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Analysis of Predictors of Sustained Growth and Incubation of SMMEs in Gauteng Province, South Africa

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ABSTRACT The paper is based on research carried out in Tshwane, Gauteng Province in South Africa in order to determine key barriers to profitability in startup Small, Micro and Medium-Sized business enterprises (SMMEs) based on data collected from a random sample of 401 SMMEs over a five-year period of study. The study found that the pace of incubation as well as the degree of survival and viability in start-up SMMEs was hampered by lack of mentorship programs, low level of entrepreneurial and vocational skills, lack of monitoring and evaluation programs, and difficulty in securing finance needed for routine operation by startup SMMEs. At the end of the survey, fifty-four percent of SMMEs were not financially viable. The most influential predictors of failure were inadequate expertise in conducting business, the absence or acute shortage of supervision, and inadequate vocational expertise and knowhow.

INTRODUCTION

The study was based on findings obtained from research carried out in five years by following up profitability in 401 small, micro and medium-sized enterprises (SMMEs) in Tshwane, Gauteng Province, South Africa (Marivate 2014). The survey aimed at determining influential predictors of failure in startup SMMEs. The study identifies barriers to sustained growth and profitability in startup SMMEs. There are 24 incubation centers in South Africa that provide rehabilitation services to non-profitable start-up businesses (South African Small Business Development Agency 2015) at three centers of incubation. The three centers are Technology Demonstration Centers (TDCs), Technology Incubators (TIs), and Hybrid Centers (HCs). Assistance is provided to newly established SMMEs based on focus areas of development outlined in the South African National Development Plan. SEDA has developed entrepreneurship programs and Incubation Support Programs (ISPs) in all nine provinces of South Africa.

The South African Small Enterprise Finance Agency (SEFA 2014) operates under the auspices of the Industrial Development Corporation (IDC) and provides services that used to be provided by KHULA Enterprises, SAMAF and IDC. SEFA provides financial assistance to businesses in areas such as retail, wholesale trade, tourism, manufacturing, agro-processing, agriculture, micro-farming, construction, mining, renewable energy, as well as waste management and recycling services. The requirements for securing financial assistance from SEFA are citizenship or permanent residence in South Africa, registration as a business entity within South Africa, proof of physical address, proof of capacity for fulfilling contractual obligations, compliance with regulations, proof of legal status, a written business plan, a written proposal with cost breakdown and time table of activities, demonstration of the ability to pay back loan, favourable credit references, proof of status as business manager or owner, adequate collateral and a valid tax clearance certificate at the time of submitting application for a loan.

Objectives of Study

There is an acute shortage of studies that assess and evaluate the degree to which startup businesses that conduct business in Tshwane benefit from government support programs that target newly established small businesses. Khale (2015) and Marivate (2014) have reported that sixty percent of all startup businesses in South Africa go out of business within three years. Despite the financial and administrative assistance provided to start-up businesses by the South African National Department of Trade and Industry (2013), the South African Small Enterprise Agency (2013) and the South African Chamber of Commerce and Industry (2013), the failure rate in start-up enterprises is still high. The study aims to explain and assess the primary reasons of failure in start-up businesses in Tshwane.

Literature Review

Studies conducted by Asah et al. (2015) and Marivate (2014) have indicated that the potential of start-up businesses to be profitable on a sustainable basis is undermined by inadequate business, managerial, auditing, networking and accounting skills, lack of collateral, difficulty in securing loan, poor vocational training, and poor mentorship support from various agencies whose duty is to promote and monitor in the SMME sector of the economy. Based on a study conducted in Tshwane, Khale (2015) has pointed out that poor municipal services are an obstacle to profitability in start-up businesses. According to Marivate (2014), some of the policies used by the South African Small Enterprises Development Agency (SEDA) are not adequately tailor-made to the operational needs and requirements of SMMEs, and that the policies are not implemented with enough vigor, discipline and commitment. According to Mbonyane and Ladzani (2011), examples of chronic problems that are associated with failure and bankruptcy in start-up businesses are poor planning, the implementation of inappropriate policy, heavy bureaucracy, red tape, poor quality of municipal services, difficulty in obtaining business licenses, difficulty in finding affordable premises for business, lack of current and reliable information about start-up businesses, and poor knowledge of the operational needs and priorities of start-up businesses. The rationale for providing financial and non-financial assistance to start-up businesses is the need to generate jobs and reduce unemployment and poverty among the general population. However, the report issued by SEDA (2013) indicates that sixty percent of all start-up businesses go out of business due to a number of reasons in a number of areas of specialization (Ladzani and Netswera 2009). Marivate (2014) and Worku (2015) have reported barriers such as lack of entrepreneurial skills, poor vocational skills, failure to implement effective assistance to startup SMMEs, lack of access to finance, inappropriate curriculum for producing entrepreneurs, and difficulty in obtaining mentoring and supervisory assistance from SEDA. According to Khale (2015), inability to provide efficient municipal services to startup SMMEs, heavy bureaucracy and red tape involved in obtaining operating licenses are key obstacles to viability in SMMEs in Tshwane. Asah et al. (2015), Mbonyane and Ladzani (2011), Marivate (2014), and Khale (2015) have all reported that although development assistance programs adopted by SEDA are tailor-made to the operational needs and requirements of SMMEs, they are not implemented with enough vigor, discipline and commitment. Studies conducted by Edoho (2015), Shree and Urban (2012), Ligthelm (2011), Booysens (2011), Seeletse (2012) and Srinivas (2013) have all shown that Black Economic Empowerment programs have failed to produce successful entrepreneurs due to poor entrepreneurial and vocational skills, inappropriate academic curriculum, failure to provide effective monitoring and evaluation programs to SMMEs, failure to implement financial rules and regulations that are applicable to public finance, poor municipal services, corruption, political interference, lack of good leadership, and lack of accountability and transparency in the adjudication and award of government tenders. Brownson (2014) and Henrekson (2014) have reported that heavy bureaucracy and the provision of poor services to startup businesses stifle viability, growth and development in newly established SMMEs. Table 1 shows a summary of the financial assistance provided by SEFA to various economic sectors in South Africa in 2013.

Table 1: Financial assistance provided by SEFA to various economic sectors in 2013

Economic sector assisted by SEFA	*Number of approvals*	*Percentage*	*Assistance provided in Rand*
Agriculture and agro-processing	5	1.7	14, 763, 000
Manufacturing	31	10.5	50, 256, 000
Construction and engineering	87	29.6	142, 379, 000
Services and trade	158	53.8	145, 314, 000
Others	13	4.4	13, 817, 000
Total	294	100.00	366, 529, 000

Source: Small Enterprise Finance Agency (2014)

Table 2 shows a summary of loans provided by SEFA to various SMMEs in South Africa in 2013. It can be seen from the Table that 27.82 percent of all loans were provided to 272 SMMEs that fulfilled the requirements for securing loans from SEFA. The Table also shows that wholesalers received 22.89 percent of all loans provided by SEFA in 2013 by virtue of fulfilling the requirements for securing loans from SEFA.

SMMEs are defined by SEDA (2013) as enterprises that possess verifiable assets worth 25 million Rand or less excluding the cost of land and working capital. A microenterprise is defined as a business run by four or fewer members and a turnover of less than 150,000 Rand. A small enterprise is managed by the owner, and has at least 5 and at most 100 employees working in the business. A medium-sized enterprise is managed by the owner, and employs at least 100 and at most 200 employees.

Programs of Assistance Available to South African SMMEs

The South African National Department of Trade and Industry (2015) provides financial and non-financial assistance to start-up businesses by using the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA). The assistance provided to businesses is designed primarily to promote the incubation of businesses in all economic sectors, and is channeled through agencies that work with the South African Government as intermediaries. Examples of such agencies are the National Youth Development Agency (NYDA), NTSIKA Enterprise Promotion Agency, KHULA Enterprise Finance, and the Centre for Small Business Promotion (CSBP). The principal role of the CSBP is to design, propose, implement, monitor and evaluate policies in which businesses are used as a means of generating jobs and alleviating abject poverty among the unemployed masses. Local and global initiatives and strategic partnerships are used for generating adequate resources for the successful implementation of assistance programs. It is worth mentioning that the South African Government works with the European Union (EU) as a means of raising funds for start-up businesses. Financial and advisory assistance is provided to SMMEs by the Industrial Development Corporation (IDC) and the European Investment Bank (EIB). The IDC is foremost in providing loans to newly established businesses of all sizes. Since 2002, manufacturing centers have been set up by the South African Women's Entrepreneur Network. The Small Enterprise Foundation provides small loans to microenterprises. Tshumisano Credit Program (TCP) provides tailor-made financial and technical assistance to female entrepreneurs. The NTSIKA program provides technical assistance to business men and women in areas such as identifying business opportunities, writing up business proposals, making oral presentations, conducting market-related research, developing tender documents, auditing, tax assessment, the completion of loan application forms, the production of business reports, and marketing products, goods and services to potential customers. KHULA Enterprise Finance provides similar financial and administrative assistance to newly established SMMEs. Financial assistance is provided by providing direct loans to SMMEs, providing loan guarantees for loans borrowed by SMMEs from commercial banks,

Table 2: Loans provided by SEFA to SMMEs in 2013

Type of loan provided by SEFA	*Percentage*	*Assistance provided in millions of Rand*
Loan provided for wholesalers	22.9	209
Credit guarantee disbursed to MFIs	1.5	14
Loan provided to MFIs	7.1	65
Loan provided to 272 SMMEs	27.8	254
Loan provided to 60 youth owned enterprises	5.7	52
Loan provided to 95 enterprises in priority rural provinces	10.5	96
Loan provided to 68 women enterprises	7.5	68
Loan provided to 78 black owned enterprises	11.2	102
Small loans provided to 179 entrepreneurs	5.8	53
Total	100.0	913

Source

providing support for the national credit guarantee system, and by providing tailor-made training to entrepreneurs operating startup SMMEs. Similar developmental assistance is provided to start-up and well-established businesses by the Business Referral and Information Network (BRAIN), the Franchise Advice and Information Network (FRAIN) program, the National Coordinating Office for Manufacturing Advisory Centers (NAMAC) and the South African Council for Scientific and Industrial Research (CSIR). The NAMAC program places emphasis on businesses that are owned and operated by historically disadvantaged people. The Business Partners Limited (BPL) program provides loans to businesses. The Tourism Enterprise Program (TEP) targets small businesses in the tourism sector, and provides both financial and technical assistance. The National Small Business Office (NSBO) provides tax related assistance to small businesses.

Challenges to Growth and Viability

Brownson (2014) has listed two barriers that hold back sustainable development in small businesses. These barriers are lack of expertise and knowledge in conducting business operations and inability to market products, goods and services optimally. The author has argued that most new entrepreneurs often lack vocational as well as technical skills in business. Seeletse (2012) has reported that start-up businesses that fail are closely associated with inability to secure loan from microfinance institutions and commercial banks. Marivate (2014) has singled out the dire shortage of business-related and vocational expertise, inability to raise adequate collateral for securing loan and the failure of the current academic programs in South Africa to produce graduates with adequate knowledge in business sciences as the primary reasons for the current high failure rate in start-up businesses. Edoho (2015) has pointed out that poor infrastructural development (Edoho 2015) is a major obstacle. Khale (2015) has highlighted heavy bureaucracy, red tape and legislative obstacles related to trade license applications at municipal level as barriers. Shree and Urban (2012) and Worku (2015) have pointed out obstacles such as costly labour cost, inflexible labour laws, difficulty in raising collateral and intense competition from well-established businesses as factors that hinder sustained profitability in start-up businesses.

Going by research findings published by Srinivas (2013), it is prudent and strategically wise to build capacity into small businesses as a means of building national economies. Lessons drawn from economies in India, Germany, Japan, South Korea, Singapore, Malaysia and China suggest that small businesses deserve policy-based, financial, non-financial and administrative support. Small businesses in the each of the above economies have played a significant role in generating vibrant national economies, generating sustainable jobs and livelihoods, and contributing to Gross Domestic Product (GDP). Incentives are often provided by national governments as a means of attracting investors into the SMME sector of the economy. According to Srinivas (2013) and Henrekson (2014), the provision of tax exemption or reduction is vital for fostering growth in the SMME sector. Mingji and Ping (2014) have pointed out that it is vital to minimize unnecessary bureaucracy as a means of encouraging potential investors to open up start-up businesses. Brownson (2014) has highlighted the benefit of using tertiary level institutions as a ground for breeding business incubators. Marivate (2014) has suggested that immigration policies must be aligned with the basic needs and requirements of foreign investors, and that the South African Government should actively encourage foreign investors by removing administrative barriers. The study conducted by Asah et al. (2015) has shown that although numerous programs have been proposed and executed since April 1994 to promote the incubation of SMMEs, the failure rate in startup SMMEs is still unacceptably high by local and international standards. According to Khale (2015), Brownson (2014), Worku (2015), Marivate (2014) and Seeletse (2012), monitoring and evaluation programs are vital for assessing and evaluating the degree to which start-up businesses benefit from support programs provided by the South African Government.

MATERIAL AND METHODS

The survey lasted five years of follow-up (Marivate 2014) and entailed collecting monthly data from 401 small businesses in Tshwane, South Africa. Constructs used for monitoring profitability in the businesses on a monthly basis were socio-economic. In accordance with the definition provided by SEDA (2013), profitability of businesses was defined as the ability to pay tax at the end of each tax season. Most of the variables used for data collection are indicators of profitability in small businesses. Statistical data analysis was carried out using cross-tab analyses (Hair et al. 2010) and panel data analysis (Cleves et al. 2004). Standard validity and reliability tests were used for ensuring the suitability of data collection instruments for the study.

RESULTS

One key purpose of analysis was to compare profitable and non-profitable businesses with regards to key indicators of profitability in small businesses. Table 3 presents a comparison between profitable and non-profitable businesses. Based on what is presented in the table, profitable businesses have relatively better capacity for conducting business profitably, access to mentorship programs provided by SEDA to small businesses, the possession of relevant or helpful vocational expertise, relatively easy access to loans, relatively higher academic qualifications, and minimal history of past bankruptcy. By the time the survey was concluded, 184 of the 401 businesses in the study (forty-six percent) were found to be profitable, whereas the remaining 217 businesses (fifty-four percent) were not profitable. It can be seen from the Table that sixty-seven percent of profitable businesses were operated by people with adequate capacity for conducting business profitably. The corresponding figure for non-profitable businesses was only twenty-nine percent. Fifty-five percent of profitable businesses received mentorship from SEDA whereas only twenty-eight percent of non-profitable businesses received mentorship from SEDA. Seventy-six percent of profitable businesses were operated by people who possessed relevant vocational expertise whereas only thirty-seven percent of non-profitable businesses were run by people who possessed relevant vocational expertise. It was much easier for profitable businesses (seventy-six percent) to secure loan from microfinance institutions in comparison with non-profitable businesses (thirty-six percent). The percentage of operators with high formal academic qualifications was relatively higher in profitable businesses (seventy-two percent) in comparison with non-profitable businesses (forty-four percent). The incidence of bankruptcy was significantly higher in non-profitable businesses (fifty-seven percent) in comparison with profitable businesses (twelve percent).

The study found that sixty-three percent of the 217 businesses that failed had poor or no access to the market of their choice. The study has found that more than three-quarters of the 217 non-profitable enterprises were run by individuals who lacked basic skills and knowhow in conducting market related research and feasibility studies before launching business ventures. Only nineteen percent of the 217 non-profitable businesses were visited by financial specialists who took time to go through financial statements. Eighty-one percent of the 217 non-profitable businesses were run by operators who possessed no specialized skills in auditing, accounting or taking inventory of stock. Sixty-nine percent of all 401 businesses were unable to order stock in bulk. Forty-nine percent of all 401 businesses were unable to order large volumes of stock on credit. Seventy percent of the 401

Table 3: Comparison of businesses with regards to predictors of profitability

Predictor variable	*Profitable (n=184)*	*Not profitable (n=217)*
Overall capacity for conducting business	Satisfactory: 67% Not satisfactory: 33%	Satisfactory: 29% Not satisfactory: 71%
Level of mentorship received by business	Satisfactory: 55% Not satisfactory: 45%	Adequate: 28% Inadequate: 72%
Vocational expertise of business operator	Relevant: 76% Irrelevant: 34%	Relevant: 37% Irrelevant: 63%
Level of difficulty in obtaining loan from micro lenders or commercial banks	Low: 76% High: 24%	Low: 36% High: 64%
Formal academic qualification of business operator	Degree or higher: 72% Below degree level: 28%	Degree or higher: 44% Below degree level: 56%
Experience of at least one incident of bankruptcy since establishment	Yes: 12% No: 88%	Yes: 57% No: 43%

businesses that were selected for the study complained about bureaucracy and poor municipal services. Twelve percent of businesses stated that they could not cope with their tax repayment obligations. Twenty-seven percent of businesses pointed out that they could not cope with rent. Thirty-two percent of businesses stated that their electricity bills were unaffordable. Forty-two percent of all businesses stated that labour cost was unaffordable and that labour laws were stringent. More than half of all businesses used family members as a means of cutting down operational cost. Twenty-nine percent of the 217 non-profitable businesses in the study indicated that they lacked basic auditing and report-writing skills. Forty-four percent of the 401 enterprises selected for the study were operated by individuals who did not possess competency in developing business plans or tender documents, and had to rely on the services of consultants to have such tasks accomplished. More than half of all 401 businesses (fifty-two percent) were run by people who had a poor understanding of key pieces of legislation and parliamentary Acts that were enacted with a view to support and promote start-up businesses. The study showed that more than a quarter of the 217 non-profitable enterprises were operated by individuals who did not comply with municipal bylaws due to lack of capacity, lack of awareness about their legal obligations to the municipality or lack of discipline. The study found that thirty-three percent of the 217 non-profitable businesses did not recycle, sort or dispose of municipal solid waste properly. Understanding about the Consumer Protection Act was fairly low (forty-three percent) among the 217 non-profitable businesses in the study.

As the design of the study was longitudinal, the most theoretically appropriate indicator of profitability is the hazard ratio (Cleves et al. 2004). Table 4 presents point and interval estimates of hazard ratios obtained from panel data analysis. Adjusted estimates were obtained for geographical location, age of business operator and gender. The results presented in Table 4 indicate that the likelihood of failure in small businesses is significantly influenced by inadequate competency in conducting business profitably, the absence of effective mentoring and supervisory support, and inability to acquire relevant vocational expertise.

In light of the results presented in Table 4, three important conclusions could be drawn about predictors of failure in small businesses. A small business that is run by an operator with inadequate skills for running a business profitably is 3.7 times as likely to fail in comparison with another business that is run by an operator with adequate skills for running a business profitably. A small business that has no mentoring and supervisory support from SEDA is 3.5 times as likely to fail in comparison with another business that has mentoring and supervisory support from SEDA. A small business that is run by an operator with inadequate vocational expertise is 3.4 times as likely to fail in comparison with another business that is run by an operator with adequate vocational expertise.

DISCUSSION

The foremost finding of the survey is that 184 of the 401 enterprises selected for the survey (forty-six percent) were profitable, whereas 217 of the enterprises (fifty-four percent) were not profitable. The top three underlying causes of failure were lack of skills in conducting business, lack of mentorship and supervisory support from SEDA, and lack of relevant vocational expertise and knowhow in conducting business profitably. Profitable businesses were characterized by adequate business skills, access to mentorship and supervisory support from SEDA and relevant vocational expertise and knowhow. Past history of bankruptcy was significantly higher in non-profitable businesses. The study found start-up businesses did not benefit much from developmental support programs run by SEDA. This finding calls for the development of assistance programs that are tailor-made to the immediate practical needs and operational require-

Table 4: Point and interval estimates obtained from panel data analysis

Predictor variable	*Hazard ratio*	*P-value*	*95% C.I.*
Lack of skills in conducting business profitably	3.7	0.000	(1.3, 5.9)
Lack of mentorship and supervisory support	3.5	0.000	(1.4, 5.7)
Inability to acquire relevant vocational expertise	3.4	0.000	(1.6, 5.5)

ments of start-up businesses. According to Edoho (2015), underlying causes of failure in start-up businesses include constructs such as shortage of capital, high cost of renting business premises, inability to draw up business plans, inability to compete for tender opportunities, inability to network and partner with larger and well-established businesses, lack of skills in auditing and accounting, high cost of labor, adverse market conditions, failure to raise enough collateral as a means of securing loan, the practice of selling on credit, the bureaucracy involved in obtaining and renewing business licenses, poor quality of municipal services, and lack of access to skills-based training opportunities offered to start-up businesses by SEDA and non-governmental organizations. Marivate (2015) has pointed out the fallacy in the South African educational curriculum, and has called for an overhaul of the existing curriculum. The author has pointed out that the current curriculum fails to produce graduates with adequate business related skills. Seeletse (2012) and Worku (2015) have pointed out that start-up businesses should be monitored and evaluated by a dedicated team of experts so that support is provided on a continuous basis to start-up businesses for a minimum of three years (the age at which about sixty percent of all start-up businesses fail). Bezuidenhout and Nenungwi (2012) have pointed out that start-up businesses do not have adequate access to finance from the six foremost financial institutions in South Africa (SEFA, IDC, ABSA Bank, First National Bank, Standard Bank and Nedbank). Worku (2015) has highlighted the inability of start-up businesses to raise adequate collateral for the commercial banks, and has suggested that the model used by Grameen Bank in Bangladesh by Muhammad Yunus should be adopted as a means of reaching out to historically disadvantaged business operators in all parts of South Africa including Tshwane.

The study found that sixty-three percent of the 217 businesses that failed had poor or no access to the market of their choice. More than three-quarters of the 217 non-profitable enterprises selected for the study were run by individuals who did not possess basic competency in conducting market related research and feasibility studies before launching business ventures. Only nineteen percent of the 217 non-profitable businesses were visited by financial specialists who took time to go through financial statements. Eighty-one percent of the 217 non-profitable businesses were run by operators who possessed no specialized skills in auditing, accounting or taking inventory of stock. Sixty-nine percent of all 401 businesses were unable to order stock in bulk. Forty-nine percent of all 401 businesses were unable to order large volumes of stock on credit. These findings suggest that lack of business management skills is a key obstacle that stifles sustained profitability in start-up businesses in Tshwane. Inability to cope with tax obligations often compels start-up businesses to operate as informal businesses. Businesses that operate as informal entities are often denied access to support programs that are meant for fostering growth and development in start-up businesses. Over-regulation and bureaucracy are well known deterrents in this regard. More than half of all 401 businesses were run by people who had a poor understanding of key pieces of legislation and parliamentary Acts that were enacted with a view to support and promote start-up businesses. A case in point is lack of awareness about the key provisions of the Reconstruction and Development Program (RDP), the Business Specialist Support (SBP) program and the Unemployment Insurance Fund (UIF).

Start-up businesses encounter financial problems in the course of seeking loan needed for maintaining routine operation. Typically, a start-up business is launched by an enthusiastic entrepreneur who sees a gap in the market. Most entrepreneurs do not conduct thorough market research or feasibility assessment. A couple of months after start-up businesses are launched, they encounter a cash flow problem. Suddenly, a frantic effort is made to secure a loan on favourable terms. The attempt to secure loan fails invariably due to failure to produce adequate collateral in the form of fixed assets. In most cases, desperate entrepreneurs are forced to borrow money from microfinance intuitions and loan sharks who force them to sign unfavourable or stringent terms of loan repayment. Efforts that should be made to market products, goods and services are diverted to fulfilling loan repayment obligations. Often this is done by borrowing additional money on even more stringent terms of loan repayment. This saga ends up with the sale of assets, stock and business license. Not enough research is conducted by first-time entrepreneurs before they embark on business ventures. Some of them do not even have the capacity to assess supply and demand in the local market. They lack skills in gathering vital information on their competitors.

Seventy percent of the 401 businesses that were selected for the study complained about bureaucracy and poor municipal services. Twelve percent of businesses stated that they could not cope with their tax repayment obligations. Twenty-seven percent of businesses pointed out that they could not cope with rent. Thirty-two percent of businesses stated that their electricity bills were unaffordable. Forty-two percent of all businesses stated that labour cost was unaffordable and that labour laws were stringent. More than half of all businesses used family members as a means of cutting down operational cost. Twenty-nine percent of the 217 non-profitable businesses in the study indicated that they lacked basic auditing and report-writing skills. Forty-four percent of the 401 enterprises selected for the survey were operated by individuals who were unable to write their own business plans or tender documents, and relied on consultants to have such tasks accomplished. The study showed that more than a quarter of the 217 non-profitable businesses in the study were operated by individuals who did not comply with municipal bylaws due to lack of capacity, lack of awareness about their legal obligations to the municipality or lack of discipline. The study found that thirty-three percent of the 217 non-profitable businesses did not recycle, sort or dispose of municipal solid waste properly. Understanding about the Consumer Protection Act was fairly low (forty-three percent) among the 217 non-profitable businesses in the study.

Commercial banks and microfinance institutions indicate that it is often difficult for them to obtain reliable, accurate and complete financial information from loan applicants, and that they are reluctant to run the risk of information asymmetry in deciding the outcomes of loan applications by small businesses. Commercial banks often resort to demanding collateral from start-up businesses as a requirement for loan approval. However, the majority of start-up businesses do not have adequate collateral. As a result, start-up businesses are often forced to borrow money from loan sharks under stringent loan repayment conditions and high interest rates. The majority of start-up businesses do not have the ability to write business proposals that fulfill the assessment criteria of the four major commercial banks in South Africa. Although some applicants are financially viable, their applications for loan are often turned down on the basis of the sub-standard business plans they submit as part of their application for loan. This shows that there is a need for the banking sector to meet the financial needs of start-up businesses by providing practical training and assessment. In this regard, there is a need to empower start-up businesses on how to develop feasible business plans for consideration by commercial banks.

Researchers such as Brownson (2014) and Marivate (2014) have suggested that it is essential to overhaul the existing curriculum in South African institutions of higher education and learning so that graduates with adequate entrepreneurial skills could be produced. The suggestion made by the two authors should be heeded as a means of equipping young graduates with life-long and vital business-related skills from industry. Both authors have pointed that the skills based training opportunities that are currently provided to the South African youth are grossly inadequate and irrelevant to the survival needs and operational requirements of start-up businesses.

CONCLUSION

Barriers to profitability that have been identified in this particular study are fairly similar to barriers and obstacles that have been identified in most Sub-Saharan African countries. The key findings of the study are that the various support programs that are currently being used for providing assistance to start-up small businesses have failed to yield tangible results. The failure rate in start-up businesses is still high by local and global standards. The underlying causes of failure are financial, administrative, legislative, educational, cultural and policy-related. Programs of assistance launched by SEDA were often underutilized, under-resourced, misdirected or ineffective. Although the four major banks (ABSA Bank, FNB, Standard Bank and Nedbank) offer assistance to businesses, these programs of assistance were vastly underutilized by operators of start-up businesses. The creation of an enabling and stable macroeconomic environment is essential for fostering sustained profitability in start-up businesses in Tshwane. Doing so entails accountability, transparency, fairness and objectivity. These are the fundamental principles of good governance. Macroeconomic policy must entice potential investors to set up businesses in all parts of Tshwane. In order to achieve this goal, the quality of routine municipal services must be improved as a matter of urgency and strategic priority.

RECOMMENDATIONS

Results obtained from the study call for feasible recommendations. Start-up businesses are losing out due to a combination of factors such as lack of awareness campaigns, the absence of intensive and dedicated training programs on essential business management skills and strict monitoring and evaluation programs. Such measures are required for rehabilitating small businesses that could be revitalized. Microfinance institutions should be given an incentive for launching door-to-door services to start-up businesses with a view to educate new entrants on basic auditing procedures and assess the degree to which the businesses were being operated with due fiscal discipline. This course of action is called for in light of the high prevalence of start-up businesses that abuse or misappropriate loan money. The idea of fair and transparent competition among businesses needs to be promoted among the SMME sector in Tshwane. Research has shown that competition among small businesses often leads to improved customer services and the mastery of vital entrepreneurial skills. In this regard, helpful measures are the provision of training to start-up businesses on how to write business plans and financial statements, the creation of partnerships between start-up and well established businesses, the reduction of red tape and bureaucracy involved in license applications and tax assessment, and the relaxation of immigration and labour laws as a means of attracting foreign direct investment into the SMME sector of the South African economy.

LIMITATIONS OF THE STUDY

It was only possible to conduct the study in Tshwane due to shortage of resources. As such, findings of the study may not be extended to SMMEs in Gauteng Province. In this regard, conducting a similar research in Gauteng Province would be highly helpful for enriching the relevant literature.

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