality information and support services to individuals and small businesses (SMMEs) to ensure growth and improvement of new and existing businesses in South Africa.

2.8.2.3 The National Co-ordinating Office for Manufacturing Advisory Centres (NAMAC)

Namac developed an extensive delivery structure across South Africa that serves as a channel for the application of new tools, information, products and projects, thus enabling the effective delivery of solutions aimed at SMMEs.

2.8.2.4 Business Partners Limited

In 1998, the Small Business Development Corporation (SBDC) was transformed into Business Partners Limited. The organisation shifted its focus onto small and medium enterprises, increasing its project involvement to a R150 000 minimum and a R15-million maximum. Business Partners set aside R277.7 million for investment in SMMEs in 2009. The organisation invested R4.6-billion in emerging businesses in the past 20 years, directly influencing the creation of 500 000 jobs (Rupert, 2010).

2.8.2.5 Tourism Enterprise Program (TEP)

The main objective of the tourism enterprise program is to encourage and facilitate growth and expansion of small and medium enterprises in the tourism industry, resulting in job creation and revenue generating opportunities. TEP is working together with the government's Tourism Activity Plan (TAP).

2.8.3 Affiliation with regional and local business chambers

South Africa's national, regional and local business associations, chambers and foundations all work together to promote growth and investment and to forge stronger links between the country's business corps. Business chambers are established in towns and cities for the following reasons:

- to assess and evaluate the needs of the local business community;
- to monitor development at local level;
- to mobilise business opinion on local issues;
- to exert a positive influence in the environment in which businesses operate;
- to promote and encourage the pursuit of a high standard of business ethics;
- to disseminate information that is useful to the business fraternity;
- to create opportunities to promote business skills;
- to extend business contacts locally and nationally, and to allow individual business-people to share in the national business decision-making process;
- to uphold the market economy and private enterprise system; and
- to be "The Voice of Business" – a binding force combining the skills and influences of men and women engaged in business in one form or another (SACCI, 2010).

The South African Chamber of Commerce and Industry (SACCI) forms the umbrella for all business foundations, associations and business chambers. The following structure is a layout of the SACCI:

Table 2.15: A layout of the South African Chamber of Commerce and Industry (SACCI)

Business Foundations	National Business Associations	Regional Business Chambers
Business Map foundation	Business Unity South Africa	Eastern Cape Port Elizabeth Chamber of Commerce Border Kei
Business Leadership Foundation	Chamsa	Free State Bloemfontein Chamber of Commerce
Gordon Institute of Business Science	Sacob	Gauteng Johannesburg Chamber of Commerce Midrand Alberton East Rand Gauteng North Germiston Khayalami Roodepoort Vaal Triangle
	Nafcoc	KwaZulu-Natal Durban Chamber of Commerce Pietermaritzburg
	Afrikaanse Handelsinstituut	Limpopo Polokwane Chamber of Commerce
	Fabcos	North West Klerksdorp Chamber of Commerce Rustenburg
	Minara Chamber of Commerce	Western Cape Cape Town Chamber of Commerce Blaauwberg False Bay Business Network George Business

Source: SACCI (2010)

Business chambers play an important role in developing skills and contribute towards the growth and development of the local economy (Lloyd, 2010). Small businesses play an important role in the economy and it is the role of the business chamber to assist business owners with the major task at hand.

2.8.4 Ethical code

Employees want to know what is expected from them and how they must act in different situations within their workplace. In the case of a business employing people registered with a professional council, they are held accountable by their council for all actions taken.

In general, the ordinary small businesses are lacking an ethical code on paper as they reason it is not necessary for them to have one. In some instances the word “corporate governance” is also used instead of an ethical code. Corporate governance is more applicable to medium to large businesses.

2.9 SUCCESS FACTORS FOR SUSTAINABLE SMALL BUSINESSES

Small businesses require a platform to be successful and sustainable within the formal industry. Research and experience form the baseline for small businesses in identifying critical success factors. A study executed by Ahwireng-Obeng and Egunjobi (2001:44) identified the following key success factors for small to large businesses: a good strategic match between partners, documentation of agreements to ensure commitment from partners, clear understanding of goals and roles, direct communication and multiple relationship building between partners, frequent performance feedback, shared risks and resources, integration of information systems, alignment of culture, building a scope for flexibility, and learning within the alliance agreement and internal and external stakeholder support.

According to McGrath (2005:111), education and training is a necessary but not a sufficient condition to improve the success and sustainability of small businesses. In addition to education and training, McGrath identified other factors that should be taken into consideration, such as capital; markets; location; tenure and infrastructure, and an enabling environment.

2.9.1 Capital

A lack of capital undermines the ability of small businesses to invest in technology.

2.9.2 Markets

Inadequate capital is related to inadequate markets. Barriers to entry in the retail sector are very low due to over-saturation of the retail market. The selling of goods by the poor to the poor is unlikely to result in anything more than a survival income.

2.9.3 Location, tenure and infrastructure

This is more applicable to the informal sector as street vendors lack electricity and transport infrastructure. Research shows that home-based and street-based businesses perform worse than other shop traders.

2.9.4 Enabling environment

Structural adjustment policies of the World Bank and trade liberalisation were supposed to have brought more benefits to the small business sector, but it has done the opposite. The dumping of retail goods from the East into the SA market and the establishment of large outlets by foreigners from the East often selling distressed goods directly to the public have undercut small businesses.

Other factors identified to have an impact on small business establishments, is the regulatory environment governing small businesses that is costly and it dampens entrepreneurship.

An empirical study executed by Nieuwenhuizen and Kroon (2002:25) has identified success factors relating to personal characteristics and success factors relating to management skills. The following factors were identified and relate to personal characteristics: creativity and innovation, commitment to enterprise and involvement in enterprise. Success factors identified to relate to management skills include the following: planning of enterprise, knowledge of competitors, staying market-focused, quality work enjoys priority, client service, financial understanding, financial management, knowledge and skills, and the use of experts.

The success of small businesses can also be measured on a basis of different variables. These variables include turnover, profit and employment growth. In the following chapter, the success factors of small businesses will be empirically tested.

2.10 SUMMARY

The South African SMME sector is expected to fulfil a number of roles ranging from poverty alleviation, employment creation to international competitiveness. Not only are these objectives a very high priority but also the instruments to meet the objectives set. The instruments introduced to meet the objectives range from literacy training to technological advice. Clear priorities have to be set out by the South African government to meet and address the above objectives.

One of the main difficulties confronting the policy makers is how to develop an approach on how to identify the challenges faced by small businesses. Small businesses are under severe pressure when it comes to survival in light of changing economic circumstances. Small businesses have to comply with complex legislation, including VAT registration and labour and minimum wage laws. The other factors that influence small business owners and competitiveness of the businesses within the markets are the lack of access to finance and skills shortages.

The funding of SMME support programs stays an important challenge of the national strategy. The White Paper continues to place emphasis on ways how to reduce the cost of support programs. The support programs will have to be reassessed by means of geographical coverage, comprehensiveness and program expansion. Government support to small businesses must be encouraged since it is quite obvious that its contribution towards job creation and wealth distribution is underestimated.

The sustainability of small businesses is not only supported by the South African government but also dependent on several economic factors. A number of core factors identified in the literature study were discussed explaining their impact on small businesses' sustainability. The

role of small businesses in the South African economy can never be underestimated. In the next chapter these issues will be explored by means of an empirical investigation.

CHAPTER 3

EMPIRICAL RESEARCH STUDY

3.1 INTRODUCTION

In the previous chapter, a literature study was done on the impact of specific business-related factors on small businesses. This chapter covers the empirical investigation of this study in order to determine the impact of the identified business-related factors on small businesses. The research will provide insight concerning the demographic information of business owners, the education level of employees, selected business aspects such as the income profile of small businesses and costs involved in small business operations, formal business support available to small businesses and critical success factors identified by business owners that are necessary for future existence and sustainability.

The goal was to analyse the data generated by means of a questionnaire and to formulate conclusions. The empirical study is based on aspects identified in the broad literature study and by means of interviews with people specialising in the SMME sector. The completion of each questionnaire was coupled with an in-depth interview with each participant. The data were then extracted from the gathered information. The data are presented in a graphical format using pie- and bar-charts to present a visual interpretation of the results.

3.2 EMPIRICAL STUDY

3.2.1 Research problems

The primary purpose of the study was to obtain information regarding the five main objectives as identified in Chapter 1. The objectives were empirically researched by making use of a questionnaire. The questionnaire (see: Appendix A) consisted of the following five sections:

demography of business owner; education level of employees; income categories of businesses; business related costs, and formal business support.

3.2.2 Sample selection and procedures

The sample of businesses was selected from small businesses in the formal sector. All participants utilized a specific registered financial institution in Klerksdorp as their accountant. Structured personal interviews were arranged with all participants. This contributed towards achieving a high response rate. Each interview was personally conducted by the researcher to ensure accurate information and to ensure confidentiality. A period of two months (September and October 2009) was used to collect the information requested in the questionnaire. Small business owners (or managers) were targeted who visited the institution to submit their documentation for tax purposes.

The respondents were geographically widely distributed (see: Table 3.1). A total of 106 small business owners completed the questionnaires with the assistance of the financial accountant. The respondents represent 25% of the financial institution's small business client base. A hundred percent response rate was obtained although only 100 of the 106 (94%) questionnaires were utilized at the end of the identified period. Six of the questionnaires were damaged when the ceiling of the building collapsed when a heavy hailstorm stroked the city during October 2009.

3.2.3 Time period and business location

The sample of businesses established or that were operational during the period 2004/5 to 2008/9 was analysed. The main reason why a period of five years has been selected is due to the requirement that businesses must keep a full set of financial information for at least five years for tax purposes. Data which cover a few successive years are necessary to establish short to medium-term trends. A geographic representation of small businesses used in the empirical study is given in Table 3.1.

Table 3.1 Geographic representation of small businesses

Province	Percentage (%)	Cumulative frequency (%)	Number
North West	92	92	90
Gauteng	5	97	4
Free State	2	99	2
Western Cape	1	100	1
Total	100		97

The largest percentage of small businesses utilized in the empirical study was from the North West Province (92%). The main reason is that the financial accountant's business is located in the province. The North West Province is followed by the Gauteng Province with 5%, followed by the Free State and Western Cape Province respectively. A detailed geographic breakdown of the small businesses is given in Table 3.2 stating the different towns within the respective provinces.

Table 3.2 Geographic distribution of respondents according to town

Town/Township	Percentage (%)	Cumulative Percentage (%)	Number
Klerksdorp	58	58	57
Orkney	7	65	7
Stilfontein	6	71	6
Potchefstroom	4	75	4
Rustenburg	3	78	3
Bloemhof	3	81	3
Jouberton	3	84	3
Leeudoringstad	2	86	2
Lichtenburg	2	88	2
Ottosdal	1	89	1
Hartbeesfontein	1	90	1
Pretoria	1	91	1
Vierfontein	1	92	1

Table 3.2 Geographic locations of small businesses according to town (continued)

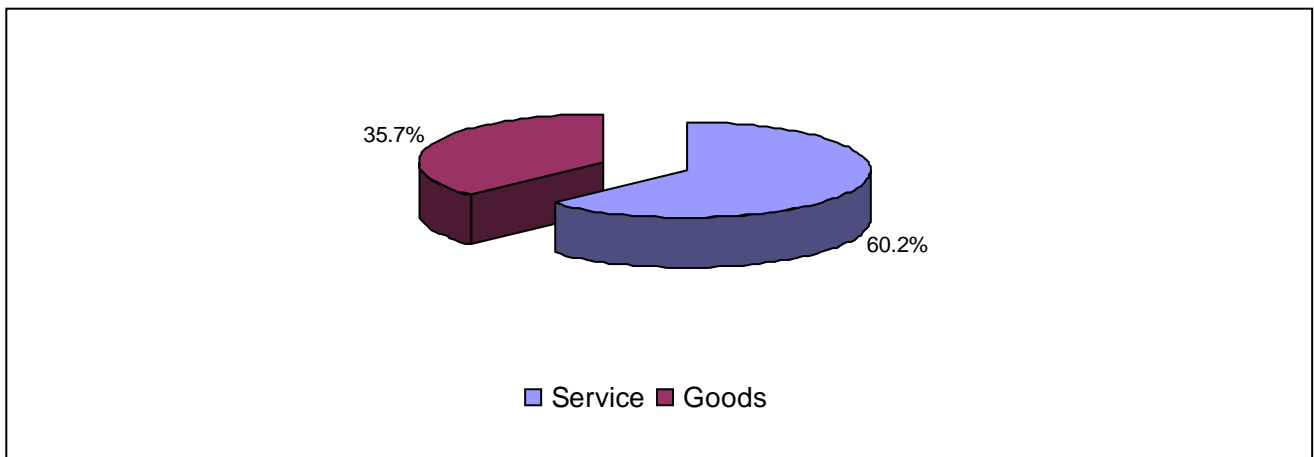
Bothaville	1	93	1
Port Elizabeth	1	94	1
Marico	1	95	1
Kempton Park	1	96	1
Roodepoort	1	97	1
Amalia	1	98	1
Midrand	1	99	1
Langebaan	1	100	1
Total	100		99

(Source: Own compilation)

The largest percentage of small businesses utilized in the empirical study was located in the Klerksdorp region for the reason that the financial accountant's business is situated within the specific town. Klerksdorp is followed by Orkney, Stilfontein and Potchefstroom as these towns are situated within a radius of 50 km of the financial accountant's business in what is also known as the KOSH-area (Klerksdorp, Orkney, Stilfontein, Hartbeesfontein).

Small business owners operating in the service and goods industry were approached. Small businesses operating in the services related industry (for example, hair salons, dry cleaners, panelbeaters, physiotherapists, transport, carriers, funeral services, entertainment establishments, and real estate agents) represented 60.2% while the goods industry (butchery, general sales, chicken farming) represented 35.7% (see: Figure 3.1). Small businesses in the formal sector are concentrated largely within the following sectors: financial intermediation insurance, real estate and business services (44%), wholesale and retail trade, repair of motor vehicles, motor cycles and personal household goods, hotels and restaurants (23%); manufacturing (11%) (South Africa, 2008c). This is in line with the international tendency where growth mainly takes place in service-related industries.

Figure 3.1: Business industry



(Source: Own compilation)

In the following section, the research instruments and design utilized for the empirical in the study are discussed.

3.2.4 Research instruments and design

A quantitative approach was followed. The data set was collected from a sample of small businesses in the formal economy by means of personal interviews and questionnaires, respectively. An example of the explanatory research questionnaire is attached to this study as Appendix A.

The structure of the questionnaire was as follows:

- SECTION A: Biographic information about the business owner
- SECTION B: Educational assessment of the employees
- SECTION C: Income related aspects of businesses
- SECTION D: Small business related costs
- SECTION E: Formal business support

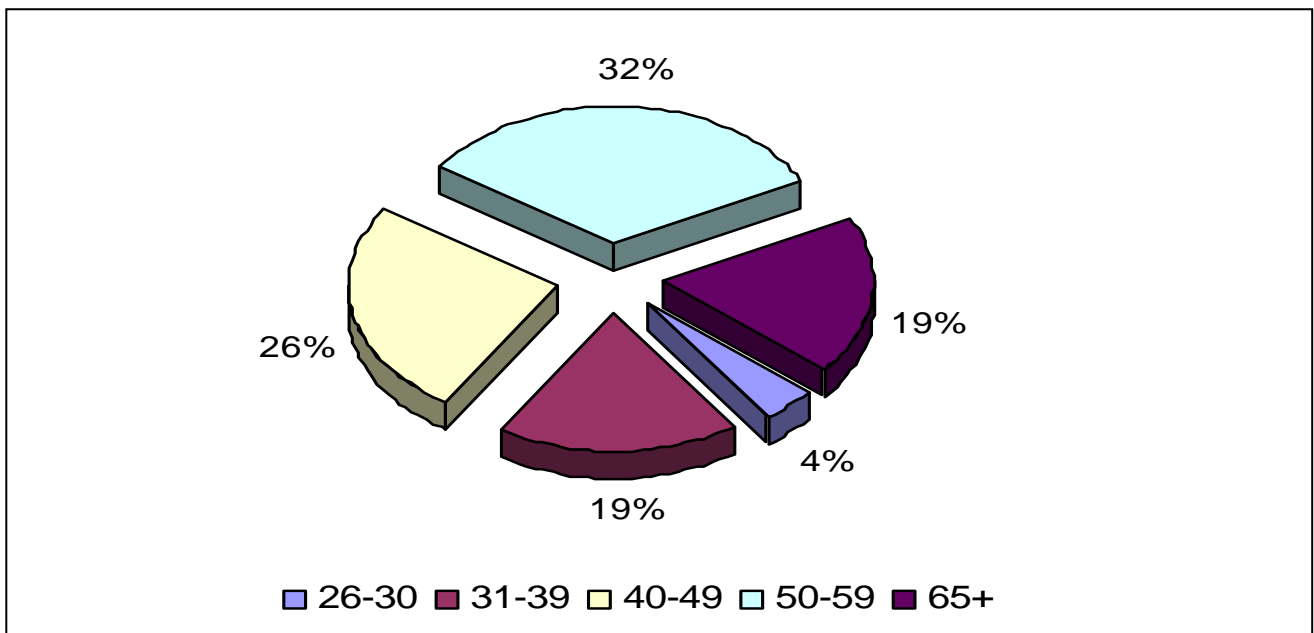
3.3 DEMOGRAPHIC INFORMATION ABOUT THE BUSINESS OWNER

In section A, the biographic background of the small business owners were researched. The following aspects were covered in the section, namely: the age, gender and education level of the business owners; the business forms; business offerings; labour force aspects and diversity of labour force.

3.3.1 Age profile of business owners

The age of business owners were determined to give an indication in which age group the most business owners are categorised.

Figure 3.2: Age distribution of the respondents



(Source: Own compilation)

The majority (32%) of business owners were between the age of 50 and 59 years, 26% were between the age of 40 and 49 years, 19% were between the age of 31 and 39 years and 19% were older than 65 years. Only 4% of the respondents were between 26 and 30 years. This results in a total of 58% of the respondents who were between 40 and 59 years of age. Although it is not possible to directly compare the results to the 2006 GEM report (Maas & Herrington, 2006), because there are differences in the age intervals used. According to the

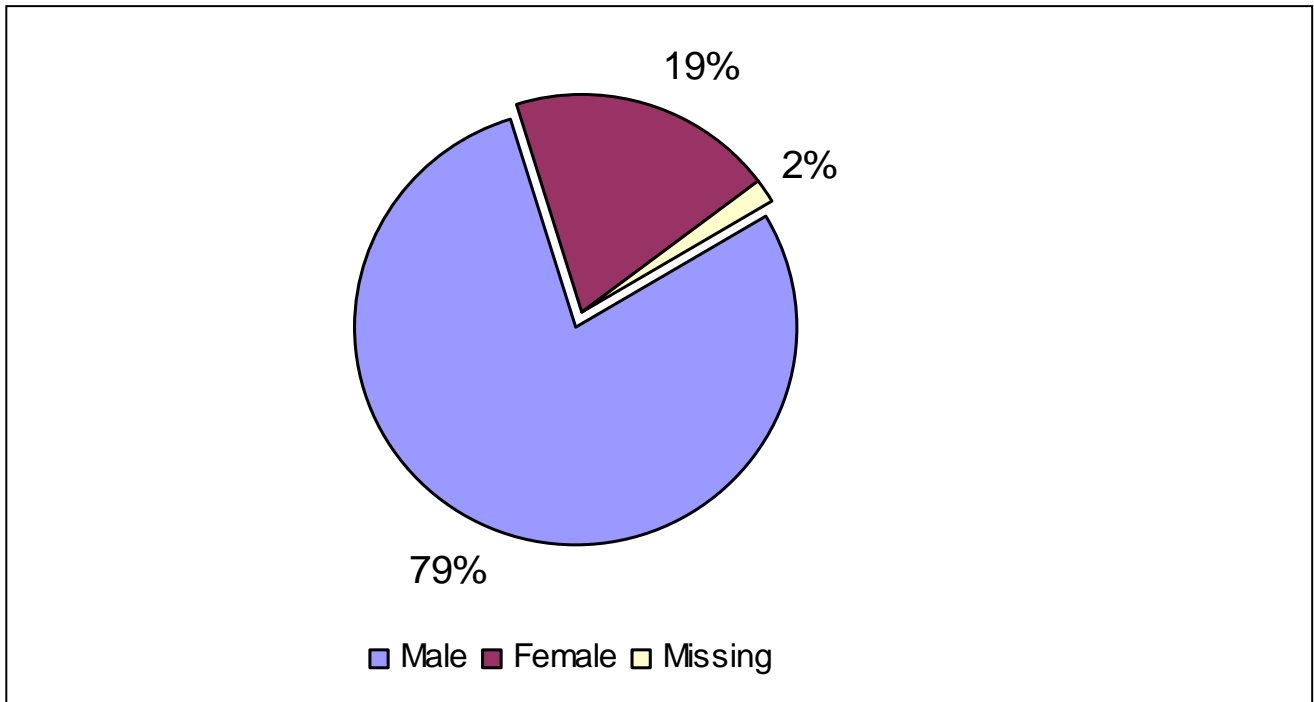
report, the largest percentage (55.3%) of business owners are between the age of 25 and 44 years of age, while in comparison with the empirical study, the largest percentage (58%) of business owners are between the age of 44 and 59 years. It would thus seem that the empirical research yielded much older respondents than in the GEM report. The smallest percentage (10.50%) of business owners (according to national statistics obtained) is for the age group 55 to 64 years of age, while in the empirical study the smallest percentage (4%) of business owners are between the age of 26 and 30 years. It would thus seem that the empirical study's age demographics differ largely from the national statistics.

The following reasons may be an indication of the difference in the younger age group (26 to 30 years) experienced: According to the Total Early-stage Entrepreneurial Activity (TEA) rate, South Africa's TEA rate is below the average of all other countries. South Africa's TEA opportunity index is 3.47% in comparison with the average of 6.82% of all other countries (Maas & Herrington, 2006); the businesses analysed are established in the market (see: Figure 3.6). Other reasons may be owing to the conditions of employment forced by the Department of Labour on employers – businesses are enforced to become BBBEE compliant. Men are more likely to lose their job due to the implementation of the new labour law and this forces them to become entrepreneurs to earn an income for a living. In the following section the data in regard to the gender of business owners will be analysed.

3.3.2 Gender of respondents (business owners)

The gender of respondents was requested, as women are encouraged to start their own businesses to comply with the government's empowerment initiative.

Figure 3.3: Gender of respondents



(Source: Own compilation)

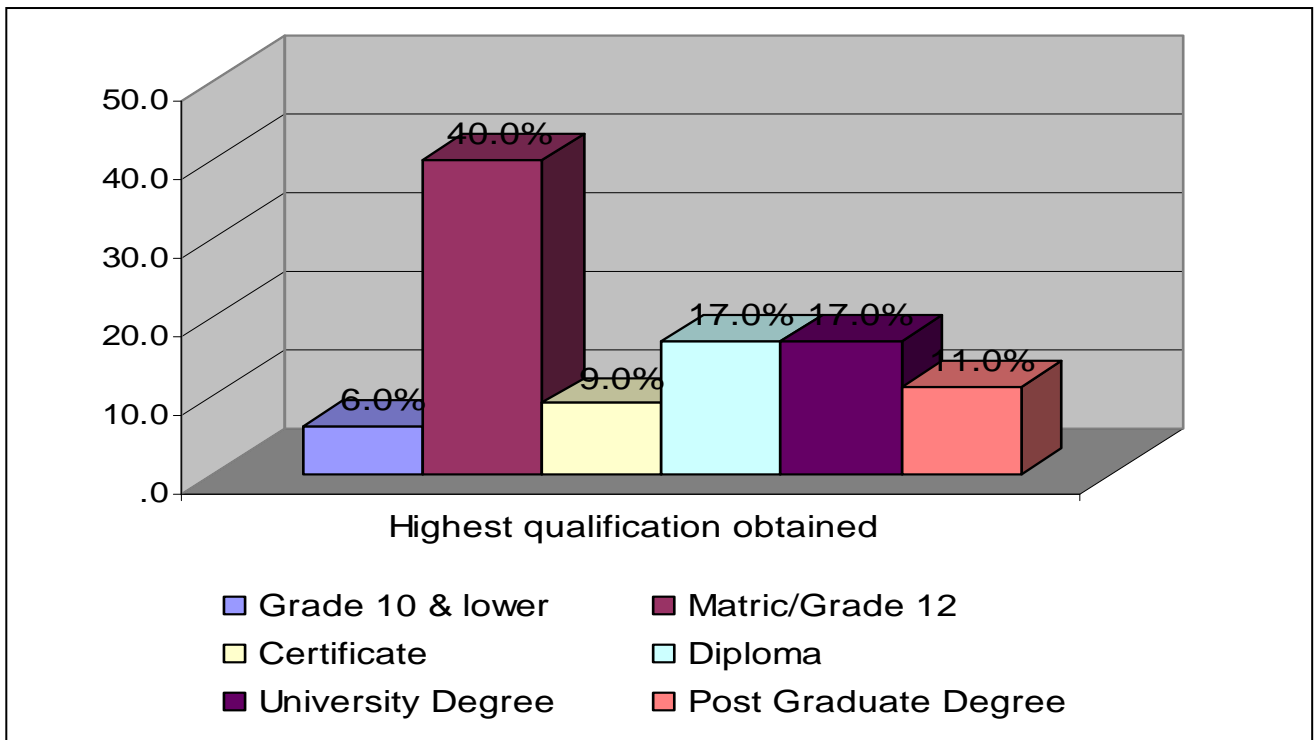
The largest percentage of respondents were men (79%) and 19% women; 2% of the respondents did not indicate their gender in the questionnaire. According to the national statistics pertaining to the gender of persons of working age 15 to 65, 31% of women are managing and owning businesses in the formal sector in March 2007 while 69% were represented by men. There were an increase from 24% to 31% from 2005 to 2007 in women persons managing and owning businesses. Men owning and managing businesses experienced a decrease in the total percentage from 2005 to 2007 from 76% to 69%. Both men and women owning and managing businesses increased in the period March 2005 to March 2007 while the men decreased and the women experienced an increase (see: Table 2.7).

The conclusion is that men are more active in small business activities than women. In South Africa men are more likely to be risk takers while women are still suffering to break through the “glass ceiling”. Some of the reasons for it may be due to the implementation of Affirmative Action that has led to job losses. This is, however, against the South African government’s strategy to empower women and to give priority to designated groups. In the following section, the education level of business owners is analysed.

3.3.3 Education level of business owners

The education level of respondents was also investigated. The respondents were requested to indicate their highest level of education. Education levels have a direct impact on the way formal businesses are managed, its profitability and performance. It also contributes towards sustainability over the long term. Figure 3.4 shows the education levels of the respondents.

Figure 3.4: Education level of respondents



(Source: Own compilation)

The education level of the interviewed respondents indicated that 40% had Grade 12 (matric) level education followed by 17% of the respondents which had a diploma and a university degree respectively. When considering the education level of entrepreneurs (Maas & Herrington, 2006) 11.3% have a post-graduate qualification and 11.3% have completed a university degree while 45.1% have completed Grade 12. The correlations between the empirical study and the literature study for business owners/entrepreneurs that have completed Grade 12 are very similar with 40% and 45.1% and for business owners with a post-graduate qualification. Only 6% of the respondents have grade 10 and a lower qualification. Once again the GEM report shows a markable difference in education demographics. In the report, 29.6%

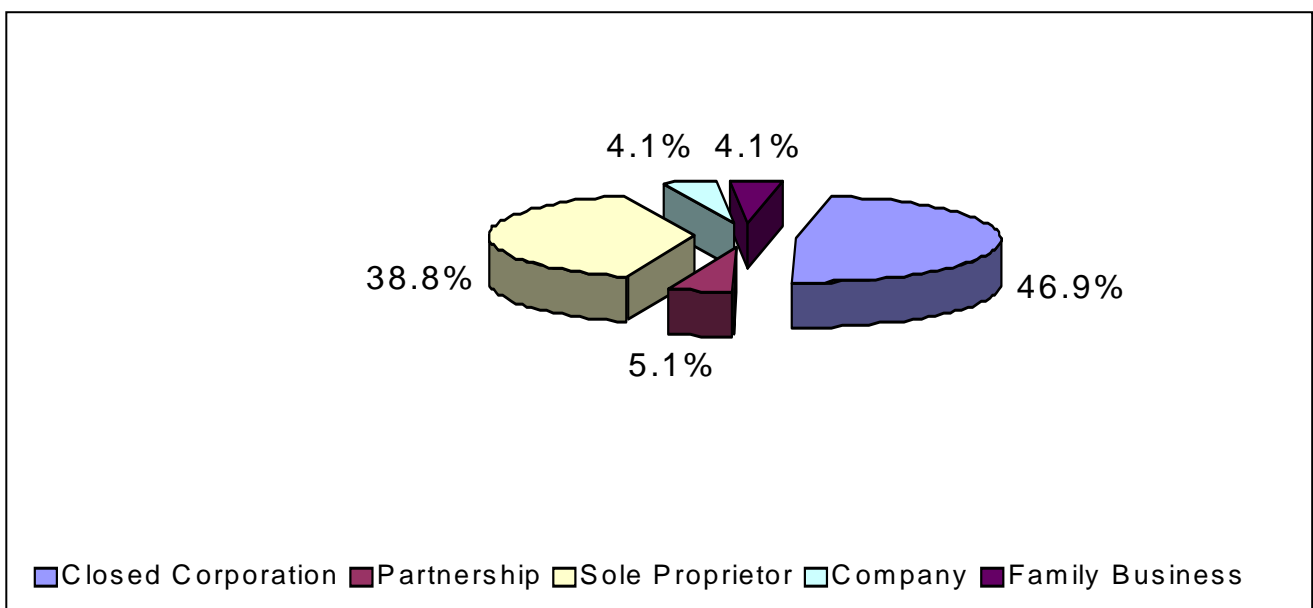
of business owners in the national statistical analysis have some secondary school education and lower.

One of the reasons for the huge difference in respondents that have some secondary education and lower may be due to the race representivity of businesses analysed. In the following section, the type of business form utilized by business owners is analysed.

3.3.4 Business form

The type of business structure chosen by business owners depends on their individual needs and the benefits coupled to it. Businesses that are not fixed asset driven (services orientated) are more likely to be sole proprietors. When deciding on a structure, different factors are taken into consideration (see: section 2.6.2).

Figure 3.5: Registered business structure



(Source: Own compilation)

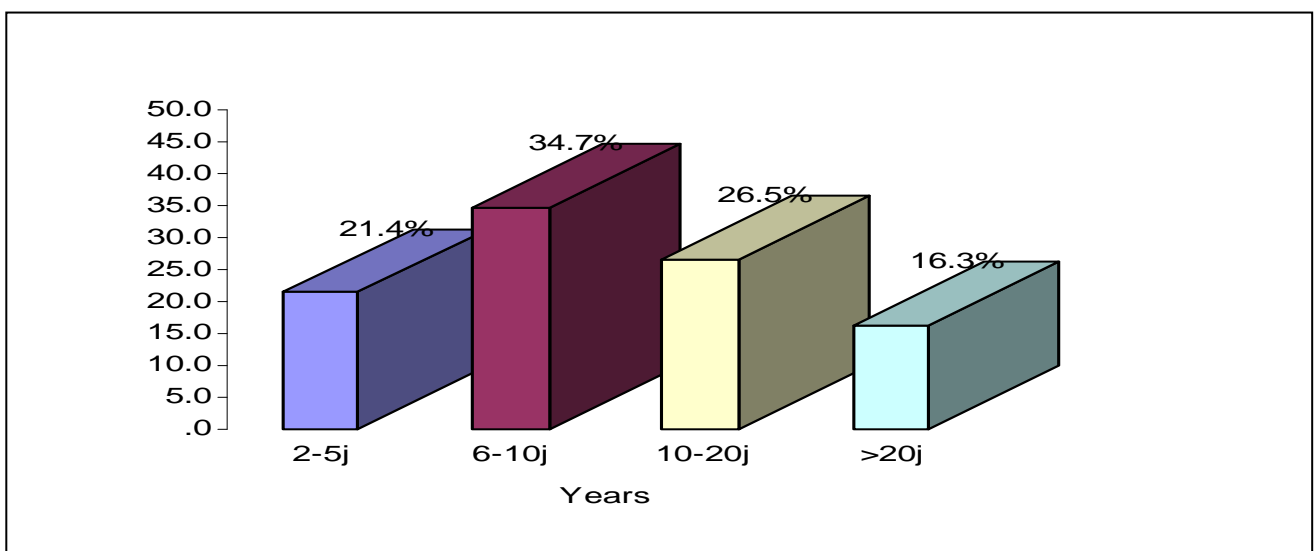
The largest percentage of the businesses survey is close corporations (46.9%), followed by sole proprietors (38.8%). In a study executed by CIPRO from 2001 to 2007 (South Africa, 2008c) the largest growth for the registration of new businesses were experienced in close corporations over the period. The study, however, excludes sole proprietorships and partnerships. This, however, compares very well with the 46.9% of businesses in operation that make use of close corporations as the preferred business form. Close corporations are the most preferred

business form due to the tax advantages and the fact that it is deemed to be a separate legal entity. Business owners indicated that they preferred close corporations because of the separation between personal assets and business assets. Sole proprietors were very prominent with businesses that are not fixed asset-driven (services orientated) and in the survey 60.2% of the businesses were in the services industry (see: Figure 3.1). Some business owners prefer sole proprietorship since they had a professional occupation while others indicated that it was the only business form that they were familiar with at the time they had to make the decision. Another reason why some business owners prefer sole proprietorship was because of that the accountant's costs involved in a close corporation was very high. In the following section, the business duration is discussed and compared with the GEM survey for the period 2004 to 2006.

3.3.5 Business duration

Businesses that are well established within the market contribute towards the economic wellbeing of its employees. In Figure 3.6, all the businesses analysed were classified in categories of the number of years in business.

Figure 3.6: Years in business



(Source: Own compilation)

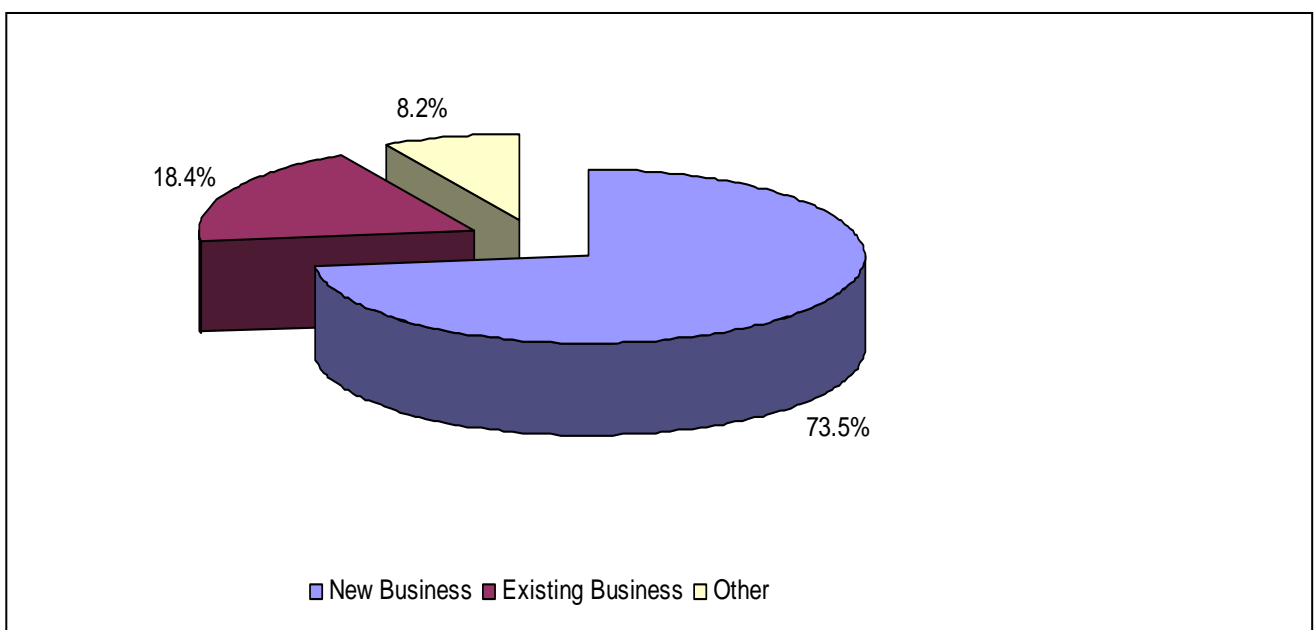
Nearly 35% of the businesses included in the survey have been in operation for a period of 6 to 10 years. It is followed by 26.5% of businesses which have been in operation for 10 to 20 years. Some 21% of businesses were in operation for 2 to 5 years. The businesses included in this analysis were all well established in the market since 77.5% of the businesses have been

operational for more than five years. Based on the GEM survey the estimated percentage of entrepreneurs in South Africa owning and managing a business for more than 3.5 years were 1.40% in 2004, 1.30% in 2005 and the percentage for 2006 is not provided. In the study, 21% of businesses have been in operation between 2 to 5 years; the reasons may be owing to the implementation of the Employment Equity Act No 55 of 1998 (RSA, 1998b) entrepreneurial activity and as a survival strategy. A reason for the large difference in businesses that have been in operation for more than 3.5 years in the empirical study compared to the GEM research is as follows: the businesses are well established in the market and the owners have obtained the necessary experience and qualifications to manage the businesses. In the following section, the way in which the business owner started the business is analysed.

3.3.6 Obtain a business

Business owners obtain businesses by different means, namely by starting a new business, buying an existing business or in some instances, inheritance of a business. In Figure 3.7, the businesses analysed were categorised into four categories on how the owners obtained the businesses, namely: starting a new business, buying over an existing business versus other means for obtaining their business.

Figure 3.7: Obtaining of a business



(Source: Own compilation)

The smallest percentage (8.2%) of business owners obtained their businesses by other means, for example, inheritance. In 2006, the TEA rate was 5.29, meaning that 5.29% of the adult South African population (18 to 64 years) were either starting a business or owning and managing a business that was less than 3.5 years old at the time of the survey. The most business owners in the survey obtained their businesses by starting their own businesses (73.5%) followed by 18.4% who bought existing businesses. Owners starting their own businesses are a strong indication of an entrepreneurial spirit; other reasons may be for survival reasons or retrenchments. In the following section, labour force aspects such as fringe benefits are discussed.

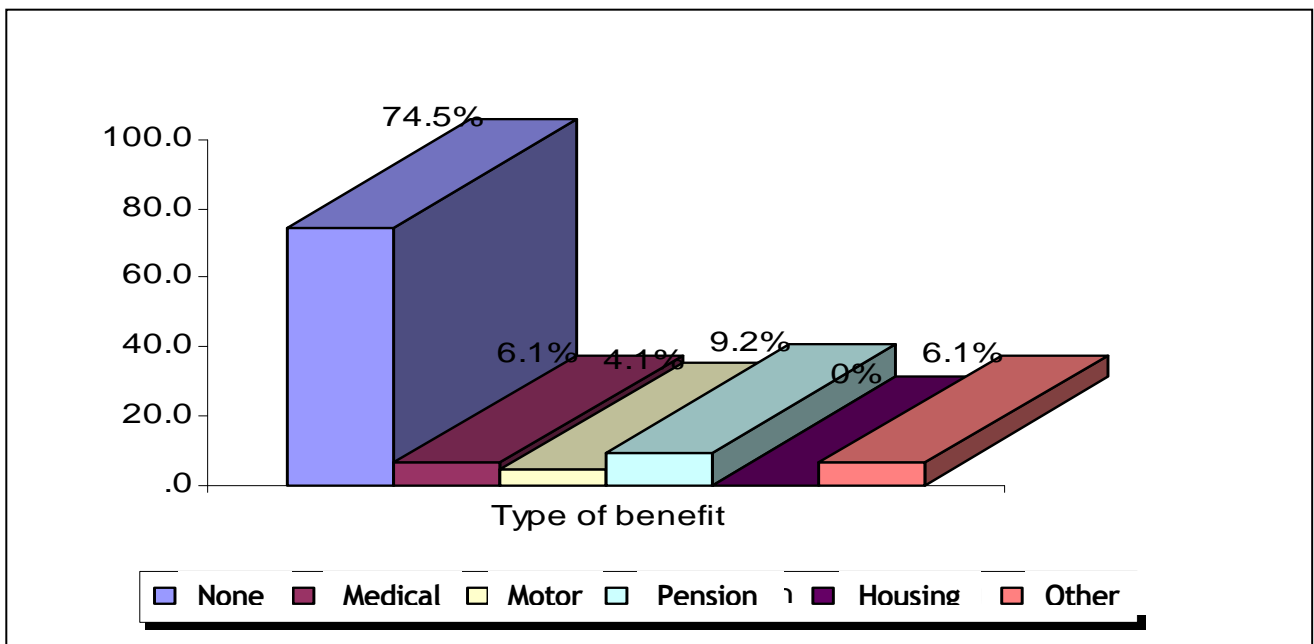
3.3.7 Labour force aspects

Aspects involving the labour force were researched: types of fringe benefits provided to employees and the total amount of employees in full-time service.

3.3.7.1 Fringe benefits

Small businesses are not well known for providing fringe benefits to its employees as it is too expensive for them. In Figure 3.8, a list of fringe benefits provided by small business owners is given.

Figure 3.8: Fringe benefits



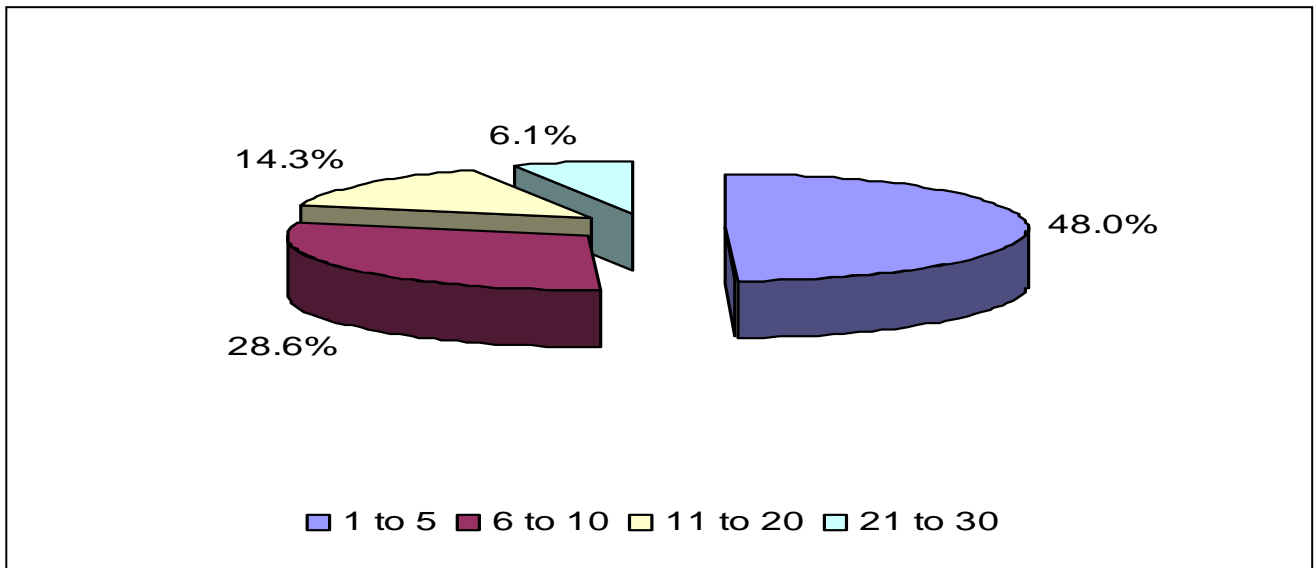
(Source: Own compilation)

Nearly 75% of the businesses analysed did not offer any fringe benefits to their employees. In 9.2% of the cases, the businesses did offer a pension benefit to its employees and 6.1% of the businesses offered medical and/or other benefits to its employees respectively. Only 4.1% of the businesses offer a motor allowance and none of the businesses offered a housing allowance. The only other fringe benefits which the business owners had indicated that they granted to their employees were meals and production bonuses. No specific information in regard to types of benefits was obtained. The only benefits mentioned that business owners contribute towards are medical and pension benefits. The main reason for small business owners offering limited or no fringe benefits are the costs involved in offering these benefits. Only a small percentage of owners are in the position to offer benefits to some extent. In the following section, the period that employees are employed is discussed; full-time or temporary.

3.3.7.2 Full-time versus temporary employees

The total number of employees employed was used as a measurement to categorise the business according to the National Small Business Amendment Act No 29 of 2003 (RSA, 2003) (see: section 2.3). In Figure 3.9, businesses analysed are categorised according to the National Small Business Amendment Act, although for this study all businesses with less than 50 employees were taken as small businesses.

Figure 3.9: Number of employees



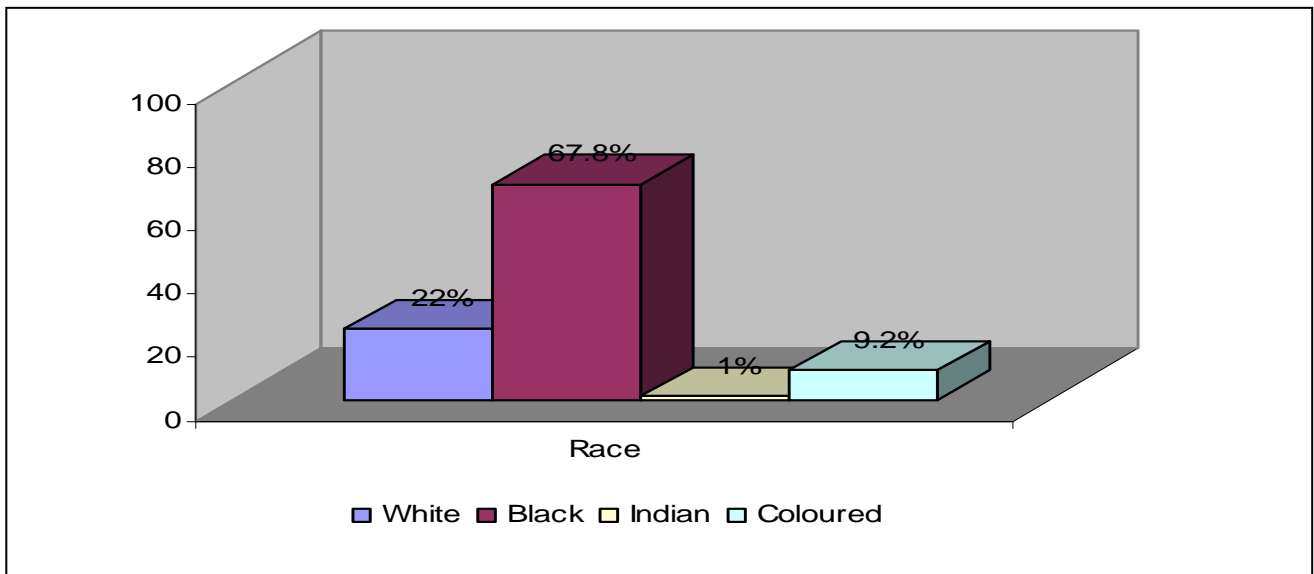
(Source: Own compilation)

Figure 3.9 indicates that 48% of the businesses included in this study were considered to be micro businesses (between 1 to 5 employees) while 52% were classified as small businesses.

3.3.7.3 Diversity of labour force

Small businesses are known to employ more black workers for the reason that black people represent the largest percentage of the population and also because of the high unemployment figure. According to Statistics South Africa (2007), of the 45 million South Africans, nearly 31 million are Black, 5 million White, 3 million Coloured and 1 million Indian. In Figure 3.10, an indication is given of the race representivity of employees employed in small businesses.

Figure 3.10: Race representation



(Source: Own compilation)

Respondents indicated that 67.8% of their workforce consisted of black workers while 22% were white workers. The largest percentage of employees employed in small businesses had a grade 10 or lower qualification. This indicates that small businesses can contribute towards job creation, especially amongst the black citizens of South Africa as the costs involved to create a job are much cheaper. In the next category, the education level of employees is analysed.

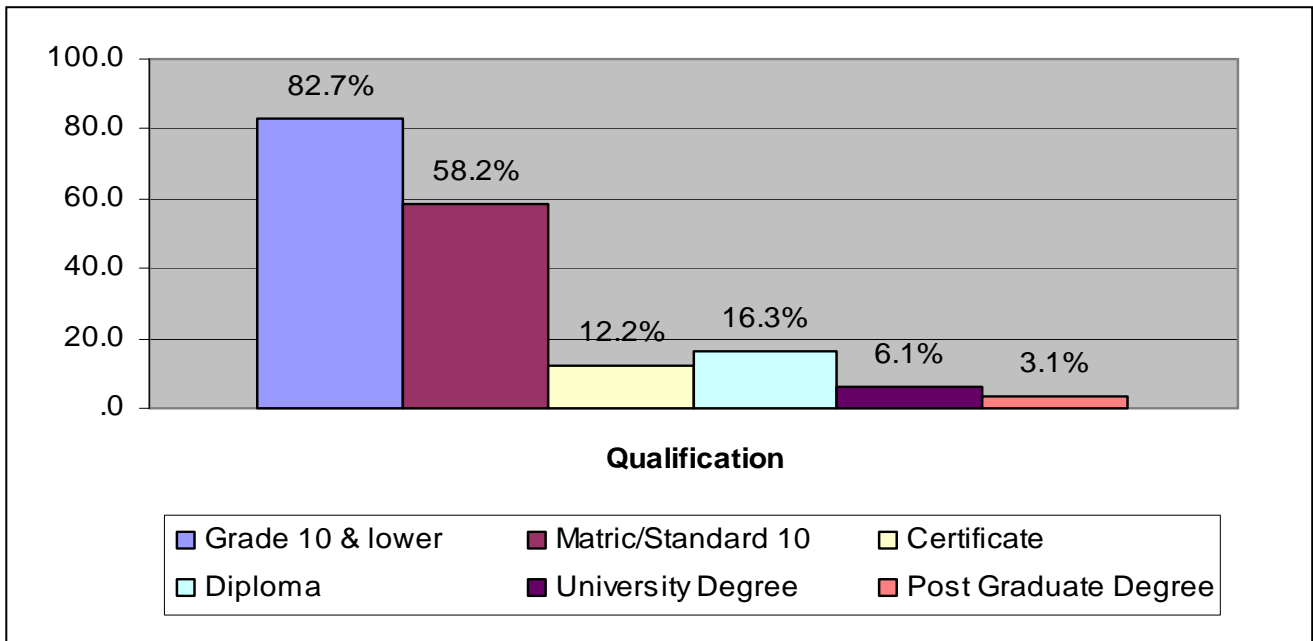
3.4 EDUCATION LEVEL OF EMPLOYEES

The education level of small businesses' employees were analysed by taking the highest qualification obtained, the number of years employees have been in the employment of the business. Data of institutions utilized for training, remuneration categories of employees and the employment of additional employees are also provided. The information obtained is compared to the national statistics available on the level of education of the South African population.

3.4.1 Education level of employees

The education level of employees was requested to obtain an indication of the average education level of employees employed in small businesses. The percentage of employees with the specific level of education is illustrated in Figure 3.11.

Figure 3.11: Education level of employees

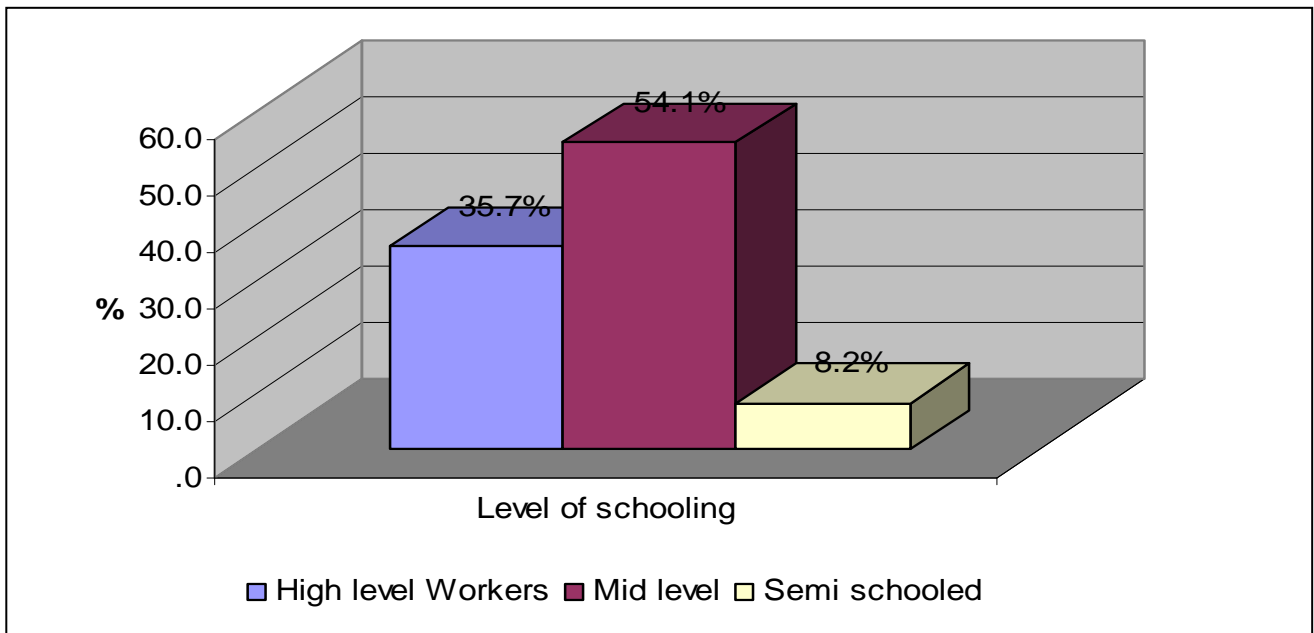


(Source: Own compilation)

Employees mainly consist of workers with a grade 10 or lower qualification (82.7%) followed by 58.2% having a grade 12 qualification. Another 16.3% of the employees have obtained a diploma and 12.2% a certificate respectively. Only 6.1% of the employees have a university degree and 3.1% a post graduate degree. According to Statistics South Africa (Statistics South Africa, 2001), 13% of the SA population had a Grade 12 qualification in 1996 and 8% had a qualification higher than Grade 12. Research indicated an improvement in the education level of small business employees in comparison to the SA population statistics. Some of the reasons may be an improvement in the matric pass rate and the implementation of SETAS.

Workers or employees in the labour force can also be classified as high-level, mid-level, semi-schooled or unschooled workers. High level workers are workers with a matric or Grade 12 qualification and two years' experience; mid-level workers are workers with a grade 10 or standard eight qualification; semi-schooled workers are workers that can read and write combined with a short period of education. Unschooled workers are workers without any formal education or training.

Figure 3.12: Official labour force classifications according to levels of schooling in South Africa



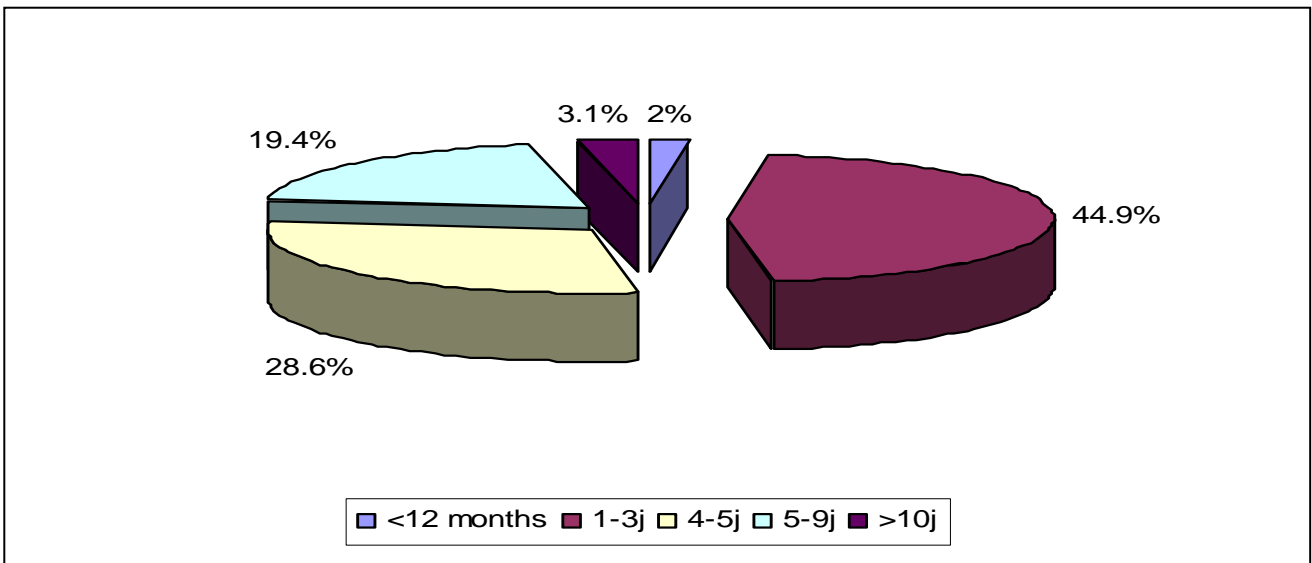
(Source: Own compilation)

Fifty-four percent of small business employees can be grouped into the mid-level according to their qualification and experience gained, followed by high-level workers (35.7%). The smallest percentage (8.2) of workers employed, were semi-schooled. In the following section, the average of years employees stay in service is given.

3.4.2 Years in service: Employees

A stable workforce contributes towards the sustainability and profitability of businesses. Furthermore, a stable workforce consists of employees that do not move along from one work to another. Human capital investments made in employees by developing skills become worthwhile when employees are committed to both the business and the business owner in the long term. A stable workforce is an advantage but a mobile workforce within the labour market is also good. Mobile employees are an advantage to the employer due to the experience gained. Figure 3.13 shows the average years in service of the employees.

Figure 3.13: Average years in service



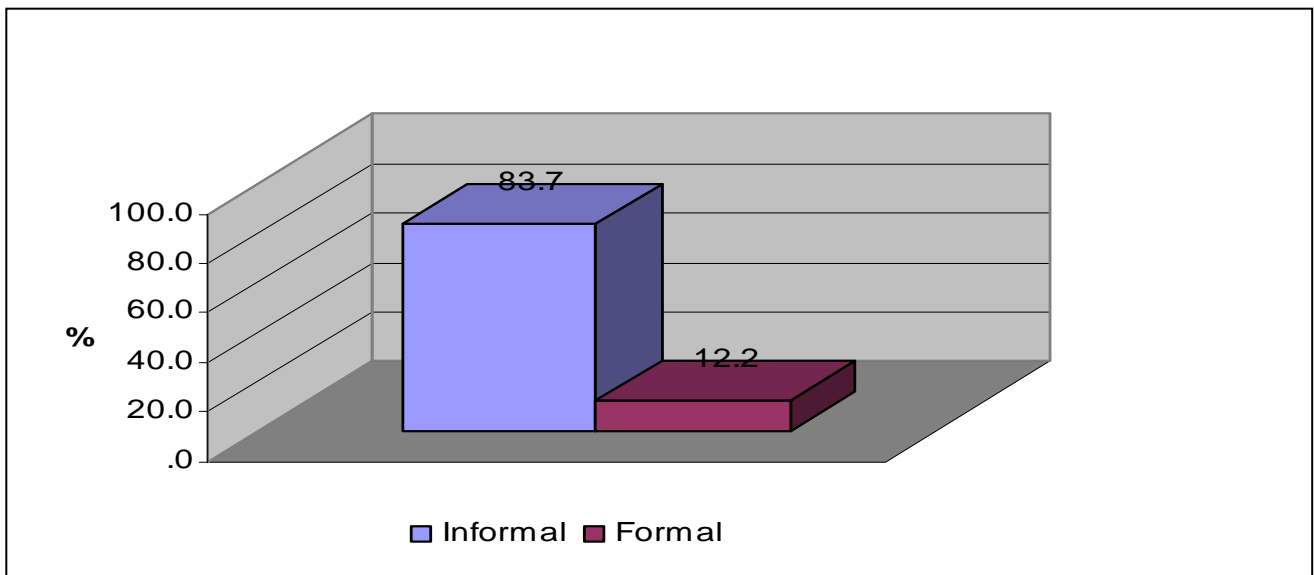
(Source: Own compilation)

On average, 44.9% of the employees in the survey have been in service between 1 and 3 years followed by 28.6% of employees who have been employed for a period of 4 to 5 years. This percentages obtained in the survey for years in service contributes towards the stability of the businesses. Small businesses mainly employ unskilled workers or workers with limited skills (see: section 3.4.1). Unskilled and semi-skilled employees are very mobile within the labour market and are very easily attracted by other employers for a small difference in compensation. In the following section, the type of training utilized by employers is discussed.

3.4.3 Formal or informal training

Training by business owners can be done by either an informal way by means of on-the-job training or formal training (universities, colleges) by making use of registered training institutions.

Figure 3.14: Type of training



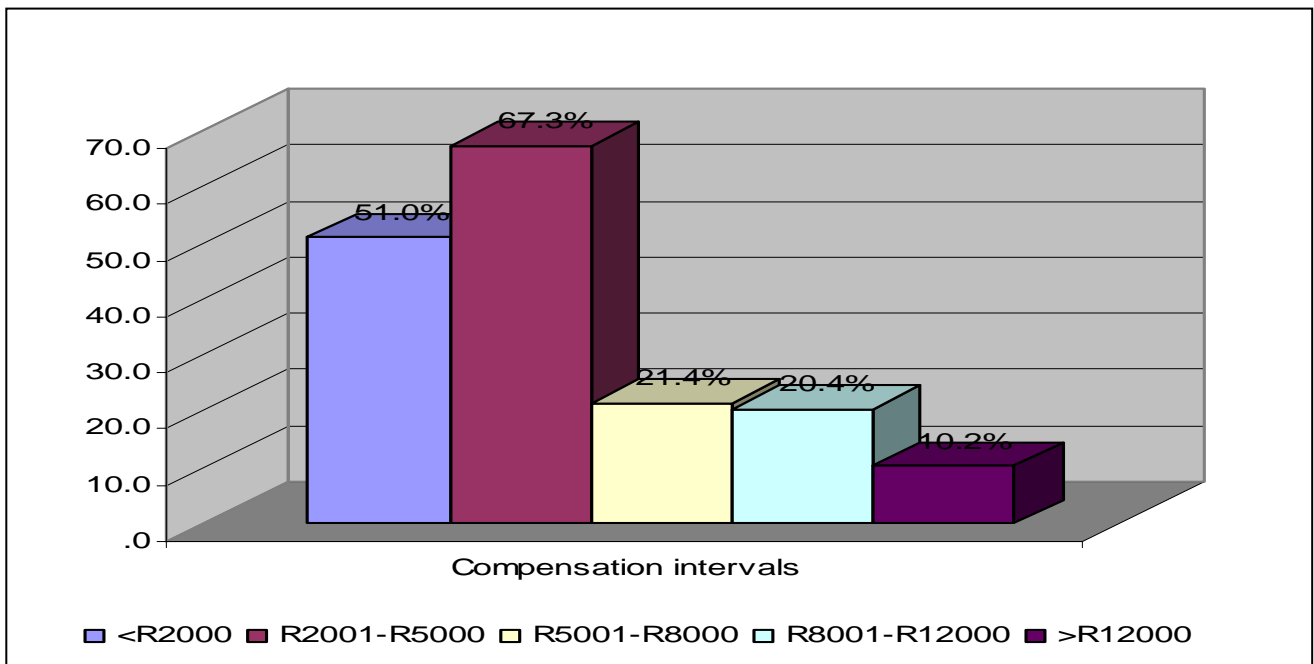
(Source: Own compilation)

The majority of companies included in this study made use of informal or on-the-job training (83.7%). The main reason for utilizing informal training as a training method is due to the economic benefits such as low costs and the minimum movement of employees. Companies also complained about the waiting period before they may claim back a predetermined skills development percentage from the Skills Development Fund and therefore they do not invest in formal training. The incompetence of employees employed by the Skills Development Fund is also a great concern for business owners. Only 12.2% of the businesses make use of formal training institutions. Business owners indicated that they made use of universities and institutions such as SIPA (Swaziland Investment Promotion Authority) as formal training institutions. SIPA was established by the Swaziland Parliament in 1998 to help empower SMMEs. The reason for utilizing formal training institutions is that the courses are National Qualification Framework accredited, or a certificate is obtained which enhances employability and trainability. A thorough skills need must be done by the DTI to support small business owners and to enhance employability of job seekers. In the following section, the remuneration of employees is compared to the minimum wages as determined by the Department of Labour.

3.4.4 Remuneration

Compliance with the Basic Conditions of the Employment Act No 75 of 1997 (RSA, 1997) is compulsory for registered small businesses and therefore the workforce must be compensated according to the specifications. In Figure 3.15, a list of compensation intervals is given.

Figure 3.15: Remuneration



(Source: Own compilation)

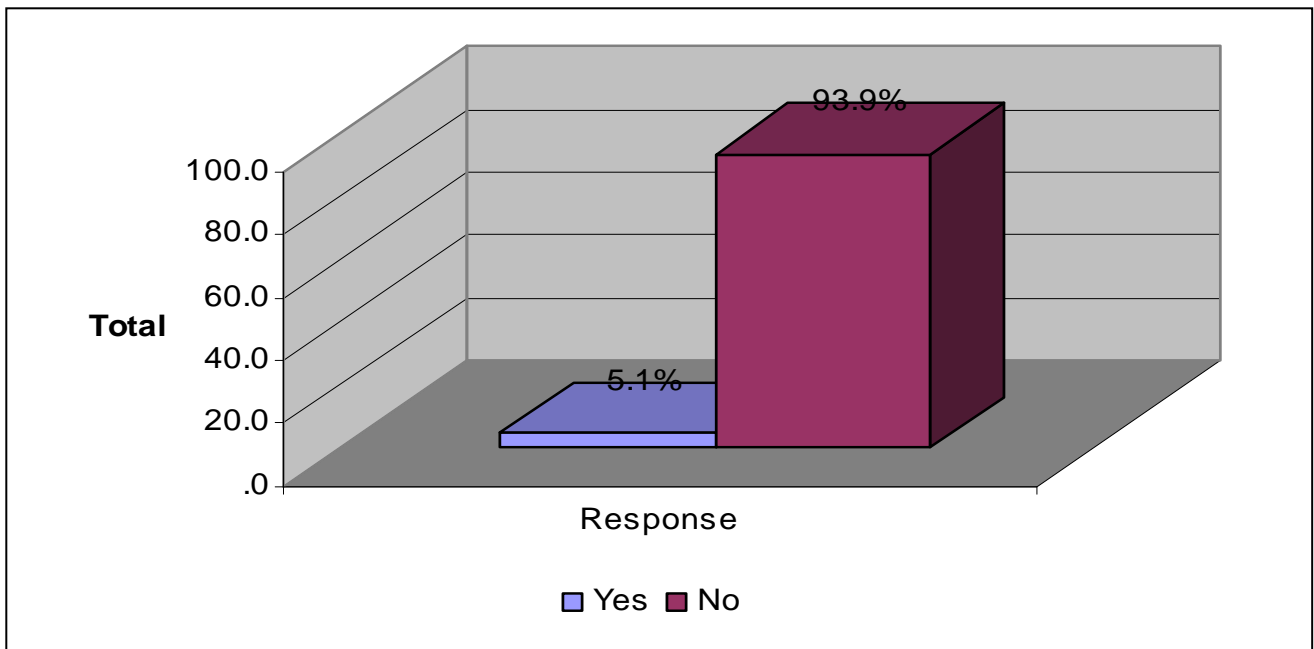
From the graph, it can be inferred that nearly 70% of employees earn (gross salary) between R2 001 and R5 000 per month while 51% earn less than R2 000 per month. Twenty-one percent of employees earn between R5 001 and R8 000 per month followed by 20.4% of employees that earn between R8 001 and R12 000 per month. The smallest percentage (10.2) of employees earns more than R12 000 per month. This correlates with the level of education of employees employed by small business owners. Nearly 83% of employees employed by business owners consist of workers with a grade 10 or lower qualification followed by 58.2% with grade 12 qualifications. The businesses analysed in the study comply with the minimum wages as determined for the Matlosana Municipality district. These remuneration packages also compare very well with the remuneration given to employees working in all sectors. In the W&R sectors, 71% of employees earn less than R2 500 while 59% of the total workforce earn less

than R2 500 per month. In the following section, employers were requested to indicate if they are planning to employ additional employees.

3.4.5 Appointment of additional employees

Businesses were requested to indicate if they were planning to employ additional workers during the next twelve months. This information provides an indication of the contribution which small businesses will make towards job creation since unemployment is seen as one of the biggest problems by the formal economy.

Figure 3.16: Job creation



(Source: Own compilation)

Nearly 94% indicated that they were not going to take in additional workers while 5.1% indicated that they were considering employing an additional employee during the next twelve months. Two of the main reasons supplied by business owners why they did not consider taking in additional personnel were as follow:

- demand for higher salaries/wages partially due to the implementation of the labour legislation; and
- the global economic recession.

The following additional reasons were given by owners for not considering employment or job creating opportunities: experience; honesty; occupation specific skills; qualifications; salaries and competitive salaries; trustworthiness; fringe benefits; work hours (after hours and weekends); contract specific restrictions; computer literacy; confidentiality; training costs; travelling; bonuses; economic situation; telephone etiquette; theft and productivity.

Research in South Africa indicates that entrepreneurs do not always choose to increase employment (Kesper, 2001:171). This trend is confirmed by the GEM's survey of entrepreneurs, which indicated that in 2006 a mere 4.8% of respondents expected to hire additional staff (and a similar percentage in previous years). In the following section, income related aspects are analysed.

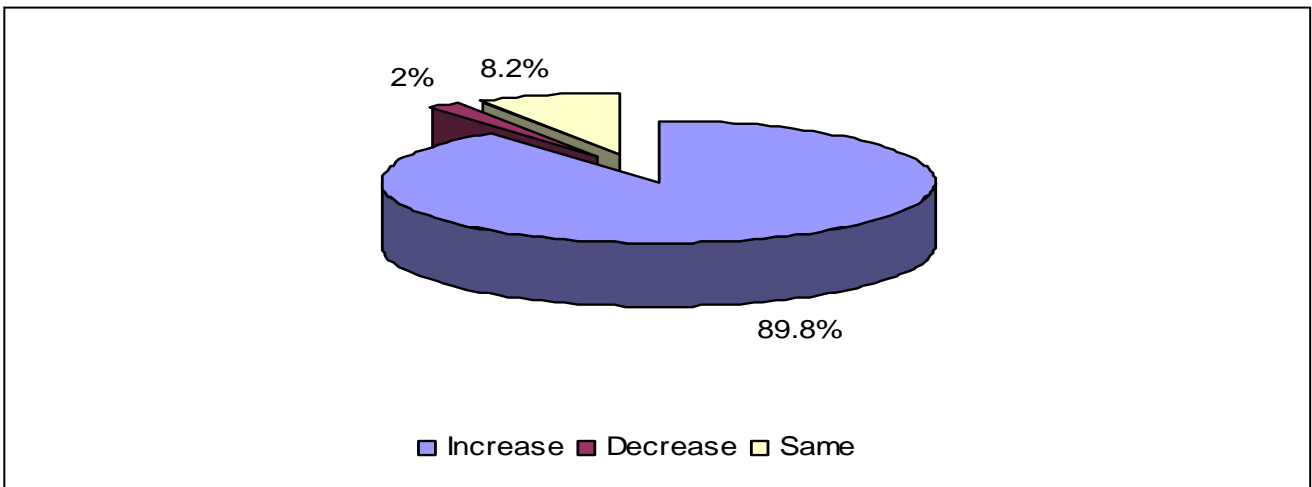
3.5 INCOME RELATED ASPECTS

The following factors are studied to determine the impact on small businesses' sustainability: the annual turnover; profit over a five year period, BBBEE compliance and the impact thereof; income levels and financial needs of small businesses.

3.5.1 Annual turnover

A steady growth in turnover is considered to be important for the long-term sustainability of small businesses and its contribution to economic growth. The annual turnover of small businesses was analysed over a time series of five years (2004 to 2009) to enable the researcher to derive a trend in turnover. The percentage increase or decrease in turnover was also requested over the preceding five-year period. In Figure 3.17, small business owners were requested to indicate if their annual turnover have increased, decreased or stayed the same over the period indicated. The information received was verified against the financial statements and found to be true.

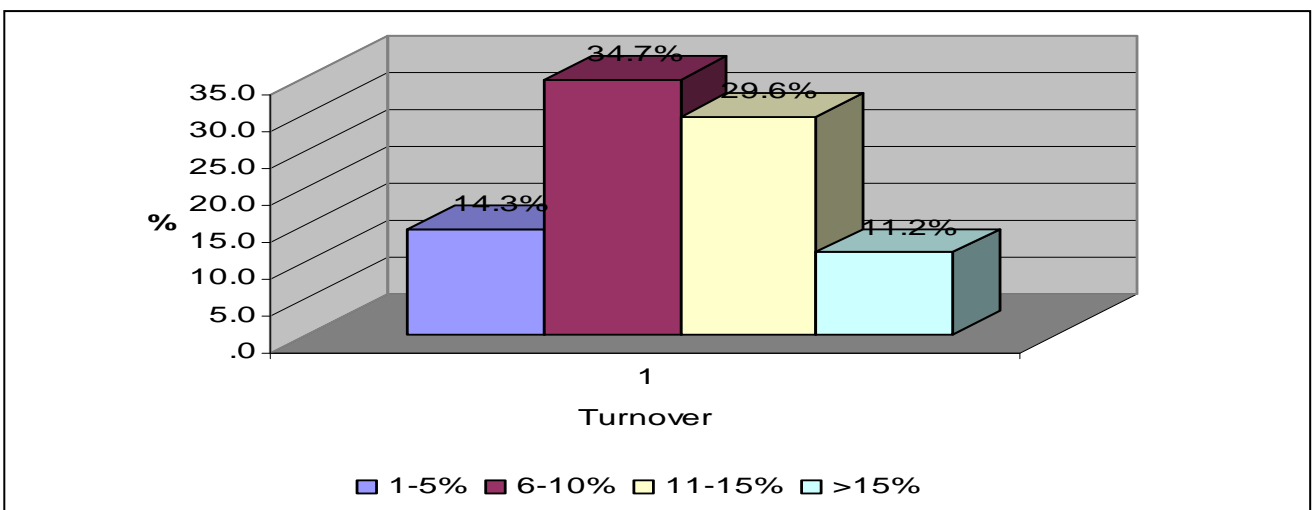
Figure 3.17: Annual turnover



(Source: Own compilation)

Some 88 of a total of 98 businesses (90%) indicated an increase in turnover over the period of five years followed by 2% of businesses which showed a decrease in turnover, while 8.2% showed no change in turnover over the five-year indicated period. Although 90% of the businesses analysed indicated an annual increase in turnover, only 5.1% indicated that they consider employing additional employees. The reason may be that the business owners are satisfied with the flow of work, no additional work is expected within the future; the slow recovery phase of the recession; the wage demands expected for the new financial year and the increase expected in business related costs such as petrol and electricity.

Figure 3.18: Turnover increase/decrease



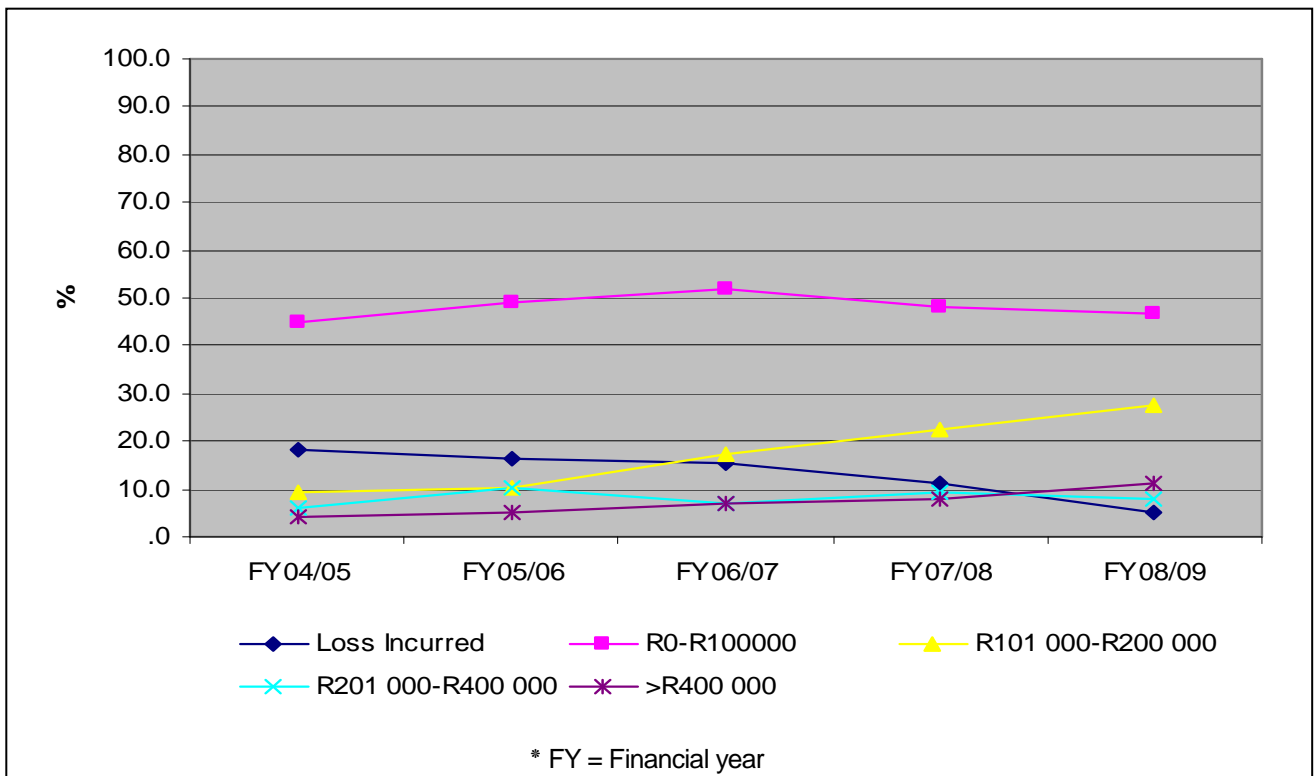
(Source: Own compilation)

A total of 98% of businesses indicated that they have experienced an increase or no change in turnover over the indicated period. In Figure 3.18 the percentage increase in annual turnover is indicated. Only 2% of the data could be linked to a decrease in turnover, thus the impact of the recession on small businesses is limited. In the following section, the net profit of small businesses is analysed.

3.5.2 Net profit

Small business owners should consider costs involved in small business operations. Cost-cutting remains an important topic when profit is discussed for long-term sustainability. The initial costs involved in the start-up of a business are usually one of the main reasons why businesses experience a loss during the first few years of operation. A steady increase in profit provides an indication of good management and sustainability. It also contributes to employment and economic wealth. Figure 3.19 shows the profits of the small businesses surveyed are illustrated by trends for financial year (FY) 2005 to FY 2009. Businesses analysed in this study were categorised according to the profit earned for the specific financial year. The total number of businesses that earned a profit or incurred a loss in the different categories (loss incurred, R0 to R100 000, R101 000 to R200 000, R201 000 to R400 000 and >R400 000) were expressed in percentage. The percentage is an indication of the number of businesses that incurred a loss or earned a profit as per category.

Figure 3.19: Net Profit over a five-year period



(Source: Own compilation)

Some 18% of the businesses surveyed incurred a loss in the 2004/05 financial year and it declined to 5% in the 2008/09 financial year. In addition, 45% of businesses indicated a profit between R0 to R100 000 for the 2004/05 financial year and it further increased to 47% in the 2008/09 financial year. Nine percent of businesses indicated a profit between R101 000 to R200 000 in the 2004/05 financial year with a further increase of 28% in the 2008/09 financial year. Six percent of the businesses indicated a profit between R201 000 to R400 000 in the 2004/05 financial year and it increased to 8% in the 2008/09 financial year. Four percent of businesses showed a profit of more than R400 000 for the 2004/05 financial year with a further increase of 11% for the 2008/09 financial year. The overall picture shows a steady increase in profit over time for the businesses analysed with a decline in the percentage of businesses that have incurred a loss during the period.

The following reasons were given by business owners why profits have increased or changed during the identified period:

- A decrease on average;
- Increase in telephone costs (overheads);

- Medical aid tariffs increased;
- Slow-down in certain industries like the building industry;
- Increase in the marketing budget;
- Increase in expenditures; and.
- An increase on average:
 - Increase in amount of projects;
 - Strict stock control; and
 - Increases in Ster Kinekor and Metro's prices have lead to an increase in video/DVD rentals.

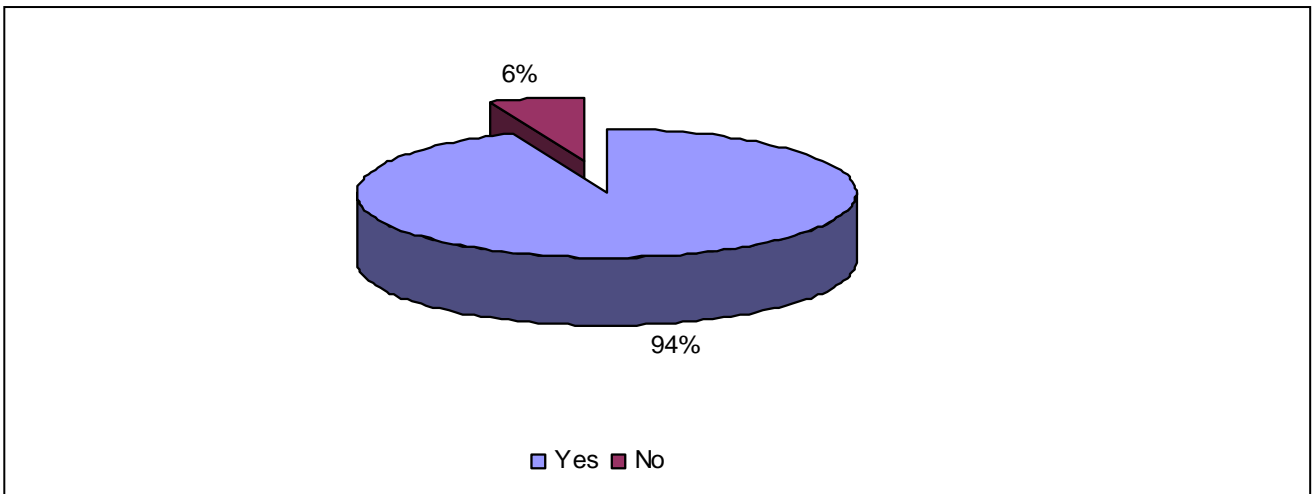
3.5.3 BBBEE compliance

Compliance with the BBBEE law (Broad-Based Black Economic Empowerment) is compulsory for certain categories of businesses. The BBBEE Act No 53 of 2003 (RSA, 2004) was implemented by the South African government to promote black economic empowerment. The purpose of the Act is as follows: to promote the achievement of the constitutional right to equality, increase broad-based and effective participation of black people in the economy and to promote a higher growth rate, increased employment and more equitable income distribution, and to establish a national policy on BBBEE so as to promote the economic unity of the nation, protect the common market and promote equal opportunity and equal access to government services.

The allocation of contracts and tenders to small businesses is to the advantage of businesses which must comply with the BBBEE law as businesses obtain marks on a scorecard.

Figure 3.20 follows on next page

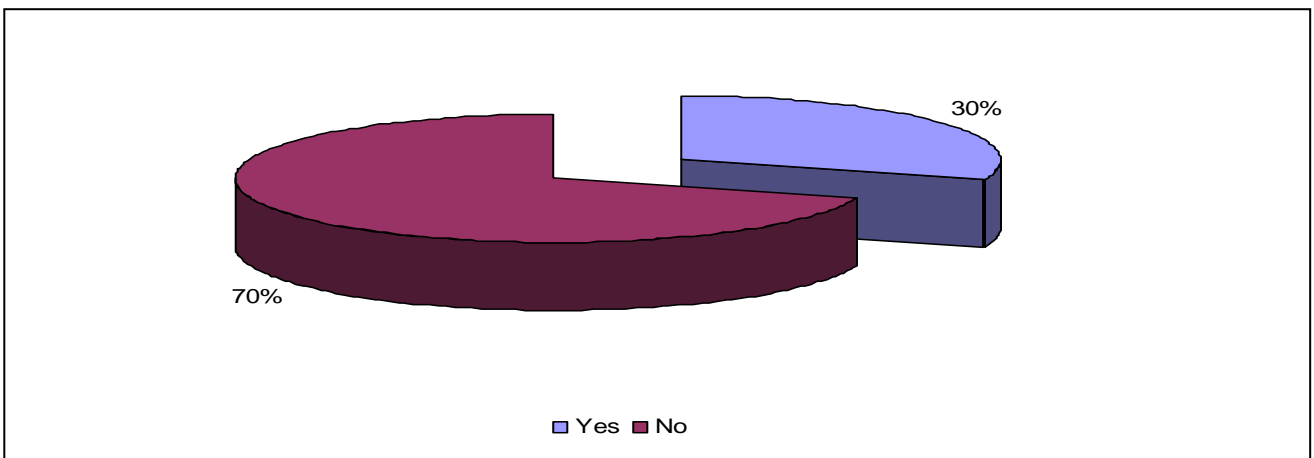
Figure 3.20: Compliance with BBBEE law



(Source: Own compilation)

Almost half (49%) of respondents indicated that their business complies with the BBBEE legislation while 6% have indicated that they did not comply with the law. Figure 3.21 gives an indication whether the businesses analysed received business opportunities from other businesses that must comply with the BBBEE law.

Figure 3.21: Business received owing to compliance with the BBBEE law



(Source: Own compilation)

A total of 35% of businesses surveyed received business (tenders or contracts) owing to compliance with the BBBEE law. As much as 70% of businesses indicated that the business they received was not influenced by compliance with the BBBEE law.

3.5.4 Income levels

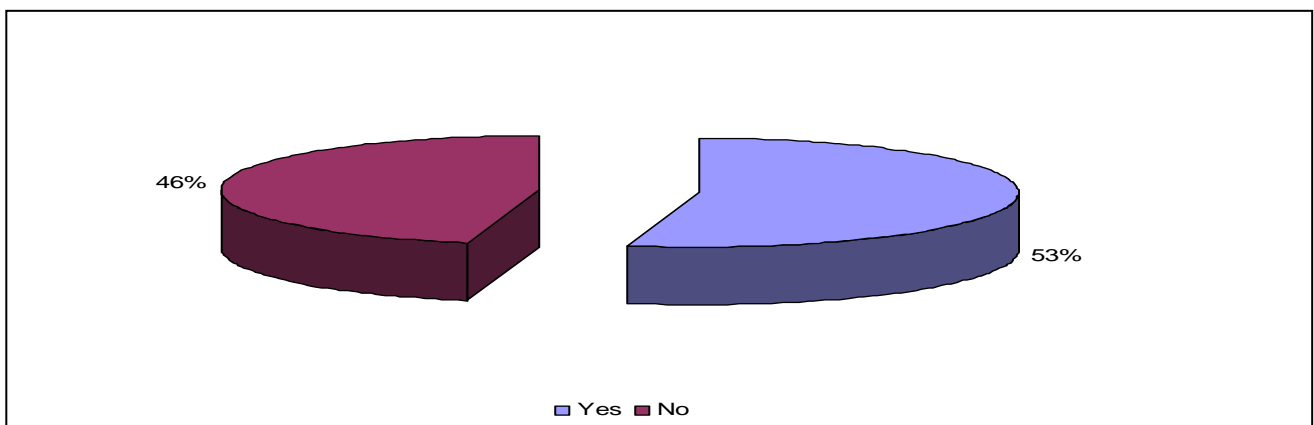
Due to the sensitivity coupled to the announcement of income for various reasons the response obtained cannot be quantified. More than half (53%) of business owners indicated that they were satisfied with the income while 46% indicated (see: Figure 3.22) that they were not satisfied with their income. The following were given as reasons why business owners were not satisfied with their income:

- Theft;
- Payments by medical aids;
- Bad debt;
- Long working hours; and
- Waiting period for the allocation of contracts.

Reasons why they were satisfied:

- Income was not their only stream of income (they are involved in other business practices that increase their total household income);
- They live a decent, acceptable lifestyle; and
- Sufficient provision was made for retirement.

Figure 3.22: Income levels



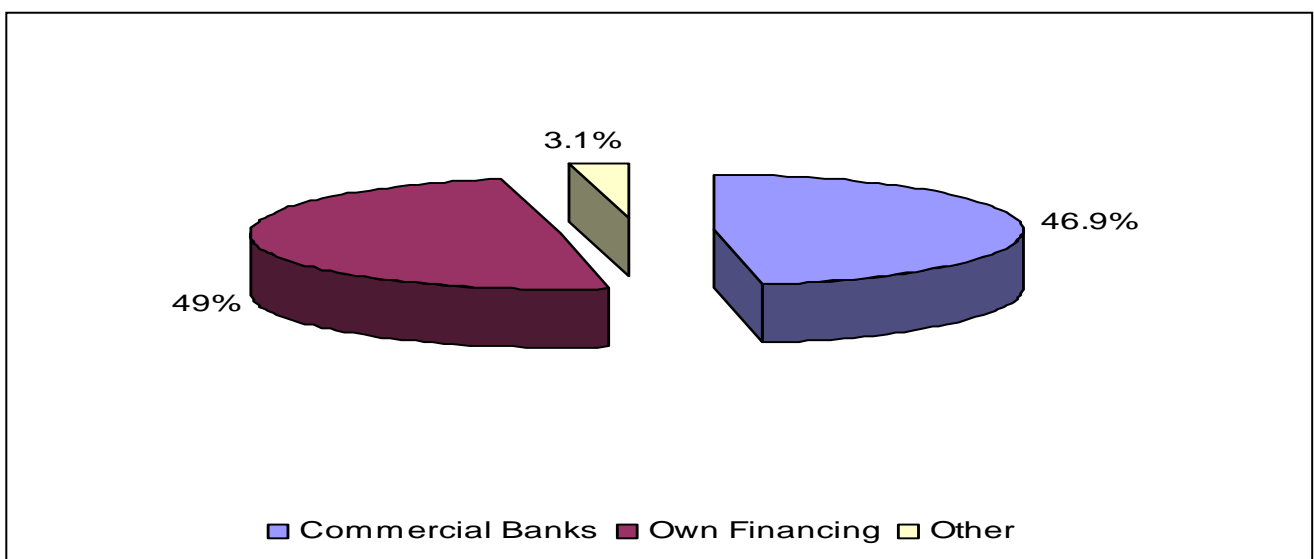
(Source: Own compilation)

In the following section, ways in which small businesses obtained finance are discussed.

3.5.5 Financing

Small businesses need finance for extending their services or when a large contract or tender is received. The financial needs of businesses are either satisfied by making use of commercial banks, utilizing own financing or other alternatives. Business owners try to avoid commercial banks to a large extent due to high interest rates and subsequent unaffordability. Credit approval to businesses by commercial banks is a time consuming process and financial statements must be submitted beforehand.

Figure 3.23: Financial institutions utilized



(Source: Own compilation)

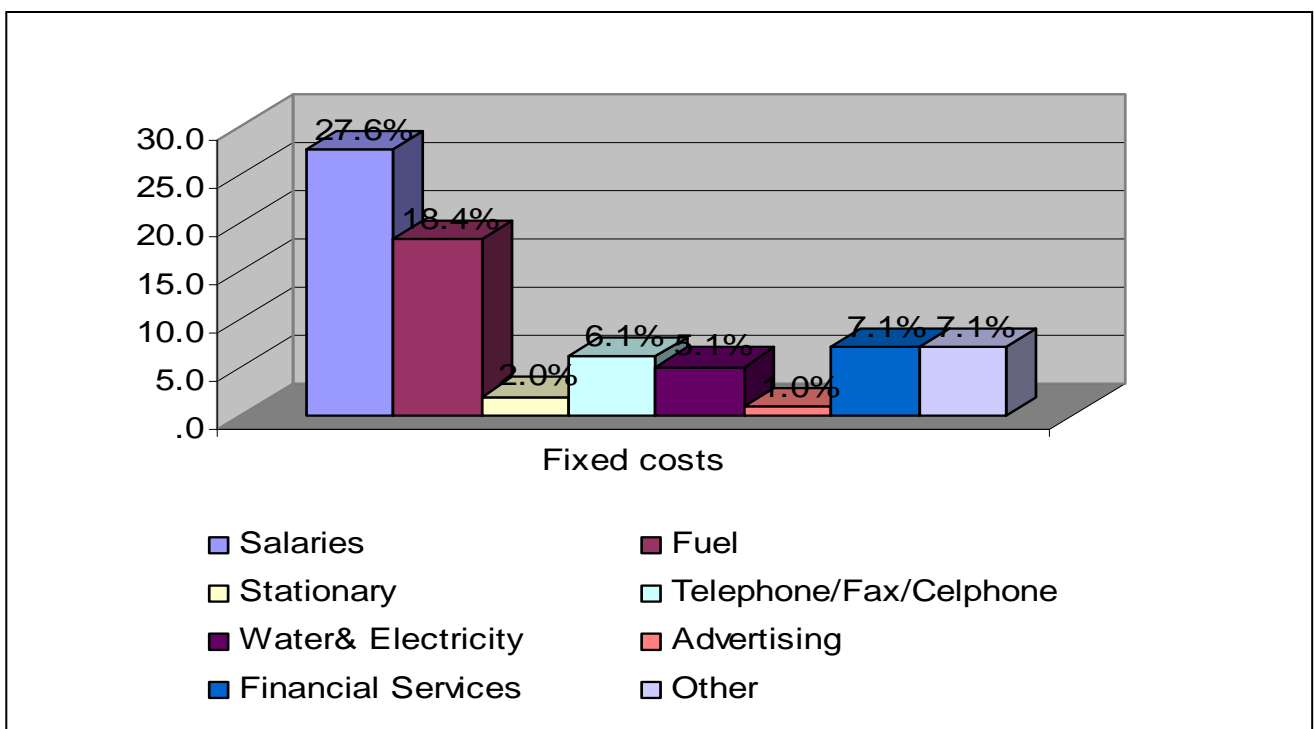
In the survey, 49% of the respondents indicated that they made use of own equity while 46.9% made use of commercial banks for their financial needs. Three percent of business owners made use of other ways to satisfy their financial needs. In a study executed in 1999, 24% of entrepreneurs borrowed money from local banks for new ventures. Business owners that utilized their own funds to obtain a business may have used their retrenchment packages or lump sum paid to them on resignation. The difference in percentage of businesses that obtain money from commercial banks compared to statistics obtained from Ntsika (2001) may be due to better interest rates that can be negotiated by business owners and proof of security. In the following section, selected operating costs are discussed.

3.6 BUSINESS COSTS

3.6.1 Selected operating costs

All businesses in operation have fixed costs (rent, water and electricity, telephone) that are inevitable to stay in business. The costs may escalate to such an extent that the survival of the small business may depend on the effective management of those costs. Business owners were requested to indicate the three business related costs that have escalated the most over the period 2004 to 2009.

Figure 3.24: Costs identified that escalated the most



(Source: Own compilation)

From Figure 3.24, it can be derived that 27.6% of the respondents indicated that they experienced the highest increase in salaries for the period, followed by the fuel price with 8.4% and then financial services (financial accountant) and other costs with 7.1%. The reason given by some of the respondents is that they are forced by employees belonging to unions (especially in the motor industry) to comply with the national salary increases negotiated for them. Respondents gave the following reasons for the escalation in fixed costs:

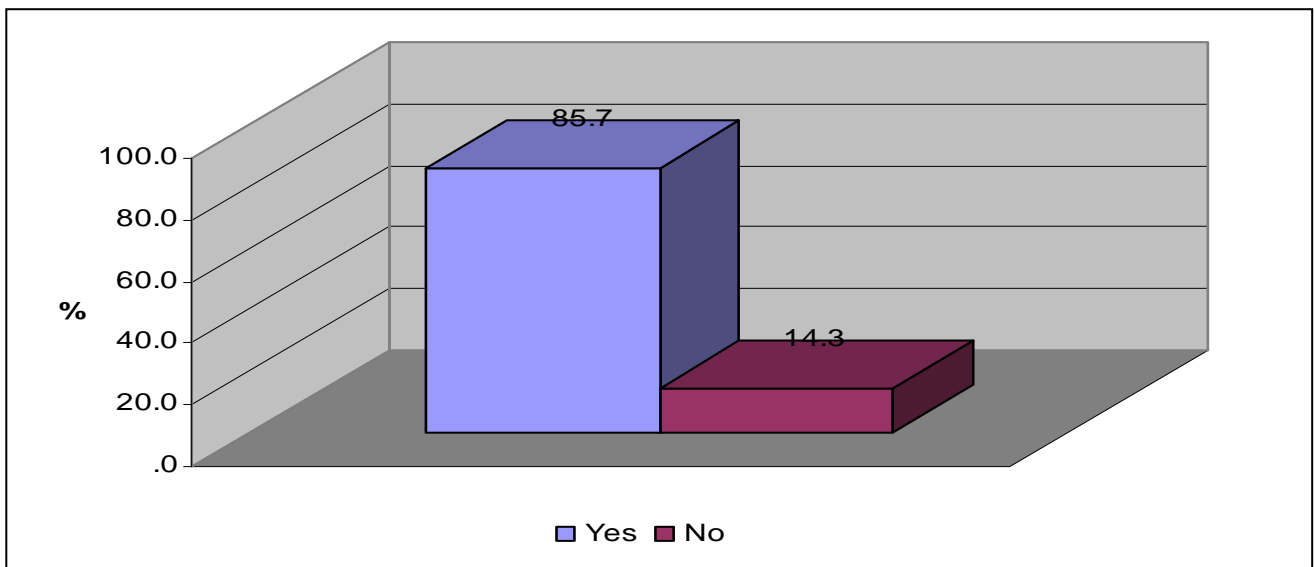
- Market related salaries;
- Increase in petrol/diesel/paraffin prices;
- Increase in stationery prices;
- Electricity tariffs;
- Delivery costs;
- Production costs; and
- Inflation.

In the following section, the impact of the economic recession is discussed.

3.6.2 Economic recession

The impact of the economic recession has not influenced small businesses to the same extent as experienced by larger businesses (this can be derived from the data obtained in the survey). The global recession had a negative impact on the import and export of goods since the need for certain items have decreased and are now considered as luxury items. In Figure 3.25, respondents indicated if the economic recession had an impact on their businesses.

Figure 3.25: Impact of economic recession



(Source: Own compilation)

Nearly 86% of business owners indicated that the economic recession had an impact on their business and 14.3% indicated that the economic recession had no impact on their business

activities. This is an indication that small businesses are in general very volatile to the business cycle and to economic activities. Business owners experienced the impact of the global economic recession on their business activities as follows:

- State departments have less money available;
- Increase in franchise costs;
- Only essential items are bought;
- Decrease in appointment of workers (especially seasonal farm workers);
- Decrease in contracts;
- Retrenchments; and
- Bad debt and the repayment rate.

Although small business owners indicated that the economic recession had an impact on their businesses, almost all businesses analysed indicated an increase in profits. This may be an indication that the impact of the recession did not have the effect expected by most small business owners. In the following section, formal business support is discussed.

3.7 FORMAL BUSINESS SUPPORT

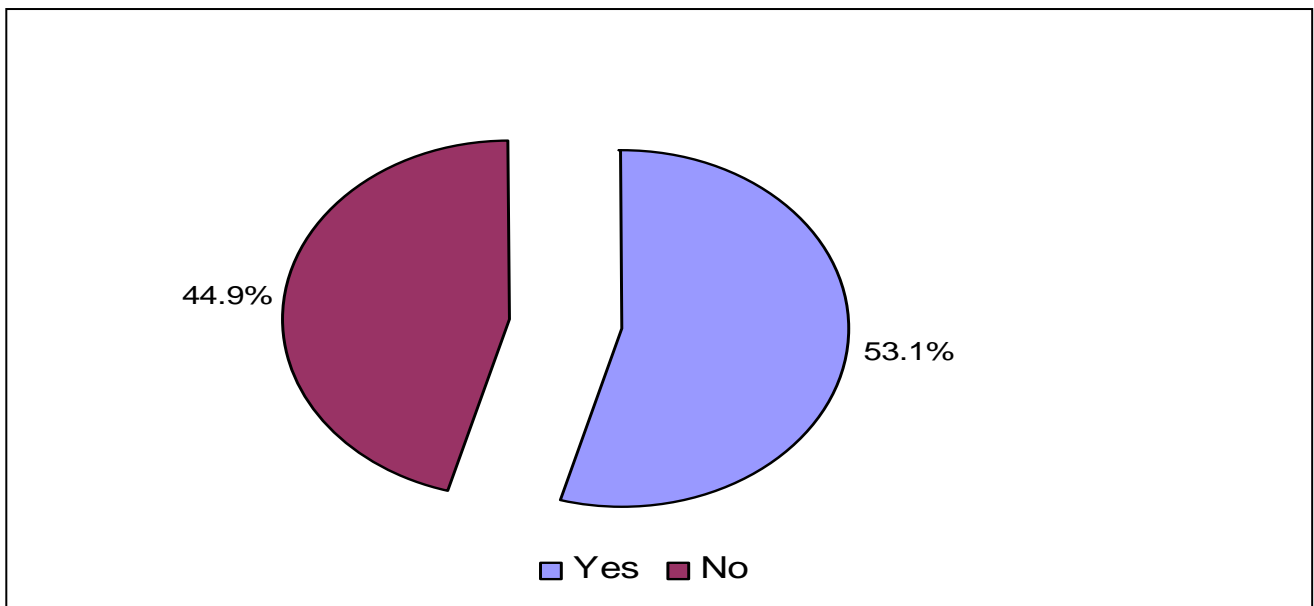
There are different types of support available to small business owners. Government and non-government support programs are available. On national level the DTI has support programs in place to assist owners with the general aspects coupled to business operations and financial support. Other business owners seek their own advice by making use of financial advisors and banks. The programs available by the DTI were established to encourage upcoming and new owners to enter the market.

In the following section, respondents were requested to indicate if they make use of financial advice and support and the institutions they make use of. Utilization of electronic (on-line) facilities, the availability of an ethical code and success factors are also analysed.

3.7.1 Business support services

Regular business support services are important to enable businesses to timeously identify problem areas and also to identify growth opportunities. Business owners were requested to indicate whether they had received business advice during the last year. In Figure 3.26, the owners indicated whether they made use of business advice and support services.

Figure 3.26: Business advice

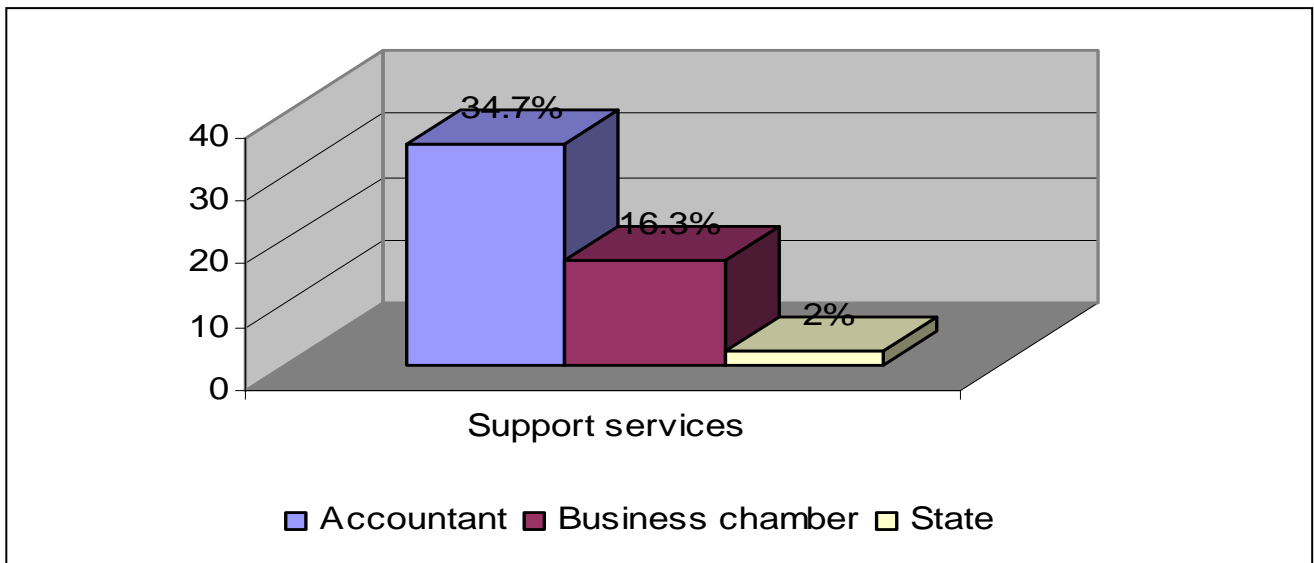


(Source: Own compilation)

In Figure 3.27, an indication is given of the financial support services business owners make use of.

Figure 3.27 follows on the next page

Figure 3.27: Financial support services



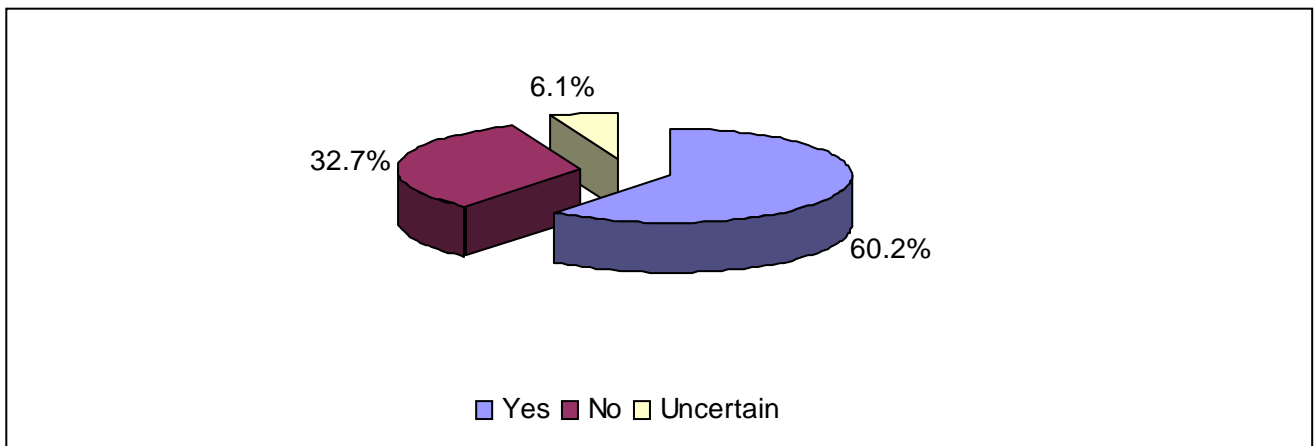
(Source: Own compilation)

Small businesses need support services to improve their business activities and to prevent their money to be locked in fixed assets. More than the half (53%) of businesses did receive financial advice during the past year, 34.7% received advice from a financial accountant while 16.3% received advice from the business chamber and 2% from government institutions. In the following section, support services by South African government are discussed.

3.7.2 Government support

The Department of Trade and Industry (DTI) also initiated a program to support small businesses. Business owners were asked if they were aware of the support and advice available from the DTI.

Figure 3.28: Business support services provided by the State



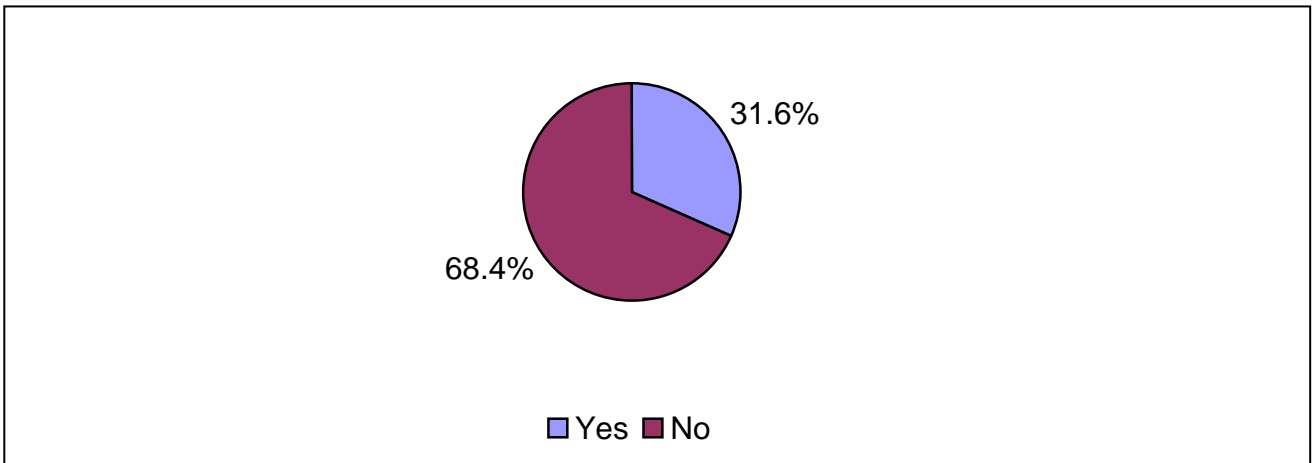
(Source: Own compilation)

Some 60% of the business owners were aware of the program and 32.7% were unaware of the support available from the DTI. Six percent were uncertain about the program and what it entailed. The informed business owners knew about the Skills Development Levy and the tax advantages that it entailed. In the following section, membership by small business owners to business chambers is analysed.

3.7.3 Business chambers

The business chamber initiative was well supported years ago. The attendance by business owners has decreased and some business chambers have even stopped their meetings and events. This used to be a vehicle for business owners to seek advice from fellow business owners and they supported each other in business activities. Business owners were requested to indicate if they were still a member of any business chamber since it is a useful tool to discuss business related problems and ideas.

Figure 3.29: Member of business chamber



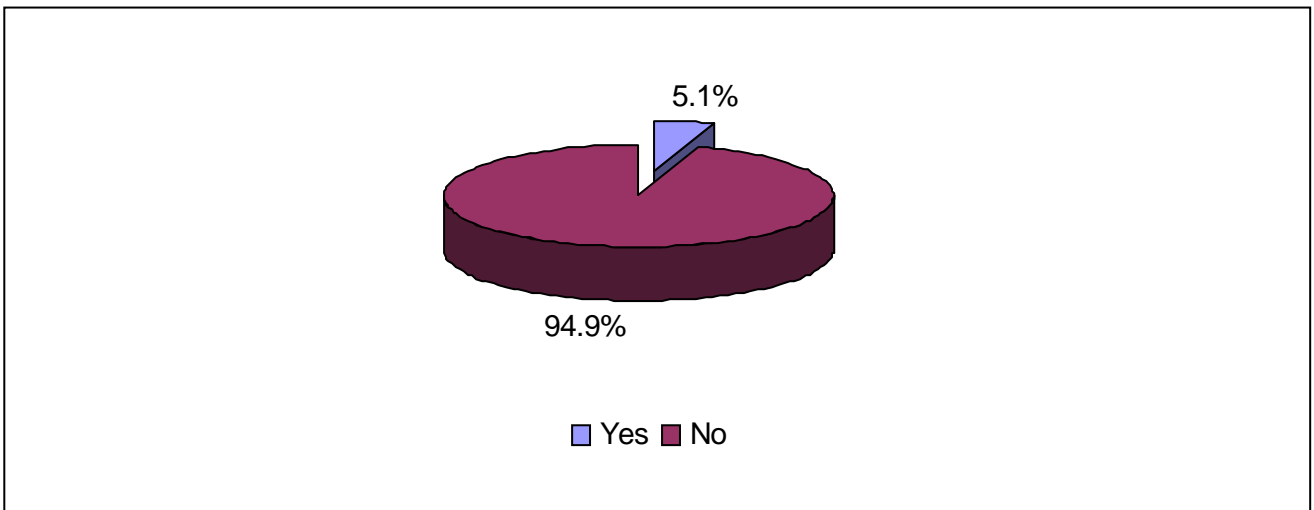
(Source: Own compilation)

Only 31.6% of the business owners were still members of a business chamber while 68.4% were not members of a business chamber. In the following section, respondents were requested to indicate if they make use of internet and e-commerce in executing their daily tasks.

3.7.4 Internet and e-commerce

Internet and e-commerce are very useful tools in business operations since it makes ordering and administrative tasks easier. Business owners were asked if they made use either of the above ways in their day-to-day business activities to relieve their administrative duties, improve communication and for other business functions. In Figure 3.30, the utilization of the internet (on-line facilities) by business owners analysed is indicated.

Figure 3.30: Internet and e-commerce



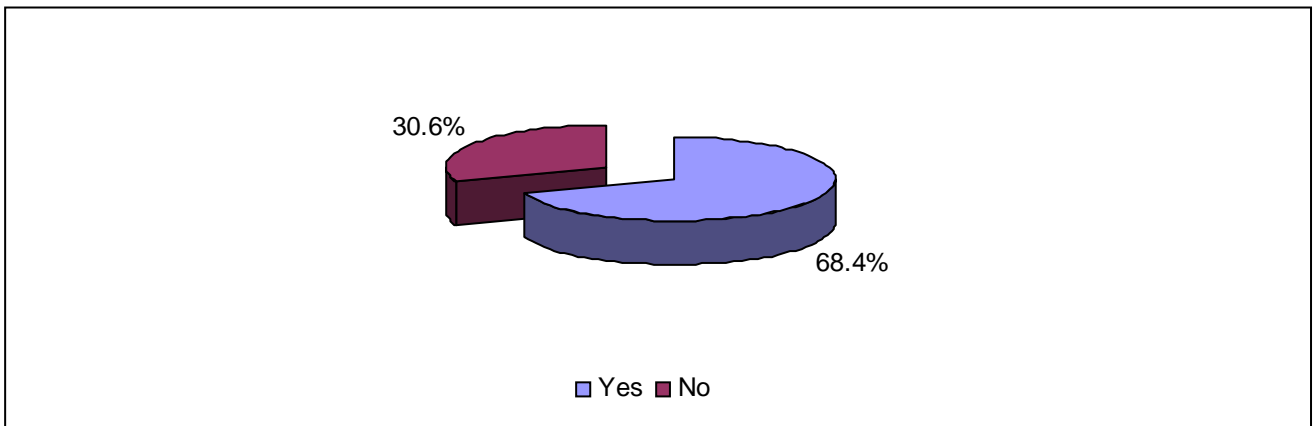
(Source: Own compilation)

Only 5.1% of business owners made use of internet or e-commerce in their daily operations while 94.9% did not make use of internet or e-commerce at all. This reason may be due to the costs involved in the initial layout and the monthly instalments linked to it or poor knowledge about the advantages coupled to it. In the next section, business owners were requested to indicate if they have an ethical code in writing for their businesses.

3.7.5 Ethical code

Businesses ought to have a documented ethical behaviour code to inform employees what is expected of them. Business owners were asked if they had an ethical code in writing. This is considered a useful mechanism to support the ethical character of the business.

Figure 3.31: Ethical code



(Source: Own compilation)

Some 68% of business owners indicated that they do have a documented ethical code while 31% did not have an ethical behaviour code at all. This may be an indication that small business owners do not see it as important enough for business operations. In the following section, respondents were requested to indicate three success factors which are critical in their business for sustainability.

3.7.6 Critical success factors

Small businesses have to ensure that certain critical factors are in place to ensure sustainability. Business owners were asked to identify the three most critical success factors applicable to their business and which are essential for doing business. See Table 3.3 for the factors identified by the business owners. The respondents were requested to indicate which factors were most, less and the least appropriate to their business. The number is given in percentage form of the respondents that have chosen that specific factor as either most, less or least appropriate.

Table 3.3: Success factors

Success Factors	Most	Less	Least
	Appropriate		
Supply chain	7.9%	8.6%	6.4%
Educated workforce	0.7%	11.6%	10.5%
Low cost products/service	27.3%	5.5%	5.4%
Good geographical location	9.0%	14.7%	11.5%
Competitive compensation for employees	6.9%	3.5%	9.4%
Advanced technology	8.9%	6.5%	8.4%
Quality control	14.0%	8.6%	0.2%
Client service	4.8%	1.4%	5.4%
Workforce productivity	2.9%	6.5%	3.3%
Advertising	2.9%	8.6%	4.3%
Client satisfaction	3.8%	1.4%	4.3%
Stable workforce	10.9%	23.1%	30.9%
Total	100%	100%	100%

(Source: Own compilation)

The supply of a low cost product or service was identified by 27.3% of the business owners as the most critical success factor applicable to their business. A stable workforce was identified by 23.1% of business owners to be less important to their business. Almost a third (31%) of the respondents have chosen a stable workforce as least important to their business activities. Other factors identified by respondents to be most important to their business are quality control, a stable workforce and advanced technology with a percentage of 14.0%, 10.9% and 8.9% respectively. In the research executed, capital; markets; location; tenure and infrastructure, and an enabling environment were identified as factors that contribute towards small businesses' success (McGrath, 2005:112). The factors given as criteria for selection by respondents were more detailed than factors identified by McGrath. A comparison cannot be made from the factors identified by McGrath.

The following reasons were given as to why these factors were critical for businesses sustainability and success:

- High quality products ensure client loyalty;
- Good, affordable prices contribute towards clients' loyalty towards a business;
- Continuous professional development (compulsory for employees in a professional occupation, registered at a professional council); and
- Proper time management ensures client satisfaction.

3.8 SUMMARY

The theoretical research overview in Chapter two was employed to compile the questionnaire used to obtain the data needed to do the empirical research for Chapter three. The theoretical research was based on the impact of business-related factors on small businesses.

As much as 92% of the respondents (business owners) were situated in the North West Province. The owners are mainly in the service industry and 58% of them are between 40 and 59 years of age. Almost 80% of the owners are male and 40% of them have Grade 12 as their highest qualification obtained. Some 74% of the respondents started their own businesses. All these factors may be an indication of the entrepreneurial spirit of owners or the impact of Affirmative Action and retrenchments.

The workforce employed by small business owners has a mid level of schooling. Almost 83% of the employees have Grade 10 or lower as their highest level of schooling. Some 45% of the employees were employed for between 1 to 3 years by one employer and earn between R2 001 and R5 000 per month as a basic salary. The owners make use mainly of informal or on-the-job training as their level of schooling; absence while training is critical to small businesses operating with less than 50 employees.

As much as 90% of the businesses analysed indicated that their turnover increased over the period of five financial years and 49% of the owners are positive that their businesses comply with the BBBEE law. Although 90% of the owners' turnover increased, only 53% indicated that they are satisfied with their income. Most of the owners (49%) used equity to finance their

business start-up. Business owners indicated that salaries are the cost that they experienced to increase the most over the last five years. Owners were positive that the recession had a negative impact on their business but the income analysed over the period indicated the opposite.

Small business owners still make use of business advice, but they are utilizing their financial accountant for business and financial advice. There is a decline in the membership of business owners to the business chamber and it is supported by the data analysed; only 36.1% of the owners belong to a business chamber. Small business owners identified a low cost product as a critical success factor for long-term sustainability.

In the following chapter, the main findings, conclusions and recommendations will be given in regard to the empirical study executed.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION

In this chapter, conclusions and recommendations will be given based on the analysis of specific business-related factors concerning small businesses in the formal sector as evaluated during the literature review of this study (Chapter 2) together with the empirical research (Chapter 3).

The content of this study is also evaluated to determine if the objectives, as identified in Chapter 1, were reached. Recommendations for future research will be made and the study will conclude with a summary of the study.

4.2 MAIN FINDINGS FROM THE STUDY

The following conclusions have been reached based on the empirical findings contained in the study. An empirical study was undertaken using the financial information of one hundred small businesses in the formal sector which utilized a financial services institution in the Klerksdorp region. The conclusions are drawn based only on the findings as analysed in Chapter 3. The following main findings of the study will be discussed in the next section: demographic information of the business owner; education level of employees; income related aspects of small businesses; small business related costs and formal business support.

4.2.1 Demographic information of the business owner

The majority of the interviewed business owners (58%) were between 40 and 59 years of age. Only 4% of the respondents were between 26 and 30 years of age. Since 1994 (the post-apartheid era) South Africa entered a new era under the ANC (African National Congress) leadership. Legislation was changed to accommodate those that were disadvantaged in the

apartheid era. This includes the implementation of Affirmative Action in all phases of the working environment. The economic downturn had a negative impact on businesses and it has led to retrenchments on a large scale especially under employees that are near pension age. This may be the reason why 58% of the respondents were between 40 and 59 years of age and 79% of them are of the male gender. According to the 2006 GEM survey (Maas & Herrington, 2006), the majority of respondents (32%) are in the age group 25 to 34 years which is a good representation of the relatively young population of South Africa. South Africa's population consists of 19% of people between the ages of 20 and 29. This is a positive indication that a large number of younger entrepreneurs are entering the South African market. The high unemployment among young people is also experienced as problematic to enter the South African market.

The majority of business owners interviewed were of the male gender (79%) and 19% were of the female gender. According to Statistics South Africa (2010b), the non-African business owners dominate the formal business sector with 61% in March 2005, but it subsequently decreased to 48% in March 2007. Female business owners in the formal sector were 24% in March 2005 and it increased to 31% in March 2007. This is typical of the South African population that men are risk takers while women are still suffering to break through the "glass ceiling". There is an improvement in realising the South African government's strategy to empower females and to give priority to designated groups.

The majority of business owners (40%) had a grade 12 qualification while 17% had a tertiary education. This indicated that most of the respondents had been exposed to education and wanted to "do their own thing"; or work scarcity (job losses) forced people to "do their own thing" to make a living. According to the 2006 GEM survey, 45.1% of business owners have completed high school followed by 26.1% that have some high school education. Only 8.5% of business owners in the GEM survey have completed a university degree. There is a good correlation between the business owners interviewed that have completed matric and the percentage of business owners (45.1%) in the GEM survey analysed.

Most of the business owners had chosen close corporations (46.9%) as formal business form followed by sole proprietors (38.8%). The reasons given by business owners were the tax advantages on close corporations and the fact that personal ownership is separated from business operations. Sole proprietorships are a well-known business form and for some the

only well known business form and it is very simple to manage. This form is very prominent in the service-driven industry and 60.2% of the businesses were in the service industry. According to CIPRO enterprise registrations, there was a sharp increase in the registration of close corporations over the period 2001 to 2007. The average growth in the registration of new close corporations was between 2% and 10% over the period indicated.

Another indication is that 35% of the respondents have been in business for between 6 and 10 years. As much as 74% of the respondents started their businesses from scratch, because they were responsible for their household's income and family support. The start-up of a business may be an outcome for them to overcome the job loss situation due to retrenchments and for survival. Another reason for starting an own business is an indication of an entrepreneurial spirit. In 2006, the TEA rate was 5.29, meaning that 5.29% of the adult South African population (18 to 64 years) were either starting a business or owning and managing a business that was less than 3.5 years old at the time of the survey.

As much as 75% of the businesses analysed did not offer any fringe benefits to their employees. In 9.2% of the instances the businesses did offer a pension benefit to its employees and 6.1% of the businesses offer a medical aid and/or other benefits to its employees respectively. Only 4.1% of the businesses offered a motor allowance and no businesses offered a housing allowance. Small businesses are not known for offering fringe benefits as it is too expensive for them. Almost a fifth of businesses (19.4%) offered pension, medical and housing benefits.

Small businesses mainly used unskilled or semi-skilled workers and those workers were mainly from the black community. The reason for this may be the fact that the respondents had their education in the pre-1994 regime. The workforce employed by small businesses mainly consisted of black workers and a small fraction of white employees. Government wants to encourage job creation under the previously disadvantaged community at all levels. The minority of small business owners in the informal sector are black while, according to a survey executed by Statistics South Africa from 2005 to 2007, it was indicated that 31% of business owners are black. In the following section, the education level of employees is discussed.

4.2.2 Education level of employees

Employees employed by small businesses mainly consist of workers with a grade 10 or lower qualification (82.7%) followed by 58.2% with a grade 12 qualification. According to Statistics South Africa (2001), 13% of the SA population had matric in 1996 and 8% had a qualification higher than matric. The government encouraged businesses to employ. Previously disadvantaged people and teach them the necessary skills to improve the overall skills level of the community.

Small business employees are satisfied with their jobs since they did not leave their jobs very easily. On average, 44.9% of the employees were in service between 1 and 3 years, followed by 28.6% of employees which were employed for between 4 and 5 years. One of the main reasons may be the job scarcity in South Africa and the possibility not to get a work again.

The majority of small business owners made use of on-the-job training since formal training is very costly and time consuming. A survey executed indicated that 35% of SMMEs do skills training of their employees while 65% of companies with more than 200 employees do skills training. Business owners could claim back from the Skills Development Fund for training (skills levy) of employees, but according to them, the process is too lengthy and it was lacking the support from appointees in the department. The other reason may be attributed to the time that the employee spent with the business after training – in some instances they left the business directly after receiving formal training and a qualification certificate.

All the businesses included in this study complied with the minimum wages payable to domestic workers as determined by the specified minimum wage legislation of South Africa. Some 67% of the workers received nominal remuneration of between R2 001 and R5 000. Half (51%) received less than R2 000 per month. These remuneration packages also compare very well with the remuneration given to employees working in all sectors. In the Wholesale & Retail sectors, 71% of employees earn less than R2 500 while 59% of the total workforce earns less than R2 500 per month. The implementation of the minimum wage legislation led to an increase in job losses and it also contributed towards making unskilled labour artificially more expensive.

A total of 94% indicated that they were not going to take in additional workers while 5.1% indicated that they were considering employing an additional employee during the next twelve months. Research in South Africa indicates that entrepreneurs do not always choose to increase employment (Kesper, 2001:174). This trend is confirmed by the GEM's survey of entrepreneurs, which indicated that in 2006 a mere 4.8% of respondents expected to hire additional staff (and a similar percentage in previous years). The majority of literature indicated that small businesses suffered from theft, lack of skills and competitive salaries. In the following section, the income categories of small businesses analysed are highlighted.

4.2.3 Income categories of small businesses

The majority of small businesses did experience an increase in turnover over the indicated period although operating costs have also increased. Only 2% had experienced a decrease in turnover. This indicated that the businesses are well established in the market and sustainable. The small businesses analysed were in a good financial position as a steady increase in net profit was experienced over the period and a decline in the percentage of businesses that incurred a loss during the period. According to Van Tonder (2010:9), the recession took 1/5 of the net profit after tax of South African businesses away; this is 19% or +/- R57 milliard less. The main drivers for the increase in net profit are the increase in production and the increase in prices.

Business owners were to a large extent satisfied with their income although 46% indicated that they were not satisfied with their income. Factors identified to have a negative impact on their income were: theft, waiting period for payment from medical aids, bad debt, long working hours, poor salaries and the waiting period for the allocation of contracts. Business owners which indicated that they were satisfied with their income said that they were able to make financial provision for their retirement and that they were maintaining a standard lifestyle.

Almost half of the business owners (49%) said that they made use of own equity for their business related costs. Business owners used their pension/retirement/package money paid out to them by the previous employer or they borrowed money against a policy. The interest rates available to businesses were not affordable to business owners in the long run and they suffered to manage expenses in the start-up of a new business. Others indicated that the

process involved in obtaining money from commercial banks were difficult since a business plan must be presented and all business owners or entrepreneurs were not always creditworthy.

Salaries (27.6%) were highlighted as the business related cost which increased the most. For businesses to stay competitive in the market, salaries must be market related and in range with salaries offered by competitors. Members belonging to certain unions demanded to receive a certain percentage increase as bargained for. Employers had to comply with the bargained percentage increase to prevent strikes which can be costly. In the W&R sector, 24% of employees are unionized while 32% of employees are unionized in all sectors. The trade union membership is given according to members belonging to COSATU and it is not an adequate representation of employees belonging to other unions and that are non-COSATU affiliates.

Different reasons were given by employers as to why employees wanted higher salary increases: cost of living had increased to such an extent that it became difficult to obtain a reasonable standard of living. The following factors were highlighted to influence the cost of living: the petrol prices, electricity tariffs and the economic recession.

The majority of analysed businesses were BBBEE compliant and only 6% did not comply with the law. In the following section formal business support available to small businesses are summarised.

4.2.4 Formal business support

The Department of Trade and Industry offers advice and financial support to small business owners. It seems that the support and advice offered to small businesses by the South African government was not visible to all business owners. Almost a third (32%) of the respondents was unaware of the support and advice available from the government. Business owners also made use of financial accountants or financial services offered by commercial banks or brokers on how to be financially pro-active when business was slowing down. More than half (51%) of businesses received financial advice during the past year respectively from their financial accountant (34.7%) and the business chamber (16.3%). Financial stability is very important for business owners to stay abreast with changing technology and to keep their market share. More regular financial advice to all businesses could be to their advantage to prevent them from going bankrupt due to poor financial management.

The business chamber used to be a very active institution in the 1980s and 1990s and gave support to small business owners. Businesses belonging to the chamber supported each other and encouraged members to direct clients to each other. Management of the business chamber also bargained for better prices for their members with other businesses. The business chamber as institution is not as prominent as previously experienced according to the data analysed. Only 31.6% of the business owners were still members of a business chamber while 68.4% were not members of a business chamber. Business chambers must be revived to support business owners (SACCI, 2010).

In the information technology world you have to be well informed not to be left behind. Most businesses utilise internet or e-commerce in executing their daily business operations. Internet improves knowledge, service delivery and easy access to the business databases. Business owners are 24-hourly connected to the latest technology available and not bound to the office or working hours to do business. Only 5.1% of the interviewed business owners made use of internet or e-commerce in their daily operations. This implies that business owners do not have access to the latest information and this may also contribute towards their lack of knowledge in regard to formal support programs available to them.

Critical success factors vary according to the type of business and practical experience gained over years. In this study, a list of factors was given and the business owners were requested to prioritise the three most applicable to their business. Low cost of service or product delivered, quality control and a stable workforce were indicated as the three most important critical success factors. Different factors were obtained in the literature study; the main reason for it may be that the businesses were not restricted to a list of factors and that the industry where the analysis were executed was different and in a different geographical area. In the research executed, capital; markets; location, tenure and infrastructure and an enabling environment were identified as factors that contribute towards small businesses' success (McGrath, 2005:120). Other factors identified in the literature study are: commitment, communication, quality of work, knowledge, skills and financial management.

4.3 CONTRIBUTION OF THE STUDY

The primary objective of the study was to analyse the impact of business-related factors on small businesses. The primary objective consisted of five categories namely, the demographic information of the employer or owner; education or skills level of employees; income categories of small businesses; small business related costs; formal business support available to small business owners and the key critical success factors related to small businesses. Information regarding the demography of small business owners was accessible and the information obtained in the survey could be compared to the national statistics obtained. The education level of employees was analysed and compared to the national statistics on the education level of people of working age. The information on the education level of employees was accessible but the training methods utilized within small businesses are questioned. Small businesses' contribution towards education and training must be revised. The income categories of small businesses were analysed to determine small businesses' sustainability within the economy and their contribution towards the Gross Domestic Product (GDP). The necessary information were obtained to indicate that small business contribute towards GDP. Small business related costs were analysed and salaries and wages were identified as costs which have the largest impact on small business expenses. Other costs identified are electricity and telephone costs. Formal business support available to business owners and critical success factors were analysed and the necessary information was obtained although the critical success factors given in the questionnaire to prioritise according to a scale of 1 to 3 differs from the information obtained from the literature. No comparison could be made due to the difference in factors given and obtained from the literature.

4.4 RECOMMENDATIONS

The following recommendations were identified to contribute towards problems experienced by small businesses:

- Respondents perceived a lack of government support and were unaware of support available to small business owners and entrepreneurs. It is recommended that the government, specifically the DTI, should be more visible and marketing should be more

prominent to make small business owners and entrepreneurs aware of the support available.

- Regional offices must be marketed and managed in a proper way to make the available support visible. Officers employed by the Department of Trade and Industry must be well equipped with the necessary information and their productivity must be monitored to be of an advantage to the end user.
- Small businesses have to comply with complex labour legislation, including VAT registration and labour minimum wage laws. This hampers small business owners in their operations and limits the number of employees taken into service. The government must reconsider the taxation on small businesses to encourage small business operations. Minimum wages is a good as well as a bad “thing”. It is recommended that minimum wages should only be enforced when a small business has experienced financial growth for a period of at least three years. This will assist the government with its unemployment figures.
- A proper analysis must be executed to identify the skills/training needs of small business. SETAS must play a more prominent and active role in assisting with the identifying of skills and training needs as they are in possession of multi millions of Rands in training money. SETAS must focus more on small businesses as training funds for this sector are under-utilized. Public and private institutions must be contracted to give training in the appropriate identified areas. The costs involved in the payment of the skills development levies must be reviewed by the government.
- The re-establishment of business chambers in the respective cities are highly recommended since the support given to business owners are underestimated. The bargaining power of the chambers are very valuable and to the advantage of all its members.
- Levies and taxes payable by small business owners must be reviewed and adjusted (decreased) accordingly. Support given by the DTI must be better marketed and the reclaiming process of the Skills Development Fund must be streamlined.

- Small business owners cannot afford to send their employees away for training, and new methods must be considered to accommodate small business owners. Training in small businesses is mostly restricted to small business owners and managers.
- The employment of unskilled people in small businesses does not add value to the training need as training opportunities within small businesses are restricted.
- More must be done to support start-up businesses. Only 2% of the businesses analysed in the empirical study have been in business for less than twelve months.
- Small and large businesses must be more supportive towards each other. Contracts must be given to smaller suppliers to contribute to their BBBEE scorecard.
- Support given to small businesses must not only be restricted to financial support; mentorship combined with support must be considered.
- Financial institutions and commercial banks must appoint knowledgeable people to address business owners on tendencies within the economy.

4.5 SUMMARY

Small businesses play an active role in the South African economy as they contribute between 26% and 34% of the total Gross Domestic Product. Small businesses' contribution towards education and training must be reconsidered as limited opportunities exist within small business for training. Small business owners cannot afford to send their employees away to obtain training and mainly make use of on-the-job training. Salaries and wages were identified by small business owners as their biggest expense. The implementation of the minimum wages legislation makes unskilled labour very expensive for small business owners. Formal business support available to small business owners were perceived not to be marketed very well although the lack of internet access may contribute to the limited knowledge in this regard. The South African government must reconsider its strategy to utilize small businesses to create jobs and to develop skills.

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APPENDIX A: QUESTIONNAIRE

SMALL BUSINESSES IN THE ECONOMY QUESTIONNAIRE

Small and medium enterprises (SME) are potentially the most dynamic sector of the economy. The South African government has committed them to SME growth by putting measures in place to stimulate growth and job creation. Changes within the economic environment have changed over the past five years and therefore also the impact on small businesses.

This questionnaire is developed to measure the impact of specific business related factors on small businesses in the formal sector of the economy. Please complete every question to ensure validity and reliability of information collected.

GENERAL INSTRUCTIONS

The questionnaire should be completed by the owner/manager of the business.

All questions should be answered by making a cross in the relevant block. Select the correct answer that is applicable to the question. For example, should you be asked the following:

“Are you aware of the support for small businesses by the Department of Trade and Industry”

Yes X
No

All responses will be treated as confidential.

SECTION A: BIOGRAPHY: BUSINESS OWNER

A1	In which age group do you fall?	16-25	26-30	31-39	40-49	50-59	60+
		(1)	(2)	(3)	(4)	(5)	(6)

A2	Indicate your gender.	Male (1)	Female (2)
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A3	Indicate your highest academic qualification.	
(1)	Grade 10 and lower	
(2)	Matric/Grade 12	
(3)	Certificate	
(4)	Diploma (Technical College or Technicon)	
(5)	University Degree	
(6)	Post Graduate Degree	

LOCATION

A4	In which province is your business situated?	
	North West (1)	Gauteng (2)
	Free State (3)	Mpumalanga (4)
	Limpopo (5)	Natal (6)
	Cape (7)	
	Other or involved in more than one province (8):	

A5	Name the town where your business is located.
	Specify:

BUSINESS FORMS

A6	What type of business form (legal) have you registered?				
	Close Corporation (1)	Partnership (2)	Sole Proprietorship (3)	Company (4)	Family Business (5)
	Specify why?				

A7	What type of business are you in?	
	Service (1)	Goods (2)

A8	If goods, specify what goods do you specialise in?		
	Non-expensive consumable goods (1)	Semi-expensive (2)	Expensive (3)

A9	How long has your business been in existence?				
	< 2 year (1)	2-5 years (2)	6-10 years (3)	10-20 years (4)	>20 years (5)

A10	How did you start your business?		
	Started new (1)	Bought existing one (2)	Other (3)
	If your answer is other, specify:		

LABOUR FORCE ASPECTS

A11	What fringe benefits are available to your employees?					
	None (1)	Medical (2)	Vehicle (3)	Pension (4)	Housing (5)	Other (6)
	If other, specify:					

A12	On what terms are your employees employed?		
	Temporary (1)	Permanent (2)	Both (3)

A13	How many employees are full-time in your service?					
	1-5 (1)	6-10 (2)	11-20 (3)	21-30 (4)	31-40 (5)	41-50 (6)

DIVERSITY OF LABOUR FORCE

A14	Indicate to which race groups do your employees belong (Mark all applicable)?			
	White (1)	Black (2)	Indian (3)	Coloured (4)

SECTION B: EDUCATION/SKILLS OF EMPLOYEES

B1	What is the education level of the employee with the highest and lowest qualification?	
	Standard 10 / Grade 10 and lower (1)	Matric / Standard 12 / Grade 12 (2)
	Certificate (3)	Diploma-Technicon or Technical College (4)
	University Degree (5)	Post Graduate Degree (6)

B2	On average, of which class of employees do you make the most use of?
(1)	High level employees (2 year + education & training after Std 10/Grade 12)
(2)	Middle level (Grade 10/Std 8 and less)
(3)	Semi-skilled (Read, write & and a short period of training)
(4)	Unskilled (No schooling/education & training)

B3	On average, how long have the employees been in your service?				
	< 12 months (1)	1-3 years (2)	4-5 years (3)	5-9 years (4)	> 10 years (5)

B4	Which institutions do you make use of for the training of your employees/personnel?
(1)	Informal/Internal/On the job
(2)	Formal/External Institutions
(3)	Specify name of Institution

B5	In which remuneration categories do the employee with the highest and lowest qualification fall (per month)?				
	< R2000 (1)	R2001 – R5000 (2)	R5001–R8000 (3)	R8001-R12000 (4)	>R12 000 (5)

B6	Do you plan to employ additional workers in the next 12 months?	
	Yes (1)	No (2)
	Specify:	

B7	What is the biggest obstacle for employment according to you?
	Specify:

SECTION C: INCOME CATEGORIES OF BUSINESSES

C1	Did your turnover increase or decrease during the last five years (2004 to 2009)?		
	Increased (1)	Decreased (2)	Same (3)

C2	Indicate with which percentage (%) did your turnover increase/decrease?			
	1 - 5% (1)	6 - 10% (2)	11 - 15% (3)	> 15% (4)

C3	Indicate in which category your business profit falls for the period indicated?					
		Financial Year (FY)				
		2004/05	2005/06	2006/07	2007/08	2008/09
(1)	Loss incurred					
(2)	R0 - R100 000					
(3)	R101 000 - R200 000					
(4)	R201 000 - R400 000					
(5)	> R400 000					

C4	What is the main reason for the increase or decrease in your business profit?
	Specify:

C5	Does your business comply with the BBBEE (Broad-Based Black Economic Empowerment) Act?		
	Yes (1)	No (2)	Uncertain (3)

C6	Do you get any business from companies because of BBBEE compliance?		
	Yes (1)	No (2)	Uncertain (3)

C7	If your answer in C6 is "No", does it influence your income?	
	Yes (1)	No (2)

C8	Are you satisfied with your income?	
	Yes (1)	No (2)
	Specify:	

C9	Name the type of institution you make use of for business financing purposes?			
	Micro lenders (1)	Commercial banks (2)	Own financing (3)	Other (4)
	Specify:			

SECTION D: BUSINESS RELATED COSTS

D1	Which of the following business related costs increased the most over the past five years (2004 to 2009) within your business? (Indicate 1 for the most increased, 2 second most and 3 for third most). Mark only 3.	
	(1)	Salaries & Wages
	(2)	Transport (Petrol & Diesel)
	(3)	Stationary
	(4)	Telephone, Fax & Cellular Phone
	(5)	Internet
	(6)	Water & Electricity
	(7)	Advertising
	(8)	Accounting services
	(9)	Other (specify):

D2	What according to you is the main reason for the escalation in costs over the period as specified?
	Specify:

D3	Did the global economic recession have an impact on your business?	
	Yes (1)	No (2)

D4	If “Yes”, motivate briefly.

SECTION E: FORMAL BUSINESS SUPPORT

E1	Did you receive any business advice during the last year?						
	Yes (1)			No (2)			
	Specify by whom if “Yes”	Bank (3)	Accountant (4)	Broker (5)	Insurer (6)	Business chamber (7)	State (like DTI) (8)

E2	Do you know of support programs offered by the government for small businesses?		
	Yes (1)	No (2)	Uncertain (3)
	Specify, if “Yes”:		

E3	Are you a member of a business chamber?	
	Yes (1)	No (2)

E4	Do you make use of internet/e-commerce in your business?	
	Yes (1)	No (2)

E5	Does your business have a written ethical code?	
	Yes (1)	No (2)

E6	Which of the following critical success factors are applicable to your company? Prioritise them with 1 = most applicable, 2 = less applicable and 3 = the least applicable. Mark only 3 factors.	
(1)	Supply chain	
(2)	A skilled/trained workforce	
(3)	Low cost product/service to meet customers expectations	
(4)	Convenient locations	
(5)	Competitive compensation for all employees	
(6)	Advanced technology to serve client	
(7)	Quality control	

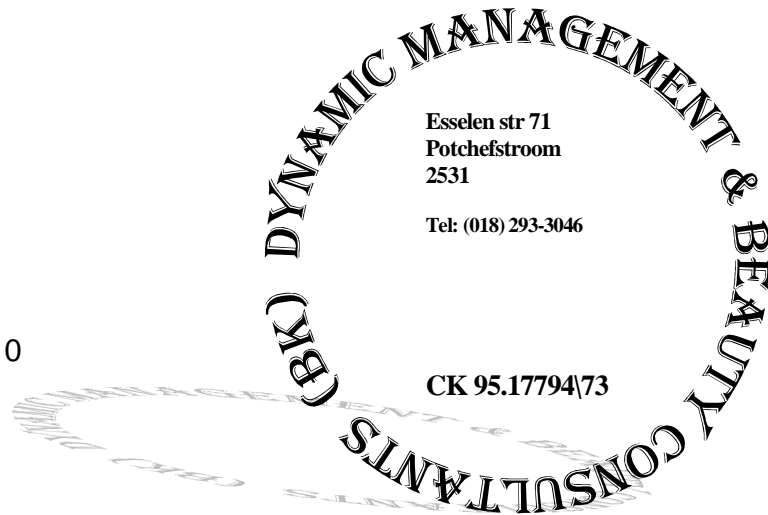
(8)	Customer service	
(9)	Labour productivity	
(10)	Advertising	
(11)	Customer satisfaction	
(12)	Stable workforce	
(13)	Other, Specify	
(14)		
(15)		

E7	Why are the factors as indicated, critical for your company's success and sustainability?
	Specify:

THANK YOU!
THE RESEARCHERS

APPENDIX B: EDITOR'S DECLARATION

Tuesday, November 16, 2010



Ms Irma Kotzé

11202203

Re: Letter of confirmation of language editing

The MBA mini-dissertation "*An analysis of business-related factors on small businesses*" was language, technically and typographically edited. The sources and referencing technique applied was checked to comply with the specific Harvard technique as per North-West University prescriptions.

A handwritten signature in black ink, appearing to read 'Antoinette Bisschoff'.

Antoinette Bisschoff

Officially approved language editor of the NWU