An Investigation into Challenges as well as Means to Overcome Challenges Facing Small and Medium Enterprises (SMEs) in South Africa

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ABSTRACT The operations of SMEs are not well understood and have rarely been addressed globally. The aim of this study is to establish a base level of understanding of the operational core values of SMEs in South Africa. Data was collected through self-administered questionnaires and the use of random sampling. Findings from previous literature revealed that there are constraints faced in the operations of SMEs. The field survey confirmed some of the operational challenges to include lack of finance and lack of managerial skills as well as training. The findings also identified the search for solutions to the challenges faced by SME owner/managers in South Africa by providing an insight for further research regarding the institutional weaknesses and policy issues in this part of the world. The implications of the findings are that unless the limitations named above are resolved, SMEs in South Africa will continue to experience poor economic growth, development and display inferior competitiveness. Recommendations to overcome these challenges are suggested.

INTRODUCTION

The survival rate of Small and Medium Enterprises (SMEs) is relatively low. Only less than half of newly established businesses have been able to survive beyond their first five years. This is not only true for South Africa but also can be seen as a common phenomenon in the rest of the world. In the South African economy, more than one million jobs have been lost since 1990, bringing the unemployment rate by February 2002, to 28 percent (Winkelmann 2014). In South Africa, like in many developing countries, Small and Medium Enterprises holds a small premise to generate income, reduce unemployment and alleviate poverty by providing job opportunities to the people. It is thus clear that SMEs sectors are widely regarded as the driving force in economic growth and job creation in both developed and developing countries (Zeng et al. 2010). The important contribution that SMEs can make to employment and income generation is recognized around the world, particularly in developing countries. Study has indicated that surveys of small business failure maintain that entrepreneurs often have good ideas and are competent, but that they do not have any clear idea on how to run a business and have no underlying knowledge of business fundamentals (Glantz 2015). The identification of these problems and development of appropriate training programmes to address these problems should thus assist in equipping small business owners with the necessary managerial skills to survive in today’s competitive environment.

In South Africa, SMEs contribute to 56 percent of private sector employment and 36 percent to the Goss Domestic Product (GDP). Mankiw (2015) defines the GDP of a country as the total amount of market value of all final goods and services produced within the country in a given period. This also implies a very high labour absorption capacity and highlights the job creation potentials of this sector and its significance reduction of unemployment in Africa countries (Nkechi et al. 2012; Moloi and Nkhahle 2014). Batema and Chang (2012) state that Small and Medium Enterprises remain the backbone of virtually all economies of the world. They are the foundation of socio-economic stability, create gender and minority-gap empowerment and allow equitable distribution of opportunities and income across the world, thus validating the necessity of researching into this aspect.
Literature Review

The literature review focuses on the nature and characteristics of SMEs, the roles of SMEs, global contribution of SMEs, contributions of SMEs to economic development, barriers to SMEs development and growth and as well as various challenges faced by SMEs.

Nature and Characteristics of SMEs

‘Nature’ literally simply refers to the essential characteristics and qualities of a person or things. It is difficult if not impossible to give a universal accepted definition for SMEs. Many typical characteristics of SMEs in South Africa are determined by factors like size of an organization or independent ownership (family or group of people). However, some important characteristics of SMEs are identifiable. In developing countries, with a shortage of capital and growing labour surpluses, the following characteristics of SMEs are observed (The World Bank 2013):

- they are generally more labour intensive than large firms;
- on the average, SMEs generate more direct job opportunities per units of invested capital than large firms;
- they are an instrument for utilizing the talent, energy and entrepreneurship of individuals who cannot reach their full potential in large organizations;
- they are often flourish by rendering services to a small or restricted market which large businesses do not find attractive;
- SMEs are breeding ground for entrepreneurial talent and a testing ground for new industries; and
- SMEs create social stability, cause less damage to the physical environment than large factories, stimulate personal savings, increase propensity in rural areas and enhance the population’s general level of economic participation.

Abovementioned characteristics identified are those that distinguish SMEs from big businesses. However, SMEs, according to Mahmood and Hanafi (2013) are also characterized by their small size. The inference is often drawn that because of their small size they are mostly suited for communities where the markets are too small to justify the existences of large businesses.

The Roles of SMEs

Department of Trade and Industry (DTI) (2014), suggested that SMEs are the real essential instrument of wealth creation, value re-orientation, job creation and poverty eradication in South Africa. There are, therefore, sound economic and social reasons for promoting SMEs:

- SMEs are generally associated with more labour intensive production and are hence perceived to have a high labour-absorptive capacity;
- from the economic point of view, it is generally believed that optimizing the contribution of SMEs to employment and economic development could be translated into the following broad objectives;
- raising the rate of formation of new SMEs with growth potential and increased contribution to investment, employment and income generation;
- increasing the rate of economic ownership; increasing the rate of commencement of small business into SME categories;
- raising the performance of existing SMEs with a view to increasing their competitiveness; and
- decreasing the undesirable mortality rate of Small and Medium Enterprises.

It is known that organized commercial operations which constitute the majority of SMEs, account for a substantial share of total employment and Gross Domestic Product (GDP) and contributes significantly to poverty reduction (Hussein 2011). SMEs are predominantly a source of income and employment for hundreds of millions of people worldwide. The SME sector’s influence on individuals, households and national economies has been proven over and over again. SMEs play an important socio-economic role in developing countries in which South Africa is no exception. It is therefore very important that SME owners/managers should be well equipped to effectively manage their enterprises from the perspective of the environment, health and safety. According to Babajide (2011) and Ahmed (2012), “the dynamic roles of SME owners/managers in developing countries cannot be overemphasized. Such enterprises have been identified as the means through which the rapid industrialization and other developmental goals of these countries can be realized".
Nevertheless, the important role performed by these enterprises cannot be overlooked.

**Global Contribution of SMEs**

The contribution of the SME sector in the economic development worldwide cannot be overlooked, irrespective of the stage of economic development the country is in. National economic plans are considered to be the most important and useful element by numerous governments in developing countries in an attempt to include SMEs in their programmes. Due to the important technical and economical role played by SMEs in developing countries, there are considerable differences in their roles in the different economies. For instance, SMEs play a bigger structural role in Japan, China, Taiwan, Vietnam and Thailand and as a result they contribute over 70 percent of employment to their economies. SMEs in Malaysia and Indonesia, in an attempt to improve their economies, contribute only around 40 percent of employment to their economies (Abdullah and Manan 2011).

**Contributions of SMEs to Economic Development**

SMEs play an important role and contribute immensely to both the economic and social development of developing countries. Below follow some of the contributions by SMEs in the various sectors of any developing economy.

**Contribution to the Financial Sector**

When considering the role played by the financial sector in an attempt to finance SMEs in the past, it is holistically observed that banks are usually reluctant to provide adequate credit facilities to SMEs. Ansah (2012); Rajput et al. 2013) state that this issue poses a big problem in the development of the SME sector, since capital is the most important factor for every business’ success and if finances are not adequate, the success of the firm would be affected.

**Contribution to Government**

United Nations Environment Programme (UNEP) (2013) states that Small firms and Entrepreneurs in general are the lifeblood of any economy, because they are the most critical tools to be considered in order to boost productivity, increase competition and innovation, as well as creating employment and prosperity and revitalising communities.

**Contribution to Local Communities**

In a community where several SMEs are located, it is clear that SMEs have a big interest in the development of such community. Every SME makes goods and services available to suit local needs and supply goods at an affordable local cost to consumers. Scarpetta et al. (2012) state that SMEs are an important instrument as a source of employment, especially for low-skilled workers, women and the youth who usually make up the greatest proportion of unemployed in an emerging economy.

**Barriers to SME Development and Growth**

Dallago (2001) notes that barriers to SMEs development and growth are mostly found to be due to:

**Policy Mistakes**

It was found that basic policy mistakes in microeconomic steadiness policy selections hindered the foundation of SMEs. The main blunders in the past were the regulation and taxation rules which are often highly unfavourable towards SMEs – consequently giving an unforeseen improvement to tax evasion and regulation avoidance as adaptation mechanisms and changed frequency. Governments of different levels in some countries adopted unreliable and even destructive measures related to SMEs. All this created uncertainty amongst owners/managers of SMEs.

Numerous SMEs face a number of obstructions to development, growth and survival which include poor management as most of them are owners/managers that managed with no adequate financial resources to employ skilled personnel. They also acknowledged that government regulations regulate many SMEs out of business as it is almost a miracle for them to meet the stipulated legal requirements.

**Poverty and Low Income**

Low income and increased poverty could be seen as the next barrier to SMEs development and growth, both largely believed to be the out-
come of rising and adverse macroeconomic policies. Low income and poverty affected demand negatively, thus hampering the necessary condition for establishing new businesses. Furthermore, inflation and stabilization policies occasionally go beyond needs, dramatically declining the value of savings, thus wiping out the main basis for financing SMEs.

**Nature of Transition**

According to Dallago (2001), the nature of transition is like a ‘trip into a sea’ desperately known only on paper by means of an unidentified ship. In the case of SMEs, this means that establishments and infrastructure, including those necessary to SMEs, should not be missing or under-developed. The owners/managers of SME in particular – should not lack the necessary experience and expertise to successfully operate in a competitive market economy. In addition to this, transition as it should be executed, also means freedom of foreign competition. Privatisation and other forms of wealth distribution should also offer abundant opportunities for pursuing ownership deals instead of profit, mostly in the form of accruing ownership at low costs, but not least, the interruption of the state in business matters should not offer the possibility and opportunities for unlawful organisations to get a strong hold over the economy, which could also pose as challenges experienced by SMEs.

**Challenges Faced by SMEs**

As already aforementioned, it is generally believed that SMEs in emerging economies greatly contribute immensely to the economic development of the country. But, considering the fact that SMEs provide extreme possibilities to improve the standard of living of the people, the assistance of the government should enable SMEs to reduce the level of poverty and the unemployment rate. Therefore, irrespective of the positive impact of SMEs in the socio-economy, SMEs are inevitably faced with many challenges which may invariably hinder their progress. According to Kongolo (2010), Chitithaworn (2011), and Islam et al. (2011), SMEs face numerous challenges which affect their growth and development.

**Access to Managerial Skills and Training**

It is found that there are many SMEs owners/managers in developing countries that lack managerial skills and training. The small business owners/managers develop their own approach to management, through a process of trial and error. The implication of poor managerial ability is that small business owners/managers are not prepared to face challenges in their business environment and do not plan ahead for changes in technology. Ates and Bititci (2011) and Ayanda and Laraba (2011) state that inadequate management skills therefore have a negative effect on the development and growth of SMEs.

It is also clear that most SME owners/managers lack educational background and hence, they are not adequately equipped to run their business effectively and efficiently. In addition, in order to ensure success in a SME, training alone may not be the most important yardstick to be considered, but other factors, such as lack of access to markets, lack of support services, lack of financial resources and others should as well be focused on or emphasised and considered to be restricted issues (Tandoh-Offin et al. 2013).

**Technology and Infrastructure**

Due to lack of time, resources, technology, expertise to research and development, most SME owners/managers are not able to improve their business ideas. Parida et al. (2012) believed that several SMEs lack time, resources, technology and expertise, to research and develop new business ideas and improve innovation. Therefore, these important factors mentioned above, definitely play a role to hamper the rate of expansion, development and growth of SMEs.

**Access to Markets**

Due to inadequate information, imperfect knowledge and lack of intelligence about market opportunities as well as trends, the majority of SMEs in South Africa fail to operate effectively, efficiently and successfully. Lack of capital and skills are also another challenge faced by SMEs, thereby restricting them from expanding to include foreign markets which could serve to bring about cheap, low quality goods and services to
SMES CHALLENGES AND MEANS TO OVERCOME IT

the local markets. Jones and Tilley (2003) point out that, lack of capital and skills hinders or restricts the majority of SMEs from expanding into the export market with cheap, low quality goods from a range of survivalist micro-businesses.

**Lack of Access to Finance**

Lack of access to finance is almost universally indicated to comprise key challenges faced by SMEs. Xiao and North (2012) and Abanis et al. (2013) observe that a high transactional cost are involved in running a business and causes the inability of SME owners/managers to provide collateral security that banks require. It happens that SMEs find themselves starved for funds at all stages of their development, ranging from start-up to expansion and growth funding. Due to the fact that the majority of SME owners/managers have to provide their own sources of financing their businesses, it is thus restricted to come from their own personal savings, or family members. Unfortunately the need may arise for them to also obtain loans from banks, but the majority of SMEs owners/managers do not possess the collateral security to provide to banks in order to obtain a loan. This is considered to be the main hindering factor to the growth and expansion rate of SMEs.

**METHODOLOGY**

The overall purpose of this study is to understand the challenges faced by SMEs in South Africa. The study targeted SME owners/managers in order to investigate the reasons for the challenges faced by their businesses. It is anticipated that the study could provide practical solutions to SME owners/managers and their policy-makers in improving small businesses. The study used the quantitative research design and survey research method of data collection. The study involved 50 SMEs in the Eastern Cape Province of South Africa. Data for the study was collected through self-administered questionnaires and the use of random sampling. Questions related to the challenges are usually insightful. Respondents in the survey were assured strict confidentiality in order to obtain the necessary information. Responsive questions such as the names and contact addresses of the respondents were removed from the questionnaire. The questionnaire consisted of primarily five-point Likert scale questions which consist of strongly disagree, disagree, strongly agree, agree and neutral questions except for demographic questions. Data analysis included using Chi-square goodness of fit test as the statistical tool. The empirical research for the study was conducted in the main survey.

**FINDINGS AND DISCUSSION**

The results of this study confirmed that SMEs in South Africa have inadequate finance resources for investment, lack of managerial skills and training, lack of information technology and infrastructure, lack of market and a legal environment which is not conducive to run businesses are some of the challenges confronting SME owners/managers in South Africa. Though the respondents highlighted a number of motivations and barriers or challenges, the study realised that not all variables established in other proceeding studies done elsewhere were relevant to challenges faced by SMEs. Variables like educational qualifications, gender of owner/manager, size of the business, age of the business and uncertainty about the SMEs returns were found to be irrelevant.

In conclusion, the study finally found that the variables which actually serves as motivations and challenges to SMEs in South Africa are competition, finance, perceived benefits, the need to improve customer services, respect, training, government support, information technology training, internal resources, vision, willingness and ability to serve niche markets and the type of business.

A total 50 sets hardcopy of questionnaires were distributed to selected respondents. All 50 questionnaires were collected back; the response rate is 100 percent. This shows that all the respondents were available for the survey. However, 50 questionnaires were used for analysis.

Descriptive analysis shows that out of 50 respondents, the percentage (%) of male was the same as female respondents. The result shows that 50 percent of the respondents were male and the remaining 50 percent were female. The position/role occupied by the respondents in the enterprise shows that 30.6 percent of the respondents were SME owners, 61.2 percent were SME Managers, and 8.2 percent were both SME managers and owners. The majority of re-
respondents, a total of 46 percent were aged between 31 to 45 years old, 40 percent were aged between 21 to 30 years old, 12 percent were aged between 46 to 59 years old, 2 percent were aged greater than or equal to 60 years old. As observed above, the majority of SMEs owners/managers are within the age limit of 31 to 45 years while the categories of 60 years have the lowest count. This is a natural situation, but SME owners/managers who are below the age of 30 years are also increasing gradually, which may be due to more business exposure, or the fact that owners/managers tend to retire as they get older. In terms of the SMEs sectors, 8 percent of respondents were in the cosmetics sector, 18 percent were in the clothing sector, 10 percent were selling groceries, 16 percent were selling electronics, and 48 percent were selling other commodities such as fruits and vegetables as well as stationery. 66 percent of respondents were sole traders, 24 percent were partnerships and 10 percent were in a joint venture. The source of financing the business, 2 percent of respondents obtained a loan from government, 20 percent obtained a loan from family, 12 percent obtained a loan from a bank, 58 percent financed their businesses through personal savings and 8 percent financed their businesses through external support. The duration of business operated, 18 percent of respondents were for 1 year, 10 percent were for 2 years, 14 percent were for 3 years, 6 percent were for 4 years and 52 percent were between 5 years and more. This shows that the majority of SMEs were older than five years. There are 4 percent of respondents from Primary certificate, 32 percent were from Secondary certificate, 30 percent were from Diploma, 28 percent were from Bachelor’s degree, and 6 percent have no formal education, which shows that SME owners/managers do have a certain degree of qualification. Intention to whether the respondents are willing to further their studies or not, 68 percent were willing to further their studies, while 32 percent were not. This shows that SME owners/managers should be awarded the opportunity to study in their field. As regards the actual type of training the respondents would prefer to undergo, 25.0 percent of respondents would prefer to undergo managerial training in order to be able to give their customers good services and satisfaction, 2.1 percent would to undergo training in software solutions for phones, marketing management training, accounting and finance; Labour law training, pedicure and manicure are also types of training required. There are also needs to undergo training for new business strategies in order to compete with their competitors. Skills development training, and training in business administration are also indicated as types of training required for SME owners/managers. The challenge faced by the respondents in their specific enterprises, 22 percent lack access to markets, 22 percent lack access to finance, 56 percent lack both. Therefore, the majority of the respondents agreed that lack of access to market and finance were the major challenges faced by their businesses, followed by managerial skills and training, technology and infrastructure. As regard whether the respondents would be able to expand their businesses without access to capital or finance, 22 percent of respondents disagreed, 8 percent were neutral and 70 percent agreed that without access to finance or capital, they would be unable to run, grow and expand their businesses. The majority, 69.4 percent of the respondents agreed that lack of suitable managerial skills and lack of training can be seen as the major challenges faced by SME owners/managers, 18.4 percent disagreed and 12.2 percent were neutral. The majority, 78 percent of the respondents also agreed that access to information technology and infrastructure have an influence on the success of their businesses, 12 percent disagree, and 10 percent were neutral. The SMEs failure, 86 percent of respondents lack access to finance which is the major reason for SMEs failure, and 14 percent reveals that lack of access to finance could not be seen as the major reason for SMEs failure. 59.8 percent of respondents reveal that managerial skills qualification is needed to run a business, while 40.2 percent reveal that managerial skills qualification is not necessary. As regard the skills and training needed, 94 percent of respondents agreed that managerial skills and training are needed to bring about growth and development to their enterprises, while 6 percent indicates that managerial skills and training could not bring about growth and development to their enterprises. The business experience, 86 percent of respondents indicates that, experience is needed for planning, organizing and co-ordinating businesses, while 14 percent reveals that experience is not needed for planning, organizing and co-ordinating businesses. This confirms that, the majority of SME
owners/managers agreed that they were able to use their years of experience in business to plan, organize and co-ordinate their businesses in order to cope effectively with the competitive market challenges without having any formal qualifications. This finding gives light to the fact that experience in business also have a rewarding outcome. 76 percent of the respondents also indicate that an effective information technology is needed to pass information across to the consumers, while 24 percent indicates that an effective information technology is not necessary to pass information across to the consumers for the existing or new products awareness. This confirms that making use of technology is of paramount important for SMEs success. The majority, 83.3 percent of respondents agreed that they were able to find enough workers to work in their ventures, 11.9 percent indicates that workers are least important to them, while 4.8 percent were neutral. The business environment, 22 percent of SME owners/managers agreed that lack of access to market and finance do not affect businesses in their environment, while 56 percent indicates that both lack of access to finance and market do have affect businesses in their environment. 47.9 percent of respondents indicates that what motivated or attracted them to this type of business was due to the fact that such business is not very complicated to manage and that it is of assistance to all levels of people who are in need. Most of SMEs owners/managers were attracted to this type of business, due to huge amount of money that could be generated by the business, and as a matter of fact, it is easy to start with little effort. In actual fact, women use cosmetics and other necessities or valuable materials for make-up. The majority, 98 percent of respondents indicates that they were able to use their years of experience to solve the challenges faced by their businesses. On the other hand, the other challenges confronted by the respondents apart from the aforementioned challenges, 13.6 percent of these respondents indicates that they have been faced with severe competition which resulted to low sales, customers rudeness, and frequent delay in stock delivery. These results are similar to the findings of Hang (2013), who also states that customers satisfaction in terms of service delivery have always being the major challenges facing the majority of small business owners and their delivery expectations have not being on a consistent basis. It is therefore on this note that Sanchez-Gutierrez et al. (2011) point out that “service quality is the key factor to achieve customer satisfactions and to gain customer loyalty”. In addition, the SME owners/managers biggest challenges with regards to this study also include: crime, inadequate security, lack of co-operation and support from the government. Government labour policy, lack of time management, insufficient stock and unnecessary delay on materials purchased also mentioned as problems experienced. Another problem experienced was that the majority of people did not want to buy their products, because their products were regarded as fake. Furthermore, other major challenge faced was that customers tend to buy on credit and then refuse to pay back even when the payment is due. The recent improvements in the respondents’ businesses, 67.3 percent of respondents indicate that improvements have taken place in their businesses, while 32.7 percent indicates that, they did not experience any improvements in their businesses. As regards the actual improvement, 20 percent of respondents indicate that their improvements were due to sales promotion and expansion in their businesses, as well as by creating more space for displaying and introducing more stock. The survey conducted by Vila et al. (2012) also found that” the innovations most frequently in the Spanish hotel industry involve enhanced knowledge of the market, including the use of new sales channels and communication improvements”. Other prominent factors mentioned were movement from smaller premises to a bigger shop and also due to new technological advancement in the business such as new cell phones with dual sim cards, ear phones amongst others. The fact that new security measures such as safety equipment are placed in their businesses, the positive advice received from other professionals or related business consultants also enabled them to achieve a great improvement in their businesses. Other positive contributing factors mentioned include: price reduction strategy and new technology which made sales and promotion easier as well as the introduction of new business strategies by some SME management teams.

Suggestions from the respondents on how these challenges faced by their enterprises could
be solved or overcome, shows that the majority, 31.3 percent indicates that these challenges could be overcome by government support, 20 percent through sales promotions, and only 22 percent were by undergoing more training, organising seminars and workshops, working together as a team with each other, making more efforts and having passion to do business. The management should always ensure that good customer care, services, satisfaction and loyalty must be considered as the most paramount issue to be addressed in order to overcome the majority of these challenges facing their businesses.

**Tests for Degree of Association**

In this section, the researcher examined firstly, whether a significant relationship between the SME owners’ or managers’ qualifications and the need for qualifications exist, in order to acquire managerial skills.

- A Chi-square goodness-of-fit test was used to examine whether a relationship exists between respondents’ qualifications and whether a person needs certain qualifications in order to acquire managerial skills. A P-value of 0.197 (that is, P>0.05) showed that there is no significant association between these two items.

- A P-value of 0.286 (that is, P>0.05) was obtained in a Chi-square goodness-of-fit test to examine whether a significant relationship exists between qualification and whether respondents agree that training and managerial skills could bring about growth and development on an enterprise. This implies that there is no association between these variables.

Secondly, the study attempted to examine whether a significant relationship between qualification and training and managerial skills exists in order to bring about growth and development in an enterprise and thirdly, a test of association between qualification and their years of experience in small business appears. These are examined and concluded below.

- A Chi-square goodness-of-fit test was used to examine whether a relationship exists between qualification and years of experience in small business, in order to plan, organise, and coordinate a business to meet up with the competitive challenges in the market without having any formal qualifications, is not significant, because the P-value is 0.891 (that is P-value>0.05), and draws the attention to years of experience.

The purpose of this study was to identify the challenges affecting SMEs in South Africa. A major implication for the findings is that these findings will be able to give better understanding for SME owner/managers in addressing the factors which will significantly affect the growth and development of SMEs. The study of the challenges affecting SMEs is critical in understanding the business stability; continuity and development thus help supporting economics growth within South Africa. The results of this study can also be used as a point of contact for anyone who is interested to start a business which will provide insights into decision making in starting a business and also for any business ventures which are interested to continue to expand and develop.

For many businesses to flourish in South Africa as well as in other Africa countries various factors need to be considered at regular intervals since Small and Medium Enterprises is the backbone for any countries economy survival and sustainability. In addition, the majority of SME owners/managers are often facing both internal and external factors which hindered them to perform below expectation in any business environment settings. In other words, the majority of SME owners/managers also believed that to achieve progress and continuity in business those factors that contributes to the business failure should also be considered as the most priority for the business success and therefore, special care or considerations should be taken on some of the factors to be avoided in business. The study has examined the nature and characteristics of SMEs, the roles of SMEs, resources and finance, management, infrastructure and technical know-how, products and services, global contribution of SMEs, contributions of SMEs to economic development, SME owners/managers and market, barriers to SMEs development and growth and as well as various challenges faced by SMEs. The results show that information technology, finance and market played an important role in ensuring SMEs sustainability and continuity in business in South Africa. They are also the major challenges facing SME owners/managers from thriving in South Africa.
CONCLUSION

This study has made an effort to make a contribution to the area of the challenges faced by SMEs and has shown findings and recommendations. The literature review presents various elements within the field of SME finance, market, information technology and infrastructure, managerial skills and training among others.

The main findings of this study shows that lack of access to finance, lack of access to markets, lack of access to information technology and infrastructure, lack of access to managerial skills and training are the major challenges faced by SMEs. A good understanding of the challenges faced by the SMEs is in South Africa has been clearly identified and discussed in details and recommendations or suggestions to these challenges have also been discussed.

RECOMMENDATIONS

This section focuses on recommendations to SMEs in developing countries on how their businesses performance can be improved effectively and efficiently in order to meet up with the competitive markets and environmental challenges within and outside their business environment. Some of these recommendations and how it could be improved are directed or related to SMEs and the policy-makers that is, government and quasi-government agencies. These are mentioned and discussed below as follows.

Recommendations to SMEs

This study revolved around challenges faced by SMEs. Therefore, the following improvements are recommended and could be implemented in South Africa and other developing countries.

How to Improve Skills of SME Owners or Managers and Staff

This can be adequately done by introducing training programmes to staff and management of SMEs. Training should assist staff in understanding the benefits and challenges faced by SMEs. It also assists in understanding the technical issues associated with the challenges faced, thereby ensuring minimal staff resistance. Training of SME owners/managers as well as the staff helps to have a clear understanding of the existence of the barriers and how to manage or reduce the negative effects of all these challenges affecting their businesses.

How to Improve Business Strategy

SME owners/managers must, at the initial stage of their businesses, implement a positive or strong strategy based on the small to medium enterprise objectives. They should also be aware of the challenges associated with their businesses in order to make it a success.

How to Attain a Positive Attitude

SME owners/managers must develop a positive attitude towards the challenges faced. A positive attitude could bring about progress and thereafter, help to overcome these challenges faced by the SME owners/managers. These could also be attained through the following: benefits cost reduction, ability to serve the niche markets and acquire a competitive advantage.

Specialization on Interest/Knowledge Area of Business

SME managers/owners must focus on the areas of business which they have substantial knowledge about. It is also helpful for them to procure goods and wares from the nearest sources close to their business locations.

Working Together as a Team

SME owners/managers of the same line of products must work together as a team and support each other in order to prevent price discrimination among consumers. They must always be ready to face their immediate challenges and be able to forecast what the likely future business challenges could be and then prepare a strategic plan for how the future challenges predicted could be overcome.

SMEs Owners/Managers Proactive Attitudes and Strategies

SME owners/managers need to identify the challenges before they become problems and be more proactive in the management of identified challenges. For instance, by advertising their
products or organizing more ‘specials’, they can overcome some of their internal and external challenges. SME owners/managers must take their businesses seriously, in other words, they should not solely rely on government for everything, and to a certain extent, they should be proactive in taking the first steps in building their business before seeking government help.

SME owners/managers should also make use of local radio stations to create awareness about their products. Purchasing and timing management must also be strictly adhered to. SMEs owners/managers must employ well-trained staff with suitable managerial skills and proper in-house training for their workers at regular intervals. They must also be encouraged on how to prepare and keep proper business records, and paying attention to business details in the day-to-day activities. In addition, better salaries and wages as motivational tools, staff appraisal and continual training could also be used as strategies to improve employees’ performance effectively and efficiently.

Cash Sales Practices

SMEs owners/managers should practice selling of goods to customers on a cash basis, not always on credit. This would enhance cash flow and market in general.

Recommendations to Policy Makers

One of the aims and objectives of the policy makers should specifically be to create a conducive environment for SMEs. Good policies help to solve or reduce some of these challenges faced by the SME owners/managers, while poor policies hindered the efforts of SME owners/managers. With reference to these challenges or barriers, as well as failures faced and with a view to encourage SME owners or managers, the following improvements are recommended to the policy makers:

How to Improve Finances

With the fact that SME owners/managers are faced with high financial costs as observed as one of their major challenges, government should create funds with low interest rates to assist SMEs with financing. Funding and subsidies by the government could be of high importance to SMEs in order to encourage them to acquire new technology to their businesses.

SME owners or managers need to be given an opportunity to obtain a loan from commercial banks or grants from government, because by creating SMEs, they are creating employment opportunities. Even with excellent ideas, SME owners/managers should be motivated or encouraged by the government in order to expand their businesses and improve the level of employment opportunities in the country.

How to Improve the Legal Framework

It is also very important that security and privacy issues concerning the SME owners/managers should be addressed. It should be noted that protection of information privacy encourages enterprises to expand their networking technology. As a result of this, it is necessary for government to increase disciplinary measures against security breaks in any environment. Measures should be taken to arrest perpetrators and penalty fees should be charged and also be ensured that security abusers are dealt with as well.

Organizing Seminars or Training Workshops

The government of South Africa and other developing nations should organize training, workshops or seminars through their government agencies to the SME owners/managers in order to teach them on how to overcome most of these challenges. The purpose of the workshops must be to highlight the benefits, importance, challenges or barriers, failures, and extenuation strategy proposed. It is also very important that information technologies professionals from various recognized enterprises must be invited and allowed to lead the workshops.

Provision of Business Space and Security by Government

If a government is able to build more complexes for SMEs to be able to occupy, in order to run their businesses effectively and efficiently, this would increase sales and more people could be employed. A Government can also further support SMEs by putting in place a more effective security measure for safety purposes in strategic areas of business premises.
Commercial Bank Loans Facility

Commercial banking sector can also help the growth and development of SMEs through the unique and special roles it plays in financing and supporting the SMEs in developing nation, such roles can be extended to include flexible loans facility, fund management, investment and re-investment (expansion) strategies and an easy repayment plan.

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