

# **Successes and Challenges of the ECDC as Perceived by SMMEs in the OR Tambo District Municipality**

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**A research report submitted to the Faculty of Commerce, Law and  
Management, University of the Witwatersrand, in partial fulfilment of the  
requirements for the degree of Masters of Management in  
Entrepreneurship and New Venture Creation**

**Johannesburg, 2012**

## **ABSTRACT**

South Africa, like most developing countries, has one of the highest levels of unemployment. Within South Africa's borders the highest levels of unemployment are found in areas of the Eastern Cape Province, which is one of the poorest provinces. In these areas, Small Medium Micro Enterprises (SMMEs) have grown out of the necessity for employment. For these SMMEs to succeed, good support programmes from development agencies is vital. It is also important that the recipients of the support perceive this support to be meeting their needs. This research surveyed the perceptions of Eastern Cape Development Corporation (ECDC) supported SMMEs regarding the support services they received in the OR Tambo District municipality. The findings confirmed that the SMME entrepreneurs surveyed perceive the ECDC's financial and non-financial support as particularly instrumental in helping them start up their businesses. The biggest perceived challenge is that ECDC does not have enough programmes to help SMMEs to grow beyond start-up stage. Furthermore, the SMME entrepreneurs are dissatisfied with the quality of service they receive from ECDC employees. The lessons of this study are that the SMME entrepreneurs realise the important role that ECDC plays in contributing to their business success. They also believe that ECDC has to evolve constantly with the times by having programmes targeted at start-up businesses, strengthening existing businesses, and growing established businesses to higher levels. The study results suggest that ECDC needs to improve on the quality of their programmes to meet the needs of all types of SMMEs, create more awareness about its programmes, but most importantly, ECDC needs to equip its employees with the skills to support SMMEs of various backgrounds.

## DECLARATION

I, Tulisiwe Buyisiwe Lungisa Mkatshwa, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

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Tulisiwe Buyisiwe Lungisa Mkatshwa

Signed at: Parktown

On the: 21 day of March 2012

## **DEDICATION**

This research paper is dedicated to my late parents. My father Dickson Ngxola who passed away when I was 5 years old and my mother who passed away on 5 June 2006. She was a mother, father, sister, brother and friend. I am grateful to her for making me the person I am today.

## **ACKNOWLEDGEMENTS**

I am grateful for the support and step-by-step guidance received from my Supervisor, Director: Master of Management (Entrepreneurship and NVC) at Wits Business School, Prof Boris Urban.

Thank you to Dr Gordon Shaw for helping me make contact with ECDC.

I thank my family for their encouragement and prayers throughout my studies. Special thanks goes to my uncle Dr De La Rey Mkatshwa and my aunt Mrs Nombulelo Mkatshwa who helped me tirelessly with the challenging job of data collection.

This research would not have been possible without the approval from the management of ECDC. Special thanks go to the ECDC team who helped me complete this document.

Without the cooperation of the SMMEs, this research would not have been possible.

Thanks to all my friends for their support and encouragement.

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# **1 CHAPTER 1: INTRODUCTION**

## **1.1 Purpose of the study**

OR Tambo District Municipality (ORTDM) is situated in the former Transkei homeland, on the eastern side of the Eastern Cape Province. This municipality is the most impoverished and severely underdeveloped area of the province, having inherited the consequences of the apartheid government's 'homeland' policy. The lack of infrastructure in the ORTDM and its dependence on agriculture and tourism stands in stark contrast to East London and Port Elizabeth, the province's modern, big cities with growing automotive industries. Thus new business development is crucial for the survival and growth of the ORTDM.

One of the Eastern Cape's key support structures of Small Medium and Micro Enterprises (SMMEs) in the province is the Eastern Cape Development Corporation (ECDC). Established by the Eastern Cape Department of Economic Affairs, it is a wholly-owned entity of the Eastern Cape Provincial Department of Economic Development and Environmental Affairs, and is the official economic development agency for the Eastern Cape Province. The ECDC has indicated its vision and mission statements as developed within the frameworks of the national and provincial government, and are aligned with the Eastern Cape Provincial Growth and Development Plan (PGDP) which fall under the Department of Economic and Environmental Affairs. ECDC Annual Report (2009/10).

For the support services of the ECDC to be optimal for the development of SMMEs in the municipality, there needs to be a positive relationship between the support structure and the SMMEs. However, the perceptions of the SMMEs of the ECDC have never been surveyed. Thus the objective of this study is to analyse what the ECDC-supported SMMEs in the ORTDM consider to be the successes and challenges of the support they receive from the ECDC.

The focus of the study is on the SMME recipients' perceptions of the programmes provided by the ECDC and the quality of service they receive from the ECDC personnel. The ECDC will then have empirical evidence of the concerns of the SMMEs it supports.

## **1.2 Context of the study**

As a relatively new democracy with social challenges impeding economic growth, South Africa has the responsibility to stimulate enterprise development. The high unemployment rate has led to an increase in the number of citizens that are highly dependent on government grants, particularly in the rural areas (Chiles, Bluedorn and Gupta 2007). Enterprise development has the potential of creating job opportunities and alleviating poverty and eventually stimulating economic growth in these rural areas.

Herrington, Kew and Kew (2008) state that historically in South Africa, Gauteng was the most entrepreneurially dynamic province followed by the Western Cape and KwaZulu-Natal (KZN). All three provinces accounted for two-thirds of early-stage entrepreneurial activity in South Africa with Mpumalanga and the Eastern Cape the two lowest-ranked provinces. The authors further assert that since 2008, Gauteng moved from being an opportunity-driven entrepreneurship province to a necessity-driven entrepreneurship province, a phenomenon attributed to decaying infrastructure, high transport costs, successive waves of migration from rural areas and neighbouring countries, and the retrenchments of the city's traditional employees.

The need to deal with these social and economic challenges has led to the birth of government enterprise development programmes, whose aim is to support new ventures and to develop existing ones to improve the lives of citizens (Bosma, Acs, Coduras and Levie 2008). This has proven successful in many developing countries, particularly where there is evidence of growth of SMMEs which have been successfully supported by development agencies (Herrington et al. 2009).

This study focuses on the ORTDM as it is among the poorest district municipalities in the Eastern Cape, with a very high level of unemployment, lack of employment opportunities and large numbers of people retrenched from mines. This situation has given rise to a number of necessity-driven entrepreneurs.

In necessity-driven entrepreneurship, some of the unemployed people start their own businesses for survival, but in some cases, because of the lack of professional business support (Karumbidza 2009). In recognition of this need to support entrepreneurs and reduce unemployment levels, the government has introduced enterprise development programmes with organisations such as the ECDC, Small Enterprise Development Agency (SEDA), and business incubation programmes.

### **1.3 Problem statement**

In South Africa, the entrepreneurial environment is seen as generally mediocre. The most negative assessments cluster around the areas of government programmes and policies, school entrepreneurship, education and training and research and development transfer (Herrington et al. 2008).

The Eastern Cape has more challenges affecting the entrepreneurial environment than many of the other provinces in the country. It is considered as the country's most impoverished area having inherited the consequences of the apartheid government's 'homeland' policy. The province comprises two areas: one of severe underdevelopment and lack of infrastructure in former homeland areas including ORTDM, and the other areas driven by the modern, growing automotive industry in the big cities of East London and Port Elizabeth.

The ORTDM is dependent mainly on agriculture and tourism, which are not sufficient for growth. New business and enterprise development is crucial for this municipality, and structures such as the ECDC have been established in the province by the Eastern Cape Department of Economic Affairs. For business and development to succeed, the contribution of the ECDC needs to

be efficient and effective, and perceived as such by the SMMEs requiring support.

To the knowledge of the researcher, there has never been a formal analysis of how satisfied SMMEs in the region are with the ECDC's services and support. However, research done elsewhere on the government development programmes paints a negative picture. The shortfalls highlighted by the Western Cape Status of the Youth Report (2008) include poor marketing of initiatives especially in rural areas, a focus on Gauteng with restricted access to government programmes in the remaining eight provinces, and a lack of qualified and experienced personnel, which usually leads to nepotism, corruption and prioritisation of 'jobs for buddies' above the need for competent managers and administrators. This has exacerbated the poor performance of a number of government programmes (Herrington et al. 2007).

A survey of SMMEs in this region will highlight the perceived successes and challenges of the ECDC. The results could assist in improving the programmes to encourage increased entrepreneurial activities.

### ***1.3.1 Purpose statement***

The purpose of the research is to measure perceptions of the level of support that ECDC-supported SMMEs receive from the ECDC in the ORTDM. It will also identify the perceived successes and challenges of the ECDC in terms of entrepreneurial growth of SMMEs in the region. It too will identify the personal factors that SMME entrepreneurs cite as motivating them to start their businesses in the region. Lastly, the research will highlight areas of improvement for the ECDC as perceived by the SMMEs.

### ***1.3.2 Research Questions***

The following questions are framed for the research to address:

1. What are the perceptions of SMMEs towards the ECDC with respect to:

- The ECDC's SMME programmes in terms of the relevance of the programmes for the needs of SMMEs (*henceforth referred to as the ECDC's SMME programmes*);
- The ECDC's communication in terms of feedback between the parties and the creation of awareness around the ECDC programmes (*henceforth referred to as the ECDC's communication*); and
- The ECDC's employees' quality of service delivered in terms of their dedication, training and understanding of programmes (*henceforth referred to as the ECDC's service quality*).

2. What are the areas of improvement that SMMEs in the ORTDM cite as important for the ECDC?

3. What are the motivators for the individual entrepreneurs of SMMEs in the ORTDM to start their entrepreneurial activities?

### **1.3.3 Hypotheses**

#### ***Hypothesis 1***

*The first hypothesis relates to the first Research Question:*

The majority of ECDC-supported SMMEs would consider:

- The ECDC programmes offered to SMMEs as positive;
- Communication and the ECDC's response to the feedback of SMMEs as positive;
- The ECDC employees' quality of service as positive.

#### ***Hypothesis 2***

*The second hypothesis refers to the third research question.*

The motivator most frequently cited by SMME entrepreneurs in the ORTDM for starting their businesses is necessity due to unemployment.

## **1.4 Significance of the study**

Not all SMMEs that receive development agency funding succeed. Some do not progress beyond incubation or start-up stage. It is the intention of this research document to identify what SMMEs perceive to be the successes and challenges of the ECDC in providing much needed services to entrepreneurs.

The study strives to determine whether the ORTDM SMME recipients of the support provided by the ECDC perceive this support as adequate for their needs. Thus the study will highlight the concerns of the ECDC supported SMMEs, and may serve as baseline research for the ECDC.

## **1.5 Delimitations of the study**

The focus of the research is limited to the SMMEs involved in the ORTDM only, and do not reflect the views of SMMEs in the rest of the Eastern Cape.



## 1.6 Definition of terms

SMME	Small Medium Micro Enterprises
ECDC	Eastern Cape Development Corporation
SEDA	Small Enterprise Development Agency
EFCs	Entrepreneurial Framework Conditions
ORTDM	OR Tambo District Municipality
TEA	Total Early-stage Entrepreneurial Activity
TRANSIDO	Transkei Small Industries Development Agencies
TDC	Transkei Development Corporation
SBC	Small Business Development Corporation
Entrepreneurs	Start up, existing and growing businesses, business owners
Perceptions	This refers to the perceptions that SMMEs have in relation to successes and challenges of the ECDC
Incubation	Organisations that provide protected environments for start-up businesses
Cluster	These are groups of entrepreneurs from different entrepreneurial activities who meet on a regular basis to share ideas
Opportunity- Spotter	Entrepreneurs found in efficiency-driven economies where entrepreneurs identify opportunities as a result of industrial and manufacturing growth
Survivalist	Entrepreneurs found in factor-driven economies that are dominated by agriculture and few industries. The surpluses of unemployed communities in the industrial areas start their businesses out of the need to survive
Shebeen	A South African slang referring to an informal pub found in a township
Aftercare	Post funding support to capacitate beneficiaries of funding

Front-Facing employees	Employees who are the first point of contact in dealing with customers and stakeholders
Gini-coefficient	The indicator of inequality within an area
GDP	Gross Domestic Product

## 1.7 Assumptions

The ECDC is one of the biggest players in economic development in the Eastern Cape Province as identified by the provincial Department of Economic Development. The assumption was that most SMMEs would be satisfied with the contribution of the ECDC in entrepreneurial development and that the ECDC would be a benchmark for other SMME development corporation and agencies.

SMMEs that have long-term experience in running their businesses can easily identify the ECDC's strengths and weaknesses as they would have dealt with this or similar organisations in the past. Their experience would have taught them the basics of what works and what does not work in the development of a business. This would make them more knowledgeable when completing the questionnaire and more likely to expect that the ECDC would use the results to make improvements.

New entrepreneurs, on the other hand, may not have much experience and as a result may not provide much feedback. They may have been satisfied with whatever level of service they received, or they may have had unmet expectations and been dissatisfied. This may have encouraged or discouraged the entrepreneurs from participating in the research.

Lastly, despite the fact that confidentiality of the respondents' identity was assured, some entrepreneurs may not have been willing to participate in the survey due to a perceived fear of victimisation if they gave negative feedback about the ECDC.

## **2 CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

The literature review will help give an understanding of SMME development and the role of enterprise development in economic development. This background will help shape the direction of the research and the findings thereof.

The review will also give background to the province of the Eastern Cape prior to democracy and post-1994. This background will help introduce the ORTDM and how it fits within the province and the objectives of the study.

A section of the literature review will also focus on the theories about SMME development and highlight the ones relevant to the objectives of the study.

Further discussions will focus on government policy around SMME development and an assessment of the policy thus far. To provide further background, a focus on two SMME development programmes, the ECDC and SEDA as examples of government intervention in the province will be included.

The role of entrepreneurship and SMME development in relation to economic growth will also be a focal point, looking at the current economic environment, as well as the social challenges in South Africa in general. These include the implications of the economic meltdown on employment levels, as well as the development of the informal SMME sector as a result of the high unemployment rate.

This section will end with highlighting the characteristics that lead to the success and failure of SMMEs as well as a focus on programmes that are considered to contribute to the success of SMMEs.

### **2.2 History of the Transkei Homeland**

Homelands came about as a result of the apartheid government's need to separate black South Africans from their white counterparts. To be able to

divide and rule black South Africans, they were allocated separate pieces of land based on their ethnic background in “their own areas of liberty” (Stultz 1980, p. 6).

Transkei was the first of all the homelands to be given self-governance and subsequent independence in 1976. It was one of the reserves for the South African economy to obtain cheap labour while maintaining control over the movement of black people. As Southall (1982) indicates, Bantustans were subject to consistent underdevelopment and they were forced to sell their labour as migrant workers to the centres of production in areas such as the South African mines.

In addition to selling their labour, Giniewski cited by Stultz (1980, p. 9) indicates that the ports, mines and cities which were valuable commercial resources and ‘Jewels’ of the country remained in the hands of the white South Africans while the blacks received compensation for this in the form of the initial capital for the industrialisation of the reserves

According to Southall (1982), black economic enterprise development was promoted through the Xhosa Development Corporation (XDC) and the Bantu Investment Corporation (BIC), but was limited in such a way that it did not present a threat to the white industry; as a result agriculture was the major part of the economy although it also was of inferior quality

The author further states that under the control of the South African government at the time, sustainable enterprise development was not intended to be a priority for black entrepreneurs in the Transkei and other homelands.

Even though homelands achieved ‘independence’, their leaders still took direction from the apartheid government. This arrangement worked well to meet the objectives of the South African government. In his foreword message on the eve of the independence of Transkei, the then Prime Minister B. J. Vorster said “I believe that all will be well with Transkei ... I believe the friendly relations which have always existed between Transkei and the Republic of South Africa

will be maintained and even extended after Transkei becomes an independent state” (The Republic of Transkei 1976, Foreword).

### **2.3 The Eastern Cape Province After 1994**

According to the Eastern Cape Development Corporation, The Eastern Cape is the second largest of South Africa’s nine provinces, covering around 14 per cent of the country’s land mass. Some 65 per cent of the province’s 6.9-million people live in rural areas. Most of the remaining population live and work in towns and cities, especially the two main cities of Port Elizabeth and East London. Two-thirds of the population lives in the former homeland areas of the Transkei and Ciskei (ECDC 2010).

It was only after the first democratic, national elections of 1994 that these homelands were absorbed back into South Africa. While the new South Africa brought in a lot of changes and opportunities for the former homeland citizens, research shows that the legacy of apartheid persists, even today. The biggest challenges include the high unemployment rate - mostly caused by mine retrenchments, poor infrastructure, high rates of crime, and HIV/Aids infection. Recent media reports indicate that even the larger cities with their big factories are not able to accommodate the high demand for employment. In fact, a lot of them are downsizing for reasons ranging from economic challenges to labour laws considered to favour employees more than the employers (Venter, Urban and Rigwema 2008).

A lot of the unemployed people start businesses, depending on the availability of resources; with some starting businesses to survive and others by spotting opportunities. The survivalists are the ones who’re more prevalent in these homelands because among other reasons, the unemployment rate in the former homelands is high. A lot of opportunity spotters tend to look for opportunities in the cities, and leave the homelands to the survivalists (The Small Business Monitor, 2009).

It is with this background in mind that the development programmes of SMMEs can be appreciated. The social challenges in these homelands call for more emphasis on encouraging communities to be more entrepreneurial than dependent on formal employment. Informal reports indicate that a large number of families depend on resources such as child grants, old-age pension grants etc. The government realises the cost of this dependency not only in the former homelands, but throughout the country, hence the focus on enterprise development. The question however is how much impact these interventions have. Are the government and other stakeholders getting anything out of the enterprise development policies and interventions that have been put in place? These questions will be answered later in this chapter. The next section will focus on the Eastern Cape economy to give context to the need for entrepreneurial activity.

## **2.4 The Eastern Cape Economy**

The Eastern Cape economy like other provinces straddles two worlds: one of severe underdevelopment and one of modern, growing industry. By many measures, it is still the country's most impoverished area, having inherited the apartheid government's deliberate underdevelopment (ECDC 2010).

With all the challenges that come with underdevelopment, The Eastern Cape economy is increasingly becoming modern and export-oriented, with the geographic location, quality sea and air ports and infrastructural development, particularly COEGA Development in Port Elizabeth giving the province great potential for growth of existing and new industry (ECDC 2010).

For example, the provincial Gross Domestic Product (GDP) increased by an estimated 4.7 per cent in 2006 (from 4.8 per cent in 2005), compared to national Gross domestic product (GDP) growth of 5 per cent in 2006 (5.1 per cent in 2005). In 2003, the provincial economy's estimated value was R88 billion, making up 8.1 per cent of South Africa's GDP (ECDC 2010).

The ECDC Annual Report (ECDC 2010), states that general government services make up 28 per cent of the provincial economy. Real Estate and Business Services Industry make up 17.9 per cent of provincial GDP, and the important and growing manufacturing sector makes up 17.3 per cent.

Manufacturing in the province grew by about 5 per cent in 2006, compared to 4.2 per cent in 2005. This has been attributed mostly to the Eastern Cape's strong automotive and components sector, but also to contributions from food processing, textiles and clothing, chemicals and machinery products. The report further states that growth in construction in the province was estimated to be 11.3 per cent in 2006, 10.1 per cent in 2005 and 8.8 per cent in 2004.

According to the ECDC Annual Report (ECDC 2010), unemployment remains a challenge and only the growth of the economy can improve this situation. The reports further states that when the economic recession hit South Africa the Eastern Cape was one of the most affected, losing an estimated 39 000 jobs, most significantly in the automotive and textile manufacturing sectors. Statistics in the reports further show that provincial unemployment grew from 26 per cent in the third quarter of 2009 to 30 per cent in the first quarter of 2010. This is 5 per cent higher than the national unemployment rate, which stands at 25 per cent.

## **2.5 Background of the ORTDM**

The municipality is made up of Ingquza Hill, King Sabatha Dalindyebo, Mhlontlo Municipality, Nyandeni, Mbizana, Ntabankulu and Port St Johns municipalities. It is mostly rural and it makes up 26 per cent of the total population of the Eastern Cape.

The municipality benefits from its stature as a tourist destination with 160 kilometres of coastline and towns such as Port St Johns, Hole in the Wall and Coffee Bay (ORTDM 2008).

According to the Integrated Development Review 2011/12 (ORTDM 2012, p. 52), 93 per cent of the district population resides in rural areas. The population constitutes approximately 22.5 per cent of the Eastern Cape and it has the highest population density of all districts in the province with 26.6 per cent per square kilometre.

The economy of the ORTDM hinges around the following key economic drivers: agriculture, tourism, forestry, marine and aquaculture as well as trade and manufacturing. The establishment and development of SMMEs and cooperatives is therefore one of the key areas for accelerating the development of the local economy in the district.

Due to the high unemployment rate of 68 per cent, ORTDM population is highly dependent on government grants - child support at 46 per cent, old age grant at 35 per cent and disability grant at 12 per cent. (ORTDM 2012) The district contributes 8.5 per cent to the Eastern Cape GDP with the biggest contributing sector being Government and Community Services at 46.0 per cent. According to the ORTDM (2008), almost a third of the labour force is unskilled and only 6 per cent have technical skills.

The existing structure of the district economy, particularly the low exploitation of agricultural potential and declining manufacturing sector make it dependent on the rest of the province and the country for product inputs and expertise and gives very little scope for 'exporting' to the rest of the South African market. According to the ORTDM (2008, p. 65) "the exports to these markets is limited to forestry and the small amount of commercial agricultural products. Limited access to service providers, finance and enterprise development as well as poor infrastructure are among the reasons stated for ORTDM's low economic competitiveness, with KSD Municipality being the most competitive in the district because of it being the economic hub of the District.

The region has a high HIV/Aids infection rate which leads to large numbers of orphaned children, high levels of unemployment and severe poverty in the communities. Only 15 per cent of the population has reached the levels of



Matric or tertiary education and the literacy rate is 47.3 per cent. In 2007, the GDP of the region was 8.5 per cent of the Eastern Cape with the majority being generated in the King Sabatha Dalindyebo Municipality, the most urbanised of the municipalities.

As a result of the challenges mentioned above and others, the Gini co-efficient is recorded at .64 although it is slightly lower than that of the Eastern Cape and South Africa. The review attributes this to the low economic development, and it states that it is expected that the Gini co-efficient in developing municipalities would increase in the in the short to medium term (ORTDM 2012).

Nyathikazi (2007) states that ORTDM is one of the district municipalities that should have been formulated with an aim to supersede the previous government's spatial segregation so that it could rectify social economic conditions that occurred in the past. This is because of the historical background of not only the district, but mostly of the province.

Pycroft (2002) cited by Dlakavu, (2006, p. 34) asserts that "although it is the role of rural municipalities to create sustainable livelihoods and reduce poverty they are still equipped to perform to take the services to people who need them most as they are constrained by a range of system weaknesses, meaning lack of sufficient financial and administrative capacity with their municipal spheres".

The author has identified the tedious and time-consuming processes of starting and running a business in rural areas is an impediment for some rural illiterates despite the many government interventions aimed at SMME development. Further to this the need for applicants to contribute a certain amount to show commitment disqualifies poor businesses due to the lack of the required collaterals. These challenges discourage a lot of potential enterprises from realising their dreams.

When rural citizens are unable to get employment in their communities, and when they are unable to start their own businesses, they migrate to other provinces for greener pastures. Dlakavu (2006, p. 33) has identified the need

for relevant policies to enhance sustainable rural development. The author believes policies are likely to reduce the propensity of rural people migrating to urban areas.

## **2.6 The Theory of Entrepreneurship Development**

Theories around entrepreneurship date back to the 1930s with Scholars such as Schumpeter who identified the theory of “Creative Destruction”. Since then, many theories have emerged to explain the concept of entrepreneurship and how different aspects of entrepreneurship work.

Cited in Chiles, Bluedorn and Gupta (2007, p. 470), Schumpeter (1934) through his famous phrase of ‘creative destruction’, saw entrepreneurs as heroic figures uniquely possessing the will to introduce revolutionary ‘new combinations’ of products, production techniques, markets, supply sources or organisational forms that attack the very foundations of existing firms. These revolutionary combinations, he said, destroy the prevailing equilibrium at rare and irregular intervals, and the profit captured by such innovating entrepreneurs invites imitators, who eventually co-opt the innovators’ gains and establish a new equilibrium.

To explain entrepreneurship further, some theorists have focused on different aspects of entrepreneurship. Peterson (1998) has identified three public policy models to explain the development of entrepreneurship. These are the *Laissez-faire* Approach, The Limited-Environment Policy Approach and The Strategic Interventionist Approach.

The *Laissez-faire Approach* considers government intervention as destructive and believes that government must allow the process of entrepreneurial start-ups, survival, growth or decline in the market economy to develop naturally without interference or assistance from the government. It does not matter that some small businesses fail in the process; this is identified as part of the cycle (Peterson 1998).

The *Limited Environmental Policy Approach* on the other hand does make provision to government intervention, although limited in nature. The approach is focused at ensuring a favourable tax climate and stable economic conditions such as low interest rates, as well as controlling wage and price inflation to encourage venture formation and small enterprise growth (Peterson 1998).

The *Strategic Interventionist Approach* sees the government as the biggest player in encouraging, developing and preserving entrepreneurship. In addition to a favourable economic climate, this approach believes the government must provide educational training, basic economic infrastructure and direct assistance to small businesses through financial aid, favourable procurement policies, and effective business advocacy programmes to benefit small businesses. This will lead to the growth of the economy in general.

The latter approach is the one most relevant to the South African situation as well as many other developing countries. Without this intervention, entrepreneurship is limited to survivalists rather than a more advanced level which includes job creation and sustainable growth. In fact, in the South African constitution there is a provision for SMME development through organisations such as SEDA and the ECDC. In addition, large corporates are encouraged by government to run entrepreneurship incubation programmes. As controversial as the Broad-based Black Economic Empowerment (BBBEE) has become, its rationale is to support and encourage entrepreneurship development among the black entrepreneurs to participate actively and meaningfully in the country's economy.

O'Neill and Viljoen (2001), state however that in underdeveloped countries and in a developing country such as South Africa, the strategic approach would be most appropriate provided that assistance and expenditure are closely monitored in the light of relatively limited capital resources. It is these types of interventions that would push entrepreneurship to contribute to economic development.

### **2.6.1 SMME Development in Rural Areas**

As stated previously, the majority of ORTDM is rural, and this situation brings a lot of economic and social challenges. Enterprise development is considered to be a programme that can deal with some of these challenges although it may not totally eradicate them.

Mabaso (2003, p. 13) quotes former Trade and Industry Minister Trevor Manuel when presenting the White Paper on Small Business Promotion in South Africa (in 1995), where he said “SMME’s represent an important vehicle to address the challenges of job creation, economic growth and equity in our country”.

According to Ndabeni (2005, p. 145) in rural areas, “the SMME sector is seen as a major sphere for both employment creation and for fostering sustainable livelihoods in rural areas ... it is sometimes the only terrain in which the rural poor are able to create their livelihoods and support their families”.

However Xuza (2006) on the other hand believes it is the lack of organised businesses in rural areas that makes it difficult for the municipality to measure progress being made in enterprise development support. The author goes on to say that a core growth sector in small towns is retailing even though the support in this area is limited and is further hindered by the limited investment in infrastructural development in the rural communities. These challenges coupled with the fact that land and business property ownership still reflects historical patterns has a negative impact on socio economic development which is much needed in these rural communities.

This statement is supported by Dlakavu (2006) who has identified access to infrastructure as a challenge in rural areas. The author states that entrepreneurs who are close proximity to town or urban areas enjoy better physical access to the centres of economic development. This therefore points to the need for government interventions that are as extensive as in urban areas if not more.

The Development Bank of South Africa Annual Report (DBSA 2005) associates the ineffectiveness of the current government programmes and the non-extent

enterprise development strategies as the reason for the lack of development in rural economies.

Ndabeni (2005, p. 16) has identified seven key constraints of rural SMMEs in a developing world. These are:

- Lack of Support and Services
- Underdevelopment of Human Capital
- Weak rural SMME organisations
- Lack of infrastructure
- Lack of Access to Finance
- Lack of demand for rural products
- Technological constraints of rural entrepreneurs

The above constraints point to the shortcomings of support programmes targeted at rural SMMEs, including government programmes that are considered to have little knowledge of rural SMME support needs and as a result only give support to SMMEs who approach them. Ndabeni (2005,161), states that ideally, rural SMME service providers need to be better informed than their clients, and specialist in nature, preferably with sub-sectoral approach in order to be more efficient and more effective.

## **2.7 The Role of Entrepreneurship in Economic Development**

Ndabeni (2008) defines entrepreneurship as the ability to organize land, labour and capital into a creative combination for the purpose of production. In the Global Entrepreneurship Monitor, Bosma, Zaltan, Aution, Caduras and Levie (2008) identified three major entrepreneurship development phases which apply to different world economies. These are the Factor-Driven Economies, Efficiency-Driven and Innovation-Driven Economies.

Bosma et al. (2008) describes these economies as follows: factor-driven economies start with focus on agriculture for subsistence and slowly introduce industrial activity. When the industries gain momentum, citizens move from the

agricultural sector to the industries. When there is an oversupply in the industry, the unemployed start necessity-driven entrepreneurship.

The Efficiency-driven economies on the other hand occur when industrialisation happens at a large scale and leads to the emergence of economic and financial institutions favouring large national businesses. This situation gives an opportunity to the development of small-scale and medium-sized manufacturing sectors.

Lastly, Innovation-Driven economies occur when the opportunity seeking entrepreneurs graduate to innovative entrepreneurial firms that drive growth and the creation of wealth.

Different countries fall under different categories and while there are countries that fall under innovation economies, a lot more are either efficiency-driven or factor-driven. According to the World Business Council for Sustainable Development, sustainable development, environmental security, global stability are some of the biggest challenges in the world and because of these challenges nearly half the world's population live on less than US\$2 per day, a sign of high poverty levels. The organisation has identified enterprise development at all levels of the populations as the major role play in alleviating the high levels of poverty and improving economic growth (WBCSD 2011).

Different authors realise the importance of entrepreneurship to move countries from necessity-entrepreneurship to opportunity-entrepreneurship that eventually leads to innovative economies. Peterson (1998) states that entrepreneurship too often is touted as a solution to all kinds of economic and social ailments in many parts of the world, and that governments and entrepreneurship advocates alike are increasingly experimenting with the entrepreneur 'cure'. This statement is supported by Luiz and Mariotti (2011) who states that SMMEs are an important source of employment and economic growth in most countries.

The potential to be a good entrepreneur can be brought about or enhanced by a good entrepreneurial environment where entrepreneurs are able to express themselves in the different ways they see fit to be successful. Bosma et al.

(2008) describe a positive entrepreneurial environment as dependent on a system effectively balancing government and private sector needs and interventions. Only within such a stable and positively-gearred environment will entrepreneurship thrive.

South Africa is identified as an efficiency-driven economy with a lot of survivalist entrepreneurs. According to Luiz and Mariotti (2011, p. 49) "South Africa is lagging behind on this front and SMMEs in Asia make up 95 per cent of all corporations and they employ 80 per cent of the labour force while in South Africa they employ only 47 per cent of the economically active population".

It is therefore the role of government to introduce policies that encourage opportunity-driven entrepreneurship that can eventually lead to the country being an innovation-driven economy.

## **2.8 Government Policy on SMME Development in South Africa**

Minniti (2008) says in governments around the globe, especially in developing countries, the importance of government policy in growing entrepreneurship for the development of their economy is considered to be very important. A lot of countries whose people and economy have benefited from entrepreneurship programmes have had to create an environment conducive to the development of entrepreneurial activities (Bosma and Levie 2009).

The history of South Africa has shown that the economy has been dominated by large corporations and the public sector, with very little attention given to small enterprise development. As a result of this situation during the apartheid years, black South Africans, except in designated areas such as the homelands, were largely prevented from owning property and therefore were unable to leverage property as a form of finance to start a business (Bosma and Levie 2009).

The motivation around the SMME policy was a result of the need to stimulate entrepreneurial activity and to further create employment opportunities. More

employment opportunities mean greater spending and an improved economy. In addition to the improved economic situation, other social challenges such as dependency on government hand-outs would be reduced, and social ills such as crime would be lowered.

Minniti (2008, p. 781) describes entrepreneurship as “the mechanism through which economic growth takes place, but institutions are what allocate entrepreneurial efforts toward productive or unproductive activities by influencing the relative incentives and payoffs offered by the economy to such activities”.

According to Bosma and Livie (2009), the unemployment rate in South Africa is between 26 per cent and 30 per cent. The SMME sector has the potential to play a critical role in the South African economy by creating employment opportunities for communities both in the formal and informal sectors. These opportunities can form a big part of the government’s poverty alleviation strategy.

Venter et al. (2008) states that the SMME sector was largely neglected during the apartheid years, and it was only after the establishment of the Small Business Corporation in the 1980s that interest was revitalised although still not at the level it should have been. The authors further state that it was only in 1995 that the South African government formulated policy on the SMME sector in the form of the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, which was translated into the National Small Business Act 102 of 1996.

Cited in Minniti (2008, p. 781), Wagner et al. (2004) say that if entrepreneurial efforts are to be allocated to productive activities, policy strategies need to be tailored to the specific institutional context of each economic region. Policies targeted at rural communities have to be different from policies targeted at urban areas. While other SMMEs will benefit from micro-finance assistance, others will benefit from new venture capital or even tax rebate policies.



Minniti (2008, p. 783) further cites Djankov et al. (2002), as these authors show that in the wake of strong competition from developing countries, the issue of policies aimed at entrepreneurial ventures has also attracted significant attention from various governments and many countries regulate or restrict the movement of international business.

In his State of the Nation Address (Zuma 2011, p. 8), South Africa's President Jacob Zuma emphasised the importance of promoting SMME development and stated that: "The small business sector is a critical component of the job creation drive. We will continue to provide financial and non-financial support to small, medium, and micro-enterprises (SMMEs), small scale agriculture as well as cooperatives. We need to cut administrative costs, avoid duplication and direct more resources to small business".

Mises (1949) cited by Minniti (2008, p. 781), states that entrepreneurship is a characteristic of human action and can be found anywhere, at any point in time. The author goes on to say what matters is the institutions and the rules of the game which dictate the ultimate effect of entrepreneurship on the economy via the allocation of entrepreneurial resources. By setting in place the appropriate institutions, government policy can influence the allocation of entrepreneurship more effectively.

According to the Small Enterprise Development Agency Annual Report (SEDA 2009a), to show commitment, the government through legislation, policies and strategies should support SMME development in South Africa. The paper identifies four categories of SMMEs as follows:

- *Survivalists Enterprises* - This category is made up of unskilled individuals unable to get formal employment. They do not generate enough income for survival.
- *Micro-Enterprises* - These are informal small businesses often run by the owner, family members and at most two paid workers. They have limited capital and skills to start the business.

- *Small Enterprises* - This category is owner or community managed and it usually operates from a premises. It has employment ranging from five to fifty and is usually registered for taxes and other formal requirements.
- *Medium Enterprises* - They are viewed as owner-managed or controlled and sometimes have other shareholders in the ownership. Employment levels of up to 200 workers are common.

Venter et al. (2008) has identified government strategies and policies that were introduced to promote SMME development, support and guidance:

- Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises;
- The Micro-Economic Reform Strategy;
- Accelerated and Shared Growth Initiative South Africa;
- Draft Regional Industrial Strategy;
- Broad Based Black Economic Empowerment;
- National Strategy for the Development and Promotion of Franchising in South Africa;
- Strategic Framework for Gender and Women's Economic Empowerment;
- National Youth Enterprise Strategy; and
- Cooperative Policy and Development Draft Strategy.

It is these policies and development programmes, including development agencies such as the SEDA and the ECDC that can make or break the growth of SMMEs in South Africa.

According to Rogerson (2004), a large number of new SMME creations are a result of the failure of the formal sector to provide employment opportunities. This results in a lot of people starting entrepreneurial activities in the informal sector as well as micro-enterprises.

The government believes SMME development serves a variety of purposes including employment creation, poverty alleviation and empowerment of previously disadvantaged communities. To take this vision further, the

government put together a policy through the Department of Trade and Industry (DTI) and SMME programmes to encourage start-ups of new businesses and the growth of existing businesses to fulfil the above-mentioned purposes. However, Rogerson (2004) highlights that with all the good intentions of government policy, the contribution of SMMEs to national employment remains low due to lack of creativity among SMMEs and lack of dynamism to expand beyond one-person operations. The result is that too few of them create employment that achieves national or international competitiveness.

Minniti (2008) therefore believes the government has to make a commitment to create an enterprise development friendly environment. The lack of cooperation with the private sector on aspects that could help entrepreneurship grow is a disadvantage in the growth of entrepreneurship in the country.

It is against these challenges that government has seen the importance of formal SMME programmes to encourage new SMMEs and assist with the growth of existing ones. Rogerson (2004) however, suggests that not all SMMEs benefit from government SMME programmes. The author identified the following as groups that are more likely to be beneficiaries of SMME support programmes:

- The clothing sector;
- Larger SMMEs versus smaller counterparts;
- Exporting or High Growth SMMEs versus Non-exporting or Low Growth SMMEs;
- Urban areas versus rural or peri-urban areas;
- White owned enterprises versus non-white SMMEs.

While it is good to see entrepreneurs benefiting from these programmes, based on the above observations, the neediest SMMEs do not benefit as much if they do at all. This could be based on various reasons such as the lack of awareness of the existing programmes. Rogerson (2004) presents the observation that there seems to be a general mistrust towards external agencies among SMMEs on the one hand, and the incapacity of support

institutions to persuasively raise awareness about their existence and effectiveness on the other. The high costs to accessing support are also considered to be barriers. It is also unfortunate that rural areas with the highest unemployment rates are the ones that benefit the least. These are the areas that need to be considered if there is going to be progress in the alleviation of unemployment and poverty.

While it is good to have support programmes for SMMEs, it is also critical to have programmes that make a positive difference in the lives and businesses of the people they are intended to support. It is therefore important to constantly evaluate the progress made as a result of the policies and where necessary, reposition the policies to meet the growth and innovation needs of the entrepreneurs.

Emphasis has to be placed on the importance of training programmes to develop and grow SMMEs, both new and existing ones. The training can include business skills for start-up SMMEs, as well as regular updates on business knowledge for established SMMEs to keep up with the trends and changes in the field of entrepreneurship.

Nieman (2001, p. 446) has identified the main areas of training as business skills training, technical skills training (techniques in different disciplines), and entrepreneurial skills training (creativity, innovation, risk propensity, and need for achievement). All these training initiatives are possible through SMME development agencies and other entrepreneurial development programmes. It is important that these programmes are not just on paper, but instead are practiced fully to bring the desired outcome of economic development and job creation.

Training is important in SMME development in general, but even more so in the informal sector where not much attention is currently given. According to Rogerson (1996) the informal sector refers to businesses that lack the formality of business licences, formal premises, operating permits, accounting

procedures and a limited capital base with operators possessing only rudimentary business skills.

The informal sector forms a big part of the SMME sector due to the state of the economy in the country. A huge section of the population of South Africans, most of who are black, reside in the rural areas and informal settlements. The rural areas were originally made to be employment reserves for big cities and mining towns. These are the communities that need SMME development and training the most. This is because some of them have little or no education, and others have little or no business management skills, with small businesses their way of survival. A large number of South Africans without formal employment would benefit from formal training and support from SMME development programmes. This would help them transition from being survivalists to larger enterprises with a potential to create employment opportunities and in turn contribute to the economic growth of the country.

SMME support is not only important for the informal sector but equally important for the formal SMMEs. The formal SMMEs create more employment and contribute to the economy by paying taxes, among other things. They also have potential to grow beyond SMME stage. It is for this reason that the government policy alone cannot be sufficient. The policies have to be accompanied by relevant government programmes and institutions.

## **2.9 The Role of DTI**

The development of SMMEs forms a big part of the government's strategy and therefore a big part of the Department of Trade and Industry's (DTI's) strategy. Research shows that elsewhere in the world, support through legislation and policy for the growth of small and medium enterprises has proven to be beneficial for the overall growth of the economy. The DTI initiatives targeted at entrepreneurial development as stated by Fortuin (2008, p. 17) include the following:

- The Centre for Small Business Promotion (CSBP);

- The National Small Business Council (NSBC);
- The National Industrial Development Zone (IDZ) programme;
- The Industrial Development Corporation (IDC);
- The National Empowerment Fund (NEF);
- The Motor Industry Development Programme (MIDP);
- Small/Medium Manufacturing Development Programme (SMEDP);
- The Competitive Fund to for consultancy advice on technology and marketing.

Bosma and Levie (2009) show that individuals located in urban areas are more likely to be involved in entrepreneurial activity than those in rural areas. The low involvement in rural areas is due to a number of factors including lack of infrastructure development, low skills levels, lack of communication and other environmental factors.

To address these factors, Venter et al. (2008) has identified the Integrated Strategy on the promotion of Small Business and Enterprise and it is premised on:

- Increasing supply of financial and non-financial support services. This is very important because the most significant barrier to a successful business is the lack of resources and this can be a challenge for formal and informal SMMEs.
- Creating demand for small enterprise products and services is one of the initiatives of DTI. A lot of corporates, through the BEE codes, are encouraged to work with SMMEs and to get involved in enterprise development. In return, the government incentivises them with rebates.
- Reducing small enterprise regulatory constraints is still one of the challenging parts of SMME development. The DTI has a responsibility to incentivise SMME development instead of 'punishing' them with regulations that can be discouraging to the future aspirations of SMMEs.

- The provision of support to designated groups (e.g. women, youth and cooperatives). The National Youth Development Agency (former Umsobomvu Youth Fund) is one such programme.

While the programmes are good on paper, the question is what impact they make in the lives of ordinary citizens. Do these initiatives benefit the intended recipients? The government and its stakeholders should constantly monitor and evaluate the progress of these programmes and where necessary, revisit some of the programmes and improve on them. They should not shy away from discontinuing programmes that do not bring the intended and desired benefits. More importantly, they have to constantly solicit feedback from the SMMEs themselves to understand their satisfaction levels. They also have to take best practice from other countries and tailor-make certain programmes to fit the national, regional and local needs of SMMEs.

It is therefore the role of development agencies such as SEDA and the ECDC to tailor-make the programmes for the benefit of the local communities.

## **2.10 The Role of Development Agencies SEDA and the ECDC in SMME Development in the Eastern Cape**

With the history and the background mentioned previously, the economy of the Eastern Cape requires a serious boost from the government and other stakeholders to address its economic challenges head-on. While having government policy is instrumental in dealing with the situation, what is most important is taking action and introducing programmes contained in policy documents. Major players in the Eastern Cape are SEDA and the ECDC (ECDC 2010).

### ***2.10.1 The role of SEDA***

According to Bosma and Levie (2009), total early stage entrepreneurial activity (TEA) rates in South Africa remain low and only reach approximately half of the

rates in other developing countries. TEA refers to those individuals who start businesses to increase their income rather than to maintain it. South Africa is ranked in lowest quartile of the 76 Gem Report countries. It is therefore the role of organisations such as SEDA to improve these numbers.

Venter et al. (2008) states that SEDA came into being in 2004 following the promulgation of the Small Business Amendment Act 29 of 2004. The authors say the purpose of the act was to integrate the various existing small enterprise development agencies, namely Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre Trust and the Community Public Private Partnership, into a single development agency in the form of SEDA.

Venter et al. (2008) go on to mention that the primary aim of SEDA is to design and implement national support networks that integrate government funded support measures across all spheres of the government. The secondary aim according to SEDA (SEDA 2009a), is to initiate national entrepreneurship drives, provide education and training opportunities for small businesses and co-fund minimum business infrastructure facilities in local authorities across the country. The Revised National Small Business Act, 29 of 2004 defines the objectives of SEDA as follows:

- Implement the policy of the national government for small enterprises;
- Design and implement a standard national delivery network to develop and integrate all government funded small enterprise development agencies;
- Design and implement small enterprise development support programmes that include the following:
  - Facilitating the building of sustainable and competitive enterprises;
  - Facilitating the promotion of enterprises;
  - Facilitating the creation of an enabling operating environment for small enterprises (including sources, capacity-building services, products and services);
  - Facilitating access by small enterprises to non-financial reprises;



- Establishing provincial structures to ensure the effective implementation of its functions.

Among the success stories of SEDA is the Xhariep SMME Development Plan of the Free State Province (SEDA 2009b) which is a partnership between the community and the municipality. This is a project whose aim is to strengthen SMME development and minimise the failure rate. This is done through skills development such as financial management, business management and tender presenting. The project aims to address the high unemployment rate and draw previously disadvantaged people to productive enterprise. With the success in these communities, community members still feel more can be done by the government through organisations similar to SEDA. The most common recommendations SMMEs make to development agencies include the provision of funding assistance, the access to business development resources and support and training programmes that are easily accessible (SEDA 2009b).

One of the most prominent SEDA programmes as stated in Venter et al. (2008) is the SEDA Technology Programme (STP) (SEDA 2010) whose aim is to support SMMEs in the field of science and technology.

### ***2.10.2 The Eastern Cape Development Corporation***

The history of the Eastern Cape Development Corporation (ECDC) in the ORTDM dates back to the years of the Transkei and Ciskei governments. It is a merger of the Transkei Development Corporation (TDC) (which was originally Xhosa Development Corporation) and Transkei Small Industries Development Organisation (TRANSIDO) in the former Transkei homeland, as well as the Small Business Development Corporation (SBDC) and People's Bank in the former Ciskei homeland. The aim of these development programmes was towards economic development by initiating, financing and establishing industrial, financial and small business projects (The Republic of Transkei 1976, p. 187).

The ECDC was formed as a result of the section 121(1) of the Eastern Cape Development Act 108 of 1996. It is described as a wholly-owned entity of the Eastern Cape provincial Department of Economic Development and Environmental Affairs. It is the official economic development agency for the Eastern Cape Province. The ECDC's vision and mission statements were developed within the frameworks of the national and provincial government, and are aligned with the Eastern Cape Provincial Growth and Development Plan (PGDP). The ECDC's close relationship with municipalities ensures alignment with their respective Integrated Development Plans (ECDC 2010).

According to the ECDC Annual Report (ECDC 2010), the ECDC offers the following services to the province of the Eastern Cape:

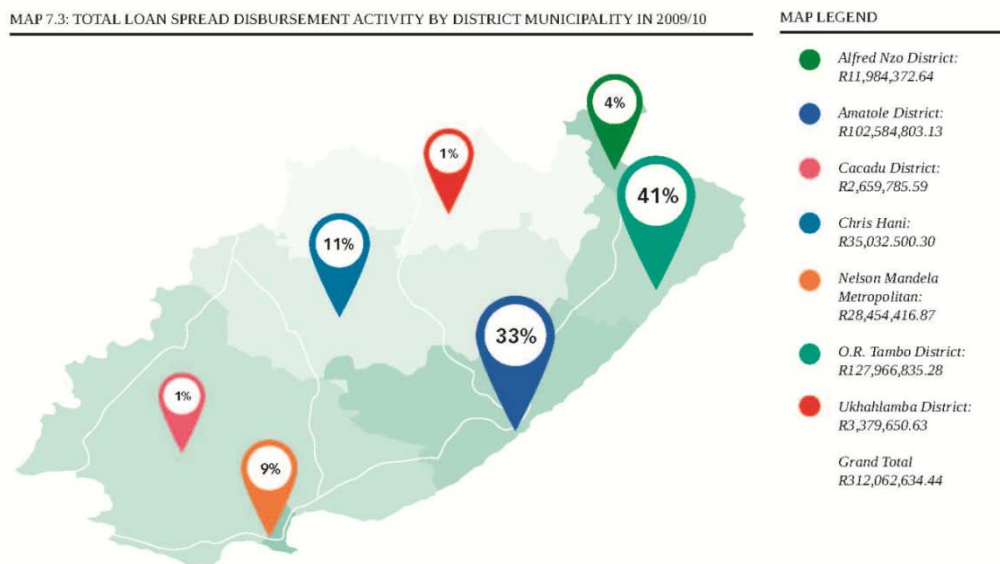
- Development Finance;
- Enterprise Development Services;
- Investment Promotion;
- Project Development;
- Trade Promotion;
- Property Management and Development.

While the ECDC has the above-mentioned multiple roles to play in developing the economy in the Eastern Cape, for the sake of this research, the focus will be on enterprise development services which have the potential to successfully contribute to the development of the SMME sector in the province.

The ECDC has identified its SMME objectives to provide skills development and information technology support, business advice, and product/market development and business linkages. Similar to financial support, non-financial support is important and often influences the success of SMMEs. Obtaining these skills helps the SMME with knowledge and expertise in business development. The SMME programme aims to assist emerging businesses with access to business development services through a network of accredited service providers. The focus is on start-up businesses, emerging business, expanding business and underperforming businesses.

The ECDC outsources their SMME programmes, collaborates with and acts as an intermediary for other government institutions such as the Business Referral and Information Network, SEDA, DTI, the Centre for Intellectual Property and Registrations Office, KHULA on the Thusa Mentorship Programme; COMSEC and Mdantsane Local Business service centres and business chambers. (ECDC 2011)

The Eastern Cape Development Corporation Annual Report 2009/10 states that more than 800 SMMEs received financial support from the ECDC in the 2008/2009 financial year compared to 130 in 2007/2008 due to what they consider a successful turnaround strategy. The Corporation disbursed R312 million to business initiatives in 2009 exceeding its annual target of R147 million. The Corporation provides loans to 53 locations across the province.



Map 1: Total Loan Spread Disbursement Activity by District Municipality in 2009/2010 (ECDC 2010)

## 2.11 Assessing the SMME Policy in South Africa

In giving background to the current entrepreneurial environment in South Africa, Thomas (1999) cited in Fortuin (2008, p. 24) states that the former South African Government's refusal to nourish the entrepreneurial potential of the black population served to discourage the development of a virile and dynamic

small business sector. Instituted by apartheid legislation and aggravated by severe execution, entrepreneurial development was greatly suppressed in certain centres of the community.

It is only in the new democratic South Africa that emphasis has been placed on entrepreneurship development. While the government realises the importance of building SMMEs and the benefits to the broader community thereof, the SMME policy still has a few challenges. Venter et al. (2008, p. 241) identifies the following major challenges with this policy:

- The lack of awareness of the various services offered through the legislative bodies and DTI initiatives – in the Western Cape 70 per cent and 57 per cent in Gauteng are not aware of support programmes available to them. This is a challenge nationwide but even more so to the rural communities who are the neediest. In rural areas there are not as many communication tools as there are in urban areas and illiteracy may prevent some from accessing the few tools available to them.
- Service provision is problematic, in terms of both location and content. This is a big problem as the services are more visible in urban areas rather than in areas where there's the most need. SMMEs may even be discouraged when they realise what they have to spend in order to get support. These programmes just like the health and social services have to be brought to the people that need them the most.
- Accessing the various services is costly to entrepreneurs. When one looks at the profiles of SMMEs, particularly those in the informal sector, having to spend more of the scarce financial resources just to access services may be discouraging. Potential SMMEs, mostly in rural areas, have to travel long distances to access these services. Research shows that some SMMEs prefer to source the assistance of their successful peers than spend time trying to access services they are not even sure will lead to fruition.

The conclusion from Venter et al. (2008) is that the SMME policy must promote more visibility and, accessibility if it has to succeed in meeting its objective in

creating more successful and established SMMEs. The DTI and the different SMME programmes have to partner with the local media, local municipal representatives and in the case of rural areas, the local traditional authorities to deliver information to the people. Just like departments such as Home Affairs and Health use mobile units to target rural areas and informal settlements, DTI has to adopt a similar strategy. SMMEs have to be encouraged to participate in development by reducing the long processes that have proven to be a limitation for a lot of aspiring business people.

It is also important to give enough attention to SMMEs, regardless of whether they are in the formal or informal sector. If government's aim is to create employment and to contribute to the economy of the country, all SMMEs must be serviced.

## **2.12 The South African Informal Sector and its contribution to the Economy**

The nature of the South African informal economy is influenced by the history and socio-economic challenges of the country. The challenges arise as a result of urbanisation due to job opportunities and greater resources being available in urban areas. Many people left the former homelands for better lives in the urban areas. In addition to rural South Africans flocking to the urban areas, nationals from neighbouring towns also came looking for greener pastures.

Once the migrants were in the cities, reality was that not everyone was employable. In mining towns there were few job opportunities for women, and not all men could get jobs. Therefore whenever there were challenges with job opportunities, people started informal businesses. This phenomenon became even more popular as companies cut more jobs and the economy grew stagnant or declined.

Informal businesses are anything from shebeens and food stalls to hairdressers. The informal sector is characterised by legitimate and illegitimate businesses. Legitimate businesses are those that are fully registered with the

relevant government departments and the nature of the business is generally acceptable to the public. Illegitimate businesses are anything from drug dealers and illegal chop-shops to illegal liquor stores (Rogerson 1996).

These businesses are also divided along gender lines; there are those businesses that are male-dominated such as car repairs and those that are female-dominated such as hairdressing salons and dressmaking businesses. This is as a result of the need to survive or to supplement salaries. Others arise out of ambition for better lives and to be their own bosses.

There is also the situation of businesses that start as informal businesses and formalise as they grow bigger. This is evident in situations where a shebeen employing family members, grows into a bigger, formally registered liquor store. Informal reports in the township areas indicate that some of the prominent township business people today, started informally. Others were doing their businesses just to supplement their salaries when they were employed as teachers, nurses and policemen.

There have been further informal reports of some businesses starting up as a formal structure, and as a result of certain situations including economic conditions, they become informal. This is evident in situations where the business starts as a family business, and when the parents pass on, the children do not have the same dedication to the business, and as a result conditions deteriorate and the business declines.

Devey, Skinner and Valodia (2006) define informality in terms of the absence of characteristics that belong to the 'formal' activities like security or regularity of work, better earnings, existence on non-wage and long-term benefits, protective legislation and union protection.

Ndabeni (2005) states that the expansion of the informal sector activity creates significant positive contributions towards the overall labour absorption in South Africa which indicates that without this intervention, the unemployment rate would even be higher than it currently is.

Whether the business is formal or informal, the common challenges that prevent it from growing bigger include the unavailability of funds, the lack of recognition by the decision makers, the lack of training, the lack of resources etc. With that said, the informal sector contributes a lot to the GDP of the country as well as to poverty alleviation (Herrington et al. 2009).

Ligthelm (2010) asserts that the majority of informal employees originate from the owners' households, and this therefore implies that a large number of households earn some or all of their income from informal sector employment and that a large number of owners are involved in their businesses on a fulltime basis. This therefore indicates that the biggest source of income emanates from self-employment rather than other income sources such as remuneration or formal employment.

The ECDC's May 2010 Socio-economic Analysis Report emphasises this observation and states that the informal sector remains a dominant force in the Eastern Cape provincial economy. Of the new jobs created in the fourth quarter of 2009, 62 per cent were generated in the informal sector and the major employers in this sector are wholesale and retail trade, tourism and construction activities (ECDC 2010).

The contribution of the informal sectors in local communities makes a large and significant contribution to nations' economies, both socially and economically. However, as significant as the contribution is, the biggest challenge is that government agencies and formal sector companies cannot easily reach these entrepreneurs with capacity building improvement schemes. Bigger and established businesses tend to benefit more. The workers in the informal sector are also disadvantaged because they lack job protection and benefits such as wage protection and access to health and safety provisions. The only advantage to these informal sector entrepreneurs is that by being outside the formal regulatory framework, informal sector activities cannot be taxed. This however represents lost revenue for governments and as such, the informal sector can be a barrier to broader economic development (Balasubramanyam 2011).

## **2.13 The successes and failures of SMMEs**

Before one can talk about the successes and failures of SMMEs, it is important to briefly look at what really motivates South African citizens to follow entrepreneurship opportunities. Mitchell (2004) stresses that the reasons why most South Africans start their own businesses are: survival, financial independence and security, as well as the escape from a negative situation and/or personal growth. The author further highlights that the following factors were common to entrepreneurs: external approval, personal development, recognition and a need for independence, influence in community, benefits and security.

The environment where the business is located and the lack of professional support however have a negative effect on its success. In an interview with Business Brief magazine (Reddy 2010, p. 24), Malik Fal, Managing Director of Endeavours South Africa, is quoted as saying the issue that the environment where the enterprise is located determines the success or failure of potential entrepreneurs. This explains that lack of mentorship, the lack of self-made role models, and the lack of networks causes thousands of passionate entrepreneurs to fail to scale beyond subsistence and promising ideas never to turn into vibrant businesses. Therefore, Rogerson (2001, p. 115) asserts that “employment creation and the enhancement of growth and alleviation of poverty results from stable and successful enterprise development programmes and therefore SMMEs development has to move from the policy periphery to occupy an increasingly more central role in African development planning”.

The perception among small businesses is that more attention is given to larger corporations than SMMEs. This puts SMMEs at a disadvantage. While there is legislation to promote micro-enterprise development, entrepreneurs believe there is little support from larger corporations to help in the development of SMMEs. Some participate in enterprise development just to tick boxes and to look good in the eyes of the government. The BBBEE policy is one such policy that is targeted at growing SMMEs, but in some cases, SMMEs claim that



corporations participate to avoid penalties or to get favour with the government and policy makers.

Mead and Liedholm (1998) cited by Rogerson (2001, p. 118) state that there are various factors that influence the success or failure of SMMEs. These can range from challenges within the SMMEs, the development agencies to even government policy. Be that as it may, there are SMMEs that thrive despite the odds, while others experience challenges to a point of closure. Rogerson (2001) states that most closures occur in the early years of a firm's existence and small enterprises are seen as especially vulnerable during the first two years. This is when entrepreneurs are in the process of learning a new business and that SMMEs that are in the service sector are less likely to close firms than those in the retail and or wholesale sector.

McPherson (1995) cited in Rogerson (2001, p. 118) has identified the location of SMMEs as a contributing factor to success and goes on to mention that proximity to growing markets appears to be a significant determinant of an enterprise's survival prospects. Rogerson (2001) further states that SMME failure will be greatest in those sectors that are over-traded and have low barriers to entry.

To further emphasise this point, Rogerson (2001, p. 118) cites Mead and Liedholm (1998) who state that surveys across Southern Africa show that less than 1 per cent of firms will 'graduate' from the micro-enterprise seedbed and become established enterprises which employ more than 10 workers. The authors identify the success factors of enterprises as access to markets with capital from outside sources like banks and non-governmental organisations, as well as a capacity to innovate and take risks. Further to this point, the author makes reference to research done in the Ivory Coast which applies to most African countries including South Africa. The research shows that SMMEs led by people with previous industry knowledge, a basic level of education as well as the personal characteristics, especially human capital and financial status, play a decisive role in the development of successful entrepreneurs.

In the case of South Africa, one of the biggest challenges identified is that a large number of SMMEs start their enterprises out of necessity and one of the biggest reasons is the high unemployment rate caused by retrenchments or scarcity of job opportunities. These SMMEs therefore do not have the luxury of previous work or technical experience in their enterprises. Others are unemployed because of their low educational levels making it difficult for them to get formal employment. This happens a lot more during the times of economic recessions. In such situations the success and employment creation within the enterprise may not be as high as with 'born' entrepreneurs.

This therefore is where there is the greatest need for enterprise development support offered by agencies such as the ECDC. The programmes offered to SMMEs will determine the success or stagnation of an enterprise. This is because enterprise development organisations are supposed to study the needs of SMMEs and then plan their programmes accordingly.

Mitchell (2004) observes that as Africa's future economic development is hinged on small and medium enterprise development and promotion, the government and policy makers have a responsibility to ensure that the entrepreneurs receive the support they need to have a good foundation when starting their businesses and successfully build these to be future creators of employment. Efficient dissemination of information on assistance and services is also a necessity to maximise the benefits entrepreneurs can obtain from support services.

Karumbidza (2009) affirms that while the government is committed to making a success of SMMEs there are various factors that prevent these SMMEs from performing at their best. These factors range from social and political to economic challenges. For example, according to Von Blotnitz (2009), South African SMMEs are feeling the pinch of the price and interest rate fluctuations on consumer demands and spoil over effects from a generally depressed global and domestic economy.

The economic challenges experienced by SMMEs have an even bigger impact on rural business owners for various reasons. The legacy of the rural-urban divide during the apartheid years left the rural areas poorer with little infrastructural developments.

Thwala and Phaladi (2008) have identified the following factors that lead to the success of a business:

- having adequate capital;
- obtaining the necessary business knowledge;
- having sufficient resources;
- being able to manage success and how to take it forward;
- being a strong competitive position and keeping to your business plan.

Some of the factors that contribute to failure include:

- lack of resources;
- lack of personal courage;
- poor management control;
- inability to scan the environment for competitor activities;
- lack of business acumen;
- lack of discipline;
- poor mentoring.

Poor record keeping, lack of financial management, lack of entrepreneurial skills, lack of proper training, lack of resources, lack of technical skills, lack of managerial skills and late payment for work done especially by government, are also some of the causes of failures with SMMEs, as identified by Thwala and Phaladi (2009).

## **2.14 Successful SMME Support Programmes**

Venter et al. (2008, p. 237) propose the following success markers in the implementation of successful promotion of SMMEs:

- Fostering the entrepreneurship culture and increasing the enterprise creation rate;
- The establishment of a dedicated network of SMMEs finance through preferential public procurement as well as through bi-lateral trade agreements;
- The improvement of small enterprise competencies and delivery capacity
- The provision of support incentives through various schemes;
- Conducting entrepreneurial and small business research on an on-going basis with various stakeholders;
- The strengthening of local networks for small business development support services through SEDA.

While financial support has proven to be the most mentioned need by SMMEs, non-financial needs are equally important and arguably the most important.

Xuza (2007) believes that SMME development has to be the responsibility of the municipality's local economic development (LED) and that the municipality must commit to addressing it to the best of its ability. The author highlights the lack of coordinated partnerships with relevant stakeholders, which could result in a much bigger impact. To support this statement, Rogerson (2001) states that the creation of SMME clusters is important to encourage SMME development and growth beyond micro-enterprise level as the clusters help SMMEs to learn from each other, share ideas and take care of their common interests.

In support of the need for clusters, McCormick (1998) cited by Rogerson (2001, p. 125) has identified intervention programmes to assist SMME cluster development. While these interventions are directed at SMME clusters, they can also be used by enterprise development agencies to benefit individual SMMEs.

These interventions include:

- The facilitation of association formation.

- Dissemination of information about potential subcontracting partners, providers of specialised services, new technologies or market opportunities.
- The strengthening of physical or financial infrastructure
- Facilitating contacts between small and large firms especially
- Facilitating exchange visits to other enterprises to enable entrepreneurs to view better technology, management practices or marketing.
- Organisation of trade fairs to showcase the products and services of small enterprises and the development of technology

The above mentioned interventions can help SMMEs combat or deal with some of the challenges they encounter every day in their entrepreneurial activities and in the process build a stronger entrepreneurial environment.

Luiz (2002, p. 65) has identified the following challenges and obstacles that prevent sustainable entrepreneurial growth among SMMEs:

- Availability of funding;
- Labour legislation that makes it difficult to attract skilled workers;
- Over-regulation of trade laws including licensing, health and safety laws;
- The complexity of the tax system which is considered to raise the costs of doing business;
- The procurement process which is considered to be too complicated and inaccessible by SMMEs who sometimes see the tenders to be too high for SMMEs;
- Infrastructure challenges for SMMEs especially in the rural areas where access to roads, technology are a challenge.

The need for financial assistance by SMMEs is one of the biggest needs, especially when it comes to start-up programmes. Access to finance is one of the biggest challenges for the growth of SMMEs. This is due to various reasons including the fact that a lot of businesses in South Africa are in the informal sector and therefore are not always considered for financial assistance. SMMEs

have to use other sources of finance for their businesses to take-off or even to survive.

Niels and Livie (2009) have identified the most common source of enterprise start-up funds being from the individual's own savings, supplemented by either gifts or informal flexible loans from friends or relatives. This is because the programmes offered by some financial institutions are considered as not always supportive of SMME growth. For example the programmes of the World Bank's Fund for Small and Medium Enterprise Development to pass on a credit line to commercial banks financing private small and medium enterprises have proven unsuitable for supporting small enterprise economy.

In addition to the need to support SMMEs, Myrick (2010) makes reference to the need for aftercare programmes by development and support institutions where the author suggests mentoring, business planning assistance and market development, and market penetration, as the types of services that are required to boost SMMEs. The author further suggests a partnership between municipalities, industries and manufacturers in a geographic area for SMMEs to succeed.

## **2.15 Conclusion**

In conclusion, the literature review has given background to why SMMEs start entrepreneurial activities and cited unemployment as a major reason for SMME development. It also highlights the programmes that contribute to SMME development and mentions the importance of government agencies in creating awareness about their programmes for SMMEs. Government policy has also been in the spotlight as is seen as very crucial in SMME development and economic growth. The literature has highlighted the importance of government policy for both the formal and informal sector because while the informal sector does not contribute much towards economic growth, it has the potential to reduce dependency on scarce government resources. Lastly the literature highlights the factors that contribute to success and failure of SMMEs and the

types of programmes that have potential to encourage enterprise development and growth.

## **3 CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Research paradigm**

The research paradigm of the study was triangulation achieved by combining quantitative and qualitative research methods. According to Cooper and Schindler (2008) triangulation is a term used to describe the combining of several qualitative methods or the combining of qualitative and quantitative methods. In this study, triangulation was used to relate the mainly quantitatively derived perspectives of the SMMEs supported by the ECDC, with the qualitatively derived perspectives of the ECDC officials.

The primary unit of analysis or the level of study of the research was SMMEs supported by the ECDC in the ORTDM. These respondents have low levels of formal education with fewer than half of them having matriculation as their highest level of education. Thus the researcher regarded a combination of quantitative and qualitative using both open-ended and closed-ended questionnaires administered either in person or telephonically by an interviewer as more appropriate than using only closed-ended quantitative questionnaires. Thus the respondents had the opportunity to express their views more fully on the ECDC on the open-ended qualitative questions rather than be limited to closed-ended items with a fixed set of responses (Cooper & Schindler 2008). Furthermore, there is no or poor communication and internet connectivity in the ORTDM for sending out questionnaires via email. Thus in the context of these and other social challenges, the mixed methods approach that incorporated face-to-face or telephonic structured interviews as well as closed-ended questions, provided the required information to answer the research questions of the study.

Thus, in the present research, the primary open-ended qualitative data was complemented by the quantitative data derived from the closed-ended questions administered by the interviewee. In quantitative survey research, the same questions are systematically asked to a large number of people and



answers are recorded (Neuman 2006). The quantitative primary data comprised information on the demographics of the respondents and their ratings of the ECDC, while the qualitative data was on their motivation for starting their own businesses, other business information, and their perceptions of the services that the ECDC offers, as well as areas of improvement they considered to be important for the ECDC to provide satisfactory service to the SMMES in ORTDM.

The secondary unit of analysis of the research was the ECDC officials whose responses were obtained using personal in-depth interviews to probe the various aspects of the ECDC investigated in the research. For example, more detail on the type of programmes that the ECDC offers to SMME, the communication tools they use to create awareness of the programmes as well as the areas they consider require improvement by the ECDC, were probed and provided further context to the responses of the recipients of the ECDC aid.

Secondary data was collected from the ECDC Annual Reports, SEDA Annual Reports, ORTDM Annual Report, SMME relevant publications, and a research thesis on the dynamics of rural economies as well as the challenges of SMME development in the Eastern Cape (Xuza 2006; Ndabeni 2005; Dlakavu 2006; Nyathikazi 2007; Mabaso 2003).

### **3.2 Research Design**

The research was both descriptive and exploratory because it described a new topic of investigation with limited available knowledge. The primary purpose of descriptive research is to paint a picture using words or numbers and to present a classification of types or an outline of steps to answer the questions such as who, when, where and how (Neuman 2006). In this type of study, the researcher attempts to describe and define a subject often by creating a profile of a group of problems, people or events etc. (Cooper and Schindler 2008). Exploratory research tends towards loose structure with the objective of discovering future research tasks, and the immediate purpose of exploration is to develop a hypothesis or questions for further research (Cooper and Schindler

2008). One of the benefits of this method was that it provided an opportunity for the respondents to answer the closed-ended quantitative questions, and also to expand on aspects that were not necessarily covered by the questionnaire.

Although there was not enough specific information available on the topic in this region, there was information available on related topics in other parts of the country and other similar studies. The focus was therefore on getting information to understand further how SMMEs in the ORTDM perceive the support given to them by the ECDC to determine whether it meets their expectations for growth of their businesses. The in-depth responses of the ECDC employees' perceptions of their own programmes provided a context for assessing the views of the SMMEs supported by the ECDC. In this study, the primary focus was on the perceptions of a sample of SMMEs and their motivations to start their businesses were captured in an attempt to generalise about the ECDC supported SMMEs in the ORTDM. Although the study has a statistical base, and would ideally attempt to capture the population's characteristics by making inferences from a sample's characteristics, the sample of respondents selected was a nonprobability availability sample, and thus the sample results cannot be considered as generalizable to the entire ORTDM region. Although in this study hypotheses are tested quantitatively, the external validity or generalisations based on the representativeness of the sample is weak. All generalisations made are tentative as the sample cannot be considered to be randomly selected from the target population. Furthermore, the hypotheses are merely descriptive as they relate to levels of agreement, and are therefore not as strong as correlational or causal hypotheses (Cooper and Schindler 2008).

The study was cross sectional in nature as both SMME and the ECDC respondents were interviewed at a single point in time and no experimental treatment was administered. Cross sectional studies are carried out once and represent a snapshot at one point in time (Cooper and Schindler 2008). In this case the snapshot is of the perceptions of respondents, and of the correlates of these perceptions.

### **3.3 Population and sample**

#### **3.3.1 Population**

The primary population of the research was the ECDC supported SMMEs in the Eastern Cape ORTDM. The secondary population of the study was officials of the ECDC who work in the enterprise development.

According to their annual report (ORTDM 2008) the ORTDM is one of the biggest municipalities in the province and it makes up 26 per cent of the total population of the Eastern Cape. According to the Growth Development Plan, of the Eastern Cape Department of Economic Development and Environmental Affairs (2011), there are 213 880 SMMEs in the Eastern Cape, and 48.141 of these SMMEs are from the ORTDM. The Eastern Cape Province has a total of 17.3 per cent of the total SMME population in South Africa

As the Eastern Cape is a large expanse of land, focus on all SMMEs would not have been possible in terms of logistics and time constraints. It was also not appropriate to study all SMMEs in the Eastern Cape because not all of them are supported by the ECDC.

#### **3.3.2 Sample and sampling method**

The sampling frame of the research was the 70 ECDC supported SMMEs provided by the ECDC in ORTDM during the period of the research. Out of the list of 70 ECDC supported SMMEs, 50 responses were ultimately received and all but one was considered sufficiently complete for analysis. According to the ECDC, the data supplied is made up 60 per cent of the overall population of the ECDC supported SMMEs in the region. This means that although the results do not cover the entire ORTDM, they are likely to be representative of the region.

The sample was taken from close to 70 SMMEs that are supported by the ECDC in the ORTDM as provided by the Eastern Cape Development Corporation. The criterion used to choose the sample was that of both financial

and non-financial supported SMME's, although the majority of SMMEs have only received non-financial support from the organisation. It included entrepreneurs who are in retail, construction, upholstery, carpentry, dressmaking and design, aluminium welding, property development, security, hospitality, arts and craft.

This sample was appropriate as the focus was on various entrepreneurial activities, various age groups, various levels of experience, and different levels of education. It also focused on start-up, established, and expanding entrepreneurs.

The secondary sample was six employees of the ECDC who deal with enterprise development programmes in the organisation. Two of the officials are based in the ORTDM in Mthatha, but the rest are based at head office in East London.

The research used nonprobability purposive sampling of SMMEs with an element of convenience sampling. Nonprobability sampling is arbitrary and subjective, with a pattern in mind; in this type of sampling, each member of the population does not have a known chance of being included (Cooper and Schindler 2008). Nonprobability purposive sampling was used as the ECDC supported SMMEs and the ECDC employees in the ORTDM were sought out on purpose. The sampling method of the SMMEs was complemented by nonprobability convenience sampling as it was difficult to reach some respondents in the deeper rural areas and thus SMMEs in the urbanised area of Mthatha formed a major part of the sample. Nonprobability convenience sampling was used in selecting the six ECDC employees who deal with enterprise development programmes in the organisation. No claims of the representativeness of the sample of SMMEs or of the sample of the ECDC employees can be made as no random sampling was used in their selections.

### **3.4 The research instrument**

Primary data was collected by means of questionnaires and secondary data was collected from the ECDC documents and other publications.

As previously explained, the province of the Eastern Cape and the ORTDM in particular, is considered to be one of the poorest provinces and access to technology is a challenge. Therefore a hard copy questionnaire was designed and used to gather data from SMMEs.

Information from previous research material and the research questions helped in the compilation of questions. Previous research has been done on the following topics: rural small enterprise development in the Eastern Cape; the constraints and development issues of forest products and tourism SMMEs in the Wild Coast Corridor (Ndabeni 2005); exploration of factors affecting rural enterprising women in Libode, Eastern Cape (Dlakavu 2006); local authorities' role in the provincial strategic planning process for SMME development (Mabaso 2003); local economic development strategy in relation to integrated development planning in ORTDM (Nyathikazi 2007); renewal of small town economies: the case of Alice, Eastern Cape Province, South Africa (Xuza 2006).

The above research material helped to compile questions around the challenges, support programmes and SMME experiences in rural communities. In addition, some of the material helped to understand what the ORTDM considered to be the important factors in improving economic development and the role of enterprise development (SEDA 2011). The information was also used to understand the reasons why SMMEs start businesses and the challenges they face (Dlakavu 2006). While the focus was on women entrepreneurs, some of the pointers mentioned in the research were used to compile generic questions around entrepreneurs in general. Reference was also made to a case study done on the renewal of small town economies, with the focus on Alice, a small rural town in the Eastern Cape (Xuza 2006). Although not in the ORTDM, this town is also a former homeland town where

enterprise development is mostly needed to help encourage economic growth. Research material on the role that decision-makers have to play in SMME development was also used to understand what entrepreneurs consider to be areas of improvement for enterprise development conditions (Mabaso 2003).

The format of the questions was such that they encouraged and promoted rapport with the participant. The questionnaire started with simple questions and ended with more complex ones to encourage participation.

The questionnaire included a combination of both structured and closed-ended questions and unstructured questions or open-ended questions which gave a frame of reference of what SMMEs consider to be success factors and areas of improvement for the ECDC. The questionnaire was structured as follows:

Section A comprised questions on the respondent and their business. The questions on respondent characteristics were closed-ended such as age, gender, marital status, number of dependents and highest qualifications. The questions on the business were open-ended such as the nature of their business, age of the business, its location, number of employees, number of years under the ECDC support, and their motivation for starting their own business and the type of business. This section answered the research question about the motivations why SMMEs start entrepreneurial activities.

Section B comprised closed-ended items using a five-point Likert-type scale on which respondents were required to rate the ECDC's SMME programmes, the ECDC's communication, the ECDC's employee dedication and knowledge, and general attitudes towards the ECDC outcomes. A Likert-type scale is the most used summated rating scale of statements that express either a favourable or unfavourable attitude towards the object of interest (Cooper and Schindler 2008). This section answered the question about the perceptions of SMMEs towards the ECDC activities and services as seen in Table 1.

**Table 1: Summarised SMME Questionnaire**

Scale	Item
Perceptions of the ECDC's SMME programmes	ECDC has enough development programmes targeted at SMMEs
	ECDC has relevant programmes for the development of SMMEs
	ECDC programmes meet the needs of start-up SMMEs
	ECDC presents development programmes successfully
	ECDC programmes meet the needs of expanding SMMEs
Perceptions of the ECDC's communication	ECDC gives me the opportunity to give feedback about their services
	ECDC acts on feedback given to them by SMMEs
Perceptions of the ECDC's employee dedication and knowledge	ECDC employees are dedicated to providing the best service for SMMEs
	ECDC employees are well trained to provide successful programmes
	ECDC employees are well informed on their SMME programmes
Perceptions of ECDC's outcomes	I'm happy with the ECDC's assistance
	My business has grown since ECDC support
	ECDC supports/ promotes development of my business beyond incubation stage.
	ECDC creates enough awareness about their programmes
	ECDC provides facilities that help my business to grow
	I can recommend the ECDC to upcoming SMMEs

Section C comprised open-ended qualitative questions on suggestions of SMME respondents for successful ECDC programmes for SMMEs, as well as any other comments they wished to express. This section answers the research question about what SMMEs consider to be the ECDC's areas of improvement in enterprise development.

The results received from this questionnaire were used to prepare questions for follow-up interviews with some of the SMME respondents. This was done to improve on the quality of the data received from SMMEs.

The themes of the questionnaire were used to formulate in-depth open-ended questions to probe the perceptions of the ECDC officials towards the programmes they offer to SMMEs in ORTDM. This was an attempt to validate the SMME's perceptions. The open-ended responses of the six ECDC officials who deal with enterprise development programmes provided the perspective of the ECDC officials of the SMMEs perceptions.

### **3.5 Procedure for data collection**

Data collection was done in four phases. Phase one was collecting data from SMMEs using a questionnaire. The SMME questionnaire was sent to the SMMEs using facsimile and where this was not possible, it was delivered to the entrepreneur. The fieldwork procedure was conducted as follows: A former Statistics South Africa fieldworker was employed to distribute questionnaires, do the interviews and collect the completed questionnaire. Interviews were conducted during the day while the entrepreneurs were in their businesses. Where it was a challenge to get the completed questionnaire, face-to-face interviews or telephonic interviews using the hard copy questionnaire were conducted, to ensure clarity of the questions asked, and the entrepreneur was taken through the questionnaire which was faxed earlier. This was the quickest way to receive data considering the technological challenges in the area. At each interview the researcher explained that the research was conducted for academic purposes, that identities of entrepreneurs would remain confidential, and that the results would be compiled at an aggregated level to be shared with the ECDC to help with improving the services of the organisation. The respondents were assured that no individual responses would be divulged to ECDC at any stage.



The second phase was introduced to probe the responses of the SMMEs. This phase involved conducting interviews with 10 per cent of the sample in order to draw conclusions.

Phase three was introduced to gather in-depth perceptions of the ECDC employees about their programmes. A questionnaire with open-ended questions was sent electronically to the ECDC communications manager. The communications manager distributed the questionnaire to the relevant employees.

Once data was received from the questionnaire, the researcher had to do phase four, follow-up in depth telephonic interviews with the officials to delve into deeper details on the responses of the employees regarding the programmes they offer to SMMEs.

### **3.6 Data analysis and interpretation**

The type of analysis undertaken in this study was descriptive for the quantitative data and descriptive interpretive for the qualitative data. To achieve this, thematic analysis was conducted on the open-ended responses. The process of encoding qualitative information is known as thematic analysis. A theme is a pattern found in the information that in the minimum describes and organises (Boyotzis 1998).

The raw data from the questionnaires was entered into MS Excel© in coded form. These codes were derived by numbering the categories or themes of responses to each item to encourage accurate data entry. Subsequently, the researcher edited the raw data to detect and remove all errors and to check if data was accurate and complete.

Both closed and open response questions were coded. Frequency analysis was used. It is the computing of the frequency of responses that are coded or categorised and reduced to numbers so that these data can be manipulated for statistical analysis (Cooper and Schindler 2008). The demographic and

biographic data on the respondents and their SMMEs were summarised using frequency counts and depicted graphically using pie charts.

In order to answer Research Question 1 on the attitudes of SMMEs towards the ECDC (SMME programmes, ECDC communication, and ECDC employee dedication and knowledge), each response was given a numerical score reflecting its degree of favourableness and the scores were summarised in terms of central tendency and variability to measure the participants' overall attitudes. Furthermore, the quantitative responses to the closed-ended questionnaire items were summarised in terms of frequencies or counts of respondents who responded favourably (agreed) or very favourably (strongly agreed) to each of the items. These frequency counts were depicted graphically in pie and bar charts.

In order to answer research questions on what SMMES consider to be areas of improvement for the critical responses to illustrate the factors that contribute to the success or failure of SMMEs within the ORTDM were identified for frequency analysis and graphs. Frequency counts were computed for the themes that were derived from the open-ended responses. From there, data was coded so that there were a limited number of categories based on the important data for the analysis.

As the respondents could provide multiple responses to each item, all the responses to each question were considered and out of this total number of responses to each question, the percentage of times that each response was given was calculated. Multiple response items were used to answer the second and third research questions, this means that each question was analysed in terms of the frequency of *responses* which sum to 100 per cent, rather than the perhaps more confusing way of supplying the percentages of *respondents* responding to each category which would have summed to more than 100 per cent.

Data received from the interviews of both the SMMEs and the ECDC employees was entered into tables for analysis. The data was presented using themes derived from the responses.

Secondary data was received from the ECDC documents including the Annual Reports, ORTDM Annual Reports, research material on other research done about rural communities and enterprise development programmes in rural South Africa, on-line publications and other SMME publications. Secondary data helped to understand the dynamics of rural communities in general and rural enterprises in particular. This data helped to understand the history of rural communities in South Africa, the economic and social challenges of rural communities and the challenges that rural entrepreneurs face in their daily quest to survive. The information also helped in compiling the questionnaire delivered to the ECDC supported SMMEs in the district municipalities, and informed the literature review, providing a better understanding of the environment of the ECDC and development agencies in general. For example, it gave the context of the ECDC's contribution in the Eastern Cape economy in general.

### **3.7 Limitations of the study**

The biggest challenge of the study was that the primary sample comes from the rural parts of the Eastern Cape where access to technological tools of communication was a challenge. Initially, the quickest mode was sending questionnaire via telefax, but the challenge of getting responses back was later identified as respondents were not as responsive as previously hoped. Telephonic and one-on-one interviews were the best way of reaching these SMMEs. There was however scepticism among some of the interviewees regarding the completion of the questionnaire because of fear of perceived victimisation, and that they might be deprived of future assistance from ECDC if they if they responded negatively about the ECDC. To overcome this challenge, the researcher had to explain the purpose of the research to get the respondents to understand the benefits of the research for them.

As the sample was selected as a nonprobability availability sample, no attempt was made to control for sample bias. The result is that the respondents may not have been completely honest in their response. They may have just responded for the sake of 'ticking the boxes' when they were approached to complete the questionnaire.

Another limitation was that of entrepreneurs who changed their contact details, but failed to update them with the ECDC. These SMMEs were not reachable. This may have implications on the external validity of the study.

While combining qualitative and quantitative research questions was the best method for this research, some of the entrepreneurs in the sample may not have been able to fully express their concerns due to lack of previous SMME experience as well as their educational background.

The use of hard copy questionnaires rather than electronic was quite limiting in that it had time and financial constraints. Doing one-on-one interviews was time consuming.

The data collected from the ECDC officials may have been biased as they are the people who run the programmes, and would probably see little or no shortcomings in their services. They may also have been hesitant to give negative feedback as this would be a bad reflection on their work.

## **3.8 Validity and reliability**

### **3.8.1 Validity**

The three forms of validity relevant to the research are face, external, and construct validity. Face validity is how relevant the research looked for the SMMEs. The external validity of research findings is the data's ability to be generalised across person's settings and times. Construct validity on the other hand is the ability of a research instrument to measure what it is purported to measure (Cooper and Schindler 2008).

In an attempt to ensure the face validity, the questionnaire was carried out before the main research, with a pilot study targeted at the SMMEs in general to check the relevance of the questionnaire as well as eliminate ambiguity. These SMME's were chosen from 15 SMMEs who had started their business ventures and had in the process requested funding from enterprise development programmes. The pilot helped to determine the clarity and relevance of the questions and amendments were made where needed.

The external validity was limited as the sample was not randomly selected and therefore could not be assumed representative of all ECDC supported SMMEs in the ORTDM.

Attempts to support the construct validity was undertaken by considering findings of similar studies that were conducted among Small Enterprise Development Agency (SEDA) supported SMMEs in the North West and Northern Cape Provinces and to design a measurement instrument that reflected the constructs of these studies.

### **3.8.2 Reliability**

Reliability has to do with the accuracy and precision of a measurement procedure as well as with the internal consistency of the measurement scale. In an attempt to ensure the lack of ambiguity in the questionnaire, a pilot study was undertaken using various versions of the questionnaire to enhance the reliability. The results of the pilot study showed that some of the questions seemed to be unclear and that there were insufficient demographic items to profile the respondents. Lastly, the questionnaire was all qualitative, but it did not give the respondents room to express their concerns about the ECDC. In response to these concerns, the manner in which the questions were asked were changed to avoid ambiguity, the section on demographic profile was added and qualitative questions were added. The questionnaire was also shared with the ECDC to get input from them.

As the questionnaire did not have scales of items that measured the same underlying constructs, it was not appropriate to measure the internal consistency reliability of scales using Cronbach's coefficient Alpha, although a logical flow of themes was used in ordering the items within the questionnaire.

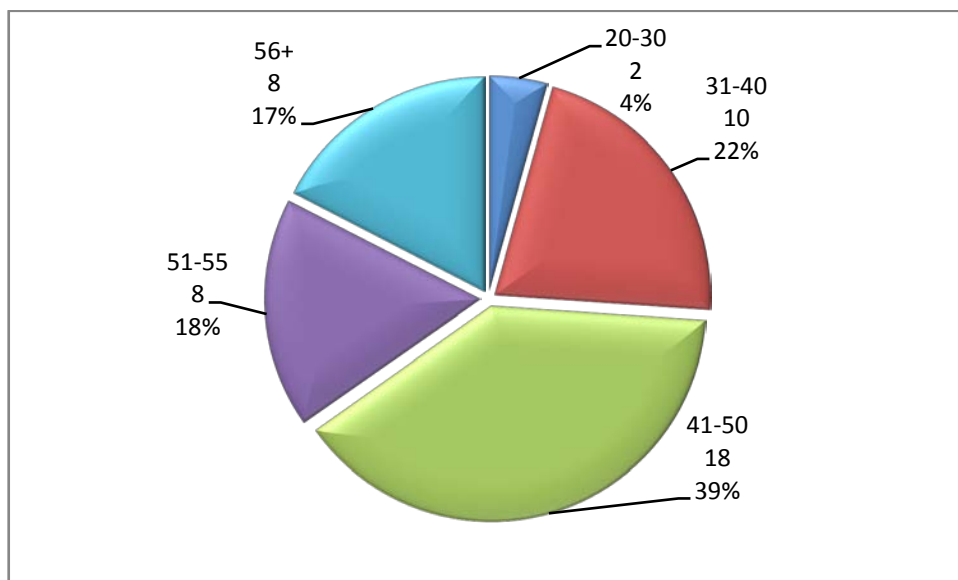
### **3.9 Ethical considerations**

Consultation with the head office and the regional office of the ECDC was made to solicit support for the study. Negotiations took place with the ECDC to use their research material and to maintain the confidentiality of SMMEs' identity, and to share findings only if both parties would agree to share the findings. The researcher supplied the ECDC with the ethics letter confirming that the study is for academic purposes and signing a confidentiality letter with the ECDC. In addition, no section within the questionnaire required the identity of the entrepreneurs or their businesses. Their personal details were kept confidential throughout the study.

## 4 CHAPTER 4: PRESENTATION OF RESULTS

Following a description of the demographic and biographic profile of the respondents and their SMMEs, the results of this research are presented according to the structure of the three research questions. For each research question, the quantitative results based on the perceptions of the ECDC-supported SMMEs towards the ECDC are presented first, followed by the more in-depth responses of the ECDC enterprise development officials to these questions.

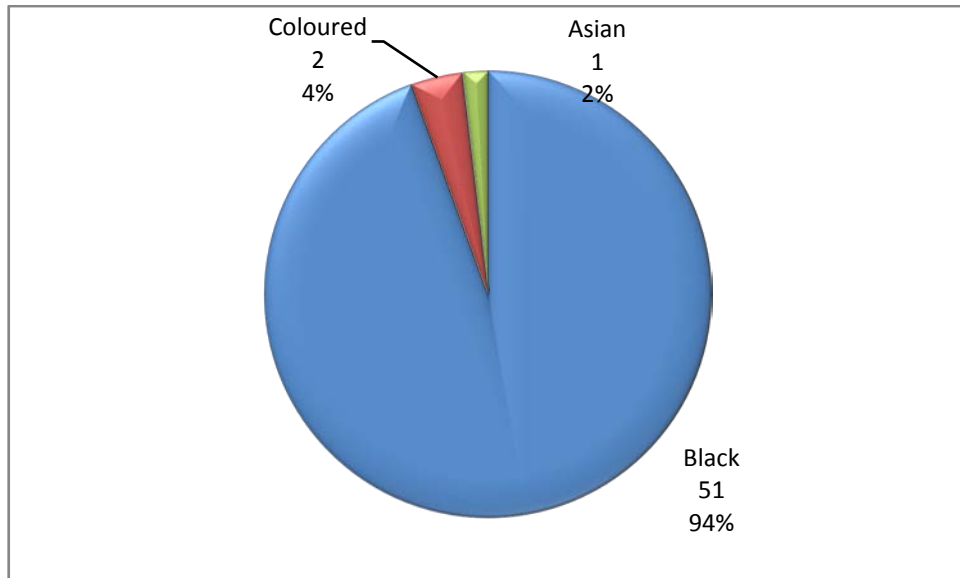
### 4.1 Biographic profile of respondents



**Figure 1: Age Distribution**

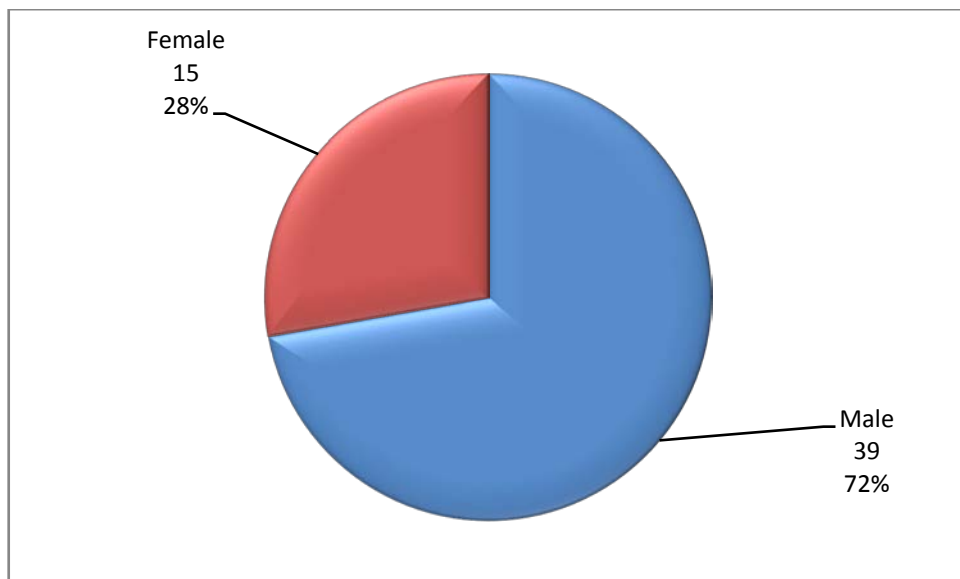
The respondents shown in Figure 1 were mainly older, with few (4 per cent) aged 30 years of age or younger. The age distribution of the respondents varies from 20 to older than 56 years of age, with 39 per cent of respondents in the age group between 41 and 50 years. This is followed by 22 per cent between the ages of 31 and 40 years. Slightly over one third of the respondents were aged between 51 and 55 years (18 per cent) or 56 and older (17 per cent).

Please note that the data labels used in all the pie charts of the research reflects the category name followed by the number of observations in that category, and then by the percentage of the total number of responses in the category.



**Figure 2: Race Distribution**

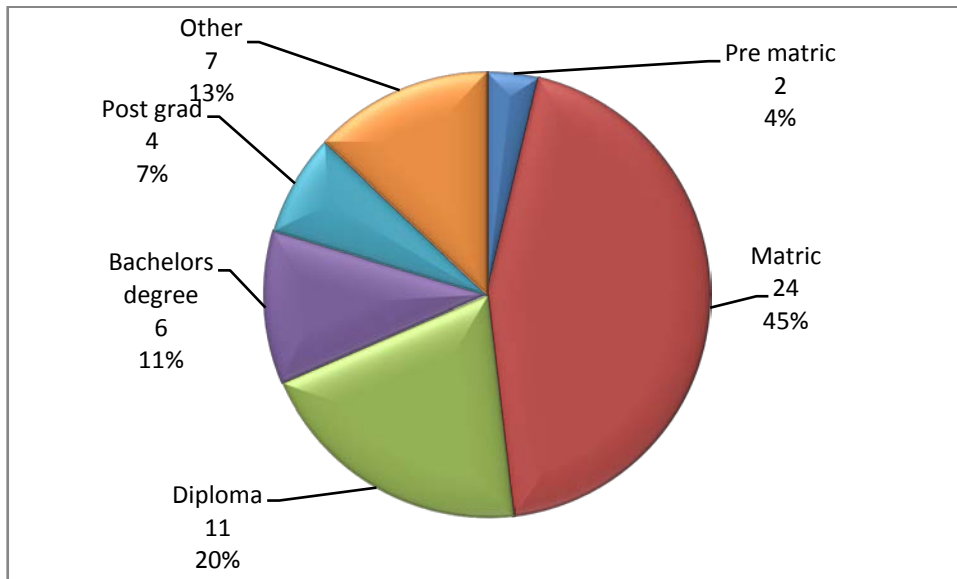
The predominant race group of the sample as shown in Figure 2 is black at 94 per cent followed by 4 per cent coloureds and only 1 per cent Asians.



**Figure 3: Gender Distribution**

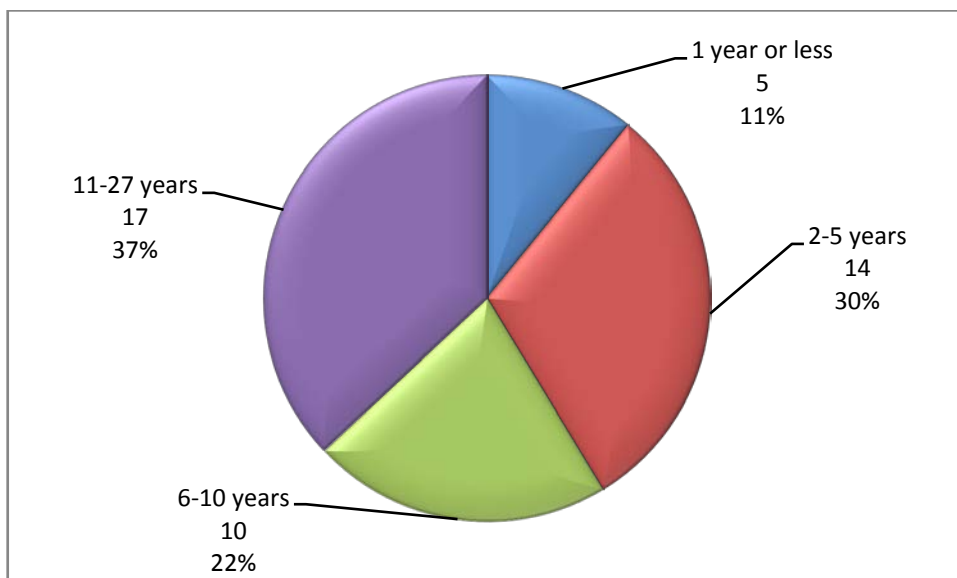


Figure 3 shows that more men in the sample are involved in entrepreneurial activities than women (72 per cent and 28 per cent respectively).



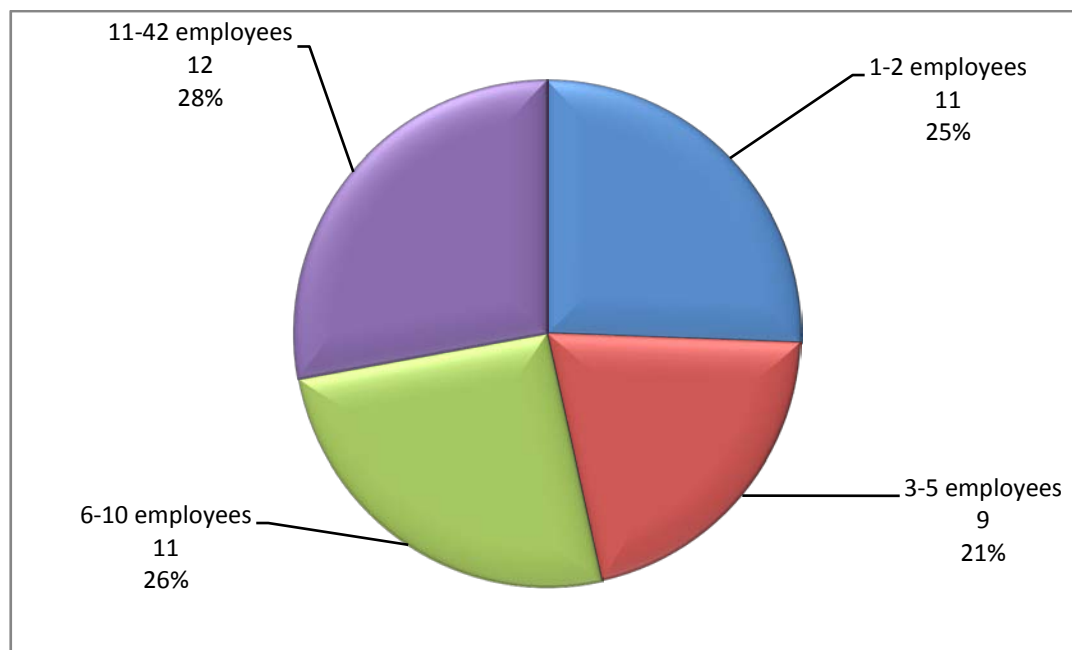
**Figure 4: Education Level**

In Figure 4, over one third (38 per cent) of the respondents were graduates, 7 per cent were post graduates, 11 per cent held bachelor's degrees and 20 per cent had diplomas. Almost half (45 per cent) had matriculation as their highest education level, and the remaining 4 per cent had lower educational levels. The other respondents did not provide their education levels.



**Figure 5: Years in own business**

The respondents shown on Figure 5 were mainly experienced in their businesses, with only 11 per cent having a year or less experience, and 37 per cent with more than 10 years' experience in their business.



**Figure 6: Number of employees**

Figure 6 shows most respondents were generating jobs for others. While 11 per cent were working or with one other, 21 per cent employed 3 to 5 people, 26 per cent employed 6 to 10 people and 28 per cent employed 11 to 42 people.

#### **4.1.1 Demographics of SMMEs as Perceived by the ECDC**

Black, female SMMEs between the ages of 31 and 40 with a matric certificate are the most likely to request assistance from the ECDC. The observation from the ECDC employees is that SMMEs start a business out of necessity due to unemployment as most of them come from rural communities. The range of business most popular is tendering in the area of construction as well as the supply of goods and services. This business approach is considered to be the quickest way to address the challenge of unemployment. The SMMEs usually run a 'one-man-show', as this form of business does not add value to

employment creation. SMMEs deal with suppliers to provide the service or subcontract the work to other specialists.

## **4.2 Research Question 1 – SMME Perceptions towards the ECDC**

For convenience, the first research question is restated:

*What are the attitudes of SMMEs towards the ECDC with respect to:*

- ECDC's SMME programmes?
- ECDC's communication?
- ECDC's employee dedication and knowledge?

The following hypothesis relates to this research question:

*Attitudes of ECDC-supported SMMEs are positive towards the ECDC with respect to:*

- ECDC's SMME programmes,
- ECDC's communication, and
- ECDC's employee dedication and knowledge.

For the quantitative analysis of the responses of the ECDC-supported SMMEs, attitudes are considered to be positive if more than 50 per cent of respondents responding favourably to the aspect of the ECDC in question.

Accordingly, the percentages quoted in the corresponding graphs are based on the percentage of respondents who say they are satisfied or very satisfied with aspects of the ECDC, in other words they agree or strongly agree with each statement.

For the qualitative analysis of the responses of the ECDC officials, their scores on the questionnaire as well as the themes underlying their more in-depth responses are summarised.

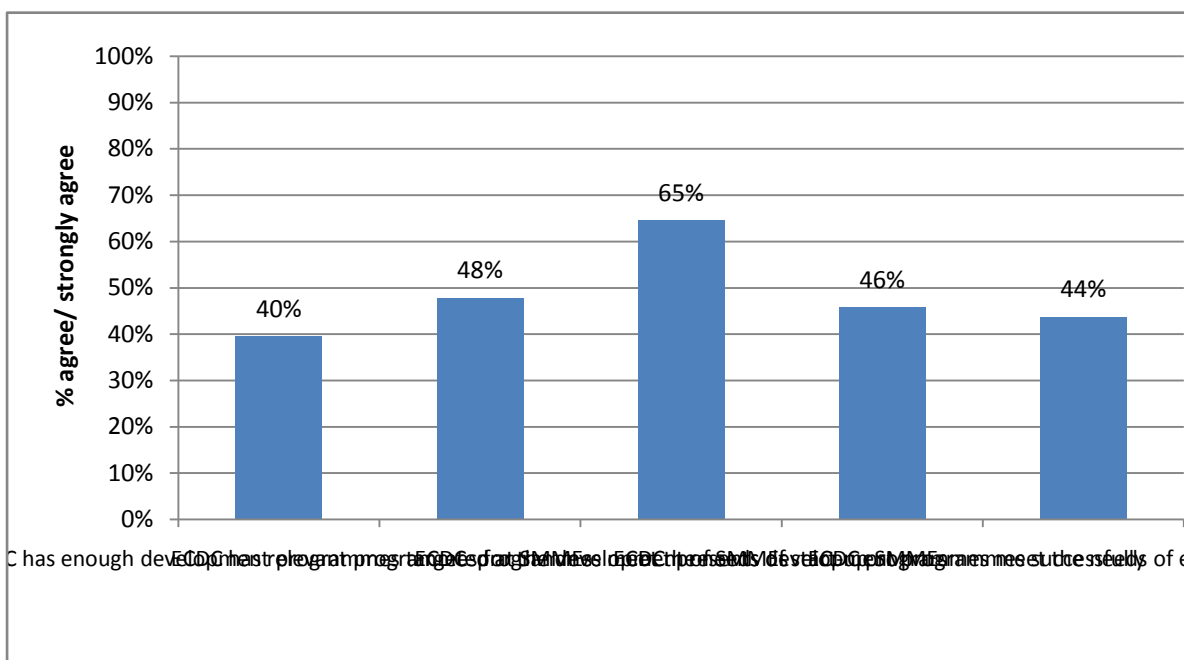
#### 4.2.1 ECDC's SMME programmes

The responses of the ECDC-supported SMMEs towards the ECDC's SMME programmes are presented first, followed by a summary of the thematic analysis of the responses of the ECDC officials to these programmes.

#### 4.2.2 Perceptions of ECDC-supported SMMEs

More than three-quarters of respondents (71 per cent) are happy with the ECDC assistance and 65 per cent feel their businesses have grown since receiving support from the ECDC. Two-thirds of the respondents say they can recommend the ECDC to upcoming SMMEs.

A similar number (65 per cent) believe that the ECDC programmes meet the needs of start-up SMMEs but fewer than half (44 per cent) believe that the ECDC programmes meet the needs of expanding SMMEs.



**Figure 7: SMMEs who are positive towards the ECDC programmes**

Figure 7 shows that one third of the respondents (35 per cent) think that the ECDC supports their businesses beyond incubation. Close to three-quarters of

the respondents believe that the ECDC provides facilities that help their businesses to grow.

Fewer than half (40 per cent) think that the ECDC has enough SMME development programmes while half (48 per cent) of the respondents believe that the ECDC has relevant SMME development programmes. Just under half (46 per cent) believe that the ECDC presents development programmes successfully.

There is thus only partial or weak support for the hypothesis that attitudes of ECDC-supported SMMEs are positive towards the ECDC with respect to their SMME programmes.

#### **4.2.2.1 SMME perceptions about ECDC Programmes**

The responses of the seven SMMEs are summarised in Table 2.

**Table 2: SMME perceptions about ECDC programmes**

	<b>Score</b>	<b>Theme 1: Sufficient in terms of type of programmes</b>	<b>Theme 2: Programmes meet the needs of all SMMEs</b>
<b>SMME 1</b>		The programmes cater for already established SMMEs and not start up.  ECDC only helps with non-financial support.	ECDC requires SMMEs to have funds in the bank before they can support SMMEs.  ECDC does not support small businesses in rural areas with financial support.
<b>SMME 2</b>		Once ECDC has given funding, they don't do	ECDC deducts too much interest from loans that,

		<p>follow-up programmes to ensure growth.</p> <p>There are no offices in the small town.</p> <p>SMMEs have to travel to Mthatha or East London to get assistance</p>	the business does not grow.
<b>SMME 3</b>		<p>There is poor management at ECDC.</p> <p>Application turnaround times are long.</p>	Only established SMMEs get support from ECDC and not the start-up businesses.
<b>SMME 4</b>		<p>ECDC only helps with business plans only.</p> <p>Needs financial support</p>	SMMEs only get support if they know the officials at ECDC
<b>SMME 5</b>		<p>ECDC only helped me with a business plan even after providing all paper work for financial support.</p> <p>I only managed to get financial support when I went to head office in East London.</p>	There is favouritism at ECDC.
<b>SMME 6</b>		<p>ECDC helps with financial and non-financial support.</p>	ECDC helped me to start a small business and now I have expanded my businesses.
<b>SMME 7</b>		<p>ECDC goes beyond giving financial support, it</p>	My business which is in arts and crafts has grown

		link you with other industry stakeholders to help SMMEs grow.	since receiving support from ECDC. It has presented my work at exhibitions both nationally and internationally.
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Table 2 highlights details of the reasons why some SMMEs in ORTDM are not entirely happy with the programmes provided by the ECDC. Many consider financial support as critical to assisting SMME growth. They also feel that the programmes cater for already established enterprises instead of encouraging the establishment of new ones. Turnaround times when requesting for support, combined with poor management and favouritism have been cited as big challenges. The high interest rates from those who get financial assistance have also been mentioned as not supportive of SMME growth. While five of the interviewed SMMEs were unhappy with the ECDC, two of them felt they had managed to grow their businesses through financial support and non-financial support in the form of networking opportunities.

#### ***4.2.2.2 Employee perceptions about the ECDC programmes***

The responses of the five ECDC employees are summarised in Table 3.

**Table 3: ECDC employee perceptions about the ECDC programmes**

	<b>Score</b>	<b>Theme 1: Sufficient in terms of type of programmes</b>	<b>Theme 2: Programmes meet the needs of all SMMEs</b>
<b>ECDC Official 1</b>		Regular mentoring programmes. Business development management skills	ECDC does idea generation, marketing, financial management and business management

		<p>business.</p> <p>Skills development programme.</p> <p>Regular seminars.</p>	<p>programmes for new SMMEs.</p> <p>ECDC does incubation programmes to grow existing SMMEs who want to grow beyond incubation.</p>
<b>ECDC Official 2</b>		<p>Regular seminars targeted at the different SMME industries like hospitality, construction, arts and culture.</p>	<p>ECDC presents seminars and invite enterprise development stakeholders to provide training for different types of stakeholders.</p>
<b>ECDC Official 3</b>		<p>ECDC provides warehouse and office space for SMMEs.</p> <p>ECDC invites SMMEs to participate in events that promote SMMEs. The Grahamstown National Festival is one event where SMMEs in the arts sector are invited to showcase their artwork.</p>	<p>SMMEs get invited to industry specific events such as the Tourism Indaba, Exhibitions to showcase their activities.</p>
<b>ECDC Official 4</b>		<p>Provide assistance with legal advice with legislation requirements, accounting assistance such as SARS compliance, marketing requirements to sell their</p>	<p>ECDC support SMMEs beyond incubation through ad hoc workshops based on the needs of the SMMEs and industry they are in. In these workshops ECDC</p>



		businesses to the public.	<p>hires industry experts e.g. SABS to guide bricklayers, interior designer for the hospitality industry.</p> <p>There's a challenge with micro start-up businesses because most of them are survivalists and the organisation does not have enough system in place to deal with is not well equipped to deal.</p>
<b>ECDC Official 5</b>		<p>ECDC offers enterprise development support through mentorship programmes, financial support, marketing support, legal and financial support.</p>	<p>No resources for business development centre that SMMEs can use.</p> <p>Start-up businesses have different needs but we have one-size-fits-all programmes.</p> <p>Start-up business needs change depending on the stage of the business. Conventional methods don't always work.</p>

The perceptions of SMMEs around the ECDC in the ORTDM have prompted the need for the views of ECDC to respond to give a view on what they consider to be their successes and challenges. This view from the ECDC helps this research document to achieve a more balanced view of the situation

A total of five ECDC employees who deal with SMME development in the Eastern Cape were given the same questions given to the SMME's, but with a different slant focusing on whether the ECDC considered their SMME development programmes good enough to promote the ECDC development. The questionnaire was not only sent to ORTDM, but was sent to the provincial office to gather information about how they gage their programmes.

The findings from this section of the research generally found that ECDC employees believe that their SMME development programmes do make a positive difference in the lives of both start up and expanding SMMEs. They do however believe that there is still room for improvement.

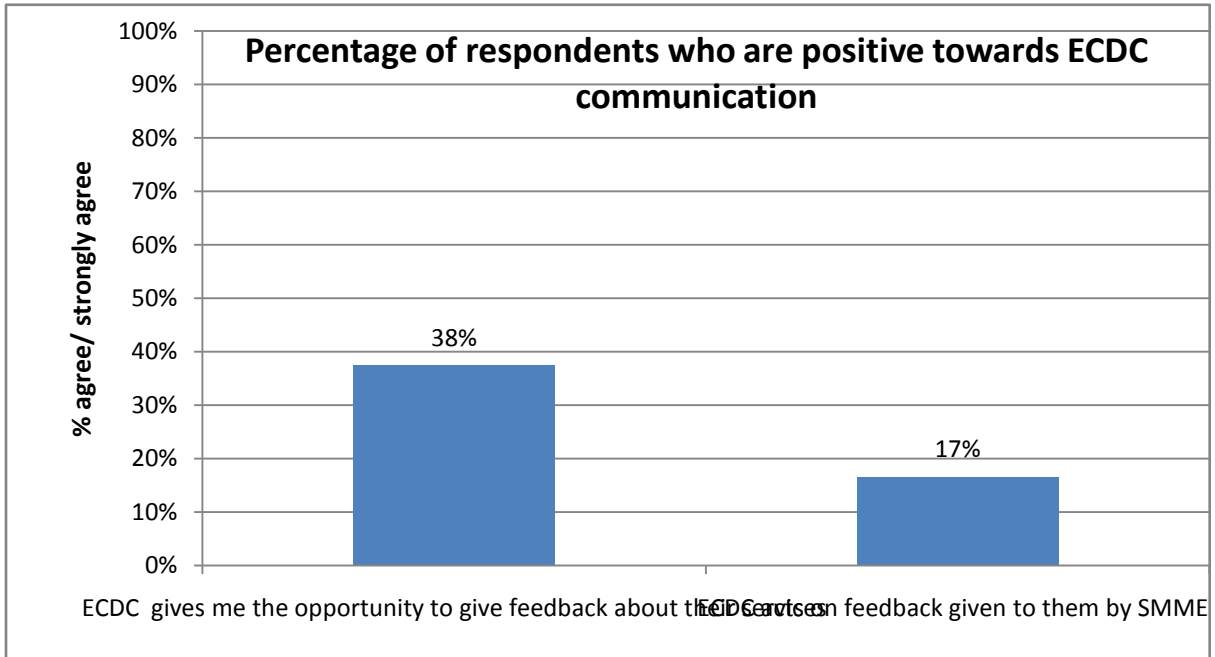
#### ***4.2.3 ECDC's communication***

The responses of the ECDC-supported SMMEs towards the ECDC's communication are presented first, followed by a summary of the thematic analysis of the responses of the ECDC officials to the ECDC's communication.

##### ***4.2.3.1 Perceptions of ECDC-supported SMMEs***

In figure 8, only 38 per cent think that the ECDC creates enough awareness about their programmes. The same percentage of respondents believe that the ECDC gives SMMEs the opportunity to give feedback about their services, but only 17 per cent believe that the ECDC acts on feedback given to them by SMMEs.

There is thus partial support for the hypothesis that attitudes of ECDC-supported SMMEs are positive towards the ECDC with respect to the ECDC's communication, however the positivity is in the minority.



**Figure 8: Respondents who are positive towards the ECDC communication**

**4.2.3.2 SMME perceptions about Communications Tools**

The responses of the 7 SMMEs are summarised in Table 4.

**Table 4: SMME perceptions about communication tools**

	<b>Theme 1: Creating Programme Awareness</b>	<b>Theme 2: Gathering of feedback</b>	<b>Theme 3: ECDC acts on feedback given</b>
<b>SMME 1</b>	We sometimes hear about programmes on radio.	ECDC does not give us an opportunity to give feedback on their programmes and services.	I don't know.

<b>SMME 2</b>	We don't always get the information we need when we visit the offices in Mthatha.	I don't know if they have customer survey programme.	I don't know.
<b>SMME 3</b>	Rural SMMEs are not always able to access information contained in newspapers.	I did fill in a survey, but I never received any feedback.	No.
<b>SMME 4</b>	There is no visibility in the rural areas.	If the organisation is not visible, there is no expectation for us to give feedback on their programmes.	I don't know.
<b>SMME 5</b>	Sometimes ECDC talks about their programmes on radio, but we don't get a chance to ask more questions.	I know about the customer satisfaction survey, but I have never received it.	No.
<b>SMME 6</b>	ECDC officials present their programmes on radio.	They have survey forms, but I don't think they follow up on concerns.	I don't know because I have not received any communication in response to complaints I have communicated to ECDC.
<b>SMME 7</b>	ECDC uses brochures, radio	I have given feedback on my	I was not expecting feedback, so I don't

	and newspapers to create awareness.	experience with ECDC.	know.
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Table 4 shows that they are not fully satisfied with how communication tools are used by the ECDC. The tools are not effective as they are ad hoc and they don't reach out to all SMMEs. They are also not happy that the ECDC is not diligent with regards to their customer satisfaction survey and even when they do give the SMMEs an opportunity to rate their programmes and services, little or no action is taken to rectify concerns.

#### **4.2.3.3 ECDC Employee perceptions about communications**

The perceptions of the seven ECDC employees are found at Table 5.

**Table 5: ECDC employee perceptions about communication tools**

	<b>Theme 1: Creating Programme Awareness</b>	<b>Theme 2: Gathering of feedback</b>	<b>Theme 3: ECDC acts on feedback given</b>
<b>ECDC employee 1</b>	Use of media (radio, newspaper) to create awareness.  Use of newspaper advertisements.  Use of posters in municipal areas.  Seminars are held in various locations where different	ECDC shares customer satisfaction survey with all their clients.  ECDC also has a suggestion box.	Marketing department collects data and shares it with various heads of department to act on the feedback.

	stakeholders such as banks, business chambers, enterprise development programmes are presented.		
<b>ECDC employee 2</b>	Awareness programmes do not reach all rural people as not all of them participate in organised enterprise development programmes such as Cooperatives.	Feedback gathering is done with some SMMES although there is a standard customer satisfaction survey form for all SMMES.	There is sometimes little or no clear follow-through, unless it is escalated to senior management.
<b>ECDC employee 3</b>	For urban communities information is available, but rural communities rely on whether municipal and local representatives share the information.	Survey forms are available for all SMMES to rate the services of ECDC.	Customer relationship surveys are shared with the marketing department at the end of every month to act upon.
<b>ECDC employee 4</b>	There are no dedicated programmes in the media that SMMES look out for	No dedicated resource to deal with gathering feedback anonymously so	No dedicated resource to act on feedback. In some cases action is taken on feedback.

	whenever they need information about starting or improving their businesses.	that the SMMEs can be comfortable to give both positive and negative feedback.	
<b>ECDC employee 5</b>	Programmes are on an ad hoc basis.	No barometer/index to measure the satisfaction levels of SMMEs.	No programme to address concerns of SMMEs.

Table 5 shows that all interviewees agreed that the lack of a holistic communications programme that reaches out to the most rural communities was a big challenge as these communities are the neediest because of the socio-economic challenges. The ECDC mentioned that the easiest way to reach out to rural communities is only through organized community programmes.

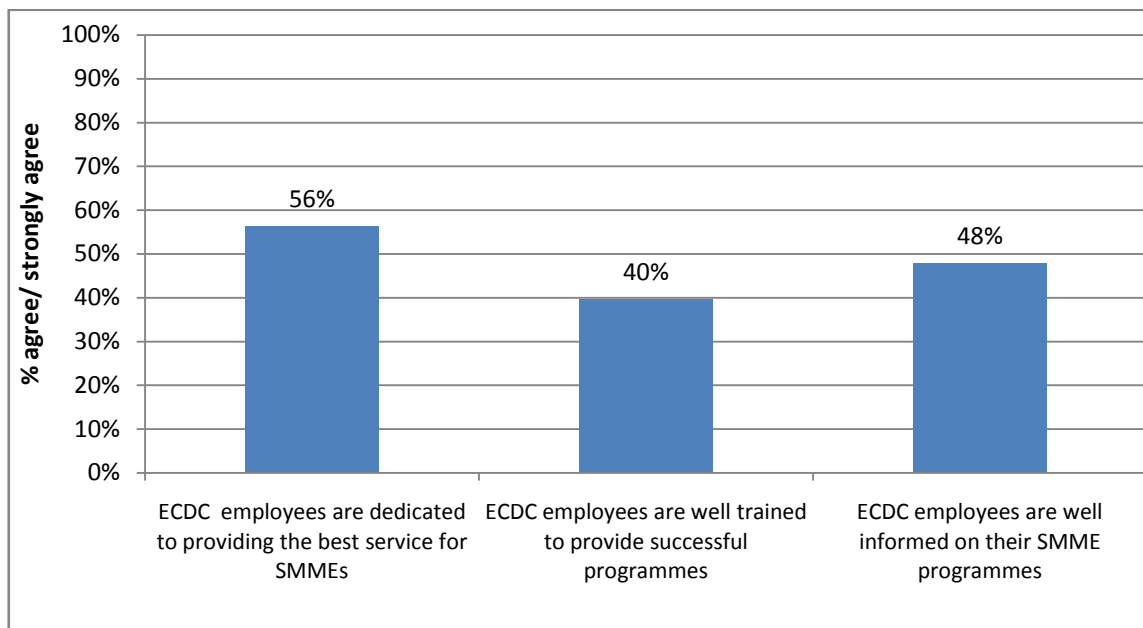
The ECDC also acknowledged the lack of an organized programme to solicit feedback from SMME's about their experience. This therefore means that the ECDC is unable to gather information about the needs of SMMEs and the challenges or successes they experience when dealing with the organization. While there are SMME's that are sometimes encouraged to give feedback, there is little or no follow up on this feedback. One employee even mentioned that follow-up mostly happens when issues are raised through senior management.

#### ***4.2.4 ECDC employee dedication and knowledge***

The responses of the ECDC-supported SMMEs towards ECDC employee dedication and knowledge are presented first, followed by a summary of the thematic analysis of the responses of the ECDC officials.

#### 4.2.4.1 Perceptions of ECDC-supported SMMEs

Figure 9 shows that fewer than half (40 per cent) the respondents consider ECDC employees as well trained to provide successful programmes, and almost half (48 per cent) believe the employees are well informed of their SMME programmes. Just over half (56 per cent) of the respondents see ECDC employees as dedicated to providing the best service for SMMEs.



**Figure 9: Respondents' views towards the ECDC employee dedication and knowledge**

#### 4.2.4.2 SMME perceptions about employee performance

The responses of the seven SMMEs are summarised in Table 6



**Table 6: Respondents views towards ECDC employee dedication and knowledge**

	<b>Theme 1</b> <b>Employee Training</b>	<b>Theme 2</b> <b>Employee Knowledge</b>
<b>SMME 1</b>	Some ECDC employees need training to deal with the different types of SMMEs.	They have knowledge, but they are not always helpful.
<b>SMME 2</b>	ECDC employees must always learn from other development agencies to see how they deal with SMMEs.	I had to go to east London because the Mthatha office was unable to help me and I think this was because of lack of knowledge.
<b>SMME 3</b>	They need training as they are not always willing to help. They sometimes treat you like they are doing you a favour.	They don't know how to deal with SMMEs who are their customers.
<b>SMME 4</b>	I think they are trained, but they don't have good people's skills.	They are knowledgeable about their programmes, but more can be done.
<b>SMME 5</b>	They need regular training.	They have knowledge, but more can be done.
<b>SMME 6</b>	Regular training is needed to deal with the needs of SMME.	ECDC employees are helpful but more can be done to improve their customer service ratings.
<b>SMME 7</b>	ECDC employees are helpful.	They are knowledgeable about the ways to help SMMEs to grow.

In Table 6, SMMEs consider ECDC employees to have knowledge on how to deal with the basic requirements of SMMEs, but they do feel they require more training to help SMMEs to deal with the challenging situations they experience

or to provide innovative solutions to the needy SMMEs whenever a need arises. The SMMEs also are unhappy about the attitude of some employees who they feel are not committed enough to serving the SMMEs.

#### **4.2.4.3 ECDC Employee perceptions of employee performance**

**Table 7: ECDC employee perceptions of employee performance**

	<b>Theme 1</b>	<b>Theme 2</b>
	<b>Employee Training</b>	<b>Employee Knowledge</b>
<b>ECDC employee 1</b>	<p>Employees go through an induction session when they join ECDC.</p> <p>The Human Resources Department has a Performance Development Plan to monitor and improve performance.</p>	<p>Employees go through training to understand the activities of other units within ECDC so that they can have a holistic understanding of ECDC.</p> <p>ECDC provides all its new employees a Standard Operating Manual.</p> <p>Human Resources department constantly seeks to understand trends to help improve employee performance.</p>
<b>ECDC employee 2</b>	<p>Employee training needs improvement.</p>	<p>Provision of enterprise development services requires employees to seek knowledge from credible enterprise development agencies in other parts of the world.</p>
<b>ECDC employee</b>	<p>Any organisation need to constantly work towards improving the skills of their</p>	<p>Lessons can be taken from the private sector as well as international experts.</p>

<b>3</b>	employees.	
<b>ECDC employee 4</b>	ECDC brings experienced external consultants to train employees on different aspects of enterprise development.	Internal training programmes offered by HR help to provide knowledge for employees.
<b>ECDC employee 5</b>	Not enough training to help employees to be able to tailor-make the services to the needs of the entrepreneur.	There's a gap in employee knowledge because of limited resources.

In Table 7, the ECDC employees believe that the internal training programmes provided by their internal human resources department and the support of external field experts assists them to address the needs of the entrepreneurs. They do however believe that the training programmes they receive are not enough to deal with the ever-changing needs of SMMEs, and therefore there is still room for improvement. They do not believe their employees are well equipped to understand the enterprise development trends that can help them tailor-make programmes to the needs of the different levels of SMMEs.

The employees also believe that given the limited resources, the employees have the basic knowledge of providing assistance to SMMEs that there is room for improvement where knowledge is concerned.

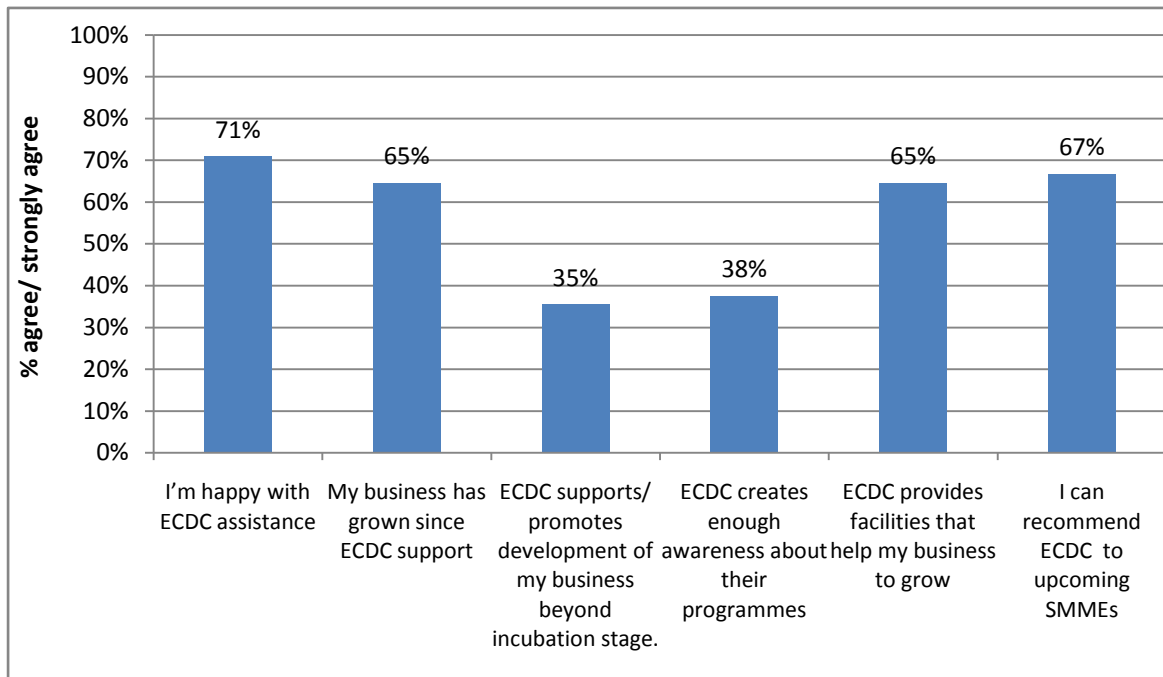
There is thus weak support for the hypothesis that attitudes of ECDC-supported SMMEs are positive towards the ECDC with respect to the ECDCs' employee dedication and knowledge. The positivity is not in the majority as some of the SMMEs do not believe the ECDC employees are fully dedicated to their work or knowledgeable about the services they provide for SMMEs.

#### **4.2.5 General perceptions of the ECDC**

The general perceptions of the ECDC-supported SMMEs towards ECDC are presented first, followed by the general perceptions of ECDC officials.

#### 4.2.5.1 Perceptions of ECDC-supported SMMEs

Approximately two-thirds of the respondents are satisfied with the ECDC assistance they receive, claiming growth and facilities that have helped them to grow. They would recommend the ECDC to upcoming SMMEs. However they are less positive about the ECDC support beyond the incubation approach.



**Figure 10: SMMEs who are positive towards ECDC outcomes**

In conclusion, figure 10 shows that the attitudes towards the ECDC are mostly positive especially the start-up businesses and those who believe the ECDC facilities help them grow.

#### 4.2.5.2 Perceptions of the ECDC-officials

There are, however negative sentiments particularly towards the support given by employees, the awareness created by the ECDC as well as the programmes targeted at expanding established SMMEs.

On the other hand, ECDC employees are not entirely complimentary of their own colleagues; they do believe that more support is required for them to be

able to keep up to speed with the requirements of their jobs as well as the ever-changing needs of the entrepreneurs.

### **4.3 Research Question 2 – Reasons for starting entrepreneurship activities**

For convenience, the third research question is restated:

*What are the reasons for SMMEs in the ORTDM to start entrepreneurial activities?*

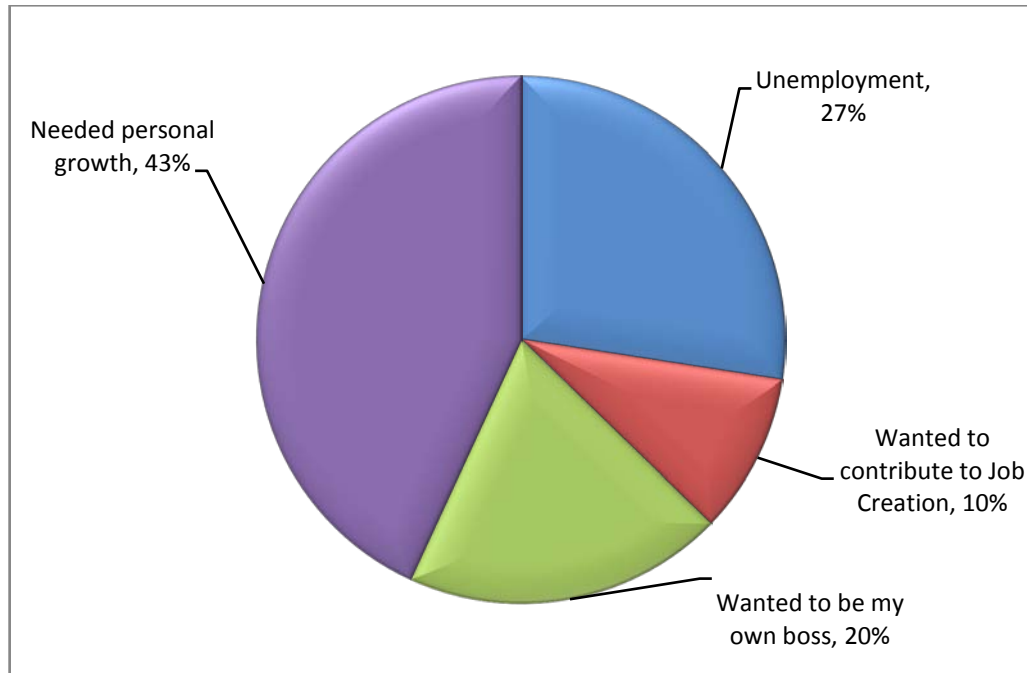
The following hypothesis relates to this research question:

The predominant reason cited by the SMMEs in ORTDM for starting their own businesses is unemployment.

For the quantitative analysis of the responses of the ECDC-supported SMMEs, reasons for ECDC-supported SMMEs starting their own businesses are categorised according to the themes presented. Following this, the perceived reasons from the perspective of the ECDC officials are categorised.

#### **4.3.1 Perceptions of the ECDC-supported SMMEs**

As each respondent could supply multiple reasons for starting their business, all the responses were considered and the percentage of each category of response was calculated relative to this total number of responses as shown in Figure 11. Accordingly, the reasons given by respondent for starting a business are: 43 per cent wanted personal growth, 27 per cent were unemployed, 20 per cent wanted to be their own bosses, while 10 per cent wanted to contribute to job creation.



**Figure 11: Reasons for starting a business**

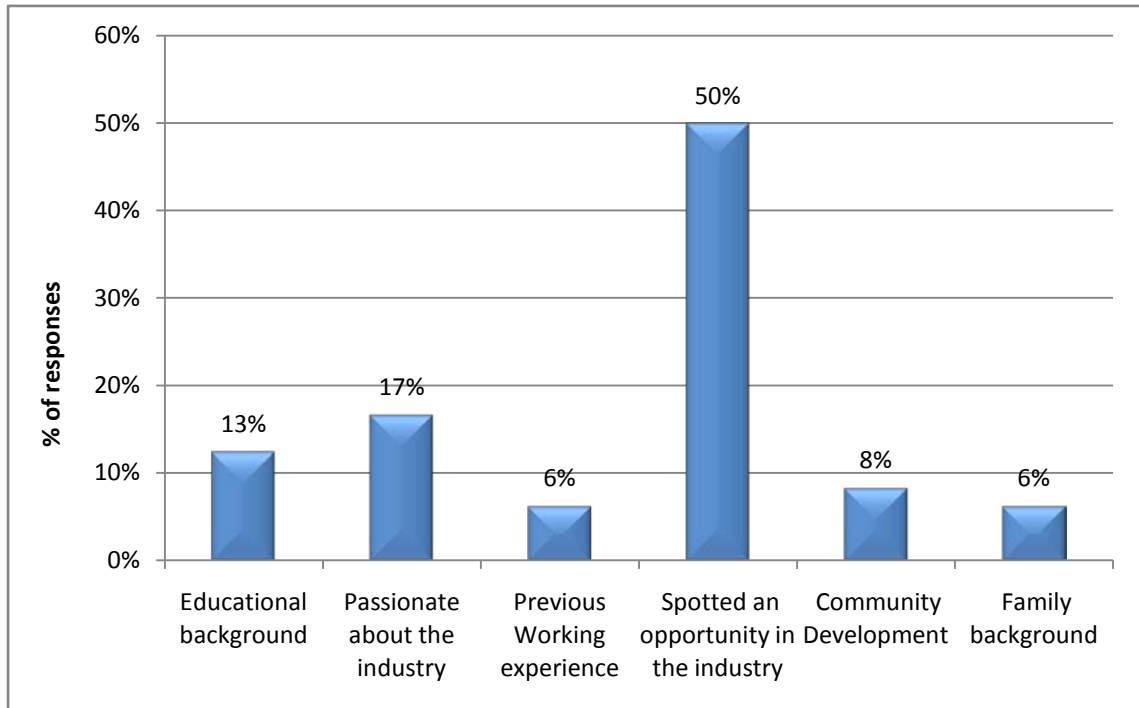
The hypothesis that the predominant reason cited by the SMMEs in ORTDM for starting their own businesses is unemployment is thus not supported. While unemployment is talked about more as the reason to be entrepreneurial, this research has shown that the need for personal growth is even more important.

Furthermore, the reasons given by entrepreneurs for their choice of business are provided in Figure 12. Once again, these percentages are calculated relative to the total number of responses as each respondent could provide multiple responses.

Half of the respondents spotted an opportunity in their respective industries. While 17 per cent were passionate about their industry, 8 per cent wanted to contribute towards the development of communities by creating employment. An equal number of respondents (6 per cent) had either a family background or previous working industry in their industries.

The conclusion is that SMMEs have more than one reason for starting businesses. These range from the need for personal growth, fear of unemployment and the need to be their own bosses. A lot of the entrepreneurial

activities were chosen as a result of spotting opportunities, being passionate about their respective industries, previous working experience, the need to create employment in their communities and their family background.



**Figure 12: Reasons for starting a particular type of business**

#### **4.3.2 ECDC employee perceptions about SMME reasons to start a business**

The responses of the five ECDC employees are summarised in Table 8

**Table 8: SMME perspective on SMME reasons to start a business**

	<b>Theme 1</b>	<b>Theme 2</b>	<b>Theme 3</b>
	<b>Reasons for starting a business</b>	<b>Reasons to start a specific type of business</b>	<b>Number of SMME employees.</b>
ECDC	Unemployment.	Tendering is	Tendering does not

employee 1	Availability of government tenders. Need to make quick money for survival.	preferred because it provides quick money.	create employment as it is a one-man show.
ECDC employee 2	Unemployment. Availability of government tenders.	SMMEs identify opportunities.	The SMMEs are not high performing.
ECDC employee 3	Family responsibility. Unemployment. Availability of government tenders.	To make quick money to survive.	Self-employment (One-man show).
ECDC employee 4	Unemployment. Need to be their own boss.	Spot tendering opportunities.	One or two.
ECDC employee 5	Government Incentive schemes. Availability of Government tenders. Access to land.	Own skills and expertise. Growth in a particular sector. Spot opportunities.	Less than 5 employees. Over 5 employees are usually for temporal jobs.

In Table 8, the reasons for starting a business that are shared by SMMEs are different from those stated by ECDC employees. All employees cite unemployment as the major reason why SMMEs start their businesses. This is followed by the reason of the availability of government tenders. The employees have also mentioned access to land and the need for some SMMEs to be their own boss.



The reasons stated by the ECDC for SMMEs starting a particular type of business include spotting opportunities that come with government tenders in different industries. While some focus on their own skills and expertise, others make their decisions based on the potential for growth in the different sectors.

ECDC employees do not believe that SMMEs in ORTDM create job opportunities for other community members. They believe a lot of them run 'one-man-shows' and the largest number of jobs created is five, and anything above that is mainly temporary.

#### **4.4 Research Question 3 – ECDC areas of improvement**

For convenience, the third research question is restated:

*What are the areas of improvement that SMMEs in the ORTDM cite as important for the ECDC?*

For the quantitative analysis of the perceived areas in which the ECDC could show improvement from the perspective of the ECDC-supported SMMEs, responses were summarised according to the themes presented. Following this, the perceived areas in which the ECDC could show improvement from the perspective of the ECDC officials are presented.

##### **4.4.1 Perspective of ECDC-supported SMMEs**

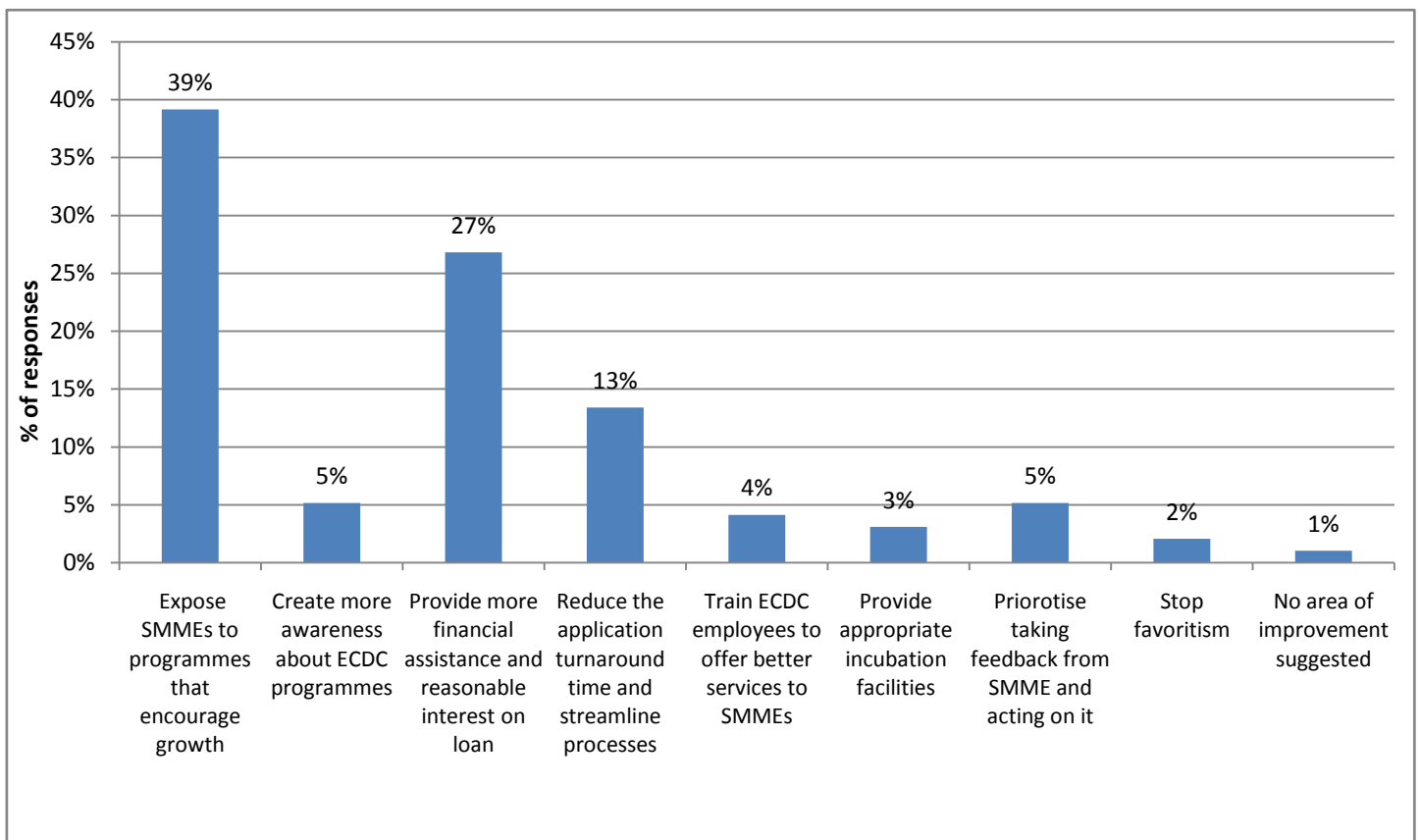
Figure 13 shows the percentages provided in the areas of perceived improvement are based on the number of responses received under each area of improvement identified, as respondents were encouraged to identify multiple areas that they considered in need of improvement.

Many responses recorded (39 per cent) indicated that the major area that requires improvement is the exposure of upcoming SMMEs to programmes that encourage growth for SMMEs. This is followed by 27 per cent of responses that identified the need for more financial assistance and reasonable interest to be charged on loans. Up to 13 per cent of the responses suggest ECDC should

improve on the SMME assistance, application turnaround time. Five per cent of responses identified the need for more awareness creation, and a further five per cent identified the need for the ECDC to give SMMEs an opportunity to give feedback to the ECDC about the quality of their services.

The training of ECDC employees was identified as a concern to four per cent of the responses and only one per cent of responses indicated that ECDC was on track and did not need to improve on anything.

Responses totalling four per cent want the ECDC to provide appropriate incubation facilities for SMMEs and two per cent want the ECDC to put an end to favouritism when deciding of providing assistance.



**Figure 13: Areas of improvement cited for the ECDC**

#### **4.4.2 ECDC employee perspective of areas of improvement**

The responses of the five ECDC employees are summarised in Table 9:

**Table 9: ECDC employee perspective about SMME reasons to start a business**

	<b>Theme 1</b>  <b>Areas of Improvement</b>  <b>Programmes</b>	<b>Theme 2</b>  <b>Areas of Improvement</b>  <b>Communication</b>	<b>Theme 3</b>  <b>Areas of Improvement</b>  <b>Employee development</b>
<b>ECDC employee 1</b>	<p>More engagement to understand the needs of the SMMEs and tailor-make business solutions.</p> <p>Need to focus on growing-start-ups.</p> <p>Increased footprint to rural areas.</p>	<p>Need to have programmes that reach out to rural communities.</p>	<p>Capacitate employees with programmes that help SMMEs to grow.</p>
<b>ECDC employees 2</b>	<p>Strengthen cooperation with private sector to improve on programmes.</p> <p>Provide programmes that are targeted at rural communities as well.</p>	<p>Have regular enterprise development programmes on regional and community radio stations.</p>	<p>Train employees to assist SMMEs to be able to spot opportunities.</p>

<b>ECDC employee 3</b>	Constantly seek best practice from enterprise development leaders.	Rural communities can be communicated to through traditional local authorities.	Employees have to be given people's skills training.
<b>ECDC employee 4</b>	Need more engagement with SMMEs to give feedback on services, and for ECDC to act on the feedback.  Encourage more rural communities to form cooperatives.	Do more awareness programmes to give accessibility to rural communities.	Regular training programmes for employees to be able to deal with different types of SMMEs.
<b>ECDC employee 5</b>	Do regular research on enterprise development trends.  Integrate programmes with other development agencies such as SEDA.	Introduce dedicated resources to gather feedback from SMMEs.	Expose employees to international enterprise development trends.

Table 9 shows what the ECDC employees believe to be areas of improvement for their organisation. These include the need to engage SMMEs in order to understand their needs and present programmes that are targeted and focused on assisting rural communities. They are suggesting the organisation provides programmes that are integrated with those of other enterprise development organisation for maximum benefit for SMMEs. They also identified the need for partnerships with the private sector.

The ECDC believe there is a gap in their communications programmes. They believe there is a need for dedicated enterprise development slots on media both at regional and local level. They all state the need for programmes that are more focused on rural communities.

The employees believe that ECDC employees who deal with SMMEs require constant training to be able to deal with the needs of the different types of SMMEs. They believe there is a need to expose employees to international trends that will capacitate them to deal with the varying needs of SMMEs.

#### Summary of the results

The results of the survey have answered the three research questions of the study, namely: What are the SMME perceptions towards ECDC? What are the perceived areas that the ECDC needs to improve on when dealing with the SMME? What are the reasons for ECDC starting businesses?

Although the entrepreneurs are generally happy with the ECDC assistance they have received and contend that their businesses have grown from ECDC support, there are many areas of less than ideal satisfaction levels, such as ECDC communication and ECDC employee support.

These results from SMMEs are in line with the responses received from the ECDC. Both parties believe there is still an opportunity for the ECDC to improve, especially where micro enterprises and rural communities are concerned.

## **5 CHAPTER 5: DISCUSSION OF THE RESULTS**

The survey results to be discussed in this chapter aim to answer the research questions stated in previous chapters. The starting point will be to discuss the findings in relation to the demographic profile of the respondents. The second part will discuss the results in relation to the perceptions of SMMEs in the ORTDM toward the programmes provided by the ECDC. The reasons why entrepreneurs start their businesses and why they chose their areas of operation will also be covered. Lastly, the focus will be on discussing and explaining the results in relation to what SMMEs consider to be areas of improvement for the ECDC.

### **5.1 Demographic profile of respondents**

The results from both the ECDC and SMME responses show that the majority of respondents to be rural black, males with a matriculation certificate as their highest level of education.

The racial makeup is expected considering the demographics of the ORTDM which is largely black. It is also expected that due to the government's Broad Based Black Economic Empowerment (BBBEE) strategy, there would be more black entrepreneurs taking advantage of the benefits presented through government policy. It is also logical that because of the economic situation in the region, more black people than any other racial group would be in need of assistance from organisations such as the ECDC. Many of them lack the capital and the expertise to start their own entrepreneurial activities.

The profile of more men being entrepreneurs than women is not surprising. South Africa tends to be very patriarchal with expectations for women to be domestic while men, considered the heads of families, support their families financially. While this is the norm, various studies indicate a shift from men to women as head of families. There is also a high rate of households run by single parents who are mostly women. This therefore means more women are working as head of the household and are slowly moving toward more

entrepreneurial activities. Women take fewer risks than men and as a result fewer women consider entrepreneurship. Historically, women are less likely than men to get loans or support from institutions due to the belief that they are less likely to succeed than their male counterparts. These factors often discourage women from getting involved in entrepreneurial activities.

The educational background of the sample in this region is not surprising. There is a high illiteracy rate and high poverty levels in this region. Many in the communities aspire to only get a matriculation certificate which is considered a gateway to job opportunities. When the hope of getting a job fades due to economic challenges, the next best thing is for the matriculants to start their own entrepreneurial activities to sustain themselves. Few entrepreneurs have gone beyond this level.

In summary, most of the results were expected, firstly, more men are involved in entrepreneurial activities than women; and the majority of SMMEs are black because ORTDM was a former homeland meant for black settlement. There were no significant expectations on the age demographics for entrepreneurial activities, but the younger age group was not expected to be as active as the older group. As ORTDM is mostly rural with higher levels of illiteracy, it was expected that most people would not have progressed beyond the level of matric.

## **5.2 Research Question 1: The Perceptions of SMMEs towards the ECDC**

The responses below are based on perceptions of the SMMEs and ECDC employees on questions asked to determine their perceptions towards ECDC programmes. The results are grouped to indicate the following:

### **5.2.1 Programmes**

The role of enterprise development programmes in contributing to economic development can never be overemphasised, and as stated in Xuza (2007),

SMME development may not be as successful without the contribution and support of all relevant institutions including NGOs, donor agencies and development agencies.

The results from the SMME responses show that more than two-thirds (71 per cent) of the respondents are satisfied with the assistance provided by the ECDC, and 65 per cent feel their businesses have grown since receiving support from ECDC. A total of 67 per cent of respondents would recommend ECDC to upcoming SMMEs. This is a strength for the ECDC and shows that the organisation is moving in the right direction in assisting SMMEs.

What is evident from the results is that SMMEs acknowledge that without the support received from the ECDC, they would not have been able to follow their entrepreneurial ambitions. Those who started their business before receiving assistance from the ECDC believe that without ECDC support their businesses would not have grown to the level they are today. One example is a dressmaker who started with only one sewing machine, and today has more than 10 machines. The dressmaker today takes orders for uniforms, tracksuits and blazers from schools with confidence that deadlines will be met.

It is this kind of SMME that would recommend the services of the ECDC to others because they feel that the ECDC makes a positive difference in the lives of aspiring entrepreneurs. The other 33 per cent will not recommend the ECDC as they are dissatisfied with the financial assistance conditions regarding the interest charged on business loans. This point will be discussed in detail later in this chapter.

A total of 65 per cent of SMMEs believe ECDC programmes meet the needs of start-up SMMEs. The reason this figure is high is because many have not had previous SMME assistance; they likely would appreciate any kind of assistance available. The other 35 per cent may not have been completely satisfied with assistance as they would have expected more.

Less than half (40 per cent) of the SMMEs surveyed think that the ECDC has enough SMME development programmes while 48 per cent of respondents



believe that the ECDC has relevant SMME development programmes. This indicates that while the SMMEs are satisfied with the service they have received, they also feel that more can be done to help them grow beyond start-up entrepreneurs. Mitchel (2004) highlights the fact that entrepreneurs need continuing support and training in order for them to survive in their businesses and to allow them to grow. There is a strong need for support agencies to train and assist their clients on the subject of budgeting, costing and maintaining a cash flow for the business.

It is for this reason that only 35 per cent of the SMMEs think that the ECDC supports their businesses beyond incubation. Entrepreneurs believe that the ECDC does not offer holistic support, does not do follow up with their SMMEs to measure progress and do not have programmes targeted at different types of entrepreneurs. Additionally, it is believed that because ORTDM is so rural with mostly informal businesses that the ECDC does not take the community needs into consideration in its programmes.

Tlhomola (2009) says rural entrepreneurship development and employment promotion needs to be driven by the provision relevant infrastructure, education, accessibility to information and economic wellbeing of rural dwellers.

The findings from the SMME survey have some similarities to those of the ECDC employees. The ECDC believes the SMMEs are happy with the assistance they receive from their organisation. They believe the mentoring programmes, financial management, skills development, idea-generation and marketing programmes help SMMEs to grow. They believe they have enough programmes and relevant programmes as they have both generic business development programmes as well as those targeted at the different industries. For example they make reference to partnerships with architects and organisations such as the South African Bureau of Standards (SABS) to provide expert advice to SMMEs in the construction industry, advice from interior designers for the SMMEs in the hospitality industry, access to exhibitions such as the Grahamstown National Festival for the arts and crafts enterprises.

The ECDC also believes that they do support start-up and expanding SMMEs beyond incubation stage by providing expansion opportunities through both financial and non-financial assistance. They make reference to their three to five day start-up programmes such as idea generation, business registration and idea implementation. They also invite SMMEs to participate in enterprise development stakeholder seminars to share business opportunities.

They believe the success rate of their programmes is determined by the growth of businesses compared to their target, as well as the high loan repayment rate by SMMEs who receive financial support. The ECDC believes it has a low rate of defaulters.

They do however acknowledge that there is still a gap with providing tailor-made programmes for start-up SMMEs especially those aimed at micro-enterprises and rural communities. They associate the challenge of rural communities with the shortage of organised community programmes such as co-operatives which can make it easy for the organisation to provide programmes and services.

Close to a quarter of the SMME respondents believe ECDC provides facilities that help their businesses to grow. A lot of respondents feel the lack of adequate infrastructure has a negative impact on their development. While some of the respondents, involved in dressmaking and upholstery use premises provided by the ECDC for their businesses, a lot of respondents feel more accommodation or premises are needed.

The concern around unavailability of facilities is shared by the employees of the ECDC. They acknowledge that the absence of fully equipped business development centres with trained enterprise development agents is a challenge. A facility of this nature would provide much needed support for SMMEs, particularly rural SMMEs where availability to infrastructure is a challenge.

Research shows that access to proper incubation programmes can contribute positively to the development of SMMEs. Introduction of these facilities would be a good idea for the ECDC. Entrepreneurs would then be able to develop

their ideas, from inception to commercialisation, provide a comprehensive and integrated range of services including affordable floor-space, secretarial support, use of office equipment, hands-on business counselling, access to specialised assistance, as well as networking activities (Buys and Mbewana 2010).

On examination of the demographics, the respondents who have been in business for a longer period of time were those dissatisfied with the programmes. They feel the need for assistance to grow beyond incubation and that this is lacking from the ECDC. They want to see programmes that target SMMEs at various levels of the entrepreneurship cycle.

Just under half (46 per cent) believe that the ECDC presents development programmes successfully. Less than half (44 per cent) believe that ECDC programmes meet the needs of expanding SMMEs. They believe that no matter how much assistance can be given at start-up level, continuous support must be given in areas such as business management, finance management and other areas of assistance. Nieman (2001, p. 446) cited Wickham (1998) in an explanation that SMME support should include training in strategy, planning, marketing, finance and project management, leadership, and communication skills.

### ***5.2.2 Communication and Feedback Programmes***

Both the SMMEs and the ECDC employees are not confident about the quality of the communications programmes targeted at SMMEs. They also question the value of the customer satisfaction survey that the organisation has.

Only 38 per cent of SMMEs believe that the ECDC creates enough awareness about its programmes. The respondents feel one of the ECDCs' biggest challenges is that it does not communicate enough of its programmes to the public nor to the SMMEs themselves. They feel that they must constantly search for available programmes and opportunities from the ECDC and that the information is not readily available even at the regional office.

This finding is in line with the findings in Venter et al. (2008) who identified the lack of awareness of the various services offered through the legislative bodies and DTI initiatives. In the Western Cape 70 per cent and in Gauteng 57 per cent were not aware of support programmes available to them. This challenge is nationwide and even more so in the rural communities who are the neediest. In rural areas there are not as many communication tools as there are in urban areas and illiteracy may prevent some from accessing the few tools available to them.

With the lack of communication from the ECDC to the ORTDM SMMEs, it is appropriate that Mitchel (2004) highlights that efficient dissemination of information regarding assistance and services is also a necessity to maximise the benefits that entrepreneurs can obtain from the support services.

While the respondents acknowledge the availability of items such as brochures, they feel that more should be done particularly for rural people with limited access to this information, or who may not be able to read and understand the contents of the brochure. They feel the use of appropriate mass media resources such as radio would be a better option. They also feel workshops and training programmes tailor-made for rural communities, conveniently held in these communities would contribute towards the success of SMMEs.

The ECDC employees on the other hand make reference to the awareness programmes through newspapers, distribution of flyers and the use of radio, a medium that reaches out to the most rural communities. The challenge that they have identified is that while these programmes exist, they happen on an ad hoc basis. There are no dedicated slots on the different media that SMMEs can follow to gain knowledge or even keep up to speed with trends in enterprise development.

Another area that SMMEs believe is a weakness of the ECDC is that less than half of the respondents (38 per cent) believe the organisation gives them the opportunity to give feedback about their services. Less than a quarter of the

respondents (17 per cent) believe that the ECDC acts on feedback given to them by SMMEs.

This is of serious concern as organisations should constantly give their stakeholders a chance to rate their performance. This not only assists the SMMEs to voice their concerns and their areas of satisfaction with the ECDC, it also gives the organisation an opportunity to assess and improve its performance. ECDC also can take success stories from one region and implement them in other regions for the benefit of the entire organisation.

While giving SMMEs an opportunity to give feedback on their experiences in dealings with the organisation, it is even more important to act on the feedback received. This would encourage the ECDC to want to achieve more. If employees are informed that feedback is solicited on their performance and that action will be taken against non-performance; they are more likely to improve their performance.

The ECDC employees are divided on how they see their contribution in this area. Some believe that their regular customer satisfaction surveys help the organisation to gather information about their success areas as well as the areas of improvement. These employees believe through channelling the survey forms to the head of the marketing department their employees are able to do follow-up and act on the concerns of SMMEs. The majority of employees believe this programme is available on paper with little or no proper implementation except when communication goes through senior management offices.

### ***5.2.3 Employee Dedication and Knowledge***

Regarding the perception towards ECDC employees, 40 per cent of respondents consider ECDC employees to be well-trained to provide successful programmes, and 48 per cent believe the employees are well informed of their SMME programmes. This low number is a concern as employees are the life-

blood of any company particularly a service providing organisation. They can make or break the reputation of the corporation.

Just over half (56 per cent) of respondent see ECDC employees as dedicated to providing the best service for SMMEs. While this is the case, some respondents feel employees are not consistent in the way they offer assistance – favouritism still plays a big role. SMMEs feel some employees are unprofessional when dealing with them. With limited resources, they have to constantly follow up on queries and non-returned phone calls. Some entrepreneurs believe dealing with the head office in East London is better than the regional office in Mthatha. With what SMMEs consider to be a lack of communication around programmes, the knowledge and commitment of employees would help to deal with this challenge.

To contradict the survey results received from SMMEs, the ECDC employees believe that they generally are knowledgeable and dedicated in supporting enterprise development in the ORTDM. They believe that through their internal programmes with their human resources department as well as external programmes with industry experts to up-skill their employees, they are able provide sufficient and relevant training for their employees in order to provide better service for SMME development. They do however allude to some gaps with the employee programmes especially where industry and international trends are concerned.

In conclusion, it is clear that SMMEs are generally satisfied that they are getting support from the ECDC. This is a success for the corporation as it is at least meeting its government mandate to contribute toward entrepreneurship development. The challenge however is that the SMMEs do not believe that the ECDC is doing enough follow-up development programmes to grow or expand the existing businesses. They believe that the ECDC should create more awareness about ECDC programmes, train employees to perform better in their duties and also to develop SMME development programmes targeted at different types and levels of entrepreneurs.

Therefore, the hypothesis that perceptions of the SMMEs are positive towards the ECDC regarding programmes offered to SMMEs, ECDC employee dedication and knowledge, communication activities, and acting on feedback given by SMMEs, has not been proven. SMMEs are satisfied with initial support however, they believe that the ECDC needs to introduce more targeted programmes for their development as well as more targeted communication channels. SMMEs should be given the opportunity to provide feedback upon which the ECDC will act. The SMMEs also feel employees need training to be able to efficiently deal with their need.

### **5.3 Research Question 2: The reasons for SMMEs to start entrepreneurial activities in the ORTDM**

The literature review in this research report highlights the primary reason for SMMEs to start businesses to be the lack of employment opportunities. Ligthelm (2008) believes survivalist businesses occur mostly in communities with low levels of education, illiteracy, lack of previous business skills or training, and restricted access to financial support.

To support the above statement, Mitchell (2004), states that the reasons (in order of importance) for starting their own businesses were survival, financial independence and security, escaping a negative situation, and enabling personal growth. It can be concluded that the following factors were common to entrepreneurs: external approval, personal development, recognition, need for independence, influence in community, and benefits and security.

In this research, however, the results show the need for personal growth (43 per cent) as the primary reason for SMMEs in the ORTDM to start their businesses, while the respondents who cited unemployment as the primary reason constitute only 27 per cent. This is significant considering the emphasis that authors such as Mitchell (2004) place on unemployment as the primary reason and personal development, as only a common reason.

Other important reasons highlighted in this study were the need to be their own boss at 20 per cent and the need to contribute to job creation at 10 per cent. The need to be independent is linked to personal growth, and it is not surprising that a large number of respondents highlighted this reason as important.

The need to create jobs is only important for 10 per cent, probably due to the large number of SMMEs in business, owing to unemployment. They are unlikely to immediately think about creating employment for others. Some SMMEs may be in business to survive, and therefore creating employment for others may not be an immediate goal.

The ECDC perceptions, on the other hand, are in line with the general perceptions mentioned by various authors in this research report: the primary reason that SMMEs in the ORTDM start their businesses is because of the high unemployment rate. This is shown in 100 per cent of responses from the ECDC.

The ECDC does acknowledge that the secondary reasons why SMMEs start businesses include status, the need for independence and the need for self-employment.

The conclusion is that the hypothesis that the SMMEs start businesses because of unemployment is not proven, the research results from SMMEs have proven that the need for personal growth is the reason SMMEs start their businesses.

#### **5.4 Research Question 3: What are the areas of improvement that SMMEs in the ORTDM cite as important for the ECDC?**

Respondents were encouraged to identify areas which they strongly felt needed improvement within the ECDC. The SMMEs identified at least nine focus areas. In order of importance SMMEs believe that the ECDC has to: expose SMMEs to more programmes that encourage growth (39 per cent); provide more financial assistance and reasonable interest on loans (27 per cent); reduce the application process turnaround time and streamline processes (13 per cent); create more awareness about the ECDC programmes; prioritise taking



feedback on ECDC services and acting on that feedback (5 per cent); train the ECDC employees to offer better services to SMMEs (4 per cent), provide appropriate incubation facilities (3 per cent); and stop favouritism (2 per cent).

These areas of improvement are in line with some of the Entrepreneurial Framework Conditions (EFCs) mentioned by Herrington et al. (2009, p. 33). These are: “the availability of financial resources, equity, grants and subsidies for new and growing firms; the presence of quality and direct programmes to assist new growing firms at all levels; the presence of commercial, accounting and legal services as well as institutions that allow or promote the emergence of new, small, or growing businesses; and ease of access to physical resources such as communication, utilities, transportation, land or space – at a price that does not discriminate against new, small or growing firms”.

The ninth EFC addresses cultural and social norms which emphasises the need to encourage entrepreneurship. This EFC is very relevant to the SMME suggestion for the ECDC to stop what they perceive to be favouritism as it may discourage aspiring entrepreneurs from approaching the corporation for assistance.

Structured SMME development programmes are very important in enhancing the establishment of credible and exemplary entrepreneurial activities. To support this statement even more, Herrington et al (2009), states that since entrepreneurial activities vary with economic development, national policy-makers need to focus on tailor-making their socio-economic programmes to the development context of their country to meet the needs of entrepreneurs. The report further identifies the most basic requirement for enabling entrepreneurship as primary education because entrepreneurship alone is unlikely to contribute to substantial improvements in wealth creation if basic requirements are not met.

The provision of more financial assistance and reasonable interest on loans is the second most mentioned area of improvement. It is difficult for SMMEs who have serious resource challenges to maintain their businesses if they have to

pay exorbitant interest rates back to the ECDC. High interest rates have the potential to discourage SMMEs from starting businesses. This again is supported by the GEM Report (Herrington et al. 2009) which states that entrepreneurs with high aspirations fare better in a stable economic climate and well developed institutions; entrepreneurship should not be discouraged, but improving the entrepreneurial framework should not attract too many financial resources and low cost interventions can lower the cost of entry to the formal economy.

These suggested areas of improvement need to be taken seriously by the ECDC in order to change some of the negative perceptions SMMEs in the ORTDM have towards the ECDC. They should not just be treated as perceptions; they should be treated as legitimate concerns and addressed immediately. Priority will have to be given to those concerns that are more pressing.

These areas of improvements are based on what SMMEs consider to be the challenges of the ECDC, and therefore turnaround strategy is needed to make them success areas in the future.

## **5.5 Conclusion**

SMMEs are generally satisfied with the support given to them by the ECDC, but the majority of them do not believe the support received is enough to grow their business or be able to create employment or even be sustainable. They are however happy to recommend the corporation to other entrepreneurs.

Half of the SMMEs started their businesses because of the need for personal growth and another big chunk of entrepreneurs started because they were unemployed, and therefore had to sustain themselves. These businesses were chosen as a result of entrepreneurs sporting opportunities and being passionate about the industry they were operating in.

The respondents suggested a number of areas of improvement, but it is the need for more targeted SMME development programmes and the need for more financial support that topped the list. Only 1 per cent of the respondents were completely satisfied with the way that the ECDC is operating.

In addition, the survey highlighted the demographics of the SMMEs and the results have identified that the majority are black, middle aged, males with a matriculation certificate as the highest level of education.

While SMMEs are happy with the support received from the ECDC, they think that the ECDC can improve on their services and programmes. The identified areas of improvement are considered to be challenges of ECDC and if these were addressed, ECDC would be more successful.

Therefore none of the identified hypotheses were proven as the research results proved otherwise.

The research results received from the SMMEs are similar to the results received from the ECDC employees. They believe that their programmes are helpful in enterprise development, but special attention has to be given to start-up micro-enterprises. They are also in agreement that the communication channels between the ECDC and the SMMEs require serious improvement for the organisation to meet its objectives. While the employees did not want to be specific about the challenges related to their colleagues, they do acknowledge that they need more empowerment to be able to perform to the satisfaction of the SMMEs.

## **6 CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 Introduction**

To conclude this research, this chapter will summarise the findings of the study focusing on the objectives of the study. It will then make recommendations on what it will take to improve on the negative perceptions of the SMMEs based on these findings. Mainly, it is recommended that the ECDC has to improve its shortcomings but most importantly, keep and expand and capitalise on those areas that the SMMEs consider to be positive about ECDC.

### **6.2 Conclusions of the study**

The findings of this research state that while ECDC is perceived to be doing well towards improving the efforts of SMMEs in the ORTDM, some entrepreneurs are not entirely satisfied with the support and programmes received.

Non-financially supported SMMEs would consider the ECDC as more successful if the organisation provided them with financial support as well. The challenge that SMMEs face with getting financial support needs to be addressed, as Ramodumo (2007) states, one of the most important options is to have fewer restrictions for SMMEs when borrowing money for their businesses and have reasonable repayment terms for loans, which the enterprises can afford to pay at reasonable time-frames.

Start-up businesses wish that the ECDC could provide them with more than just start-up assistance, but assistance beyond incubation. Financially assisted

SMMEs would prefer to be given financial management and business management skills to help them manage their loan repayments and grow their businesses. SMMEs who have been in the business longer are more critical of the ECDC, while newer ones are appreciative of the ECDC, no matter how small the assistance. The more educated entrepreneurs and opportunity-spotters are the more critical to the ECDC programmes compared to the less educated or survivalists. This is because for some survivalists, without ECDCs support, their businesses would never have taken-off, let alone survived.

Entrepreneurs with years of business experience, on the other hand, do not think ECDC gives them enough room to grow, and they do not believe the support is enough for them to expand their businesses. This observation, stated by Rogerson (2004) and cited by Archery (2009, p. 18), that existing government SMME programmes are weak and have largely been biased towards medium-sized enterprises over micro-enterprises and the informal economy.

The skills of the ECDC employees were also questioned by entrepreneurs, particularly the survivalists and start-up businesses. The staff are not considered to be helpful when entrepreneurs make enquiries. The perception was that they lacked commitment in the work they do and that they did not have enough knowledge to share with SMMEs. It is the view of Ramodumo (2007, p. 37) that training should be matched as closely as possible to the needs of entrepreneurs and be conducted by those people with better knowledge of SMME business as their information would be more relevant to entrepreneur circumstances.

SMMEs consider the ECDC as performing well in their development of SMMEs, however they do not believe the support from the ECDC is enough to help foster growth beyond incubation stage. They feel that the ECDC employees lack training to deal with SMMEs who come from different backgrounds with different needs. Danson (1998) cited by Ramodumo (2007, p. 22) says another reason for consistent economic growth “is the development of systems whose objective is to share knowledge and enhance innovation through training to

enhance small business skills". The author further gives an example of the SMME development programmes in Kenya where the "focus is on small businesses that fail due to poor management in the start-up phase and where specific courses are offered to every businessperson to establish a proper foundation for survival and growth" (Ramodumo 2007, p. 25).

The SMMEs perceptions are different from those of the ECDC employees who believe that the programmes and services they offer are tailor-made to meet the needs of both start-up and expanding businesses in the ORTDM. While ECDC employees and the entrepreneurs see things differently, Meyer-Stamer (2003) cited in Ramodumo (2007, p. 35) states that the success of SMME development programmes is twofold. Firstly in designing an entrepreneurship strategy that sees the reconceptualization of problems as opportunities for sustainable small enterprises, and secondly to involve participants in determining the kind of business support relevant to a particular locality rather than the mere provision of a readily packaged government programme for the poor.

The ECDC also believe they have the right communication tools to create awareness of the programmes, and that their customer satisfaction survey helps them get feedback from SMMEs to make improvements. The ECDC also believes that their employees are well trained to deal with the different needs of the SMMEs on all levels.

The results of the research have given some enlightenment regarding the perceptions of SMMEs toward the ECDC in the ORTDM. The results have refuted the perception that the SMMEs primarily start entrepreneurial activities because of unemployment. The main reason, according to the data collected in this study, is that SMMEs want personal growth. This is also contrary to the ECDC's perception that SMMEs start their enterprises due to unemployment. This research did not only record what SMMEs believes the challenges are at the ECDC, but also highlighted the organisation's strengths. It is therefore important for the ECDC to continue to strengthen what they are doing well and improve on the areas identified as challenges.

What the above observations highlight is the need for more effort to be made by state institutions, including the ECDC, to provide advice, business training, ideas and specialised information. According to Ramodumo (2007), these institutions are regarded as tools for promotion and development of small business, particularly emergent micro-enterprises.

While state institutions are seen as major role players in SMME development, according to Archery (2009, p. 21) who cites Bologna (2006) government, serving as the sole support vehicle for small business development will not be enough to make an impression on poverty reduction. Instead developing sustainable partnerships between the SMME sector, government and the private sector, will significantly improve small business survival rates.

Archery (2009) further suggests that unless adequate training is provided, the SMME sector cannot possibly provide the necessary jobs for the poor and the unemployed, meaning that enterprise development may not necessarily boost the economy through employment creation.

### **6.3 Recommendations**

Based on the findings of the study, it is clear that SMMEs believe that the ECDC does make a difference in the existence of their businesses, but this is not enough to fully grow the business. This is contrary to the ECDC's belief that SMMEs are able to start, grow and expand their businesses because of support received from the ECDC. Both parties do however realise that without support from the ECDC, some of the businesses would not exist nor would they expand. SMMEs have indicated that as useful as the assistance is to them, they expect more from the ECDC.

#### ***6.3.1 Targeted Development Programmes Based on the Needs of SMMEs***

It is recommended that the ECDC introduces more targeted programmes for SMMEs of various industries, backgrounds and levels of business knowledge, especially those who come from rural areas. These should not just be ad-hoc

programmes, but planned programmes with a 360-degree format of assisting from start-up to fully-fledged or independent businesses. In support of this Ramodumo (2007) states that it is imperative that the challenges that SMMEs face should be tackled by the local government, small business support agencies, financial institutions and entrepreneurs themselves in order to find ways and means through which economic growth could be enhanced through SMME development. The programmes have to be brought to the entrepreneurs' locations so that they do not have to spend scarce resources on travel. In addition to improving programmes, the ECDC needs to provide facilities such as enterprise development centres, hubs where SMMEs can access telecommunications, transport and information facilities, as well as day-to-day enterprise development needs. This is highlighted by Ramodumo (2007) who says that the establishment of the chamber of commerce, which facilitates entrepreneurial training programmes, the establishment of small development centres for business training, along with technical assistance to potential entrepreneurs, has been hailed as a solution to reduce the failures and successfully develop small business. Ramodumo (2007) further cites Berryman (1985) who asserts that 'needs based' rather 'resource based' training improves the success rate of small business development.

### ***6.3.2 Improved SMME Development Communications Strategy***

Secondly, the ECDC has to focus on improving their manner of communication with SMMEs. The starting point is that the corporation needs to have a communication strategy in place. This strategy should guide what is communicated to the SMMEs, how it is communicated, when it is communicated and on what media the communication takes place. Focus should be on using traditional local authority communication channels for rural communities and media partnerships to create regular and dedicated enterprise development programmes on regional and community radio as well as print media. This will address the perception among SMMEs that there is lack of communication regarding programmes. This will also deal with the concern that rural entrepreneurs and the less educated entrepreneurs are not catered for.



The communication must be targeted at the different types of entrepreneurs, taking into account the demographic profile. This will help to keep SMMEs informed about developments and trends in enterprise development.

### ***6.3.3 Regular and Structured SMME Satisfaction Survey***

In addition to the above recommendations on communication, the ECDC has to put emphasis and dedication into the ECDC-SMME feedback process. This is the process of giving SMMEs the opportunity to give feedback on the quality of the service they receive. Once feedback is received, the ECDC should take action in a way that is satisfactory to the SMMEs. Once action has been taken, it is important to constantly communicate with the SMMEs about the nature of the actions taken to address their concerns and continue to act on suggestions so that the entrepreneurs can gain confidence in the corporation. Where no action has taken place, the ECDC has to communicate the reasons and provide alternatives. In this way, a two-way communication channel based on trust will be opened between the SMMEs and the ECDC.

### ***6.3.4 Regular Outcomes-based Employee Training Programmes***

Lastly, employees are the ambassadors of any credible organisation. The way that they deal with their customers determines the perceptions about the organisation. In a service environment such as the ECDC, the positive perception about employees cannot be over-emphasised. It is therefore recommended that performance management programmes be put in place for employees, especially those who are front-facing. The most important criteria should be based on the levels of satisfaction among SMMEs on the quality of assistance they get. In addition, regular customer service training programmes need to be introduced. Employee recruitment drives have to focus on customer-orientated employees.

If the above-mentioned recommendations are taken seriously, ECDC will see the benefits of building a pool of successful entrepreneurs who have the potential to be role models and trainers for upcoming businesses. In addition,

the challenge of unpaid loans due to unsuccessful ventures would diminish. The SMMEs that would be developed would not be just survivalists, but contributors to the economy through job creation and to government revenue through taxation.

#### **6.4 Suggestions for further research**

Further research is needed where the differences in perceptions between financially supported versus non-financially supported SMMEs; educated versus non-educated SMMEs; and survivalists versus opportunity-spotters are examined. This research showed different perceptions, but the focus did not give SMMEs a chance to provide details on the reasons of the difference in the perceptions.

It would also be interesting to understand the perceptions that the ECDC as an organisation has about the factors that lead to the successes or failures of SMMEs in this region. This type of research would help SMMEs to understand some of the reasons why their entrepreneurial efforts do not succeed. It would also provide them with the opportunity to improve on their weaknesses and capitalise on their strengths.

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# **APPENDIX 1: RESEARCH INSTRUMENT**

## **LETTER AND STRUCTURED QUESTIONNAIRE**

### **Successes and challenges of the ECDC in supporting SMMEs in the ORTDM in the Eastern Cape Province**

Dear Director/Manager

The following questionnaire is part of an extensive research study undertaken to investigate successes and challenges of ECDC programmes as perceived by SMMEs in the Eastern Cape Province.

Your valuable input is vital to the outcome of this research. Kindly complete this questionnaire as thoroughly as possible. All information will be treated as confidential and will only be used for academic purposes.

Thank you

Tulisiwe Buyisiwe Mkatshwa

Student

Masters of Management in Entrepreneurship and New Venture Creation

University of Witwatersrand

**Instructions for completion:**

- 1 Please answer all questions regarding your assessment of the successes and challenges of the ECDC as honestly and objectively as possible.
- 2 Place a tick or a cross in the space of the questions that reflects your answer most accurately.
- 3 Where asked for comments or to specify, please keep these as briefly, yet thoroughly, as possible.

**SECTION A**

***Personal Information and Business Information***

**1. Age**

20 - 30	31 – 40	41 – 50	51 – 55	56 - up
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**2. Racial Group**

Black	White	Asian	Coloured	Other
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**3. Gender**

Female	Male			
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**4. Marital status**

Married	Single	Divorced	Widowed	Other
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**5. Number of dependents**

0	1-2	3-4	5-6	Other
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**6. Highest qualification**

Matric	Diploma	Bachelor's Degree	Honours	Other
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***Business Information***

**7. What is the nature of your Business?**

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**8. What motivated you to start a business?**

**9. Where is your business located?**

**10. How long have you been in this business for?**

**11. What motivated you to start this business?**

**12. Number of employees in your business?**

**13. Number of years under ECDC support?**

**SECTION B**

<b><i>Please rate ECDC qualities in relation to your business on the following intensity scale.</i></b>					
	<b>Strongly agree</b>				
	<b>Agree</b>				
	<b>Not Sure</b>				
	<b>Disagree</b>				
	<b>Strongly disagree</b>				
1. I'm happy with the assistance received from ECDC	1	2	3	4	5
2. My business has improved/grown since receiving support from ECDC	1	2	3	4	5
3. ECDC has enough development programmes targeted at SMMEs	1	2	3	4	5
4. ECDC has relevant programmes for the development of SMMEs	1	2	3	4	5
5. ECDC supports/ promotes development of my business beyond incubation stage.	1	2	3	4	5
6. ECDC programmes meet the needs of start-up SMMEs	1	2	3	4	5
7. ECDC creates enough awareness about their programmes	1	2	3	4	5
8. ECDC gives me the opportunity to give feedback about their services	1	2	3	4	5
9. ECDC acts on feedback given to them by SMMEs	1	2	3	4	5
10. ECDC provides facilities that help my business to grow	1	2	3	4	5
11. ECDC presents development programmes successfully	1	2	3	4	5
12. ECDC has enough development programmes targeted at SMMEs	1	2	3	4	5

13. ECDC has relevant programmes for the development of SMMEs	1	2	3	4	5
14. ECDC programmes meet the needs of expanding SMMEs	1	2	3	4	5
15. I can recommend ECDC to upcoming SMMEs	1	2	3	4	5
16. ECDC creates enough awareness about their programmes	1	2	3	4	5
17. ECDC employees are well trained to provide successful programmes	1	2	3	4	5
18. ECDC employees are well informed/ knowledgeable about their programmes for SMME's	1	2	3	4	5
19. ECDC employees are dedicated to providing the best service for SMMEs	1	2	3	4	5

### SECTION C

What specific actions and recommendations can you suggest to ECDC to ensure successful programmes for SMMEs?

What are the key factors that you consider important when determining success or failures of ECDC?

Other comments?

**Thank you very much for your assistance**