Agriculture, the process of raising life from the soil, provides an insight applicable to all economic endeavours: all things being equal, the quality of inputs will be reflected in the quality of outputs. The fertility of the soil, the weather, the availability of water, and the quality of the seed will all determine how bountiful the crop will be. A difficult environment is likely to produce disappointing yields. However, experience demonstrates that, while many of these conditions are beyond the farmer’s control, a poor environment need not be a fatal constraint. Skill, perseverance, understanding of the environment, and the application of technology in the form of irrigation, fertilisation and choice of crop can produce remarkable results, even where the soil is not promising.

Application of the agricultural metaphor to the national economy sees South Africa looking dry and dusty at present. Optimism about the future in the wake of the political transition has given way to open concerns about failure. Fundamental to this has been the failure to match the political transition with an equivalent economic transition, to lift the millions of poor people out of poverty and to ensure a sustainable economic stake for all. GDP growth is far short of the 7 percent level required to support job creation on a meaningful scale. At least a quarter of the population is unemployed (the number rises to nearly 40 percent if those who have given up looking for work are included). Current trends indicate that as many as half of South Africa’s youth may never have a job. This leaves an alarming proportion of our population frustrated and alienated - and threatens the economic success of the country as a whole.

It is increasingly common cause that unless the trajectory is altered, the prospect of economic desertification looms.

A MEAGER HARVEST?
The challenge before South Africa, then, is to find a new method of cultivation, one that will expand the fruits of the economy exponentially. This will mean understanding the nature of the environment, and the available inputs. How fertile is the soil in which the economy as a whole grows? And how does this impact on those who till it?

In his recent medium term budget policy statement, finance minister Pravin Gordhan spoke quite frankly about the problems ailing South Africa’s economy and the shortcomings of the government’s attempts to deal with them. While there was understandably much emphasis on the state of the global economy, an environmental condition largely outside South Africa’s control, the clear subtext was that South Africa needs to do things differently. Our economy is shedding jobs, and those that are being created are disproportionately in the public sector. Yet the public service wage bill has risen beyond expectations, currently consuming 42 percent of revenue, up from 31 percent just four years ago. Room for manoeuvre is limited.
Smaller firms are the primary drivers of job growth

Rapid and sustained economic growth is critical to stem the tide of job losses. Our prospects of achieving such growth are highly dependent on the economy’s entrepreneurs and businesses. Without a strong business sector and bold entrepreneurs, we have as little chance of prospering as an oak tree in the Karoo.

Meeting this challenge will require an expansion in the number of businesses – tilling virgin soil. By one estimate, to achieve the 5 million jobs that the government has set as its target over the coming decade, South Africa will need to produce around 13 600 new manufacturing businesses alone (in rough terms, the country probably needs around 100 000 new firms to achieve this goal). Indeed, South Africa will need a veritable flowering of entrepreneurial endeavour. At present, this is not happening.

Evidence from the Global Entrepreneurship Monitor shows that 8.9 percent of adult South Africans are involved in what it describes as “early-stage entrepreneurship,” in other words, setting up a business or running a new business. Generally, this percentage tends to be larger for less developed economies, and smaller for more developed ones. South Africa’s rate is fair, comparable with Turkey (8.6%), Pakistan (9.1%), and Mexico (10.5%), but far behind China (14.4%) and Brazil (17.5%). However, when established business ownership is considered, South Africa’s ranking falls precipitously. Established business ownership describes adults who are owner-managers of established businesses of 42 months or older. In South Africa, this applies to just 2.1 percent of the population. Across the entire sample of 83 countries only Mexico scores significantly worse, at 0.4 percent. South Africa is comparable to Romania and Palestine, and it is far outdone by comparator countries such as Argentina (12.4%), Brazil (15.3%), China (13.8%), Columbia (12.2%), and Malaysia (7.9%).

Even economies not noted for their entrepreneurial ethos, owing to statist or “rent-seeking” traditions, such as Russia and Saudi Arabia, do better.

Our efforts to expand the number of small businesses need to be located within an understanding of the nature of businesses that the economy can best support. No two economies have identical sets of advantages. As such, the nature of
economic activities that can profitably and sustainably be conducted will vary from country to country. Investment needs to be appropriately directed. It is also true that within an economy, different businesses will function differently, strive for and achieve different growth ambitions. Some will make a bigger contribution than others – some will aim to expand and create much needed jobs, others will choose, for a variety of sound reasons, to remain small.

The small and medium enterprises (SME) sector is routinely hailed as the indispensable ingredient for resolving South Africa’s economic impasse. SMEs have featured prominently in South Africa’s various economic strategies: from the RDP in 1994, through Gear and Asgisa, to the New Growth Path in 2010. In an October 2011 speech to the South African Chamber of Commerce and Industry, Minister Gordhan noted that: “Small and medium sized firms are critical for overall employment and job creation.… Labour Force data shows that about 70 percent of private employment is in firms with fewer than 50 workers. In addition, smaller firms account for a disproportionate share of gross job creation with almost 80 percent of all new jobs being created in firms with fewer than 50 workers. Addressing the employment challenge facing our country will be difficult without a sustained upward shift in the number of firms operating in the country and the expansion of jobs created in smaller firms.”

That smaller firms are the primary drivers of job growth is a view well supported by evidence from around the world (see SBP Alert, Growing Small Firms, Growing Employment, March 2011). What is less clear, and remains the subject of dispute among business scholars, is why this is so, what concurrent factors might be co-drivers of job growth, and what policy responses and stimuli are most appropriate.

THE SME GROWTH INDEX
SBP’s SME Growth Index is a response to this. Despite acknowledgment of SMEs’ potential as employment generators, they are a poorly understood and inadequately documented sector. Even information on the number of SMEs is unreliable. State efforts to assist the sector have had very limited success. Moreover, partly due to the lack of robust data, the debate around SMEs and their ability to assist in employment growth has become heavily weighted with ideology, assumptions and anecdotes.

A number of international examples demonstrate that organised efforts to support small business to boost their performance can be effective. Brazil’s Sabrae agency is a case in point. But before such measures can be instituted, a clear understanding of the issues, and SMEs’ own articulation of their needs, is essential. So too is a recognition of the diversity of the sector – SMEs operate in different environments, and are owned and managed by people with a wide range of motivations and aspirations.
The SME Growth Index is the first and largest study of its kind to be undertaken in South Africa. It differs from previous studies in breadth, scope and intent. It is based on the experiences and perspectives of a Panel of 500 small businesses, across South Africa’s three major metropolitan areas. It delves into the wide spectrum of factors germane to the operation of a business. It also focuses on drivers behind SME survival and growth. While much of the government’s attention has been on supporting the establishment of new small businesses, the Index emphasises the enormous and sometimes unacknowledged contribution made by established enterprises with the potential to expand, generate wealth and take on additional employees.

In 2011, in the first of a series of annual surveys, the research underpinning the Index gathered over 65 000 data points – the most comprehensive picture yet assembled of the sector.

Importantly, the Index is longitudinal. It will run for an initial period of at least three years. It will establish a set of comparative analytical data at particular points in time, thereby enabling assessment of the impacts of changes in the operating and regulatory environment, identification of patterns in firm growth, and analysis of the types of internal and external variables that differentiate between firms that are creating jobs, and those that are not.

The Index also investigates the growth experiences and aspirations of firms at different points along the age continuum. In several areas, including access to finance, established firms have an advantage over younger firms. The Index tracks and compares the experiences of young firms (those operating between two and five years), established firms (six to twenty years), and mature firms (over twenty years). It looks at their different characteristics and experiences, how they started, how they access markets, how they approach innovation and competition, their access to resources such as skills, capital, finance, the extent and scale of employee growth, and their aspirations for future growth. This comparison by age of business highlights how factors influencing employee growth vary at different stages along the continuum. It also uncovers the extent to which businesses tend to employ more people as they grow older – highlighting the importance of policies to encourage business longevity, rather than focusing exclusively on support for business start-ups.

Above all, the Index aims to support evidence-based policy-making for the SME sector. Our goal is to support the types of policy and practical interventions that will best ensure that South Africa provides the soil in which a strong and durable SME economy can flourish.
THE PANEL

The SME Growth Index Panel consists of a representative panel of 500 firms, each with ten to 49 employees (this definition of ‘SME’ is in line with international norms, enabling comparative assessment across countries). Given the focus on employment generation and growth potential, the Panel is limited to firms that have been operating for at least two years. To enable analysis of firms along the age continuum, we have classified Panel members as young (firms operating for two to five years), established (six to 20 years) and mature (operating for over 20 years).

The firms are concentrated in three core geographical areas, Cape Town, Durban and Johannesburg, each of which has a high concentration of small businesses activity (a small proportion of Panel members are located in the North West and Limpopo). The Index focuses on three economic sectors - business services, manufacturing and tourism. These sectors have high volumes of SME activity, have been prioritised by government as critical economic growth areas, and offer the potential for SME growth.
The SME Growth Index Panel consists of a representative panel of 500 firms, each with ten to 49 employees.

Among the tourism firms, a subgroup of 130 is currently receiving business development support through the Tourism Enterprise Partnership (TEP). These firms, many of which are young according to our age continuum, were selected in order to enable comparisons of performance among firms receiving support, and those that are not. These firms, many of which are young according to our age continuum, were selected in order to enable comparisons of performance among firms receiving support, and those that are not.
Across the Panel, firms show variable longevity. Tourism firms are more likely to be young – over half the TEP-supported tourism firms are under five years old, while 45 percent of non-supported tourism firms are under ten. Some 60 percent of business services panelists are established, while manufacturing firms are for the most part mature – over half have been operating over 20 years.

Closed corporations were the registration model of choice for half of our panelists, while 43 percent are registered as private limited companies. It will be interesting to track changes to registration data over time, given that the Closed Corporation model is no longer available to new businesses.

The large majority of business owners are South African citizens. Two thirds of business owners on the Panel are white, 19 percent are black, 11 percent are Asian, and 5 percent are Coloured. These proportions are broadly comparable to DTI statistics for the SMME sector. The Annual Review of Small Business in South Africa 2005 – 2007 estimates that Black Africans represent about 31 percent of SMME owners in the formal sector. The under-representation of black business owners is of course a product of South Africa’s history – almost half the businesses on the Panel were established before the political transition in 1994.

Well over two thirds of the business owners are men, with women comprising 29 percent of the Panel. This is also comparable to DTI figures, which indicate that women comprise 31 percent of formal sector SMME owners.
Business owners on the Panel are for the most part in the mid to later years of their careers. Only a quarter of business owners are under 40 years old. Almost 60 percent are between 41 and 60, and 17 percent are over 60. The owners of manufacturing firms in particular are in their later years, while TEP-supported business owners tend to be younger than the Panel average.
The large majority of business owners on the Panel have post-school qualifications. Over 40 percent have a university degree, with qualifications spanning a wide range of disciplines, from commerce, to science, arts, and law. Thirty percent have a Diploma or National Certificate, also covering a wide range of disciplines. A quarter of Panellists have not studied further than Matric, and 3 percent did not finish school.

The fact that nearly three quarters of the Panel have completed a tertiary qualification makes them a very well-educated group. However, the wide variety of disciplines studied, and the very loose links between fields of study and current careers in many cases, raises interesting questions in terms of how and why formal education, both academic and vocational, contributes to business success.
3.1 BUSINESS SERVICES
The business services firms on the Panel are concentrated in the IT sector (consulting and services, software development and programming); financial services (including insurance brokers, accounting and tax consultant firms); and advertising, communications and marketing. Other sub-sectors represented in smaller numbers include suppliers of engineering services and equipment; research providers; HR service providers, business support services and legal services.

Sixty percent of firms are established, 30 percent are mature, and 11 percent are young. Seventy percent have BEE accreditation.

The average business services Panellist is a white male, aged between 41 and 50, with a post-graduate university degree. He is most likely to associate risk with opportunity, and to feel positive about prospects for business growth.

The average business services firm has a median turnover of R11 million, 22 permanent staff and four temporary or contract staff, the large majority of whom are skilled. Just over a third of business services have grown their employee numbers in the past year, 44 percent have remained constant, and 20 percent have reduced their staff numbers. Growth over the past five years is even higher – 54 percent have increased staff numbers since 2006. Just over half expect to increase their staff numbers further in 2012.

For business services, the key external vulnerability – aside from market contraction – is change in the regulatory environment. This result is strongly influenced by the impact of regulations under the Financial Advisory and Intermediary Services Act on Panellists in the financial sector. The regulations introduce stringent new examination and accreditation requirements, which are currently being implemented.

3.2 MANUFACTURING
The majority of manufacturers work in plastics or food, steel and metal, and wood manufacturing, printing, and manufacturing for the construction industry. Smaller numbers operate in industries including chemicals, industrial equipment, clothing and textiles, rubber, packaging, sports equipment and pharmaceuticals.

Manufacturing firms have the highest longevity on the Panel. Over half are mature, and 40 percent are established. Only six percent have been operating less than five years. Sixty two percent have BEE accreditation.

The average manufacturing Panellist is a white male, with a Diploma or a Matric. He is most likely to associate risk with uncertainty. The large majority of manufacturing panellists are over 50, and many are past retirement age. Less
than a fifth are under 40. Most plan to retire in the next ten to twenty years – in some cases with very limited prospects for a profitable sale of the business or a succession plan.

The average manufacturing firm has a median turnover of R10 million, and employs 29 permanent employees, and three temporary workers. About half the employees in the average firm are skilled, and half are semi-skilled or unskilled. Just over a third have decreased employee numbers in the past year, while just under a third have increased staff. This is a relatively new pattern – in the past five years 43 percent have grown staff numbers and 31 percent have shrunk. The majority expect to keep employee numbers stable in 2012, 35 percent hope to grow, and 10 percent expect to reduce staff numbers.

Manufacturers were more likely than other Panellists to be reeling from increased input prices, particularly in relation to rising electricity and fuel costs, and the rising cost of imported components. Many also express a distinct lack of confidence in the long-term future of manufacturing, and very limited prospects for entry by new entrepreneurs. This is particularly concerning given the prominence assigned to manufacturing in the New Growth Path. President Jacob Zuma recently stressed the need for “authentic black entrepreneurs who own factories and manufacture textiles, furniture, metal products or whatever the market requires.” The disillusionment evident among manufacturing Panellists appears to raise questions about whether such ambitions are misplaced.

Business services firms are positive about growth prospects, while manufacturers are disillusioned.
Tourism Panellists comprise accommodation providers (including guest houses, B&Bs, backpackers, hotels and lodges), tour operators, and conference venues.

Tourism firms are younger than the sample average. Among tourism firms not receiving business development support, a fifth are young firms, 58 percent are established, and just under a quarter are mature. In contrast over half the TEP supported tourism firms are young, 43 percent are established, and only two percent are mature. Of all the tourism firms, only 42 percent have BEE accreditation.

The average non-supported tourism Panellist is a white male, aged over 50, with a Diploma. He is most likely to associate risk with uncertainty, and to feel negative about prospects for business growth.

Tourism firms have experienced both contraction in the market and increased competition in the past year, limiting their immediate prospects for employment growth.

The average TEP-supported tourism Panellist is a black male or female, aged 30 to 50, with a Diploma. She or he is most likely to associate risk with opportunity, and to feel positive about prospects for business growth. Only 40 percent of TEP-supported firms have BEE accreditation, despite 68 percent of these firms being owned by Black, Coloured and Asian/Indian business people.

The average non-supported tourism firm has a median turnover of R3 million, and employs 17 permanent employees, and two temporary staff. About half the employees are skilled. Most have maintained constant employee numbers in the past year. Seventeen percent have grown, but a quarter have reduced staff numbers. The shrinkage in employee numbers is worse in the past year than in previous years. Between 2006 and 2011, almost 30 percent of tourism firms increased employee numbers, 48 percent remained constant, and 17 percent cut employee numbers. Two thirds expect to keep employee numbers stable in 2012, only a fifth hope to grow, and 10 percent expect to reduce staff numbers.

TEP supported businesses are smaller than the panel average, with a median turnover of R750,000, and employing ten permanent and three temporary staff. Half the TEP-supported firms have maintained constant employee numbers in the past year. Thirty one percent have grown, and 18 percent have reduced staff numbers. Almost half expect to keep employee numbers stable in 2012, and almost half hope to grow.
AVERAGE
TURNOVER

- R3 million  Non-supported Tourism
- R750 000   TEP-support Tourism
- R11 million Business Services
- R10 million Manufacturing

AVERAGE
NUMBER OF
PERMANENT
EMPLOYEES

- 17          Non-supported Tourism
- 10          TEP-support Tourism
- 22          Business Services
- 29          Manufacturing
3.4. HOW DID THE PANELLISTS COME TO BE SMALL BUSINESS OWNERS?

We asked business owners what they had been doing before they started or took over their current business. The career histories that emerged were fairly consistent across sectors. Some 15 percent had been employed in a small business, and 16 percent had owned or co-owned other businesses. Much smaller numbers had been employed in a family business or in the public sector, had no previous business experience, or had worked as freelancers or consultants.

Just under half had been employed in a medium or large business. This indicates that a great many of our Panellists have honed their skills and gained experience in the corporate sector before embarking on their own business ventures. It challenges the conventional wisdom of the entrepreneur as a bright young thing striking out on his or her own. It is, however, consistent with international findings, and indeed, with local research, particularly investigations conducted among successful black business people. There may well be opportunities for the corporate sector to nurture and develop entrepreneurs from within its ranks.
Almost 60% were motivated by pull factors

We asked Panellists what had prompted them to start or buy their current business. Almost 60 percent were motivated by pull factors. Of these, 20 percent had seen an opportunity to exploit, while 12 percent had always wanted to own their own businesses, and had worked toward this. Some 14 percent had achieved success in their chosen careers, and saw an opportunity to go out on their own in that particular field. In the tourism industry in particular, people had been motivated by a passion for the sector, and had opened businesses as a means of moving into the tourism industry. Four percent had taken over the business in which they had previously been employed.

A fifth of Panellists were motivated by situational factors – 11 percent had joined the family business, four percent had owned several small businesses, and five percent were pulled along by circumstances.

A fifth were motivated primarily by push factors – eight percent were tired of the stress of the corporate world, six percent were concerned about job security, or had been retrenched, four percent lacked alternatives, and two percent opened small businesses to relocate to another city.

Overall, the picture that emerges across the Panel is one of opportunity based entrepreneurship. Even among those motivated primarily by push factors, many expressed positive sentiments towards small businesses ownership as a career. This suggests that the viability of a firm is linked to the motivation of the entrepreneur. This is not a novel insight, and has been identified in many local and international studies. It is however an important one – the evidence strongly indicates that small businesses are more likely to survive and thrive when the entrepreneur is motivated by pull factors. This implies the need for educational strategies to go beyond the technicalities of business and management training, into the manner in which education prepares young people to seek opportunities, and – somewhat esoterically – to pursue independence and initiative.
The median turnover of firms in the Panel was R6 million in 2010, while the mean number of permanent employees across the sample is 21. Just over half the firms have increased their turnover in the past year, 17 percent have maintained a constant turnover, and 30 percent have experienced a decline.

Staff numbers have remained constant in 43 percent of businesses in the past year, grown in 31 percent, and declined in a quarter. 2011 appears to have been significantly tougher than previous years — in the past five years, 45 percent of firms grew their staff numbers, 30 percent remained constant, and 22 percent shrank.

Expectations for 2012 are, however, surprisingly positive — while just under half the firms expect to keep employee numbers constant, 42 percent hope to employ more staff, and only 7 percent expect to shed staff.

Growth in staff numbers varies across sectors. Just over a third of business services firms have grown their staff numbers over the past year, as have just under a third of TEP-supported tourism firms and manufacturers. Non-supported tourism firms however have for the most part kept their staff numbers stable, and few have increased their staff size. Just over a third of manufacturers have shed jobs — considerably higher than other sectors on the panel.

Over the past five years, over half the business services firms have increased staff numbers, as have 43 percent of manufacturers and 42 percent of TEP-supported tourism firms. Non-supported tourism firms are again more likely to have remained stable. Just under a third of manufacturers have cut staff in the past five years.
On average, firms that have been in operation longer employ more people.
More established and mature firms, while employing higher numbers of staff, are also more likely to have shed staff over the past year, and less likely to have grown. Of young firms, 39 percent report increasing staff numbers in the past year, against an average of 31 percent for the Panel as a whole.

The pattern over the past five years is somewhat different, however, with older firms as likely to have increased staff numbers as their younger counterparts. Older firms are however more likely to have decreased staff numbers in the past five years compared to younger firms.

Firms that increased turnover in the past year were on average larger, in terms of employee numbers, than those whose turnover remained constant, which in turn were larger than those that decreased turnover – suggesting that the larger SMEs on the Panel are growing more than their smaller counterparts. It will be interesting to track this over the course of the study and to gauge the relationship – if indeed a significant linkage exists – between firm size and employment growth.

4.1. ASPIRATIONS FOR THE FIRM
We asked Panellists about their aspirations for their firms over the next five years.

Just over half the Panel (55%) hope to grow their business. Aspirations for growth are most prevalent in the business services sector – 70 percent of
Panellists have plans for firm growth. Some 57 percent of the TEP-supported tourism firms are hoping to grow their businesses. The numbers are lower among the manufacturing firms – only 49 percent plan to grow, and very low among non-supported tourism firms, of whom only 29 percent hope to grow over the next five years.

Panellists were also asked to comment on their longer term plans for the firm, thinking about the next ten to twenty years. Some 45 percent hope to continue to grow the business. Again, business services firms are more confident of long-term growth than firms in other sectors – 44 percent expect to grow over the next ten to twenty years, compared to 31 percent of manufacturing firms, and 33 percent of non-supported tourism firms. TEP supported tourism firms are much more confident than their non-supported counterparts – 66 percent of TEP-supported firms expect to grow.

Some 17 percent of Panellists have no long-term plans for the business at this stage. Reasons include the uncertainty of the current environment, and simply not having thought that far ahead. Just over a fifth of manufacturing firms are without a long term plan – many are concerned that they won’t be able to sell their businesses, and some expect simply to close shop when they retire.

A quarter of the Panel will no longer be engaged with their business in the next ten to twenty years. This figure is highest among manufacturers (35%), and business services firms (29%). Among non-supported tourism firms, the figure is 26 percent, and among TEP-supported firms ten percent. The scale of attrition is of concern, and serves to underline the fact that the current stock of small businesses is a finite and declining resource. It is absolutely imperative that conditions are created for new entrants to the market to establish enterprises and for existing small businesses to survive and grow. It is further notable that the attrition rate is highest among manufacturers: despite government’s very considerable rhetorical support for a strong manufacturing future, the trends identified here point in the opposite direction. South Africa is losing its small scale manufacturing entrepreneurs, with few coming forward to replace them.

Twelve percent of Panellists have a succession plan in place for the longer term, primarily in the manufacturing sector, where many Panellists are past retirement age (17%) and business services (14%). In many of these cases, the succession plan involves keeping the business in the family, or passing on the business to existing staff members.
5. CHALLENGES TO BUSINESS GROWTH

We asked Panellists to identify the main factors that prevent them from growing their employee numbers.

**ECONOMIC CLIMATE**
Panellists identify the current economic climate as the primary barrier to employment growth and job creation. Almost 40 percent of Panellists describe the economic slowdown, and the resulting decline in volumes of business, as a critical barrier to growth.

The economic decline has hit the tourism industry hardest in terms of prospects for job creation – 40 percent of tourism panellists say that lack of demand and slowing down of business prevents them from hiring additional staff. This is not surprising, as spending on leisure activities is discretionary, non-essential, and therefore highly elastic. The tourism industry across the world has been similarly affected.
Almost 40% of Panellists describe the economic slowdown, and the resulting decline in volumes of business, as a critical barrier to growth.

The manufacturing sector is not far behind, at 37 percent. Some manufacturers note that they may have to retrench staff in the near future if business does not pick up. As one said: “We don’t have enough business coming in to hire. Running costs have increased, particularly as a result of electricity hikes, and we can’t recover those costs from clients. I’ve met with the union and have agreed that if someone leaves, we will not be replacing.” Another commented: “We could actually cut back on permanent staff, but we don’t want to, because they have helped us build up the business. Confidence is better in the business services sector, where 30 percent of respondents report economic decline and/or a slowing of business as a barrier to employing more staff.

Related to the constraints imposed by the economic climate are concerns about cash flow. Some 12 percent of Panellists say that their biggest obstacle to increasing employment is uncertainty around cash flow, which makes increasing employee numbers too risky. One Panellist phrased these concerns thus: “I worry about overheads getting too high as workflow is not constant. A business of this size can not afford to be overstaffed.” Panellists report a preference for outsourcing, contracting or bringing in casual staff as and when the need arises. Concerns about cash flow and financial constraints are most prevalent among tourism panellists (18%), compared to business services (12%) and manufacturing (6%).

FACTORS DISCOURAGING INCREASE IN STAFF BY SECTOR

Almost 40% of Panellists describe the economic slowdown, and the resulting decline in volumes of business, as a critical barrier to growth.
LABOUR ENVIRONMENT
If there is a single issue that ignites ideological and political passions in discussing SMEs, it is the impact of labour legislation. In our panel, just short of one in five (19%) say that labour regulations are the biggest barrier to growing their staff numbers. Critical issues include the inflexibility of labour laws, inflated staff costs, difficulties with the unions and strikes.

Challenges in respect of labour laws were identified repeatedly by Panellists as a restraint on business growth. In a separate question about regulatory challenges to growing their businesses, a third identified inflexible labour laws (and the difficulty of getting rid of staff in particular), as a critical regulatory challenge. Panellists also identified the need for more flexible labour laws as one of the top ten priorities for government action to support SME growth.

Challenges associated with the inflexibility of labour laws are most pronounced in the manufacturing sector. A quarter of manufacturing Panellists identify inflexible labour regulations as a critical barrier to employment. Over half (56%) of manufacturing Panellists report that labour regulation is a major regulatory barrier to business growth.

Among business services Panellists, 13 percent identify labour legislation as a key barrier to employment growth, and 25 percent identify labour regulations as the major regulatory constraint to business growth.

Tourism companies are much less likely to be concerned with the inflexibility of labour laws as a barrier to employment (a fifth describe themselves as fully staffed with no plans to grow). Sixteen percent do however identify labour legislation as the major regulatory barrier to business growth.

These differentials probably relate to the different natures of industrial relations in the various sectors. Manufacturing is a sector with far greater potential for organisation and union penetration, not to mention the collective bargaining regime (touched on below) than the service industries. Manufacturing has a totemic significance to government in terms of the New Growth Path, as well as to the ruling party’s trade union allies as a driver of “real” growth and “decent jobs.” Government’s long-standing refusal to contemplate a more flexible labour legislation framework looks unlikely to waver, however.

Business owners stress that to survive as small businesses they need to stay flexible in terms of their staffing arrangements, but that South Africa’s labour legislation makes this extremely difficult. The difficulty and expense involved in making staff redundant in response to decreasing volumes of work makes Panellists very reluctant to take the risk of hiring people. Panellists also report that it is overly difficult and costly to get rid of under-performing or unsatisfactory staff. This frustration is evident here: “You have to get the right
person first time, because you can’t get rid of someone if they turn out to be a mistake. We would definitely hire more people, particularly at lower skills levels, if the laws weren’t so rigid.”

The extent to which legislation allows for a probation period is perceived to be insufficient. Employers suggest that a three month probation period is too short. According to one Panellist, “you spend a great deal of that time training people to acquire the necessary skills, only to conclude after 4 to 6 months that the person is not right for the position – and then it’s too late.”

Business owners indicate a preference for paying existing staff overtime, and/or finding ways to make existing staff more productive, rather than taking on new people, which is seen as a high risk choice.

Small business owners work closely with their staff, and would like more flexibility in terms of how the employer and employee structure their working arrangements. Some suggest for example that they would like to be able to pay their staff more and have them work longer hours during busy periods, but that concerns about labour law infringements, or a backlash from the unions, prevent this.

Industry-negotiated wage increases and the extension of collective bargaining agreements to small businesses are a significant barrier to increasing employment in the manufacturing sector. Ten percent of manufacturing panellists report that high wage levels are the major barrier to hiring more employees. The problem is particularly severe for businesses governed by bargaining council agreements. Said one Panellist: “Labour demands for increased wages, and strikes, have a huge impact. There is no recognition that small business and big business can’t pay the same. Businesses have to be able to pay their workers according to that worker’s productivity. If the machine you’re operating is smaller and producing less than the machine your counterpart in a big business is earning, you have to be paid in proportion to the work you’re producing.”

Another commented: “I would happily hire someone to sweep the floors in the tool room, but the minimum wage makes it impossible. So the toolmakers have to sweep their own floors. That means the sweeper doesn’t get a foot in the door, so he doesn’t get the potential opportunity to skill up and get a better paying position in time.”

Some manufacturers report that as a result of anticipated industry wage hikes, and the rising cost of inputs such as electricity and raw materials, they have to look at mechanisation as an alternative to growing staff numbers. This stands to impact most dramatically on the lower-skilled end of the employment
market. In the words of one Panellist: “The kind of work is unskilled, repetitive and routine. But the unions are insisting on 10 percent increases every year for the next three years. We’ll have to bring in more automation, even though it means we’ll have to let some people go.”

Other concerns include:

• Restrictions on the use of limited-term contracts, which limits flexibility. One of the Panellists put it in these terms: “There is no recognition that staff needs go up and down with business fortunes - you are just stuck with them. Small businesses can’t work that way.”

• The CCMA, which is seen as overly favourable to employees and very costly. Employers report that they are very careful to do everything by the book in order to minimize the threat of CCMA action. This is however very time-consuming in terms of paperwork and keeping a clear audit trail. Several Panellists say that they employ labour dispute management companies, or have labour lawyers on retainer, because of the risk created by the labour legislation and the threat of CCMA cases. Said one: “The difficulty of firing people and threat of CCMA is a huge disincentive to hiring. If someone is under-performing on the job, it takes months to build up the file, and the employees know all the rules so they know how to play you. You can’t say someone can’t do the job, because the CCMA will tell you to train them.”

• The administrative burden associated with collection of the various taxes and insurances payable for employees

• The disincentive to grow the staff body to a size which would see it becoming unionised, owing to the cost implications associated with regular negotiated wage increases.

Presently, a raft of new legislative amendments are under consideration, including proposals to limit opportunities for ‘atypical employment’ such as contracting and flexible working. The net effect is likely to further to tighten labour legislation, and to exacerbate the challenges identified by SMEs on the Panel. The response among SMEs may well be further limitation of their exposure to the labour market, thus limiting firm growth and hiring opportunities.

SKILLS CHALLENGES
That South Africa faces a debilitating skills shortage is generally accepted. Some years ago, the then Deputy President, Phumzile Mlambo-Ngcuka phrased it succinctly: “the most fatal constraint to shared growth is skills”. Although falling behind market conditions and labour legislation, concerns about skills feature prominently among the Panellists: 11 percent identify skills shortages as a major barrier to employment creation. The key problems include: a scarcity of required skills; difficulties finding ‘the right fit’; and the high salaries demanded by skilled staff.
The types of skills most commonly identified by Panellists as being in short supply include:

- Basic literacy and numeracy
- Basic science and maths
- Financial services – Insurance, Book-keeping, CA Trainees
- IT services/technical support/consulting, software development, programming, multi-media web design
- Engineering (systems integration and design)
- Talented sales/marketing staff (manufacturing and business services sectors)
- Printing
- Machine operators
- Technical skills in the manufacturing sector
- Tool-making and
- Administrative staff.

This list should be of great concern. Certainly, much of the scarcity relates to high-end artisanal and professional skills, while others are dispositional in nature. Problems with the availability of basic literacy, numeracy and mathematical skills point to an altogether more serious systemic problem: the failure of the education system to perform some of its most basic functions. Our study reinforces what has been identified elsewhere. The quality of South Africa’s basic maths and science education is consistently rated extremely poorly in the World Competitiveness Report. This prompts concerns about the country’s ability to maintain its current level of development, let alone to significantly expand its economy.

A large majority of Panellists (85%) report that they have initiatives in place to develop employee skills. There is considerable dissatisfaction with the SETA system, in respect of the types of training offered to businesses, and the paperwork and delays involved in claiming back skills development levy contributions.

Skills shortages are particularly problematic for the business services firms, where employers are looking for high-level, specialised skills. Some 40 percent of business services firms report that finding staff with the required skills and practical experience is a major challenge, and takes a great deal of time. Just under a fifth of business services Panellists describe the cost of training as a major challenge.

Ten percent of business services Panellists report that inflated expectations among younger people is a significant challenge – people with limited skills and experience, often fresh from studying, have exaggerated expectations of what they can do, and what they should be paid. Concerns around attitudes
more broadly, and finding the appropriate fit with the company, is another key concern, as is the underdevelopment of 'soft skills' which enable employees to engage appropriately with clients.

The scarcity of skills, particularly in the IT sector and business services more broadly, translates directly into the high cost of skills. Broad-based black economic empowerment (BBBEE) is also a key concern. Panellists note that they are reluctant to employ white or Indian people because of the need to comply with BEE requirements, but that they find it difficult to identify suitable black candidates, and that skilled black candidates command much higher salaries than other staff. Black candidates are also perceived to be highly mobile – once they have gained skills and experience in a small firm, they are quickly recruited to larger companies, which can offer higher salaries and more benefits.

Manufacturing Panellists report shortages in technical skills as a key concern. The cost of training, particularly artisan staff, is also a key challenge. There is also significant concern about the deficiencies of basic education among the workforce – fifteen percent of manufacturing respondents noted that basic literacy and numeracy skills are very low, which creates challenges for on the job training.

The lack of industry standards undermines confidence in qualifications versus actual skill levels, and there appears to be a shortage of appropriate training options available to skill up semi-skilled manufacturing staff. Other concerns include a perceived lack of interest/unwillingness among low-skilled workers to take advantage of training opportunities – there is a perception that employees want wages and benefits to rise, without being willing to take on responsibilities associated with more skilled tasks. The extent to which staff in the manufacturing sector – both skilled and unskilled – are ageing, and not necessarily being replaced by a younger generation of workers, is also cause for concern. The output of qualified artisans has fallen quite catastrophically over the past few decades.

**32%** of Panellists identified labour regulations, and in particular the difficulties associated with getting rid of staff, as the major regulatory hurdle to business growth
5.1. THE REGULATORY ENVIRONMENT

The regulatory burden on small firms is a familiar theme among business analysts, who generally agree that small firms are more vulnerable to regulatory costs (in money or efficiency) than their larger counterparts. SBP has previously argued that South Africa’s regulatory environment is significantly more expensive than that of its peer countries, and that this consumes valuable economic nutrients that might otherwise nourish the economy. The government acknowledges the importance of moderating the regulatory burden, but its efforts have been halting and indecisive – leading some commentators to question whether it is serious about doing so.

Panellists were asked to identify any major regulatory constraints to business growth. As noted, 32 percent of Panellists identified labour regulations, and in particular the difficulties associated with getting rid of staff, as the major regulatory hurdle to business growth. Other key areas identified as regulatory obstacles by Panellists are:

- BBBEE, as a constraint on access to business opportunities and an annual expense (20% of Panellists); and
- SARS inefficiencies, making it difficult to do business and to achieve compliance (14%).

**MAJOR REGULATORY CHALLENGES**

- 4% Government Procurement Process
- 5% CPA
- 5% CIPC Inefficiencies
- 14% SARS Inefficiencies
- 20% BBBEE
- 32% Inflexible Labour Laws
- 20% Sector-specific/Other
BBBEE ACCREDITATION

A fifth of Panellists identify BEE as a major constraint on business growth. The extent to which BEE is perceived as a constraint varies significantly across sectors. Thirty percent of business services firms identified BEE as a critical challenge, compared to a quarter of manufacturing firms, and only six percent of tourism firms.

A substantial proportion of the Panel, particularly in the business services and manufacturing sectors, are currently BEE accredited. Among the Panel as a whole, 57 percent of firms have BEE accreditation. Of these, 49 percent are accredited at levels 1 to 3, while 30 percent have Level 4 status. Of those who do not have accreditation, 21 percent are in the process of applying for accreditation, or renewing their accreditation. For the most part, our Panellists have spent the time and money required to obtain accreditation, and are unhappy with the process, the cost and the impact.

<table>
<thead>
<tr>
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<th>FIRM has BEE accreditation</th>
<th>BEE is a critical challenge to growth</th>
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<tbody>
<tr>
<td>Business Services</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>62%</td>
<td>25%</td>
</tr>
<tr>
<td>Tourism</td>
<td>41%</td>
<td>6%</td>
</tr>
<tr>
<td>Average</td>
<td>57%</td>
<td>20%</td>
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Panellists identify the following critical constraints associated with BBBEE:

- Lack of accreditation or a low BBBEE score limits opportunities to provide goods or services to large companies and government, thus constraining market access and limiting growth opportunities, particularly in the business services sector.
- SMEs find it difficult to accommodate black ownership – shareholders are difficult to attract, and businesses are often family owned.
- SMEs are unable to compete with big companies for black managers because they can't match salaries, there are not enough black managers willing to work in the small business sector, and there is a high level of job hopping among experienced black managers.
- Firms report difficulties finding skilled BBBEE candidates in specialised industries such as IT, advertising and pharmaceuticals.
Panellists report that the turnover thresholds for exemption are set too low, and that annual inflation and increases in the costs of inputs can quickly place a business above the threshold, without the business actually having ‘grown’ at all. Some Panellists indicate that they have ensured that turnover remains below R5 million, in order to stay on the right side of the compliance threshold. In this way, BBBEE has actually acted as a direct disincentive to growth.

There is considerable dissatisfaction with the high cost of annual accreditation. Panellists note that there are very often limited benefits to accreditation, in relation to the cost of compliance. The administrative burden and time associated with the process is also perceived as being very onerous.

Panellists also raise concerns about the narrowness of BBBEE, which is perceived to benefit the individuals brought in as partners, while failing to achieve ‘broad-based’ benefits. There is also a perception among some Panellists that BBBEE is used as a justification to award contracts to well connected people - whether or not they can actually deliver.

Panel members whose firms are not currently accredited were asked to comment on why they were not accredited. Some 22 percent report they were under the threshold required for accreditation and are therefore exempt. Another 28 percent say that accreditation offers no benefit to their business. A further six percent report that they are trying to be compliant, but that meeting the criteria - finding the right partners and employees - is too difficult for small firms. Interestingly, 10 percent are against the principle of BEE - this includes both black and white respondents.

Capturing the concerns about BEE, one black Panellist said: “I don’t see why I should pay people to say that I’m black. We need to be clear that we’re doing things for right reasons - creating skills and improving the country. We should move on from the past and treat people equally.”

These findings should provide some fuel to the ongoing debate around the trajectory of BBBEE. It seems quite clear that there are both perceptual issues associated with BBBEE as well as very real economic costs. This cannot be ignored, and there is every reason for pause in considering new legislation, such as the possibility of introducing crippling fines for failure to comply with empowerment demands.
SARS INEFFECTIVENESS

About a fifth of business services firms say that SARS is a major problem, as do 15 percent of manufacturing firms, and eight percent of tourism firms. Primary concerns are as follows:

- Refunds take a very long time. One Panellist reported that “We have been waiting two years for a R380 000 from SARS, for a VAT rebate on the purchase of our new property. Lack of access to that money stops us taking opportunities, and there doesn’t seem to be any progress”
- SARS is very slow to respond to queries and problems – but allows no leeway to businesses when they have been wrongly charged. Capturing these concerns, one Panellist said: “Three months ago, SARS triple debited us by mistake. It was a huge blow to our cash flow, and still hasn’t been rectified. But SARS insists that we still have to pay our full monthly fees – they don’t seem to care that their errors wipe out cash flow”
- Documents are frequently lost, requiring the business owner to go to the SARS office in person to get things done
- The call centre is perceived as being very inefficient
- Online returns often don’t work
- VAT registration is a big challenge
- Procedures and formats change frequently, making it difficult to keep up with what is required
- PAYE reconciliation is problematic – as this is one of the primary fields of interaction between business people and SARS, its consequences are profound. One Panellist complained that: “Almost every day SARS issues a new version of PAYE reconciliation that is supposed to fix the problems. We spent 20 percent of admin time in April trying to get it to work”
- SARS is perceived as being overly punitive and of failing to support small business. Thus, one aggrieved Panellist said: “Our firm recently made a small admin error on our submission - we were told we had to pay R100,000 fine, and were threatened with the company being shut down. Isn’t SARS interested in what happens to people’s jobs when you shut companies down? It was an honest mistake and we fixed it immediately- but SARS always wants to beat you up”
- Provisional tax drains companies of their cash flow, because it is charged on gross income – as one Panellist said: “A business makes a loss in year 1, probably also in year 2, and then in year 3 they have to pre-pay next year’s tax based on the previous year in cash. That comes straight out of the funds they need to grow the business and stops them in their tracks”
- Charging VAT on invoices, rather than on receipts, drains cash flow and is particularly damaging when clients pay late
- The requirement that every employee, no matter how temporary, has to have a tax number is problematic, particularly for advertising agencies working with hundreds of models and ‘extras’.”
Almost 60% of Panellists drew on their own financial resources to start their businesses

5.2. FINANCE
Access to finance did not emerge as a critical barrier to expansion of staff numbers, but the prevailing perception across the Panel is that banks are not willing to lend to small businesses, and that financial assistance programmes provided by government departments and agencies such as the IDC are administratively over-complex and thus largely inaccessible. For the most part, Panellists set up their businesses with their own savings, and continue to rely on their savings and cash flow for capital investments.

Almost 60 percent of Panellists drew on their own financial resources to start their businesses. Some drew on personal savings, others cashed in redundancy payouts or pensions, and some re-mortgaged their homes or relied on their access bonds. A further eight percent relied on their own savings in conjunction with a bank loan.

Only eight percent accessed bank funding as the primary source of funding for business establishment. Some six percent relied on loans from family or friends, and a further six percent on private investors or shareholders. Small numbers had made arrangements with the previous business owner to pay them off over a period of time on favourable interest rates, while two percent had accessed government funding, such as an IDC loan.
Panellists were asked to identify the major barriers they face in the financing environment. Fourteen percent report that they do not engage with banks at all. Many of these Panellists prefer to avoid debt and work solely from cash flow, whereas others have had negative experiences of banks in the past and have found other ways to access finance when necessary, from private investors for example. An additional four percent of Panellists report that they try to avoid using banks because interest rates are too high.

Some 45 percent of Panellists report that they have difficulty accessing finance from the banking sector. Key concerns include:

- Banks are overly risk averse, and are thus not interested in lending to small businesses
- The National Credit Act and the risk assessments conducted by banks make it very difficult for small businesses to qualify for credit
- The banks require collateral, often in the form of fixed assets, which many small businesses are unable to provide
- Banks are unwilling to finance innovation or new product development and
- Banks demand personal sureties, which put the small business owner at personal risk.

Responses showed considerable differentiation across sectors, and according to length of time in operation.

Business services and manufacturing Panellists provided very similar responses. In both cases, just over 40 percent report difficulties accessing bank finance, while a quarter report no problems. Tourism firms not supported by BDS are less likely to report problems, whereas two thirds of TEP-supported tourism firms report that they are unable to access bank finance.
Young firms experience far greater problems accessing finance. Across the sectors, 60 percent of firms less than five years old report difficulties accessing bank finance (54% of manufacturing and business services firms, 62% of tourism firms). The number of firms reporting that they have no problems accessing bank finance increases significantly as firms get older – 30 percent of firms over ten years old report no problems, compared to 19 percent of firms operating between six and ten years, and just 10 percent of firms less than five years old.

The findings here are important, as they challenge two apparently contradictory claims simultaneously. The first relates to the World Bank’s Ease of Doing Business report, which suggests that access to credit in South Africa is among the easiest in the world. Our findings demonstrate that there are clearly significant hurdles facing small businesses in this regard.

Secondly, the notion that access to finance has been the most significant brake on small business has been influential in official policy thinking. The SME Growth Index suggests that while this certainly exerts an important influence, it is neither the primary problem for growth, nor entirely decisive, nor evenly spread throughout the businesses – especially when considering the age of firms. This is in line with international experience: ready finance is an advantage, but not one that an enterprising entrepreneur cannot overcome.
Over 50% the Panellists rely on word of mouth and referrals to recruit unskilled or semi-skilled staff

5.3. SOURCING NEW STAFF
Given the perceived risk associated with taking on new employees, it is not surprising to learn that Panel members rely heavily on personal referrals when recruiting new staff. This is particularly the case for unskilled staff, whose chances of securing a job are slim if they don’t have a referral from someone within the business. Over half the Panellists rely on word of mouth and referrals to recruit unskilled or semi-skilled staff. Referrals mostly come from current staff members, family and friends. Around 16 percent advertise in the newspaper, 14 percent are approached by applicants, nine percent use recruitment agencies or labour brokers, and nine percent use their professional networks.
Referrals are similarly the most common way of identifying skilled staff, although to a lesser extent (a third of Panellists). Other mechanisms include recruitment agents (although there is a great deal of dissatisfaction about how much these services cost), newspaper adverts, professional networks, online tools, including social media, and direct approaches by applicants. Only four percent engage directly with tertiary education institutions, through networks, recruitment drives and attendance at career events. There should be considerable room to improve the latter method of interaction and recruitment.
The SME Growth Index asked Panellists to identify the critical actions that government needs to take in order to support small business growth and employment generation. Panellists’ responses will be analysed in detail in forthcoming SBP Alerts. For the moment, we shall discuss a few actions that each of a number of interested parties can take to enrich the country’s entrepreneurial soil. Our Panellists identified the following factors (in order of frequency of responses) as actions that they would like to see taken:

1. Reduce the cost and complexity of regulatory compliance
2. Improve administrative efficiency within government in order to reduce red tape
3. Create a level playing field, ensuring that regulations are fairly and consistently enforced
4. Develop more efficient and accessible financial instruments for the SME sector
5. Create tax incentives for small businesses to grow employee numbers
6. Work with industry to facilitate the development of practical skills across the labour force
7. Introduce more flexibility in respect of labour laws
8. Rethink BEE
9. Make government procurement opportunities more accessible to small businesses, streamline tender processes, improve transparency, and pay on time
10. Create political stability, reduce the crime rate and address corruption in government, as preconditions for attracting investment
The SME Growth Index is intended to contribute to the national conversation on small business development. Beyond any sectoral message, or specific policy change, three broad points suggest themselves.

Firstly, the national conversation needs to be informed by evidence. The data available to date on small business has been too vague to make properly informed decisions about policy and support. The SME Index is an attempt to contribute to remedying this. Contributing to the stock of understanding is a task for all interested parties.

Second, success tends to harvest success. Small businesses are part of the broader social and economic system of the country. They are sensitive to the environment in which they operate. There are few clear borders between the factors that influence the sector and those that do not, even if some are clearly more important than others. But deficiencies in the education system, for example, will likely manifest themselves in limitations on the performance of small business, and the economy as a whole. This is both a point of general social principle, and is supported by our findings. South Africa’s prospects of growing a robust small business economy will in all likelihood fluctuate with the success of the country as a whole.

Thirdly, small businesses are not charities, welfare measures or systems to generate employment for its own sake. This needs to be kept firmly in mind, and appears easily lost as policy makers have their eyes firmly on the attendant social benefits. Such benefits are a happy by-product of healthy small businesses’ seeking opportunities in a market, not their inherent objective. Small businesses’ potential to grow – indeed to function at all – is no different from that of their larger counterparts insofar as economic decisions must be based on economic incentives. Imbuing small businesses with excessive moral or ideological significance is counterproductive. Small business is business, first and foremost.
MESSAGES TO GOVERNMENT

- Government needs to prioritise its micro-economic goals. At present, promotion of employment, empowerment, and labour protection – to name a few – are jockeying in an unviable mix. If the government’s goals are centred on employment, and if it accepts – as it claims to, and as the evidence suggests – that small business is a key to achieving this, then it needs to be willing to ask whether this goal is more or less important than others, and to alter the environment accordingly. At present, attempting to address all goals at the same time seems to mean failing to achieve much of any of them.

- Aspirations, policy and interventions need to be based on evidence. It is decidedly unclear to what extent government is basing its outlook on small business on the realities of small businesses and small business people. For example, the stress on manufacturing sits uncomfortably with an overall decline in the sector. Although state intervention can be a useful stimulant to the sector, this is contingent upon it responding to real needs, enabling real opportunities to be seized.

- The regulatory environment needs to be reformed. There is plenty of evidence that the regulatory environment in particular, labour legislation is proving an unwieldy burden. The recently announced procurement regime, which aims to direct 75 percent of state procurement to local firms, might be viewed as a significant opportunity for SMEs: but this will not materialise if they are stymied by regulatory constraints. South Africa has a limited pool of productive SMEs capable of producing quality products and services, in sufficient quantity, and within time frames, and this is unlikely to expand if they are to be hemmed in by demands of scant relevance to themselves. At a bare minimum, a concerted effort must be made by state agencies and bureaucracies to switch from an ethos of authority and punishment, to one of assistance and facilitation. However, a fuller set of reforms is needed, including a comprehensive review of existing labour and empowerment regulations. The turnover ceilings for BBBEE compliance need to be raised. Small business people need to be able to devote their energies to operating their enterprises, and not to managing cumbersome administrative details or government policy of little direct relevance or benefit to their activities. Furthermore, burden reduction must be recognised as an ongoing process; government at all levels needs to consistently engage with business, of all sizes, to find simpler or more efficient means of accomplishing what needs to be done.
The regulatory environment in particular, labour legislation is proving an unwieldy burden
MESSAGE TO THE PRIVATE SECTOR

• The implicit mentorship experienced by a number of entrepreneurs in larger and established companies that appears to have been a factor in their success provides the rudiments of a strategy for developing and nurturing entrepreneurship among smaller business people.

• Linkages in the form of subcontracting to and sourcing from small business could be useful lever for growth, provided service and product quality are satisfactory, and payments are made timeously.

• The private sector need to understand that it is an aggregate entity and that good policy will entail treating different parts of it differently. In particular, large companies and business organisations, with greater access and voice on policy, need to be more vocal about recognising the challenges and circumstances of small business, and pushing for their exclusion from unaffordable and constricting bargaining arrangements. Until now, they have largely failed to do so.

• The private sector could make a great contribution to understanding the dynamics of small business. Regular research, perhaps shared throughout the sector, would assist in developing overall plans to assist the SME sector.
That small business can play an enormously positive role in resolving South Africa’s socio-economic problems is an article of faith in South Africa, and is backed by virtually all comparative evidence – but one whose promise has not been realised. Rather than sprouting and flourishing, the country’s SME sector is surviving. And it is not delivering on its key promise: the creation of jobs to soak up the country’s unemployed. This is not a situation that South Africa can or should accept.

The perspectives captured in the SME Growth Index clearly point the way. The picture that emerges is of a solid and robust business sector, intent on surviving, and hopeful, but not optimistic about the future. There are major concerns, many of them long-standing and voiced before, but generally not responded to in policy.

If small business is to be taken seriously as a part of the solution, its concerns need to be recognised and accommodated. This will mean accepting realities as they are revealed in the evidence, even when they may challenge fondly held positions. The SME Growth Index aims to move that process forward by assembling a strong body of first-hand evidence and contributing it to national conversation.

South Africa cannot afford to allow such a potentially rich field to lie fallow.
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