

“Perceived Reasons for the Lack of Job Creation in Smmes in Gauteng, South Africa”

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Perceived Reasons for the Lack of Job Creation in Smmes in Gauteng, South Africa

Michael Colin Cant, Cindy Erdis

Abstract

It is estimated that the South African economy has shed more than a million jobs since 1990. According to the Department of Labour the official unemployment rate for the country in August 2003 was 35%. The unofficial unemployment rate is however estimated at levels as high as 38%. To compound the problem, the demand for semiskilled labour in South Africa, as elsewhere in the world, has shown a consistent and drastic decline in the last decade.

The SMME sector is widely regarded as the driving force in economic growth and job creation in both developed and developing countries. The South African government has recognised the sectors importance in achieving national objectives and is committed to its growth. But, yet it is felt by many that SMMEs are failing at the vital role of creating jobs for the unemployed. If SMMEs are to stay a force in economic growth and development in especially the third world countries, they need to be equipped to survive in the long run. Survival and job creation are clearly vital in this regard.

The objective of this paper is to investigate the possible reasons why job creation has not been successful in SMMEs in township areas in South Africa. The research will be conducted by investigating how long the selected SMEs have been in business, whether the owners feel that there has been any growth in job creation or if they have in fact created any jobs through opening their own business. The owners' perceived reasons for the lack of job creation will also be investigated. Lastly, suggestions will be made as to the stumbling blocks facing SMMEs in their plight to create jobs.

Introduction

It is estimated that the South African economy has shed more than a million jobs since 1990 (Msomi, 2000, p. 1). According to the department of labour the official unemployment rate for South Africa in February 2002 was 28%. In 2003, this figure rose to 30.5% (Statistics South Africa). To compound this problem, the demand for semi-skilled labour in South Africa and the rest of the world has shown a consistent drastic decline in the last decade (Comiteau, Crumely, Gibson & James, 2000, p. 24; Cull, 2000, p. 11; Gumede, 2001).

SMMes and Job Creation in South Africa

The important contribution that SMMEs (small, micro and medium sized enterprises) can make to employment and income generation is increasingly being recognised around the world. In South Africa, this contribution is increasingly being more important, due to the fact that the non-agricultural formal sectors shed more than a million jobs between 1990 and 2000. This phenomenon, coupled with a high population growth rate, has resulted in the high unemployment rate in South Africa. The main causes for the growing unemployment rate include factors such as the low employment elasticity of the South African economy, as well as the high rate of labour force growth (Ligtelm & Cant, 2003, p. 41).

The SMME sector is widely regarded as the driving force in economic growth and job creation in both developed and developing countries (Lunsche & Barron, 2000, p. 1; Sunter, 2000, p. 23; Levin, 1998, p. 79).

The South African government recognises the importance of this sector in achieving the country's national objectives and is committed to its growth (Budget Speech, 2001). This commitment can be illustrated by the formation of bodies such as CHAMSA (Chambers of Commerce

and Industry of South Africa) and BUSA (Business Unity South Africa). CHAMSA's biggest challenge will be to promote SMME's by helping owners overcome problems such as funding, as well as to deliver support services to blue-chip organisations (Anon, 2003, p. 1).

Recent research conducted by the University of Cape Town's Centre for Innovation and Entrepreneurship as part of the 2002 Global Entrepreneurships Monitor project, shows that formal entrepreneurs (defined as those with registered businesses) employ an average of 7.2 people as compared with 0.8 people employed by their informal or unregistered counterparts (Herrington, 2003, p. 1). Considering that formal registered businesses make up only 12% of privately owned business activity in disadvantaged areas, it can be seen that while informal unregistered businesses remain enormously important in generating income, they do not play a large enough role in the creation of employment for others.

Objective

The main objective of this paper is to determine the reasons why jobs are not being created by SMMEs in the Gauteng region of South Africa. The aim is also to investigate if there is any relationship between these reasons and the perceived lack of job creation in these SMMEs.

An awareness of the impact of the reasons identified by the study will enable SMMEs (both existing and planned) to be forewarned and proactive in their decision-making and planning for organisational growth. The results of the study may also enhance the design of course material or syllabuses for managers, owners and staff members to ensure that SMMEs are fully aware of the factors that may affect their organisations sustained success, and ability to create jobs.

Possible Reasons for the Lack of Job Creation

Small, micro and medium sized organisations form an integral part of the national economy, and are influenced by various factors. In this context, the problems that SMMEs experience in conducting a successful business can be grouped in to various categories (Dockel & Ligtelm, 2002, p. 2), which include:

- Economy based problems that are associated with national economic factors related to the state of the economy, such as specific stages in the business life cycle and the exchange value of the national currency.
- Industry-based problems that are associated with the industry in which the organisation operates, and may include factors such as the degree of competition, demand and supply factors as well as barriers to entry or exit the industry.
- Organisation-based problems which refer to internal factors such as the availability of resources such as finances and managerial skills.

Similar studies conducted by Everett and Watson (1998) and by Peterson, Kozmetsky and Ridgeway (1983) found that organisation-based problems were associated with the majority of small business failure in the SMMEs investigated. Based on the findings of the above, by focusing this study on the above group of factors, possible reasons as to the lack of job creation in SMMEs in Gauteng can be identified.

Research Design

Research instrument

In order to fully understand the possible reasons for the lack of job creation in SMMEs in the Gauteng region of South Africa, an empirical survey by means of a structured questionnaire was conducted in selected areas of Gauteng. In the absence of a comprehensive sample frame of SMMEs in the Gauteng province of South Africa, a judgemental sampling procedure was used according to specified criteria. The requirements for the sample was that the business:

- operated from a demarcated business area
- occupied a permanent structure
- employed fewer than 50 full-time employees

- covered one of the following economic sectors: retail organisations, service organisations, consultancies, wholesale organisations or other

These criteria ensured the inclusion of managers or owners with a reasonable understanding of variables such as minimum wages and the specifications of the Employment Equity Act. In total 150? businesses were interviewed, mainly in areas occupied by previously disadvantaged individuals such as Atteridgeville, Soshanguve and Mamelodi?

Analysis

The analysis in this paper is based on statistical procedures. Descriptive data are presented by means of frequency tables.

Table 1

What type of business is your organisation?

| Type of business | Number indicated | Percentage |
|------------------------|------------------|------------|
| Retail organisation | 24 | 48% |
| Consultancy | 8 | 16% |
| Service organisation | 18 | 36% |
| Wholesale organisation | 0 | 0% |
| Other | 0 | 0% |
| Total | 50 | 100% |

Table 2

How long has your organisation been in business?

| Number of years in business | Number indicated | Percentage |
|-----------------------------|------------------|------------|
| Less than one year | 9 | 2% |
| One to two years | 4 | 8% |
| Two to three years | 24 | 48% |
| Three to five years | 6 | 12% |
| More than five years | 7 | 14% |
| Total | 50 | 100% |

Table 3

Have any jobs been created by your organisation since it was started/since you took over the business?

| Have any jobs been created? | Answer indicated | Percentage |
|-----------------------------|------------------|------------|
| Yes | 30 | 60% |
| No | 20 | 40% |
| Total | 50 | 100% |

Table 4

If YES, how many jobs have been created?

| Number of jobs created | Number indicated | Percentage |
|------------------------|------------------|------------|
| 0 | 0 | 0% |
| 1 | 11 | 37% |
| 2 | 13 | 43% |
| 3 | 6 | 20% |

Table 4 (continuous)

| Number of jobs created | Number indicated | Percentage |
|------------------------|------------------|------------|
| 4 | 0 | 0% |
| 5 | 0 | 0% |
| 6 | 0 | 0% |
| 7 | 0 | 0% |
| 8 | 0 | 0% |
| 9 | 0 | 0% |
| 10 | 0 | 0% |
| >10 | 0 | 0% |
| Total | 30 | 100% |

Table 5

If NO, why were no jobs created?

| Reasons indicated | Number of responses | Percentage |
|--------------------------------|---------------------|------------|
| No money to employ more people | 7 | 35% |
| No growth in the business | 3 | 15% |
| Fluctuating sales | 4 | 20% |
| Economy is down | 6 | 30% |
| Total | 20 | 100% |

Table 6

Do you think that small businesses have the responsibility to create jobs?

| Small businesses have the responsibility | Answer indicated | Percentage |
|--|------------------|------------|
| Yes | 39 | 78% |
| No | 11 | 22% |
| Total | 50 | 100% |

Table 7

If YES, why?

| Answer indicated | Number | Percentage |
|---|--------|------------|
| Government does not look after us | 26 | 67% |
| Who else will create jobs if we do not? | 6 | 15% |
| There is no work elsewhere | 7 | 18% |
| Total | 39 | 100% |

Table 8

If NO, why?

| Answer indicated | Number | Percentage |
|-----------------------------|--------|------------|
| The government should do it | 4 | 36% |
| Is not our responsibility | 7 | 64% |
| Total | 11 | 100% |

Table 9

What qualifications do you have?

| Qualifications | Answer indicated | Percentage |
|----------------|------------------|------------|
| No matric | 6 | 12% |
| Matric | 27 | 54% |
| Tertiary | 14 | 28% |
| Postgraduate | 3 | 6% |
| Other | 0 | 0% |
| Total | 50 | 100% |

Table 10

What is the average qualification of your staff members?

| Qualifications | Answer indicated | Percentage |
|----------------|------------------|------------|
| No matric | 31 | 62% |
| Matric | 8 | 16% |
| Tertiary | 10 | 20% |
| Postgraduate | 1 | 2% |
| Other | 0 | 0% |
| Total | 50 | 100% |

Table 11

Do you feel that training is necessary for the success of your business?

| Necessity of training | Answer indicated | Percentage |
|-----------------------|------------------|------------|
| Yes | 41 | 82% |
| No | 9 | 18% |
| Total | 50 | 100% |

Table 12

If YES, why?

| Reason indicated | Number | Percentage |
|------------------------------------|--------|------------|
| Can better manage the organisation | 15 | 36% |
| Need to know the market | 8 | 20% |
| Need expertise | 8 | 20% |
| Can better run the business | 5 | 12% |
| Will be more successful | 5 | 12% |
| Total | 41 | 100% |

Table 13

If NO, why?

| Reason indicated | Number | Percentage |
|--|--------|------------|
| Need experience | 6 | 66.6% |
| Can learn on the job | 2 | 22.2% |
| Skills are more important than a qualification | 1 | 11.1% |
| Total | 9 | 100% |

Table 14

Indicate how many of your staff members are family members

| Number of staff members | Number indicated | Percentage |
|-------------------------|------------------|------------|
| 0 | 0 | |
| 1 | 7 | 14% |
| 2 | 13 | 26% |
| 3 | 20 | 40% |
| 4 | 10 | 20% |
| 5 | 0 | 0% |
| 6 | 0 | 0% |
| 7 | 0 | 0% |
| 8 | 0 | 0% |
| 9 | 0 | 0% |
| 10 | 0 | 0% |
| >10 | 0 | 0% |
| Total | 50 | 100% |

Table 15

Have you undergone formal managerial training?

| Undergone training or not | Answer indicated | Percentage |
|---------------------------|------------------|------------|
| Yes | 27 | 54% |
| No | 23 | 46% |
| Total | 50 | 100% |

Table 16

If YES, what type of training have you undergone?

| Type of training undergone | Number | Percentage |
|-----------------------------------|--------|------------|
| Damelin Small Business Course | 7 | 26% |
| College | 5 | 19% |
| Short courses | 7 | 26% |
| On the job training | 5 | 19% |
| Small Business Development Course | 3 | 10% |
| Total | 27 | 100% |

Table 17

If NO, why not?

| Reason indicated | Number | Percentage |
|---------------------|--------|------------|
| No time | 10 | 43% |
| No money | 5 | 22% |
| Training not needed | 8 | 35% |
| Total | 23 | 100% |

Table 18

Indicate how staff members are recruited for your organisation

| Methods of recruitment | Method indicated | Percentage |
|------------------------------|------------------|------------|
| Advertisements | 3 | 4.05% |
| Employment agencies | 3 | 4.05% |
| Headhunting | 1 | 1.35% |
| Employee recommended (other) | 17 | 23% |
| Speaking to friends (other) | 35 | 47.3% |
| Signs in windows (other) | 15 | 20.3% |
| Total | 74 | 100% |

Table 19

Which race groups are employed by your organisation?

| Race groups employed | Number |
|----------------------|--------|
| Black | 47 |
| White | 0 |
| Coloured | 3 |
| Asian | 0 |
| Total | 50 |

Table 20

Do you comply with the specifications of the Employment Equity Act when employing staff for your organisation?

| Option given | Answer |
|--------------|--------|
| True | 5 |
| False | 0 |
| Unsure | 45 |
| Total | 50 |

Table 21

Indicate how many consultants/advisors are utilised by your organisation

| Number of consultants used | Answer |
|----------------------------|--------|
| 0 | 24 |
| 1 | 26 |
| 2 | 0 |
| 3 | 0 |
| 4 | 0 |
| 5 | 0 |
| 6 | 0 |
| 7 | 0 |
| >7 | 0 |
| Total | 50 |

Table 22

To which racial groups do these consultants belong?

| Racial group | Answer |
|--------------|--------|
| Black | 14 |
| White | 29 |
| Coloured | 4 |
| Asian | 3 |
| Total | 50 |

Table 23

Indicate how many women are employed by your organisation

| Number of women employed | Answer |
|--------------------------|--------|
| 0 | 12 |
| 1 | 15 |
| 2 | 23 |
| 3 | 0 |
| 4 | 0 |
| 5 | 0 |
| 6 | 0 |
| 7 | 0 |
| 8 | 0 |
| 9 | 0 |
| 10 | 0 |
| >10 | 0 |
| Total | 50 |

Table 24

Indicate how many disabled people are employed by your organisation

| Number of disabled people | Answer |
|---------------------------|--------|
| 0 | 45 |
| 1 | 5 |
| 2 | 0 |
| 3 | 0 |
| 4 | 0 |
| 5 | 0 |
| 6 | 0 |
| 7 | 0 |
| 8 | 0 |
| 9 | 0 |
| 10 | 0 |
| >10 | 0 |
| Total | 50 |

Table 25

Do you use fixed job descriptions and specifications when recruiting employees?

| Use fix description and specification | Answer |
|---------------------------------------|--------|
| Yes | 17 |
| No | 33 |
| Total | 50 |

Table 26

Are you aware of the government's support of small business?

| Aware of support | Answer |
|------------------|--------|
| Yes | 16 |
| No | 34 |
| Total | 50 |

Table 27

Is the support from the government effective? Why or why not?

| | |
|-------|----|
| Yes | 19 |
| No | 31 |
| Total | 50 |

Summary

The sample population, consisting of relatively small yet sophisticated businesses in townships in Gauteng, emphasised that the following were the reasons for the lack of job creation in their SMMEs:

- 60% of respondents indicated that their organisations had created jobs, but that 100% of these businesses only created between 1 and 3 jobs
- The majority of respondents (54%) indicated that their highest qualification was a matric certificate
- 46% of the respondents had not undergone formal managerial training

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