



**Challenges faced by small, medium and micro enterprises in civil engineering projects at selected construction sites in the Free State.**

By

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**Master of Technology/: Business Administration in Project Management  
in the Faculty of Business and Management Sciences**

**at the Cape Peninsula University of Technology**

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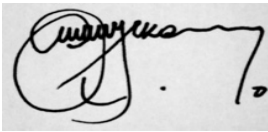
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## DECLARATION

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A handwritten signature in black ink on a light grey background. The signature is cursive and appears to read 'Andile Yeko'. There is a small mark at the end of the signature that looks like a '2'.

**Signed**

03 August 2024

**Date**

## **ABSTRACT**

Small, Medium, and Micro Enterprises (SMMEs) play a pivotal role in driving economic growth and fostering development globally, as well as in the specific context of South Africa. This importance is particularly evident in the civil, building, and mechanical engineering industries, where SMMEs contribute significantly to the country's Gross Domestic Product (GDP) and hold the potential to alleviate poverty, reduce unemployment, and promote inclusivity and fairness. This research explores the multifaceted significance of SMMEs in these industries.

Globally, SMMEs are recognized as engines of economic growth due to their capacity to innovate, create jobs, and generate income. In South Africa, these enterprises have a profound impact on the economy, contributing poverty alleviation and income generation social inclusion. SMMEs involvement in the civil engineering, building construction, and mechanical engineering sectors are particularly crucial, as they drive infrastructure development, job creation, and skills enhancement as a future economic jack. The main goal of the study is to examine the difficulties SMMEs encounter due to broader economic trends, including the impact of unidentified household brand names that affect their cash flow and capital availability.

The vital role of SMMEs in South Africa's GDP and poverty reduction is underscored by their potential to create employment opportunities, especially for marginalized communities, which finds expression in in the engineering and construction sector like many other economic sectors. These enterprises facilitate skills development and contribute to localized economic growth, thereby advancing inclusivity and social equity. However, SMMEs in the civil, building, and mechanical engineering industries confront an array of challenges, including limited access to financing, inadequate skills development, regulatory hurdles, and market access constraints. This empirical study identified the economic trends that influence capital cash-flow in SMMEs The research design that has been adopted for this study was a quantitative mono-method whereby a questionnaire was used as a singular data collection technique (Saunders et al., 2019:540). This linked well with the pragmatic paradigm which is a research approach

that prioritizes practical outcomes and real-world applications over theoretical considerations. 130 SMMEs participants from the engineering sector were **surveyed** in the study. The study revealed that most private sectors are engaged in supporting the growth and mentoring of SMMEs. Additionally, the Free-State government provides financial support and facilitates marketing access to the SMMEs. The study recommends that the Free-State government should intensify programmes of skills knowledge development and marketing competition to maintain capital cash-flow sustainability in SMMEs.

Keywords: constraints and challenges, small enterprise, medium enterprise, micro enterprise, engineering sector.

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## **DEDICATION**

I offer this mini dissertation in honour of my late father, July Adam, and my late mother, Nelly Adam, who wholeheartedly fostered and bolstered my passion for academic pursuits. Their unwavering encouragement and support have left an indelible mark on my journey. The depth of my gratitude surpasses words, and I am confident that they watch over me with pride.

# TABLE OF CONTENTS

<b>CHAPTER 1: INTRODUCTION .....</b>	<b>17</b>
1.1 BACKGROUND TO STUDY .....	17
1.2 PROBLEM STATEMENT .....	20
1.3 RESEARCH OBJECTIVES .....	20
1.4 PRIMARY OBJECTIVE .....	21
1.5 SECONDARY OBJECTIVES.....	21
1.6 THE RATIONALE AND SIGNIFICANCE OF THE STUDY.....	21
1.7 SAMPLING AND UNIT OF ANALYSIS .....	22
1.8 RESEARCH METHODOLOGY .....	23
1.9 SUMMARY AND OUTLINE OF THE DISSERTATION.....	23
<b>CHAPTER 2:.....</b>	<b>25</b>
<b>LITERATURE REVIEW.....</b>	<b>25</b>
2.1 INTRODUCTION.....	25
2.2 DEFINITION OF SMMES .....	26
2.3 SMMES IN THE EUROPEAN CONTEXT .....	27
2.3.1 <i>SMMEs Contribution By Means of Modern Economic Theory</i> .....	28
2.3.2 <i>The SMME Situation</i> .....	29
2.3.3 <i>The Overall Contribution of SMMEs</i> .....	36
2.3.4 <i>Status Comparison</i> .....	37
2.3.5 <i>The Impact of Operating on Global Market</i> .....	38
2.3.6 <i>Role and Benefits in Globalized and Digitized Economy</i> .....	39
2.4 CHALLENGES FACED BY EUROPEAN SMMES .....	41
2.4.1 <i>SMMEs That Have Not Yet Internationalized</i> .....	43
2.4.1.1 <i>Contextual Intrinsic Challenges</i> .....	43
2.4.1.2 <i>People Resource Management</i> .....	43
2.4.1.3 <i>Monetary Limitations</i> .....	44
2.4.1.4 <i>Marketing Challenges</i> .....	44
2.4.1.5 <i>Extrinsic Challenges to Entry From Competitors</i> .....	45
2.4.1.6 <i>Due Process Challenges</i> .....	46
2.4.1.7 <i>Legislative Challenges</i> .....	46
2.4.1.8 <i>Intrinsic Challenges For Already Internationalized SMMEs</i> .....	47
2.4.1.9 <i>Free Trade Agreements - Information Based</i> .....	47
2.4.1.10 <i>Government Acquisition - Information Based</i> .....	49
2.4.1.11 <i>Staff Personnel</i> .....	50
2.4.1.12 <i>Marketing and Advertising</i> .....	50
2.4.1.13 <i>Extrinsic Challenges</i> .....	52
2.4.1.14 <i>Process Challenges</i> .....	52
2.4.1.15 <i>Tariff and Non-Tariff Trade Restrictions</i> .....	53
2.4.1.16 <i>Tariff Challenges</i> .....	53
2.4.1.17 <i>Non-Tariff Challenges</i> .....	54
2.5 BROADER ECONOMIC RISKS .....	55
2.5.1 <i>Effects of Environmental Disasters</i> .....	57
2.5.2 <i>International Geopolitical Threats</i> .....	59
2.5.3 <i>Scaring Off Investors</i> .....	60
2.5.4 <i>Productivity Disruption</i> .....	62
2.6 SMMES IN THE AFRICAN CONTEXT .....	63
2.6.1 <i>Introduction</i> .....	63
2.6.2 <i>Conceptual Framework</i> .....	63



2.6.3 SMME Attributes in Ghana.....	64
2.6.3.1 Finance Agencies Structure .....	65
2.6.3.2 The Importance of SMMES to MacroEconomic Progress .....	66
2.6.3.3 The Challenges Faced by SMMES .....	67
2.7 SMMES IN THE SOUTH AFRICAN CONTEXT .....	69
2.7.1 Introduction.....	69
2.7.2 Theoretical Framework .....	70
2.7.3 THE ROLE AND IMPORTANCE OF SMMES .....	71
2.7.3.1 Job Generation .....	71
2.7.3.2 Poverty Alleviation .....	72
2.7.3.3 Inclusivity and Fairness.....	72
2.7.3.4 Community Integration .....	72
2.7.3.5 Economic Development and Growth.....	73
2.7.3.6 Commitment to Economic Progress .....	73
2.7.3.7 Competitiveness .....	74
2.7.3.8 Empowering Large Corporations.....	74
2.7.4 SOCIO-ECONOMIC GROWTH CONTRIBUTION .....	75
2.7.4.1. Creating Jobs.....	75
2.7.4.2 Wealth Allocation and Poverty Alleviation.....	76
2.7.4.3 Fostering the Development of Entrepreneurship .....	76
2.7.4.4 Sustaining a Robust Economy .....	77
2.7.4.5 Promoting Social Unity and Mitigating Social Discord.....	77
2.7.4.6 Tackling Disparities in Economic, Social, and Racial Realms.....	78
2.7.5 GLOBAL TECHNOLOGICAL ACCESSIBILITY.....	78
2.7.5.1 Cloud Computing Tools For Global Market .....	78
2.7.5.2 Cost Effective Technological Systems.....	79
2.7.5.3 Corporate Support for SMMES .....	80
2.7.6 CHALLENGES FACING SOUTH AFRICAN SMMES.....	81
2.7.6.1 Inadequate Skills and Knowledge.....	81
2.7.6.2 Inadequate Capital Means .....	81
2.7.6.3 Market Inaccessibility.....	82
2.7.6.4 Inadequate Auxiliary Systems .....	82
2.7.6.5 Absence of Exposure to Necessary Equipment.....	82
2.7.6.6 Lack of Access to Human Resources.....	83
2.7.7 PORTER'S FIVE FORCES MODEL.....	85
2.7.7.1 Competition Among Competitors.....	85
2.7.7.2 Threats from New Competitors .....	85
2.7.7.3 Concerns from Replacement Goods .....	86
2.7.7.4 Consumers' Negotiating Position .....	86
2.7.7.5 Negotiating Advantage of Buyers .....	86
2.7.8. FREE STATE PROVINCIAL GOVERNMENT SMME INTERVENTION .....	87
2.7.8.1 Covid-19 Pandemic.....	88
2.7.8.2 Skills Strategy for Economic Reconstruction and Recovery Plan .....	88
2.7.8.3 National Skills Development Plan (NSDP) .....	89
2.7.9 CHAPTER SUMMARY .....	89
<b>CHAPTER 3 .....</b>	<b>91</b>
<b>RESEARCH DESIGN AND METHODOLOGY.....</b>	<b>91</b>
3.1 INTRODUCTION .....	91
3.2 RESEARCH METHODOLOGY .....	91
3.3 PRAGMATISM RESEARCH PARADIGM .....	91
3.4 STUDY TECHNIQUE .....	92

3.4.1 Quantitative Approach.....	92
3.4.2 Qualitative Approach .....	92
3.5 STUDY PLAN.....	93
3.6 POPULATION .....	93
3.7 TARGET POPULATION.....	94
3.8 SAMPLING METHODS.....	94
3.8.1 Probability vs Non-Probability Sampling Technique.....	95
3.8.2 Stratified Sampling.....	95
3.8.3 Simple Random Sample.....	95
3.9 EXPERIMENT VOLUME.....	95
3.10 DATA COLLECTION .....	96
3.11 SAMPLE SIZE .....	96
3.12 AREA OR CLUSTER SAMPLING .....	97
3.13 DATA INSTRUMENTS.....	97
3.14 SURVEY AND QUESTIONNAIRE.....	97
3.15 STRUCTURED SURVEY AND QUESTIONNAIRE .....	98
3.16 DATA ANALYSIS.....	98
3.17 VALIDITY AND RELIABILITY.....	98
3.17.1 Reliability.....	98
3.17.2 Validity .....	99
3.18 ETHICAL CONSIDERATION.....	99
3.19 CHAPTER SUMMARY .....	100
<b>CHAPTER 4 .....</b>	<b>101</b>
<b>PRESENTATION OF RESEARCH FINDINGS AND DISCUSSION .....</b>	<b>101</b>
4.1 INTRODUCTION.....	101
4.2 DEMOGRAPHICS OF SMMES .....	101
<b>CHAPTER 5 .....</b>	<b>111</b>
<b>CONCLUSION AND RECOMMENDATION .....</b>	<b>111</b>
5.1 INTRODUCTION.....	111
5.2 CHAPTER SUMMARY .....	114
<b>REFERENCES.....</b>	<b>115</b>
<b>APPENDICES.....</b>	<b>142</b>
APPENDIX A: SURVEY QUESTIONNAIRE.....	142
APPENDIX B: REPORT ON TURN-IT-IN SIMILARITY INDEX .....	147
APPENDIX C: ETHICAL CLEARANCE CERTIFICATE.....	1
APPENDIX D: PERMISSION LETTER FOR DATA COLLECTION .....	2
APPENDIX E: LANGUAGE EDITOR CERTIFICATE .....	3

## LIST OF ABBREVIATIONS

NHBRC	-	National Home Builders Registration Council
CIDB	-	Construction Industry Development Board
GDP	-	Gross Domestic Product
SMME	-	Small Medium and Micro Enterprise
GNP	-	Gross National Product
SEPO	-	Senate Economic Planning Office
SEDA	-	Small Enterprise Development Agency
FDC	-	Free State Development Corporation
DTI	-	Department of Trade and Industry
PBFNS	-	Presidential Business Fund National Strategy
WEF	-	World Economic Forum
SME	-	Small and Medium-sized Enterprise
FTA	-	Free Trade Agreement
ECR	-	European Committee of Regions
R & D	-	Research and Development
USD	-	United States Dollar
EU	-	European Union
OECD	-	Organisation for Economic Co-operation and Development

WTO	-	World Trade Organisation
IPCC	-	Intergovernmental Panel on Climate Change
SDG	-	Sustainable Developmental Goals
GVC	-	Global Value Chains
VCTF	-	Venture Capital Trust Fund
NBSSI	-	National Board of Small Scale Industries
SABC	-	South Africa Broadcasting Corporation
NCR	-	National Capital Region
SPSS	-	Statistical Package Social Sciences
GRDP	-	Gross Regional Domestic Product
GNI pc	-	Gross National Income per capita
TPP	-	Targeted Procurement Policy
SMBs	-	Small and Medium-sized Businesses
WB	-	World Bank
UN	-	United Nations
FDI	-	Foreign Direct Investment
ECB	-	European Central Bank
SBA	-	Small Business Act for Europe
UNCTAD	-	United Nations Conference on Trade and Development

UK	-	United Kingdom
ASGISA	-	Accelerated and Shared Growth Initiative South Africa
ESD	-	Enterprise Supplier Development
GEAR	-	Growth Employment and Redistribution
BEEA	-	Black Economic Empowerment Act
FDI	-	Foreign Direct Investment
SMEDC	-	Small and Medium Enterprise Development Council
BASA	-	Banking Association South Africa
ECDPM	-	European Centre for Development Policy Management
DESTEA	-	Free State Department of Economic, Small Business, Tourism, and Environment Affairs
W&R SETA	-	Wholesale and Retail Skills and Education Training Authority
STATS SA	-	Statistics South Africa
ERRP	-	Economic Reconstructive and Recovery Plan
COVID-19	-	Corona Virus
SHEQ	-	Safety, Health, Environmental and Quality
NSDP	-	National Skills Development Plan
DACT	-	Downstream Aluminium Centre for Technology

## LIST OF KEY CONCEPTS

<b>ESKOM</b>	:Government organisation that generates, transmits and distributes approximately 95% of the electricity in South Africa and approximately 45% of the electricity used in Africa.
<b>TRANSNET</b>	:State owned entity and is the largest freight logistics organisation that delivers goods throughout South Africa.
<b>TELKOM</b>	:Telkom SA SOC Limited, headquartered in South Africa, is a telecommunications company offering both wired and wireless services.
<b>SASOL</b>	:Sasol Limited, situated in Sandton, South Africa, is a comprehensive energy and chemical enterprise.
<b>FREE STATE</b>	:An administrative region within South Africa, this province has Bloemfontein as its capital, a role also held by Bloemfontein in the nation's judiciary system.
<b>ISIXHOSA</b>	:An official language in South Africa with around 10 million individuals use Xhosa as their primary spoken language.
<b>SESOTHO</b>	:Sesotho is an official language in South Africa, particularly in areas such as the Vaal and the Free State, where it is among the twelve recognized languages.
<b>SETSWANA</b>	:Setswana holds the status of an official language in South Africa.

## LIST OF FIGURES

Fig 1: SEPO percentage distribution of SMMEs by industry.....	33
Fig 2: The distribution of SMMEs by region with their regional GDP contributions.....	34
Fig 3: SMEs Internationalization performance and progress in EU Countries & UK.....	35
Fig 4: Competitive forces model.....	82
Fig 5: Age composition of SMME respondents.....	102
Fig 6: Gender composition of SMME respondents.....	103
Fig 7: Ethnic diversity among SMME owner respondents.....	104
Fig 8: Formal education qualifications of respondents.....	105
Fig 9: Nature of involvement by respondents in the SMME.....	106
Fig 10: SMME operational involvement by respondents.....	107
Fig 11: Management position of respondents involved in SMME.....	108

## LIST OF TABLES

Tab 1: The Senate Economic Planning Office Definitions of Small Firms.....	32
Tab 2: Senate Economic Planning Office of Philippian SMME Classification.....	32
Tab 3: Difficulties and obstacles to European SMMEs internationalization.....	40
Tab 4: Depression effects of terrorism.....	59
Tab 5: Loans approved by FDC.....	68
Tab 6: National Small Business Act Definition of SMMEs.....	69
Tab 7: SMMEs by Province.....	85
Tab 8: Likert scale.....	101



## **CHAPTER 1: INTRODUCTION**

### **1.1 Background to Study**

Even though it is universally recognized that SMMEs play a significant role in the economy, there is no universally accepted definition of the term. There is a definition about a berdasar scale firm based on the quantity of labour utilized as well as certain small, medium-sized, and micro businesses, as well as the size of the investment. Bvuma and Marnewick (2020), Kiveu and Ofafa (2013:29-46) say the bulk of businesses in Kenya are categorized according to the number of people they employ. Based on the findings of those surveys, a number of micro businesses and small companies in the study can be classified as small, medium, and micro businesses from both the official and unofficial industries, hiring 5-99 permanent workers (Nyathi, 2021:9; Mwenda, 2018:50). The fundamental advantage of SMMEs is that they can provide a source of productive employment, income, government revenue, and poverty reduction in virtually all sectors of the economy. This segment accounted for 98 percent of all enterprises in Kenya, employing over 4.6 million people (30 percent), and contributing for 18.4 percent of GDP. The industry has 28 billion in venture capital (AACSB, 2024; Anyanga and Nyamita, 2016:11-26). The strength of SMMEs to thrive in a cutthroat international market heavily rely on leveraging data sources and capitalise on its credibility. Because they operate at times when resources become available. SMMEs necessitate rapid access to thorough and pertinent data because it functions from time to time yet still have bottleneck. SME perpetrators demand information about business dynamics and the market; the business landscape, policy and institutional attributes, business administration, consumer demands, corporate investment and diversification; innovation; economic opportunities; interconnections and collaboration efforts; and business opportunities (Sagar, 2024; Welter and Smallbone,2017:95-113).

According to World Bank Group, (2022); Cui, Liu, Hope and Wang, (2018:773-794), as lately, investigation on the development performance review of GDP has not piqued the public's attention regarding the value and importance of SMEs existence in various countries. Most companies are found to have had no set and systematic method to

benefitting from project evaluations, either during or after project completion. In addition, practitioners have expressed alarm about the absence of established criteria and norms to assess the direct appraisals (Ramabitsa, 2022). This research study looks into issues and limits that SMME contractors encounter in South Africa and also, provide vital input on efficient program for legislating SMME vendors. This research makes several recommendations about how to enhance administration. This is accomplished by a rigorous educational requirements examination, industry knowledge, funding issues, technological skills as well as moral behaviour in small, medium-size and micro business vendors.

Regardless of the significance of SMMEs in the South African economy, the limits and problems they confront in managing such companies are formidable, which have a detrimental influence on the growth and hampers the capacity to accelerate the envisaged South African economy. It is worrisome of a growing economy to lack necessary technical foundation required to draw significant numbers of multinational enterprises. SMMEs play a vital role in the economy of the Free State province; and unfortunately their impact has not expanded in the past 16 years (Ramabitsa, 2022:60; SEDA, 2020). For more than 10 years, SMMEs have not been a significant source of income and employment and have not contributed significantly to the Free State Province's GDP (SEDA, 2020). SMMEs have greater globalization hurdles than large corporations; the downside is a lack of financial capital; the upside is flexibility. Because the country continues to experience basic development challenges, the engineering industry, along with all other industries, is in critical need of government aid and funding (Abdullah, Rosnan and Yusof, 2019:12-24).

In the Free State province, the key barriers preventing SMMEs from expanding and flourishing have been highlighted as a lack of financing, education programs, advisory services, advertising, instability, tax processes, administrative practices, and investments, amongst many others (DESTEA, 2023); (Causevic and Lynch, 2013:145-157). Since SMMEs have indeed been considered as viable vehicles for advancing sustainable development in the country's engineering sector, business and financial

analysts have campaigned for full government support of SMMEs by efficiently assisting them with funding. The growth and survival of SMMEs in the engineering sector are dependent on efficient resource management approaches that focus on organizational goals, such as hiring the appropriate person at the right time and in the right place (Sunday and Jimoh, 2022); (Ogunyomi and Bruning, 2016:612-634).

Engineering SMMEs play a prominent part in continuous production as they have the ability to stimulate entrepreneurship and generate public employment (Muller, 2019); (Müller, Buliga and Voigt, 2018:2-17). They can also react quickly to shifting market requirements because to their size and entrepreneurial orientation. SMMEs encourage economic expansion by promoting local economy and developing intermediate products, and thus make a substantial contribution towards the total GDP of several states (Tahir, Ibrahim, and Babawulle, 2021:33-54).

Therefore, as a consequence, in today's rapidly changing dynamic business environment, small and medium-sized enterprises (SMMEs) demand human resource practices for lengthy growth and improvement. Small, medium, and micro businesses (SMMEs) have traditionally been regarded as the Free State Province's catalyst for economic growth and a way of supporting sustainable and inclusive development in the building, civil, and mechanical engineering sectors (SEDA, 2022). The key benefit of the industry is its potential to create jobs at a low cost of equity. A number of state initiatives were applied to improve basic services, roads and bridges, and accommodation for said people living in rural areas, and also to increase financial inclusion, farm inputs, and employment generation, in a bid to sustainable growth and development for SMMEs to expand in the engineering industry. As a result, the present investigation is devoted to analysing limitations and difficulties that small, medium, and micro businesses encounter within the building, civil and mechanical engineering industry in the Free State province; also considering their contribution to economic growth and general development of the South African economy (DESTEA, 2023).

## **1.2 Problem Statement**

Many nations extol the SMME segment like an economic force (Ramabitsa, 2022:10). Entrepreneurship researchers assert that SMMEs are vital for economic growth, job creation, poverty alleviation, and lessening levels of income inequality. However they are not yet competent in addressing the constraints and obstacles encountered by SMMEs in the Free State province (van der Westhuizen et al., 2023; Rankhumise, 2019; Rathaba, 2019). SMMEs in the engineering industry are crucial and play an essential role in disenfranchised and rural areas, such as South Africa's Free State province, where the majority of the population relies on government assistance. In this province, unemployment, poverty, and inequality are all quite high. It is regrettable that, notwithstanding the prominence of the SMME sector and considering the help they receive more than 70% of these enterprises fail in South Africa within three years of their inception (Dzomonda and Fatoki, 2019:82-94). The significant failure rate of SMMEs in the engineering sector in South Africa's Free State province may be ascribed to the difficulties that these small firms experience, as well as a lack of financial support from key players. Entrepreneurship researchers believe that SMMEs play a vital role in the economy. However, it is disheartening that in South Africa's Free State province, the majority of these SMMEs in the engineering industry fail within a relatively short period of time. The multiple hurdles they confront contribute to their extremely high failure rate. Therefore, it is critical to examine these issues and propose solutions.

## **1.3 Research Objectives**

Research objectives are "the steps taken by the researcher to accomplish the aim of the research," according to Ramabitsa (2022:23). the "study's research objectives to the specific goals that need to be accomplished to specify and understand the research problem" is another way that Ramabitsa (2022:23); Babin and Zikmund (2016:52) emphasise this. The research objectives "developed for a study must be based on the research problem," states Ramabitsa (2022:23); Boshoff (2014:103).

## **1.4 Primary Objective**

According to Ramabitsa, (2022); Brown, Suter, and Churchill (2018), the primary objective is "the main goal that the researcher aims to achieve in conducting the study, whereas the secondary objectives are formulated to attain the primary objective."

Hence, the primary objective of the study is to investigate the challenges faced by small, medium and micro enterprises in civil engineering projects at selected construction sites in the Free State.

## **1.5 Secondary Objectives**

Secondary objectives "guide the sample size and the design of the study," according to Ramabitsa, (2022); McDaniel and Gates (2015:67). The following secondary objectives are derived from the above primary objective:

- Identify impact of broader economic trends on the operations of SMMEs in the civil engineering sector in the Free State, South Africa
- Identify causes for lack of capital and cash flow into SMME civil engineering ventures.

## **1.6 The Rationale and Significance of the Study**

This research is critical for the proper design and construction of policies aimed at developing the SMME sector. A comprehensive evaluation of the issues preventing these small firms' growth and development is needed in order to execute meaningful solutions. Although certain studies have been done in the SMME industry such as engineering, it remains important to examine the problems faced by business owners running SMMEs within South Africa's Free State province.

This study is crucial because it can lead to the legislature developing rules to create a favourable economic climate and adopting beneficial guidelines for the development of SMMEs in the engineering sector in the Free State province of South Africa.

Successful entrepreneurs and managers of SMMEs in the engineering sector of South Africa's Free State province, on the other hand, may embrace the findings of this study that will also help them to concentrate more on their businesses failures using the help of success elements of this study. Those who intend to enter this industry in the future might utilise the findings of this study to produce more accurate feasibility studies.

The study will be beneficial to SMMEs in the Free State province's engineering sector because it will enable them in implementing and initiating employee wellness systems as well as ongoing learning and development programs that exemplify both the economic rewards and reaction to the worker's and the organisation's general needs. This study is critical as it will broaden our understanding and knowledge about SMMEs in engineering sector, particularly in the Free State province. It will also provide the SMMEs and the general public in South Africa with an avenue to recognise the interplay and importance of the need to identify the constraints and challenges facing SMMEs within engineering sector. Additionally, research students will find the study to be of great use as a source for future studies on the topic or other related subjects.

### **1.7 Sampling and Unit of Analysis**

The list of participants of whom samples would be chosen is known as the sampling frame (Phaswana 2019:63). It offers an exhaustive list of the whole demographic (Abdulai and Owusu-Ansah, 2014:215; Phaswana 2019:63). Quantity surveyors, engineers, architects, skilled and semi-skilled laborers, business owners, SMME contractors, and construction managers working in the building, civil, and mechanical sectors in the South African province of the Free State make up the target demographic. The sample consists of engineering contractors and consultants. This research includes 130 individuals who are directly impacted by employment, unemployment, performance, and income production in the SMME engineering industry.

## **1.8 Research Methodology**

This study utilised the pragmatism paradigm philosophy. According to pragmatics, one must have experience in order to give an event significance (Kaushik & Walsh, 2019). Instead of depending solely on objective truths, pragmatic research aims to use human experience as the main tool for knowledge construction and global perception (Allemang et al., 2022).

The research design that has been adopted for this study was a quantitative mono-method whereby a questionnaire was used as a singular data collection technique (Saunders et al., 2019:540). Hence, this study employed an open and closed ended questionnaire to collect data. It should be emphasised that each particular data collection approach is tied to certain evaluation as well as presentation procedures. This was conducted in accordance with study goals, because it influenced the sampling unit. To obtain an appropriate and fair interpretation of the results, a minimum of 130 respondents were contacted. A particular company have consented would participate in the study, and the stratified random sampling approach will be used to randomly pick the participants.

## **1.9 Summary and Outline of the Dissertation**

### **Chapter 1: Introduction**

Chapter 1 is the introductory of the study which will give a context on the challenges faced by the SMMEs in the Free State province. The chapter will also discuss the problem statement, objectives of the study, as well as outlay research methodology and the rationale of the study.

### **Chapter 2: Theoretical Framework and Related Literature Review**

The chapter will provide the relevant theoretical framework and literature review that will help in achieving the objectives of the study. While considering the advantages and disadvantages surrounding SMMEs challenges, the related literature review on SMMEs will giving context from the international, continental and local perspectives, respectively.

### **Chapter 3: Research Design and Methodology**

The research design and methodology will be discussed in this chapter. The methodology chapter will give a layout of the study design, sampling, data collection methods and procedures.

### **Chapter 4: Presentation of Research Findings and Discussion**

This section outlines the research findings, building upon the methodology discussed in chapter 3. The questionnaire responses relevant to the research objectives are closely examined and presented herein.

### **Chapter 5: Conclusion and Recommendations**

The conclusion and recommendations of the study as well as future research studies will be presented in this chapter.



## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

Small and medium-sized businesses, or SMEs, are said to be vital to many economies around the world, especially the emerging ones. According to Bayraktar and Algan (2019:57), SMEs play a critical role in advancing and enhancing a comprehensive opportunity for participation on a global scale and economic growth. Over the next 15 years, 600 million people are predicted to work globally, mostly in Asia and Sub-Saharan Africa, with SMEs estimated to account for 80% of this employment (Ndiaye et al., 2018: 269). According to an analysis by the World Bank Group and collated by Jordaan (2020), Ndiaye et al. (2018:269), formally registered SMMEs, as opposed to informal traders represent roughly 60% of all employment and roughly 40% of GDP in developing economies. According to Cusmano, Koreen, and Pissareva (2018:6), SMEs account for between 34% and 52% of properly recognised employment and more than 33% of GDP in developing markets. Cusmano et al. (2018), report that in 132 countries, SMEs provided permanent employment to around 159 million people between 2003 and 2016. This accomplishment has been credited to the expansion of SMMEs, estimated to number 400 million in emerging economies, the majority of which are informal (Steenkamp, 2022); (Ndiaye et al., 2018:269). Because of this, SMEs are seen as an economic tool to help tackle Africa's unemployment and poverty problems (Mojadibodu, 2023); (Fatoki, 2018).

The government of South Africa established a sound legislative framework to support the growth and huge potential realisation of SME's. For instance, the establishment of SME's and the creation of jobs were supported by the National Business Amendment Act 102 of 2019 (South African government, 2019), the Small Business Amendment Act of 2018 (South African government, 2018), the Small and Medium Enterprise Development Agency (SEDA), and most importantly, the Downstream Aluminium Centre for Technology (DACT) incubator, which is situated in Richards Bay, Kwa-Zulu Natal (DACT, 2021). According to Ayandibu et al. (2022), Voeten and Marais (2016), SMMEs generate

61% of new jobs and contribute between 52% and 57% of South Africa's GDP. In this regard, Moipolai (2022), Chimucheka (2013) reaffirmed that, in terms of GDP contribution and employment creation, SMMEs are the foundation of South Africa's economy. Even though SMMEs make a substantial contribution to South Africa's economy, prior research has shown an alarming failure rate (Fatoki, 2018; Zilwa, 2019). According to Chetty (2024), Fatoki (2018), 75% of South African SMMEs fail within the first five years of operation. As a result, from 26.91% in 2018 to 28.47% in 2019, the youth unemployment rate defined as those between the ages of 15 and 24 rose from 53.77% in 2018 to 57.47% in 2019 (STATS SA, 2019). In addition, thousands of businesses were destroyed and countless lives were lost as a result of the recent fatal riots in KwaZulu-Natal and Gauteng in July 2021, as well as the global Covid-19 pandemic. Some SMME's as a result altogether stopped operating, while others will never fully recover from the damaging effects of these crises (Krause, 2022); (Haper, 2021). This study looks into the difficulties faced by SMEs in unpredictable times in light of this. This study specifically attempts to investigate the difficulties faced by DACT beneficiaries during the global Covid-19 outbreak and the KwaZulu-Natal civil upheaval that transpired in July 2021. This inquiry will help uncover the advice that SMEs need to overcome these uncertain times' issues.

## **2.2 Definition of SMMES**

There is not one explanation of SMEs because it varies just on context in which it is applied (Pahnke et al. 2022). For instance, in Canada, a small business is one with less than 100 workers, while a SMEs is one with under 500 workers. The World Bank, in contrast, describes SMEs as organizations with no more than 500 workers.

SMEs could be categorized in one of two distinct ways: either according to the total number of workers or according to the immovable assets owned by the company. As shown by Nkoe 2023:12; Boateng (2015), the much more crucial factor employed in Ghana seems to be the amount of a company's workforce. However, it is about using caution whenever classifying SMEs according to their fixed assets due to the ongoing decline in currency values, that frequently renders these definitions obsolete.

Enaifoghe & Vezi-Magigaba (2023), UNIDO bases its definition of SMEs in emerging economies on the presence of workers. Small businesses, like the various small stores found in towns like snack cafes and beauty salons, employ five to nineteen people. A medium-sized business employs 20 to 99 people, and they can be both producing and exporting businesses. According to the Ghana Statistical Service's 1987 Ghana Industrial Consensus, small-scale businesses are those that have five to 29 people and capital assets under \$100,000, whereas medium-sized businesses have between 30 to 99 workers.

SMEs are businesses that have less than 29 people and have a capital in equipment and machinery (apart from real estate and buildings) of no greater than the comparable of \$100,000, according to the National Board of Small Scale Industries (NBSSI). Because it is a relatively recent definition, the Venture Capital Trust Fund (VCTF) Act 2004 (Act 680 section 28) definition of SMEs will be utilized for both the purposes of this study. According to the VCTF (2020), a small to medium-sized enterprise (SME) is "any enterprise, venture, endeavour, or economic output that hires not much more than 100 individuals and those whose entire total assets, except land and property, may not surpass the exchange rate equal amount of US\$1 million in worth."

### **2.3 SMMES IN THE EUROPEAN CONTEXT**

Gaining access to overseas markets is a strategy used by several businesses to boost competition and encourage growth. Internationalization is regarded as advantageous since it gives businesses access to less expensive inputs and enables them to improve their innovative skills by learning from other countries. Corporations can also take advantage of specialised assets in foreign markets, build up worldwide market dominance, and expand globally. Additionally, it reduces their volatility through geographic diversification and offers knowledge on how to do profitable business in international markets by enhancing organisational skills (Panahi, 2022); (Contractor, 2013).

Internationalization is critical for businesses of all sizes nowadays. SMEs are compelled to participate in global marketplaces as a result of increased worldwide competition (Azman and Azwardi, 2022; Onkelinx and Sleuwaegen, 2014). Additionally, scientific proof of SME internationalization highlights the fact that smaller businesses already are increasingly benefiting from a globalized economy as well as the enormous opportunity for business growth and development, rather than just large multinational corporations, from the advantages of globalization (Panahi, 2022; Hutchinson et al., 2014). Nevertheless, maximizing the benefits of internationalization presents substantial organizational obstacles, particularly for SMEs (Azman and Azwardi, 2022; Hsu et al., 2013).

Regardless of size, businesses may go global in a variety of ways. Which include partnerships, strategic partnerships, wholly owned foreign direct investment (FDI), including greenfield projects, licensing, franchising, and contracted partnerships (Divrik, 2023; Malhotra et al., 2015). Exporting and importing continue to be the most popular ways for SMEs to internationalize since they have less resources available, a fact supported by a European Commission poll (2015; Divrik, 2023).

### **2.3.1 SMMEs Contribution By Means of Modern Economic Theory**

The study employed modern economic theory on SMEs. The modern economic theory claimed to be founded by Scottish philosopher Adam Smith in 18<sup>th</sup> Centuries “where he initiated the inquiry into the nature and causes of the wealth of nations” (Sharma, 2023). Small and medium-sized businesses (SMBs) are companies with less than 500 employees. International entities such as the World Bank (WB), the European Union (EU), the United Nations (UN), and the World Trade Organization (WTO) use the acronym "SME" (Small, Medium Enterprise). SMEs dominate major corporations by a substantial proportion in any given national economy and employ far more people. For example, Australian SMEs account for 98 percent of all firms in Australia, generate one-third of total GDP, and employ 4.7 million people. In Chile, 98.5 percent of enterprises were classed as SMEs in the fiscal year 2014 (WTO, 2019). In Tunisia, self-employed persons account for around 28 percent of total non-farm employment, while enterprises with less than 100

employees account for approximately 62 percent of total employment. SMEs in the United States create half of all employment but only 40 percent of GDP. In 2014, 170,000 small and medium-sized firms in the United States shipped approximately \$180 billion in goods to TPP nations (WTO, 2019). Despite the fact that 98 percent of US exporters are small firms, less than 5 percent of all US enterprises ship products. This implies that there is enormous untapped opportunity for small enterprises to stimulate economic growth and support employment by selling US products and services to 95 percent of the world's largest customers who reside outside the United States. Small and medium-sized businesses are more prevalent in developing countries. In many economic areas, SMEs are also responsible for stimulating innovation and competitiveness. SMEs struggle even though they produce more new employment than huge corporations (Khoza et al., 2022). This study is grounded in modern economic theory by Adam Smith.

### **2.3.2 The SMME Situation**

According to Saidi et al., (2014:64-68; Hennart et al.,2019), the SME industry comprises with either relatives' businesses employing a small number of employees or self-employed persons. Tambunan, (2022:13-20), further noted that typical SMME employer is an individual proprietorship company, moreover, a relatives' companies consisting of minimal site managers as well as largely temporary labour engaged as required.

According to Boateng (2012:5; Manzoor and Asim, 2019:636),"there is no one, generally agreed definition of a start-up business." Companies vary in terms of investment, revenue, and workforce. As a result, classifications that use size measurements (workforce, turnover, revenue, financial position) when used around one industry may result in all enterprises being categorized as tiny, whereas, but applying the same size criteria to a specific industry may provide a different outcome." According to Ganu and Boateng (2012:69-80; Manzoor and Asim, 2019:636), the Bolton Committee (1971) made the first attempt to solve this terminology difficulty through the creation of "economic" as well as "statistical" concepts." According to the trade thought, a company meets the following three requirements to be deemed small:

- “Has a relatively small share of their market place”;
- “Is managed by owners or part owners in a personalised way, and not through the medium of a formalised management structure”;
- “Is independent, in the sense of not forming part of a large enterprise”.

The Bolton Panel developed "statistical" concept that is implemented in three areas:

- “Quantifying the size of the small firm sector and its contribution to gross domestic product (GDP), employment, exports among others”;
- “Comparing the extent to which the small firm sector’s economic contribution has changed over time”;
- “Applying the statistical definition in a cross country comparison of the small firm’s economic contribution”.

Senate Economic Planning Office of Philippi, contrasted with, applied varied definitions of the small enterprise to different industries. In the Philippines, the Senate Economic Planning Office (SEPO) defines an SMME as any enterprise or activity engaged in the manufacturing, agricultural, or service sectors that:

- (1) A maximum asset size of 100 million pesos (land excluded);
- (2) A maximum asset size of 100 million pesos (land excluded);
- (3) A workforce of fewer than 200 workers.

No matter the kind of corporation shareholding, a company is categorised as micro, small, medium or large (Table 1) based on these categories (i.e., single proprietorship, cooperative, partnership or corporation). Table 1 below shows the number of workers by industry and company size in 2022 (Philippines Statistics Authority, 2022). With 546,863 business premises, Wholesale/Retail Trade and Repair Services account for 99.92 percent of MSMEs, while Manufacturing, Accommodation and Food service activities

account for 99.23 percent (133,504) and 99.96 percent (158,113), respectively (Table 1). 99.51 percent (14,989) of MSMEs operate in the Real Estate sector, while 99.41 percent participate in Professional, Scientific and Technical activities (15,392). Other MSMEs work in the following sectors: Agriculture, Forestry and Fishing accounts for 98.57 percent (9325); Human Health and Social Work accounts for 99.14 percent (27,611); Financial and Insurance activities accounts for 99.71 percent (50,782); Education accounts for 98.49 percent (13,919); Transportation and Storage accounts for 98.30 percent (11866); Information and Communication accounts for 98.91 percent (13,377); Construction accounts for 94.01 percent (4,223); Water Supply, Sewerage, Waste Management and Remediation activities accounts for 97.89 (1621); Mining and Quarrying accounts for 96.18 percent (806); Electricity, Gas, Steam, and Air Conditioning Supply accounts for 92.88 percent (1320); Administrative and Support Service activities accounts for 91.89 percent (14,439); Arts, Entertainment and Recreation accounts for 99.78 percent (15,848) and other service activities accounting for 100 percent (71,145). By way of job creation, MSMEs created 8,614,569 employment during 2022, accounting for 34.90 percent of all employment created by all sizes of businesses. Big businesses created 3,006,821 employment. Micro firms produced 2,816,091 (50.2 percent) employment among MSMEs, whereas small and medium-size businesses created 2,183,667 (38.9%) and 607,990 (10.8%) more jobs, respectively. In 2022, MSMEs active in 2,191,677 jobs were created in the wholesale and retail sector, followed by 782,755 jobs in manufacturing and 479,668 employment in the accommodation and food service activities (Table 1).

Industry Sector	Number of Establishments by Industry and Employment Grouping							Total Employment by Industry and Employment Grouping								
	MICRO	SMALL	MEDIUM	TOTAL MSM Es	% SHARE	LARGE	%SHARE	TOTAL	MICRO	SMALL	MEDIUM	TOTAL MSM Es	% SHARE	LARGE	%SHARE	TOTAL
<b>PHILIPPINES</b>	1,004,195	96,464	4,484	1,105,143	99.59%	4,541	0.41%	1,109,684	2,816,091	2,183,667	607,990	5,607,748	65.10%	3,006,821	34.90%	8,614,569
<b>Agriculture, Forestry, and Fishing</b>	6,474	2,674	177	9,325	98.57%	135	1.43%	9,460	22,799	69,076	23,722	115,597	58.55%	81,822	41.45%	197,419
<b>Mining and Quarrying</b>	448	338	20	806	96.18%	32	3.82%	838	1,896	9,010	2,906	13,812	36.33%	24,201	63.67%	38,013
<b>Manufacturing</b>	121,371	11,138	995	133,504	99.23%	1,037	0.77%	134,541	349,993	295,914	136,848	782,755	51.16%	747,158	48.84%	1,529,913
<b>Electricity, Gas, Steam, and Air Conditioning Supply</b>	524	699	97	1,320	93.88%	86	6.12%	1,406	2,261	19,726	14,199	36,186	53.55%	31,387	46.45%	67,573
<b>Water Supply; Sewerage, Waste Management and Remediation Activities</b>	845	740	36	1,621	97.89%	35	2.11%	1,656	3,692	20,698	4,660	29,050	68.32%	13,473	31.68%	42,523
<b>Construction</b>	2,037	1,944	242	4,223	94.01%	269	5.99%	4,492	8,527	58,356	31,905	98,788	36.72%	170,265	63.28%	269,053
<b>Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles</b>	512,109	33,760	994	546,863	99.92%	460	0.08%	547,323	1,362,740	695,309	133,628	2,191,677	92.62%	174,579	7.38%	2,366,256
<b>Transport and Storage</b>	7,737	3,889	240	11,866	98.30%	205	1.70%	12,071	29,356	104,095	32,134	165,585	55.92%	130,514	44.08%	296,099
<b>Accommodation and Food Service Activities</b>	145,696	12,288	129	158,113	99.96%	59	0.04%	158,172	428,092	259,928	16,375	704,395	96.80%	23,268	3.20%	727,663
<b>Information and Communication</b>	11,644	1,577	156	13,377	98.91%	148	1.09%	13,525	25,680	43,306	21,651	90,637	50.32%	89,492	49.68%	180,129
<b>Financial and Insurance</b>	42,387	8,248	147	50,782	99.71%	148	0.29%	50,930	162,415	145,488	19,854	327,757	74.06%	114,798	25.94%	442,555



<b>e Activities</b>																
<b>Real Estate Activities</b>	12,765	2,152	72	14,989	99.51%	74	0.49%	15,063	35,436	50,878	8,990	95,304	65.12%	51,041	34.88%	146,345
<b>Professional, Scientific and Technical Activities</b>	13,377	1,903	112	15,392	99.41%	91	0.59%	15,483	41,552	45,197	15,380	102,129	62.87%	60,304	37.13%	162,433
<b>Administrative and Support Service Activities</b>	11,218	2,748	473	14,439	91.89%	1,274	8.11%	15,713	31,436	80,881	65,254	177,571	14.23%	1,070,007	85.77%	1,247,578
<b>Education</b>	7,193	6,379	347	13,919	98.49%	213	1.51%	14,132	32,200	162,575	46,608	241,383	72.82%	90,098	27.18%	331,481
<b>Human Health and Social Work Activities</b>	25,101	2,309	201	27,611	99.14%	239	0.86%	27,850	66,664	60,741	27,686	155,091	60.03%	103,270	39.97%	258,361
<b>Arts, Entertainment and Recreation</b>	14,526	1,294	28	15,848	99.78%	35	0.22%	15,883	38,722	25,629	3,785	68,136	68.77%	30,944	31.23%	99,080
<b>Other service Activities</b>	68,743	2,384	18	71,145	100.00%	1	0.001%	71,146	172,630	36,860	2,405	211,895	99.91%	200	0.09%	212,095

**Table 1: The Philippines Statistics Authority, 2022 List of Establishments.**

Source: Philippines Statistics Authority, 2022.

Based on figures from the Philippines Statistics Authority (2022), SMEDC uses asset size as its basis for MSME classification.

CATEGORY		
ENTERPRISE	BY ASSET SIZE	BY NUMBER OF EMPLOYEES
<b>Micro</b>	Up to P3,000,000	1 - 9 Employees
<b>Small</b>	P3,000,001 – P15,000,000	10 - 99 Employees
<b>Medium</b>	P15,000,001 – P100,000,000	100 - 199 Employees
<b>Large</b>	P100,000,001 and above	200 and above Employees

**Table 2: SMME Classification.**

Source: Philippines Statistics Authority, 2022.

In the Philippines, there were 547,323 different commercial entities as of 2022. With 547,323 establishments, MSMEs made up 99.92% of this total, while major businesses made up 0.0008%, or 460, of the total. Micro businesses made up 93.6% (512,109) of all MSMEs, while small and medium-sized businesses made up 0.06% (33,760) and 0.001 percent (994) of the total (Philippines Statistics Authority, 2022).



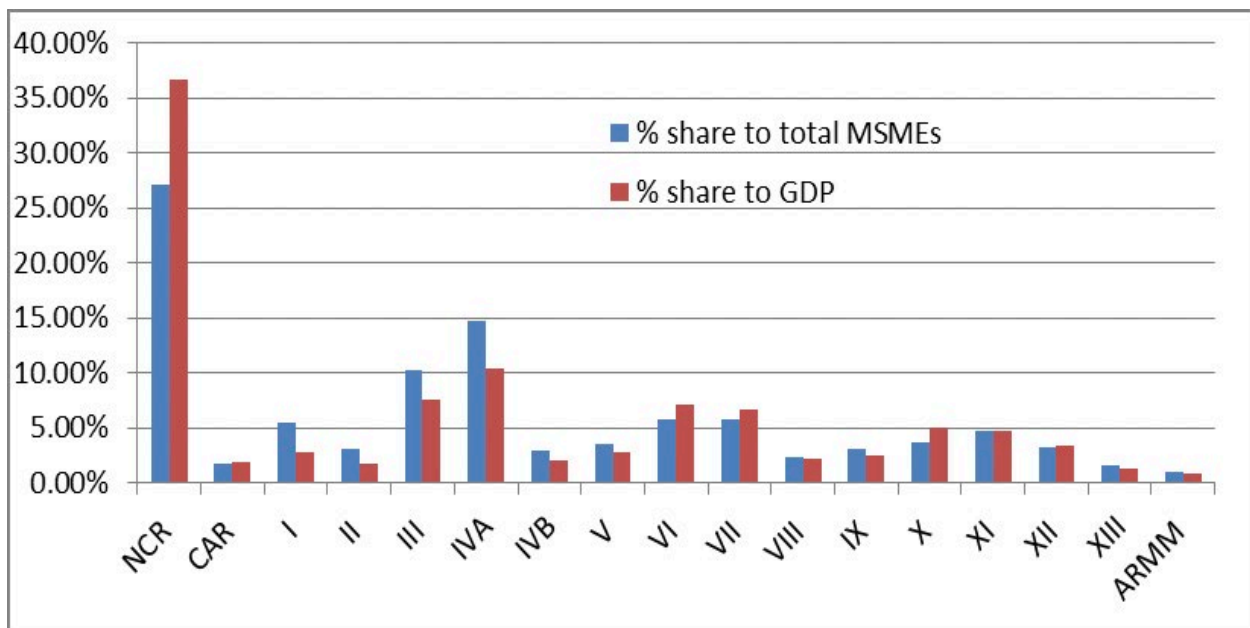
**Figure 1: Percentage distribution of MSMEs by industry, 2010.**

Source: SEPO, 2010 Based on regional distribution, top five regions with the most SMME facilities and SMME jobs are:

- (1) National Capital Region (NCR) with 206,765 facilities and 2,841,710 of employment;
- (2) Region 4-A (CALABARZON -Cavite, Laguna, Batangas, Rizal, Quezon) with 164,447 facilities and 1,320,984 of employment;
- (3) Region 3 (Central Luzon) with 140,285 facilities and 878,621 of employment;
- (4) Region 7 (Central Visayas) with 80,172 facilities and 778,622 of employment; and
- (5) Region 6 (Western Visayas) with 75,748 facilities and 451,046 of employment.

The distribution of SMMEs is shown in Figure 2 to be in line with the distribution of economic activity or income brackets as shown by the gross regional product (GRDP).

The Philippines' MSME sector contributes very little to the economy, despite having a wide variety of firms and the capacity to create jobs. The Department of Trade and Industry reports that the country's MSMEs generate just 35.7% of value added, which is less than other Asian countries like Indonesia (53.28%), Vietnam (39%) and Thailand (39%) (37.8 percent) (Tadeo et al., 2023).



**Figure 2: Compares the distribution of MSMEs by region with their regional GDP contributions.**

Source: SEPO, 2010

### 2.3.3 The Overall Contribution of SMMEs

Over 25 million SMEs operate in the 27 Member States of the European Union, employing almost 100 million people and providing half of the GDP of the union. Only about a third (26%) of all European SMEs have exported their products or services in 2019, according to the latest poll (European Commission, 2020 a). According to the poll, 23% of exports went towards other European Union Countries, 9% went to European nations just outside of the EU, 4% went to North America, 4% went to the Middle East and Africa, 3% went to Latin America and the Caribbean, 3% went to China, and 4% went to the rest of Asia and the Pacific. It's worthwhile to know that this pattern seems to be holding steady throughout the period. In fact, a 2023 poll that was performed gave a similar pattern, considering that 25% of SMEs within that EU offshore (European Commission, 2013; European Commission, 2023).

These findings therefore show that the vast majority of European SMEs are not yet reaping the benefits of a globalised economy, and that little has improved in this regard over the previous ten years. If we compare the proportion of major enterprises that export

their products to the comparable percentage of SMEs, the discrepancy between the two becomes even more obvious. The poll discovered that in 2019, slightly more than half (56%) of major enterprises engaged in exporting operations, well over twice the percentage of SMEs (European Commission, 2020 a; European Commission, 2023).

### 2.3.4 Status Comparison

As a component of enacting the Small Business Act for Europe (SBA) (European Commission, 2023), the European Commission monitors the advancement of SMEs by utilising a range of thematic indicators. Specifically, the internationalisation index comprises nine metrics primarily drawn from World Bank and UNCTAD data. Additionally, the complete SBA database encompasses six supplementary variables, as outlined by Pedraza and Katsinis (2020). The diagram below illustrates the relative 2019 performance and progress of EU countries and the UK concerning SMEs internationalisation, as compared to the EU average. The observed period spans from 2008 to 2019.

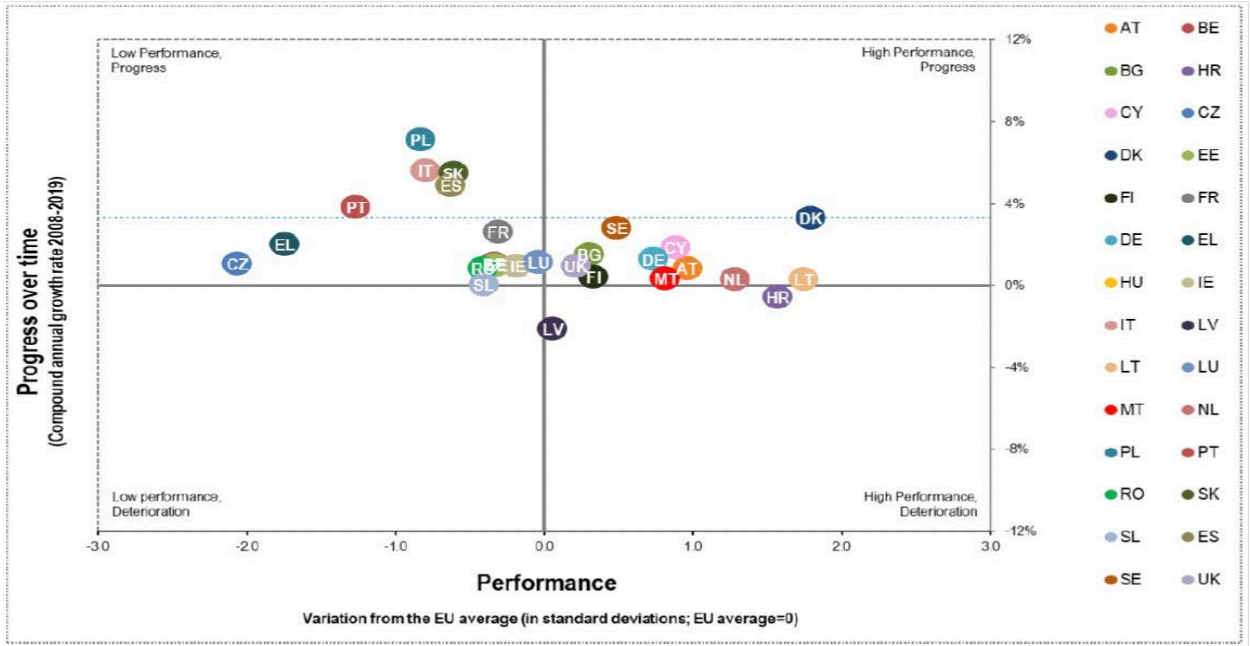


Figure 3: SMEs Internationalization Performance and Progress in EU Countries and UK.

Source: European Commission (2019 b). Fact Sheet and Scoreboard for the EU-28 in 2019 regarding the Small Business Act (SBA).

Nations exhibit notable disparities in terms of their performance, as depicted along the horizontal axis in the diagram. Croatia, Denmark, Lithuania, and the Netherlands emerge as the leaders within this group, while the Czech Republic, Greece, and Portugal occupy the lower ranks. Simultaneously, a substantial majority of EU countries demonstrated enhanced performance over time, as indicated on the vertical axis of the illustration. Countries that initially lagged behind often showcased remarkable improvement. Notably, a cluster of countries with initially lower performance, including Italy, Poland, Slovakia, and Spain, displayed the most substantial advancements since (GROW and Joint Research Centre, 2023).

### **2.3.5 The Impact of Operating on Global Market**

According to Kaya (2022), SMEs that export are often more successful and inventive than those that don't. Additionally, SMEs that export have a higher likelihood of being featured on stock exchanges. The poll not only identifies disparities between exporting and non-exporting SMEs, but it also reveals notable variations inside the cluster of shipping SMEs in terms of the nature of the markets that these businesses will be targeting. The report specifically shows that SME exporters to markets outside the EU are even more inventive than SME exporters to countries inside the European Union.

SMEs benefit from internationalization since it expands the market for their products. Nevertheless, this could also raise the likelihood of failure for such tiny, to this day businesses trying to penetrate untapped sectors with intense competition (Virglerova et al., 2021; Mudambi and Zahra, 2014). However, actual data indicates that internationalization may assist SMEs to go beyond the boundaries of home markets, take advantage of market inefficiencies in other countries, and produce more goods (Virglerova et al., 2021; Lu and Beamish, 2013). But research has indicated that SMEs frequently endure an initial decrease in revenue if business expand globally (Virglerova et al., 2021; Mudambi and Zahra 2014).

Accelerated degrees of internationalization are linked to better effectiveness once the first challenges are resolved, particularly for SMEs working in high-growth, multinational industries (Moipolai 2022:17; Mudambi and Zahra 2013). Whenever businesses can prosper and strengthen their competitive edge by operating in international markets while in an economic downturn, this effect is amplified (Virglerova et al., 2021; European Central Bank, 2015). It has also been demonstrated that inter-nationalisation generally offers chances that raise the possibility of existence over the long term, despite the heightened liabilities of newness and smallness (Virglerova et al., 2021; Lee et al., 2013). In fact, by expanding into foreign markets, SMEs may geographically diversify and reduce their sensitivity to shocks that are peculiar to a certain region (Dvorsky et al., 2021; Contractor, 2013). SMEs could also gain through broadening, since the latest Covid-19 epidemic has just brought to light, relying on several countries and regions instead than just one, including their distribution network (Moipolai 2022:15-16; Business Europe, 2020).

### **2.3.6 Role and Benefits in Globalized and Digitized Economy**

Governments in various countries, especially those in the OECD, are grappling with challenges such as low economic growth, sluggish trade and investment, and increasing or persistently high levels of inequality (Khoza et al., 2022; OECD, 2016a). Furthermore, citizens' dissatisfaction with the current state of affairs, exemplified by a backlash against globalization and technological advancements, is on the rise. In light of these circumstances, there is a pressing need to create conducive conditions that amplify and distribute the benefits of open markets and technological progress more equitably throughout the economy and society (Michie, 2019).

Small and medium enterprises (SMEs) play a crucial role in the economy and the broader ecosystem of firms (Mojadibodu, 2023). Enabling their adaptation and success in an open environment, as well as their active participation in digital transformation, is vital for fostering economic growth and facilitating a more inclusive form of globalisation (Michie, 2019). SMEs, regardless of their developmental stage, possess significant potential in advancing the Sustainable Development Goals (SDGs) by promoting inclusive and

sustainable economic growth, generating employment and decent work opportunities, driving sustainable industrialisation, fostering innovation, and reducing income inequalities (Moipolai, 2022).

However, harnessing the potential of SMEs to participate in and reap the benefits of a globalised and digital economy hinges on the existence of conducive framework conditions and healthy competition (Ramabitsa, 2022). Internal constraints faced by SMEs make them disproportionately vulnerable to market failures, barriers, and inefficiencies within the business environment and policy domain. Moreover, the contributions of SMEs are contingent upon their access to strategic resources, including skills, knowledge networks, and financial support, as well as public investments in areas such as education, training, innovation, and infrastructure (Zhang and Ayele, 2022). Additionally, for a significant number of SMEs, a favourable environment for the transfer of business ownership or management is essential to ensure their long-term viability, which in turn has implications for job retention, investment, and growth (Michie, 2019).

These issues have gained prominence in policy discussions as SMEs in certain countries continue to grapple with the enduring impact of the 2007-08 global financial crisis, which disproportionately affected new and small businesses and exacerbated the productivity growth gap between SMEs and large firms (Ramabitsa, 2022; OECD, 2017a, 2017b). This productivity gap serves as a significant driver of the observed increase in inequality, including wage disparities, in numerous countries (Zhang and Ayele, 2022; OECD, 2016a).

The realm of SME policy is multifaceted, encompassing framework conditions, overarching policies with implications for SMEs, and targeted policies tailored specifically to SMEs (SEDA, 2020). These areas often transcend the boundaries of ministries and government agencies, as well as various levels of government. Considering that SMEs are often deeply embedded in local ecosystems that provide them with essential knowledge, skills, financial support, business opportunities, and networks, it is crucial to take into account factors that influence framework conditions at the local level. This involves tailoring national-level policies to suit local conditions and ensuring their



alignment with regional or territorial policies (SEDA, 2020; OECD, 2016e). Moreover, policy strategies should account for regulatory, market, and technological changes that occur across borders, as they can significantly impact SMEs' opportunities and performance (SEDA, 2020).

The subsequent sections delve into the opportunities and challenges faced by SMEs in a global and digital economy (Zhang and Ayele, 2022; WEF, 2019; Michie, 2019; Asgary and Ozdemir 2019). These insights draw upon the extensive analysis conducted by various OECD Committees on SMEs, covering areas such as finance, innovation, taxation, regulation, digitalisation, employment, skills, trade, internationalisation, global value chains (GVCs), and the environment, among others. Taken together, these findings underscore the necessity of developing a comprehensive, cross-cutting OECD Strategy for SMEs, which can drive the discourse and catalyse improvements in framework conditions and SME policies among OECD members and non-members alike, ultimately fostering more sustainable and inclusive growth (Zhang and Ayele, 2022; WEF, 2019; Michie, 2019; Asgary and Ozdemir 2019).

## **2.4 CHALLENGES FACED BY EUROPEAN SMMES**

Small and medium-sized businesses (SMEs) frequently face significant obstacles when attempting to expand their services internationally, that are described as "any attitude, structural, operational, or other obstacles that hinder or inhibit companies from taking the decision to start, produce, or sustain international activity" (Eze and Lose, 2023; Leonidou, 2015). Some obstacles may be internal or external to the business. These are categorised as internal if they apply to the specific firm and are typically linked to a lack of organisational skills or competencies that prohibit the business from expanding its activities internationally. However, if they originate from the domestic or international industry in which the company works, these are categorised as external (Eze and Lose, 2023; OECD, 2013).

It is critical to recognize that depending on the firm's phase of internationalization, the impacts of internationalisation obstacles including their importance might differ (Dvorsky

et al., 2021; Alvarez, 2014). In fact, although certain impediments could have the potential to slow down global expansion for SMEs with existing global operations, other restrictions may actually deter SMEs from expanding internationally. Additionally, this has been demonstrated that some obstacles could be more troublesome for SMEs who are not already internationalised even though these other obstacles significantly affect quite internationalised SMEs, despite the fact that several internationalisation barriers affect SMEs regardless of their stage of internationalisation (Khoza et al., 2022; OECD, 2013). Depending on whether they are located in foreign nations, Table 1 illustrates the many types of obstacles that face SMEs. Although internal constraints affect the same regions for SMEs that have internationalised and those that have not, however, the obstacles' composition is radically different (European Commission, 2023).

PHASE	INTRINSIC	EXTRINSIC
Un-internationalized as of yet	<ul style="list-style-type: none"> <li>• Data</li> <li>• People resources</li> <li>• Monetary</li> <li>• Advertising</li> </ul>	<ul style="list-style-type: none"> <li>• Competitive</li> <li>• Process</li> <li>• Legislative</li> </ul>
Internationalized already	<ul style="list-style-type: none"> <li>• Data</li> <li>• People resources</li> <li>• Monetary</li> <li>• Advertising</li> </ul>	<ul style="list-style-type: none"> <li>• Process</li> <li>• Trade (Tariff and non-tariff)</li> </ul>

**Table 3: Difficulties and obstacles to European SMMEs internationalization.**

Source: European Commission, 2023.

Let us therefore start by talking about the obstacles (intrinsic and extrinsic) that SMEs which have not internationalised are prone to experience in the next section. These impediments (intrinsic and extrinsic) that are more likely to affect SMEs that have previously internationalised will also be covered. By making such difference, legislators would be able to develop better focused regulations for various SME types. In plenty of other terms, the emphasis should have been on the removal or at least the lessening of the impact of specific obstacles if the objective of legislators is to expand the number of SMEs that operate in international markets. Nonetheless, the emphasis needs to be

placed on the removal or at least the reduction of the effects of other barriers unless the objective of policy-makers is to support SMEs that conduct business in foreign markets (Nguyen and Vu, 2024; OECD, 2013).

## **2.4.1 SMMEs That Have Not Yet Internationalized**

### **2.4.1.1 Contextual Intrinsic Challenges**

Contextual obstacles are issues in locating, choosing, and contacting global markets as a result of information inefficiencies. These obstacles may even deter SMEs from engaging in international activities if they have not yet begun the process of internationalizing their business (Dvorsky et al., 2021; Wasowska, 2016). The OECD has recognized many important causes of informational barriers. First, lack of knowledge to seek and analyse markets might create informational barriers, making it more challenging to find the national and international sources of information that are accessible to lessen the level of uncertainty connected with overseas markets. Moreover, contextual obstacles could contribute to the lack of trustworthy knowledge about the world economy, that could be caused by issues also with reliability, accuracy, and compatibility of the data that is currently accessible and utilized to try to better comprehend foreign markets. Lastly, the deliberate and/or pre-emptive identification and selection of prospects in foreign markets (including clients, connections, business associates, and partnerships) may result in insightful hurdles (Alayon et al., 2022; OECD, 2013).

### **2.4.1.2 People Resource Management**

In order to identify global economy and develop a suitable entrance approach, managers of SMEs that have not yet internationalized its businesses may run against time and resource limitations. Parallel to this, the extra workload needed by overseas markets may become too much to handle, particularly if a SME's staff is unfamiliar with managing the necessary paperwork, logistics, and client relations (Moipolai, 2022; OECD, 2013). Around the same hand, SMEs frequently lack the same resources for staff continuous education as bigger businesses. According to a latest poll, a fourth of EU-SMEs continue

to have the most significant issues with finding talented employees or skilful supervisors (European Central Bank, 2019).

#### **2.4.1.3 Monetary Limitations**

For SMEs, particularly the few which have not internationalized, monetary obstacles are a significant impediment. According to a latest poll, well over fifty percent of SMEs who are not shipping claim that the financial expenditure necessary to do so has been too high, discouraging them from expanding internationally (European Commission 2023; European Commission, 2015). Financial obstacles might appear when SMEs lack the money necessary for industry analysis and product marketing adaptation for global markets.

According to this, monetary obstacles might appear when there is not enough money available to finance the essential investments to launch an international business. Financial obstacles might also arise if there are not enough resources available to insure goods or assets in international markets. Monetary obstacles, as noted in the research, might be especially important for SMEs because they are connected to firm size (European Commission 2023; European Commission, 2011). In fact, because they have less assets than bigger enterprises, SMEs typically have a harder time getting credit facilities. Considering that banks provide over 90% of European Union SMEs' funding, 18% of them did not receive the whole bank loan for which they had sought in 2019. Such undoubtedly presents challenges for SMEs' needs (European Commission, 2020 b). Nonetheless, SMEs cannot become internationally competitive until they get beyond their economic obstacles and even have recourse to enough cash (Ramasimu et al., 2023; Jinjarak and Wignaraja, 2016). Therefore, the EU should give financial support for SMEs top priority.

#### **2.4.1.4 Marketing Challenges**

Lastly, marketing obstacles may prohibit SMMEs from expanding internationally. These obstacles may affect the company's overseas product, price, distribution, logistics, and

promotion efforts (Majadibodu et al., 2023; Leonidou, 2013). To meet the demands of certain international markets, SMEs may need to create new goods or modify old ones. In order to match rivals' prices, SMEs may also need to change their pricing strategy at the same time. Ultimate, these modifications may lessen the possibility for exporting economies of scale and impair overall profitability (Ramasimu et al., 2023; Onkelinx and Sleuwaegen, 2016). Similar to that, defining the proper international distribution channels is necessary before exporting to another country. In fact, the breadth and quality of services provided to assist businesses operating abroad, as well as the number of layers making up the distribution networks, may significantly differ from those in the native land. Additionally, third-country distribution networks can already be completely seized by neighbourhood businesses with no motivation to accommodate direct rivals (Ramasimu et al., 2023; OECD, 2013). Similar to this, regional suppliers may exercise some control over the supply and increase the costs for new competitors. The challenges that SMEs may have while trying to find dependable overseas partners serve as another marketing barrier to internationalisation. When SMEs are unable to engage with organisations in the third nation to assist them expand their business, problems may arise. For instance, local prospective suitors could already be contracted by rivals while overseas collaborators might have distinct operational and management frameworks that make the relationship difficult or even more troublesome (Ramasimu et al., 2023; OECD, 2013).

#### **2.4.1.5 Extrinsic Challenges to Entry From Competitors**

Owing to the possibility of their home competitive edge being forfeited abroad owing to further complex as well as intense competitive environments, SMEs may well be deterred against accessing global markets (Ramasimu et al., 2023; OECD, 2013). Additionally, conventional internationalisation tactics that are successful for big firms might not work for SMEs. Thus, while competing against international firms, SMEs may need to create their own distinctive competitive approach (Ramasimu et al., 2023; Onkelinx and Sleuwaegen, 2014). SMEs must concentrate on particular, well-defined customer segments where they may still have a competitive edge whether they are to effectively

compete in global marketplaces and as a result, provide their clients with greater value (Ramasimu et al., 2023; Onkelinx and Sleuwaegen, 2014).

#### **2.4.1.6 Due Process Challenges**

An additional extrinsic obstacle which may prohibit SMEs in expanding business activities internationally is a lack of knowledge with the appropriate processes and documentation. Given to their more constrained resources, SMEs may in fact struggle to comprehend and manage the complexity of customs documentation or the bureaucracy related to export transactions (Nguyen and Vu, 2024; Arteaga-Ortiz & Fernández-Ortiz, 2014). This increases regulation expenses and might impact the performance, forcing SMEs to have more inventory and cash reserves on hand (Moipolai 2022:15-16; OECD, 2018) Process hurdles become less obvious as well as straightforward than other obstacles to internationalisation. These are therefore frequently challenging to locate and eradicate (Moipolai 2022:15-16; OECD, 2014).

#### **2.4.1.7 Legislative Challenges**

Governance obstacles, that are described as "obstacles linked with the action or inaction by the home and foreign government in respect to its indigenous enterprises and export markets," are another common obstacle faced by SMEs looking to expand their services internationally (Eze and Lose, 2023).

As per a latest poll, amongst others, the absence of domestic government support or incentive schemes to engage in international economy was thus cited as a major worry for SMEs (European Committee of Regions and EURO-CHAMBERS, 2019). With the current surge in globalisation, corporations and nations are increasingly dividing up the manufacturing process. Despite the fact that foreign firms seem to be at the frontline of such an operation, SMEs are now more than ever facing the opportunities and difficulties presented by global value chains (Ladzani et al., 2023; OECD, 2018).

Although it may offer access to international markets at cheaper prices, generate possibilities to build up the firm, and accelerate innovation and managerial expertise, involvement in global supply chains can also be particularly helpful for SMEs (Dvorsky et al., 2021; OECD, 2018). In addition, many SMEs throughout all industries are unable to recognise their competitive edge well within supply chain due to a lack of knowledge and comprehension of the pattern and dynamics of global value chains (Ladzani et al., 2023; OECD, 2018). Additionally, worries about the inadequate resources required and the incapability to safeguard the business's copyrights may limit SMEs' chances of effectively participating in global value chains (Dvorsky et al., 2021; OECD, 2018). This shows that SMEs might gain with more detailed data on the advantages of joining worldwide value networks as well as guidance on where to more specifically get accessibility to these networks.

#### **2.4.1.8 Intrinsic Challenges For Already Internationalized SMMEs**

Even with existing support programmes and incentives, small and medium enterprises in Europe encounter significant internal challenges that hinder their growth and development. These challenges include restricted access to funding, limited technological capacities, and insufficient marketing tactics (WEF, 2019). A comprehensive policy approach, such as boosting innovation and entrepreneurship, creating proactive regulatory frameworks, and establishing a favourable business environment, is required to address these barriers to SMEs success in Europe. Failure to address these intrinsic obstacles may leave European SMEs struggling against the negative impacts of globalisation and economic instability, resulting in a competitive disadvantage in the global market (European Commission, 2023).

#### **2.4.1.9 Free Trade Agreements - Information Based**

Companies can use Free Trade Agreement (FTA) programs to lower their customs payments while shipping. Ever since early nineties, there have been a lot more FTAs signed, and their significance to the international market have grown. The ability to access the international market at a lesser cost than before the contract's adoption is one way

that FTAs may help SMEs that sell to other nations. Likewise, FTAs are advantageous to SMEs that buy input or investment items from abroad since they give them access to overseas customers and give them the chance to lower the expense of acquisitions. Collectively, these factors enable deeper linkages amongst businesses, creating a flow with fresh commercial benefits (European Commission, 2023).

The European Committee of Regions and EUROCHAMBRES poll found that such intricacy and inconsistent application of the laws of origination, including the significant managerial cost associated with complying with trade regulations and requirements, are the main issues facing SMEs. Such findings are in accordance with earlier studies on the subject, which has amply demonstrated that the expenses and procedures involved with using FTAs are the main obstacles that businesses operating in third countries must overcome (Songa and Moonb, 2019). In fact, exporting businesses are required by each FTA to comply with the origin requirements for each merchandise, issue the certificate of origin, and present this to the bureau of customs. In order to fully profit from FTAs, exporting businesses must not only establish a suitable level of acquaintance with the requirements of each FTA and the tariff concession agreements, but also the methods needed to provide origin credentials as well as the specifications needed to comply with origination regulations ((Eze and Lose, 2023; Wignaraja, 2014).

Considering their greater financial, physical, and support staff, this is not unexpected why bigger enterprises own a competitive edge over SMEs in the advantages they may obtain from adopting FTAs when exporting ((Eze and Lose, 2023; Takahashi and Urata 2010). In spite of the fact that FTAs cut tariff rates for exporting enterprises, using them comes with a price, such as the necessity to divert from the most efficient pattern of sourcing or administrative and operational expenditures. Hence, using FTAs is just advantageous for businesses if such benefits of decreased customs duties charges outweigh the risks of increasing expenditures. Additionally, the volume of exports matters because the more exports made, the more money will be saved on tariffs (Hayakawa and Yoshimi, 2023; Hayakawa, 2015). This suggests that all of the expenses related to using FTAs are significantly more relevant for SMEs and, if too high, they even deter SMEs from utilising them. The fact that SMEs have a similar possibility of using FTAs is another significant factor that needs to be taken into account. Certainly, this may be affected by increasing



awareness at the corporate level, which could be accomplished, for instance, by R&D spending and learning by doing as well as by knowing about FTAs through contacts with the organisations in charge of defining the FTAs (Eze and Lose, 2023; Wignaraja, 2014).

#### **2.4.1.10 Government Acquisition - Information Based**

Through a worldwide GDP of around USD 90 trillion in 2018, public procurement accounted for USD 11 trillion (World Bank, 2020). As a result, 12 percent of the world's GDP is spent in accordance with acquisition regulations. To promote increasingly transparent and equitable global markets. The EU (2021), and its trading partners are constantly working to provide one another wider access to government acquisition for a variety of commodities as well as services. Gaining access to public procurement may help SMEs in a number of reasons. Based on the rules, guidelines, and trade responsibilities that apply to acquisition procedures, SMEs may be certain that foreign governments will use ethical corporate governance practices. In addition, by working with a state, SMEs may boost company reputation as well as establish themselves as dependable partners abroad (Ladzani et al., 2023; OECD, 2018). SMEs are persistently under-represented in public procurement relative to their entire economic importance, despite the many advantages. Recognising this predicament, the EU and several other allied nations are actively taking action to improve SMEs' access to public markets and to eliminate obstacles blocking SMEs from receiving government agreements. Several of these obstacles are caused by the unique features of government procurement, including the difficulty of the processes, the volume of documentation needed for proposals, as well as the limited availability of data about market potential. Language barriers might also be a factor. Furthermore, considering the government acquisition competitions are frequently issued throughout the dialect of the foreign nation, that necessitates substantial investments by SMEs, communication difficulties could also be a hurdle for SMEs (Ramasimu et al., 2023).

#### **2.4.1.11 Staff Personnel**

Globalized SMEs must operate well in global marketplaces and interact quickly with overseas clients. To achieve that, companies must assign workers to the overseas market who can complete these responsibilities efficiently (Krulicky et al., 2021). Nonetheless, supervising personnel overseas might be a significant barrier to the company's growth. Another factor would be the existence of language and cultural barriers between the home nation of the SME and the foreign nation in which the SME operates (Ivanova-Gongne et al., 2023; Arteaga-Ortiz & Fernández-Ortiz, 2014). In the worst case scenario, cultural and language disparities might breed mistrust amongst directors of SMEs inside the nation of origin and those managers' clients who are situated abroad (Ivanova-Gongne et al., 2023; Roy et al., 2016) This mistrust can then result in partnerships being jeopardized, which would be detrimental to the business activity. Another factor that makes doing business in another nation difficult for SMEs is related towards the restricted movement of extremely qualified staff. Similarly, despite certain research claims indicating geographical proximity might not have been a significant factor in the employability of extremely trained individuals (Hafermalz & Riemer, 2020; Cairncross, 1997), more recent data suggests that even for a variety of factors, extremely talented people are more mobile than ever before. Extremely qualified employees are restricted in location, especially in terms of expenses and people (pressure) expenses (Hafermalz & Riemer, 2020; Miguelez and Moreno, 2014).

#### **2.4.1.12 Marketing and Advertising**

Marketing hurdles for internationalized SMEs can be caused by challenges with adapting marketing operations to global markets, challenges with providing technical and after-sales services, challenges with high shipping as well as insurance costs, and challenges with delivering inventories overseas (Bai et al., 2024; OECD, 2013). Attributed to differing in spending habits and government regulations between both the origin and the international community, it is often hard to adapt marketing events for those markets. Examples of these challenges include changes in the desired public's demographics, inappropriate material in marketing communications, the lack of or various uses of media

advertising, limitations on the frequency and duration of advertising, and a lack of adequate tools to measure marketing effectiveness (Bai et al., 2024; OECD, 2013). When there are issues through the supply of technological including post-sales care, it might be challenging to provide those services, backlogs as well as higher bills associated with, for instance, the establishment of service operations in strategic locations, the maintenance of huge quantities of replacement parts, as well as the modification of post-sales service strategy for third nations are all technically and/or post-sales service-related issues (Bai et al., 2024; OECD, 2013). Problems with increasing transport expenditures may arise due to the great range between the nation of origin and the other state, as well as the lack of adequate transportation infrastructure in the foreign country. Parallel to this, when distance increases, insurance prices also rise. For SMEs, such expenses could be excessive, particularly if they are not distributed over significant amounts of items. Lastly, there are issues with exporting inventories could happen if a SME expands its services internationally and afterwards discovers there are goods shortfalls abroad as a result of traffic jams or consumer needs (Mohamoud et al., 2024; OECD, 2013). Consequently, the SMEs' capacity to monitor their source of clients in other countries may suffer, which might harm their reputation over time.

These challenges of acquiring access to different overseas clients as well as possible partners in order to increase global brand constitute additional significant marketing hurdle for internationalized SMEs. In such sense, business partnerships may be very helpful for internationalized SMEs in advancing their internationalization process. Another illustration about how business partnerships may be especially beneficial for SMEs pertains to the enhanced chances to improve connections with certain businesses and build the commercial partnerships which might contribute towards the admission into global value chains (Mohamoud et al., 2024; Measson and Cambell-Hunt, 2013). In fact, laws and policies that are typically used to organize international trade and monitor the work and accessibility for every chain member could be a hindrance to SMEs. SMEs may get over these obstacles by expanding its connections. Efforts relating to commerce, notably trade shows, serve as a fantastic chance to get recognised, network with other SMEs, as well as gather knowledge that will help with lengthy judgment on the prospects presented by global value chains (Muse et al., 2024; Bettis-Outland et al., 2014). Due to

time and budget limitations, it might be challenging for SMEs to participate in trade-related projects. Thus, SMEs seeking to strengthen their position in global value chains may benefit especially from increased state assistance for trade-related efforts (Monreal-Pérez & Geldres-Weiss, 2019).

#### **2.4.1.13 Extrinsic Challenges**

The growth and prosperity of small and medium-sized enterprises (SMEs) in Europe are hindered by external obstacles such as limited market opportunities, high regulatory burden, and lack of access to finance. These factors limit SMEs' ability to innovate, expand, and contribute to the economy. The strict lending criteria of financial institutions, complex regulatory environment, and dominance of large companies prevent SMEs from accessing markets and competing on an equal footing (Quevedo et al., 2020).

The negative impacts of these obstacles are significant, including business failure, job losses, reduced economic growth, and decreased competitiveness in the global market. As SMEs play a critical role in the European economy, policymakers must take immediate action to address these extrinsic challenges. Simplifying regulations, promoting market competition, and increasing access to finance are some of the necessary initiatives to support SME growth and success in Europe. Failure to address these obstacles could lead to a decline in SME numbers, less innovation, and negative long-term effects on the European economy (Quevedo et al., 2020).

#### **2.4.1.14 Process Challenges**

Overall effectiveness of an internationalised SME's abroad activities might be impacted by specific processing hurdles. Because of a lack of meaningful touch in global markets or because foreign customers want longer financial assistance, SMEs may struggle to collect debts received abroad promptly (Llopis et al., 2020; OECD, 2014). SMEs might even find it difficult to enforce contracts due to poor quality (such as non-verifiable information, ambiguity, lack of consideration or gratefully acknowledged, as well as an unfair broadness of the agreement), and also because of unclear expectations, mischaracterisation, "tortuous interference," and/or stubborn refusal of an agreement

partner(s) to affirm the service agreement (Ros et al., 2020; OECD, 2014). Furthermore, SMEs may find it challenging to settle differences due to inadequate of advanced commercial arbitration, the duration and/or price required to obtain other judicial systems, their ignorance of international jurisdictions, and legal disagreements (Quevedo et al., 2020; OECD, 2014).

#### **2.4.1.15 Tariff and Non-Tariff Trade Restrictions**

Trade restrictions continue to be a major challenge, particularly for SMEs having global markets (Madara, 2022; OECD, 2015). Trade restrictions are those put up by states in global markets that impede exporting and inter-nationalizing. Due to the fact that they are typically tough to achieve and apart from their absolute authority, trade restrictions can be especially troublesome for SMEs (Madara, 2022; OECD, 2015). Additionally, even though SMEs are not specifically targeted by trade restrictions, they can nonetheless be especially susceptible to them since businesses lack adequate the economies of scale which might lessen their effects, meaning that overall transaction expenses may account for a larger portion of their exports (Madara, 2022; World Trade Organisation, 2016).

#### **2.4.1.16 Tariff Challenges**

Trade restrictions with excessive tariffs are those that impose an exorbitant amount of tax on import duty in order to arbitrarily raise their costs and shield domestic industries from foreign competition. By lowering tax, SMEs are able to import raw materials at a reduced price, which lowers their manufacturing costs and enables companies to accelerate growth. Lower taxes also make it more affordable to modernise equipment, that encourages growth, drives down expenses, and promotes competition. Exorbitant taxes are perceived to be the most major trade obstacle for SMEs who want to expand company services internationally, according to an OECD poll (Oyelami and Zongo, 2022; OECD, 2018). However, authorities in the EU and other nations have progressively succeeded in significantly reducing the cost associated with excessive tariffs hurdles by using FTAs (Oyelami and Zongo, 2022; OECD, 2018). According to a latest poll, the opportunity to take advantage of concessionary fares is the FTA's top advantage for

SMEs (European Committee of the Regions and EURO-CHAMBERS, 2019). FTAs also have the major benefit of not requiring periodic renewal, unlike partial scope agreements between nations. As a result, there is consistency and certainty in the regulations governing the taxes on trade products and services between both the two regions/countries. This development of protracted, consistent plans which can aid in their financial and budget planning is therefore possible for SMEs who export to or import out of a second nation within a FTA. Lastly, FTAs has demonstrated their ability to promote capital and commerce by creating a climate that is favourable for trade among the allied nations. Due to their increased exposure to past inaccessible markets as well as company ability to import goods at reduced prices, SMEs seem to possess extra options to trade their goods abroad (Oyelami and Zongo, 2022).

#### **2.4.1.17 Non-Tariff Challenges**

According to the report, SMEs have also highlighted non-tariff obstacles as important trade obstacles (Abbasoglu et al.,2019; OECD, 2014). More especially, SMEs face significant challenges due to the inadequate protection of intellectual property rights, the considerable expenses of customs regulations, and the existence of severe hygiene, security, and technical standards restrictions. The problems associated with an inadequate legal framework to safeguard the custodianship, usage, management, advantage, transference, or purchase of the both direct and indirect asset, particularly intellectual property, are referred to as the insufficiency of protection of property rights (Kinzius, 2019; OECD, 2014). The high costs of customs administration include expenditures associated with varying tax departments' perceptions of the regulations governing tax assessment, the backlog in tax clearing operations, the absence of rapid review mechanisms, and other factors such as openness issues (Kinzius, 2019; OECD, 2009). Lastly, but not least, the existence of severe health, security, and technological norms relates to the challenges involved in adhering to excessive, opaque, unreliable as well as unfair nation regulations on imported goods (Kinzius, 2019; OECD, 2014). Empirically, it has been demonstrated that a nation's deployment of non-tariff obstacles can result in importation of the impacted goods from the aimed suppliers falling by up to 12%. (Kinzius et al., 2019). While examining several various non-tariff obstacles, Kinzius

et al. (2019) have demonstrated that importation regulations considerably lower commerce among two nations around 2–8%, resulting in an overall decrease in purchases of 2–11%. The above demonstrates how important non-tariff obstacles are to the overall economy. Additionally, it is important to keep in mind that although customs duties have decreased over time, non-tariff obstacles have emerged as a major issue, including both context on how businesses view them and how they will be prioritised in global trade policy dialogue (Oyelami and Zongo, 2022; World Trade Organisation, 2016). Hence, more steps should be taken to harmonise requirements and technological laws in order to support SMEs and encourage their involvement in the worldwide industry. Given SMEs are adversely affected by non-tariff obstacles due to fixed compliance costs that do not change with both the volume of traded goods as well as the aforementioned difficulty of SMEs to disperse such regulatory expenses over significant export volumes, special attention to SMEs is needed. Implementing FTAs is a tried-and-true way to lessen the impact of non-tariff obstacles. In fact, empirical research has demonstrated that the impact of non-tariff barriers on trade is significantly lessened if both the importer and the exporter are based in FTA-affected nations (Kinzius, 2019).

## **2.5 Broader Economic Risks**

Academic research suggests that the substantial increase in global economic risks, including issues such as trade disputes, political instability, and financial crises, poses significant challenges for small and medium-sized enterprises (SMEs) worldwide. These risks discourage investment and growth, limit access to funding, and hinder SMEs' ability to compete effectively in a challenging market environment. While some experts argue that SMEs can reduce risks by diversifying their products or finding new suppliers, the negative effects of macroeconomic volatility are far greater than the potential benefits. This highlights the importance of government support and policies to ensure the survival of SMEs (Miklian & Hoelscher, 2022). 30 significant worldwide threats are examined in the 2019 Global Risk Report by the World Economic Forum (WEF 2019), which is divided into five categories: economic, environmental, geopolitical, sociological, and technical (Table 1). Such hazards are analyzed yearly influenced by the attitudes of 1000 international parties and stakeholders (WEF, 2020).

Risks to the world economy have a big impact on SMEs, especially those in the manufacturing industry. Hyperinflation, pay rises, labour shortages, and access to financial resources are all ways whereby asset prices in large economies may raise manufacturing expenses and have an effect on the world market (WEF 2019; Zheng et al. 2014). International economic crisis have a significant negative impact on how fresh SMEs are created, how well they operate, and how long they remain within the existing customers. SMEs were badly damaged by the global financial and economic crisis of 1997–1998. Result of the credit crisis, strict financial regulations, and downturn in both home and foreign consumption, numerous SMEs went bankrupt as borrowing rate began to climb (Asgary et al., 2020; Filardo 2013; Wehinger 2014). For instance, a significant portion of SMEs in South Korea have declared bankruptcy.

Further than forecasts, the 2008 financial crisis had a significant socio - economic effects on SMEs in practically each economy, leading to rapid ripple effects which resulted in widespread SME shutdown, restructuring, and a drop in the rate of fresh ventures (Abbasoglu et al.,2019; Chowdhury, 2015; Sannajust 2014). Small and medium-sized businesses have been under tremendous strain, suffering from a catastrophic decline in demand and revenues, a surge in retrenchments, and difficult performing conditions (Zhang and Ayele, 2022; Kossyva et al. 2014). For instance, in Belgium and the Netherlands, SMEs suffered prolonged backlog in their collections in up to 50% of cases (SME United, 2020; Kossyva et al., 2014). In the US, jobs in small and medium-sized businesses decreased by 2.8 million (Zhang and Ayele, 2022; Gagliardi et al., 2013). Turkish SMEs suffered a lot throughout this global upheaval as well (Abbasoglu et al.,2019; Karadag, 2016).

Due to their fragile working capital and market systems, lower liquidity stockpiles, restricted ability to adjust and downsize, insolvency issues, excessive reliance on external financial resources, tightened credit lines, payment delays on receivables, lack of resources, and inability to accept or make critical tactical choices, SMEs are quite susceptible throughout market downturns (SARB, 2020; Ates et al., 2013; Sannajust 2014; Wehinger 2014; Karadag 2016).



Substantial immediate and long-term hazards to the productivity and competitiveness of SME's might result from the collapse of deteriorating and unstable energy, transportation, and communication systems. Highly compressive jobless greatly affects SMEs and reduces demand for goods and services (Nomafu et al., 2023; Alegre and Chiva, 2013). Illegal commerce lowers the worldwide competitiveness in the global market of SME. SMEs have much less chances of thriving in nations with greater levels of economic risk (Hooi, 2020; Mekinc et al., 2013). Energy is a crucial component of manufacturing and distribution for SME. SMEs confront significant uncertainty about energy costs and availability if energy prices are not controllable or under management (Herman et al., 2023; Mulhall and Bryson 2014). Energy price shocks increase the cost of production and manufacturing for SME's and reduce both its individual and collective competitiveness in the global economy (Herman et al., 2023; Mulhall and Bryson, 2014). SMEs are primarily to blame since SMEs in the manufacturing sector consume a large amount of electricity and thus are typically lesser versatile when it comes to the power sources, unanticipated changes in energy costs have a significant effect on business. Previous years have seen an increase throughout the frequency and consistency of commodity cost shock episodes ((Herman et al., 2023; Mulhall and Bryson, 2014). Additional energy price shocks are anticipated as the worldwide energy consumption rises. Lastly, SMEs are at danger from uncontrollably higher levels of inflation at the regional and international level due to rising interest rates (Engler et al., 2022).

### **2.5.1 Effects of Environmental Disasters**

Small and medium-sized businesses (SMEs) are vulnerable to a variety of worldwide ecological and catastrophe hazards, especially companies that form a component of international distribution networks. These threats could have catastrophic effects on SMEs (Allianz, 2019; Auzzir et al., 2018). The majority of the worldwide ecological and catastrophe threats are ones that such businesses are particularly susceptible to and poorly organised for (Asgary et al., 2020). Businesses are at danger from ecological disasters on four different frontiers: markets, manpower, distribution, and investment (WEF; 2019; Ballesteros and Sonny 2015). The supply chain networks in which many

SMEs are entrenched and susceptible to hard and disruption from ecological as well as catastrophe hazard occurrences. Additionally, it could interrupt production, harm SME inventory, properties, and assets, and raise their lengthy development possibilities, as well as its earnings as well as manufacturing expenses (Asgary and Ozdemir 2019; Skot, 2018). Small and medium-sized businesses possess inadequate capacity to recover from these incidents and restore company functions, sales, and earnings to avert levels (WEF 2019; Asgary et al., 2013). Given the connections between climate change and severe events, it is anticipated that such occurrences would grow in the coming years (Birkmann et al., 2022; Newell et al., 2021; IPCC, 2013). Substantial ecological and legal hazards associated to global warming are faced by small and medium-sized businesses (Asgary et al., 2020). Internationally, there have been significant and expensive disasters, excessive temperatures and cold waves, heavy rains, and strong storms that have increased in both intensity and frequency. In addition to disrupting and destroying SMEs, severe catastrophes also produce significant obstacles to their ability to continue activities and prepare for the future (Birkmann et al., 2022; Newell et al., 2021; Gunawansa and Kua, 2014; Gasbarro et al., 2018). Several SMEs are appropriately equipped for catastrophe hazards, according to research. Small and medium-sized businesses frequently lack contingency planning strategies and hazard evaluations, making them one of the most underinsured industries (Asgary et al. 2020). For instance, the Thailand disasters of 2011 had a significant effect on SMEs, with 2.32 million jobs destroyed as well as a projected 550,000 SMEs suffering direct and indirect damages totalling 71.1 billion Thai Baht every month (Birkmann et al., 2022; Newell et al., 2021; Ye and Abe, 2012). Natural catastrophes caused by hazards have the potential to substantially impede the growth of Small and medium, as evidenced by the 2011 Great East Japan Earthquake and the Thailand Floods (Birkmann et al., 2022; Newell et al., 2021; Auzzir et al., 2018).

According to research, after a catastrophic tragedy, roughly 25% of SMEs don't really recover (Birkmann et al., 2022; Newell et al., 2021; Ballesteros and Sonny, 2015). For instance, 43% of US businesses that endure catastrophes rarely recover, and then another 29% shut down in two years (Birkmann et al., 2022; Newell et al., 2021; Weinhofer and Busch 2013; Ballesteros and Sonny, 2015). Small and medium-sized businesses are suffering more upon disasters than they were previously since they

possess very little resources, are much less durable, operate primarily informally, several of which do not completely adhere to regulations as well as regulations or are simply not required to, lack the required protection, do not conduct hazard evaluation, as well as frequent lack of business continuity plans (Birkmann et al., 2022; Newell et al., 2021; Ye and Abe, 2012; UNDP, 2013; Ballesteros and Sonny, 2015; Halkos et al., 2018).

Due to Turkey's vulnerability to a variety of environmental catastrophes, including flooding, earthquakes, and drought, SMEs there have also been impacted. According to the OECD 2000, losses from the 1999 earth tremor ranged from USD 1.1 to 4.5 billion, with the loss in mass production accounting for the majority of those costs (USD 600 to 700 million) (WEF, 2019). In five provinces, 63.2% of the whole mass production and services sectors was destroyed, and 31,000 SMEs sustained severe physical harm. According to Birkmann et al., (2022) and Newell et al., (2021); Ezgi (2014), the majority of SMEs were underprepared prior to the earth tremor, and just 30% of them made insurance investments.

### **2.5.2 International Geopolitical Threats**

All industries and enterprises, but especially SMEs, are quite concerned about the geopolitical unpredictability and volatility that exists today. A number of these threats have cross-border and international repercussions. Although isolationism weakens already-existing international diplomatic and economic deals, such as those of the World Trade Organization (WTO), there is no indication that these collaborations are being replaced by new and more efficient multinational ones (WEF, 2019; Pascual-Ramsay 2015; Asgary and Ozdemir 2019). Instead, fragmentation, bilateralism, regionalism, as well as local and short-term interests, are replacing these accords (Asgary and Ozdemir 2019). More exposed and vulnerable to current and future global political dangers and unpredictability are the global economic growth important actors, particularly SMEs (Asgary and Ozdemir 2019; WEF, 2019; Pascual-Ramsay 2015).

Terrorist attacks, for instance, have been shown to have financial consequences which are frequently significant and quite broad while having relatively little immediate physical

effect regions. Frequent terrorist strikes have an effect not just on that nation's economy but also on that of its neighbours and the global economy. Terrorist acts deter influxes of foreign capital and investment and significantly reduce economic activity and global commerce (Allianz, 2019; Younas et al. 2015). For SMEs, such hazards could also raise the price of protection, transactions, shipping, and safety.

Given multiple technically collapsing neighbours, a location in a geopolitically complicated area (the Middle East and North Africa), an expanding economy, and membership in a plethora of regional accords, Turkey is situated in a particularly precarious position with regard to geopolitical dangers (Allianz, 2019). Both the terrorist activity in Turkey and the ongoing regional wars have had an effect on SMEs in different ways. The occurrence of terrorist operations has had an effect on the development and expansion of SMEs as well as the nation's general economic effectiveness. According to Asgary and Ozdemir (2019), Bilgel and Karahasan's research from 2017, the actual GDP per person in Eastern and South-Eastern Anatolia decreased by roughly 6.6% with the onset of terrorist activity. Terrorism significantly harms foreign direct investments in Turkey, according to other research (Allianz, 2019; Omay et al. 2013).

### **2.5.3 Scaring Off Investors**

The majority of the 122 nations throughout the study which suffered above-average internal or international terrorist attacks between 1970 and 2011 got smaller international assistance and direct investments from abroad than that of the undeveloped country (see table below). Although it is challenging to determine a cause and effect relationship, the table reveals a concerning link involving terrorism and decreased international assistance and direct investment, both of which are essential for emerging economies (WEF, 2019; Allianz, 2019).

This is commonly accepted that dealing with such a country affected by terrorism has more dangers, increasing transaction fees and tending to curtail commerce. For instance, during the September 11, 2001, bombings in New York City and the surrounding region,

the U.S. border was briefly closed, which significantly slowed down truck travel between the United States and Canada for a prolonged time.

<b>Depressing effects of terrorism</b>				
Most countries with more than average terrorist incidents have lower foreign direct investment (FDI) and aid.				
	<b>Domestic Terrorism Incidents</b>	<b>Transnational Terrorism Incidents</b>	<b>FDI (percent of GDP)</b>	<b>Aid (percent of GDP)</b>
Algeria	27.17	2.93	0.76	0.60
Angola	*	1.74	6.57	3.32
Argentina	10.31	5.79	1.48	0.06
Bangladesh	10.67	*	0.28	4.35
Brazil	*	1.88	1.64	0.07
Cambodia	*	1.79	5.41	11.49
Chile	42.38	5.67	4.03	0.19
Colombia	101.31	23.10	1.88	0.45
Ecuador	*	1.38	1.17	0.73
Egypt	10.21	*	2.55	5.70
El Salvador	72.31	6.33	1.95	2.52
Ethiopia	*	1.52	1.95	10.16
Guatemala	24.60	7.74	1.43	1.39
Honduras	*	2.07	2.52	6.17
India	92.33	8.10	0.62	0.65
Indonesia	*	1.38	0.76	1.34
Iran	8.76	2.86	0.52	0.08
Israel	24.95	2.10	1.74	3.48
Lebanon	12.69	14.52	11.58	2.47
Mexico	*	3.26	1.79	0.06
Nicaragua	17.98	2.66	2.41	11.37
Nigeria	*	2.00	2.71	0.84
Pakistan	61.17	7.10	0.79	2.81
Peru	110.57	8.79	1.92	0.91
Philippines	40.26	8.05	1.06	1.22
South Africa	32.34	*	0.76	0.32
Sri Lanka	32.36	2.90	0.88	4.96
Sudan	*	1.52	2.61	4.60
Thailand	22.17	1.43	2.12	0.59
Turkey	40.55	6.50	0.72	0.37
Venezuela	*	1.90	1.00	0.04
Yemen	*	1.67	1.37	3.52
<b>Average, 122 Countries</b>	<b>7.51</b>	<b>1.38</b>	<b>2.90</b>	<b>6.74</b>

Source: Authors' calculations.  
 Note: Data refer to the average number of terrorist incidents, average level of foreign direct investment, and average amount of foreign aid per year from 1970 until 2011. An asterisk indicates that the number of terrorist incidents was below the average of the 122 developing economies in the total sample. Some countries are not included because of warlike conditions or unavailability of data. In foreign direct investment, a foreign entity controls an enterprise rather than having merely a portfolio interest. Aid includes both bilateral and multilateral assistance.

**Table 4: Depression effects of terrorism**

Source: Finance and Development: Terrorists not just to directly harm people, but they may also create countless economic issues.

Terrorist attacks impacts may be horrifyingly immediate. People are murdered or abducted. There is vandalism of networks. Markets, buses, and restaurants are all devastatingly damaged by bombings. However, terrorist attacks does more damage than only fatalities and property damage (Allianz, 2019). By raising the price of commercial operations instance, due to heightened security procedures to safeguard the protection

of staff and consumers or increased insurance premiums—it may also seriously affect nations and businesses indirectly. The USS Cole in 2000 and the French tanker Limburg in 2002 were both victims of terrorist attacks that had a lasting impact on Yemen's shipping sector. Such attacks caused an increase in insurance costs for ships traveling through channel by 300 percent and caused ships to completely avoid Yemen (Allianz, 2019; Asgary and Ozdemir 2019; Enders and Sandler, 2012).

#### **2.5.4 Productivity Disruption**

Undeniably, macroeconomic studies have discovered that wealthy, sizable, and diverse countries are best equipped to resist the consequences of terrorism strikes than smaller, highly specialised, and more impoverished ones (Michie, 2019). In what seems like a diverse economy, funds can quickly migrate to another unaffected sector if terrorist attacks impairs productive operations in one area. Wealthier countries also have more and better resources available to invest in counterintelligence initiatives, which probably means there are less terrorist actions for them to deal with. Small, sector-focused emerging markets, on the other hand, might not have the same endurance. Assets like labour or capital could either transfer away from the damaged industry and into fewer production activities domestically or abroad (Michie, 2019).

Additionally, a technologically proficient law enforcement or military, as well as highly structured resources like surveillance gear, are likely to be absent from underdeveloped nations when it comes to countering terrorism. This makes it possible for the terrorist danger to continue, which may prevent new investment. Such a nation is likely to suffer greater and longer-lasting macroeconomic losses as a result of a terrorist strike (Michie, 2019).

## 2.6 SMMES IN THE AFRICAN CONTEXT

### 2.6.1 Introduction

Numerous explanations have addressed the problem of the financing gap for SMEs, which states that while a significant group of SMEs might lucratively expand their operations if granted credit facilities, they are unable to do so from the formal finance system (banks) due to their incapacity to fulfil the strict requirements of these banking institutions. The problem of SMEs receiving insufficient financing may be seen from two angles: financial institutions (banks) and SMEs owners (Eze and Lose, 2023). Bank of Africa's Chairman and CEO, Paul Derreumaux, outlined the three primary problems preventing banks from providing loans to SMEs (Manzoor et al., 2021). These include SMEs' absence of capital, their lack of organisational structure in terms of, among many other things, people management, bookkeeping, and administration, and lastly their absence of a prospective outlook. According to Paul (2020) and Dyer (2019), most firms are the product of an entrepreneur's gut feeling rather than a careful analysis of the market or level of competition, which often leads to sales disappointment and, eventually, the inability to repay credit facilities. Though these concepts originate with credit institutions, do they truly represent the issues that SMEs face (Olaore, G.O., Adejare, B.O. and Udofia, E.E., 2021)?

Having considered all sides of the argument, there is a greater grasp of the direction of the investigation because of the challenges SMEs face in obtaining loans (Sibiya et al., 2023).

### 2.6.2 Conceptual Framework

The conceptual framework discusses details related to the investigation of difficulties SMEs in Ghana encounter in acquiring loans. Consequently, it maintains a certain structure. Fundamental concepts for SMEs were provided initially, and then the features of Ghanaian SMEs were discussed. It thus opens the conversation about SMEs' contributions to economic advancement and progress, as well as an examination of a

research on the challenges SMEs encounter when trying to acquire loans. The sort of funding that is accessible to such SMEs will therefore become the main emphasis, although it will also be crucial to examine just at sources of borrowing and funding for such SMEs. It shall go towards ways to encourage SME advancement and the significance of credit intermediaries in the remaining comment thread (banks) in supporting the growth of such SMEs.

### **2.6.3 SMME Attributes in Ghana**

Small and medium-sized businesses can be distinguished among bigger companies by the owner's immediate links to regional and global financial markets, meanwhile the earlier are shut out due to the greater financial intermediary expenses of more modest initiatives. Additionally, SMEs possess restricted ability to promote products internationally yet incur the very same operating expenses as Huge 8 Sized Businesses when it comes to compliance with laws (Owusu, 2019; Kwaning & Nyantakyi, 2015).

Ghanaian small and medium-sized enterprises (SMEs) exhibit a clear distinction between those situated in urban and rural settings. The initial category encompasses both "structured" and "unstructured" establishments. Within the unstructured segment, the primary composition consists of artisans working in open-air locations, improvised wooden structures, or even homes, often employing very few or no paid staff. In contrast, the structured category tends to comprise firms with an established workforce and a central operational location, commonly under full ownership of an entrepreneur. Such enterprises frequently rely on trainees or close family members for support. Among rural enterprises, the prevalent models include family-operated collectives, solitary artisans, and women engaged in producing locally cultivated goods. These encompass a wide range of activities such as the manufacturing of antibacterial soaps and laundry detergents, textiles, clothing design and creation, leather crafting, traditional metalworking, wood and mineral extraction, cement and building block production, as well as the processing and distribution of beverages and food (Ochia, 2022). Additional ventures encompass antique furniture, electronics assembly, agricultural processing,



pesticide products, and mechanical craftsmanship (Owusu, 2019; Kwaning & Nyantakyi, 2015).

Low concentrations of knowledge and skills among the self-employed define this industry. The majority of these companies are family-run, resulting in minimal distinction between personal and corporate funds to a degree where the boss's or manufacturer's private account is comparable to the company's. Tiny and medium-sized enterprises (SMEs) in Ghana are really a diverse community, encompassing everything from small industries producing textiles, metal components, as well as furnishings to moderate equipment manufacturers in addition to service providers including eateries, consultancy, and technology companies. A few are classic "ability to make a living" businesses content to stay small, whereas others are creative as well as economic expansion.

#### **2.6.3.1 Finance Agencies Structure**

The majority of the research claims that variations in financial institution structure and lending infrastructure have an impact on how readily available capital is for SMEs (Nyathi 2021; Liang et al. 2017). By impacting the viability for which financial agencies may implement the various lending technologies (be it transaction lending or relationship lending) in which they have comparative advantage to provide funding to multiple companies. These variations could have a considerable impact on the accessibility of financing to Small and medium enterprises. The foundation of trade financing technology is "solid" quantitative in nature, including such profitability metrics derived from verified consolidated financial statements and other similar metrics. On the contrary, relational financing is dependent on "gentle" qualitative data accumulated throughout the duration of engagement with SMEs. These intangible details might relate to the personality and dependability centred on repeated close interaction by the financial institution with the founder of the SME (Ahmad & Choudhary, 2021). Credit facility systems is presumably referring to the policies and guidelines, mainly imposed by governments, which influence finance agency's lending practices and its capacity to provide credit to a variety of prospective consumers when they discussed credit facilities (Ahmad & Choudhary, 2021).

The majority of the research claims that variations in credit institutions form and borrowing facilities have an impact on how readily available capital is for SMEs (Mkhaiber & Werner, 2021). Through impacting its viability in which microfinance companies might very well utilize the various credit techniques (whether it be remittance borrowing or relationship borrowing) in which they possess competitive edge to provide funding to various companies, such distinctions could possess a substantial effect on the accessibility of financing to small and medium enterprises (Mkhaiber & Werner, 2021). The foundation of transactional financing technology is "solid" quantitative in nature, such like financial ratios derived through verified consolidated financial statements and other similar metrics. On the contrary, relationship financing relies on "soft" qualitative data accumulated across period by engagement with SMEs. Soft data could include the personality and dependability of the operator of the SME depending on repeated direct interaction by the finance agency. It presumably referring towards the policies and guidelines, mainly dictated by state, which influence microfinance sector' borrowing practices and the capacity to provide credit to a variety of possible clients when they discussed credit facilities (Ahmad & Choudhary, 2021).

### **2.6.3.2 The Importance of SMMEs to MacroEconomic Progress**

Considering SMEs create jobs, pay income tax, are creative, and play a significant role in a nation's involvement in the international market, the SME industry is regarded as being extremely significant in most all economies. The comparatively considerable proportion of the SME sector with most emerging economies as well as the significant global investments which have been directed toward the SME industry of these countries make SME engagement as well as economic expansion vital (Islam et al., 2021); (Rahman et al., 2017).

Approximately 93% of Ghana's listed companies are SMEs, and as a result, they are crucial towards the country's economic growth since they, along with other factors, stimulate innovation, new investment prospects, entrepreneurialism, as well as

employment chances. They are recognized as that of the catalysts for achieving overall growth goals of emerging regions by Sibiya et al., (2023); Kusi et al., (2015) and as prospective sources of job creation and revenue in a number of these nations. Amankwah (2020), compares SMEs to sponges which absorb excess labour to contribute significantly to job creation as well as revenue in Ghana.

Numerous scholars have found that SMEs promote entrepreneurship and competitiveness; as a result, they contend that explicit federal assistance can accelerate economic growth and development. Additionally, SMEs' labour-intensive nature and ability to utilise limited resources more effectively with little to no capital contribute to their expansion boosting employment more than large companies. According to Agenssa (2021), SMEs must be of importance to emerging economies considering they make up a significant portion of businesses as well as the prosperity of such nations. SMEs are significant not just as a source of job creation as well as a means of effectiveness, expansion, as well as democratization of the economy (Gherghia et al., 2020).

Businesses are crucial in eradicating poverty since they support the majority of governments, notably those who are in emerging regions where poverty is most severe. Such impact can indeed be disregarded because businesses frequently provide the sole job creation opportunities in remote areas and hire low-wage or otherwise underprivileged employees (Manana, 2019).

### **2.6.3.3 The Challenges Faced by SMMES**

Multiple research have consistently cited SMEs' accessibility to financing as a significant barrier to rapid industrialization (Manzoor et al., 2021). This purported reluctance of SMEs to obtain credit facilities is sometimes attributed to its incapacity to provide appropriate security.

According to them, the prevailing legal system governing land ownership and transfer plainly hinders as well as partially restricts the availability of formal financing. Firstly, the

proportion of property investment that may be pledged as security is constrained since there is not clear title to much useful land in Ghana. Secondly, the accessibility to lands as security has been even more constrained by a government restriction upon that exchange of private and community land. Lastly, exchange policy wastefully delays the completion of bonds as well as, as a result, accessibility to loaned money wherever ownership or a lease is clear and alienable. Financial issues predominate most other growth restraints from the perspective of a private industry is justified (Manzoor et al., 2021).

Experts asserted that the availability of security significantly affects how prepared financial institutions are to fulfil corporate sector wants (Allianz, 2019). In the event of non-payment, security offers a motivation to pay back and reduce damages. Accordingly, approximately 75% of sampled businesses that needed credit were expected to provide security as a part of an investigation on the supply and demand of financing for small businesses in Ghana (Manzoor et al., 2021). According to the report, 65% of the entire sample firm had at one point or another requested for financial help from the financial institution for the company. However, a sizable chunk of the company seems to have its request turned down by financial institutions (Manzoor et al., 2021). The odds were nearly 2:1 chance that credit applications submitted by businesses might be denied.

Companies are granted credit for substantially less than that they asked for. Financial institutions' primary justification for rejecting requests from companies was a shortage of sufficient security, which was typically provided in the form of landed property. Kreiczer-Levy (2019); Sugarman et al. (2015), financial institutions could provide alternatives to real estate as security, such as guarantors, sales contracts, including liens on funded machinery.

## **2.7 SMMEs IN THE SOUTH AFRICAN CONTEXT**

### **2.7.1 Introduction**

While playing a pivotal role in driving economic growth and alleviating poverty, SMMEs encounter a range of challenges. These encompass issues such as inadequate access to financial resources, deficiencies in skills and training, and constrained market prospects (Ndlazi et al., 2023). SMEs significantly contribute to economic development by generating employment, income, and making substantial contributions to South Africa's economy (Manana, 2019). Their significance in poverty reduction lies in the opportunities they offer for income generation and economic empowerment, particularly benefiting marginalized segments like women and youth (Msiza, 2021). Research affirms their capacity to foster innovation and entrepreneurship. Notably, their agility often surpasses that of larger corporations, enabling rapid adaptation to market shifts and innovation.

Nonetheless, the impediment posed by limited financial access is evident in inhibiting growth. Numerous SMMEs encounter challenges in securing financing due to the absence of collateral or credit history, constraining their expansion prospects (Manana, 2019). Additionally, inadequacy in skills and training among both employers and employees emerges as a significant constraint on institutional progress. Many SMME proprietors and workers lack the requisite competencies to proficiently manage a business, especially in financial administration and marketing (Msiza, 2021). Multiple obstacles hinder SMMEs' growth and competitiveness relative to larger enterprises (Isaacs, 2023). These obstacles encompass unwarranted political intervention, inadequately designed government policies for supporting entrepreneurial initiatives, gatekeeping, and limited market entry. Consequently, these challenges curtail the potential expansion and development of SMMEs (Masters, 2019).

## 2.7.2 Theoretical Framework

One could argue that SMMEs are where most entrepreneurship takes place. According to Stevic et al., 2020; Moyo (2013:66), South African SMMEs make up 95% to 99% of all firms, of which this contributes a total of 35% to the GDP. According to van der Westhuizen et al., 2023; Moyo (2013:66), the new South African government prioritized the creation of SMMEs in order to create jobs and lower the nation's high unemployment rate. According to STATS SA (2023), Moyo (2013:65–70), the new South African administration saw the growth of small companies and entrepreneurship as a means of achieving the nation's NDP following broad developmental objectives in 1994.

Table 5 depicts the general definitions of SMMEs based on the National Small Business Act of South Africa.

<b>Enterprise size</b>	<b>Number of employees</b>	<b>Annual Turnover (S.A Rand)</b>	<b>Gross Assets, Excluding Fixed Property</b>
<b>Micro</b>	Informal- no license, formal business premises, labour legislation. Employs between 1 to 5 employees depending on the industry.	Less than R150 000	Less than R100 000
<b>Very small</b>	Operates in the formal economy and employs fewer than ten or up to 20 employees, depending on the industry.	Between R200 000 and R500 000	Between R150 000 and R500 000
<b>Small</b>	Registered, operates in the formal economy and more established than very small enterprises.	Between R2m and R25m	Between R2m and R4.5m
<b>Medium</b>	A decentralized management structure characterizes enterprises. Employs fewer than 100 or up to 200 employees depending on the industry.	Between R4m and R50m	Between R2m and R18m

**Table 5: National Small Business Act definition of SMMEs.**

Source: National Small Business Act No. 102 of 1996.

## SMMEs by Province

This section will ascertain the major provinces where most SMMEs operate, as determined by SEDA (2020). Accordingly, the table depicts the number of SMMEs in nine provinces as in quarter three of 2020.

Province	Number of SMMEs
Western Cape	268 799
Eastern Cape	231 011
Northern Cape	18 519
Free State	110 183
KwaZulu-Natal	414 071
North West	79 203
Gauteng	783 410
Mpumalanga	214 393
Limpopo	243 924
<b>Total</b>	<b>2 363 513</b>

**Table 6: SMMEs by the province in 2020 Q3**

Source: SEDA (2020).

## 2.7.3 THE ROLE AND IMPORTANCE OF SMMEs

### 2.7.3.1 Job Generation

The potential of entrepreneurship and innovation to substantially drive economic growth and create employment has garnered renewed attention, as the formal sector grapples with accommodating the nation's increasing number of job seekers (Eze & Lose, 2023). Isaacs (2023); Chimucheka (2013:783) asserts that SMMEs can provide jobs to accommodate the growing population. They said that when large companies cut staff or retrench, SMMEs generate jobs. Ndlazi et al., (2023); Nhleko (2017:12), asserts that because SMMEs have a greater capacity to absorb labour, they are seen as a way to address the issue of excessive unemployment. It is commonly known that SMMEs employ a significant number of South Africans and are responsible for 43% of the country's total earnings and salaries (Boukhars 2021:167). According to Hlebelala (2020); Omer (2016:105), SMMEs generate 55% of all formal private sector jobs in South Africa. Incredibly, 74 percent of South Africans who are employed in the economy work for

SMMEs, according to Bushe (2019:1-26). This highlights the important role that SMMEs play in solving the severe unemployment problems that many African countries face.

### **2.7.3.2 Poverty Alleviation**

Poverty persists worldwide, varying only in degree. Developing nations consistently experience higher levels of poverty compared to their wealthier counterparts. The South African government underscores the significance of the SMME sector in combatting poverty. These enterprises effectively harness societal resources to provide goods and services within their operating communities (Kosmas, 2020); (Ramorena, 2016:49).

### **2.7.3.3 Inclusivity and Fairness**

Historically, the South African government's focus has primarily centred on expanding SMMEs in previously underserved communities, particularly those that endured colonialism and discriminatory developmental policies before 1994 (Masters, 2019). SMMEs frequently serve as sources of economic opportunity and employment for the broader population. Despite this, South Africa contends with notable income inequality among demographic groups; nonetheless, it's believed that SMMEs could play a role in addressing this concern (Mokoena & Liambo, 2023).

Due to its potential to considerably boost economic development and job creation, entrepreneurship and innovation have received fresh attention as the official sector struggles to accommodate the nation's sizable and growing number of job seekers (Mojadibodu, 2023).

### **2.7.3.4 Community Integration**

The establishment of a strong SMME sector is recognised as important by the government. The SMME sector is widely considered as being essential to achieving and sustaining economic growth and development, as well as widespread wealth creation and employment (Sibiya et al., 2023); (Nze, 2016:15-16).



### **2.7.3.5 Economic Development and Growth**

Malacarne and Brunstein (2021:917-943), asserts that increasing the effectiveness of SMMEs is essential for sustainable development since it promotes economic growth, the eradication of poverty, the creation of jobs, a decrease in crime, and community building.

The weakest elements of South African society commonly gain access to economic opportunities through SMMEs. The growth of the economy depends on the establishment of a robust SMME sector, which development experts believe is the key to addressing many social issues, including the creation of jobs (Zada et al., 2021:10502). According to estimates from 2009, SMMEs account for more than 34% of South Africa's GDP and employ close to 91% of the country's employed population (STATS SA, 2022). SMMEs often employ more labour per unit of capital and require less capital per unit of production than large enterprises, according to comparative studies of large and small businesses conducted in different countries (Rama et al.,2022:6903).The SMME sector creates jobs, collects income tax, and is potentially included in labour market information analysis, claim Asoba and Mefi (2020:1-17). By offering apprenticeships, SMMEs also act as training grounds for young people. In areas like economic growth, job creation, poverty reduction, and community development, SMMEs may also significantly contribute to South Africa's long-term development (Msiza, 2021). They also enable people to meet their basic needs and, as a result, to survive. Through employment creation, SMMEs may help raise South Africans' standard of living.

### **2.7.3.6 Commitment to Economic Progress**

Malacarne and Brunstein (2021:917-943) contend that fair economic growth that benefits the vast majority of people is essential for reducing poverty. Poverty alleviation depends on wealth creation, one of the private sector's key competencies. Therefore, as local firms and SMMEs are crucial to achieving long-term growth, efforts should be taken to improve their efficacy and performance. The National Small Business Act of 2003, predicts that SMMEs will have a big impact on the economy.

Framework for addressing the issues of creating jobs, sustaining economic growth, distributing income fairly, and stimulating the economy and development. A significant

force behind the development of new products, services, and technologies is small business. As per the Accelerated and Shared Growth Initiative South Africa (ASGISA), between 2004 and 2014, growth must average 5% in order to achieve the government's social purpose, and SMMEs must make a substantial contribution to the anticipated growth rate (Masters, 2019). Aside from the previously stated issues of employment generation, development and economic growth, and a growth in GDP, other possible advantages straight-forwardly accumulating to local governments as a result of SMME industry activities incorporate the empowerment of local residents, competitive pressure among developing companies in conjunction with the possible benefits of value by producers, and a larger range and preference for the customer. It also involves a decrease in crime rates since people are constructively engaged rather than idle (Khoza et al., 2022; Yanta, 2001:44).

#### **2.7.3.7 Competitiveness**

SMMEs compete with major manufacturers and enhance the competitive climate, resulting in high-quality goods and the economy's use of services (Moipolai, 2022:17); (Du Toit et al., 2009:50). They also engage in rivalry with one another, which advantages consumers on both quality and pricing.

#### **2.7.3.8 Empowering Large Corporations**

SMMEs can fulfil some services more quickly and productively than bigger enterprises. As a result, SMMEs may impact the success of major corporations. As a result, SMME may be able to fulfil supply chain and distribution functions for larger enterprises (Visser, 2020:1); (Du Toit et al., 2009:50).

SMMEs, including retail as well as wholesale markets establishments, provide a significant service to larger corporations by disseminating their service to consumers. They can also work as suppliers and service providers for larger companies. When huge corporations agree to a long-term engagement with SMMEs, it also might deliver a certain level of quality items while offering reduced pricing, producing cost-cutting innovations (W&R SETA, 2022).

## **2.7.4 SOCIO-ECONOMIC GROWTH CONTRIBUTION**

Based on a review of relevant literature, it has been established that SMMEs play a significant role in driving socioeconomic growth in South Africa (SEDA, 2020). Specifically, SMMEs serve various functions ranging from bridging the economic divide between urban and rural areas to creating employment opportunities in disadvantaged communities, particularly in rural areas where they act as commercial outposts (STATS SA, 2023). Additionally, SMMEs provide a viable alternative to job creation in metropolitan regions. Despite the challenges posed by the dominance of big businesses and government neglect of socioeconomic development, SMMEs in South Africa engage in the following key activities (Moipolai, 2023). SMMEs have made significant contributions to South Africa's socioeconomic growth through job creation, poverty reduction, and improved access to goods and services, however, challenges such as limited access to finance, lack of skills and government bureaucracy have impacted their growth potential (Manana, 2019). SMMEs have played a crucial role in South Africa's socio-economic growth through job creation, poverty reduction and improved access to goods and services. However, challenges such as limited access to finance, lack of skills and government bureaucracy have impacted their growth, highlighting the need for supportive policies and interventions to enhance the role of SMMEs in the country's economic development (Isaacs, 2023; Steenkamp, 2022; Manana, 2019).

### **2.7.4.1. Creating Jobs**

Small, medium, and micro enterprises (SMMEs) now play a larger role in boosting economic growth in South Africa, according to Saah (2021), as a result of the reorganisation and reduction of huge companies. Restricted manufacturing capacity, employment layoffs, and adverse consequences on communities have resulted from the restructuring and downsizing of state-owned businesses like ESKOM and the SABC (STATS SA, 2021). In order to lessen the adverse impacts of poverty, uprooted employees have frequently done so through desperation and turning to entrepreneurship (SEDA, 2020; SEDA, 2018). A similar argument is made by Jili, Masuku, and Selepe (2016:6); Zhang and Ayele (2022), who claim that small enterprises are essential in

alleviating both poverty and unemployment. This claim is predicated on the idea that small enterprises provide an immediate alternative to persons with limited work alternatives, financial stability and social support (SEDA, 2020). Creating jobs is essential for economic growth and providing financial stability, but it also carries negative consequences like environmental degradation and income inequality.

#### **2.7.4.2 Wealth Allocation and Poverty Alleviation**

Despite the fact that income earned in the informal economy by both employers and employees is lower than that earned in the formal economy, as reported in the Real Economy Bulletin (2017), opportunities for self-employment through entrepreneurship provide a safety net for retrenched employees, helping them avoid poverty (Msiza, 2021). The structure of the SMMEs in the country is dominated by survivalist small businesses, outnumbering other sizes within the category, according to Manyama (2023), Fatoki (2014). This observation suggests a possible correlation between unemployment and entrepreneurship driven by necessity. As pointed out by Manana (2019), Harris (2018), large businesses in the current environment are downsizing, automating, and hiring only highly skilled personnel, making no direct contribution to poverty reduction. This responsibility falls on SMMEs, which are labour-intensive and provide employment opportunities for less educated and undereducated individuals who are often deemed unproductive by large businesses. The allocation of wealth and reduction of poverty can be achieved through various economic policies and programs, but it should also focus on addressing the root causes of poverty, such as lack of education and employment opportunities, to ensure long-term success (Isaacs, 2023).

#### **2.7.4.3 Fostering the Development of Entrepreneurship**

Makwara (2019); Waterhouse (2019) challenges the neoclassical view of entrepreneurs as mere risk-takers and instead characterizes them as small business owners who aspire to grow their enterprises. Schreiber (2020); OECD (2017b), argue that the MSME sector has the potential to foster innovation and entrepreneurship, making it an attractive target for foreign investment. However, South Africa faces obstacles in this regard due to the constant scandals in both large businesses (e.g., the Steinhoff fraud) and the government

(e.g., State capture), which cast the country in a negative light (Mpofu-Walsh et al., 2023). Furthermore, Tala, (2021); Oduntan (2014) emphasizes the importance of viewing the SMME sector as a "nursery" for higher-level entrepreneurship and innovation, where entrepreneurs learn from their failures and acquire the skills necessary to grow their businesses. Fostering the development of entrepreneurship can have positive economic and social impacts, but there are also negative consequences that must be addressed through effective policies and programs (Busch et al., 2024).

#### **2.7.4.4 Sustaining a Robust Economy**

Despite their local focus, SMMEs are involved in export business, as evidenced by their ability to bring in foreign currency, promote business growth, and increase employment opportunities (Moloi, 2021); (Makwara, 2019). In addition, export activities link SMMEs with businesses in other countries, exposing local firms to global standards and enhancing their industry knowledge and skills. The diverse range of sectors in which SMMEs compete, including manufacturing, retail, and service, helps to establish a strong foundation for a diversified economy in South Africa (W&R SETA, 2022; Steenkamp, 2022). Achieving a sustainable and robust economy requires a delicate balance between promoting growth and efficiency while mitigating negative impacts on the environment and social welfare through smart regulations and policies (Manana, 2019).

#### **2.7.4.5 Promoting Social Unity and Mitigating Social Discord**

According to Moloi (2021); Fatoki (2018), entrepreneurship provides an avenue for foreign nationals in South Africa to evade conflicts with local communities regarding formal employment opportunities, as they can establish their own small businesses. Isaacs (2023); Makwara (2019) similarly maintains that the creation of jobs by SMMEs plays a significant role in promoting social stability and stabilising the social and political structure of the economy. Furthermore, since SMMEs are frequently owned and managed by locals, Steenkamp (2022); Dlova (2017:22) argues that they reinforce extended family connections, social systems, and cultural customs.

#### **2.7.4.6 Tackling Disparities in Economic, Social, and Racial Realms**

In order to promote equality and justice, it is imperative to address and alleviate disparities that exist in economic, social, and racial realms (Steenkamp, 2022). Overcoming these disparities will require a multifaceted approach that includes providing access to education, healthcare, and job opportunities while also combating discrimination and promoting diverse representation in all sectors of society. Failure to address these disparities will perpetuate inequality, limit social mobility, and create a society that is divided along these lines (Isaacs, 2023; Msiza, 2021). In a highly unequal country like South Africa, SMMEs are expected to contribute to social empowerment and transformation, in addition to their economic roles (Isaacs, 2023); (Cingano, 2014). The persisting economic inequality and poverty in the country are often correlated with factors such as race, gender, and disability (Steenkamp, 2022); (South African Human Rights Commission, 2018:4), and therefore the government views SMMEs as essential for realising the socio-economic transformation agenda. By implementing BEE programs and providing preferential treatment to vulnerable groups like women, youth, and disabled persons, SMMEs serve as a sanctuary for the marginalised population who are often excluded from the formal economy. According to (Steenkamp, 2022); Makwara (2019), SMMEs predominantly employ these vulnerable groups, thereby providing a social safety net. Thus, the contribution of SMMEs in South Africa goes beyond economic indicators such as GDP, employment, and exports (Manana, 2019). As a result of being at the centre of the social and economic transformation agenda, these firms have political, social, and economic targets to deliver on, and their impact on society should be evaluated accordingly (Msiza, 2021).

### **2.7.5 GLOBAL TECHNOLOGICAL ACCESSIBILITY**

#### **2.7.5.1 Cloud Computing Tools For Global Market**

Globally, there is a growing dependence on technology, and local SMEs have the potential to utilize technological advancements for their growth. Among these advancements, cloud computing stands out as a technology solution that can facilitate the expansion of SMEs (Harvard Business Review, 2024). However, many SMEs hesitate

to adopt cloud computing due to the misconception that it is primarily designed for large corporations. Contrary to this belief, a technology expert emphasised that cloud computing is both accessible and essential for SMEs. Cloud computing is an essential tool for promoting the growth of small and medium enterprises (SMEs), yet many SMEs are hesitant to embrace this technology due to the misconception that it is exclusively suited for large corporations (News24, 2023). However, the adoption of cloud computing offers significant advantages for SMEs. In essence, cloud technology or cloud computing involves storing and accessing programs and data through the internet instead of relying on local hardware, such as physical hard drives. Cloud computing services encompass a range of offerings, including access to servers, storage, databases, networking, software, analytics, and internet intelligence, all of which contribute to faster and more efficient business operations (Attaran and Woods, 2019).

There are numerous benefits for SMEs that arise from leveraging cloud technology. These include enhanced data protection, data backup and recovery capabilities, robust analysis of big data, deployment of anti-virus applications, facilitating testing and development processes, enabling e-commerce applications, and more. Moreover, cloud technology empowers businesses to scale their operations, maintain flexibility, and shift their focus towards core business activities, rather than managing complex IT infrastructure (Attaran and Woods, 2019). One Linkage, a cloud technology company specialising in SME cloud service development and integration, stated that the adoption of cloud computing services by SMEs in South Africa remains low due to limited awareness and a lack of understanding regarding the integration of this technology into their business ecosystem. To address this challenge, the importance of educational initiatives aimed at familiarizing SMEs with the benefits and practicalities of integrating cloud solutions into their operations (News24, 2023).

#### **2.7.5.2 Cost Effective Technological Systems**

In the past, businesses needed separate licenses for accessing different applications and software services, leading to considerable costs (Nuccio and Guerzoni, 2019). Nonetheless, cloud computing has introduced a more cost-effective avenue for acquiring

these services. Cloud services consolidate multiple functions within a single platform, offering a more economical option compared to previous approaches. While the expense might still be deemed substantial in certain scenarios, it stands as a valuable investment. While affordability is a valid concern due to the initial commitment required to integrate such productivity tools into business operations, cloud computing can yield substantial advantages if a business is financially capable (Harvard Business Review, 2024). Recognizing the support requirement among small businesses, One Linkage has undertaken a collaborative effort with corporations to incorporate technology into their Enterprise and Supplier Development (ESD) initiatives. Through assisting SMEs in the initial adoption of technology tools or productivity resources and integrating them into their systems, companies can significantly enhance the efficiency and potential sustainability of SMEs beyond the limited support typically offered for one or two years (Sasol, 2024).

### **2.7.5.3 Corporate Support for SMMEs**

Prominent South African corporations have instituted Enterprise and Supplier Development (ESD) initiatives aimed at nurturing sustainable growth partnerships between companies and entrepreneurs (Sasol, 2024). Notable entities like Telkom and Sasol have implemented diverse programs that utilise cloud technology to facilitate the advancement of SMEs. As exemplified by Sasol, the chemical and energy conglomerate collaborates with One Linkage to grant SMEs access to opportunities within their network. This collaboration also involves sharing information about engaged SMEs with existing clients, fostering an ongoing ecosystem of prospects. In conjunction with other entities partnering with One Linkage, Sasol strives to elevate these small businesses to a level where they can transition into suppliers. Presently, over 1,000 businesses spanning various sectors are registered on the One Linkage platform for support by Sasol (Sasol in society, 2023). It is recommended that SMEs proactively exhibit their businesses on platforms like One Linkage to enhance their visibility. This approach enables corporations like Sasol to readily identify businesses and their offerings when opportunities arise.



## **2.7.6 CHALLENGES FACING SOUTH AFRICAN SMMES**

Despite the government's focus on the SMME sector in South Africa, they continue to confront obstacles. Some of the issues that South African SMMEs face were highlighted by Motsepe and Fatoki Khoza et al., (2022); (2017:232–240). Lack of learning and skills, limited access to capital, absence of availability to economy, lack of access to assistance programs, lack of access to relevant equipment, and lack of access to many other tools, such as people management, are some of the issues. The parts that follow address the challenges.

### **2.7.6.1 Inadequate Skills and Knowledge**

One of the most major hurdles to entrepreneurial development in South Africa is a lack of education (Van der Spuy and Antonites, 2022); (Motsepe and Fatoki, 2017:232-240). They also discovered a link between schooling and business activities. SMME owners and managers' lack of management abilities is attributed to insufficient skills and knowledge. Skills and learning allow the development of managerial competencies, which are vital for the enterprise's success. Managerial competences are defined by Ogunsola and Potwana, (2023); Chimucheka (2013:783) as collections of knowledge, abilities, behaviours, and attitudes that can help one be more effective. For a firm to survive and develop, management skills are essential. (Van der Spuy and Antonites, 2022); Chimucheka (2014:403) asserts that the lack of education and training in South Africa has lowered SMME managers' capacity. Lack of skills and learning is one of the factors contributing to the high failure rate of SMMEs, particularly freshly created ones.

### **2.7.6.2 Inadequate Capital Means**

Each and every business needs money to launch and grow. After skills and knowledge, Manzoor et al., (2021); Fatoki (2014:151–158), claims that a lack of financial resources is one of the most commonly acknowledged reason in SMME failure in South Africa. Matsongoni and Mutambara (2021:1–17) claim that in South Africa, 75% of loan requests from SMMEs are turned down. Fatoki (2014:151-158); BASA (2020) claims that, only 2 percent of newly established small, medium and micro enterprises in South Africa had

access to credit. According to BASA (2020), due to a lack of surety, the required minimum cash payment, or a payment history, SMMEs commonly experience difficulty obtaining bank funding. Poor presentation of business plans is another reason why SMMEs in South Africa cannot obtain bank finance (STATS SA, 2023; SEDA, 2020).

### **2.7.6.3 Market Inaccessibility**

To survive and flourish, SMME managers and owners must gain a better understanding of competitiveness in their industry. Additionally, they need to develop the abilities and talents that will give them a competitive edge. SMME drivers must analyze and evaluate economical patterns, notably the amount of current and prospective competition, in order to understand economic trends. This will be helpful to the managers as it will teach them about ways to sustain the performance and viability of their businesses (Ogunsola and Potwana, (2023).

### **2.7.6.4 Inadequate Auxiliary Systems**

The majority of SMME owners and managers believe the government does not provide them with adequate assistance. And that can be due to absence of knowledge about the institutions that have been set up and thus are ready to help them. Throughout South Africa, the majority of small, medium and micro enterprises are unaware of the initiatives the government is taking to help them (Moipolai, 2022; Phillips, Moos and Nieman, 2014:85-85).

### **2.7.6.5 Absence of Exposure to Necessary Equipment**

For most organisations today, investing in technology and staying current with data technology is essential. Innovation is absolutely essential to the growth of organisations. It aids a company in maximising commercial chances and is seen as crucial if one wants to increase sales. It is crucial to remember that using technology incurs expenses since software installation and purchasing of computer hardware both require money. This is obvious why SMMEs with no access to financing would struggle to use contemporary technologies (van der Westhuizen et al., 2023).

### **2.7.6.6 Lack of Access to Human Resources**

Small, medium and micro enterprises ought to have a share to a number of certified, competent, and inspired personnel in order to function efficiently and maintain development. It is complex and costly for SMMEs to employ competent labour given the challenges they experience in acquiring funding. Ramabitsa (2022:21); Bamata (2018:76), emphasises that hiring labour must be done for a fee and in accordance with applicable labour laws, including the Employment and Minimum Wage Regulations. The development possibilities of SMMEs might also be impacted either by infrastructure's reliability (SEDA, 2020). It is indeed a problem in the majority of emerging economies, and South Africa is no different. It has been demonstrated that several emerging nations still have appalling systems in place for things like telecommunications, energy, and mass transit . Therefore, it is evident that the difficulties experienced in small, medium and micro enterprises might have a devastating impact on the outcome (van der Westhuizen et al., 2023).

Khoza et al., (2022), Mofokeng (2013:7), highlighted that several obstacles prevent SMME suppliers from developing and expanding. Often encompasses:

- Laws governing business;
- Labour plus taxation rules;
- Expertise gap exists;
- Immoral behaviour;
- Political meddling;
- Innovation selection;
- Absence of surety;
- Competitiveness for scarce chances as well as an unstable labour market.

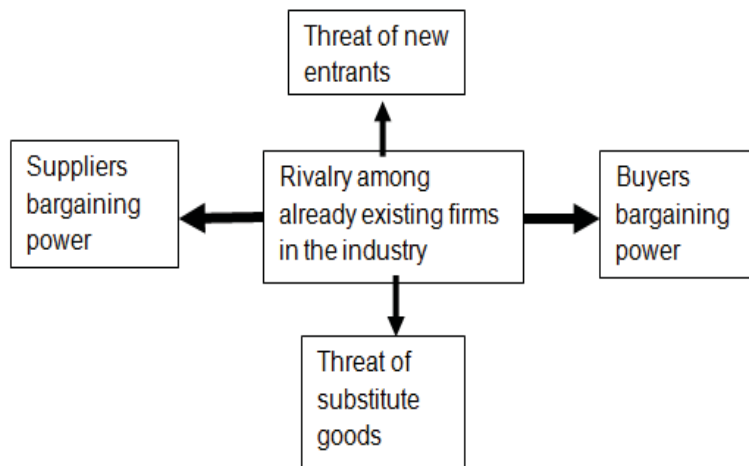
Economic viability and development prospects for SMMEs are influenced by current and future levels of rivalry. Despite the fact that the competitive pressure between businesses varies substantially depending on the industry (Kraai, 2021); (Chimucheka, 2013:783-783).

Industry competitiveness, which is fuelled by what Michael Porter terms the "five competitive variables," cannot be blamed for certain SMMEs' inability to reach particular markets (Mohammed, 2021); (Du Toit et al., 2013:783-783).

Porter claims that the five drivers may be used to understand the nature of competition in a given business (Mohammed, 2021); (Poznak, Thole and Sanders, 2018:309).

At least five competing factors directly impact firms or organizations in any industry (Mohammed, 2021); (Chimucheka, 2013:783). These five competitive factors include competition among rivals, threats from new entrants, risks from alternative commodities, and negotiating power of clients and providers. both clients and providers. These are also referred to as the Porter Five Forces.

Porter's five forces model depicts the competing forces, and consequently the sources of competitiveness, in any business. Figure 4 depicts Porter's five forces paradigm.



**Figure 4: Competitive Forces Model**

Source: Chimucheka (2012:28)

The competition sources depicted in figure 4 are examined in the subsequent sections.

## **2.7.7 PORTER'S FIVE FORCES MODEL**

### **2.7.7.1 Competition Among Competitors**

Figure 3 demonstrates that competitors or opponents are a problem that almost every business today must deal with. The strongest of the five factors mentioned is often competition between competing businesses (Simiyu, 2021); (David, 2012:28). According to Araba, (2023); Mpangane, (2020); Chimucheka (2012:28), when the number of rivals grows, rivals become ever more comparable, industry commodity demand declines, and price lowering increases in frequency, the degree of rivalry among rival businesses often climbs. When customers may instantly change products, obstacles to entry as well as departure are high, and variable costs are large, rivalry between competitors can also emerge.

Competitors are without a doubt the most important factor to take into account when looking at the microenvironment from a strategic perspective. Initiatives like price reductions, promotional strategies, better client service, and advancements in service delivery are brought about through competitive competition (Simiyu, 2021); (Chimucheka, 2013:783). These strategies are regularly used by rivals to improve their respective market or sector rankings or in reaction to other parties' actions. When competition heats up, sector loses appeal and sector revenues decline (Mudara, 2021); (Chimucheka, 2012:28). SMMEs typically struggle to compete with well-established bigger firms. Larger companies decrease prices as a determined effort to drive smaller companies out of the sector.

### **2.7.7.2 Threats from New Competitors**

Depending on how easily new businesses may compete with those that currently exist, an industry may face the prospect of greater competition (Jeza and Lekhanya, 2022); (Chimucheka, 2013:783). Competition will often be fierce in sectors if there are no entry restrictions. According to (Jeza and Lekhanya, 2022); Chimucheka (2012:28), despite the obstacles, new businesses may join markets with high-quality goods at competitive rates.

In order to prevent new SMMEs from competing, big, established businesses typically take use of entrance hurdles. It's crucial to remember that rivalry will get more intense anytime a new company joins a certain market or sector (Jeza and Lekhanya, 2022); (Chimucheka, 2012:28).

#### **2.7.7.3 Concerns from Replacement Goods**

Every rival creates similar goods (Mogashoa & Selebi, 2021; Chimucheka,2013:783). The expectation for previously established goods that fulfil identical objective may be impacted either by launch of competing items by some other company. Due to the level of demand in today's industry, new items have constantly been released.

#### **2.7.7.4 Consumers' Negotiating Position**

Buyers constantly seek to drive down prices, acquire even more better items, and intensify rivalry amongst vendors (Malgas and Zondi, 2021); (Chimucheka, 2013:783). Since there are many suppliers and little consumers, the leverage of the client's negotiating position is typically greater.

#### **2.7.7.5 Negotiating Advantage of Buyers**

Sellers' ability to raise prices above their expenses and turn a profit—or at the very least, how far they can lower the standard of the products prior to actually losing clients—depends upon their negotiating strength (Nkoe, 2023:24; Chimucheka, 2013:783).

When taking decisions, the ownership and workers must carefully monitor and diagnose every one of these five forces along with their combined impact because they can all have an effects on the long earnings of the firm. According to Nkoe (2023:24), a business person ought not think there is no competition for a good or service that they provide. It is stated that the formulation of tactics to combat competition requires a thorough study and comprehension of rivals.

## 2.7.8. FREE STATE PROVINCIAL GOVERNMENT SMME INTERVENTION

The academic research highlights the Free State government's approach to tackling the challenges faced by Small, Medium, and Micro Enterprises (SMMEs) in the region. The primary focus is on providing financial assistance and facilitating market access through government procurement processes (Nieuwenhuizen, 2019: 666-677). Financial assistance provided by the Free State Provincial Government through the FDC is illustrated in Table 1, showcasing the support given to enterprises in the Province during the past three financial years.

<b>SECTOR</b>	<b>2016/2017</b>	<b>2017/2018</b>	<b>2018/2019</b>
<b>Petro-Chemical</b>		<b>505,000</b>	<b>4, 500, 000</b>
<b>Mineral Beneficiation</b>		<b>150,000</b>	
<b>Tourism</b>	<b>4,217,685</b>	<b>3,675,500</b>	<b>2,005,746</b>
<b>Manufacturing</b>	<b>5,845,400</b>	<b>1,105,000</b>	<b>36,164,441</b>
<b>Retail &amp;Service</b>	<b>8,850,859</b>	<b>5,793,073</b>	<b>75,062,130</b>
<b>Construction</b>	<b>33,557,669</b>	<b>28,885,352</b>	<b>1,100,000</b>
<b>Franchise</b>			<b>1 100 000</b>
<b>Agro-processing</b>			<b>40 000</b>
<b>Total</b>	<b>52,471,613</b>	<b>40,113,925</b>	<b>118,872,317</b>

**Table 7: Loans Approved by FDC**

Source: FDC, 2019.

From the provided table, it is apparent that the Provincial Government gave precedence to fostering the growth of SMMEs through the provision of financial support. While the funding encountered a decrease of 31% in 2016/2017 in comparison to the preceding year (2017/2018), it subsequently recovered with a significant rise of 66% in the following year, 2018/2019.

### **2.7.8.1 Covid-19 Pandemic**

Big and small enterprises alike have been impacted by the COVID-19 epidemic, which began to spread over the world in March 2020 and started in South Africa. The COVID-19 pandemic has caused significant losses in the W&R sector, raising concerns about uncertainty and shifting expectations and supply for skills. All facets of the economy were impacted by the COVID-19 epidemic, which drastically changed how businesses are run. The effects of COVID-19 include a decrease in revenue, a slowdown in company activity, a rise in e-commerce demand, and a larger danger to the health and safety of partners, employees, employers, and customers. In order to prevent employment losses, reskilling and retraining must be prioritised. Therefore, according to the W&R SETA Strategic Plan (2020:25), the strategic priority skill areas are safety, health, environmental quality, and quality (SHEQ), food safety, product knowledge, and skills programmes for young people without jobs. They also include supporting vulnerable segments of the economy, such as SMMEs, informal traders, cooperatives, NGOs, and youth.

An Economic Reconstructive and Recovery Plan was implemented, concentrating on various economic sectors, to solve the consequences of the COVID-19 pandemic lockdown and its ongoing effects. It is mandatory for the SETA to participate in the execution of the ERRP skills plan. SETA explains the consequences for skills and how the post-school education and training system, in conjunction with other important partners, will make sure that the skills needed to implement the ERRP are accessible. The application of the SMME and Entrepreneurship

Strategy will take into consideration the priorities set in the ERRP skills strategy (W&R, 2020:25).

### **2.7.8.2 Skills Strategy for Economic Reconstruction and Recovery Plan**

As part of its response to the catastrophic effects of the COVID-19 global health pandemic on the economy and its implications on worsening present levels of unemployment, poverty, and inequality, the government has devised an economic reconstruction and



recovery plan, or ERRP. The skills strategy was created in reaction to the ERRP with the intention of determining how the ERRP will affect skills. The skills strategy also describes how the post-secondary education and training system and other important stakeholders will guarantee that the skills needed to carry out the plan are accessible (DHET, 2021).

### **2.7.8.3 National Skills Development Plan (NSDP)**

The National Skills Development Plan (NSDP) was created to guarantee that South Africa's labour force possesses appropriate, superior skills that will contribute to economic expansion, job creation, and social advancement by enhancing the fundamental and vocational skills taught in schools (DHET, 2019). "An Educated, Skilled and Capable Workforce for South Africa" is the goal stated in the NSDP. The NSDP's goal is to guarantee that South Africa has high-quality, relevant, and sufficient skills that support social development, job creation, and economic expansion (NSDP, 2019). "Skills development support for entrepreneurship and cooperative development" is the main objective of NSDP outcome 6.

### **2.7.9 CHAPTER SUMMARY**

The objective of this chapter is to investigate the difficulties for survival and expansion, and the contribution of SMMEs in advancing economic growth and resolving social concerns within an environment where both the government and large businesses seem to be making inadequate efforts. Drawing from the analysis conducted, the study highlights the following three principal discoveries:

Firstly, SMMEs have a significant impact on stimulating economic growth by driving community development. The literature suggests that SMMEs, with their diverse nature ranging from street vendors to medium-sized firms, are capable of stimulating the most fundamental form of commerce in society. Additionally, they serve as an entry point for business and self-sustainability, and they provide a platform for entrepreneurship and innovation, especially for vulnerable groups. The government can combat poverty by providing support to SMMEs, which should be recognised as an integral part of the

national economy. By fostering entrepreneurship, job creation can be stimulated, leading to a positive effect on the local and national economies of South Africa.

Secondly, SMMEs are known for their product innovation, which is linked to the characteristics of entrepreneurship. They have the potential to grow into large businesses and provide an additional set of benefits to the South African economy. Additionally, SMMEs, which are widely distributed in both rural and urban communities, provide a means for wealth creation across the country. Unlike large businesses that are mainly located in urban industrial areas, SMMEs transfer technology from urban areas to rural communities. SMMEs have a direct relationship with the local community and can be more effective than the government in addressing public needs. It is important for SMMEs to rely on the community to identify potential market gaps to stimulate demand and further drive economic development.

Thirdly, SMMEs in South Africa are not just economic agents, but they also play a critical role in social transformation. Beyond their economic contributions, they are designed to address social, political, and economic challenges such as sustainable economic development, job creation, and community upliftment. SMMEs are at the centre of efforts to address socio-economic challenges created by the legacies of apartheid, according to various legislation and policy measures such as Growth, Employment, and Redistribution (GEAR) and the BEE Act. SMMEs are expected to lead towards economic, structural, and political transformation in the country. As such, a fair assessment of SMME contributions to development should also account for their soft contributions to creating social equity in the country.

In summary, this study has highlighted the negative practices of large businesses that exacerbate social challenges and the minimal efforts by the government to address these issues. On the other hand, SMMEs are making significant contributions to economic growth and community development. SMMEs not only foster economic growth but also help build social and political equity in the country.

## **CHAPTER 3**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

The research problem and objectives outlined in Chapter 1 serve as the foundation for the research design deliberations elaborated upon in this chapter. Various aspects of research design theory will be taken into account and expounded upon here. Care has been taken to ensure that the design principles presented in this chapter align with the specific research requirements identified in Chapters 1 and 2.

#### **3.2 Research Methodology**

Researchers employ a research methodology as a means of addressing the objectives, coming to a conclusion, and solving the research problem. When performing research, researchers employ methodologies to gather data (Pandey & Pandey, 2021); (Van Zyl, 2014). The research design that has been adopted for this study was a quantitative mono-method whereby a questionnaire was used as a singular data collection technique (Saunders et al., 2019:540). Sukamolson, (2007) cited by Apuke (2017:42) states that quantitative studies can entail using clinical sampling strategies with a designed questionnaire to ascertain the degree of a given population's traits via the utilisation of statistical strategies.

The study employed an open and closed-ended questionnaire to collect data.

#### **3.3 Pragmatism Research Paradigm**

The pragmatic paradigm emerged from the goal of concentrating resources on using inquiry to find practical solutions to real-world issues (Hothersall, 2019). It mainly depends on the principles of contemporary science, such as the experimental method serving as a model for how people solve problems. According to pragmatism, one must have experience in order to give an event significance (Kaushik & Walsh, 2019). Hence, rather

than depending solely on unchanging truths, pragmatic research seeks to understand the world through the lens of human experience (Allemang et al., 2021).

### **3.4 Study Technique**

According to Verhoeven and Perfetti (2022:150-162); Perfetti (2017:145-174), study technique refers to a process of doing research. The quantitative and qualitative procedures are the two most popular research methodologies.

#### **3.4.1 Quantitative Approach**

Quantitative research is defined as "studies in which the data concerned can be analysed in terms of numbers that can be quantified or summarised" by Nooraie (2020); McCusker and Gunaydin (2014:2); Creswell (2014:4), defines quantitative research as a method for evaluating numerical data through statistical techniques by examining the relationship between variables that can be measured, usually on tools, in order to verify an objective hypothesis. "Quantitative research typically tries to measure variables numerically," agree Leedy and Ormrod (2015:95); McCombes, (2023).

#### **3.4.2 Qualitative Approach**

In qualitative research, non-numerical data (such as text, audio, or video) are gathered and analyzed to better comprehend ideas, thoughts, or impressions. It is employed to get a thorough understanding of an issue or to come up with fresh research ideas. To do statistical analysis, it requires obtaining and assessing numerical data (Base and Research, 2021:4).

Qualitative research, according to Nooraie (2020) ;(Flick, 2018), starts with people's expressions and actions in their local contexts and analyses particular examples in their temporal and local distinctiveness. The goal of the qualitative research approach is to learn about the experiences of the subjects of the study.

In the words of Duque-Palramo (2019), one significant feature of qualitative research is that respondents find less difficult to participate efficiently, bridging gaps among professional practice and scientific evidence, due to the close connection that is established between the researcher and the participants.

The researcher employed the quantitative strategy approach, making use of descriptive statistics to analyse the results.

### **3.5 Study Plan**

To enhance the understanding of the issue, the research utilises quantitative methodologies, as this approach is recognized for effectiveness in exploration. The study design serves as a framework, outlining the pursued method or objectives that need to be accomplished throughout the research endeavour, and it holds vital significance in every investigative undertaking (Moipolai, 2022; Thomas 2017:104-105). This method encompass the essential processes that must be executed in any scientific inquiry, as they contribute to the impartiality of the research. It is also noteworthy that the methodologies employed can impact the calibre of the study's outcomes (Nkoe, 2023).

### **3.6 Population**

The compilation of individuals eligible for sample selection is referred to as the sampling frame. This compilation provides a comprehensive roster of the entire demographic (Adade et al., 2022; Abdulai and Owusu-Ansah, 2014:215). The target demographic encompasses quantity surveyors, engineers, architects, skilled and semi-skilled laborers, business proprietors, SMME contractors, and construction managers active in the building, civil, and mechanical sectors within South Africa's Free State province. The sample is composed of engineering contractors and consultants.

### **3.7 Target Population**

Within this study, the term "institutions with distinctive characteristics" pertains to entire groups of individuals in the ongoing context. The focal population of interest encompasses Small, Medium, and Micro Enterprises (SMMEs) operating within the engineering domain of the Free State province. Given the need to collect primary data directly from participants, the study targets specific groups, including construction, mechanical, and civil engineers or technicians; business proprietors; and laborers engaged in these three engineering categories of work (McCombes, 2023).

### **3.8 Sampling Methods**

Obtaining information from every member of a group of people that are being surveyed in the study is rarely possible. Instead, select a sample. The sample is the actual population that will be involved in the study. If the researcher wants to draw conclusions that are significant from the research, they will need to give serious thought to how they will select a sample that is representative of the entire group. This is what we call a sampling technique (McCombes, 2023).

Considering to the large number of small and medium-sized enterprises (SMMEs) in South Africa, this study chose to select participants using the probability sampling technique in order to balance the factors affecting SMMEs. According to Nikolopoulou (2023), Using probability sampling, researcher may select a sample, or a subset of the population, at random for a research. Any study component needs to have an equal chance of being chosen for it to be considered random. Usually, a drawing-style random selection procedure is used to accomplish this. Below are the possible sampling techniques that can be suitable for the study. However, probability sampling technique remains the drive for the study sampling.

### **3.8.1 Probability vs Non-Probability Sampling Technique**

Using probability sampling, which selects at random, you can draw robust statistical conclusions about the entire group (McCombes, 2023). Non-probability sampling makes data collection easier by selecting participants non-randomly based on convenience or other factors (McCombes, 2023).

### **3.8.2 Stratified Sampling**

A population is divided into homogeneous subpopulations called strata (plural of stratum) depending on particular features (e.g., race, gender identity, location, etc.) in a stratified sample. Every person in the population under study ought to belong to precisely one strata. In order to estimate statistical measures for each sub-population, each stratum is then sampled using a different probability sampling technique, such as cluster sampling or simple random sampling (Thomas, 2023).

### **3.8.3 Simple Random Sample**

A simple random sample is a randomly selected subset of a population. In this sampling method, each member of the population has an exactly equal chance of being selected. This method is the most straightforward of all the probability sampling methods, since it only involves a single random selection and requires little advance knowledge about the population (Thomas, 2023).

## **3.9 Experiment Volume**

This study encompasses individuals who experience direct effects from employment, unemployment, performance, and income generation within the SMME engineering sector. A combined total of 50 workers involved in building construction, mechanical engineering, and civil engineering, respectively, will be recruited to partake in the data collection questionnaire, encompassing a total number of 30 professionals and; in

addition with 10 from building, 10 from mechanical, and 10 from civil engineering disciplines, along with 30 business owners within the engineering sector, and 20 clients.

### **3.10 Data Collection**

As indicated by Meireles et al., (2021); Albuquerque, Ramos, de Lucena, and Alencar (2014:15–37), the selection of an appropriate research methodology holds significant importance as it dictates the acquisition of accurate data through suitable instruments. The researcher will employ structured questionnaires, existing literature, and observation. It is essential to underline that each specific approach to data collection corresponds to distinct evaluation and presentation techniques. This process will be aligned with the study objectives, as it plays a role in determining the sampling unit (Lehdonvirta et al., 2021).

### **3.11 Sample Size**

In a research investigation, sampling involves the process of selecting representative groups from Small, Medium, and Micro Enterprises (SMMEs) in the building, mechanical, and civil engineering sectors for the study. Utilising a sample offers the advantage of being more cost-effective and feasible compared to collecting data from the entire engineering industry randomly. However, there is a possibility that the chosen sample might not comprehensively mirror all attitudes, characteristics, issues, or perspectives of the participants (Cho, Bonn, Giunipero, and Jaggi, 2021:102–781). The objective is to encompass a diverse range of SMMEs within the engineering industry to analyse and evaluate the current state of obstacles and challenges faced by these enterprises in the Free State province. The aim is to involve a total of one hundred and thirty (130) participants, comprising of fifty (50) employees from the building construction, mechanical engineering, and civil engineering; thirty (30) SMME business owners, and ten (10) engineers; each 10 from the building construction, 10 from mechanical engineering, and 10 from civil engineering, along with twenty (20) clients, who constitute the population for this study (Thomas, 2023).



### **3.12 Area or Cluster Sampling**

This method of sampling involves the segmentation of a large population into distributed groups spanning a wide geographical area. As Aggarwal, Dhaliwal, and Nobi (2019:284-294) state, if there is a lack of observable subsequent statistical fluctuations and no valid reason to disregard this trend, employing a generic sampling technique becomes appropriate. Consequently, the current study employs the stratified random approach since there is no indication that the limitations and difficulties encountered by SMME contractors differ (Thomas, 2023).

### **3.13 Data Instruments**

The questionnaire data collection instrument was developed and subsequently utilized for procuring the necessary data for the research investigation (Kaliyadan & Kulkarni, 2019).

### **3.14 Survey and Questionnaire**

Qualitative surveys utilising open-ended questions yield comprehensive written or typed responses, often in the form of extended narratives. These questions are designed to elicit opinions, personal anecdotes, or stories, effectively serving as tools to identify initial trends or issues that will be subject to deeper exploration during the research process. Surveys frequently serve as valuable precursors to interviews or focus group discussions. Moreover, surveys can be employed iteratively throughout the research, allowing for adjustments and modifications to capture fresh data. Similar use of open-ended questioning can be observed in structured interviews. Within quantitative surveys, quantitative queries are commonly integrated to gather information about characteristics such as age, nationality, ethnicity, and gender (Ramabitsa 2022:37).

### **3.15 Structured Survey and Questionnaire**

Suggestively, Ndomba, Laisser, Kidenya, Kohi, Mwanga, and Mshana (2021:1-6), advocate for the pre-testing of questionnaires on a limited sample during an initial study. In light of this, a pilot study will be conducted to evaluate the questionnaires' reliability and uphold their authenticity. Following the reference to Ndomba et al. (2021), an initial version of the questionnaire will be solicited in order to unearth any latent imperfections or impediments that the draft questionnaire might contain. For the pilot investigation, three (3) entrepreneurs or business owners, along with three (3) engineers, will participate. These testers will scrutinise aspects such as linguistic errors and the time required to complete a single questionnaire. Additionally, they will provide recommendations for enhancing the draft's clarity and simplicity (Ndomba et al., 2021).

### **3.16 Data Analysis**

Due to the researcher's convenience, Excel assessment of responses was employed for data analysis. This approach also aided in generating tables, pie charts, bar graphs, and any visual illustrations necessary for the research. As a result, the survey questionnaire findings were interpreted by exploring the interconnections among the variables using descriptive statistics (Field, 2024).

### **3.17 Validity and Reliability**

#### **3.17.1 Reliability**

Khan and Adil, (Ramabitsa, 2022:41-42; 2013:95-112), dependability is characterised as the degree toward which a scale generates coherent findings when measured repeatedly. Questions are meant to elicit coherence and dependability from original data. All challenges to reliability will be assessed by taking into account respondent or participant mistake, subject or participant bias (Gunter 2021:51-52; Lozano, 2015:32-44).

### **3.17.2 Validity**

When the discoveries are truly around what things seem to be for, this is referred to as validity (Ramabitsa, 2022:40-41; Lewis, Templeton and Byrd 2014:388-400). Great attention will be taken to ensure that the findings represent the realities of small, medium and micro enterprises in the engineering sector.

### **3.18 Ethical Consideration**

The researcher in question has submitted a declaration form affirming that the content presented in this work is exclusively their own, excluding the secondary sources duly referenced in the bibliography. Additionally, a consent letter has been prepared and will be employed to request interviews with contractors/entrepreneurs, minors if necessary, employees encompassing both skilled and semi-skilled laborers, engineers, and consultants. These consent documents serve as mechanisms to address the subsequent issues:

- Ensuring participants' anonymity;
- Safeguarding business data and information;
- Preserving participants' voluntary engagement or non-engagement in the study.

Yigrem (2020:51), defines supplementary data as “already published data collected for purposes other than the specific research at hand.” Hence, it become of paramount importance to acknowledge contributors of secondary data fully and correctly in the reference list. For this proposal, the evaluation of pre-existing materials, including journal articles, treatises, newspaper articles, unpublished research papers, publications, the internet, and conference papers, yields the secondary data.

### 3.19 CHAPTER SUMMARY

Despite flourishing amidst significant pressures and grappling with a multitude of limitations inherent to both business operations and the engineering sector, it's unquestionable that small, medium, and micro enterprises (SMMEs) contribute a substantial fraction to the nation's Gross National Product (GNP) (Eze & Lose, 2023). Moreover, their role is indispensable for promoting economic advancement and fostering social equity in the marginalised regions of the Free State province. Notably, SMMEs have embraced the responsibility of generating employment, combating crime, and addressing poverty within disadvantaged communities (STATS SA 2021b).

Furthermore, it's worth highlighting that SMMEs in the Free State province confront notable barriers and challenges, particularly within the engineering industry. Previous research has identified several bottlenecks and regulatory obstacles imposed by government-biased policies and industry oversight bodies like CIDB and NHBRC in the context of government tender allocations. The government's failure to effectively combat industry corruption and prosecute wrongdoers for unethical business practices has been noted as well (SEDA, 2020). Additionally, insufficient financial support and inadequate industry skills training from the government have compounded the challenges.

These discriminatory policy measures and behaviours have placed burgeoning engineering SMMEs under considerable strain, impeding their capacity for equitable competition, meaningful industry participation, and sustainable economic growth.

## **CHAPTER 4**

### **PRESENTATION OF RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents the study's outcomes, building upon the methodology discussed in Chapter 3. The questionnaire responses relevant to the research objectives are closely examined and presented herein using descriptive statistics.

#### **4.2 Demographic detail of SMMES**

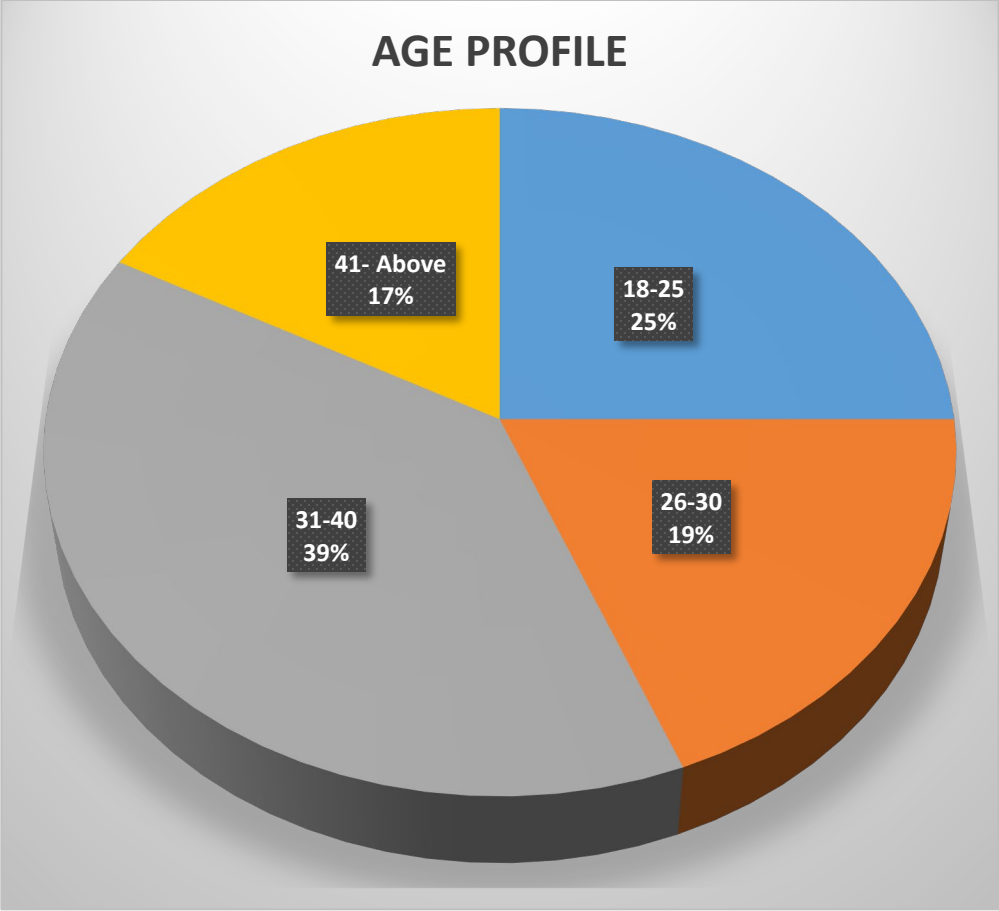
The research survey was administered to 130 participants selected from a total pool of 500 individuals representing various sectors within construction, including building, mechanical, and civil construction. This cohort encompassed 10 construction building engineers and technicians, 10 mechanical engineers and technicians, and 10 civil construction engineers and technicians. Additionally, there were 30 business owners within the engineering domain and 20 clients associated with the engineering sector. The aggregate responses totalled 100, encompassing all the aforementioned categories, which denotes a participation rate of 76%. It's noteworthy that not all questions garnered an identical number of responses. The forthcoming sections of this analysis will expound upon the distribution of respondents among SMME proprietors, engineers and technicians, clients, and engineering staff.

The accumulated responses were evaluated using a Likert rating scale, as depicted in Table 4. The study underscored the challenges that SMME firms confront, contingent upon their operational methods and geographical placement. These challenges were categorised according to the classifications provided by the Department of Trade and Industry (DTI).

The demographic makeup of the surveyed sample encompassed a variety of fields within the engineering sector's SMME landscape.

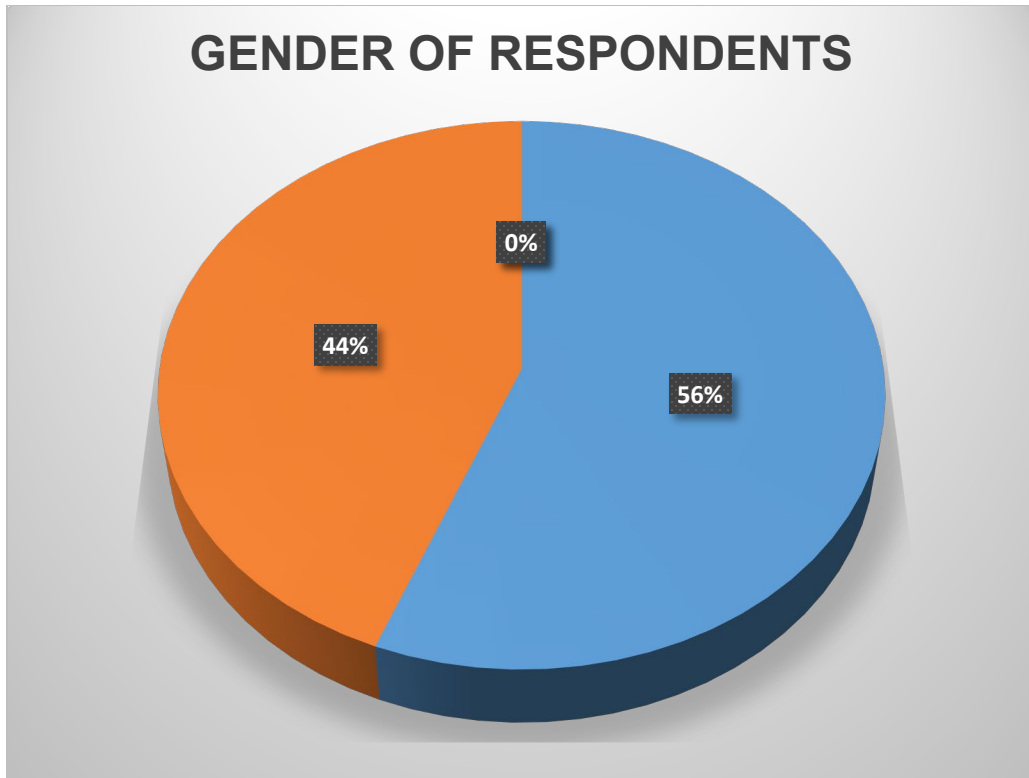
<b>Response</b>	<b>Classification</b>	<b>Description</b>
<b>Strongly Disagree</b>	1	The participant has never encountered this situation and holds a strong opposing viewpoint.
<b>Agree</b>	2	The participant has encountered this situation on rare occasions and somewhat concurs.
<b>Neutral/ Indifferent</b>	3	The participant maintains a neutral stance and has experienced this with a neutral or indifferent attitude.
<b>Agree</b>	4	The respondent acknowledges that they have encountered this situation quite frequently and agrees.
<b>Strongly Agree</b>	5	The participant has encountered this situation very often.

**Table 8: Likert Scale**



**Figure 5: Age Composition of SMME Participants**

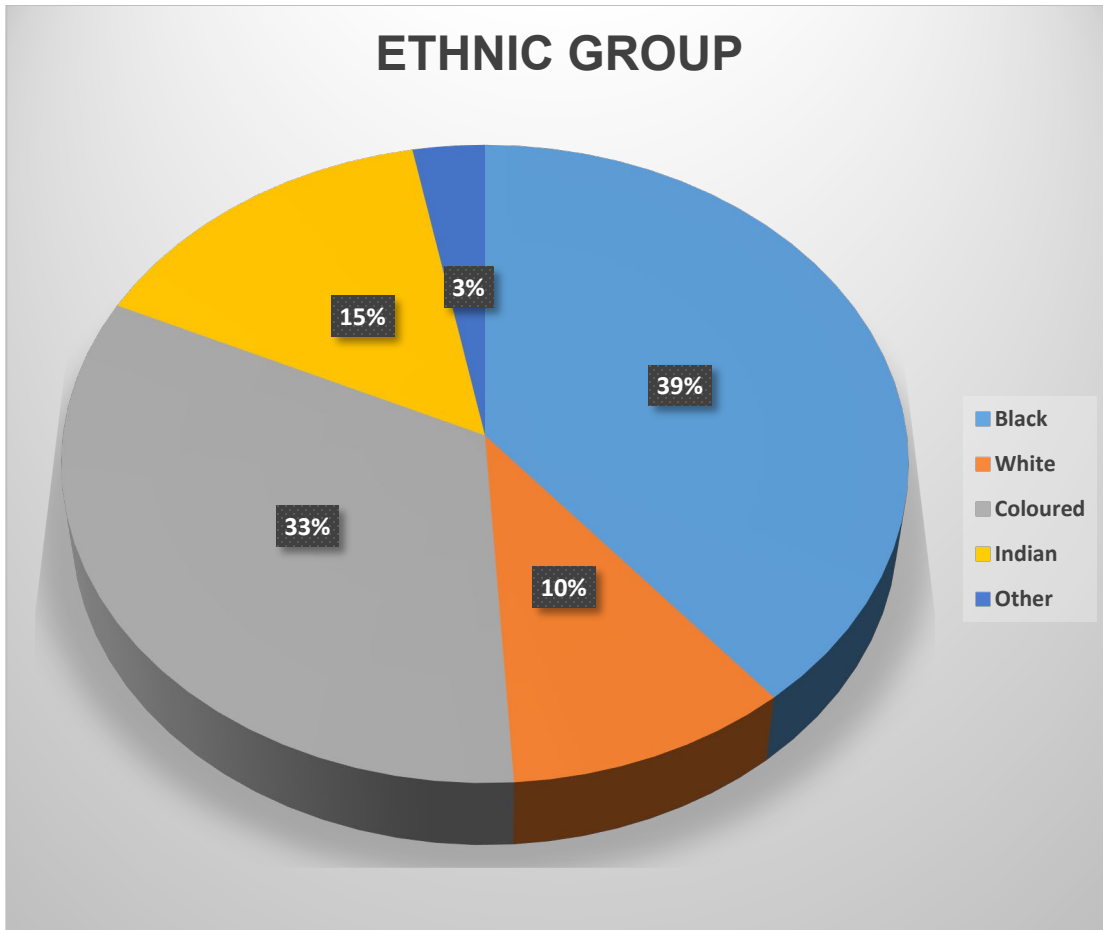
**Figure 5** presents the age breakdown of the SMME respondents, with the highest proportion (33.87%) falling within the 41 to 50 age bracket. Respondents aged 51 to 60 comprised 27.42%, those aged 61 to 70 constituted 19.35%, those aged 31 to 40 accounted for 17.74%, and the smallest proportion (1.61%) belonged to the 20 to 30 age group. This data highlights a significant generational divide within the SMME engineering consulting sector, distinguishing the younger and more experienced employees.



**Figure 6: Gender Composition of SMME Participants**

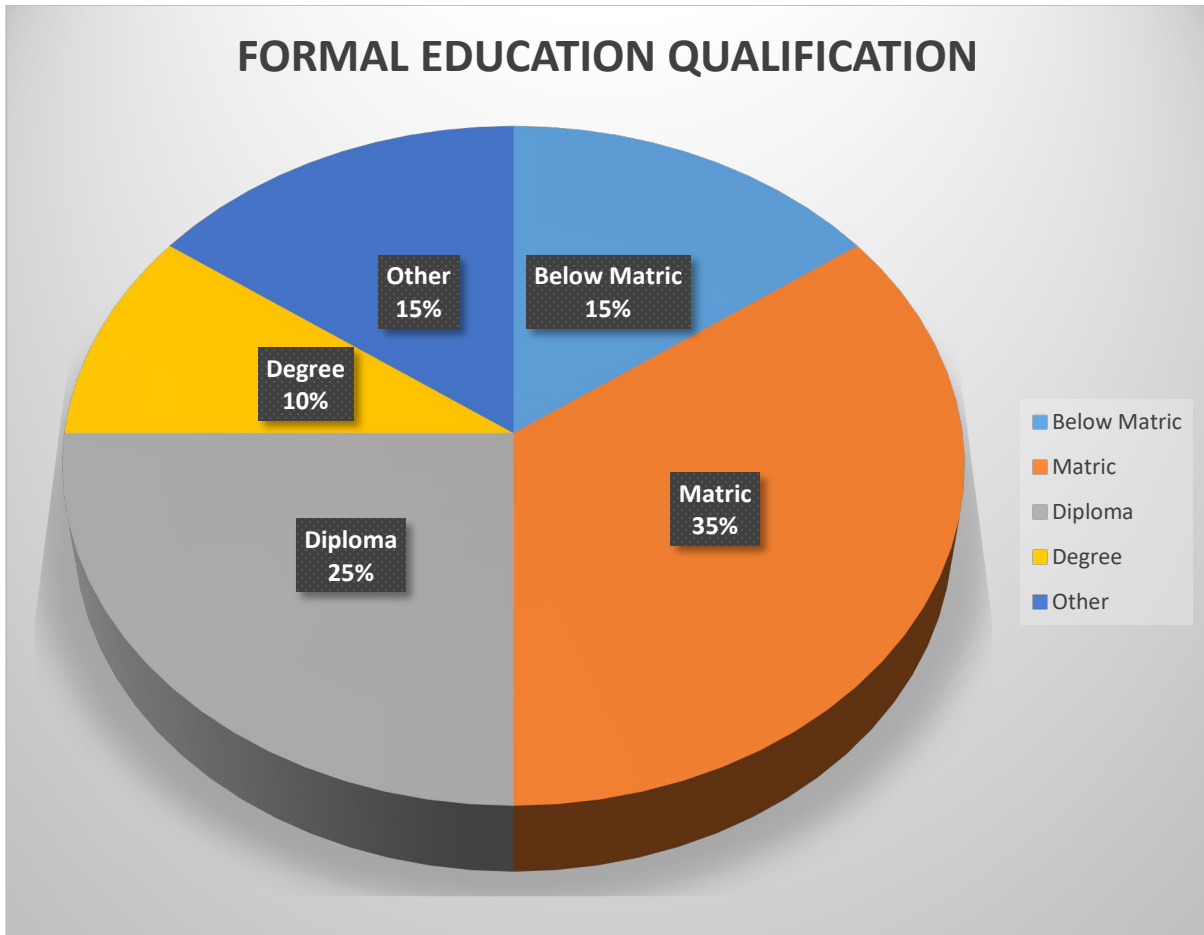
**Figure 6** presents the gender distribution of the SMME participants. Of the respondents, 56% identified as male and 44% as female. There were no participants who identified as "others," and likewise, no respondents indicated a preference not to disclose their gender. This distribution indicates a male-dominated presence within the engineering industry.





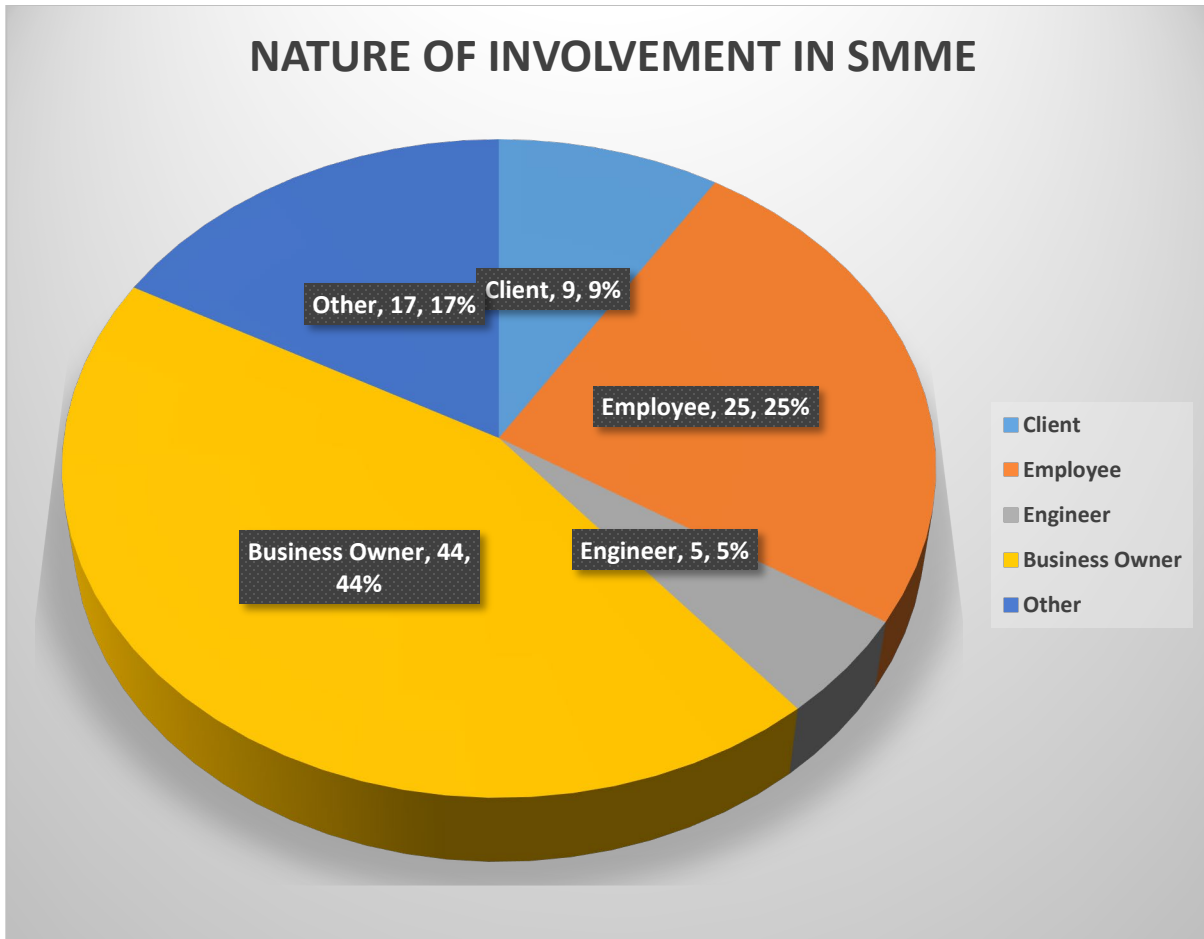
**Figure 7: Ethnic diversity among SMME owner respondents**

The data depicted in **Figure 7** reveals the distribution of racial participation among the respondents. Among the surveyed individuals, 39% identified as Black, 33% as Coloured, 15% as Indian, 10% as White, and 3% identified as Other. This data highlights a diverse representation across various racial backgrounds within the respondent pool.



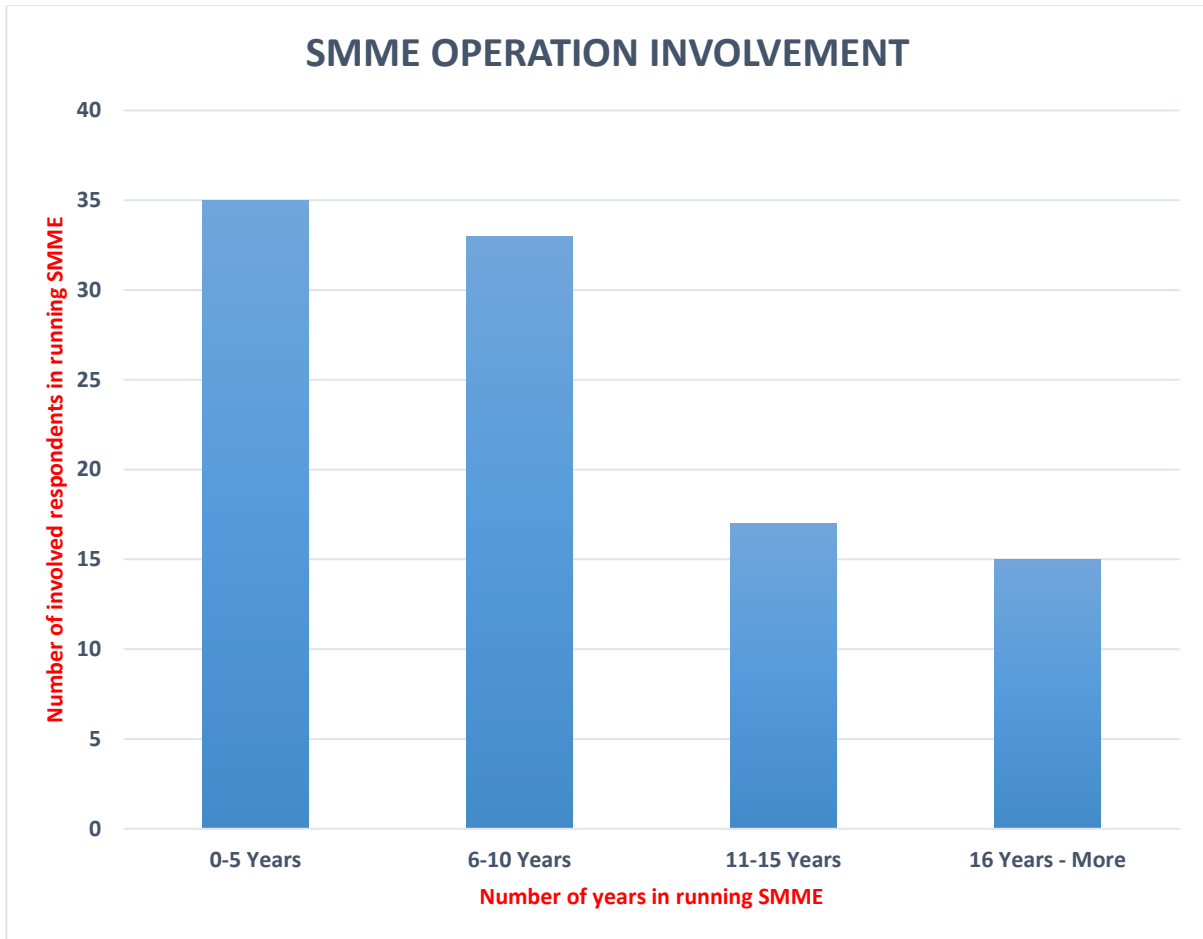
**Figure 8: Illustrates the most advanced level of formal education achieved by the SMME participants.**

Referring to **Figure 8**, the distribution of the highest formal educational attainment among the respondents is as follows: 15% (15) possessed post-graduate degrees, 10% (10) held bachelor's degrees, 25% (25) had obtained diplomas, 35% (35) possessed matriculation as their highest level of education, and 15% (15) had received formal education below matriculation. These figures indicate that a total of 50 respondents had tertiary qualifications. Conversely, a significant majority of SMME respondents, comprising two-thirds, had completed education only up to senior levels, while one-third possessed qualifications below matriculation.



**Figure 9: Illustrates the extent of participation among the respondents within SMME firms**

The data presented in **Figure 9** unveils the nature and degree of involvement exhibited by the respondents within SMME firms. Among the surveyed individuals, 44% (44) identified as business owners, 25% (25) as employees, and 17% (17) were classified as other roles. Furthermore, 9% (9) of respondents identified as clients, while an equivalent proportion of 9% (9) was also attributed to clients. These findings signify a diverse array of roles assumed by respondents within SMME establishments.



**Figure 10: Depicts a number of years the respondent have been exposed to in the running of the SMME firm.**

**Figure 10** shows data analysis of the duration for which respondents have been engaged in managing their respective SMME firms is depicted in terms of distinct time intervals: 0 to 5 years, 6 to 10 years, 11 to 15 years, and 16 or more years. This data reflects the diverse range of experiences among participants in overseeing their SMME enterprises over the years.



**Figure 11: Illustrates the role held by the participant within the SMME establishment.**

**Figure 11** gives the analysis of the management positions held by SMME owners within their respective firms is revealed through data that indicates varying levels of experience. Among the respondents, 55% (55) possessed 0 to 5 years of experience in their roles, 20% (20) had 6 to 10 years of experience, 15% (15) had 11 to 15 years of experience, while 5% (5) of respondents each had 16 to 20 years of experience and 21 or more years of experience with only 5% (5) of qualifying respondents. These findings showcase a diverse spectrum of experience levels among SMME owners in their management roles within the firms.

## **Conclusion**

The research centred on examining the barriers that impede the advancement of Small, Medium, and Micro Enterprises (SMMEs) within the civil engineering and wider engineering sector. Through the study, six predominant elements surfaced as primary hindrances: comprehending larger economic patterns, insufficient capital and cash flow, establishing a customer base without established renown, heightening brand visibility, business marketing, and workforce challenges. Intriguingly, certain of these obstacles were not specific to South Africa but were widespread in Sub-Saharan Africa, Europe, and Asia (EU, 2019).

## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

Chapter 4 of the research paper included the presentation and discussion of the research findings. This section will now offer an overview of the conclusions drawn from the study's investigation into the challenges encountered by small, medium, and micro enterprises in civil engineering projects at selected construction sites in the Free State. Chapter 1 (Section 1.4) of the study delineated one main aim and two sub-objectives. The ensuing sections in this paper revisit these objectives and showcase their discussions thereof.

#### **Objective 1: Identify impact of broader economic trends on the operations of SMMEs in the civil engineering sector in the Free State, South Africa**

Through the conducted research, several institutions have been identified, namely the Small Enterprise Development Agency (SEDA), the Construction Industry Development Board (CIDB), the Department of Trade and Industry (DTI), and the Free State Development Corporation (FDC). These establishments—CIDB, DTI, FDC, and SEDA—have been acknowledged as more organised entities engaged in delivering services for business development, aiding in business registration, facilitating financial assistance, offering business advice, making referrals, as well as overseeing, supporting, and nurturing Small, Medium, and Micro Enterprises (SMMEs). Moreover, the government has instituted various initiatives like the Presidential Business Fund on National Strategy (PBFNS) (2022) to bolster growth, sustainability, and entrepreneurship promotion among SMMEs. Furthermore, private sector companies have also heeded the call for private sector involvement in fostering small business development.

Additionally, conducting thorough market research and understanding customer needs are crucial for any engineering SMME. By engaging with potential customers and incorporating their feedback, SMMEs can develop products and services that are better

aligned with market demands, reducing the risk of failure due to lack of demand (Sibiya et al., 2023).

**Objective 2: Identify causes for lack of capital and cash flow into SMME civil engineering ventures.**

This objective entails proposing remedies to address the recognised constraints and challenges confronted by small and medium-sized micro-businesses within the engineering sector of the Free State Province. The solutions aim to tackle various issues, including restricted access to financing, insufficient skills and knowledge, intense market competition, limited market access, and insufficient resource support from the government. By outlining strategies to alleviate these challenges, the research aims to offer viable pathways for overcoming these limitations and enhancing the prospects for growth and sustainability among engineering businesses in the region.

The small, medium, and micro enterprises (SMMEs) in the engineering sector often face various challenges that can lead to failures. However, implementing effective mitigating mechanisms can significantly improve their chances of success.

To mitigate this, governments and financial institutions should create specialised funding programs tailored to the engineering sector. These initiatives could offer low-interest loans, grants, or venture capital to help SMMEs meet their financial requirements (ECDPM, 2023).

**Other Issues**

**Business Incubators and Support Programs**

Establishing business incubators and support programs can provide essential resources and mentorship to engineering SMMEs. These initiatives can offer guidance on business planning, marketing, technology adoption, and financial management, thus increasing their chances of survival and growth (Zondo & Zhou, 2023).



## **Technology Adoption and Innovation**

Encouraging engineering SMMEs to embrace technology and innovation can give them a competitive edge in the market. Governments and industry associations should provide support for research and development initiatives, allowing SMMEs to develop new products or improve existing ones (Ayandibu et al., 2023).

## **Business Networking and Partnerships**

Collaborating with larger firms and forming strategic partnerships can open doors to new opportunities and markets for engineering SMMEs. Networking events, industry conferences, and trade shows can facilitate such partnerships and collaborations (Standard Bank SME Summit, 2023).

## **Training and Skills Development**

Providing training and skills development programs for SMME owners and employees can enhance their technical capabilities and business acumen. This can improve productivity, efficiency, and the overall competitiveness of the enterprise (Mhlongo & Daya, 2023).

## **Access to Government Procurement**

Governments can support engineering SMMEs by allocating a portion of public procurement contracts to these smaller businesses. This policy encourages SMME growth, provides them with steady income, and builds their track record for larger contracts in the future (Mahuwi & Israel, 2023).

## **Streamlined Regulatory Environment**

Simplifying and streamlining the regulatory processes and compliance requirements for engineering SMMEs can reduce administrative burdens and associated costs. This will enable them to focus more on business operations and growth (Buthelezi, 2023).

## **Quality Assurance and Certifications**

Encouraging engineering SMMEs to obtain relevant quality assurance certifications can instil confidence in their clients and improve their credibility in the industry. Governments and industry bodies can assist in the process and provide financial incentives for certifications (Business Tech Africa, 2024).

## **Risk Management and Contingency Planning**

SMMEs should develop comprehensive risk management strategies and contingency plans to address potential challenges and uncertainties. This proactive approach can mitigate the impact of unforeseen events and ensure business continuity (Safiye & Abdulkadir, 2020).

## **Access to Export Markets**

Governments can support engineering SMMEs in exploring export markets by providing information, training, and financial support for market entry. Diversifying revenue streams through exports can reduce dependency on the local market (STATS SA, 2023; SEDA, 2020); (Shamsuddoha, A., Yunus A.M. & Ndubisi, N., 2009).

## **5.2 CHAPTER SUMMARY**

In conclusion, addressing the failures faced by small, medium, and micro engineering sector enterprises requires a multi-faceted approach. Governments, industry associations, and other stakeholders must collaborate to provide financial support, mentorship, skills development, and market access opportunities to enable these enterprises to thrive and contribute to economic growth and development. By implementing these mitigating mechanisms, engineering SMMEs can overcome their challenges and build sustainable businesses in a competitive market environment.

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## APPENDICES

### APPENDIX A: SURVEY QUESTIONNAIRE

#### QUESTIONNAIRE

**Title: Challenges faced by small, medium and micro enterprises in civil engineering projects at selected construction sites in the Free State.**

**The target population are SMMEs in the engineering sector of the Free State province, and the purpose of this study is to investigate the challenges faced by small, medium and micro enterprises in civil engineering projects at selected construction sites in the Free State. Please do not put your name or any mark that may identify you. You must remain anonymous and this is strictly confidential. This is a voluntary involvement and you can withdraw anytime in the middle of the survey**

#### SECTION A. BIOGRAPHY

Please cross the applicable boxes

1. How old are you this year, please use table to indicate your age range?

18 – 25 Years	26-30 Years	31 – 40 Years	41- above
---------------	-------------	---------------	-----------

2. Please indicate your gender

Male	Female	Other	Rather not say
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3. Please indicate your ethnic group

Black	White	Coloured	Indian	Other
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4. What is your involvement in the organisation?

Client	Employee	Engineer	Business owner	Other
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5. If other, please specify

.....

6. How long have you been involved in the running of SMME?

0 - 5 Years	6 - 10 Years	11 - 15 Years	16 Years - more
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7. What is your highest professional qualification?

Below matric	Matric	Diploma	Degree	Other
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8. If other, please specify

.....

9. What is your total experience in management?

0-5	6-10	11-15	16-20	21+
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10. Other – please specify

.....

11. State here, if any, observations you have made [in general] about the failures of SMMEs

1. ....
2. ....
3. ....
4. ....
5. ....

### SECTION B –LIKERT SCALE

Please rank the following statements in the Likert scale below, the scale range is; 1 = strongly disagree, 2 = disagree, 3 = neutral / indifferent, 4 = agree and 5 = strongly agree.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	<b>BROADER ECONOMIC TRENDS OF SMMEs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
1	We are always affected by the by the unpredictable broader economic challenges	1	2	3	4	5
2	The cost of production is always going up but our customers don't afford new prices	1	2	3	4	5
3	We do not resources to buy large quantities and benefit from economies of scale	1	2	3	4	5
4	We are continuously eroding on our profitability because of increasing costs	1	2	3	4	5
5	Our customers can afford the new prices because the product is indispensable	1	2	3	4	5
6	We struggle to meet customer demands because our suppliers are affected too	1	2	3	4	5
7	We keep educating our customers on the economic dynamics so they understand	1	2	3	4	5

	<b>PROS AND CONS OF CUSTOMERS WITHOUT HOUSEHOLD NAMES VERSUS CUSTOMERS WITH HOUSEHOLD NAMES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
8	We have always been able to increase the numbers of customers buying from us	1	2	3	4	5
9	The number of competitors in the market has increased and impacts us negatively	1	2	3	4	5
10	It is very costly to find new customers and we do not have the means to expand	1	2	3	4	5
11	Customers don't like small businesses because they think we are not branded	1	2	3	4	5
12	Using social networks has helped us boast our customer size against competition	1	2	3	4	5
13	The customers are conscious of the brand names and won't stay with us for long	1	2	3	4	5
14	Our focus is on customer retention because it is less costly to keep than to find	1	2	3	4	5
	<b>THE IMPACT OF CAPITAL AND CASHFLOW</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
15	Not enough information in financial management	1	2	3	4	5
16	Not enough help from government lending institutions	1	2	3	4	5
17	Too much red tape by financing institutions	1	2	3	4	5
18	Slow payment processes by government clients	1	2	3	4	5
19	Too many requirements during finance loan application	1	2	3	4	5
20	<b>INCREASING BRAND AWARENESS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
21	We benchmark our customer services against the best to maintain customers	1	2	3	4	5
22	We focus on customer satisfaction as a means of branding our services to compete	1	2	3	4	5
23	We have no one to compete with so branding is not necessary to stay in business	1	2	3	4	5
24	We have a customer follow up service to keep us close to the existing customers	1	2	3	4	5
25	Our customers are fluid enough and prepared to pay more for good service values	1	2	3	4	5
	<b>MARKETING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
26	Not enough means done to market the business	1	2	3	4	5
27	Not clear marketing strategy	1	2	3	4	5
28	We believe in digital marketing to market our business	1	2	3	4	5
29	Our marketing team handles our public relations matters	1	2	3	4	5
30	We have a detailed business website	1	2	3	4	5
	<b>BURNOUT</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
31	Exhaustion due to too much workload	1	2	3	4	5
32	Depression due to working conditions	1	2	3	4	5
33	Having trouble sleeping at night	1	2	3	4	5
34	Depression due to personal issues	1	2	3	4	5
35	No time for non-work-related things	1	2	3	4	5
	<b>WORKFORCE WOES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
36	Lack of organisational support	1	2	3	4	5
37	Poor working conditions	1	2	3	4	5
38	Uncompetitive salaries	1	2	3	4	5
39	Recruitment challenges	1	2	3	4	5
40	Quality of leadership, supervision	1	2	3	4	5



**SECTION C. OPEN-ENDED QUESTIONS**

This section has been added in order to assist with certain valuable information the respondents have that might not have been well covered above. You are requested to provide generously information, within the context of the study that you deem valuable / important. Fact of the matter is that there is indeed a need for SMMEs to be resuscitated in our communities and also, because it is factual that they reduce poverty, create a big deal of jobs and contribute greatly in the country's Gross Domestic Product (GDP).

**REQUEST 1: Please list five [5] things that government should do in order to enable easy access to funding.**

- 1. ....
- 2. ....
- 3. ....
- 4. ....
- 5. ....

**REQUEST 2: Please list five [5] things that SMME owners should do in order to avoid total failure of business in the first three [3] years of establishment.**

- 1. ....
- 2. ....
- 3. ....
- 4. ....
- 5. ....

**REQUEST 3: Please indicate five [5] roles that can be played by South African education system as a way of encouraging entrepreneurship to the youth**

- 1. ....
- 2. ....
- 3. ....
- 4. ....
- 5. ....

**REQUEST 4: Please write down measures the government should put in place to help and accelerate growth of SMMEs conducted by South African citizens**

- 1. ....
- 2. ....
- 3. ....
- 4. ....
- 5. ....

**THANK YOU FOR TAKING PART IN THIS EXERCISE.**



## APPENDIX B: REPORT ON TURN-IT-IN SIMILARITY INDEX

### Dissertation Chapters

ORIGINALITY REPORT

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## **APPENDIX C: ETHICAL CLEARANCE CERTIFICATE**

## APPENDIX D: PERMISSION LETTER FOR DATA COLLECTION

### Free State

Telkom Building  
1st Floor  
Nelson Mandela Road  
Bloemfontein, 9300

Tel: +27 51 411 3820  
Fax: +27 51 444 4235



From: Mr Andrew Setho

To: Cape Peninsula University of Technology  
Faculty: Business and Management Sciences  
Capetown

Date: 07 Septemebr 2022

### To whom it may concern

The purpose of this letter is to grant Andile Yeko, student at the Cape Peninsula University of Technology to conduct research at Small Enterprise Develoment Agency (SEDA). The project titled " CHALLENGES FACED BY SMME IN CIVIL ENGINEERING PROJECTS AT SELECTED CONSTRUCTION SITES IN FREE STATE".

Permission is granted for the primary data collection through questionnaires completed by SMMEs. Seda acknowledges that the results of this research will be used to fulfill the requirements for the master's thesis at the Cape Peninsula University of Technology.

Sincerely,



---

**Mr Andrew Setho**

**Seda Mangaung: Branch Manager**

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