



Taking on the challenge: small, micro and medium enterprises (SMMEs) and socioeconomic development in South Africa

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Abstract

This theoretical study investigated small, micro and medium enterprises (SMMEs) impact on development in South Africa. The aim of the study was to assess the current role of small micro and medium enterprises (SMMEs) in spearheading economic growth and addressing social problems in an environment where large business and government are seemingly doing very little. Thus the study analyses SMME roles towards addressing challenges of unemployment and chronic social ills of poverty, inequality and social exclusion in the country. This study followed a desktop literature review research design to gather data on negative actions by government and large business that accentuate social problems faced by communities and retard socioeconomic development, as well as the individual roles SMMEs fulfil to meet socioeconomic development objectives. Research findings show SMMEs are at the forefront of job creation and building the social and political equity in the country among other development outcomes. As a theoretical study, this paper provides no empirical evidence to validate the conclusions and observations, thus future empirical research that account and assess the value of SMMEs contributions to the creation of economic, social and political equity in the country are recommended.

Keywords: entrepreneurship, large business, SMMEs, socioeconomic development, social problems.

Introduction and research background

Like other developing nations, South African socioeconomic developing strategy hinges on harnessing the entrepreneurial potential and supporting small, micro and medium enterprises (SMMEs) (SBP Alert, 2014). That entrepreneurship and SMMEs contribute to economic growth and job creation is well established in the literature (Chinweuba & Sunday, 2015) with Dzansi (2004:25) and Mitchell (2013) conceding that SMME growth and development may be the most potent way of bringing about sustainable development through reducing unemployment, and its concomitants, poverty and inequality in developing countries. Agupusi (2007:1) also recognises this sector as an 'engine of economic growth'.

Since the promulgation of the 1995 White Paper on SMME development, prioritisation of the entrepreneurship and SMME sector by the South African government has become evident. A separate Ministry of SMMEs and other support functionaries such as the Small Enterprises Development Agency (SEDA) were created to prop up this sector into a significant contributor to economic growth (Nhlapo, Nieuwenhuizen & Ladzani, 2011; Bureau for Economic Research, 2016:5). However, it is unclear, debated and questioned how many SMMEs have, to date, delivered on their designated socioeconomic development role in the economy. Pretorius and van Vuuren (2003) posit SMME programmes implemented in South Africa do not stimulate entrepreneurship, innovation and start-up culture that can anchor real economic growth. Looking



at the employment creation role, for example, Rashid, Gregory, Thomas, et al., (2017) claims that the SMME sector is not only failing to assist in the alleviation of the chronic unemployment levels in South Africa but also is contributing to its occurrence. This view borrows from Winter (1995:27) who contend SMMEs are actually net destroyers of jobs given their high failure rate. Rambe and Mosweunyane (2017:7) entered a similar view, arguing that incidences of high SMME closures in the country raise critical questions on whether SMMEs are effective tools for job creation and poverty reduction. Similarly, the Small Business Institute (SBI) (2019) reports that the contribution of SMMEs to job creation is failing with large business adding more jobs at a much faster rate than SMMEs do.

Other literature (Real Economy Bulletin, 2017; Kongolo, 2010; Cant, Erdis & Sephapo 2014; Dzansi, 2004), in contrast, posit that SMMEs are at the forefront of job creation and poverty alleviation. Mitchell (2013:27) mentions that given the failure by large business and the public sector to create jobs, attention in South Africa is now focussed on entrepreneurship to address this challenge. Additionally, the Real Economic Bulletin (2017:2) reports that in 2015, formal small business employment figures were 5.8 million people compared to 3.6 million people employed by large business. In support of these statistics, Business Unity South Africa (BUSA) (2019) also states that SMMEs create 65% employment opportunities making them the largest contributor to private employment in South Africa. These positive accounts of SMMEs impact coincide with findings in other global studies. Yet, even so, this priori belief in SMMEs as engines of economic growth is challenged, primarily because no distinct evidence exists of the degree to which SMMEs delivers towards poverty alleviation, employment creation and economic growth (Cant & Stanford, 2006). Be that as it may, SMMEs are still regarded as a vital cog in the socioeconomic development agenda in South Africa.

To the extent that literature is ambivalent on the importance of entrepreneurship and SMMEs' as instruments for socioeconomic development, this paper argues, government and large business in South Africa have acted in inconsistent ways that frustrate the effectiveness and ability of the small business to deliver on socioeconomic development goals. Machirori and Fatoki (2013:115) posit that large firms and the public sector have been unable to solve major economic problems in the country and their commitment to improving the socioeconomic experiences of the population is suspect. Godfrey Jacobs, the Cape Chamber of Commerce and Industry as cited in an article by Mohedeen (2019) adds that in South Africa, "the corporate sector has been shedding jobs over the past decade and the bloated public service has probably reached its maximum and will be under pressure to bring staffing numbers to more realistic levels". Significantly, therefore these institutions have actually multiplied the scope of problems SMMEs have to deal with such as poverty, unemployment, racial tensions, transforming the economy and sustaining positive citizens' national outlook through their actions, as will be later argued.

Based on the above, the purpose of this study is to assess the current role of small micro and medium enterprises (SMMEs) in spearheading economic growth and addressing social problems in an environment where large business and government are seemingly doing very little. In so doing, it analyses how SMMEs are taking on the challenge to drive socioeconomic development in the face of large business and government apathy in South Africa. This article, therefore, seeks to theoretically answer the question:

What socioeconomic development roles do SMMEs in South Africa play in the face of large business and government apathy?



Literature Review

The aim of the study is to investigate the contributions of SMMEs towards economic growth in South Africa, therefore the following literature will be addressed in order to gather sufficient knowledge on the topic. Throughout the section, various concepts will be addressed, including a contextual approach to government and large business apathy towards socioeconomic development and entrepreneurship and SMMEs roles in the country.

Contextualising government and large business apathy towards socioeconomic development

Against a plethora of policy, institution and public commitments issued by both government and large business, networks towards steering socioeconomic development evidence of their negative actions that accentuate social problems and retard socioeconomic development abound. Endemic corruption in government -*Gupta and state capture events* (Wolf, 2017); corporate fraud - *Steinhoff saga*, (Naudé, et al., 2018); VBS Bank collapse (Polity, 2018); Marikana massacre (Mail & Guardian, 2010); and Black Economic Empowerment (BEE) fronting in corporate firms resulting in dummy black shareholders as a form of transformation resistance (Warikandwa & Osode, 2017) are but a few examples. In addition, predatory practices by big corporates such as Woolworth's Stores, which pirated a small business owner's product innovation and undercut prices with its counterfeit product, exemplify how big business stifles SMMEs growth, initiatives, and creativity (see Omarjee, NEWS24, 2019; Head, 2019). Directly or indirectly, these behaviours manifest into negative social outcomes for unemployment creation, social instability, and poverty alleviation, towards which SMMEs, through corporate social responsibility are expected to contribute.

Looking at large firms in the mining industry, Coleman (as quoted in Mail & Guardian, 2010) claims, "the success of mining in South Africa has generated social squalor, with executives getting all the money and the workers struggling to survive". Du Plessis (2016) further reports of massive retrenchment exercises in mining and manufacturing sectors, which condemn employees to joblessness, families to poverty and social decay. As it were, corporate South Africa remains untransformed (Sanchez, 2011) with few firms meeting their transformation equity targets, thus preserving the hostile anti-black entrepreneur attitude from apartheid years.

In agreement with Sanchez, Luiz (2002:1) mentions that one of the legacies of apartheid is extreme distortions in the business world-where big business isolate itself from SMMEs and white business isolating itself from the black business. Thus, corporate South Africa still harbours an elitist attitude towards SMMEs that deprives SMMEs of big business support necessary for SMME survival and growth prospects. Similarly, using a corruption index, claims could be made that the government is indifferent to the fact that corruption threatens to undermine both the growth and stability of global trade and financial systems (Pillay, 2004:590) given multiple cases of corruption that have arisen over the years. In conclusion, the point is both government and large business create social challenges in communities that will ultimately be a direct burden to small business situated in these communities.

In order to fully understand the challenges that SMMEs face within communities, as exerted by the government, it is necessary to understand the roles and entrepreneurial function fulfilled by these businesses.



Contextualising entrepreneurship and SMME roles in South Africa

Various literature agrees SMMEs play an important role in the economy. Studies in the United States of America (Edmiston, 2012) indicate that, despite the presence of large business, SMMEs drive the economy. Lee, Herold, and Yu (2016) assert 90% of global firms are SMMEs, employ more than 50% of all labour in the private sector, with Swedish SMMEs contributing 56% of economic wealth production. Nagaya (2017) conducted a study in India and found SMMEs positively influence economic growth through employment and poverty reduction. Likewise, Bello, Jibir and Ahmed (2018) report that SMMEs enhance economic growth and act as catalysts for the development of the Nigerian economy. In South Africa, statistical accounts suggest roughly 91% of formal business entities are SMMEs who contribute between 51% and 57% to the gross domestic product (GDP) and 60% of jobs (Reginald & Millicent, 2014). Reverse statistics to these SMME numbers, therefore indicate how much corporate South Africa and government entities contribute to the economy.

Notwithstanding the claims that SMMEs are major catalysts for economic development (Turyakira, Venter & Smith, 2012:106), their contributions to the economy remain underappreciated, debated, and contested (SEDA, 2018) in addition to being undermined and misinterpreted (Gebremariam, Gebremedhin & Jackson, 2004). According to Fjose, Grünfeld and Green (2010:12) despite SMMEs' numerical dominance in the economy, limited literature evidence exists to validate their effect on economic growth. Expressing a contentious view Audretsch, Carree, van Stel et al., (2000) submit SMMEs actually impede rather than promote economic growth by attracting scarce resources from their larger counterparts. In a subtle way, Audretsch et al., rely on the fact that start-ups failure rates are generally high, and any initial investment then is lost with the demise of the small firm. However, this view ignores the fact that SMMEs actually rely on and utilise resources such as unskilled labour, considered excess and unproductive by the large business (Dzansi, 2004) to produce goods and services. Furthermore, it is oblivious to the fact that the presence of small business provides a conduit for the discovery of future managers of industry and entrepreneurs in communities (Quaddus & Hofmeyer, 2007). In addition, Audretsch, et al.'s (2000) contention is rebutted by evidence in the successful European Union economic block, where 93% of all firms are a small business (Zindiye & Roberts-Lombard, 2012). On this basis the panacea of a large business as engines necessary for socioeconomic growth is disputable. In South Africa and as elsewhere in Africa, historical narratives bear the fact that the presence of big business such as multinational corporations (MNCs), without the active participation of small business account for some reasons why poverty, unemployment, and low economic growth is characteristic of the continent.

Arguably, therefore, in South Africa, analysing the role of SMMEs should regard two aspects: the history of economic development in the country and secondly the application of limited measurement metrics that attempt to account for the SMME socioeconomic impact. Under apartheid, SMMEs existed on the peripheries of economic recognition, more or less regarded as an informal economy, a status quo that practically persists to this day. Buthelezi, Mtani, and Mncube (2018:9) analysed the extent of market concentrations in South Africa and found that large business dominate markets because of past privileges, such as state support, which SMMEs did not also enjoy. The literature further reveals, prior to 1994, black entrepreneurs were excluded from business ownership and control by law and social conventions (Tengeh, 2013). Interpreted otherwise, the point is apartheid policies meant democratic South Africa started with a smaller class of established small business (Real Economy Bulletin, 2017:6). Thus, whereas the concept of business incubation programs is ordinarily applied to small businesses, historical experiences in the business environment suggest the entire small business economy require an incubation approach to allow it to grow and mature into a stable sector.



In support of the above perspective, Mitchell (2013) mentions that even after the onset of democracy, not much changed in the local economic structure as SMMEs continue to experience economic exclusion from mainstream economy as a result of distrust held by carryover apartheid-institutions and the racially exclusive culture of business networks in the country (Mitchell, 2013: iv). Additionally, SMMEs still lack access to funding from corporate banks (Cant, Erdis & Sephapo, 2014) and are blocked from mainstream economy through setting up of industry standards that are unattainable (Real Economy Bulletin, 2017). In his view Urban (2018) states, SMMEs are restrained from growing by tight oligopolies in many markets where several large firms dominate the competitive landscape and erect high entry barriers. As a result, SMMEs are pushed on to less protected sectors including trade, business services, and retail.

Coming to measuring SMMEs contributions, Chikweche and Mujeyi (2015:284), a study in Zimbabwe, posit that the application of established national economic indicators such as GDP, formal employment figures, or export values especially in developing countries fail to capture and present an honest account of the SMME sector contributions to the economy. Following Clarke and Klettner (2009), the authors' (Chikweche and Mujeyi) commend evaluating SMME contributions to socioeconomic development using matrices beyond the traditional employment levels axis, including recognising the growing importance of the informal economy. Informal economy statistics (Statistics South Africa, 2013) indicate the sector employs about 13% of the labour force (about 2.4 million people), contribute to the livelihoods of about 4.4 million unemployed people and some 14.9 million adults categorised as economically inactive. Without a doubt, these numbers represent a significant level of contribution to social and economic progress in the country. Over and above their economic contributions, the small business delivers social utility, such as family and social cohesion which improves the quality of life in communities.

Notably, accessing precise, up-to-date data about SMMEs activities in South Africa is difficult (Edinburgh Group, 2012). Compounding the problem is that different researchers and institutions apply different methodologies to produce SMMEs statistics, (Bureau for Economic Research, 2016:14), resulting in different accounts of size and potential impact of SMMEs to the economy. For example, where the Small Business Institute (2019) claims there are only a quarter of a million SMMEs, other literature (SEDA, 2018:2; SBP Alert, 2014) posit estimates of between 1.2 million and 6 million SMMEs. In addition, the Small Business Institute also claims large business and government create 56% of jobs and so are the largest employers. Thus, there is so much divergence of data on the actual size and state of the South African SMME sector to an extent all estimations can be regarded as mere guesswork. Thus, the debate on the value of SMME to socioeconomic development is expected to continue because the actual size of the SMME sector is unknown.

Having so contextualised the role of SMMEs in South Africa, the following section addresses the theoretical and conceptual issues that underpin this study.

Research theory and conceptual issues

Research method

This paper utilised desk research to extract data from published secondary sources. Published sources ranging from newspaper and public media publications, academic journals, conference presentation reports, and published books were consulted. Additionally, Google and Google Scholar search engines were also used to search for data. Institutional resources, which gave access to libraries including EBSCOhost and Emerald Insight were also utilised. The inclusion criteria considered both local and global literature that shed light on the economic roles of government, large and small business. A purposive approach was also applied to selecting literature that helps unpack the roles of SMMEs in a South African context with its peculiar



socioeconomic challenges ranging from apartheid history, inequality, unemployment and social instability.

Regarding its theoretical orientation, this study is premised the following concepts as bases of analysis and investigation. These constructs were utilised as the building blocks of this study, and as search components to identify suitable secondary sources that led to the findings, as will be discussed further on.

Socioeconomic development:

In this research, socioeconomic development means the advancement or improvement in the standard of living and the increase in economic life and conditions of the people (Ijere, 2014:27). Measurement attributes of social economic development include the number of SMMEs, gross domestic product (GDP), levels of employment, economic growth and wealth creation and also changes in political, racial and transformational national objectives.

Entrepreneurship and SMMEs:

According to Chivasa (2014:5), entrepreneurship is loosely defined as the creation of new economic entities, which are centred on the production of goods, and services that are distinct. In this research, this broad definition encompasses the neoclassical idea of entrepreneurship as the ability to start a business and sustain it. Guided by Tustin (2015:79) this research conceives an SMME as anything from a street vendor to enterprises employing less than 200 people. This proposition aims to account for the contribution of centres of economic activity which are otherwise neglected by formal and regulatory definitions of SMMEs.

Government as an economic player and large business:

The government is conceived as a political institution responsible for the management of a country's economic and social resources for development (Ijere, 2014:27) and an abler of economic activities (Otobo, 1997:25). In this study, a large business is defined as any size of business larger than SMMEs and is not owned by the government.

A thorough desktop study of the three key components of the study has therefore yielded the following results.

Research findings

Based on the three key components of this study, the findings below identify the various roles played and benefits which SMMEs contribute towards economic development in South Africa. Each role will be discussed separately.

SMME contributions to socioeconomic development in South Africa

A review of relevant literature on the role of SMMEs in South Africa reveals such firms do positively contribute to socioeconomic development. For example, in some poor communities, more so in rural areas, SMMEs are outposts of commercial activities, thus their roles are expansive, from simply bridging the gap between urban economic centres and the rural areas to offering employment. In urban areas, SMMEs act as local alternatives to employment creation. In support of these observations, the study observed the following as prime activities SMMEs perform in a South African environment characterised by government and big business apathy towards socioeconomic development.

Job creation

According to Chimucheka (2013:10) in agreement with Kongolo (2010:2290), with large businesses restructured and downsized, SMMEs have played an increasing role in the South



African economy and development. By restructuring, downsizing and retrenchments, state entities such as Eskom and South African Broadcasting Corporation (SABC) have caused loss of jobs, decrease the of productive capacity for both domestic and export markets, and deprived families of income. In order for retrenched employees to mitigate the onset of abject poverty, they turn to entrepreneurial ventures many of which are of a survivalist nature (SEDA, 2018). Similarly, Jili, Masuku, and Selepe (2016:6) state small business reduce the unemployment rate and alleviate poverty. The point is a small business offer an immediate escape route for people confronted with little life opportunities for employment, access to capital and social support.

Sustaining the rural economy

Dzansi (2004:33) observes, because of their size, SMMEs are suited for rural communities where the markets are too small to attract the presence of large businesses. SMMEs serve as the fulcrum of rural and peri-urban South African economy. In poor and remote areas, they link the rural economy and the urban economy (Hemson, Meyer & Maphunye, 2004) through trade relationships. Evidence from Zimbabwe suggests SMMEs have “assumed greater prominence in providing a source of livelihood to many families in both the rural and urban areas” (Manuere & Majoni, 2016:63). A study by Ahiawodzi and Adade (2012) found that in Ghana SMMEs help address the problem of rural-urban migration, and incidentally SMMEs have the effect of dispersing industrial enterprises more evenly across the country thereby laying out an industrialisation network that can support sustainable economic development.

Distribution of income and poverty alleviation

Although money earned by employers and employees in the informal economy is less than in the formal economy (Real Economy Bulletin, 2017) entrepreneurial self-employment, opportunities cushion and retrenched employees from falling into the poverty trap. The structure of the SMME sector in the country shows survivalist small business outnumber other sizes in the category (Fatoki, 2014) suggesting a possible link between the unemployment and necessity-driven entrepreneurship. Harris (2018) states that, in the current domain, because large business is downsizing, automating and employing only highly skilled personnel it plays no direct role in poverty reduction. This burden falls on SMMEs who are labour intensive and employ the less and undereducated people who large business deems unproductive.

Nurturing entrepreneurship

Contrary to a neoclassical idea of entrepreneurs as simply risk takers, today’s entrepreneurs are small business owners that do not want to remain small and have a growth orientation in their operations (Waterhouse, 2019). According to Raynard and Forstater (2002), SMMEs have the capacity to nurture entrepreneurship and innovation and could attract foreign investment. However, in South Africa SMMEs ability to attract foreign investment will prove difficult in the face of ever-present scandals in large business (*for example, Steinhoff fraud*) and government scandals (*for example, State capture*) which create a negative image of the country. It is also important to regard the SMME sector as a “nursery” for higher-level entrepreneurship and innovation (Oduntan, 2014) where entrepreneurs learn by failure until they gain the skill to grow their business.

Maintaining a healthy economy

Although SMMEs are by nature deeply embedded into their local communities and markets, evidence shows, they are also involved in export business. Export business allows SMMEs to bring much needed foreign currency (Kongolo, 2010) in the country and also promotes business growth, allowing SMMEs to employ more people. In addition, exports link SMMEs with business



from other countries, thus exposing local firms to global standards in a way that improves their industry knowledge and skills. In South Africa, because SMMEs compete in multiple sectors from manufacturing, retail, and service, they also help to establish firm roots for a diversified economy.

Enhancing social cohesion and reducing social conflict

Fatoki and Chiliya, (2012) observe that because of entrepreneurship foreign nationals in South Africa are able to avoid conflict with local communities over formal jobs by starting their own small business. In the same vein Mbedzi, (2011) asserts through job creation SMMEs significantly assist in achieving social stability, while Zeka (2013:25) posits SMMEs stabilises the social and political structure of the economy. Given that SMMEs are also often locally owned and controlled Dlova (2017: 22) contend they strengthen extended family relationships, social systems, and cultural traditions.

Addressing economic, social and racial inequalities

In a country with the highest inequality indices in the world, smaller companies like SMMEs are also expected to contribute to social empowerment and transformation (Sanchez, 2011). In South Africa, both poverty and economic inequality continue to manifest along racial, gender and disability lines (South African Human Rights Commission, 2018:4), thus the government promotes SMMEs as vehicles to realise the radical socio-economic transformation agenda. Through BEE programs and preferential vulnerable groups such as women, disabled persons and youths black population often overlooked in the formal economy find sanctuary in the SMME sector. Research by ANDE (2012) reports SMME mainly employs vulnerable groups such as women, youth and the poor. Thus, SMMEs provide a social security nest to populations often discriminated from the mainstream economy.

It is therefore clear that SMMEs in South Africa address an array of socioeconomic challenges. The government places SMMEs at the centre of the social and economic transformation agenda, thus these firms seek to deliver on political, social and economic targets. As a result, their contributions to society should be assessed beyond economic targets such as GDP, employment levels and export among others.

Discussion and Conclusion

The purpose of this study was to assess the current role of small micro and medium enterprises (SMMEs) in spearheading economic growth and addressing social problems in an environment where large business and government are seemingly doing very little. Based on the information discussed in this paper, the following three findings can be highlighted. Firstly, SMMEs play a significant role in stimulation of economic growth, based on its ability to drive community development. Consistent with global trends, reviewed, the literature suggests that SMMEs have the ability to stimulate the most basic form of commerce in society, given their heterogeneous nature, from street vendors to medium-sized firms. Importantly SMMEs provide easier entry to business and self-sustenance, as well as provides an incubator and breeding ground for entrepreneurship and innovation (Rungani & Potgieter, 2018:2) even for vulnerable groups in society. In recognising the ability of SMMEs to stimulate community development, poverty can be combatted with the aid of government support. SMMEs should be recognised as an integral sector of the national economy. With adequate support, entrepreneurship can be used as a means to stimulate job creation, which in turn will have a positive effect on the local and national economy of South Africa.

Secondly, according to SBP Alert (2014), in South Africa SMMEs significantly bring out product innovation. This is directly linked with the characteristics of entrepreneurship as well. With the



ability of identifying a gap in the market and providing in the specific needs, SMMEs have the potential to grow further into large businesses, which provides an additional set of benefits for the South African economy. Additionally, because they are widely distributed in both rural and urban communities SMMEs provide a mechanism for wealth creation across the country. Compared to large business who are mainly restricted to urban industrial areas, SMMEs assist with technology transfer from urban areas to rural communities. This being said, SMMEs have the added advantage of being in direct connection with the local community, therefore addressing public needs can be more effective, as opposed to the government. Relying on the community to identify potential market gaps should be a priority amongst SMMEs, as this will stimulate demand and drive economic development further.

Thirdly, it is argued that SMMEs in South Africa are no fewer agents of social transformation than large business entities. This means, over and above economic contributions, SMMEs are designed to address social, political and economic challenges, such as sustainable economic development, job creation and community upliftment. Kumah and Omilola, (2014: 3-4) reviewed a variety of legislation and policy measures in South Africa from Growth, Employment and Redistribution (GEAR) and the BEE Act, among others, and found SMMEs are at the centre of efforts to address socioeconomic challenges created by the legacies of apartheid. Stated in another way, the review suggests there is policy recognition in South Africa that the central role of SMMEs is to lead towards economic, structural and political transformation in the country. Related to this, it is submitted therefore that fair assessment of SMME contributions to development should also account for their soft contributions in creating social equity in the country.

In conclusion, the article has reviewed the literature on negative business and large business practices that not only exacerbates social challenges but also suggests they lack the commitment to drive socioeconomic development. It has also looked at various roles SMMEs play in spearheading socioeconomic development. Findings suggest SMMEs are making positive contributions, not only towards the economy but also to building the social and political equity in the country.

Limitations of the Study

This is a literature review paper and is limited to desk research. As a result, it provides no empirical evidence to validate the conclusions and observations. Future research should be undertaken in order to add practical validation to conclusions in this paper. Studies that account and assess the value of SMMEs contributions to the creation of social and political equity in the country are recommended.

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