

# Hurdles and Triggers experienced by Rural SME Entrepreneurs in Pursuance of their Businesses

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## Abstract

This paper seeks to identify challenges facing the entrepreneurs in the running of their businesses. A focus is made on the factors that lead to survival of their business and also establish the conduciveness of the business environment. The pre-empted challenges facing these include among others lack of technical skills; financial skills; marketing skills; knowledge about promotion programmes from Department of Trade and Industry (DTI) as well as labour compliance issues. A quantitative approach was used for the study. Data collected was analysed using Statistical Package of Social Sciences (SPSS). Due to the number of responses received, only descriptive and non parametric data analysis procedures were employed for this research. The survey involved 60 entrepreneurs from Dr JS Moroka municipality in Mpumalanga Province, South Africa. An investigation was made to check whether SME entrepreneurs are aware of the support structures provided by the government. A focus will also be done on the critical events that took place, the main challenges encountered and possibilities for survival in the business circle. The research revealed that entrepreneurs are still faced with numerous challenges in the running of the business and among those challenges are lacks of finances, management skills, training as well as theft.

## Introduction

Most discussions on small business in South Africa is high on the government agenda which revolve around the need to promote the small and medium enterprises (SMEs) activities as entailed in the National Small Business Act of 1996. As an indication of the seriousness of the Government to promote SMEs, a number of support institutions was established, namely Ntsika Enterprises Promotion Agency (NEPA) which is a non financial support agency, Khula Finance Enterprises Finance Limited which is a wholesale financial mobilization and credit guarantee institution and Small Enterprise Development Agency (SEDA) which is an institution focusing on the support and promotion of enterprises to reach a greater variety of levels of success, particularly those located in rural areas. This article investigates experiences and the challenges faced by rural SMEs entrepreneurs in terms of running their businesses.

## Theoretical Perspective

Small, medium enterprises (SMEs) development was identified by the Government of South Africa as a priority in creating job opportunities to solve the overwhelming joblessness. In the quest to address the situation, the Government is encouraging people to start their own businesses. The White Paper on national strategy for the development and promotion of small business in South Africa states “The stimulation of SMEs must be seen as part of an integrated strategy to take the South African economy onto a higher road – one on which economy is diversified, productivity enhanced, investment is stimulated and entrepreneurship flourishes”. The Government introduced a number of legislations and support structures to fast-track the support of the emerging entrepreneurs. Amongst the legislations introduced are National Small Business Act, no 102 of 1996, and Broad Based Economic Empowerment, no. 53 of 2004. In terms of section 2 of the Broad-Based Economic Empowerment Act, no. 53 of 2004, the following objectives were identified to facilitate the black economic empowerment *inter alia* with: promoting economic transformation in order to enable meaningful participation of black people in the economy; achieving a substantial change in the racial composition of ownership and in the skilled occupations of existing and new enterprises; increasing the extent to which communities, workers and other collective enterprises owned and managed existing and new enterprises and increasing their access to economic activities and promoting access to finance for black economic empowerment. These objectives are imperative for the entrepreneurs to be conversant with, so that they can make use of these initiatives and support to the advantage of their businesses.

It is prudent to emulate successful entrepreneurs and learn from their previous successes and failures, it is equally essential for aspiring entrepreneurs to accept that business success bears no proven formulae (Phakati, 2006: p.1). This however means that the success of the entrepreneurs depends on the capabilities of individual entrepreneurs. Quite often entrepreneurs use different strategies to address their own situations. The one reason many business aspirants never break through the clutter and experience success is their tendency to recycle solutions and their willingness to tread foreign terrain regardless of its innovativeness. The true success of business can be attributed to offering a unique proposition to the consumer, even if the products have been

in existence for a long time. This suggests that the current products need to be evaluated through the inputs of the consumers with the view of improving them.

Netswera, (2001: p.12) asserts that building an enterprise is huddles when little or no support structures exist, which is mainly the case for rural compared to urban entrepreneurs. It is even worse where the markets are too far and entrepreneurial is even low. High failure in literature is alluded to factors such as market access; finances; among others. What experiences and detailed account are there of some who have just left it all and failed. What impact does this have on aspiring SMEs and what drawback does it has for communities at large? All these aspects need exploration.

In South Africa many people possess entrepreneurial potential but they neglect to develop it further and this implies that they often generate bright ideas but, they are unable to convert these ideas to reality. This however is associated with people being afraid to take risks. This in essence suggests that when a person thinks of starting a business always put failure in their minds. Despite this mentality, Le Roux *et al*, (1995: p.312) identified the reasons for failure of business as:

#### **Uncontrollable factors.**

- Discrimination against small business enterprise.  
Due to the fact that small business's limited access to resources such as finance and expertise, the small business owner feels that he or she is discriminated against and sometimes they are subjected to higher interests rates compared to the larger entrepreneurs (Le Roux *et al*, 1995: p.312).
- Demographic changes.  
Le Roux *et al*, (1995) argue that the other factor which has an impact on the small businesses particularly in semi/rural settings is urbanization. Nowadays people are relocating to the cities and as such they prejudice the small businesses supplying essential goods to these people. This however compels some of the small business to struggle in the running of their ventures.
- Changes in buying patterns of buyers.  
According to Le Roux *et al*, (1995) shopping centres are common phenomenon in South Africa and they pose threat to small businesses in the sense that they influence the buying pattern of consumers and even the infrastructure may result in changes in buying patterns. In this situation, it becomes difficult for small businesses to fight off the threats posed by these larger businesses. These larger businesses make use of advertisements as a form of attracting customers while small businesses are unable to advertise due to the fact that advertisement is said to be expensive (Netswera, 2001:p.5).

#### **Controllable factors**

- Technical skills

Small business owners quite often are faced with difficult situations to address and unfortunately they are unable to handle them successfully (Le Roux *et al*, 1995). The technical skills of entrepreneurs imply the ability to execute the management tasks effectively.

- Managerial skills

Although it is important for small business owners to develop management skills, it is imperative that they delegate functions to other employees who are capable of performing those managerial functions and this could allow the business owner to concentrate on other functions within the enterprise (Le Roux *et al*, 1995; Nieuwenhuizen *et al*, 2002: p.11).

- Financial skills

Le Roux *et al*, 1995 argues that in the determination of profitability of the organisation, the business owners need to have an idea of the financial statements. These are the important tools in checking whether the business is realizing a profit or not. Entrepreneurs need to have a better understanding of the cash flow of their enterprises.

- Marketing skills

The marketing skills of an entrepreneur depend mainly on his or her ability to sell the products. In many occasions, low sales volume can however be attributed through poor marketing, unattractive products at high prices and inaccurate sales forecasts. It is imperative for the entrepreneurs to have marketing skills in order to market their products successfully and also to be able to do sales forecasts correctly. In this case the Government has established Ntsika Enterprise Promotion Agency which seeks to address training, technology, information, lack of skills and initiative in marketing.

The other challenge faced by entrepreneurs is shortage of capital which is their major shortcoming and this however impact on their ability to invest in certain assets. The Government in this regard is attempting to address this issue of finance through Khula Enterprise Finance Ltd. The entrepreneurs appear to have little knowledge of the Department of Trade and Industry (DTI) promotion programmes whilst other local and national government promotion programmes had a higher awareness (World Bank, 2000). All these challenges necessitated this paper.

The White Paper (1995: p.12) acknowledges the fact that small business, compared to big business worldwide, faces a range of shortcomings, even in effectively functioning market economies. These shortcomings relate to the legal and regulatory environment, access to markets, finance, and quality of the business infrastructure particularly in the rural areas and in some instances tax burden.

There are myths when dealing with entrepreneurs and Timmons (1994: p.23-24) identified some of the following myths and realities:

Myth – Entrepreneurs are born, not made.

Reality – While entrepreneurs are born with native intelligence, a flair for creating and energy, these talents in themselves are like unmoulded clay or an unpainted canvas. The making of an entrepreneur takes place by accumulating the relevant skills, know-how, experience and contacts over a period of years and includes large doses of self-development. The creative capacity to envisage and then pursue an opportunity is a direct descendant of some 10 or more years of experience that have led to pattern recognition.

Myth – Anyone can start a business.

Reality – Entrepreneurs who recognize the difference between an idea and opportunity and think big enough, start businesses that have a better chance of succeeding. Luck, to the extent that is involved, requires good preparation. The easiest part is starting up. What is hardest is surviving, and sustaining and building a venture so that its founder can realise a harvest. Perhaps only one in 10 to 20 new businesses that survive five years or more results in a capital gain for the founders.

Myth – Entrepreneurs are gamblers.

Reality – Successful entrepreneurs take careful, calculated risks. They try to influence the odds, often by getting others to share their risk with them and by avoiding or minimizing risks if they have the choice. Often they slice up the risk into smaller, quite digestible pieces; only then do they commit the time or resources to determine whether that piece will work. They do not deliberately seek to take more risk or take unnecessary risk, nor do they shy away from unavoidable risk.

Myth – Starting a business is risky and often ends in failure.

Reality – Talented and experienced entrepreneurs often head successful ventures because they pursue attractive opportunities and are able to attract the right people and necessary financial and other resource to make the venture work. Failure is often the fire that tempers the steel of an entrepreneur's learning experience and "street savvy".

### **The purpose of the study**

The purpose of this study is to explore on experiences and challenges facing the entrepreneurs in Dr JS Moroka municipality, South Africa.

### **Research objectives**

The objectives of the research are to:

- Determine the success / hindering factors towards the running of the business ventures.
- Determine how entrepreneurs sustain the running of their businesses.

### **Research design and methods**

The population in this study consists of SME entrepreneurs from Mpumalanga province. In order to meet the objectives for this research, practicable research methodology of quantitative survey was followed. Quantitative approach is used with the intention of determining the experiences and challenges facing the entrepreneurs in running their business effectively in the rural setting. The rationale for quantitative research is “testing a theory composed of variables, measured with numbers and analysed with statistical procedures, with the view of determining the predictive generalizations of the theory, holds true” (Leedy and Ormond, 2005: p.94).

A quantitative survey was conducted amongst 60 entrepreneurs. The sample was selected based on the convenience of these entrepreneurs. One of the major issues in sampling is the determination of samples that best represent a population so as to allow for an accurate generalization of the results but however in this case no claim will be made on generalizations of the results because only entrepreneurs in the Mpumalanga province participated. Bless & Higson-Smith (1995:p.88) define sampling frame as a list of all units from which the sample is to be drawn.

The quantitative design consists of a developed questionnaire. According to Huysamen, (1994:128) a survey questionnaires may be used to obtain the biographical details of the respondents and opinions and this is perceived to be the appropriate tool for the envisaged study. Clear guidelines were given on how to complete the questionnaire. A five point-likert scale type questions were used.

### **Data analysis**

Data gathered was analysed using SPSS. The 5-point scale on all items was transformed into a 3-point scale indicating Agreement- Uncertainty- Disagreement , that is strongly agree merged with agree and strongly disagree with disagree. The rationale for the transformation was that the researchers were of the view that a tri-polar dimensional approach of Agree-Uncertain-Disagree will provide stronger and simpler explanations of the perceptions of respondents. Due to the small sample size that is only 37 questionnaires received back from the respondents, only descriptive and non parametric data analysis procedures were employed for this specific study. For the purpose of this paper, data will only be presented in percentages.

### **Discussions of the findings**

The findings of this research are presented in the sequence in which the data was collected through the questionnaire, that is, biographical information and the section relating to their challenges and experiences in the running of their businesses.

Of the 60 questionnaires issued, 37 were returned making a total response rate of 62%. The participants consist of 68% males and 32% females. The higher participation rate by males is not a surprise because the history is that males were dominant in the business sector for sometime, however, there is progress made by females to enter business accounting for 32%. Due to the fact that Dr JS Moroka municipality is predominantly black, particularly African group, no other racial groups took part in the research. The findings revealed that the majority of the businesses

surveyed (94.3%) are registered. This is a good indication of the SMEs to comply with the requirements to run the business. This also assists them in case they want to acquire some funding and also give the Department of Trade and Industry a preview of how many formal businesses are registered and how best they could assist those that are not registered.

**Table 1**

<b>Question/statement</b>	<b>Agree %</b>	<b>Uncertain %</b>	<b>Disagree %</b>
1. I started the business as a result of a passion and opportunity that I realized.	<b>51.4</b>	<b>0</b>	<b>48.6</b>
2. Lack of management and financial skills affect the sustainability of my business.	<b>91.4</b>	<b>2.7</b>	<b>5.9</b>
3. In some cases, lack of money is a problem for the emerging business to be successful.	<b>88.9</b>	<b>8.3</b>	<b>2.8</b>
4. Business skills and knowledge are important for my business to be successful.	<b>51.4</b>	<b>0</b>	<b>48.6</b>
5. Emerging business by foreigners affects the sustainability of my business.	<b>78.4</b>	<b>5.4</b>	<b>16.2</b>
6. My business has potential to contribute to job creation and economic growth.	<b>62.2</b>	<b>0</b>	<b>37.8</b>
7. Whenever my products are advertised, the sales always go up.	<b>52.8</b>	<b>19.4</b>	<b>27.8</b>
8. There are no more opportunities that make my businesses successful.	<b>16.2</b>	<b>5.4</b>	<b>78.4</b>
9. Labour legislation has a negative impact on my business in terms of remuneration of workers.	<b>83.8</b>	<b>2.7</b>	<b>13.5</b>
10. The complexity of tax system raised the cost of doing the business because I do not have the capacity to administer tax calculations.	<b>86.5</b>	<b>5.4</b>	<b>8.1</b>
11. The public sector tendering system is inaccessible and complicated for SMEs entrepreneurs and no training is provided.	<b>65.7</b>	<b>28.6</b>	<b>5.7</b>
12. Department of Trade and Industry have promotional programmes to train entrepreneurs about the type of support that they are providing.	<b>29.7</b>	<b>56.8</b>	<b>13.5</b>
13. Theft in my business is crippling the success of my businesses.	<b>97.3</b>	<b>0</b>	<b>2.7</b>
14. It is difficult for me to get loans from the bank, due to the fact that banks are not willing to give loans to small businesses.	<b>86.1</b>	<b>2.7</b>	<b>11.2</b>
15. Business partnering such as subcontracting	<b>75.7</b>	<b>18.9</b>	<b>5.4</b>

and franchising can build business capacities in terms of training, skills development and getting government contracts.			
16. Government policies are providing favourable environment for small business development.	<b>45.9</b>	<b>51.4</b>	<b>2.7</b>
17. Business advice by government agencies is easily available for small businesses.	<b>18.9</b>	<b>59.5</b>	<b>21.6</b>
18. Participating in franchising can be advantageous to my business by creating positive skills transfer.	<b>81.1</b>	<b>13.5</b>	<b>5.4</b>
19. I would be able to manage my business better with some training on general and financial management.	<b>75.7</b>	<b>24.3</b>	<b>0</b>
20. Black economic empowerment initiative can assist my business to grow and participate in the government tendering.	<b>56.8</b>	<b>40.5</b>	<b>2.7</b>

The above table reflects the findings as discussed below.

The results indicated that on average (51.4%) of the businesses were established as a result of passion and opportunities identified in the market. Although some of the respondents' businesses were started by their parents and they took over from their parents. The majority (91.4) of the respondents believe that lack of financial skills could adversely affect the sustainability of their businesses. It is therefore imperative for entrepreneurs to have some financial skills to be able to manage their generated income correctly. It is further found that lack of money is a problem for the emerging businesses to run their businesses successfully, and this could result in situation where they are unable to meet some of the business imperatives. The survey findings revealed that 51.4% of the participants believe that their businesses would succeed if they possess necessary business skills and knowledge. Lack of business skills and knowledge hampers the running of the businesses and affect the sustainability of the businesses.

78.4% of the participants believe that emerging business by foreigner is threatening the sustainability of their businesses. The prevailing perception is that foreigners are selling their commodities at lower prices and as such, it affects their customers. The participants (62.2%) argued that their businesses have the ability to create jobs and contribute to the economic growth of the country. This however, is in line with the Government initiative to create enabling environment for the development of businesses in order to deal with unemployment and at least for every enterprise established one person or more could be employed. 52.8% of the participants argue that whenever their products are advertised, their sales go up. This is an indication that entrepreneurs should not sit back and wait for customers, but rather advertise their products to ensure that their special offers are known to the broader clientele. Most of the participants (78.4%) strongly believe that there are ample opportunities that could ensure that their businesses prosper. The Government also provides quite number of opportunities when it comes to providing opportunities, particularly those who were previously disadvantaged. The idea is to ensure that these entrepreneurs are given opportunities to participate in Government tenders.

The majority (83.8%) of the participants argue that labour legislation has a negative consequence in terms of remunerating the workers. Entrepreneurs are compelled to pay their workers in accordance with the sectoral determination and this is done without determining the profitability of the businesses particularly those operating in the rural setting. In this situation, entrepreneurs are forced to reduce their workforce as a result of non-affordability sectoral determination remunerations. Another survey finding is that the majority (86.5%) of the participants are of the opinion that the tax complexity is raising the cost of doing their businesses. This means that entrepreneurs need to acquire services of tax consultants to do their books as well as calculating the tax to be levied at the end of the tax year. The consultant would obviously charge a fee for such as service which increases the expenditure level of the entrepreneurs.

65.7% of the participants believe that the Government tendering system is inaccessible and complicated for the entrepreneurs to understand. This type of situation is making it difficult for entrepreneurs to take part in government tendering because of the complexity of the documentation relating to tendering. This, in most cases result in few people who are conversant with the system getting Government tenders

Theft in the businesses has emerged as a major concern for almost all entrepreneurs, accounting for 97.3%. This emanate from burglaries by thieves who steal products in the store and later resell at street values. Sometimes even the workers are colluding to steal in the shops more especially if the owner is not available. Workers are normally encouraged to steal the money they are generating as compared to their remunerations. The majority (86.1%) of the participants indicate that it is difficult for them to get loans from the banks due to the fact that banks are not willing to give loans to small businesses. In most cases entrepreneurs have no collateral security for the envisaged loans and this gives banks some difficulties as to what will be the acceptable recourse in case the entrepreneur is defaulting the payment. 75.7% of the participants argue that when they embark on subcontracting and franchising business capacities can be established in terms of the training, skills development and getting Government contracts. With franchising, the franchisor would always take efforts to train people who would be involved in the franchising with the view of transferring skills so that they are able to provide the service in accordance with service level agreement of the two parties. It is evident with 75.7% of participants that when they are provided with training on general and financial management they could manage their businesses much better.

## **Conclusions**

In the context of the survey findings, it could be concluded that there are still challenges faced by entrepreneurs. First, lack of financial skills, this appears to be the main aspects when it comes to the interpretation of financial statements and financial management itself. It is therefore imperative for the entrepreneur to have some basic knowledge of finance in order to be able to interpret the financial statements. Second, entrepreneurs are forced to comply with labour legislation in terms of sectoral determination for salaries which makes the cost of labour to be high whilst realizing little profit. Third, lack of financial support plays a role where commercial banks are not willing to grant loans to these entrepreneurs due to the fact that they have no collateral security and this however hampers the bright ideas for expansion of their businesses.

Fourth, it can further be concluded that when entrepreneurs are embarking on franchising their business knowledge and skills could be enhanced as a result of training provided. It is further noted that when entrepreneurs are provided with necessary training on managerial and financial management, they believe that their businesses would be better managed. Fifth, it can be attested that theft is a great concern for the entrepreneurs who believe that if not addressed could result in situation where they are loosing their stock and some of their assets in their ventures. Sixth, due to the fact that government tendering is inaccessible, it is imperative that the Government should take initiative to workshop entrepreneurs about the tendering system and documentation thereof. Seventh, it can further be concluded that advertising is playing a pivotal role because the products are advertised, the sales normally increase. Finally, it can be recommended that another research be conducted with a larger sample and possibly to include the nine provinces to allow generalization of the results.

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