
Environmental conditions and their impact on small businesses in South Africa: implications for managers

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Abstract: Prior to April 1994 the apartheid regime discriminated against blacks of South Africa. The best education went to whites while blacks received an inferior education. This resulted in high unemployment rate among blacks due to lack of skills and knowledge. To reduce unemployment and its socio-economic consequences a policy on local economic development was enacted to encourage the unemployed to start their own businesses. In spite of the policy environmental conditions might impact on businesses. This paper investigates the impact of environmental conditions on the growth of the small businesses which are emerging to reduce unemployment among the youth.

Keywords: small; medium; micro; enterprises; environment; unemployment; survivalist.

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1 Introduction

South Africa is a country with contradictions. It exhibits first-, second- and third-world characteristics. Within the same country, the white minority live under conditions of first world, while the black majority finds itself in a third-world situation. The economic activities in the country relate to both developed and developing economies. There are first and second economies, the former more industrial-based while the latter focuses more on primary products. The situation of first- and third-world environments in one country may be largely blamed on apartheid policies, which divided the country into ethnic groups and did not provide a uniform education and development programme for the entire country for over 40 years. Under the previous dispensation, whites enjoyed many privileges, but blacks, the indigenous people, were denied opportunities for a better life. The best education, for example, went to whites. The black people were given an inferior type of education. All over the world, education and training equip people with the relevant skills for employment. Thus, blacks were denied access to better jobs. Although apartheid has been abolished, the policy of giving inferior education to blacks has left in its trail multiplicity of socio-economic problems, some of which are high rate of unemployment, poverty, crime, economic inequality and very high rate of HIV/AIDS. At political independence in 1994, there were 15 million illiterate adults, mainly blacks, who went through daily lives without any life or economic skills (City Press Newspaper, 1995). The apartheid educational system had been designed for the continued social and economic reproduction of conditions in which the white was the boss and the black was in bondage. Of course, adult education, which is an inherently progressive sector of education, had no place under apartheid (Bhola, 1997, p.44). The goal of the inferior education provided to black South Africans was very clear and well planned. Reporting on extracts from a parliamentary debate on the Bantu Education Act of 1953, Christine and Collins quote a prominent politician as saying:

"We should not give the natives an academic education, as some people are too prone to do. If we do this, we shall later be burdened with numbers of academically trained Europeans and non-Europeans, and who is going to do the manual labour in the country? I am in thorough agreement with the view that we should so conduct our schools that the native who attends those schools will know that to a great extent he must be the labourer in the country." (Christie and Collins, 1984, p.160)

The consequence of this discriminatory education policy has been a lack of participation in the country's socio-economic activities by millions of black citizens.

The 1994 democratic dispensation brought among other things the freedom of movement. This has resulted in millions of people from the rural areas and even other

parts of the world moving into urban areas in search of jobs or better life. The influx of people into towns and cities has worsened the unemployment situation and increased poverty and social vices. To turn the tide, the government put in place a policy on Local Economic Development (LED), which sought to encourage individuals, especially the unemployed, to start their own Small-, Micro- and Medium-Enterprises (SMMEs). This is a strategy to reduce unemployment, poverty and crime. This policy has led to the emergence of many small businesses throughout the country. The emerging businesses obviously operate under certain conditions and in this paper, such environmental conditions relate to the physical and psychological climate under which small businesses operate in the country.

2 Problem statement and research questions

It is assumed that despite the enactment of the LED policy, which allows the emergence of SMMEs, some environmental conditions impact on their growth and sustainability. This paper sought to answer the question: *Under what environmental conditions do SMMEs operate in South Africa and what are the impacts of such conditions on their growth and sustainability?* Specifically, based on the problem mentioned above, the following questions were formulated to guide the research.

- How does lack of access to finance impact on the growth of SMMEs in South Africa?
- To what extent does the regulatory environment impact the growth and sustainability of SMMEs?
- How do the actions of state agents help or hinder the growth of SMMEs?
- What implications do environmental conditions have for small business managers?

3 The role of Small-, Medium- and Micro-Enterprises in the South African economy

Small-, Medium- and Micro-Enterprises have the potential of encouraging millions of unemployed people to create their own jobs. This is seen as not only providing them with livelihoods but also reducing the high rate of unemployment and its allied social vices. A recent survey conducted by the city of Johannesburg, for example, found out that unemployment featured on top of the most pressing needs of the residents than HIV/AIDS, crime, corruption or housing (Ligthelm, 2006, p.30). These socio-economic problems are direct consequences of the apartheid policy of providing poor-quality education to the country's indigenous and majority group. SMMEs have been identified as one of the major measures to curb the unacceptably high level of unemployment, which is a threat to the country's socio-economic and political stability. It was for this reason that a LED policy was enacted in 1995. The LED and Small Enterprises Development Authority (SEDA) paved the way for every individual to start his or her own business to earn a livelihood. SMMEs development has thus been seen as a strategy to provide self-employment for the people; hence, they (SMMEs) have become a common sight on the streets of all cities and towns. Mitchell (2003), for instance,

points out that SMMEs sector of the economy is a very important player, which is contributing to economic growth, development and employment. There are over three million small businesses in the country that employ about 17% of the economically active population (Mitchell, 2003). The formal sector of the economy has been shedding jobs for the past two decades and the informal sector has become the safety net for most people who cannot find jobs in the formal sector. The contribution of the informal sector made up of small business enterprises to the GDP of South Africa may be regarded by some people as minimal, but it accommodates a high percentage of the population, especially the poorest of the poor (Ligthelm, 2006). However, as Harper (1987) notes, most small business people believe that shortage of capital is their major, if not their main, problem.

In most developing countries, especially in Africa, the informal sector that consists of the self-employed is a major factor in socio-economic development of the economies, despite the general lack of access to financial support. In Kenya, for example, over 2/3 of shopkeepers believe that their most important problem is the shortage of capital. Many entrepreneurs are prevented from starting a business only because they lack initial capital (Deakins, 1996, p.72). For many small firms, certain sources of finance from the banks are usually not available due to entry barriers. Financial institutions deem it a risk to provide loans to small entrepreneurs because they lack security and assurance for paying loans. This automatic exclusion from certain financial sources makes it very difficult for SMME owners to raise short- and long-term loans to expand their businesses. The situation described here could be a stumbling block to the development of SMMEs in all developing countries and for that matter South Africa. Thus, for South Africa to address the unemployment problem in a more meaningful way and achieve a vigorous expanding economy, it will have to pay serious attention to and provide support to SMMEs.

Although economists often inform the South African public that the economy is booming, this growth is yet to have significant impact on the unemployment situation. Job creation in the formal sector of the country's economy trails the growth in the labour force (Ligthelm, 2006). This observation is confirmed by Kuratko and Hodgetts (2001) who report that in 1996, small businesses alone created 1.6 million new jobs and that 15% of the fastest growing new firms accounted for 94% of new job creation. Audretsch (2001) also argues that the high degree of corporate downsizing combined with the relatively low employment birth and expansion rates resulted in a net decrease in employment in large corporations by 8.47% between 1990 and 1995. At the same period, the high employment birth and expansion rates in the informal sector resulted in a net increase in employment of 21.25% for firms with less than 20 employees. This confirms the potential role the SMMEs could play in the economy of the country when the environment conducive to growth and sustainability is given. Indeed, a supportive environment may enable SMMEs to play a very important role in the socio-economic development of the country. Empirical observations support the notion that there is a strong positive relationship between entrepreneurial orientation and the performance among firms in dynamic environment, whereas these relationships may be largely negative among the firms in static and impoverished environment (Zahra, 1993). The indication here is that given a dynamic and supportive environment, small businesses could thrive and contribute greatly to socio-economic development. However, a hostile environment could stifle small business initiative and development.

Another important role SMMEs can play in the South African economy as entrepreneurial development is the creation of wealth and job opportunities (Ntsika Enterprise Development Agency, 2002). A particular focus is articulated in the department of trade and industry's national small business framework, which emphasises black economic advancement normally referred to as Black Economic Empowerment (BEE). Ntsika Enterprise Development Agency (2002) adds that this initiative aims at promoting black- and women-owned businesses as a means of narrowing the income and wealth gaps and facilitating growth in the rural areas. Audretsch (2001) draws attention to the seemingly unrecognised role the SMME sector played after 1990 to the re-emergence of scholars and policymakers. Hitherto, the sector was not given much attention, as the big business sector was seen as growth, employment and wealth creation points. In most of the developed countries such as Japan, the USA and Germany, more than half of the GDP of the economies are generated in the SMME sector (Ntsika Enterprise Development Agency, 2002). It can be argued that all over the world, the big business sector is increasingly becoming lean, and mean developing countries should provide support for the development of SMMEs to sustain their economies.

In theory, the contribution and the role of the SMME sector is widely acknowledged in the South African context. The White Paper (1995), for example, acknowledges that given the country's legacy of big business domination, constrained competition and the unequal distribution of income and wealth, the small business sector is seen as an important force to generate employment, ensure equitable distribution of income, activate competition, increase exports, find niche markets (both internally and internationally), enhance productivity and technical change and stimulate economic development at both local and national levels. This acknowledgement of this fact, however, needs to be demonstrated in practice through the creation of a favourable climate under which small businesses can thrive, and not dwindle.

Different authors have used different criteria to classify SMMEs. They are usually described or classified according to their monetary value of assets, the number of employees, the annual turnover and how the business operates. The European Commission defines SMMEs as enterprises (except agriculture, hunting, forestry and fishing), which employ less than 500 workers. In South Africa, the SMMEs sector is disaggregated into three components such as: micro-enterprises (firms that employ between 0 and 9 employees), small-enterprises (firms that employ 10 and 99 workers), and medium-enterprises (firms that employ between 100 and 499 people) (Storey, 1994).

The government White Paper (1995), for example, identifies the SMME sector as comprising the following categories: Micro enterprises, Survivalist enterprises, Small enterprises, and Medium enterprises. Micro-enterprises are the type of very small businesses that normally involve the owner, some family members and at most one or two paid employees. These businesses, according to the definition, lack formality in terms of licenses and Value-Added Tax (VAT) registration (White Paper, 1995). Small enterprises are both victims and beneficiaries of official regulations and programmes. Government policies may in theory favour small business enterprises, while official procedures at the same time prevent them from selling their products. The planners continually harass the vast majority of small enterprises (Harper, 1987). These are some of the environmental conditions* under which small business managers may operate. The regulatory environment under which small businesses operate requires them to keep detailed accounts of their operations for tax and labour purposes

(Juul, 2002). However, most business owners may have little or no educational background and accounting skills to enable them keep detailed accounts on their operations. This coupled with very limited income might prevent them from complying with stringent statutory requirements and thus face closure.

The survivalist businesses are normally made up of people who cannot find employment in the formal sector. This sector is characterised by low incomes below the national minimum wages, lack of capital, financial support and training amongst other challenges. The survivalist business sector is made up of mostly poor black South Africans and immigrants from other African countries. Most of the small businesses that have emerged on the streets of the country's cities and towns fall under the description of micro and survival enterprises. They comprise barbering tents, hair-dressing salons, public phones, shoe repairs, sewing or patching of dresses, fruit and vegetable sales. These businesses lack capital, lack access to financial support and are usually operated along city pavements or under trees since the owners cannot rent premises. Most of these survival businesses have less than R 2100.00 (USD 300) start-up capitals and are hardly sustainable. More than 70% of these start-ups fail to live beyond the first two years of their existence, but most of these could have survived with a little support from financial institutions (Ntingi, 2007). Medium-enterprises are viewed as basically owner/manager-controlled businesses that employ up to 200 workers and have capital assets (excluding property) to the tune of R5million (White Paper, 1995). The discussion here indicates that the SMME sector is quite diverse and too complex to define categorically.

4 Methodology

4.1 Research design

A research design focuses on the selection of subjects, gathering and analysing of data. It is a plan, strategy and structure for conducting a research (Hittleman and Simon, 2002). This study utilised the qualitative methods of enquiry in the form of structured interviews for data collection. Further, a triangulation methodology, which combines qualitative data with quantitative data, was used to ensure quality, reliability and validity. The simple random-sampling technique was employed to select ten large towns from five of the nine provinces of South Africa. As residents and researchers in the country who travel to many of the provinces, the investigators have observed vibrant activities involving the emergence of small businesses in towns and cities since the past 12 years. Based on this observation, the towns of Sunnyside and Springs (Gauteng province), Mafikeng and Vryburg (North West province), Welkom and Bloemfontein (Free State province), Queenstown and East London (Eastern Cape) and Kimberley and Hartswater (Northern Cape) were randomly selected. The random sampling drew on people who are engaged in small businesses for their livelihood. In these selected towns, owners of small businesses mainly sewing, hair salons/barber shop, shoe repairs, vegetable/fruit sale, tuck-shops, public phone operators, mobile phone accessory shops, fast food sale, internet café and secretarial shops were targeted for the investigation.

4.2 Data collection and the measure

In each of the ten towns mentioned above, 100 owners or managers of small businesses were randomly selected and interviewed. In all 1000 SMMEs, managers or owners participated in the interview. This figure makes the sample probability approximately 1/100, i.e., for every 100 SMME managers/owners, one was interviewed. Although SMME owners were selected and interviewed at different places, the researchers ensured that the data collection process followed the same principles and were reliable and valid. This was done by using scheduled and structured interviews in which the number and order of questions was identical for all respondents in each town or city. This procedure ensures that any variations between responses were attributable to actual differences between the respondents and not variations in the interviews. The survey took four weeks to complete. The researchers divided the areas between them and each spent two weeks in the particular areas assigned to him.

The structured interview schedule that consisted of 15 items was divided into two sections. Section A consisted of items on biographical information of interviewees while Section B focused on specific issues related to SMME. The interviews that aimed at finding out information on SMMEs explored the motivation for establishing a small business, initial capital for start up, access to loans for expansion, where the business operates, number of employees, average monthly income, whether or not the business is registered, their views on the payment of tax by micro-business owners and the major environmental conditions that impact on their businesses. During the interviews, notes were written down from the responses provided by the participants. The interviews took place at where the specific small business operates with each lasting for about 40 min. When all the interviews ended, the data were arranged under common themes such as gender, age and motivation for starting a particular small business. This was done to make the data analysis simple, logical, easy to interpret and report on.

5 Analysis and discussion

This study was undertaken to investigate the type of environmental conditions under which small- and medium-enterprises in South Africa operate and the impact of such conditions on their growth and sustainability. The age distribution of the participants is presented in Table 1.

We wanted to test if there was any difference in age distribution between male and female SMME managers, and thus a null hypothesis was postulated that there was no difference in age distribution between male and female SMME managers. The value for *t*-test ($3.06 > 2.58$) could not support the hypothesis, i.e., the age distribution between the male and female SMME owners is not equal. There is a significant difference between the two variables. Thus, from gender point of view, there are more men involved in small business activities than women. The age distribution of the SMME owners also presents interesting information with multiple interpretations. In both males and females, the age group (21–30) indicates a relatively small number 109 (65 + 44) out of 1000 people who are engaged in SMME activities. These are mainly youths who are at the age of exploration. Perhaps, they have just left school and hope that they would get formal employment either from government departments or the private sector; hence, the apparent little interest in self-employment ventures. The relatively small number of

youths engaged in SMMEs might also be due to lack of financial means for a start-up or an attitude of the youth towards SMME as a mean job. The age group 41–50 has a large number (310) of people engaged in SMMEs. This might have been influenced by corporate downsizing and closure of some mines. Many people might have lost income as a result of either corporate downsizing or closure of mines and have sought a 'refuge' in the informal sector of the economy through self-employment. Respondents in the later adulthood stage also show a significant interest in small businesses. They are represented by a total of 243 men and women. The reasons could be either early retirement or retrenchment from formal employment.

Table 1 Age distribution of SME owners

Age	Male		Female	
	No	Percentage	No	Percentage
21–30	65	12	44	9.6
31–40	182	33.7	156	33.9
41–50	165	30.6	145	31.5
51–60+	128	23.7	115	25.0
Total	128	23.7	115	25.0

Table 2 indicates the educational background of the SMME owners. To test the educational background of the SMME owners, a null hypothesis that there was no significant difference between male and female SMME owners was proposed. The chi-square test (χ^2 26.34, $p > 0.05$) rejected the hypothesis, i.e., there are significant differences between SMME owners who did not complete school and those who completed. The information further indicates that as many as 627 (62.7%) of the SMME managers (both males and females) either did not attend school at all or dropped out. This indicates that a very large number of people engaged in small business activities do so for survival, since as illiterates or semi-literates, they are not likely to get employment in the formal sector of the economy. With low or no formal education background, this group of SMME owners may lack project management skills and consequently cannot manage their micro-businesses well. The interview revealed that generally the micro-business owners tend to literally 'eat' into the business capital, since they can hardly calculate or discern profit from the actual capital. This tendency could cripple SMMEs activities, which is why most of the 'survivalist' micro-businesses cannot be sustainable. They may disappear from the streets after a very short time of appearance.

Table 2 Educational background of respondents

Participants	Male	Female	
Completed schooling	169 ^A	204 ^B	373
Did not complete school	371 ^C	256 ^D	627
Total	540	460	1000

^{A,B}The table indicates that there are more women in SMME activities (204) than men (169). This may be due, in part, to the fact that women outnumber men in South Africa.

^{C,D}Table 2 also indicates that more men (371) dropped out of school than women (256). Perhaps most men left school early hoping to get some kind of employment in the mines etc.

The information further indicates that there are 33% (325) of the SMME owners who completed high school. These are people who might have lost hope in getting employment in the formal sector and have started their own small businesses to earn a living. There are also 4.8% of the small-business owners who have tertiary qualifications. These may be immigrants or refugees who find it difficult to secure jobs in their fields of specialisation and have consequently started self-employment ventures such as hair salons, phone shops, dress making, secretarial services, mobile phone accessory shops and internet cafes.

When asked about the type of small business they run and the motivation for starting such business, the respondents provided the information indicated in Table 3.

Table 3 Type of small business

<i>Type of business</i>	<i>Frequency</i>	<i>Percentage</i>
Hair salon/barbering shop	365	36.5
Public phones/accessories	260	26.0
Fruit/vegetable sales	129	12.9
Shoe/leather bag repairs	121	12.1
Sewing/patching dresses	50	5.0
Local fast food	46	4.6
Secretarial/internet services	29	2.9
<i>Total</i>	<i>1000</i>	<i>100</i>

The information in Table 3 indicates that most of the businesses that sprang up after 1994 as a result of the LED and SEDA are indeed very small businesses in nature. These micro-type of businesses range from barbering, hair dressing, public phone services, shoe repairs, vegetable sales, sewing (mainly patching and mending trousers, shirts and dresses), cooking and selling of local food at taxi and bus stops, to secretarial and internet services for the general public. Regarding reasons or motives for starting micro-businesses, a very high percentage of the respondents (62.5%) answered that they started their own businesses to work for themselves and be able to provide for their families. Some respondents constituting 25% of the interviewees said that they moved to the cities and towns after 1994 with the hope of securing employment. However, having experienced the reality that there are no jobs for them, they started their own small businesses for survival.

Another group of respondents constituting 12.5% of the SMME managers interviewed said that as immigrants, they realised how difficult it is to secure employment in view of the country's high unemployment situation. The alternative was to seize the opportunity of the need for specific services such as hair dressing, dress making, shoe repairs, secretarial and internet services to survive in their new-found home.

Table 4 indicates the type of ownership of the SMMEs. To determine the type of SMMEs, a null hypothesis was postulated that there was no difference in the types of ownership between male and female SME owners. The Chi-square test ($\chi^2 = 35.12$, $p > 0.05$) rejected the hypothesis, i.e., there is a significant difference in the type of SMME ownership between males and females. The information further confirms the

micro-nature of the informal sector. It indicates that over 78% of the small businesses are 'one person' type of business with only 21.5% as partnership ventures.

Table 4 Sole proprietor or partnership

	<i>Male</i>	<i>Female</i>	<i>Total</i>
Sole proprietor	385 ^A	400 ^B	785
Partnership	155 ^C	60 ^D	215
<i>Total</i>	<i>540</i>	<i>460</i>	<i>1000</i>

^{A,B,C,D} It is clear from the table that of the 785 sole proprietors 400 are females and 385 males. The indication is that most of the SMMEs are operated as survival activities and do not have resources or capacity for partnerships. It is, perhaps for this reason that only 215 SMMEs are operated as partnerships.

Information in Table 5 confirms the fact that because of their micro-nature, over 73% of the businesses do not employ people apart from the owners while a little over 26% of them employ few (between 2 and 5) people as sales assistants. Although this figure (26%) may seem quite insignificant, it supports Mitchell's (2003) report in the literature review that SMMEs contribute to employment creation. By employing 17% of the people, the sector reduces the unemployment problem in the country. Further confirmation of the micro-nature of the businesses (Table 6) is the fact that over 74% of them started with less than R 2000.00 (300 US Dollars), while 26% started with between R 2000 and R 6000 (USD 200–600).

Table 5 Number of employees

<i>Number of employees</i>	<i>Frequency</i>	<i>Percentage</i>
Owner only	735	73.5
Less than five employees	265	26.5
<i>Total</i>	<i>1000</i>	<i>100</i>

Table 6 Start up capital

<i>Amount in Rand</i>	<i>Frequency</i>	<i>Percentage</i>
Less than R 2000	510	73.6
More than 2000 but less than 10,000	490	26.4
<i>Total</i>	<i>1000</i>	<i>100</i>

Table 7 indicates that over 94% of the small businesses are either operated under trees, erected tents, on street (i.e., along the pavement) or through hawking. Only 5.4% operate in rented premises. This confirms the information from the literature review that most of the small businesses are survivalist activities with 0–9 employees (Storey, 1994). People operate these businesses just to survive and not necessarily to gain profit. SMME owners might have entered into such activities to fend for themselves and families. This, however, to some extent, reduces unemployment, poverty and crime in the country.

Table 7 Place of operation

<i>Place</i>	<i>Frequency</i>	<i>Percentage</i>
Street/pavement	364	36.4
Under trees/tents	360	36.0
Hawking	222	22.2
Rented premises	54	5.4
<i>Total</i>	<i>1000</i>	<i>100</i>

The survivalist nature of the micro-businesses is further confirmed by their capital base. Table 8 indicates that respondents reported that over 69% of their businesses have a monthly income of less than R 2000 (about USD 280), with only 30.5% earning incomes of about between R 2000 and 6000 (USD 280–700), including expenditure.

Table 8 Average income per month

<i>Amount in Rand</i>	<i>Frequency</i>	<i>Percentage</i>
Under R 1200	360	36.0
R 1200–1600	335	33.5
R 2000–3000	250	25.0
R 4000–6000	55	5.5
<i>Total</i>	<i>1000</i>	<i>100</i>

The environmental conditions (both physical and psychological) under which small-business owners operate in South Africa seem to be very difficult and intolerable. The conditions pose formidable challenges to the sustainability of the emerging micro-businesses commonly referred to as 'survivalist' ventures. As the responses in Table 9 indicate, micro-businesses are at the mercy of municipal authorities, police, home affairs, revenues service, department of labour and criminals. Over 85% of the respondents reported that they are literally harassed (ejected, intimidated or threatened) by the representatives from the above-mentioned departments. Suspecting that the informal sector involves both nationals and immigrants, police and home affairs personnel raid small businesses on regular basis, checking identity documents and residence and work permits. The respondents added that such constant raids in most of the municipalities disrupt their work and also pose a threat to them. As one respondent puts it,

"Some of these people are rude and dislike black people from other countries. I am a refugee from a war torn country. I have documents to that effect and sell my ware to survive but the mere fact that I am black and a foreigner makes me suffer from the hands of police, home affairs, labour and revenue service officials for a small business which hardly provides me an income of R 1000 per month. Some of these people extort money from me on regular basis. The government allows us to be here but its agents are very hostile to refugees and black immigrants at large."

Table 9 Environmental problems

<i>Nature of problem</i>	<i>Frequency</i>	<i>Percentage</i>
Ejection by municipalities	201	20.1
Police/home affairs checks	200	20.0
Tax enforcement by SARS	194	19.4
Lack of access to finance	150	15.0
Attacks by criminals	145	14.5
Labour department check	110	11.0
<i>Total</i>	<i>1000</i>	<i>100</i>

In addition to the above-mentioned problems is the indiscriminate tax and labour enforcement. Officials from labour and tax offices threaten micro-business owners to register for tax and Unemployment Insurance Fund (IUF) for their employees or face closure. As previous responses indicate, one would wonder how, for example, a business with a monthly income of less than R 1000 (USD 140) should be subjected to indiscriminate tax and IUF obligations. Perhaps, it would be fair to leave them alone or give them a monthly rate of say R 10–20 (USD 1–2). One respondent (an elderly woman from Sunnyside) who seemed very frustrated with these actions retorted that

“It is ironical for the government to encourage us, the unemployed and disadvantaged, to start our own small businesses and yet send its agents to harass the same people who without small income cannot survive.”

Added to these environmental problems are lack of finance to expand and crime. Financial institutions are not likely to provide loans to owners of micro-businesses, which have a start-up of less than R 2000 (less than USD 170). Over 15% of the micro-business owners reported that criminals attack them on regular basis for their money. Micro-business owners are vulnerable, because they lack funds to engage the services of security personnel. Many micro-business enterprises are likely to dwindle or disappear as a result of the harassment by government agents and criminals. The hostile environment is likely to ‘kill’ the SMME’s initiative.

Table 10 confirms the fact that the micro-business owners operate in a very hostile business environment. Over 44% of the respondents reported that they live and operate in fear of criminals, the police, home affairs, and labour and tax officials. The actions of these elements in the physical environment pose insecurity to free operations by micro-businesses and thus indirectly discourage self-employment initiatives. State department and their agents either ignore or are not aware of the role micro-businesses are playing in the country. Over 55% of the respondents added that the volatile environment does not lead to sustainability and may lead to disappearance of many micro-businesses, something which can aggravate the already very high unemployment situation.

Respondents were unanimous in their view that ‘survivalist’ type of micro-businesses should not be subjected to tax and labour restrictions. As Table 11 indicates, 81% of the micro-business owners pointed to little income and the fact that they are not working for profit, while 19% said that they do not get support from the government. Environmental conditions of this nature may force many micro-business owners out of operation

and condemn them to perpetual poverty. Such a situation may increase unemployment and its concomitant high rate of crime.

Table 10 Effects of environmental conditions on SMMEs

<i>Response</i>	<i>Frequency</i>	<i>Percentage</i>
Insecurity of business/life	445	44.5
Lack of expansion	360	36.0
Closure of business	195	19.5
<i>Total</i>	<i>1000</i>	<i>100</i>

Table 11 Why SMMEs owners think they should not pay tax

<i>Response</i>	<i>Frequency</i>	<i>Percentage</i>
Too little income	460	46.0
Livelihood only no profit	350	35.0
No support from govt.	190	19.0
<i>Total</i>	<i>1000</i>	<i>100</i>

As the information from Table 12 indicates, micro-business owners were either 'bullied' or intimidated to register with the revenue services. They did so to avoid possible closure, extortion of money from them or arrest and prosecution. The responses indicate that if they had people to intervene for them they would not register as tax-payers since their businesses are not for profit-making. Indiscriminate tax enforcement is quite likely to lead to closure of many micro-businesses and loss of jobs.

Table 12 Number registered for tax and why

<i>Response</i>	<i>Frequency</i>	<i>Percentage</i>
Treat of closure by SARS	525	52.5
Fear of prosecution	475	47.5
<i>Total</i>	<i>1000</i>	<i>100</i>

6 Summary of major findings

This study was conducted to identify the main environmental conditions under which SMMEs operate and how such conditions impact on their growth. The data collected were analysed and our findings indicate that the SMMEs sample we examined perceives that

- The major environmental conditions hindering the growth and development of micro-businesses include interference, intimidation and harassment by the South African Revenue Service (SARS), departments of labour, home affairs, the police and criminals who also take advantage of their vulnerability. The actions of the above-named elements in the physical environment may lead to arrest, prosecution and closure of 'survivalist' micro-businesses that provide livelihood for thousands of the unemployed.

- Other negative environmental conditions impacting on micro-business enterprises are lack of access to loans from financial institutions and the ever-increasing crime rate in the country.
- SMMEs are mainly found in the informal sector or what many South Africans refer to as the second economy. A greater part of SMMEs fall under 'survivalist' activities – very small businesses with less than R 1000–2000 (USD 270) start-ups.
- These 'survivalist' types of businesses do not earn profit; hence, the owners do not see the need to be forced to register as tax-payers.
- Micro-business managers/owners generally have low education background with no project management skills, a situation that contributes to non-sustainability of their businesses.

7 Conclusion

This research was conducted with an assumption that there are some environmental conditions that impact on the growth and development of micro-business enterprises in South Africa. The empirical investigation has provided evidence that the environment under which micro-businesses operate in South Africa is indeed hostile to the growth and sustainability of SMMEs. The paper concludes with the following recommendations, which emanate from the above-stated findings:

- For the government's call for individuals to start their own self-employment projects to succeed, there must be a political will to caution and educate state agents (e.g., police, labour, home affairs and revenue service) on how to deal with micro-business owners. They need to be informed about the importance of micro-businesses in today's South Africa and the damage their actions can cause – closure of small businesses and concomitant escalation of poverty and crime!
- Efforts must be made to train the small business managers in project management and book-keeping skills to ensure sustainability of their businesses
- Small business owners may be requested to pay a monthly flat rate of between R 10 and 20 to the municipality instead of being forced to register as tax-payers with the revenue service
- Police and municipal authorities must interact with small business owners to know their problems and assist them solve them instead of engaging in actions that may be counter-productive to the socio-economic situation in the country.

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