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Is there a link between economic growth and SMEs success in South Africa

Abstract

This research analyzes whether there is a link between economic growth and SMEs success in South Africa. The South African economy can only grow with the contribution of growing sustainably SMEs which will accelerate economic growth.

The research concluded that SME success has a positive impact on sustainable economic growth in South Africa and that there is a link between economic growth and SME success. The conducted research recommends that by improving the success rate of SME, the South Africa's stagnating economy.

Keywords: economic growth, SMEs success, managerial skills, unemployment.
JEL Classification: M13.

Introduction

South Africa represents a country of growing business opportunity in which the spirit of free enterprise is evident (Government Gazette, 2015). Improving the managerial skills of small business (SMEs) owners will increase the success of SMEs. Successful SMEs are considered to be the panacea for South Africa's unemployment problems and economic growth. Unemployment is widely recognized as a major factor inhibiting economic growth and hampering sustainable economic development in South Africa. By improving the managerial skills of small business owners, the dream of Nepad can become a reality (GEM, 2012). The unfolding transformational process in South Africa is itself being threatened by the very challenges that it seeks to address particularly unemployment, slow economic growth, and managerial skill shortages (GEM, 2012). These three challenges are inextricably interwoven and cannot be addressed in isolation from each other. The situation is complicated as South Africa's transformation process is evolving within the context of globalization. The advancement of expertise and the development of managerial orientated skills are important to ensure good governance and democracy. Implementations of democracy in previous years have indicated that leadership and managerial skills are key elements for a successful changing process and are significant for successful SMEs.

The research study focuses on analyzing the relationship between economic growth and SMEs success in South Africa. Economic growth, development, managerial skills and SME success are complementary and related processes. The development of managerial skills may improve business operations and, consequently, assist with the creation of employment in South Africa and, in this way, enhances the economic growth. As the aim of this research was to gather information to analyze whether a relationship between economic growth and SMEs success exists, 200 questionnaires were posted to small business owners, 134 questionnaires were posted to each of the nine provinces of South Africa. The small businesses were randomly selected from the list of Department of Trade and Industry (DTI, 2015).

1. Literature review

Capable managers achieve goals successfully, resourcefully and achieve targets with the minimum waste of resources. Managerial skill is a professional skill that can be improved by a natural aptitude for management, self-motivation and ambition. Cameron and Whetten (2013) state that capable managers properly learn their managerial skills from a combination of education and experience. The Department of Trade and Industry has to address the problem of managerial empowerment in the small business sector because of the reason of managerial skills shortage. The education of managers is necessary for the economy. The current crisis in higher education and training in South Africa poses numerous challenges for the improvement of managerial training (GEM, 2012). Skills are specific abilities that result from knowledge, information, practices, and aptitude.

SMEs create about 80 % of all new job opportunities and according to Bowler, Dawood and Page (2013), more than 70% of all South Africans are employed in the small business sector. The small business sector is an essential factor in promoting and achieving economic growth and development. Nager, Swanepoel and van der Merwe, (2014, p. 37) indicated that small business development should be an essential component of all reconstruction and development initiatives and this has the potential to economically empower the majority of the country's people.

Economic growth, managerial skills and SME success are complementary and related processes. The development of managerial skills may improve business operations and, consequently, assist with

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the creation of employment in South Africa and, in this way, enhances the economic growth. Small businesses are regarded as necessary for economic growth, job creation and social progress, because the economies of economically successful countries function around a successful small business sector (Nager, Swanepoel and van der Merwe, 2014). It is difficult to formulate a universal definition of a small business, because the economies of countries differ and people adopt particular standards for particular purposes. Many of the small businesses in our environment are typical examples of small businesses, such as a hairdressing salon, a greengrocer, a video shop and a hardware store. A business that may be classified as small in the USA may be classified as large in South Africa.

Longenecker, Moore and Petty (2010) classify problems experienced by SMEs in conducting a successful business into various categories, namely:

- Economy-based problems that are associated with national economic factors related to the state of the economy.
- Industry-based problems that are associated with the industry in which the enterprise operates.
- Enterprise-based problems that refer to the enterprise's internal factors such as incompetent management, lack of managerial skills, and poor financial control.

It is useful to consider the problems caused by factors outside the business by combining economy and industry based problems as macro-environmental or exogenous problems and distinguish these from problems over which the individual owner has some control that can be identified as firm-based problems and classified as internal micro or endogenous problems.

Macro economic variables such as interest rates, unemployment and inflation rates were also considered. However, enterprise-based problems were found to be associated with 65% of small business failures. A study by Picot and Dupuy (2014) estimated that internal micro factors were responsible for approximately 70% of small business failures. The rest of this section will highlight the type of exogenous and endogenous problems experienced by SMEs.

Exogenous factors are those factors whereby management exerts no control over them. They are composed of macro- and market-environmental problems.

- Macroenvironmental problems. Management can exert no control over exogenous problems that manifest themselves in the economic, political, socio-demographic, technological and international spheres.
- Market environment. As with macro environmental issues, management has little or no control over external market factors and success often depends on an adequate, sufficient and prompt response to changing circumstances.

Deficiencies in the internal microenvironment are the major cause of SME failures. Endogenous cause of failure centres largely on the following areas: managerial skills, management behavior and financial knowledge. Lack of expertise in the following functional areas is often reported: marketing, human resource management and financial issues. The high rate of business failure in South Africa is apparently credited to lack of managerial skills.

According to the Small Business Administration (2013, p. 5), most small business fails because of internal factors such as poor management methods and incompetence.

- *Incompetence management*: inadequate planning, for example, poor choice of location, inability to manage staff efficiently, poor or no marketing strategy.
- *Poor financial planning*: too little money to bridge the first months while sales are low, too little money to purchase sufficient stock or fixed assets.
- *Lack of experience*: no experience of running a business, not knowing the specific industry. The entrepreneurial transaction is for many prospective entrepreneurs a huge shock.
- *Poor financial control*: lack of control over cash, poor record keeping practices.
- *Personal factors*: lack of business skills training, unwillingness to work long hours, unwillingness to apply new ideas.

1. Research results

The demographic profile presents an overview of the sample elements (owners) in terms of gender and age. Furthermore, the sample units (small businesses) are described in terms of type of business, and number of years in operation and industry type.

1.1. Demographic factors. Demographic factors indicate that the older the owners, the less likely they are to leave and more likely to be successful. Gender of respondents will also be looked at, because, in the overwhelming majority of countries, the rate of entrepreneurial activity among men is far higher than among women (GEM, 2012, p. 25). Next, the demographic factors will be discussed.

1.2. Gender of the respondents. Most of the respondents surveyed were male (72.8%) as

compared to female respondents (27.2%). A CSS report (2012) confirmed that men are one and half time more likely to be small owner managers. The GEM (2012, p. 34) presents a possible explanation for this male-biased trend. According to this publication, male owner/managers employ more workers in comparison with female owner/ managers, who employ less.

1.3. Age of the respondents. The largest % age (37.5%) of the sample population is aged between 30 and 39, followed by the age group 20 to 29 (30%). Only five respondents (6.3%) were older than 50 years. Observing the results the researchers is of the opinion that the entrepreneurial profession is strenuous because only a few older persons are still in that profession.

1.3.1. Age of the business and number of years in operation. The age of a business reflects its market experience and affects its ability to grow and move to the next size class. Furthermore, market experience and size of a business are important valuables that determine a business's access to financial sources. According to the research, most businesses (74.1%) operated for two years and more. Only 25.9% operated between one month and two years. These findings seem to reflect that the longer a business survives the greater its changes become to survive in the longer term. This is an encouraging finding against the backdrop of the high unemployment rate in South Africa. International experience has shown that births and deaths among small businesses tend to be concentrated among younger and smaller firms.

1.4. Nature of industry. The research indicates that 48.1% of the respondents operate in the retail industry. Of the total sample, approximately a third (30.4%) conducts business in the services industry. Only 7.6% of the survey population participated in the construction and manufacturing industries. Previous studies (GEM, 2012, p. 61) found that small businesses in the retail sector have a higher failure rate as a result of the ease of entering this sector and the consequent possibility of over-trading. The present study found that the sector, in which the owner operated personally, was not a determinant of possible success of small business.

1.5. Prior business experience. Most respondents had a fair, if general, idea of what management of a business entails, even if they had no previous business experience and though they were not always able to express their ideas in 'academic terms'. 71.6% of the respondents are first-time business operators. This reflects a relatively low experience in running a business when evaluated in tandem with the number of years the small businesses are generally operating. The demographic factors indicated that the older the owners, the less likely they are to leave and the more they become successful. Only 28.4% of the respondents indicated that they had prior business experience.

1.6. Managerial skills. Managerial skills consist of an identifiable set of actions that individuals perform, which lead to certain outcomes. Managers with different styles and personalities may apply skills differently. In South Africa, the managerial empowerment of previously disadvantaged people happens through the system of education, mentor- and internship. The acquisition of managerial skills through education and experience indicates that management is a science, a profession and an art. Management education is very important to the South African economy. The crisis in education and training in South Africa poses many challenges for management training. Examples of managerial skills are the following: managing personal stress, managing time, performance appraisal, motivating people, managing conflict, solving problems, marketing, bookkeeping, record keeping, writing business plans and pricing. This question was structured to obtain information on the extent to which entrepreneurs use managerial skills during their workdays.

The conducted research shows that motivating workers occupies most (100%) of an owner's time. Besides this function, managing time and solving problems are more frequently attended to when compared to the other business functional areas? Nearly 79% of the respondents are constantly involved in marketing activities. The rest of the respondents never or hardly ever market their business, or do not know what marketing is. These business owners should be assisted in acquiring knowledge about marketing. 90% of the respondents are constantly involved in bookkeeping activities and 91% of daily record their business transactions. A disturbing 54% of the respondents never wrote a business plan, or does not know how. However, this is an important activity, since, without this, it is hardly possible to obtain finance from the banks. About 87% of the entrepreneurs constantly devote time to the pricing of products and services. The rest of these entrepreneurs never do pricing themselves, but indicated verbally that they invite outside help with this function. All the managerial skills mentioned are important and should be attended to if a business was to succeed.

1.7. Problems faced by small business owners. The following examples were problems faced by the respondents, namely: crime, economic factors, finance, labor and rent. Crime is perceived the most

significant (43 %) factor of all other problems faced by South African small business owners. At least two out of five enterprises are affected by crime. Some respondents indicated in the comment section that formal businesses with premises away from home and those that hold stock are at greater risk, since this makes them more vulnerable to crime such as burglaries outside business hours. Some respondents also mentioned 'off the record' that crime is a widespread problem in the black townships and imposes an additional premium on running a business there and that this (crime) acts as an incentive to relocate elsewhere, out of the black townships.

1.8. Potential factors contributing to the closure of small businesses. Potential factors contributing to the closure of small businesses were: first initiative was successful and reasons for business failure. The factors will be discussed below.

1.9. First initiative was successful. The research findings reveal that for most start-up businesses (83.3%) the first business initiative proved to be successful. Only 16.7% of the respondents indicated that their first business venture failed. 70.9% of the respondents are of the opinion that small businesses fail due to a lack of managerial skills. Respondents that thought political and social factors to be prejudicial to their business success were a minority that is 2.5% and 6.3%, respectively. A fifth of the respondents (20.3%) regard the slow stagnating economy to be the main reason for small business failure. The reasons for business failure will be discussed next.

1.10. Reasons for businesses failure. The respondents gave the following examples of causes for business failure: lack of managerial skills, financial problems, and slow economy. 16.7% of the respondents, whose first business initiative failed, blame financial problems for the business failure. The results suggest that the lack of money for running costs or capital items is the most widespread problem facing small businesses. This is a significant finding that gives rise to the general opinion that most disadvantaged small business owners lack finance. The finding that a lack of finance is a key problem, is a common feature of most research on problems facing entrepreneurs, and occurs in both developing and developed countries.

1.11. The relation between economic growth and SME success. Economic growth, development, managerial skills and SME success are complementary and related processes. The aim of the research was to analyze whether a relationship between economic growth and SME success exist in South Africa. Most respondents (98%) agreed that a positive relationship exists between economic growth and SME success rates in South Africa. The research also aimed to establish the reasons for the high failure rate of small businesses in South Africa and the respondents gave the following reasons:

- Lack of managerial skills and business knowledge.
- Shortage of finances to start/run a business.
- Crime is an increasing concern and reason for small business failure.
- Slow economic growth.

The research findings and implications will be discussed next.

2. Summary of research findings and implications

Economic growth, development, managerial skills and SME success are complementary and related processes. The aim of the research was to analyze the relationship between economic growth and SME success in South Africa. Managerial skills and business knowledge are an indication of how well an owner performs important business related tasks.

It is evident from the study that business owners lack certain managerial skills such as financial, marketing, and human skills to operate their businesses successfully. It is equally evident that small businesses are constrained not only by financial factors, but also specifically by non-financial factors such as lack of education, crime and slow economic growth. The analysis also indicates that the managerial skills that the respondents possess, and those that they preferably should have, do not correlate. The research conducted concluded that a positive relationship exists between economic growth and SMEs success. Successful SMEs increase economic growth in South Africa and the development of SMEs should be encouraged.

2.1. Economic growth and SME success. The research recommends that the government supports the development and growth of SME by assisting in financial matter and also supply managerial training. An economy can only grow if healthy SME which form the backbone of the economy prosper. It is also important that the approach integrates all the South African citizens in a meaningful way. An effective and successful SME process will accelerate economic growth.

Conclusion

The research conducted confirmed that the lack of managerial skills of small business owners, and financial issues has a negative influence on the success rate of small businesses in South Africa. The research finally concluded SME success has a positive impact on sustainable economic growth in South Africa. Improving the success rate of SME will solve South Africa's unemployment problems and recuperate the stagnating economy.

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