



# **Do Small, Medium and Micro Enterprises Have the Capacity and will to Employ More People: Solution to Unemployment or Just a Pipe Dream?**

**Michael Colin Cant\***

Department of Marketing and Retail Management, University of South Africa, Pretoria, South Africa. \*Email: [cantmc@unisa.ac.za](mailto:cantmc@unisa.ac.za)

## **ABSTRACT**

The worldwide economic slump has led to millions of jobs being lost in the formal sector all over the world. This forced many people into business or to seek alternative employment. It has become increasingly clear that the formal sector will rather shed jobs in the foreseeable future than employ people. This has placed renewed focus on small businesses to come to the rescue. More and more governments are relying on these small businesses to create employment opportunities. This has also led to a number of these governments to invest in projects that will generate employment and stimulate economic growth. The obvious choice was to focus on small, medium and micro enterprises (SMMEs). This study evaluated the township SMMEs and their potential to employ more people. The focus was first on the growth or not of these businesses and then on their employment history over the past 3 years. The findings were encouraging with a large number of SMMEs indicating that their businesses either grew or maintained the status quo while there were positives in the number of people being employed in this sector increasing over the past 3 years.

**Keywords:** Small, Medium and Micro Enterprises, Unemployment, Job Creation, Township, Economic Growth

**JEL Classifications:** M0, M2

## **1. INTRODUCTION**

Countries all over the world can be seen to be made up of two geographical divides, namely rural and urban areas. South Africa's geographic divide however further includes that of townships and informal settlements which comprise of large communities that are underdeveloped (The World Bank, 2014). This fact has added implications for any government as one of the primary tasks of government is to create economic stability and job creation. The worldwide recession of 2008 has taken its toll among many countries and many jobs were lost in both the formal and informal sectors in all countries. This has led to many unemployed people seeking employment elsewhere – and many in small, medium and micro enterprises (SMMEs).

The economic growth of many countries is more and more dependent on small companies and by implication also the creation of jobs. A flourishing and growing economy is therefore more and more dependent on the growth and success of small and medium

enterprises (SMEs) (Kongolo, 2010. p. 2288). Mboniyane and Ladzani (2011. p. 550) regard small businesses as the spine of economies globally and are seen as the job creators as opposed to larger companies who are scaling down. They further point out that in South Africa, small businesses constitute more than 80% of the business sector, but that a large percentage fail in the first few years of operation (Mboniyane and Ladzani, 2011. p. 550). Consequently the pressure is even more on small businesses to make it past the first few years of operation and to sustain employment levels.

The fact that the failure rate of small businesses are high makes it even more important for researchers to look at and focus on ways and means to assist these businesses to survive and to create jobs.

In the past people started a business mainly for economic reasons and an entrepreneurial spirit (Carsrud and Brännback, 2011. p. 11). Today, however many people have no alternative but to start a business due to reasons of retrenchment and economic slowdowns - and are thus forced into business even though they

may not be equipped for it. The worldwide economic slowdown as alluded to above resulted in record levels of unemployment in Europe, USA, Asia and Africa - with many countries having double digit unemployment figures. South Africa itself has an unemployment figure of close to 30%.

As these SMEs are now often seen as the main creator of jobs in future they experience a number of difficulties owing to a lack of resources. SMMEs fail as a result of numerous reasons resulting in once again a loss of employment. These reasons can be attributed to a range of factors such as political reasons, corruption, interest rates, management skills, and inadequate funding (Cant and Wiid, 2013).

In spite of these challenges the importance of SMMEs cannot be ignored and it is acknowledged that in any economy, but especially in developing countries, where unemployment and in equal income distribution is at the order of the day, SMMEs have a major role to play in job creation (Kongolo, 2010). Kongolo (2010) estimates that 91% of formal business entities in South Africa are SMMEs, contributing between 51% and 57% to gross domestic product (GDP) and 60% of employment. This is a huge responsibility that has to be borne by SMMEs and the question is if this expectation that SMMEs must be the job creators of the future is realistic.

## 2. LITERATURE REVIEW

### 2.1. Defining SMMEs

There are various definitions of a SMME but for the purposes of this study the definition of the National Small Business Act of South Africa of 1996, as amended in 2003, which classifies a SMME as a "...separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy" will be used as basis (National Credit Regulator, 2011). Similarly SMMEs are defined by the European Commission (2015. p. 5) as "...the category of micro, SMEs (that) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro."

The importance of SMMEs in the creation of jobs and economic upliftment is clear from the employment created by these businesses. It is estimated that more than SMMEs in the United States of America are responsible for over 50% of employment (Biondi and Iraldo, 2002) while in the European Union, SMMEs represent about 90% of all businesses (European Commission, 2015). In South Africa the situation is not much different as SMMEs account for approximately 91% of formal businesses. These SMMEs contribute greatly to the GDP of the country, and provide approximately 60% of employment (Kongolo, 2010. p. 2288; Abor and Quartey, 2010. p. 219). The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa acknowledges the fact that SMMEs have an important role to play in the creation of jobs and to kick start a revival in economic growth (Department of Trade and Industry, 1995).

The importance of SMMEs in job creation cannot be underestimated and in many instances they are the focal point of countries to reduce unemployment levels, and to generate economic growth and stability (Ardic et al., 2011. p. 1). This role is even more prominent in the case of developing countries or so called third world countries where SMMEs are the major contributors to GDP, job creation and poverty alleviation – and South Africa is no exception as the economy relies heavily on the contributions made by SMMEs (Business Environment Specialists, 2013). This is evident in the research done by the South African Chamber of Commerce and Industry (2013) which states that "more than 30% of the total GDP of South Africa is attributed to SMMEs" (Worku, 2013. p. 67).

A major inhibiting factor is however the fact that the failure rate of SMMEs are extremely high. Generally the estimated number of failures of SMMEs in the first 3-4 years is 74%. According to Van Scheers (2011. p. 5048), about 40% of new SMMEs in South Africa fail within their 1<sup>st</sup> year, while about 60% fail in their 2<sup>nd</sup> year and 90% within the first 10 years of operation. Many reasons can be found for this and the impact on sustainable employment is clear.

### 2.2. Importance of SMMEs in the Economy

The importance of job creation by all types of businesses cannot be over emphasised. In this sense it has become apparent that SMME's have a major role to play in the generation of employment – and in South Africa it is no different. As already indicated more than 60% of employment is as a result of small businesses (Limpopo Economic Development Agency, 2014). It is therefore no surprise that the government of South Africa has classified the development of small business a national priority, and hopes to stimulate and increase job creation by doing so.

With the unemployment rate at close to 30% (Statistics South Africa, 2015), and continuing to increase the need for steps to increase employment has taken on new measures and a new urgency. Small businesses are seen as the vehicle that can generate the jobs needed to take up the void created by downscaling by larger businesses. The small business sector is regarded as the catalyst to facilitate a more equitable income distribution, to develop new and selective markets, alleviate poverty and to affect all types of change, and in the process to stimulate economic development (De Waal and Chipeta, 2015).

In many third world countries and developing countries, where the formal and public sectors have been shedding jobs or being reduced, the focus has shifted increasingly to small businesses to absorb the unemployed and new entrants to the job market. This has also given rise to more attention being given to entrepreneurs, events to promote new business ventures and the training of start-ups and entrepreneurs. It is therefore not surprising that small business is seen as the driving force in economic growth in South Africa as this is a global trend that has developed (Chung, 2015; Netshandama, 2014).

Over the past couple of decades the South African GDP has contracted and the expectation for 2016 was <1% compared to

over 6% per annum in the 1960's. The current lack of economic growth has seen more than 500,000 jobs being shed from the formal sector adding to the already high level of unemployment. Small businesses in South Africa contribute approximately 42% of the country's GDP (He, 2015; Netshandama, 2014) which implies that there will be high expectations on these businesses to generate employment.

### 2.3. Actions to Generate Employment by Government

The South African government has realized the necessity to increase employment and to generate jobs. The Inter-Ministerial Committee on Public Employment Programmes (PEP-IMC) is driving government's effort to create 6 million work opportunities by 2019. This is being done through a range of programmes that create jobs for those who cannot find work and that create public goods in the form of new infrastructure or the improvement of existing infrastructure (www.gov.za, 2016a).

According to government sources, just more than a million work opportunities were created in public employment programmes in the 2014/15 financial year. The committee has agreed to focus on the geographic distribution of such programmes and have selected provinces such as Limpopo, the North West, KwaZulu-Natal and the Eastern Cape where youth unemployment is concentrated to focus on.

The government, realizing that employment cannot be created in the public sector has embarked on an ambitious Nine Point Plan to generate jobs. In brief this plan is as follows (www.gov.za, 2016b):

It is hoped by government that the Nine Point Plan will accelerate the growth of the economy by an additional 0.8% points in the short-term and 1% point in the medium to long-term. Below are the various aspects of the plan:

1. Resolving the energy challenge:  
Substantial progress has been made in resolving energy challenges in South Africa since the inception of the Five Point Energy Plan in December 2014. These include a nuclear programme, new power stations coming on line, a wind farm project as well as renewable energy programmes.
2. Revitalising agriculture and the agro-processing value chain:  
The focus of this programme is to generate 300,000 new small-scale producers and 145,000 new agro-processing jobs by 2020. The total number of jobs in agriculture increased by 183,000 between 2014 and 2015 reaching a total of 891,000.
3. Advancing beneficiation or adding value to the mineral wealth:  
The Department of Trade and Industry (the dti) plans to develop the Mineral Beneficiation Action Plan as part of its objectives contained in its 2015/16 strategic plan and the Minister of Trade and Industry indicated that significant industrial development opportunities were emerging in the form of clean energy and mineral beneficiation. This includes the development of hydrogen fuel cells using the country's rich platinum deposits. (www.gov.za, 2016b):
4. More effective implementation of a higher impact industrial action policy action plan (IPAP)  
The 7<sup>th</sup> iteration of IPAP, which is aimed at raising the impact of government interventions to support industrial development and re-industrialise the country, was launched in 2015, and

the dti has designated 16 sectors, subsectors and products for local procurement. Government has also introduced the Black Industrialist Programme, which is designed to transform the manufacturing sector and unlock the potential of black entrepreneurs (www.gov.za, 2016).

5. Encouraging private-sector investment:  
The government announced in August 2015 that an investment clearing house is being set up in the dti to support local and international investments to help identify bottlenecks, remove administrative barriers, reduce regulatory inefficiencies, set up norms and standards, improve turnaround times, and coordinate and fast-track investment enquiries (www.gov.za, 2016).
6. Moderating workplace conflict:  
As is the case with most democracies constant dialogue between business and labour to improve labour relations is needed. There is a focus on containing the violent nature of strikes and on wage inequality.
7. Unlocking the potential of SMMEs, cooperatives, townships and rural enterprises:  
The Department of Small Business Development continues to pilot its informal sector support policy, which includes the provision of business training, grants and co-funding in partnership with municipalities to revamp factory and business premises infrastructure. A major focus is on the generation of jobs in this sector as well as to ensure that as many as possible businesses in this sector stay in business. Government has identified this sector as key in the generation of jobs.
8. State reform and boosting the role of state-owned companies, science, technology and innovation, information and communications technology infrastructure or broadband roll-out, water, sanitation and transport infrastructure:  
Meanwhile, government has identified water as a critical resource for economic development and work continues to implement the Five Point Plan for water and sanitation. Government's programme, through the Department of Water and Sanitation, to train 15,000 artisans and plumbers to fix leaking taps in their communities, was officially launched in 2015.
9. Operation Phakisa, which is aimed at growing the ocean economy and other sectors:  
Government has made much progress since it launched its fast results delivery methodology, operation Phakisa, in the health and ocean economy sectors in 2014. Progress has been made in small harbour upgrades and numerous jobs have been created in this sector.

The Nine Point Plan as instituted by government is strongly focused on generating jobs and these efforts are long term in nature and there is a huge dependency on small business to contribute to employment.

It is clear from the above discussion that small business has a major role to play in the creation of jobs and that there should be a focus on the creation of jobs by this sector.

### 3. AIMS AND OBJECTIVES OF THE STUDY

The focus of the study was to garner the perception of township businesses in order to evaluate their view on the possible

employment of staff and any potential job losses that may occur. The focus of the study was to establish the perception township SMMEs employment growth and/or loss that has occurred within their respective businesses and to evaluate the SMME owners views on possible employment in the future. In order to meet these objectives a structured research process was employed.

The overall goal of the project was to establish whether SMMEs have employed more staff in townships, and what their likelihood is of employing more people. Quantitative data was collected from randomly selected SMMEs in order to obtain the required insight to address the above-mentioned objectives. Qualitative comments were collected and categorised into tangible themes that assisted in making useful findings and recommendations.

A structured self-administered questionnaire was used to gather data. The questionnaire was designed with the intention to cover all relevant areas of importance as per the set objectives. Secondary data research was undertaken to compliment the total research effort. This enabled the team to ask more probing and specific questions and be in a position to better assess the highlighted objectives. The research was conducted in 10 main metropolitan cities spread over the country in order to obtain a diverse as possible view of the business's situation in township areas. These cities were spread across the different provinces.

The aim was to ensure that a wide range of townships were included in the research process which was needed if a more holistic view of the current situation were to be obtained. A sample of 500 respondents was initially proposed, 521 completed and usable questionnaires were obtained and deemed valid for further analysis.

## 4. THE RESEARCH FINDINGS

The findings are based on the 521 completed questionnaires received. Some analysis is based on lower N values due to incomplete answers to some questions and/or a resistance to answering specific questions.

### 4.1. Descriptive Statistics

#### 4.1.1. Business demographics

The first section required respondents to provide information relating to their business's demographics. The first question asked the respondents to indicate the type of business they operated and the amount of employees hired within their business. The following results were obtained for the respective sub-sections:

#### 4.1.2. Type of business

Table 1 provides an indication as to the type of business that respondents operate in. The top five types of businesses represented by the respondents are shown below.

From Table 1 it can be seen that most respondents operate in the food sector (37 responses, 7.8%), followed by hair salons (34 responses, 7.2%) and tuck shops (28 responses, 5.9%).

#### 4.1.3. Number of employees

The second question then asked how many employees the business employed. Table 2 is indicative as to the number of individuals employed by the respective township SMME, excluding the owner.

From Table 2 it can be seen that the majority of the respondents (251 respondents, 58.4%) employ between 2 and 5 employees. Since the sample size ( $n = 430$ ) is sufficiently large, statistical significance testing could be conducted to determine whether this finding indicates that most township SMMEs fall under the category of micro-enterprises (OECD, 2005; Katua, 2014, p. 462).

A hypothesis test for a single proportion was conducted under the assumption of normality. The test statistic used to conduct the hypothesis test is given in Equation (1):

$$z = \frac{(0.584 - 0.5)}{\sqrt{\frac{0.5(1-0.5)}{430}}} = 3.4837 \quad (1)$$

At a 5% level of significance ( $P$  value = 0.000247) there is sufficient evidence to show that the majority (or more than half) of all township SMMEs fall under the category of micro-enterprises (2-5 employees).

After having identified the type of business and the number of employees, respondents were asked to indicate who their employees consist of. Table 3 is indicative as to the responses received.

**Table 1: Different types of businesses identified (n=473)**

Different subgroups	Frequency (%)
Food	37 (7.8)
Hair salon	34 (7.2)
Tuck shop	28 (5.9)
Day care centres	24 (5.1)
Clothing	24 (5.1)

**Table 2: Number of individuals employed within the SMME (n=430)**

Number of employees	Frequency (%)
None	7 (1.6)
1	67 (15.6)
2-5	251 (58.4)
6-10	74 (17.2)
11-20	19 (4.4)
20+	12 (2.8)

**Table 3: Composition of employees (n=487)**

Employees	Frequency (%)
Family members	191 (39.2)
Friends	174 (35.7)
Other*	239 (49.1)

\*Total responses may not equal n and percentages may not equal 100 as this question was a multiple-choice multiple-response question

From Table 3 it can be seen that the majority of the respondents selected the option “other” (239 respondents, 49.1%). This was followed by 39.2% (191 respondents) who indicated that their employees comprise of family members and 35.7% (174 respondents) who indicated friends. From the responses that indicated “other,” the following was identified as per Table 4. These responses are based on those respondents who provided reasons for their selection of “other.”

Table 4 shows that businesses employees also comprised of individuals within the township community with the majority of the respondents (45 respondents, 32.9%) selecting this option.

The next question then asked SMME owners if their turnover had grown or not within the past 3 years. Table 5 are representative as to the responses that were received.

From Table 5 it can be seen that 45.6% (229) of respondents indicated that their business had grown, over the past 3 years, whereas 33.9% (170 respondents) indicated that it had stayed the same, and 20.5% (103) respondents indicated that it had declined. It is encouraging that there has been growth even though it may have been from a low base. This bodes well for the further employment and growth for townships. The fact that a third (33.9%) of the surveyed SMMEs managed to maintain the status

**Table 4: Other\* (n=127)**

Response	Frequency (%)
Township community	45 (32.9)
Capable people	20 (14.6)
With qualification	19 (13.9)
Anybody	14 (10.2)
No relation	10 (7.3)
Looking for work	7 (5.1)
Applicants	6 (4.4)
No qualification	6 (4.4)

\*Please note only the main findings are presented here. While the option “Other” was selected by respondents as seen in Table 3, some respondents did not provide an answer and others provided more than one, therefore the n-value in this regard might be higher or lower

**Table 5: Business turnover - grew/declined/stayed the same (n=502)**

Response	Frequency (%)
It grew	229 (45.6)
It declined	103 (20.5)
It stayed the same	170 (33.9)

**Table 6: How many additional people did you employ in the past 3 years (n=139)**

Response	Respondent frequency (%)	95% confidence interval for population percentage
2	45 (32.4)	(18-32.4)
1	35 (25.2)	(24.6-40.2)
3	23 (16.6)	(10.4-22.7)
4	12 (8.6)	(4-13.3)
5	12 (8.6)	(4-13.3)
6	4 (2.9)	(0.1-5.7)

quo is also very encouraging especially when viewed in light of the tough economic climate prevailing in the country.

However, at a 5% level of significance, there is insufficient evidence to show that more than half of township businesses will have grown over the past 3 years. This conclusion was obtained by conducting a z-test ( $z = -1.97$ ) and, subsequently, obtaining a  $P = 0.9757$ .

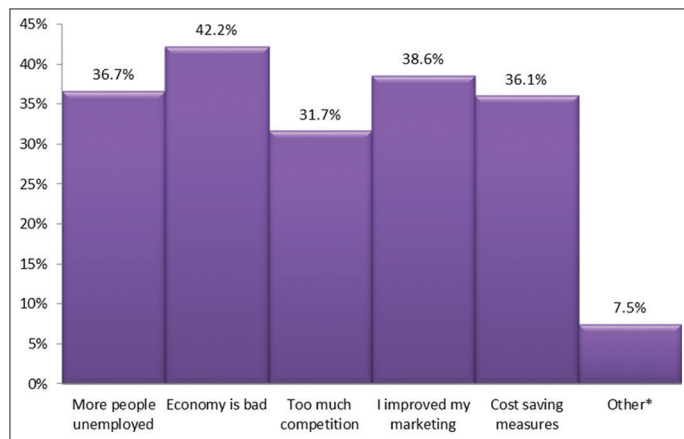
If we assume that 50% of township businesses will have shown growth over the past 3 years, one would obtain the observed difference or more in 97.57% of studies due to random sampling error. Respondents were next asked to indicate the main reasons as to why their business turnover grew, declined or stayed the same. The results are presented in Figure 1.

From Figure 1 it can be seen that 42.2% (219) of the respondents felt that the main reason their turnover declined or stayed the same was due to the bad economy in South Africa. While 38.6% (201) of the respondents indicated that the main reason their turnover grew was because of improved marketing skills. The reasons offered are all valid and can be used in any future actions that may be considered to develop the township economy. The fact that SMMEs were of the opinion that there is too much competition can maybe be used in a positive way. Depending on the types of businesses, their collective capacity can be used to tender for open tenders or in cases where a certain percentage of work is allocated to township businesses.

The questions were aimed at exploring the potential for employing more people and consequently the respondents were requested to comment on their future employment intentions. In order to ascertain if there is an increase in employment among small businesses the respondents were asked to indicate if they employed additional people in their business in the last 3 years. The results obtained from this question can be seen in Figure 2.

From Figure 2 it is evident that 41.9% (212) of respondents employed additional staff in the past 3 years. This is encouraging

**Figure 1:** Possible reasons for the business turnover situations (n=521). \*Total responses may not equal n and percentages may not equal 100 as this question was a multiple-choice multiple-response question



and is indicative that their business grew over the past 3 years. When asked how many additional people were employed, the majority of the respondents that answered the question specified that they employed an additional two staff members (39 respondents, 7.5%) followed by three staff members (34 respondents, 6.5%). Based on the data, it can be inferred, with 95% certainty, that at least 37.4% of all townships SMMEs will have employed additional people in the past 3 years.

At a 5% level of significance ( $P = 0.0001$ ), there is sufficient statistical evidence to show that more than half of township businesses would not have employed additional people in the past 3 years. Table 6 is indicative as to the responses received for the question asked.

From the responses it is clear that most respondents employed two additional staff members (32.4%, 45 responses), while 25.2% (35 responses) employed one additional person, and 16.6% (23 responses) employed three additional people.

Respondents were then asked to specify whether they had retrenched any people in the past 3 years. The results to this question can be viewed in Figure 3.

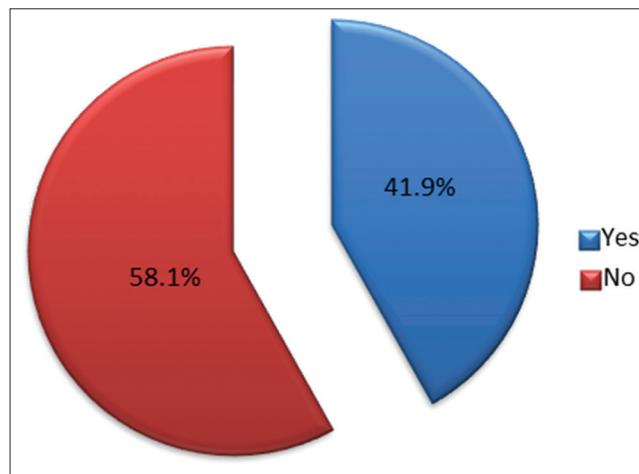
Figure 3 indicated, that the majority of the respondents (81.5%, 410 respondents) had not retrenched any employees in the past 3 years, while 18.5% (93 respondents) had. These responses are in line with the responses in the previous question. Based on the sample data and a 5% level of significance, there is sufficient statistical evidence to show that more than half of all township businesses will not have retrenched any staff members in the past 3 years. This conclusion is based on a  $P < 0.0001$ . In other words, there is a  $<0.001\%$  chance that our observed value (81.5%) is due to random sampling error, if we assume that 50% of all township businesses retrenched any staff members within the past 3 years. The next question then asked respondents what the main reasons were that led them to retrenchment of staff, the findings to this question can be seen in Table 7.

From the responses indicated in Table 7 it is clear that there are numerous reasons for why retrenchment was offered to staff. Many of the reasons indicated can be linked to the slow economy and unethical practices such as theft, dishonesty, corruption, and staff issues.

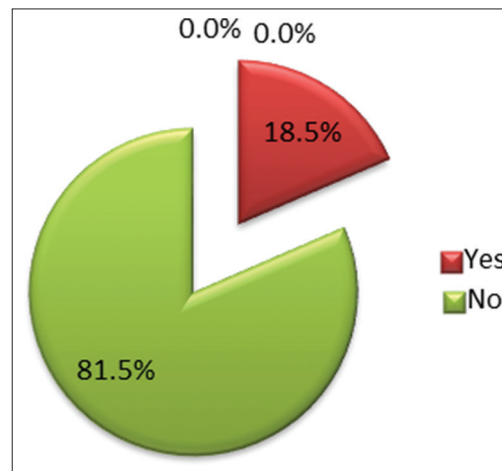
### 5. CONCLUDING REMARKS

Based on the research findings it is clear that SMMEs have a major role to play in the generation of employment and that there is potential to expand on the current situation. In the past 3 years 41.9% of the sampled SMME owners employed additional people compared to 18.5% that retrenched staff. It is an encouraging sign that more than 40% of SMMEs in the township areas have employed more people, even in these difficult economic times. This can be seen as a sign that there is potential for expansion and growth. If these township businesses can grow in this way on their own, the effect of a major, well-structured intervention by institutions – private and public – in securing tenders, creating

**Figure 2:** Employment of additional staff members within the past 3 years (n=506)



**Figure 3:** Retrenched any people in the past 3 years (n=503)



**Table 7: Main reasons for retrenchment of staff (n=69)**

Response	Frequency (%)
Bad work/incompetence	13 (18.8)
Business not growing/slow	9 (13)
Theft/corruption	9 (13)
Not enough money	7 (10.1)
No business	4 (5.8)
Not related to the question asked	4 (4.3)
Bad economy	3 (4.3)
Less turnover	3 (4.3)
Started own business	3 (5.8)

opportunities to combine capacity and joint ventures with identified businesses will see a massive growth in the number of people being employed in the townships. What is required is a structured approach by these institutions to provide such solutions.

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