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A Comparative Analysis of the Socio-Economic Challenges Faced by SMMEs: The Case of the Emfuleni and Midvaal Local Municipal Areas

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Abstract: Flourishing and thriving small, medium and micro enterprise (SMME) sectors have become one of the leading recognised cornerstones of economic development. The ability of these businesses to act as key drivers of economic growth, innovation and job creation make them valuable assets towards any nation's strive for a more inclusive economic and social outlook. For South Africa in particular, burdened by an epidemic of unemployment, poverty and income inequality, SMMEs role in improving the socio-economic environment proves pivotal. Yet, despite their potential, these businesses face a myriad of challenges, emanating from both internal and external environments, that restricts their growth and development. The primary aim of this study is to identify and compare the main socio-economic challenges faced by SMMEs in two local areas within the Vaal Triangle region. The study made use of a quantitative research approach and a cross-sectional research design through means of the survey method. The sample consisted of a total of 198 SMME owners that resided in both the Emfuleni (ELM) (n = 100) and Midvaal (MLM) (n = 98) local municipal areas. Data analysis involved the use of descriptive statistics, cross tabulations and chi-square tests. Overall the results of the study revealed that amongst the biggest challenges faced by SMMEs included managerial as well as economic aspects such as a lack of skilled labour, insufficient business training and lacklustre local economic conditions. The comparative analysis further revealed more significant infrastructural challenges in the Emfuleni local municipal area while market challenges such as a lack of demand as well as higher transportation costs were experienced by SMMEs located in the Midvaal area. The findings of the study provide valuable insight towards fostering an enabling environment for SMME development, specifically on local levels. In this regard policy stakeholders should adopt a multi-sectoral SMME focus. Possible recommendations include enhanced macroeconomic stability, strong public-private partnership formation and the provision of strong business support structures that facilitate management skills development together with the provision of strategic finance facilities.

Keywords: *SMMEs, socio-economic challenges, enabling environment, Emfuleni, Midvaal, South Africa.*

1. Introduction

South African residents are faced with several socio-economic challenges almost on a daily basis. In addition, small, micro and medium enterprises (SMMEs) are also confronted with similar challenges and ultimately, this affects their day-to-day activities. Wickert, (2016) for example, lists various financial, managerial, economic and market challenges. This, in turn, can negatively affect SMMEs performance and decrease the potential contribution they can make towards economic growth and local economic development (LED) (Kongolo, 2010). South Africa is faced with a myriad of challenges such as high unemployment, inequality, corruption and high poverty rates resulting in many socio-economic challenges in the economy (Aliber, 2003). The increase in the unemployment rate has placed a huge responsibility on SMMEs and their sustained growth in the country (Thurik et al., 2008). As such, the government has placed much emphasis on SMMEs to help alleviate this issue and in turn contribute to the reduction of challenges such as poverty and inequality, in order to achieve a higher standard of basic living (The Presidency, 2011).

The emphasis on SMMEs to help improve the overall socio-economic challenges are two-fold. First, hope is placed on SMMEs to employ more people and secondly, due to limited employment opportunities there is a need for more unemployed people to start new businesses (Feindt et al., 2002). There are different motives for starting a business that include, but are not limited to, labour market flexibility, the existence of profitable opportunities, and for survival purposes, as there may not be any alternative employment opportunities available (Pena, 2002). A considerable amount of research has been conducted on socio-economic challenges and how it affects the development of a country (Christina et al., 2014; Chimuchek & Mandipaka, 2015). However, little is known about the effect these socio-economic challenges have on SMMEs within the South African context and even less information is available on a local level (Abor & Quartey, 2010; Meyer & Meyer,

2016a). SMMEs are often referred to as the drivers of economic growth and development especially in low-income parts of a country (Acs, 2006).

As more people earn a sustainable income, general economic development conditions should improve (Lall, 2001). However, as each area is faced with different socio-economic challenges further investigation into specific challenges on a local level as well as how these challenges affect economic development is needed (Simmie & Martin, 2010). Through the better understanding of the effects socio-economic challenges faced by SMMEs have on economic development on a local level, improved policies and regulations could be formulated and implemented to target and improve the level of these socio-economic challenges (Okpara, 2011). Based on the aforementioned, the primary aim of this study is to identify and compare the main socio-economic challenges faced by SMMEs in two local areas within the Vaal Triangle region.

2. Literature Review

South Africa is faced with many daunting socio-economic challenges such as poverty, unemployment and inequality. As a result of these challenges, the government has realised the importance that SMMEs play in potentially alleviating some of these challenges. Most developed economies such as the United States (US), have SMMEs playing a central role towards development and growth in their economies (Kongolo, 2010). SMMEs have the ability to create jobs and are therefore a possible solution to unemployment, jobless growth and other challenges emanating from this phenomenon (Meyer, 2014). Developing countries such as South Africa are starting to adopt a culture of establishing more SMMEs in order to reduce the growing unemployment rate in the country (Kingdon & Knight, 2007). SMMEs have an important role to play in transitioning and developing countries such as South Africa (Sriram & Mersha, 2010) and its development and promotion have been one of the key policy focus areas in South Africa since 1995 (Rogerson, 2011). The SMME sector has the potential to reduce poverty and help to create jobs (Amra et al., 2013). A number of policies have been developed in this regard, accompanied by different policy programmes and initiatives that have been introduced to develop SMMEs in the country (Lewis, 2001; World Bank, 2015). SMMEs are defined as small businesses or firms that are non-subsidiary, independent, and normally employ a few employees compared to large firms with more employees (Kesper, 2001). Globally, SMMEs are seen as important contributors towards the development and increasing productivity and efficiency in an economy and help to boost economic development (Abor & Quartey, 2010). Most developed economies have already implemented SMME policies in order to boost job creation (Rogerson, 2006). In addition, developing economies, especially in Africa, also started following this practice in an attempt to increase SMME development, growth and sustainability (Tambunan, 2008; Kurnia et al., 2015). Table 1 depicts the general definitions of SMMEs based on the National Small Business Act of South Africa.

Table 1: Broad Definitions of SMMEs in the National Small Business Act

Type of firm	Definition
Medium enterprise	Medium enterprises mainly operate in the mining, electricity, construction and manufacturing industry. They have between 100 and 200 employees.
Small enterprises	These have a limit of 50 employees. Small enterprises are more established than very small enterprises.
Very small enterprises	There are less than 10 to 20 employees depending on the industry.
Microenterprise	Usually operates in the informal sector and includes enterprises such as spaza shops (small general dealers) and minibus taxis.
Survivalist enterprise	Also characterised as the microenterprise sector. The income generated is at times beneath the poverty line.

Source: Mahembe, (2011)

As observed from Table 1, the grouping referred to as SMMEs includes several sub-categories and most of the South African, and other developing countries, businesses fall within one of these sub-categories. The importance of SMMEs in current economic conditions can be ascribed to the new and fresh ideas that small businesses bring about through new innovation (Trimi & Berbegal-Mirabent, 2012). Innovation allows SMMEs to take over evolving technologies, making them forerunners of economic development. In addition to

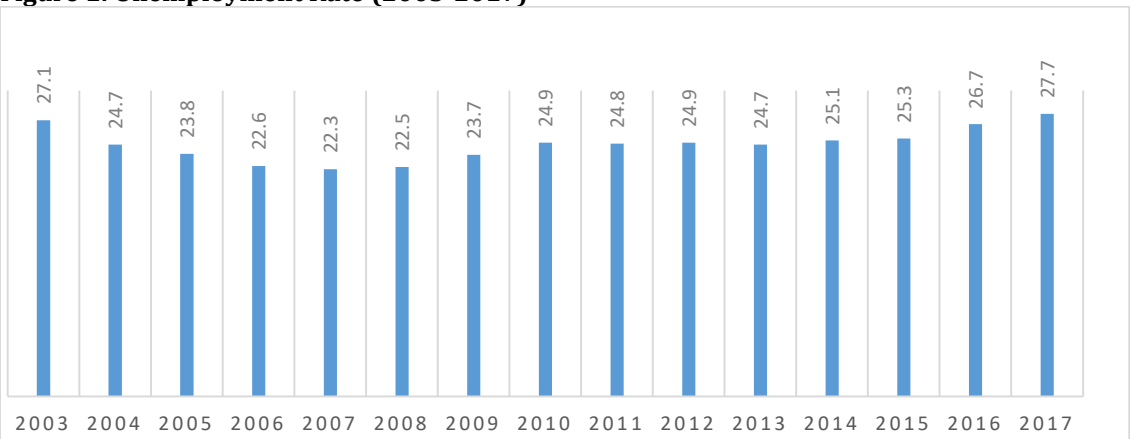
this many established SMMEs adapt to change much easier compared to large firms due to their robust and lean nature (Koudelková & Svobodová, 2014). SMMEs are seen as a key to economic development and play an important role in a country's economy.

Therefore, governments of developing economies should aim their focus on uplifting the development of SMMEs and creating an enabling environment for them to grow in (Aremu & Adeyemi, 2011; Meyer & Meyer, 2016b). As previously mentioned, South Africa is a country that suffers from a high unemployment rate and the government has focused much attention on SMMEs as a potential solution to alleviate this problem (Herrington et al., 2010). Since SMMEs are seen as vital to the economy's prosperity, without the development of these institutions the economy can risk being stagnant and even show no economic growth (Snyman et al., 2014). SMMEs have an important role to play in transitioning and developing countries such as South Africa (Sriram & Mersha, 2010). SMME development and promotion has been one of the key policy focus areas in South Africa since 1995 (Rogerson, 2011). The SMME sector has the potential to reduce poverty and help create new jobs (Amra et al., 2013).

Linking to these statements, a number of policies have been developed, and supported by different policy programmes and initiatives, aimed at assisting in the development of SMMEs in the country (Lewis, 2001; World Bank, 2015). One of the first South African economic post-Apartheid policies was the Reconstruction Development Plan (RDP), which was initiated in 1994. It highlighted that SMMEs are important to develop an economy and create employment (Kongolo, 2010). However, the policy did not receive enough support at that time and struggled to effectively achieve its predetermined objectives. Due to high levels of poverty and unemployment during that time, the purpose of the RDP was to initiate employment creation, increase income distribution and spur economic growth (Ardington & Lund, 1995). The RDP was developed as a socio-economic policy that was aimed to unify the citizens of South Africa and its resources towards the final process of abolishing the inequalities created through Apartheid with the goal to build a democratic, non-racial, non-sexist nation (Rogerson, 2004).

Since the National Small Business Act (Act 102 of 1996) was established, a number of policies and programs have been developed in support of SMMEs. Nevertheless, the motivation behind SMME development in South Africa is complex and many of these policies and initiative seemed lacklustre. Improving the implementation and subsequent impact of these policies and initiatives can greatly aid in the development and growth of SMMEs. The results could be significant and include increased economic growth and help reduce the growing epidemic of unemployment in the country, resulting in an improvement in the populations' quality of life (Kongolo, 2010). This could increase the distribution of income in the country with an opportunity to reduce the inequality gap amongst the South African population (Zulu, 2014). South Africa is faced with several socio-economic challenges that not only affect the local population, economy and general living conditions but also have a major impact on business activities and success rates. The South African unemployment rate reached its ultimate high in 14 years at 27, 7 percent in 2017 as indicated in Figure 1 (Stats SA, 2017).

Figure 1: Unemployment Rate (2003-2017)



Source: Stats SA (2017)

Figure 1 graphically illustrates the unemployment rate from 2003 to 2017. It shows that the unemployment rate has hit its ultimate high since 2003. This could be partly due to several large parastatals and industries (for example, Telkom, Lon min, South African Post Office, Absa, Harmony Gold and Samancor) implementing mayor retrenchments and staff reduction policies resulting in the layoff of thousands of workers (Writer, 2016). There is an urgent need to find ways to combat this growing epidemic (Chibba & Luiz, 2011). In an attempt to find a solution to this problem much emphasis has been placed on education and entrepreneurial development. The lack of an entrepreneurial culture and the present state of education in the country is alarming. Realistic policies and initiatives need to be implemented in order to enhance education and entrepreneurial development in the country. The South African education system is facing many different challenges and compared to other developing countries, the standard of education in South Africa is generally very poor. This has resulted in challenges such as a lack in basic skills and knowledge, which could also a potential contributor to the high unemployment rate. As the population continues to grow and the number of citizens who attend tertiary institutions increase, the reality of rising unemployment due to limited formal employment opportunities become more prevalent. In light of this, the need for entrepreneurs and small business development should be emphasised in order to create more sustainable jobs. Many developed economies have used entrepreneurship as a tool to alleviate the unemployment and growing population challenges (Nkechi et al., 2012). Identifying the challenges faced by SMMEs in realising their development potential could be key to finding sustainable long-term solutions to overcome these. The South African business environment has been struggling with several economic and socio-economic issues deteriorating the much needed enabling environment needed for them to reach their full potential.

3. Research Methodology

This section of the study has the purpose to elucidate on the methodology that was used in successfully completing the inquiry. Henceforth, sections that are discussed include the research purpose, geographical area of the study as well as the procedure method for data collection. Additionally, aspects such as the sampling strategies as well as analysis techniques that were used are likewise elaborated on.

Research Purpose and Design: The primary objective of this study was to identify and compare the main socio-economic challenges faced by SMMEs in two local areas within the Vaal Triangle region. Towards achieving this aim, the study made use of a quantitative research approach and a cross-sectional research design through means of the survey method. Kelley et al. (2003) assert that these methods ascribe various advantageous in the research process including the provision of information on a wide range of variables, freedom and anonymity to participants that facilitates better responses and additionally permits coverage of sample sizes that are too some extent generalize-able to the population. Finally, based on the statistical nature of the study and the belief that understanding social occurrences is best done through observation (Clarke, 2009) a positivist paradigm was chosen to serve the philosophical base for the inquiry.

Geographical Area of the Study: The study was undertaken in the Southern parts of the Gauteng province within two local municipal areas of Emfuleni and Midvaal. The areas are located within the Vaal Triangle functional economic region situated 50 km South of Johannesburg. The region is well known for its industrial nature with predominant economic sectors comprising manufacturing, trade, government and business services, all which attribute various linkages with surrounding areas such as Bloemfontein, Sasolburg and Rand burg (Vyas-Doorgapersad, 2014). These areas were specifically chosen given the fact that many local municipal areas face a range of issues that include but are not limited to the lack of service delivery, lack of sanitation, the lack of access to resources and the inability of providing an enabling environment for their citizens and small businesses for growing in. Emfuleni in this regard faces many socio-economic challenges (as shown in Table 2) such as high unemployment rates and a high number of the population living below the poverty line.

In comparison, the Midvaal Local Municipality is the fastest growing and developing municipality within the Sedibeng district. Upon viewing the socio-economic data presented in Table 2, the municipality attributes a higher human development index (HDI) scores, GDP per capita levels and comprises more diversified economic structures (higher tress index scores). Nevertheless, as depicted in Table 2, challenges in the area do exist, particularly concerning property and violent crimes, lower levels of urbanisation and severely high

levels of income inequality. The sample was selected by using a non-probability snowball sampling technique. Through the use of a historical referencing approach (Stander, 2011; sample size = 87; Rasego, 2011; sample size = 138), a final sample size of 200 was deemed adequate. After data collection was concluded and the preliminary data analysis was finalised, a total of 198 completed questionnaires were deemed useable with no discrepancies shown in the responses.

Table 2: Socio-Economic Background of the Emfuleni and Midvaal Local Municipal Areas (2017)

Indicator	Emfuleni LM	Midvaal LM
GDP per capita	R45 137	R51 358
Trade balance	R-4 729 738	R-64 474
Average income per household	R180 075	R306 042
Human Development Index	0.68	0.74
Gini coefficient	0.63	0.63
Crime index	92.33	120.11
People below the lower poverty line	264 391	25 991
Unemployment rate	56.3%	34.3%
Economic active population	50.1%	51.5%
Level of urbanisation	99.3%	87.2%
Infrastructure index	0.83	0.89
Tress index	51.93	42.12

Source: IHS Global Insight (2017)

Survey Design, Procedure Method and Sampling: For the purpose of collecting the required primary data, a self-administered questionnaire was used. The questionnaire was constructed based on extensive literature and empirical reviews regarding the various challenges faced by SMMEs in the Southern African context. The questionnaire included three sections. The first of these had the aim of gathering information on the participants' demographic background. Included questions comprised aspects pertaining to the age, race and level of education. The second section was directed towards capturing business specific information such as the sector of operation, legal form and the size of the business based on employee numbers. Finally, the last section, section C, was aimed at gathering information on the main socio-economic challenges faced by the SMMEs specifically regarding economic and business related aspects which are hindering development. In doing so, Olawale and Garwe's, (2010) tested and validated scale was used. The scale comprises a total of 30 items that are evenly divided between challenges relating to the internal and external aspects of the business.

After the construction of the questionnaire was completed and prior to its actual distribution, the measuring instrument was subject to a pre-test and peer review. This was done with the objective of assessing the design and structure of the measuring instrument (Burns & Bush, 2010). This entailed distributing the questionnaire among various experienced researchers in the field of economic development and entrepreneurship with the purpose of enhancing face validity. Thereafter, the questionnaire was piloted on a group of 48 local business owners in the study area which did not form part of the final sample. After ascertaining its applicability, the questionnaire was finally distributed through four experienced fieldworkers within the Emfuleni and Midvaal local municipal regions where the density of business owners (small, large and medium enterprises) was relatively high. This included central business districts (CBDs) as well as industrial areas. In order to ensure clarity, the fieldworkers made sure that the participating business owners understood the questions and explained any uncertainties when deemed necessary.

Ethical Considerations: In order to ensure the integrity and objectiveness of the study, all ethical standards of academic research were strictly followed. This included subjecting the measuring instrument to a review by a university's ethics committee, providing assurance of voluntary participation during the data collection process and strictly confirming anonymity in reporting the findings of the study. Moreover, with the purpose of achieving high standards of a technicality in research, the study involved rigorous principles of referencing in order to reject any form of plagiarism.

Data Analysis: The statistical package for social sciences (SPSS 25.0) software was used for the purpose of the data analysis. The first step included an analysis of the demographics of the respondents and the composition of their businesses by making use of descriptive techniques and frequency distributions. Thereafter, both the internal and external socio-economic challenges of respondents in the respective local municipal areas were identified and compared. These included various financial and management aspects of the SMMEs together with various economic, market and infrastructural related hindrances these businesses face on a daily basis. In conducting the comparative analysis, the study made use of cross-tabulations, chi-square statistics and a one-way ANOVA analysis in order to ascertain if the various challenges were experienced similarly by SMMEs in the two study areas. More specifically, these techniques were applied to test the following hypotheses:
$\mathbf{H_0}$**:** Internal and external challenges faced by SMMEs in both municipalities are the same.
$\mathbf{H_1}$: Internal and external challenges faced by SMMEs in both municipalities are different.

4. Findings of the Study

This section showcases the findings of the study and comprises two sections. The first of these report on the demographic background of the participants together with the composition of their businesses. This is followed by the results pertaining to the comparative analysis in respect of the various socio-economic challenges faced by SMMEs in the study areas. Here, results directed towards the internal challenges are discussed first. Thereafter, results pertaining to the external challenges are elaborated on.

Demographic Background and Business Composition: As the first part of the analysis, Table 3 and 4 report on the composition of the sample. Results show that participants consisted of approximately 41.4 percent of White business owners, 33.3 percent Black business owners while 18.6 percent were Indian or Asian. Considering age, Table 1 indicates that a large majority of the sample were between the ages of 31 to 60 years. More specifically, those between the ages of 41 and 50 years comprised almost a third (28.8%) of the sample which was followed by the 51 to 60-year age group (26.3%) and those between the ages of 31 and 40 years (23.7%). Relatively a small percentage of the business owners indicated that they were younger than 30 years (17.1%). Likewise, Tyrell (2015) reported that business owners who are younger than 35 years of age has dropped from 13,3 percent in 1989 to 11,7 percent in 2013. The study suggests that lower representation from younger age cohorts are structured primarily around the lack of funding and collateral for younger applicants. The distribution pertaining to the participants based on their gender indicates that almost three-quarters of the sample consisted of male business owners (f=145; 73.3%) compared to the 26.7 percent who were female. Whilst this is comparatively high, business ownership in South Africa continues to illicit large-scale inequality regarding gender. In fact, female entrepreneurs in the country are more likely to encounter challenges compared to their male counterparts solely based on gender stereotyping (Mordi et al., 2010).

Whilst these aforementioned characteristics showed somewhat noticeable differences, the distribution of the business owners according to the level of education illustrates a more representative composition. Results from Table 3 indicate that approximately 28.8 percent of the participants were in possession of a secondary qualification, followed by those that obtained a tertiary certificate (23.7%) and those who had a diploma (19.3%). Only a small fraction indicated that they had obtained a degree (10.2%) and even more so for those who had a post-graduate degree (5.4%). Worryingly though, is that eight percent reported that they did not complete any form of secondary schooling. Finally, as part of the measuring instrument, participants were asked on their duration of self-employment. As shown in Table 3, the majority (76.2%) reported that they were in the position for more than 3 years while only 18.2 and 5.6 percent were operating their businesses for 1 to 3 years and less than a year respectively.

Table 3: Demographic Composition of the Sample

Aspect	Sub-category	Frequency (*f*)	Percent (%)
Race	Black / African	66	33.3
	Coloured	13	6.6
	White	82	41.5
	Indian / Asian	37	18.6
Gender	Female	53	26.7
	Male	145	73.3
Age	Younger than 21 years	5	2.5
	21 – 30 years	29	14.6
	31 – 40 years	47	23.7
	41 – 50 years	57	28.8
	51 – 60 years	52	26.3
	Older than 60 years	8	4.04
Level of education	Not completed matric	25	12.6
	Secondary school	57	28.8
	Certificate	47	23.7
	Diploma	38	19.3
	Degree	20	10.2
	Postgrad. Degree	11	5.4
Duration self-employed	Less than 1 year	11	5.6
	1 – 3 years	36	18.2
	More than 3 years	151	76.2

Source: Authors own compilation from collected survey data

In conjunction with the demographic analysis, it was necessary to obtain the business specific information, which included the type of sector the sampled businesses were operating in, their legal forms as well as the size of the business to better comprehend the nature of the challenges faced. Results showcasing these statistics are reported in Table 4. Based on the sectoral representation, results indicate that approximately a third of the sample (31.8%) operated within the Trade sector and was closely followed by those in Services (26.3%). Representation from other sectors was somewhat lower where among other 8.1 percent of the businesses were situated in Transport, 6.1 percent in Manufacturing and only 4.0 percent in Education. Whilst the most dominant sector in the Vaal Triangle and in the Sedibeng district is the manufacturing sector (30,8%), this particular study focused on SMMEs in the Emfuleni and Midvaal areas which might suggest the lower representation in these specific sectors. Regarding the participants' business' legal form, results shown in Table 4 point out that the majority of small businesses in the area are partnerships (29.8%), sole proprietors (21.7%) as well as those that were not formally registered (20.7%) Conversely, larger legal forms such as public companies (6.6%) and closed corporations (9.6%) served as minority within the sample. Finally, regarding the size of the business, as one would come to expect given the nature of SMMEs, the distribution of the sample favoured smaller entities. Almost half of the sample (48.9%) comprised businesses with one to five employees this was followed by those with six to 10 employees and those with 11 to 49 employed individuals.

Table 4: Distribution of the Sample According to Business Characteristics

Aspect	Sub-category	Freq. (*f*)	Percent (%)
Sector of business	Agriculture	9	4.5
	Manufacturing	12	6.1
	Construction	13	6.6
	Trade	63	31.8
	Education	8	4.0
	Transport/Distribution	16	8.1
	Health and safety	12	6.1
	Financial services	3	1.5
	Production	4	2.0
	Services	52	26.3

	Other	6	3.0
Legal form	Sole proprietor	43	21.7
	Partnership	59	29.8
	Closed corporation	19	9.6
	Private company	23	11.6
	Public company	13	6.6
	Not registered	41	20.7
Business size	Only myself	29	14.6
	1–5 employees	97	48.9
	6–10 employees	33	16.7
	11–49 employees	29	14.6
	50–200 employees	10	5.2

Source: Authors own compilation from collected survey data

Descriptive Analysis on the Socio-Economic Challenges Faced by SMMEs: After reporting on the composition of the sample, the next step in the analysis pertained to the descriptive analysis of the various challenges faced by the SMMEs. However, prior to this exploration it was first necessary to determine the reliability and validity of the constructs that were used within the scale. This was done by using the Cronbach's alpha as well as average inter-item correlations as measures of internal consistency for which results are reported in Table 5. Results from the tests show that all computed Cronbach's alpha coefficients were estimated above the prescribed 0.7 level (Malhotra, 2010) and all average inter-items correlations between the accepted 0.15 and 0.5 thresholds (Clark & Watson, 1995) indicating that the used constructs in the measurement process were all deemed reliable. This includes the provision of sound and stable macro and microeconomic environments, transparent and effective regulations and prioritising responsive SMME support. Secondly, whilst SMMEs are seen as pivotal drivers towards reducing large-scale structural unemployment, their ability to do so largely hinges on the employment of skilled labour. Therefore, in order to take advantage of these enterprises' potential for poverty alleviation and the improvement in general economic conditions necessitates the creation and supply of innovative training initiatives and entrepreneurship promotion, especially among young unemployed individuals.

Table 5: Results of the Internal Consistency Tests for All Used Constructs

Construct Name	Number of items	Cronbach alpha	Average inter-item correlation
Financial challenges	9	0.809	0.180
Managerial challenges	6	0.730	0.311
Economic challenges	6	0.798	0.278
Market challenges	4	0.735	0.223
Infrastructural challenges	5	0.710	0.329

Source: Authors own compilation from collected survey data

Internal challenges faced by the businesses: Internal factors in the business environment relate to the factors that are largely controllable by the firm. These factors include among other, finance (such as owners' equity and collateral) and managerial competency (Fatoki & Asah, 2011) all which have a substantial influence in the success or failure of running a business. Towards analysing the specific internal challenges these participants faced, the study made use of cross-tabulations and chi-square statistics with the purpose of elucidating if these challenges were experienced differently in the selected study areas. Table 6 indicates results pertaining specifically to the various financial challenges that the participants encountered. Results from the table show that business owners from both areas agreed that a number of these challenges were a concern. For instance, 91.8 percent (11.2 + 80.6) of the participants in the Midvaal area agreed that the lack of collateral is a core aspect relating to the financial challenges as did 73.4 percent (21.4 + 52) of the participants in Emfuleni. Furthermore, 92.7 percent (41.1 + 51.6) of the Midvaal participants and 90.8 percent (43.9 + 46.9) of the participants in the Emfuleni concur that production costs is a huge financial restraint towards the prosperity of the business. The OECD (2017) in this regard reiterates that SMMEs,

especially those in developing countries, struggle to acquire the needed finance which prohibits possible dynamism and the ability to be financially viable.

Table 6: Participants Perceptions Regarding the Financial Challenges Faced in the Study Areas

Aspect	Midvaal LM				Emfuleni LM				χ^2
	SD	D	A	SA	SD	D	A	SA	p-value
Access to finance	4.1	29.6	35.7	30.6	9.0	27.0	42.0	22.0	0.158
Collateral	2.0	6.1	11.2	80.6	4.1	22.4	21.4	52.0	0.000*
Crime	1.0	6.1	21.4	71.4	0.0	14.0	36.0	50.0	0.009*
Lack of equity	2.0	48.0	29.6	20.4	6.1	29.6	40.8	23.5	0.042**
Credit record	1.0	6.2	52.6	40.2	0.0	18.0	46.0	36.0	0.062***
Government support	1.0	11.2	53.1	34.7	1.0	17.0	36.0	46.0	0.113
Production costs	0.0	7.4	41.1	51.6	0.0	9.2	43.9	46.9	0.781
Information technology	1.1	63.2	28.4	7.4	1.1	34.4	37.6	26.9	0.000*
Corruption	4.9	62.2	22.0	11.0	1.1	36.6	33.3	29.0	0.001*

Note: * significant at 0.01 sig. level ** significant at 0.05 sig. level *** significant at 0.10 sig. level
SD: Strongly Disagree, D: Disagree, A: Agree, SA: Strongly Agree
Source: Authors own compilation from collected survey data

Relating to aspects pertaining to insufficient access to information technology and high corruption in their local environment, responses (as shown in Table 6) indicate high percentages of disagreement in the Midvaal area signalling that business owners did not believe these aspects affected their business operations. Conversely though, participants from the Emfuleni area showed strong agreement. The high chi-square statistics of 19.660 and low p-values (0.000) for information technology and chi-square statistics of 17.025 and p-value (0.001) for corruption, indicate that these dissimilarities were in fact significant at a 1 percent significance level. Madumo, (2015) opinions that there exists widespread acknowledgement regarding inexplicably high levels of corruption at a local municipal level in South Africa. Whilst these actions affect various processes, their impact on SMME development is detrimental. Leboea, (2017) indicates that the underlining presence of corruption increases longevity in compliance processes as well as induces additional monetary expenses used to bypass these practices. Moreover, these actions deter resource distribution initially intended towards improving the operational environment and as a result attributes significantly lower support for these enterprises.

In addition to these internal aspects, the lack of management skills has shown to have a significant impact on the chances of SMME success (Chimucheka & Mandipaka, 2015). Without adequate operational knowledge and sufficient training, efficiency regarding management of the enterprise can pose a significant hurdle towards the longevity of SMMEs. Table 7 shows results pertaining to the various managerial challenges that the participants experienced in the selected study areas. Amongst the six included items, participants from both areas illustrated a strong acknowledgement that the lack of sufficient business straining as well as a shortage of skilled labour posed significant managerial challenges for their businesses. High levels of unemployment in the country have continuously been attributed to a lack of needed tertiary skills. As a result, various individuals attempt to obtain a means of financial independence seek self-employment however, without the needed skill set to effectively operate the business. This furthermore poses a challenge when trying to fill vital employment positions requiring specific skill sets (Mxunyelwa & Vallabh, 2017). Whilst these challenges were experienced relatively similar amongst the groups, perceptions surrounding the lack of business skills showed statistically significant differences (p-value < 0.01). From this perspective, business owners in the Midvaal area seemed to perceive the challenge as less important when considering the responses from those in the Emfuleni municipal area.

Table 7: Perceptions Regarding the Managerial Challenges Faced in the Study Areas

Aspect	Midvaal LM				Emfuleni LM				χ^2
	SD	D	A	SA	SD	D	A	SA	p-value
Lack of experience relevant to the venture	1.0	29.6	37.8	31.6	0.0	20.0	30.0	50.0	0.050**
Founder not familiar with the industry	2.0	37.8	36.7	23.5	3.0	16.0	44.0	37.0	0.006*
Lack of networking	1.0	9.3	39.2	50.5	1.0	15.2	47.5	36.4	0.219
Lack of business skills	1.0	43.9	20.4	34.7	3.0	16.0	36.0	45.0	0.000**
Shortage of skilled labour	1.0	10.2	13.3	75.5	2.0	10.1	29.3	58.6	0.139
Lack of training	0.0	6.0	23.5	70.4	0.0	12.0	35.0	53.0	0.138

Note: * significant at 0.01 sig. level ** significant at 0.05 sig. level *** significant at 0.10 sig. level
SD: Strongly Disagree, D: Disagree, A: Agree, SA: Strongly Agree
Source: Authors own compilation from collected survey data

External challenges: External challenges are classified as challenges that SMMEs have no control over but have an influence on the establishment and prosperity of a business. Furthermore, the changes that take place in the external environment can either have a negative or positive influence on business. These external issues include; economic, market and infrastructural challenges. Table 8 shows the participants' perceptions regarding the various economic challenges faced. Considering all items included within the construct, participants agreed that most of the underlining economic conditions faced had a serious impact on their business operations. For both areas, more than 90 percent of the participants agreed that presuming tax rates, interest rates and recessionary pressures all posed significant challenges in their daily operations. For the last decade the South African economy has experienced significantly low economic growth rates contributing to low consumer confidence which has significantly reduced sales (Leboea, 2017). Moreover, many small businesses are predisposed to exchange rate risks and at times some business owners do not realise it (Mahapa, 2017).

Table 8: Perceptions Regarding the Economic Challenges Faced in the Study Areas

Aspect	Midvaal LM				Emfuleni LM				χ^2
	SD	D	A	SA	SD	D	A	SA	p-value
High interest rates	0.0	4.1	38.8	57.1	0.0	7.0	36.0	57.0	0.650
High taxes and tariffs	0.0	2.0	34.7	63.3	3.1	11.5	38.5	46.9	0.007*
Recession in the economy	0.0	2.0	24.5	73.5	0.0	5.0	34.0	61.0	0.142
High inflation rates	0.0	4.1	13.3	82.7	0.0	8.0	31.0	61.0	0.003*
High exchange rates	0.0	1.0	24.7	74.2	0.0	6.1	36.4	57.6	0.021**
Location of the business	8.4	32.6	46.3	12.6	7.1	26.5	43.9	22.4	0.332

Note: * significant at 0.01 sig. level ** significant at 0.05 sig. level *** significant at 0.10 sig. level
SD: Strongly Disagree, D: Disagree, A: Agree, SA: Strongly Agree
Source: Authors own compilation from collected survey data

SMMEs in this sense are often hit the hardest during an economic recession with noticeable impacts on the cash flow of the business and ultimately job losses. Businesses often find it difficult to establish the right market and at times they cannot control certain context-specific factors. In measuring the extent of such challenges for SMMEs, participants were asked to what extent they believed competition levels, transportation costs and inadequate market research affected their likelihood of success. From the responses shown in Table 9, a total of 92.9 percent (33.7 + 59.2) of the participants in the MLM area and 84 percent (44 + 40) in ELM agreed that high transportation costs are one of the core market challenges. Ndiang'ui (2012) suggests that most small businesses are highly dependent on hired transportation to transport goods from manufacturers and wholesalers and can have a substantial impact on the final profit margins of these businesses. The high chi-square value = 8.380 and low p-value = 0.015 suggest that, although both groups agreed, their indifferences are significant at a 1 percent significance level. Relating to the lack of demand for

their products, 56.1 percent (6.1 + 50.0) of the participants in the MLM area disagreed while 55.2 percent (36.6 + 18.6) in the ELM area agreed that this is in fact a challenge affecting their business operations. These differences are shown to be significantly different across the groups (*p-value < 0*) suggesting that lower demand levels might be more prevalent in the Emfuleni area.

Table 9: Perceptions Regarding the Market Challenges Faced in the Two Study Areas

Aspect	Midvaal LM				Emfuleni LM				χ^2
	SD	D	A	SA	SD	D	A	SA	p-value
Inadequate demand	6.1	50.0	33.7	10.2	6.2	39.2	36.1	18.6	0.000*
High competition	0.0	11.2	27.6	61.2	4.0	15.0	26.0	55.0	0.185
High transport costs	0.0	7.1	33.7	59.2	0.0	16.0	44.0	40.0	0.015**
Inadequate market research	3.1	38.1	42.3	16.5	8.0	31.0	36.0	25.0	0.168

Note: * significant at 0.01 sig. level ** significant at 0.05 sig. level *** significant at 0.10 sig. level
SD: Strongly Disagree, D: Disagree, A: Agree, SA: Strongly Agree
Source: Authors own compilation from collected survey data

Finally, Table 10 showcases participants' perceptions regarding the infrastructural capacities relevant to their area of operation. Results from the table show that a total of 88.8 percent (37.8 +51.0) of the participants in the Midvaal a read is agreed towards aspects such as poor infrastructure capacity and maintenance while 87.8 percent (43.9 + 43.9) similarly did not acknowledge that poor service delivery was present. Additionally, 83.7 percent (18.4 + 65.3) of the participants illicita high degree (83.7%) of disagreement regarding poor telecommunications. On the other hand, participants in ELM area responded otherwise. High chi-square values and low p-values relating to these specific aspects (poor infrastructure capacity;χ^2 = 34.96; p = 0.000; poor service delivery; χ^2= 34.124, p = 0.000; poor telecommunications;χ^2= 32.141, p = 0.000), all suggest that participants in the two study areas significantly differed in their perceptions. Therefore, the null hypothesis that these challenges were experienced similarly can be rejected at a 1 percent significance level. These results tend to suggest that businesses in the Midvaal area were more positive regarding the prevailing infrastructural environment as well as the delivery of services they experienced. Similar results were reported by Meyer et al. (2016) which found business owners' perceptions to be above average regarding service delivery in the Midvaal area. Despite these differences, participants in both areas did agree that the lack of available business premises and red tape regulations are key infrastructural challenges. The latter has extensively been recognised as deterring factor for SMME operations in South Africa.

Table 10: Perceptions Regarding the Infrastructural Challenges Faced in the Two Study Areas

Aspect	Midvaal LM				Emfuleni LM				χ^2
	SD	D	A	SA	SD	D	A	SA	p-value
Poor infrastructure capacity and maintenance	37.8	51.0	5.1	6.1	22.0	28.0	21.0	29.0	0.000*
Poor service delivery	43.9	43.9	5.1	7.1	26.0	18.0	29.0	27.0	0.000*
Poor telecommunications	18.4	65.3	10.2	6.1	10.4	34.4	31.3	24.0	0.000*
Lack of available business premises	4.1	19.4	33.7	42.9	3.0	15.2	38.4	43.4	0.808
Red tape and regulations	1.0	22.9	31.3	44.8	4.1	22.4	31.6	41.8	0.605

Note: * significant at 0.01 sig. level. SD: Strongly Disagree, D: Disagree, A: Agree, SA: Strongly Agree
Source: Authors own compilation from collected survey data

One-Way a nova Analysis: After concluding the analysis on specific individual aspects that affected SMME success within the study area, it was likewise important to ascertain whether as a whole, the various internal and external challenges were perceived similarly. In doing so, the study made use of a one-way between groups ANOVA analysis for which results are reported in Table 11. From the illustrated results, it can be deduced that challenges relating to these businesses' internal environment were perceived alike. Here, both F-statistics relating to financial (F = 0.010) and managerial aspects (F = 0.547) together with the

corresponding p-values suggest that the null hypothesis could not be rejected even at 0.10 significance level. SBP (2013) reiterates that these concerns revolve mainly around three factors including mandatory business regulations, restrictive labour market laws and municipal discrepancies which disrupts and deters effective business operations.

However, regarding the external environment, significant differences were noted specifically considering economic (at 0.05 significance level) and infrastructural aspects (at 0.01 significance level). For economic challenges specifically, mean scores for the Emfuleni group were somewhat lower compared to those of the Midvaal group. This suggests that more economic challenges are prevalent in the area. The Partial Eta Squared coefficient (η^2) of 0.003 however suggests the effect size be small ($0.01 < \eta^2 < 0.09$). Contrastingly, businesses in the Emfuleni area seem to experience greater infrastructural constraints in comparison to the Midvaal area with a η^2coefficient of 0.119 (> 0.130) portraying a medium effect size.

Table 11: One-Way Between Groups a Nova Results

Socio-economic challenges	Midvaal LM ($\bar{x}$)	Emfuleni LM ($\bar{x}$)	F-statistic	p-value	η^2
Financial	3.067	3.072	0.010	0.922	0.000
Managerial	3.234	3.287	0.547	0.460	0.003
Economic	3.500	3.368	6.356	0.013*	0.033
Market	3.059	3.003	0.595	0.442	0.003
Infrastructural	2.400	2.855	25.156	0.000*	0.119

Note: Mean ($\bar{x}$) scores ranged from 1 to 4

5. Conclusion and Recommendations

The primary objective of this study was to identify and compare the main socio-economic challenges faced by SMMEs in two local areas within the Vaal Triangle region. Based on the literature review as well as the findings of the study, SMMEs in the South African context seem to face a myriad of external and internal challenges that are severely restricting their potential as crucial growth drivers. Within the context of the study area there seems to be various overarching factors that similarly affect these entities particularly pertaining financial, managerial and market-related aspects. These included factors such as a lack of access to finance, insufficient government support, significantly high levels of competition and the lack of needed skills and expertise to be successful. Significant differences were however noted in the manner in which businesses experienced challenges regarding their economic environment and infrastructural capacities. For businesses in the Emfuleni area the latter specifically came to the fore with participants recognising the need for improved infrastructural capacities and effective and efficient service delivery. On the other hand, participants located in the Midvaal area attributed greater economic related hindrances such as higher taxes as well as inflation rates.

Additionally, these aspects together with managerial related factors were considered the most deterring challenges in both areas. The findings of the study therefore disclose various implications. First, among these, the study revealed that SMME success crucially depends on the creation of an enabling environment from local stakeholders. Further recommendations include the provision of incentives to spur on new business development, facilitating enhanced public-private partnership formation and ensuing with an invigorated focus towards identifying areas for export competitiveness. Whilst the study significantly contributes to the body of knowledge surrounding SMME development within developing regions its limitations surrounding non-probability sampling and cross-sectional design provide the potential for future inquiries. Forthcoming studies should seek to analyse these stumbling blocks using longitudinal designs in order to provide varying insights. Moreover, these endeavours can possibly further include comparisons with more developed local regions.

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