

A Work-Around Strategy to Overcome Constraints to Small Business Growth

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Small, Medium and Micro Enterprises (SMMEs) play a significant role in an economy. Thus, governments all over the world concentrate on the development of the small business sector to endorse economic growth. SMMEs are a large contributor to the creation of job opportunities, improvement of the economy, and promote the effective use of regional resources which leads to the engineering of economic development and growth. SMMEs are an important source of jobs, entrepreneurial spirit and innovation and are thus vital to promoting competitiveness.

However, despite the noted contribution of SMMEs, in many countries they face serious constraints, often resulting in failure. The constraints and economic environment have significant and unequal effects on SMMEs in different industries and in different locations. Constraints have been used, amongst other growth factors, to understand why some SMMEs fail to grow.

This study lays the foundation for understanding the concept of SMME growth. SMME growth was examined in detail, and found to be heterogeneous in nature. The variation in measures used in SMME growth studies, the variation in growth indicators, the variation in the measurement of growth over time, and the variation in the characteristics of SMMEs are all important features of SMME growth as a phenomenon. SMME growth models were examined to further understand why some firms survive and grow, and others fail. The models examined the problems SMMEs experience at different stages of growth, and the actions to be taken to overcome them as they progress from one stage to the next.

The study applied a quantitative research survey. The approach enabled the determination of the factors acting as constraints to SMME growth, and examination of how SMMEs could overcome these constraints to survive and grow. The approach chosen aims at investigating the moderating effect of microfinance on the relationship between financial constraints and SMME growth. The primary aim of this study was to explore and investigate the factors acting as constraints to SMME growth. The study investigated the effect of nine types of constraints on SMME growth namely: lack of access to finance, lack of skilled employees, competition, corruption, lack of professional financial advisors, lack of clear

business plan, government rules and regulations, lack of awareness of financial services and assistance, and lack of government support. The study also empirically examined the moderating effect of microfinance on overcoming, avoiding or mitigating the financial constraints to SMME growth in South Africa, particularly in the province of the Western Cape.

The study found evidence that the lack of skilled employees, competition, corruption, lack of awareness of financial services and assistance, lack of professional financial advisors and lack of access to finance were significant constraints to SMME growth in South Africa. An important contribution this study makes is that microfinance provides a way to overcome or mitigate financial constraints for SMMEs. The negative effect of a lack of professional financial advisors and the lack of access to finance is reduced when SMMEs make use of microfinance source. As such this is an important finding that adds to existing studies on the role of constraints as well as to the literature on entrepreneurship in developing economies. However, contrary to the study hypothesis, microfinance does not moderate the relationship between the lack of awareness of financial services and assistance, and SMME growth. This can be attributed to the important role that has to be played by the microfinance institutions (MFI) and government agencies in ensuring that procedures are simple, financial products are demand-driven, and clear and brief financial information is provided.

These results imply that microfinance can play a positive role in SMME growth particularly for SMMEs that experience financial constraints. The study also suggests that MFIs and government agencies should provide more information to the public in particular to SMMEs.

The findings of the study may have theoretical and policy implications in relation to development of SMME sector in South Africa. In order to enhance SMME growth in South Africa, the government can play an important role in assisting SMME to grow by effectively taking steps such as:

1. Facilitate the rules and regulations that govern the small enterprise sector, the literature confirms that the complex procedures cause the spread of corruption. Corruption has negative effect on SMME growth.
2. Support and increase initiatives aimed at promoting entrepreneurship, in addition to initiatives that contribute to raising the skill and efficiency of employees. Skilled employees have positive effect on SMME growth.
3. Engage in mutual agreements and the establishments of good relationship with other countries in order to eliminate trade restrictions and facilitate

export internationally to create an enabling environment for SMMEs to grow. Internationalization helps SMMEs to grow.

4. Help in alleviation the restrictions imposed by the financial institutions to SMMEs in accessing financial resources. The inability of SMMEs to obtain the necessary funding in a timely manner negatively affect the growth.

The contributions of this study are substantive for SMME managers. Investigating empirically how SMMEs overcome constraint and grow is considered beneficial for SMMEs from social and economic perspectives. The study concluded that microfinance provides a work-around strategy to reduce the effect of constraints on SMME growth. This study thus contributes an enhanced understanding of the relationship between constraints and SMME growth.