

## External forces affecting Small businesses in South Africa: A case study

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### Keywords

SMMEs, Strategy, Innovation, Entrepreneurship, External forces

### Abstract

*Small Medium and Micro Enterprises (SMMEs) play an important role in the economy of many countries. The Small Medium and Micro Enterprises (SMMEs) sector is a major contributor to technical innovation and new product developments, in terms of employment, economic development.*

*The creation and expansion of new SMMEs helps to produce a high volume of new jobs. Entrepreneurs have high expectations and are often found among new and innovative and technology-based firms, but in order for them to play a major role in economic growth and development, it is also necessary that there is a real supply of fresh innovations and processes to renew businesses.*

*Many eminent scholars have written about the challenges that SMMEs face worldwide. Some scholars have decided to look into these problems based on different sectors. Basically the researcher has looked at external forces that small businesses face while considering all small businesses registered with the Business Support Centre (BSC), Pietermaritzburg, South Africa. These external factors are basically not controllable by a single business. SMME's are said to be a lifeline of many nations and thereby attention must be drawn to them starting from micro businesses to small and medium enterprises. Entrepreneurial activity helps to reduce both employment and underemployment.*

*After reviewing an extensive range of literature on the development and enhancement of SMMEs, it was evident that most research has considered businesses based on a certain list that they have acquired from the Chamber of Commerce of different countries and provinces, some have considered walking within a certain location in order to access data etc.*

*The researcher decided to base the research on an organisation that has some SMMEs registered with them. The researcher has looked into these individual organisations and also their mother company called Business Support Centre (BSC), Pietermaritzburg in KwaZulu Natal Province in South Africa. This will enable the researcher to have direct contact with all the registered small businesses with BSC and also the management of BSC and it will enable the researcher to access adequate information on the problems these small businesses face externally.*

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### Historical Background of South Africa and Small, Medium, and Micro Enterprises in South Africa

South Africa is one of the countries placing great importance on the SMME sector for economic growth and development. SMMEs in South Africa provide a great deal of opportunities to the unemployed. In researching and understanding any phenomenon of an economic nature in South Africa, it is crucial to review the history of the country in order to understand origins of the problem, and also to understand the environment and the decisions that have taken place to date (Kunene, 2014). The legacy of the apartheid era has had a significant impact on SMMEs of today as it gave most of the SMMEs enough freedom to own their businesses (Kunene, 2014).

The apartheid regime is usually held responsible for income inequality, is at the centre of the plight of stagnant SMME growth, as well as of the need to develop SMMEs in the country of South Africa (Kunene, 2014; Trewhela, 2010). When European colonists entered South Africa in the 1800s one of their intention was to gain access to the minerals that were discovered in this region, namely,

gold and diamonds(Kunene, 2014). At this time, European mining companies in South Africa were initiated. The companies were owned by Europeans, with local non-whites working in these mines for them. It may be said that this was indeed the beginning of modern capitalism (Kunene, 2014; Trewhela, 2010). The 'locals' who were known as the black South Africans had in reality been forced to be labourers, rather than being allowed to own the enterprises. The locals were made to suffer by working hard in their own country, with the Europeans enjoying their mineral resources (Kunene, 2014).

In the 1940s, when the Afrikaner government took over the country from the English, their racially charged legislation was named apartheid (Kunene, 2014). The apartheid system oppressed the locals by stripping them of certain rights or assets or limiting their ability to own businesses and to receive the best quality education (Kunene, 2014). This action ensured that indigenous people remained as unskilled labour of South Africa (Chalera, 2007; Kunene, 2014). The international community then intervened; this resulted in the United Nations (UN) in 1962 ordering sanctions against the South Africa (Chalera, 2007; Kunene, 2014). This action by the UN and many other efforts from various organisations around the world as well as within South Africa prompted the end of the apartheid regime and the rise of the New South Africa, 49 years later (Chalera, 2007; Kunene, 2014). The prevailing political situation led to the ANC (African National Congress)'s assuming power. The ANC, previously a banned party under the old regime became the leaders of the new South Africa. According to (Chalera, 2007; Kunene, 2014) the effect of the apartheid past has left the country struggling: there were abnormally high levels of inequality, that was often racially influenced. Marcelle (2010), as cited by Soni, Cassim & Karodis (2014), reiterates (Chalera, 2007)'s viewpoint, adding that the ANC government as from 1994, after 49 years of racial and inequality injustice, was and is still faced with 'a plethora of challenges associated with a poorly performing economy' as revealed by this literature (Kunene, 2014).

It became clear that in the process of South African transition, the country would be in need of policies and strategies that would promote the growth of SMMEs, at the same time concentrating on the previously disadvantaged (Kunene, 2014). A policy of Black Economic Empowerment (BEE) was implemented, with the intention of bridging the inequality gap. Khula Enterprise, set up to support growth, was intended to develop BEE-owned SMMEs as a way of reducing the inequality gap (Kunene, 2014).

### **The Definition of SMMEs**

In focusing on this, the researcher has decided to define SMMEs in order to boost the strength of the explanation. Schumpeter (1934), one of the early modern researchers in regard to business, noted that small businesses contribute to the economic growth and development of any nation. In the 1970s small firms were often under pressure in the face of capital-intensive globalisation (Ferreira, 2007:23). Continuing the research on small businesses, government continues to focus on lack of entrepreneurial cultures, small business failure rates, and business skills (Ferreira, 2007:23). According to Bannock (1999) as cited by (Ferreira, 2007:24), government should unravel heavy compliance burdens and tax distortions.

Scholars Byrd and Qinsong (1990:189), as cited by (Ferreira, 2007:24), said that entrepreneurship is even more important in developing countries than in developed countries. Developing countries pay more attention to SMMEs than do the developed countries. Vosloo (1994:418) further stated that the importance of the entrepreneur is as follows: "People make things happen. Enterprise begins with people. Enterprising people gives rise to production, which in turn gives rise to employment. Without the spirit of enterprise as expressed in entrepreneurial activity, there can be no employment creating economic growth" (Vosloo 1994:418; Ferreira, 2007:24).

Various authors have given varying definitions of this category of business. In South Africa, the definition of SMMEs may be given in a number of ways; commonly by the size of the enterprise,

namely, the number of employees or turnover bands. Standard Bank of South Africa defines SMMEs as firms with a turnover of between R150 000 and R5 million per annum; and registered businesses with fewer than 250 employees (Falkena, 2012, Kunene 2014).

Section 1 of the National Small Business Act of 1996, as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act), officially defines a small business as: "... a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the Schedule14...".

Below is the definition of an SMME by the Department of Trade and Industry (DTI, 2014).

**Table 1.1: Defines the various categories of SMME as set out by the Department of Trade and Industry**

Categories of SMME	Description
Survivalist/Enterprises	Operates in the informal sector of the economy. Mainly undertaken by unemployed persons. Income generated below the poverty line, providing minimum means to keep the unemployed and their families alive. Little capital invested, not much assets. Not much training. Opportunities for growing the business very small.
Micro Enterprise	Between one to five employees usually the owner and family. Informal - no license, formal business premises, labour legislation. Turnover below the VAT registration level of R300, 000 per year. Basic business skills and training Potential to make the transition to a viable formal small business.
Very small enterprise	Part of the formal economy, use technology Less than 10 paid employees Include self-employed artisans (electricians, plumbers) and professionals.
Small enterprise	Less than 100 employees More established than very small enterprises, formal and registered, fixed business premises. Owner managed, but more complex management structure
Medium enterprise	Up to 200 employees Still mainly owner managed, but decentralised management structure with division of labour Operates from fixed premises with all formal requirements.
Note: Woment represent approximately 56 percent of the survivalist company category, 38 percent of micro-enterprises with no employees, and 15 percent of micro-enterprises with 1-4employees.	

Source: [http://www.dti.gov.za/sme\\_development/sme\\_development.jsp](http://www.dti.gov.za/sme_development/sme_development.jsp). Accessed Sept 2015

Saayman (1997:4) also agreed that, during the three decades prior to 1990, some of the East Asian countries such as China, Japan and South Korea, had extremely high economic growth rates caused by large, medium, and small entrepreneurial-driven enterprises (Ferreira, 2007). During the same time, South Africa was noted for poor economic growth rate, the main difference being that government had taken over the role of the entrepreneur in many of the African countries (Ferreira, 2007:24).

#### **Origin of the Business Support Centre (BSC), Pietermaritzburg**

The Business Support Centre (BSC) was established in Pietermaritzburg in 1996. It serves a number of municipalities within KwaZulu-Natal, including Msunduzi, uMngeni, Impendle, Mpofana, Umshwati, Mkhambathini, and Richmond (<http://pmbsc.dyndns.org/>). The BSC's mission is to link small enterprises to business opportunities in the mainstream economy, through

the provision of a one-stop development and support facility. This helps small businesses to maximise these opportunities provided by the BSC. Small businesses then realise that networking and connection plays a large role in supporting their businesses (<http://pmbbsc.dyndns.org>).

Perhaps the pinnacle of the BSC's efforts is the number of jobs that are being sustained and created every day as a result of contracts secured from both private and public sectors, as well as through business linkages and loan facilitation. Mostly, these small businesses also help in creating employment; for this reason they are said to be players of major roles in the economy (Dobbs & Hamilton, 2007). Much employment is only of short term duration; however, jobs provide food for many families during their tenure. It is therefore imperative that BSC does its best to help small businesses become sustainable.

The vision, mission, objectives, board members, core businesses, projects, and roles can be found on their website (<http://pmbbsc.dyndns.org>)

The next section describes some external factors that small businesses do face.

### **The Importance of SMMEs**

Small businesses also contribute to the growth and change of a nation. The belief during the 1970s was that the role of small firms would go on diminishing indefinitely in the face of capital-intensive globalisation and government focus on issues such as inadequate entrepreneurial cultures, business skills, and small business failure rates (Ferreira, 2007).

(Ferreira, 2007) further stated that the role of small businesspersons has been completely ignored for decades, citing several authors. According to (Mantle et al., 1992:12-13) as cited by (Ferreira, 2007), the following are advantages of small businesses:

- The SMME sector is more labour-absorptive than other sectors;
- The cost of creating a job is lower than in the large enterprises;
- SMMEs allow for more competitive markets;
- SMMEs can adapt more rapidly and often use local recycled resources;
- Fewer skills are required in some cases; and
- SMMEs play a vital role in technical and other innovation.

### **Economic and Social Factors in South Africa which affect small business**

South Africa has attempted to implement various types of strategy for the purpose of increasing the employment rate and the overall enhancing of the economy (Ferreira, 2007). Some SMMEs have had a feeble beginning; others have failed and are no more in existence. Some of the more popular strategies put in place to help SMMEs are SDI (Special Development Initiatives); ASGISA (Accelerated Shared Growth Initiative South Africa); NEF (National empowerment Fund); and GEAR (Growth Employment and Redistribution Strategy) Mahadea (2009). All these strategies employed the concept of SMMEs.

It has been observed that, to run a business which survives, the presence of important infrastructure are needed (Ferreira, 2007). Most SMMEs in South Africa suffer from underfunded and crumbling infrastructure which must be provided by the government. Such infrastructure is costly for small businesses to acquire or maintain, for example, electricity, telephone access, business sites or premises, funds for rent, inter alia (Ferreira, 2007). Government intervention has not successfully solved these problems for small businesses. One of the major problems of small businesses is that, once they are able to access funds from the government, funds are never sufficient for their needs (Ferreira, 2007). Starting up a small business in a city or sizeable community involves a large sum of money. This has encouraged small businesses to operate in areas out of the major cities. This has cost implications in the form of transportation. Most potential entrepreneurs are struggling to make a living; they have limited funds for expanding their businesses. This is also a serious problem: they are willing to expand and even employ citizens, however, they have financial constraints.

Another issue is that, for small businesses to grow and have core capacities, they must have access to qualified skilled labour that will help in their day-to-day business. With the challenge of accessing funds, it is difficult for these small businesses to hire qualified employees. According to Fatoki and Garwe (2010:732), labour or employees can only be employed at a cost within the agreed labour regulations, i.e., employment and minimum wage regulations. Some small businesses are willing to employ more staff; however, based on this regulation, their resources would not be able to accommodate more staff. This can have a negative effect on the performance of such small businesses.

According to (Tshabalala, Rankhumise, & Rubens, 2010), the economy may be deteriorating further because of the economy crisis in the global markets and the continuing increment of interest rates. Small businesses are affected by this—it tells on their operation. Most small businesses are owned by black Africans who are operating in a rapidly changing environment. The fluctuations in the rapidly changing environment also affect these small businesses. Small businesses feel the impact more than the larger businesses, finding it difficult to respond to the rapid change, owing to lack of finance on their part.

(Tshabalala et al., 2010) further stated that the interest rate, exchange rate, and competition affects the achievement of small businesses; these influences are experienced globally. (Tshabalala et al., 2010) concluded that the government should consider how they can influence the Reserve Bank of South Africa, reducing interest rates so as to reduce the pressure on small business owners. This will improve confidence in their businesses. Government should not only focus on funding small businesses, but also help them to reduce the challenges they are facing with government regulations such as interest rates, amongst other obstacles. All these external forces should be dealt with so that small businesses will have to face only their internal shortcomings. FinMark Trust (2006) agreed with this, saying that government should seek to offer tax incentives to stimulate the supply of capital from friends and family, which (after own savings) is the most important source of start-up capital. These factors also affect small business and mostly, it cannot be controlled by these organisations.

### **Concept and History of Government Support to Small Businesses.**

The South African government emphasises the building of operational assistance by providing individuals with a well-thought-out framework for the necessary skills to improve their operations. (Mago & Toro, 2013) stated that a well-designed framework is needed when government interacts with micro-enterprise owners, providing them with basic foundational support through its existing agencies. Furthermore, government support is defined as government commitment to providing growth and development through its policies and establishments.

Since 1994, the South Africa government has been faced with steep challenges of reintegration into the global economy, as well as being positioned to fulfil the high expectations that come with the new democratic order. In its mandate to attain the goals of economic growth, such as improved income distribution, development, and policy, attention has increasingly been focused on the promotion of the country's small-, medium- and micro-enterprise (SMME) economy (Kesper, 2001).

The influence of the small business sector is recognised in economies worldwide. Support provided by the government can enable small businesses to improve the quality of their products and services; to improve their ability to compete effectively internationally, and to empower them to access funds from the formal banking sector (DTI, 1996a:15). The policy has been developed as a result of shrinking job opportunities in the large business sector, which has forced the government to focus on small businesses in the formal and informal sectors, for employment creation. Beyene, (2002) highlighted that in South Africa, the private sector is underdeveloped: SMMEs could play a critical role in simulating development, alleviating poverty, and contributing to the growing percentage rate of employment in South Africa. In common with many countries in the developing

world, post-apartheid South Africa has been at the forefront of the development and implementation of a set of pro-SMME policies (Rogerson, 2001).

Chalera, (2007) observes that these challenges are more prevalent in rural communities. SMMEs should be empowered to help solve some of these challenges in South Africa. South African SMMEs are diversified, operating in different industries, including retailing, wholesaling, tourism, mining, farming, manufacturing, construction, and other services. Similar to SMMEs in other developing countries, SMMEs in South Africa also face challenges that affect their growth and survival.

### **The Structure of Support programmes for SMMEs in Developed Countries**

The political support stemming from the post-apartheid era has paved the way for legislation, policy, and strategy direction. This has led to South African legislation setting national objectives for SMMEs. Many forms of South Africa government legislation give evidence of South Africa's pledge to develop a supportive environment within which SMMEs may prosper. SMMEs can have an excessive socio-economic significance in closing the gap of inequality present, alleviating poverty, and creating employment. In reaction to facilitating the growth of small businesses, the Centre for Small Business Promotion (CSBP) of the Department of Trade and Industry (DTI) and the National Small Business Council (NSBC), as well as other developmental agencies, were established to drive the National Small Business Strategy. It was expected from these DTI programmes and other programmes administered by their apex institutions, Khula (credit) and Ntsika (now Small Enterprise Development Agency (SEDA) - training), to build the technical and financial capacity of small-, medium- and micro-sized enterprises. Department of trade and industry is one of the government initiatives that has been set aside to help small businesses to be sustainable.

### **Department of Trade and Industry (DTI)**

The DTI role is to coordinate all the SMME policies and business support agencies in South Africa. The DTI's responsibility is to the small business strategies pursued by provincial governments within the framework of a national policy (DTI, 1996).

The DTI, in partnership with the National Small Business Corporations (NSBC), Small Business Development Agencies (SBDA), and the provincial SMMEs has planned and implemented support strategies for the development and support of SMMEs in the country. The DTI has designed eight incentive schemes to support registered SMMEs in the country (DTI, 2004), namely:

- The standard leased factory scheme;
- The small/medium manufacturing development programme;
- The economic empowerment scheme;
- The venture capital scheme;
- The normal finance scheme;
- The import finance scheme; and
- The short-term export finance guarantee facility.

DTI agencies or Council of Trade and Industry Institutions (COTII), include the following:

1. Small Enterprise Development Agency (**sed**a) (Now with Department of Small Business Development);
2. Companies and Intellectual Property Commission (CIPC);
3. Companies Tribunal (CT);
4. National Empowerment Fund (NEF);
5. Export Credit Insurance Corporation of South Africa SOC Limited (ECIC);
6. South African Bureau of Standards (SABS);
7. National Credit Regulator (NCR);
8. National Lotteries Board (NLB);
9. National Gambling Board (NGB);

10. South African National Accreditation System (SANAS);
11. National Consumer Tribunal (NCT);
12. National Consumer Commission (NCC);
13. National Metrology Institute of South Africa (NMISA); and
14. National Regulator for Compulsory Specifications (NRCS)

### Research Population and Sample Size

The research design adopted is quantitative method backed up with an overall interview with the General Manager of Business Support Centre (BSC). The research methodologies used in this research are a questionnaire survey and one personal interview. The area of study for this research will be Pietermaritzburg, in KwaZulu-Natal, South Africa. The researcher has considered all small businesses registered with the Business Support Centre in Pietermaritzburg.

The comprehensive list of all businesses registered with the Business Support Centre in Pietermaritzburg may be found in author's Ph.D dissertation entitled: *Strategic Innovation as a tool for improved performance amongst small businesses. A case study*. Population size is all small businesses registered with the Business Support Centre. The study took a census study.

Sampling procedure took a census study as it comprised of all businesses registered with BSC. (Babbie, 2007; Creswell, 2009).

The main focus of the data analysis is on the themes and patterns from the underlying information, the data collection being both qualitative and quantitative. Data was collected, analysed, and interpreted, in an iterative process. This inductive procedure conforms to the whole approach. Issues revealed in the beginning of the research guided the later data collection, testing and analysis. For the data analysis and interpretation, a broad style of system tools will be employed (Creswell 2009).

Questionnaires require collation of data, codification of data, and statistical analysis of the data. After obtaining the results, interpretation, and analysis of the results was conducted. Interview: these was transcribed themes across interviews, the significance and meaning was interpreted. Verifying and sharing of findings was conducted after all research had been completed, in order to provide adequate feedback to the small and micro businesses on how they might improve based on external challenges.

**Table 1.2 Reliability test.**

Reliability Statistics		
Construct	Cronbach's Alpha	Number of Items
Innovation Strategy	.706	4
Innovation Management	.930	6
Innovation Result	.919	9
Critical Action for Firm	.815	6
Organisation's Innovative Position	.856	6
Problem of Business Growth	.858	9

The nine items measuring problems of business growth amongst small businesses in operating within the Republic of South Africa yielded a Cronbach's alpha of 0.858. Judging from the foregoing, one may conclude that all measurement instruments used in this study are reliable, based on the results of the statistical analysis. Based on the above, the data I am about to present is valid.

### Business Characteristics of Small Businesses registered with the Business Support Centre (BSC)

The following section will include a discussion of a range of the demographic characteristics of small businesses which were included in the survey. These demographics include education

background, gender and age characteristics. These findings were derived quantitative analyses of the questionnaires conducted at Business Support Centre (BSC). The results are presented below.

### Level of education

The level of education was also examined in order to provide insight as to whether the level of education of the business owner does affect the level of performance for small businesses. As is evident in Table 1.3 the level of education often business owners within eths ample are low. More than half the respondents have failed to complete high school, with a very small portion gaining a university education. This indicates that the people in control of these small businesses have little formal education in relation to business ownership, management and successful sustainability.

**Table 1.3 Level of Education**

Level of education	No of people
Below Matric	27
Matric	13
Diploma	6
Bachelors degree	4
Honours degree	2
Masters decree	1
PhD	0
<b>Total</b>	<b>53</b>

According to (Rothaermel 2015), most policy analysts have noted entrepreneurship education as among the most important policy instrument for enhancing entrepreneurship or small businesses. The 2009 GEM report, as cited by (Rothaermel 2015), concluded that entrepreneurship education is crucial in developing new entrepreneurs in the country. Such education has been poorly conceptualised; educational polices implemented have an impact on business efficiency in the SMME sector.

It would be encouraging should higher institutions be offering entrepreneurship modules, training the upcoming or potential entrepreneurs on how they can make a success of their ventures. This point was also stated by (Isaacs, Visser et al. 2007), who observed that 60% of high schools do not offer entrepreneurship exposure to students, despite its being a learning outcome of the Economic and Management Sciences' curriculum. Kabongo and Okpara (2010), as cited by (Rothaermel 2015), who investigated entrepreneurship offerings in higher education institutions in sub-Saharan African Universities, noticed that most of the 58 universities investigated through an online assessment, offer courses in small business management or entrepreneurship; however, few offered specialisation in entrepreneurship.

Education also plays a major role in building up potential entrepreneurs for starting up their businesses. Scholars therefore argue that it is advisable to start teaching small business management at higher institutions Soni (2014). Without education levels this high, the businesses in the sample do not have the benefits which are potentially gained through tertiary-level and sustained access business-related education.

### Gender

From the survey above differentiating the gender, the major respondents were male, approximately 60% of the total participants, while 40% the study participants were female. The pie chart (Figure 1.1) below, represents the respondents sampled in accordance with gender. The reason why males are more than female is because of the sector they work in. Most male here work within the transportation sector, security sector and manufacturing sector and have higher numbers of people involved in these businesses, while females were basically working within the catering and cleaning sectors that were included within the sample.

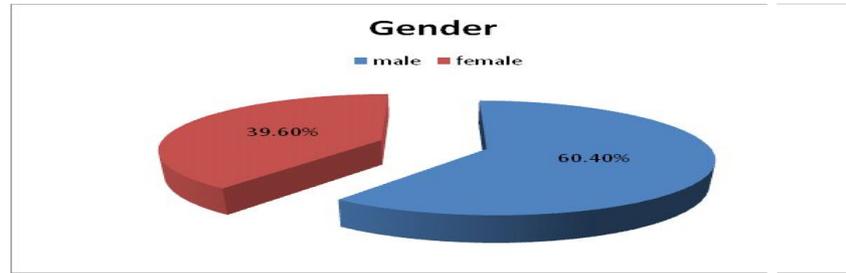


Figure 1.1 Gender

### Age

From the survey results presented below, differentiating the age groups among the respondents, 50.9% fall into the age group 31- 40 years; 47.2% fall into the age group 41- 50 years; while 1.9% fell between the ages 51- 60 years.

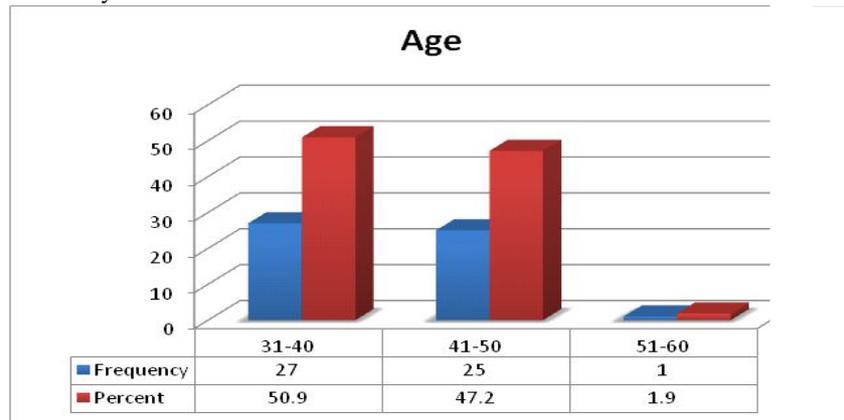


Figure 1.2 Age

The bar chart above represents the respondents sampled in accordance with age. Age also plays a major role in small businesses because some work requires effort by younger aspiring business owners and other companies will do best under the management of an older person who has more business experience to apply to a small business (Saunders, et al., 2009; Sekaran & Bougie, 2009). What is evidenced by the results is that the bulk of businesses are owned by people in the heart of their working years and are not frequently run by older members of family or owners who have only begun their businesses after a long period within other employment. This speaks to the need for building expertise within businesses and raises concerns in regard to the long term experience of business owners in regard to addressing internal and external factors of business success through strategy and innovation.

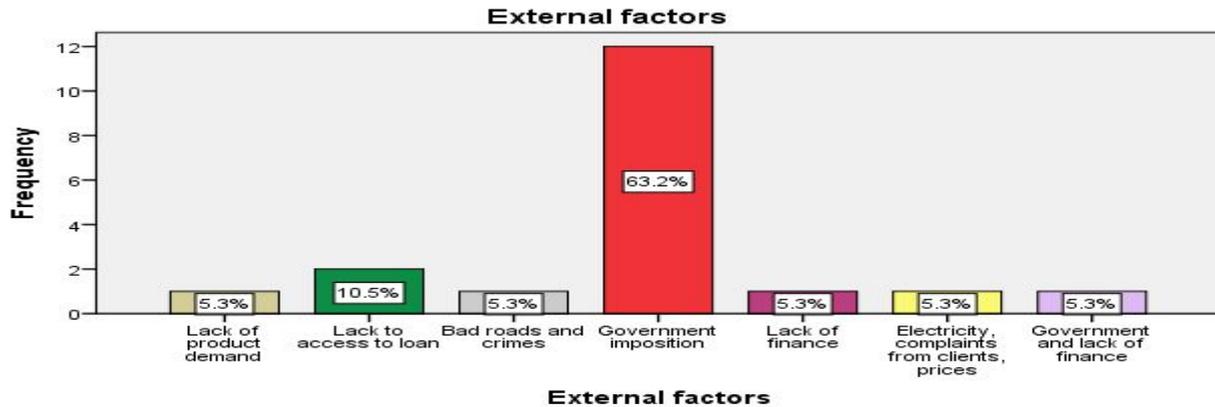
### External Factors in relation to the study.

a) According to (George. Root III, 2015) the external environment of an organization are those problems that emerge from outside of the organisation that affect the company's ability to function properly. Some of these external forces can be manipulated while the organisation can adjust to other external force (George Root III, 2015). Once an organisation can monitor the trends of the actions of external forces, then it helps them to adjust accordingly (George. Root III, 2015).

The objective of this study is to highlight knowledge on the impact of external factor(s) on small businesses.

Through the questionnaire, the respondents were presented with several external factors from which they selected. The following percentages reflect the various types of external forces faced by their organisation. Lack of product demand was cited in 5.3% cases; 10.5% represents lack of access to a loan; 5.3% represents bad roads and the crime-rate factor; 63.2% represents government

imposition; 5.3% represents lack of finance; 5.3% represents electricity complaints from clients together with costs thereof; lastly, government neglect and lack of finances was cited.



**Figure 1.3 External factors**

External factors are factors that arise from the external environment of an organisation and are uncontrollable by businesses. From the above bar chart various external factors may be observed that small businesses indicate as problems. The main problem is seen as government imposition as per tax issues and governmental rules and regulations. According to (Everett & Watson, 1998), there are three categories of risk applicable to small business owners setting up in businesses. These are the economy-based risk, reflecting the economy in which the organisation operates. Another risk is industry based. This refers to the main industry within which it operates. Lastly, there are the firm's risks, which are the risks involved within the firm or organisation itself. Government imposition is the major external factor faced by small businesses. As seen on the bar chart above, 63.2% of the total respondents agreed on this factor. According to (Porter & Kramer, 2011), small businesses are the backbone of any given economy. Government should make allowances for small businesses before imposing taxes on them.

Also from the above chart, government imposition appears as a major external factor confronting small businesses. Some businesses complained about the Value Added Tax (VAT). Others complained about the excise duties, coupled with other forms of taxation. There is also government imposition affecting sectors of the business, for example, in the agricultural sector, as well as the sector concerned with fast-moving consumable goods.

Another aspect which gave cause for complaint is lack of access to loans. Some businesses have good ideas yet lack the funding to execute such business ideas. Lack of product demand is, furthermore, one of the factors affecting small businesses. Every potential small business must effect research on the most efficient way of rendering good service or quality products demanded by consumers. Such services and products will be sought after by consumers.

From the chart above, it was evident that other factors like lack of product demand, lack of access to loan, effect of bad road and crime rate, lack of finance, inadequate electricity are also seen as external challenges. Failures cannot be completely avoided; however, the main aim is to reduce these failures to the barest minimum (Everett & Watson, 1998). The discussion here basically looked into the highest percentage related to a concern on an external factor - which is government imposition.

The respondent interviewed gave her response apropos of government issues as an external factor towards the small businesses. The interviewee's main concern and argument an external factor that small businesses do face is the issue of government imposition. In her response, she mentioned government as one of the external forces that affects the small businesses. She further explained that governments do need to build the foundation of small businesses/entrepreneur. Government needs to set precedence for small businesses. The respondent (General Manager, Business Support Centre)

further answered the next question about her awareness of government initiatives and policies that can be beneficial to small businesses. She stated that there are some of these that government has ventured into, e.g. Seda (owned by govt); meaning small business should go to Seda for consultation;

*“The question is what service is Seda giving to people? Small businesses are meant to open or register their companies through Seda. They can apply for funds etc, but it’s not happening. The turnaround time is not quick. The policies are there but government didn’t roll them out correctly”*(Sept 2014).

Basically as seen above that its not only lack of access to funds that small business do face externally, but also the different government impositions that affects the small businesses. Strategically, these government initiatives or other organisation that helps these small businesses should come together and see into the imposition of government on these businesses. The effect these government imposition can be reached through these small businesses, and this will give a good result for concluding and advising the government appropriately.

To further boost this outcome, the General Manager of BSC further stated that Government does need to build the foundation of small businesses/entrepreneur. Government needs to set precedence for small businesses. Giving tenders to unqualified people or organisation is also seen as one of the major challenges that small businesses do faced with the Government.

Government imposition or action is one of the major challenges that small businesses face and government should be able to give tenders to small businesses so as to encourage them. The next heading explains the internal factors that small businesses do face based on the findings from the survey.

#### **Some external factors that small businesses do face.**

According to (George N. Root III, 2015) the external environment of an organization are those problems that emerge from outside of the organisation that affect the company's ability to function properly. Some of these external forces can be manipulated while the organisation can adjust to other external forces (George N. Root III, 2015). Once an organisation can monitor the trends of the actions of external forces, then it helps them to adjust accordingly (George N. Root III, 2015).

The main problem is seen as government imposition as per tax issues and governmental rules and regulations. According to (Everett & Watson, 1998), there are three categories of risk applicable to small business owners setting up in businesses. These are the economy-based risk, reflecting the economy in which the organisation operates. Another risk is industry based. This refers to the main industry within which it operates. Lastly, there are the firm’s risks, which are the risks involved within the firm or organisation itself.

The external forces considered in this thesis are lack of product demand, lack of access to loans, the effect of bad roads and a high crime rate, lack of finance, and inadequate electricity.

#### **Overall conclusion**

- Government must build the foundation of small businesses/entrepreneurs: government must prioritise the needs of small business, for instance, in offering of tenders;
- Government has some initiatives in place; however, not yet rolled out correctly: e.g. the Small Enterprise Developmental Agency (SEDA). SEDA was established to help in registering small businesses, also providing consultation and mentoring for them. However, this is not being rolled out as quickly and efficiently as intended. This is in part because initiatives must still be polished, with small business owners being properly advised on how best to move their new businesses forward;
- Government must create more organisations that motivate or assist small businesses. The lack of registration of businesses is daunting. This process should be simplified and be affordable, to encourage more potential small business owners to establish a business.
- Collaboration may be a sustainable plan for companies that help small businesses;

- The Business Support Centre is currently submitting an application for incubators; on approval, these will be put to use in small businesses;

### **Recommendation 1**

There should be a prerequisite for opening up a business. A business should not randomly be allowed registration. The whole business proposal should be scrutinised and approved by experts. Prospective small business owners must have a firm and feasible plan in mind before attempting to register the business. Small business owners should be encouraged to be realistic in their approach, tackling only what they can meet. Procedures on the registering of businesses, together with expert monitoring, should be mandatory for such businesses.

### **Recommendation 2**

More business links that can help small businesses should be established. Such business links should be able to subsidise the cost of training and development, together with any costs incurred which enhance the performance of the small business.

### **Recommendation 3**

From the current study, the researcher gathers that not all small businesses are au fait with suitable management of funds. Some companies mismanage the company funds, spending it on personal needs. There must be an understanding of how to allocate business funds. The likes of BSC and SEDA as business support organisations are able to assist in this regard.

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