Why do some government support structures fail to aid the growth of SMEs in the Gauteng Province of South Africa?

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**ABSTRACT**

This study focuses on understanding the reasons why the support programmes initiated to enhance the success of black-owned small and medium-sized enterprises (SMEs) have not shown the successes that were envisaged. Some government agencies are in charge of these programmes. The sampling frame consisted of previously assisted SMEs by the support agencies. SMEs were represented by high-ranking officials as study participants. There were signs that the support programmes were not effective in improving the SMEs. The responses indicated that the programmes’ weaknesses can be attributed to the aid not being customized to the needs of the SMEs. There were training initiatives in some instances. According to the responses, the training was not based on the training needs of the SMEs. The SME practitioners, therefore, did not improve on their weaknesses. Finances that were given out as aid, according to the respondents, were dictated by the donor and did not allow flexibility according to the purchasing needs of the SMEs. Apparently, aid was in one form for all the SMEs. These supports ended up not helping to improve the SME. The paper recommended the customization of the aid to the needs of the SME.

**Introduction**

Many countries all over the world continue trying to keep their economies afloat as the demands from populations continue to increase due to dynamic developments. Employment is one of the difficult trades to maintain, especially in undeveloped countries, which are termed “developing” countries. Due to their governments’ inability to manage or govern, these so-called developing countries are deteriorating instead. Considering South Africa since the dawn of democracy in 1994, the country has reached its worst levels of unemployment at more than 32% in 2023 (Statistics South Africa [Stats SA], 2023). The youth unemployment rate, measuring jobseekers between 15- and 24-years old, dropped to an over one-year low of 58%. In the history of this country, during the apartheid days and the days of the “Bantustans” – those territories that were designated by the apartheid administration of South Africa as part of its policy to separate the country into white and African parts (Clark & Worger, 2016) – South Africa has reached its worst unemployment rate ever. The Bantustan system was controversial and developed slowly, first by consolidating “native” reserve land and later by giving these territories increasing power (Ainslie & Kepe, 2016; Evans, 2023; Lemon, 2021).

The Bantustans were fundamentally rejected as political deceptions and believed to be governed by illegitimately installed chiefs. They were also perceived as acting as dumping grounds for surplus cheap African labour. They were viewed and condemned for having permitted the apartheid government to maintain control over the African population. Gumede (2023) called these Bantustan conditions as deplorable. However, the Bantustans and apartheid had never reached the appalling levels of unemployment that South...
Africa is experiencing currently (Bond, 2023; Corcoran, 2023; Mathebula & Odeku, 2023; Mayekisio, 2023). These rates of unemployment have risen this high despite government interventions through support structures to help small and medium enterprises (SMEs) to assist in their survival with the ultimate goal of employing masses of people, mostly the youth.

SMEs play a vital role in world economies, especially in poorly-, less-developed, and developing countries, by promoting solutions to socio-economic problems, such as the alleviation of poverty and the provision of employment (Nyoni & Bonga, 2018). In fact, growth and sustainability of SMEs is a boost to national economies, and it is extremely important that countries take good care of their SMEs. According to Stats SA (2019), SMEs are considered an important driver of the Gross Domestic Product (GDP) and a crucial job creator in every economy, whether advanced or developing. Halabi and Lussier (2014) also point out that SMEs encourage innovation, research and development. Moreover, state-supported SMEs can relieve government of the burden to aggressively create employment. According to Headd (2015), SMEs are the inspiration for competitive markets, job creation and technology creation. In South Africa, SMEs contribute approximately USD $81.22 billion (over R1.5 trillion) to the GDP (Harduth, 2021).

The National Development Plan [NDP] (2012) mentions that SMEs are expected to provide 90% of new jobs in South Africa by 2030. Based on this projection, it is important to understand the success factors for SMEs in South Africa since they are creating employment and driving growth in our economy. On the other hand, according to the Small Enterprise Development Agency (SEDA, 2015), South Africa had an estimated 75% failure rate of new SMEs. The report also shows that five out of seven new SMEs started in South Africa fail within the first five years of their establishment. SEDA (2020) also informed that South Africa had an 11% decline of SMEs between 2019 and 2020. Regardless of their remarkable attributes, SMEs continue to have a high rate of failure. Researchers (Alauddin & Chowdhury, 2015; Andalib & Darun, 2018; Hoque, Awang et al., 2018; Muniapan, 2015) share that worldwide SMEs are faced with different types of challenges, which include financial accessibility, creativity, regulatory licenses and taxes, employees’ rights, and competitiveness.

In South Africa, the Bureau for Economic Research (BER) (2016) also detailed some of the reasons for SME failures. These include a lack of support structures, a lack of access to markets, poor infrastructure, a lack of access to finance and a lack of training and business experience. Bushe (2019) and IQ Business (2017) confirm these reasons. Given the importance of the SME sector in the economy, Venter (2020) states that it is important for South Africa to find ways to make it easier to start and grow SMEs. It is for this reason that the government established a Department of Small Business Development (DSBD) in 2014, to facilitate the promotion and development of SMEs through different strategies and programmes. DSBD validated its responsibilities by engaging with various support agencies in its Integrated Strategy, in order to promote the SMEs. These support agencies include the Department of Trade and Industry (DTI); the Small Enterprise Development Agency (SEDA); the Small Enterprise Finance Agency (SEFA); and the National Empowerment Fund (NEF). Moise et al. (2019) state that the support offered by these agencies can be financial or non-financial.

Considering the extensive role that SMEs are expected to play in creating employment and driving growth in South Africa’s economy, this study focuses on understanding why the support programmes initiated to enhance the success of the black-owned SMEs have not shown the successes that were envisaged.

Research and Methodology

A qualitative approach was used to determine why many of the SMEs of Gauteng Province in South Africa do not sustain and maintain their business despite the government support programmes being so plentiful. The study population were the Gauteng SMEs listed by the support agencies providing the support to the SMEs. The agencies are famously known as DSBD, DTI, NYDA, SEDA, and SEFA. They are the Department of Small Business Development; Department of Trade and Industry; National Youth Development Agency; Small Enterprise Development Agency; and Small Enterprise Finance Agency. As a qualitative study with the purpose of finding reasons for help not being effective, purposive sampling was used to select specific individual SMEs that received assistance from the support agencies to share their experiences. This method is suitable as the researchers wanted to gather in-depth data on reasons for the ineffectiveness of programmes that the agencies provide, using a limited sample size (Hennink & Kaiser, 2022). Only the assisted SMEs were selected, so the sampling frame consisted of all the listed SMEs that had received aid from the agencies. Data saturation assisted in deciding on the sample size, and interviews were used to collect the data. Daher (2023) describes data saturation as the stage in data collection when respondents no longer generate new insights and rather echo inputs of the earlier respondents. Thematic content analysis was used to analyse the data.

Findings and Discussions

Findings

The response from one respondent was that the “inadequacy of SME government support structures’ effectiveness” fails the SMEs. Another mentioned that “inflexible support programmes” are offered by these support structures. The same respondent continued that the support departments help the SMEs without first “conducting a needs analysis”. They continued to complain that they are trained with “programmes that are already predetermined” without verifying what the SMEs need. Echoing of sentiments came through the response “generic business training” when each SME has its own specific problems and therefore requiring unique assistance. It is also worrying that when SMEs wish to indicate what they need, representatives of the support structures threaten
them with “disqualification” and “replacement with a willing SME.” Other SMEs received promises that they would be allowed to indicate what they want before being helped the following year. When these SMEs followed up on the promises, they were told that they were not included for help as they had received theirs in the past year. This was when SME respondents realised that by accepting government aid, they may help some officials to complete their key performance area (KPA) spaces in order to receive bonuses.

The respondents indicated that they knew that the same assistance programmes, such as training, had been used since the inception of the support department. They claimed that “such training drowned the SMEs before us”, meaning that it was the same training that the SMEs that failed before them, received some time ago. Several SME practitioners apparently “get into business without a clear understanding” of what to do in business. So, without training to understand what business entails, such an SME is not rescued.

Financial support provided has also not been of benefit. The departments supporting with finances “refused to assist early in the year”. Apparently, some SMEs were prioritised and given money, while others received “leftovers later in the year”. They had to spend the money “within a tight deadline” and were instructed “what not to buy”. The items that these SMEs were instructed not to buy was in some cases “the only thing feasible or sensible to buy” to rescue their SMEs. The SMEs found it odd to accept that kind of service as support if they are not asked to indicate their needs or to operate as it suits their business. The SMEs accept such restraining financing because they claim that they would be “blackmailed for refusing support” and “would never again be offered aid or support”.

Regarding the government agencies that are expected to offer aid to SMEs in the form of mentorship schemes, SMEs believe that the aim of the government support programmes is to provide the SMEs with guidance and support. However, SMEs have expressed complaints about “the lack of competent mentors with pertinent business experience”, as they are often assigned “inexperienced and mediocre mentors”. Many SMEs indicate to have encountered inexperienced mentors who are inadequate to offer meaningful advice that is in accordance with the particular issues faced by SMEs. They point out that these “mentors have limited exposure to the complexities of running a business”. Because of this, SMEs of Gauteng Province encounter setbacks and challenges in their attempts to reach their full potential.

Representatives of several SMEs also voice their displeasure with “the inadequate monitoring and assessment practices of government support agencies”, as well as their “ineffective communication”. For some SMEs, these organisations are essential sources of information about funding opportunities, company growth programmes, and legislation revisions. However, because of poor communication techniques, these SMEs usually do not receive timely information. Miscommunication and failure to communicate lead to missed opportunities. The SMEs also point out that “inadequate after-service monitoring and evaluation processes” make the efficacy of government support initiatives challenging for SMEs. As a result, according to one SME representative, “there is a lack of responsibility and transparency, forcing SMEs to negotiate the challenging business environment on their own”. Consequently, there are times when SMEs lose hope in the support programmes to a point where they end up not soliciting aid from these support structures.

Discussion

The responses from SME representatives signalled that the government agencies support services were not sufficient to rescue them from their plight. Booth (2012) points out that sufficient support for the SMEs is crucial for their survival and growth. Aid from support agencies was ineffective because the services did not focus on the weaknesses that prevailed in the SMEs. That is, the aid was not customized. A customized service would have been tailored to the specific needs of individual SMEs, aiming to provide a more personalized and relevant experience (Nobile & Cantoni, 2023). According to the SME practitioners who participated in the study, this was lacking. The agencies giving support to the SMEs did not adapt the aid, or even listen to what the SMEs’ needs were. The SME practitioners felt that they were exploited because they received threats when they tried to refuse aid that they did not want.

The training given to these SMEs was outdated, as they were initiated when these agencies were formed and were never changed or improved. Outdated services may misinform the SMEs and even obstruct their progress (Hall, Oppenheim & Sheen, 2003). The outdated training was also believed to have been the cause of failures of the many SMEs that were trained before, many of which had already exited the trade due to failure.

The issue of financial support was unpleasant, as finances were released when the SMEs were no more in need of the items for which applications for money were made. However, the support agencies insisted that money must be used as described, even when the SMEs felt that the money could be used for something else. Shimizu and Hitt (2004) hinted that the inflexibility of the aid given to the SMEs was a downside of the agencies’ aid.

The involvement of competent mentors was highlighted when the SMEs of Gauteng were aided. The use of competent mentors is relevant because the SMEs that are being assisted are often in a weak state because of limited competence (Kantola & Penttilä, 2023). Hence, compounding incompetencies by involving incompetent mentors to support weak SMEs is tantamount to “weakening the weak” SMEs. Therefore, the call to involve competent mentors is justified.

The involvement of experienced role-players in leading SME development was also emphasised. The complexities and dynamics of the SME environment tend to frustrate SMEs who lack in-depth knowledge and tend to frustrate mentors who also do not have
adequate knowledge and exposure of the complexities of business. Clarke and Freytag (2023) counsel that in order to plan for offsetting setbacks and challenges of an SME, skill, knowledge, and experience are necessary.

**Conclusion**

The principal reasons that the agencies’ support did not fit the problems that the SMEs were experiencing were the following: It did not focus on the problems experienced by the SMEs; the aid was predetermined; and in most instances the aid was not helping them and did not address the issues and dilemmas of the SMEs. The agencies used one form of aid for all the SMEs without investigating their needs first. This is known as the one-size-fits-all approach, as it is used on every SME without adaptations. Other aids that were used were outdated and did not fit the modern-era dynamics for business sustainability. In the case of financial aid, some SMEs were restricted and could not use the funds according to their needs or priorities. As a result, the SMEs were not able to use the aid money to purchase items that could have benefited their businesses. Some practitioners of SMEs received unsuitable training, which was not what the practitioners needed. This was mainly because the agencies trained them on what was pre-prepared, and not what was necessary. As a result, the skills that were lacking are still lacking.

The paper recommends that:

i. Untrained practitioners should be given customized training by the support agencies to suit the needs of the SME.

ii. Support agencies should
   a. avoid one-size-fits-all approaches in training and support services;
   b. dismantle outdated services that failed past SMEs;
   c. assign only trained and experienced mentors to lead the development activities of the SMEs; and
   d. prioritize communication with the SMEs, including updates and monitoring, and evaluation on assessments and developments made.

iii. Financial assistance should be given for the SME’s needs, without restrictions.

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**References**


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