

# **Procurement Policies and Sustainability on SMMEs: A Case study of Gauteng Province**

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## **Abstract**

SMME targeted procurement policies in South Africa gets swapped and changed every couple of years before they take hold and assessed against initially set desired outcomes, this makes them unsustainable. As such, it has become necessary for research to be undertaken to investigate those SMMEs that do business with State Owned Enterprises (SOEs), with the aim of establishing whether the preferential procurement policies are supportive of the growth and sustainability of their businesses. The study also sought to further ascertain whether the targeted procurement policies are achieving the objectives they were created for in the first place, which is to promote growth and empowerment through the growing of the SMME businesses or are they non-responsive. Lastly, this study intended to understand whether the continued swapping and changing of the targeted procurement policies is resulting in their unsustainability to grow a sustainable SMME sector in South Africa which in turn raises a question of whether the designing and implementation of these policies is well informed by the actual challenges bedevilling the sector to be able to address these challenges on the ground.

The study was a qualitative study that enabled the expression and description of feelings and opinions regarding whether the targeted policies had achieved their objectives and the concerns respondents would express. From the data was collected through interviews, the respondents indicated that the policies were theoretical and do not address the actual challenges that bedevil small businesses in South Africa. If anything, the policies have not attained their set objectives of growing and empowering SMMEs but rather made doing and growing their businesses difficult due to an unfriendly business environment. In addition, high taxes, inflexible labour laws, access to finance, inability to market their companies and products, delayed payments for services rendered are some of the problems faced by SMMEs. The SMME sector is dwindling, the small businesses are folding, and the targeted policies have proved unsustainable.

Based on the findings of this study the targeted procurement policies needs to be reviewed and in certain instance overhauled to improve their efficacy. Policymakers need to establish forums where small business raise their concerns, shortcomings of the policies and put forward their ideas of making the policies more beneficial to them. There is a great need to also identify and address impediments pertaining to the operating environment and make it truly pro SMMEs.

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### **List of Acronyms**

<b>ASGISA</b>	Accelerated and Shared Growth Initiative for South Africa
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>B-BBEEA</b>	Broad Based Black Economic Empowerment Act 53 of 2003
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>DTI</b>	Department of Trade and Industry
<b>ESD</b>	Enterprise and Supplier Development
<b>GBS</b>	Graduate Business School
<b>GEAR</b>	Growth, Employment and Redistribution
<b>GEM</b>	Global Entrepreneurship Monitor
<b>HIDs</b>	Historical Disadvantages Individuals
<b>ICT</b>	Information and Communications Technology
<b>NEF</b>	National Empowerment Fund
<b>NPC</b>	National Planning Commission
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PPPFA</b>	Preferential Procurement Policy Framework Act (PPPFA) of 2000
<b>RDP</b>	Reconstruction and Development Programme
<b>SMME</b>	Small Medium Enterprise
<b>SAICA</b>	South African Institute of Chartered Accountants
<b>SEDA</b>	Small Enterprise Development Agency
<b>SEFA</b>	Small Enterprise Finance Agency
<b>SOE</b>	State-owned enterprise
<b>SPP</b>	Sustainable Public Procurement.
<b>UCT</b>	University of Cape Town
<b>UNISA</b>	University of South Africa

## **Chapter One: Introduction**

### **1.1 Background of the study**

The end of the apartheid era in South Africa in 1994 ushered in a new institutional environment through changes to legislative frameworks in government departments. The policies of the previous dispensation created racial disparities in South Africa that created a need for economic transformation. Some of the notable ways in which the South African government focused on to redress the imbalances of apartheid to enhance the economic participation of the majority black people in the South African and improve their welfare was through changes in some legislations to favour the previously marginalised. A key aspect of the transformation of economic wealth was through economic empowerment affirmative action policies of the historically disadvantaged groups in the country. One of the initiatives to effect such transformation and alleviate poverty was to encourage the previously disadvantaged people to start businesses in the form of small, medium and micro-enterprises (SMMEs) which the government would support. The government would actively support the SMMEs through targeted public procurement initiatives by affording them preferential access to government procurement opportunities.

In both developed and developing nations, the utilisation of preferential procurement initiatives as instruments to effect socio-economic sustainability and change through the promotion of employment and business opportunities to marginalised sectors of the society is commonly used (Sako et al., 2002). In pursuit of the transformation agenda, the government swiftly and progressively introduced and implemented a variety of different measures and amended government policies to actively support disadvantaged people. These changes were coupled with incentives for established and big businesses to provide owners and workers of the new start-up businesses with training as part of skills transfer and up skilling. Some of the targeted procurement policies that were introduced included the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR) (Chagunda, 2006) which later was swapped for the Accelerated and Shared Growth Initiative for South Africa (ASGISA) in 2006; and was further replaced by the Preferential Procurement Policy Framework Act (PPPFA) of 2000 and the Broad Based Black Economic Empowerment Act (B-BBEEA).

Currently, South Africa is confronted by plethora of developmental challenges, among them, a persistent unemployment crisis, particularly amongst the youth population; shrinking economy and collapsing SMME sector continue to thwart economic growth. South Africa has a low economic productivity compared to her BRICS counterparts (Bolton, 2016). Considering such challenges and others, economic competitiveness is waning and expected to be driven by a vision for a more labour-intensive and inclusive growth path, one that focuses on value-added exports

and supporting domestic industry and manufacturing. This vision is articulated in the New Growth Path (2010) and the National Development Plan (2012). Part of the solution to some of these economic ills is to grow the economy so in turn it can generate jobs and reduce poverty. One way to do so is creating a conducive environment for small businesses to emerge and grow (Bolton, 2016).

There is consensus among policy influencers such as economists, and business experts that small, micro and medium enterprises (SMMEs) are drivers of economic growth. Small, Micro and Medium Enterprises (SMMEs) have been identified as productive drivers of inclusive economic growth and development in other parts of around the world, e.g. Malaysia boomed its economy through small businesses. While contributing significantly to the economy, SMMEs foster diversification through their development of new and unsaturated sectors of the economy. According to Eniola and Entebang (2015) and Ayyagari, Demirguc-Kunt and Maksimovic (2007), a healthy and growing SMME sector mostly in developing nations contributes hugely to the economy in terms of job creation and employment creation, entrepreneurship development, income distribution, poverty reduction, economic stimulation, innovation and transfer of technology, wealth creation and growth of the gross domestic product (GDP) of a nation. Mahmood (2008) indicates that studies have shown that economic growth of any country is closely linked with SMME development and there is a robust, positive relationship between the relative size of the SMME sector and economic growth of a country.

## **1.2 Problem statement**

Proactively and actively supporting of SMMEs by governments through robust well-informed targeted procurement policies that are sustainable can be a viable answer. This is not the case at the moment in South Africa as the government keeps on swapping and changing these procurement policies before they take hold to then be able to be assessed in terms of initially set desired outcomes. At present, even though South Africa has the second largest economy on the African continent, it is ranked way behind fellow African countries such as Ghana and Zambia in its ability to sustain and successfully grow new small businesses (Global Entrepreneurship Monitor [GEM] Report, 2010).

According to Bias (2009), South African SMMEs have sustainability problems, meaning these business are folding in quite sizable numbers, and for this particular reason, it is essential to obtain insights, opinions, perceptions and possible answers from those who actually own and run SMMEs in order to understand the challenges, and hopefully help Policymakers to come up with some well-informed policies that may enhance SMME sustainability. The number of SMME

businesses in South Africa is declining and most concerning is the indication that SMME employment contracted by 20% over the years to 2018 (Small Enterprise Development Agency [SEDA] Report, 2018). Research has established that formal small businesses are currently growing much slower than large-scale companies, which contributes to slower job creation, and likely limits diversification and innovation. On the other hand, informal businesses have grown more rapidly, but they remain low-income, precarious and mainly survivalist (Bureau for Economic Research, 2016).

### **1.3 Research objectives**

The objectives of this research study are as follows.

- To explore the progress made towards achievements of the targeted procurement policies (BBBEEA, PPPFA and ASGISA) in promoting the growth and empowerment of SMME businesses.
- To understand the perception SMME businesses have on the continuous shifting and changing of the targeted procurement policies before they even take hold by the Policymakers.
- To understand the role of SMME businesses in the designing and implementation of the targeted procurement policies.
- To understand the challenges faced by SMME businesses in dealing with SOEs.

### **1.4 Justification of the study**

The significance of this study is to contribute to the understanding of the possible reasons why targeted procurement policies are failing to address the challenges facing SMME businesses. The study shall also try and explore whether the chopping and changing of the policies have contributed to the unsustainability of SMME businesses. Lessons learnt from this study shall contribute towards the development of policies that truly focus on addressing actual challenges bedevilling the SMME sector and hopefully resuscitate the sector and create jobs through growing the economy.

### **1.5 Organisation of the study**

This research study document is comprised of five chapters structured as below.

## **Chapter 1: Introduction**

The first chapter introduces the topic, provides the background to the study and states the research problem and the research objectives.

## **Chapter 2: Literature review**

The second chapter reviews existing literature regarding public procurement policies South Africa what they aimed to address and achieve which was to distribute economic wealth and reduce poverty especially for the previously disadvantaged people. An overview of the SMME sector in South Africa will be discussed, including a discussion on the conceptual framework on procurement policies and business sustainability. The chapter will conclude with an empirical discussion around procurement policies and how they can be used as a tool for affirmative action to achieve certain ends and also a brief comment on the gaps established that needs to be addressed.

## **Chapter 3: Research methodology**

Chapter 3 presents an overview of the overall plan that was considered in undertaking this research study. It outlines the research approach preferred and reasons for the selection of the approach. It also will describe the research design, unit of analysis, target population, sampling strategy and sampling size. The preferred research instrument utilised to collect the research data and reasons thereof, data analysis procedures, trustworthiness and credibility are also discussed. The chapter concludes with justification of the research.

## **Chapter 4: Data presentation, analysis and discussion of findings**

Chapter 4 presents the findings of the primary research, analysis and interpretation of results. Findings are linked back to the reviewed literature to identify similarities with, or divergence from the existing trends which can form the basis for further studies.

## **Chapter 5: Conclusions and recommendations**

Chapter 5 is the last chapter of this study. It presents a summary of the key findings from which conclusions are drawn. Further, recommendations based on the findings are proposed.

## **Chapter Two: Literature review**

### **2.1 Introduction**

This chapter reviews existing literature regarding public procurement policies and their use as tools for socio-economic transformation and empowerment in developing countries and for South Africa in particular. The chapter commences with a look at some of the theories that underpins this study. An overview of the SMME sector in South Africa is discussed including a discussion on the conceptual framework on targeted procurement policies and business sustainability. A brief discussion of the challenges SMME businesses in South Africa encounter is also included in this chapter. A brief comment on the gaps established that needs to be addressed is also included. The chapter concludes with an empirical discussion around procurement policies and how they are used as tools for affirmative action to achieve certain ends.

### **2.2 Theoretical framework**

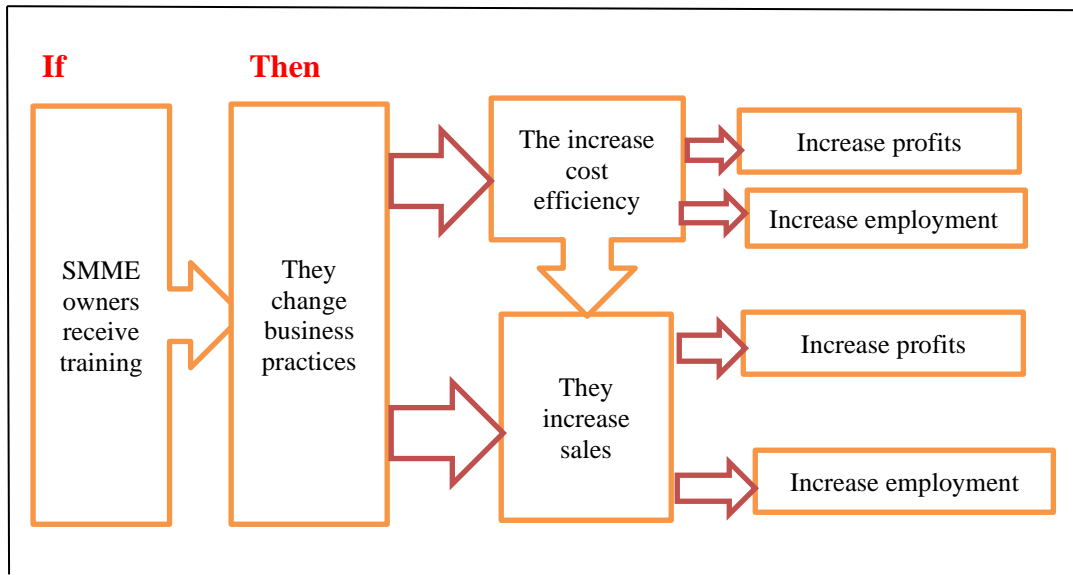
An outline of some the theoretical framework that underpins and guides this research study are discussed below.

#### **2.2.1 Business management theories of change**

Small and medium-sized enterprises (SMEs) constitute the majority of businesses in many developing countries, and they account for a large share of gross domestic product (GDP), and employ a significant proportion of the workforce (Lopez-Acevedo & Tan, 2011; Cravo & Piza, 2016).

Studies show that a lack of managerial skills and capability among SME employees and leadership is a major constraint on firm growth and the ability of SMEs to withstand economic shocks, and that managerial skills are a major determinant of productivity (Bruhn, Karlan & Schoar, 2013 ; Mano et. al., 2012). Thus, one common theory among development practitioners is that capacity building for SME owners and employees should imprint on them. Therefore, one common theory among development practitioners is that improving the capacity of SME owners and employees does improve the performance of their organisations if they acquire new skills, resulting in increased productivity, demand for labour, along with and job creation. According to Anderson, Chandy and Zia (2016), training has become one of the most popular forms of support provided to SME owners and employees through donor initiatives to strengthen business practises, core management and administrative functions and/or technical skills. The World Bank itself spends about \$1 billion annually in skills training programmes (Cook & Olafsen, 2016). Moreover, the literature suggests that more tailor-made consulting and coaching can have a greater impact on SME growth.

**Table 2.1:** Business and technical training



*Source:* Adapted from Bruhn, Karlan, & Schoar, 2013.

### 2.2.2 Stakeholder theory: sustainable procurement and growth

Successful completion of project outcomes is critically dependent on relationship management skills, including the need to achieve project goals that completely meet the expectations of stakeholders throughout the project life cycle (Cleland, 1999). However, one major task that needs to be performed in determining the strategic goals of a project is to identify stakeholders and create a project brief that best suits their often-contradictory needs and wishes (Bourne, 2005).

The stakeholder theory emphasises that in any activity an organisation undertakes, such activity be it strategic, organisational or tactical, can only be with the input, commitment feedback, engagement, and support of its key stakeholders (Ackermann & Eden, 2011). Achieving and sustaining stakeholder support and engagement involves an ongoing process of engaging the right stakeholders at the right time and recognising and managing their expectations. The stakeholder theory is quite relevant to both SMME procurement and growth (Wang & Sengupta, 2016). Therefore, for the policymakers to come up with successful and sustainable SMME policies they should engage and get input of the important stakeholder within the SMME industry to have their input in the crafting of the policies (Sen & Cowley, 2013).

### 2.2.3 Resource based theory

In general terms, the value of the company's resource-based view lies in the use of both tangible and intangible resources as the basis for a competitive advantage (Cousins et al., 2008). According to Davis and Cobb (2010), the resource-based theory (RBT) suggests business resources and skills are driving a business' growth and efficiency. This theory stresses the importance of a company's capital and capabilities. Companies should have their own tools and

skills for sustainable competition which other companies cannot or are very difficult to copy. This business-specific capability is essential, as is the managerial and technological skills. This theory ties in well with the growth of SMMEs where if they are properly empowered through the creation of a conducive environment, e.g. preferential, taxes, elimination of corruption, creation of incubation hubs where entrepreneurs are trained before they on to create their own business the policy makers inculcating unique proficiencies that are vital for achieving competitive advantage. If they get equipped with unique skills which also emphasise on quality goods and services, then they should be able to compete anywhere in the world and grow their business phenomenally.

The resource-based theory offers a context to understand how businesses should define appropriate measures to address impediments to growth and have enhanced access to technological resources, infrastructure, workforce resources, financial resources and market access (Geoffrey & Christos, 2015). Thus, small and medium-sized companies must establish and sustain long-term relationships with their suppliers and customers in order to achieve the necessary resources vital to their survival and success.

### **2.3 Procurement policies as socio-economic tools**

Hlakudi (2012) states that “some countries around the world have confidence in the use of procurement to achieve the secondary objectives of procurement”. Leveraging procurement refers to the inclusion of socio-economic benefits in the procurement process policies. Social and economic policies aim at providing various government services that are geared at upliftment of lives of people. Government services such as the provision of housing, health care facilities, water and sanitation, employment opportunities, business opportunities and other means of generating income for the survival of the populace in general (Feroz, 2017).

According to Bhorat and Mayet (2012) “developing countries have concentrated their policy agenda on improving the socio-economic conditions of people in order to reduce the gap between the rich and the poor and it is the government of the country that is in charge of the use of public money, which is mainly spent through procurement, and for this reason public procurement has been identified as a policy tool to achieve the socio-economic objectives of a country”. There is increasing use of targeted procurement policies as means of redistributing economic wealth to the under privileged people has resulted in the formation of terms like affirmative action, targeted procurement and preferential procurement (OECD Report, 2004). According to Ostry et al (2014) “these concepts can be used interchangeably depending on the country’s procurement policy model and in the United States of America (USA), the concept of affirmative action is used to refer to all policies directed to empower people of colour (also referred to as African

Americans)”. In in South Africa it refers to historical previously disadvantaged people who were marginalised by unfair practices including employment and business opportunities (McCrudden, 2004).

In South African affirmative action pertains to measures implemented by the policy redress the injustices of the past in employment, and the concept of preferential procurement is reserved for measures taken to empower the Historical Disadvantaged Individuals (HDIs) when competing for government and private sector contracts that are normally issued in the form of tenders (Matheba, 2011). According to McCrudden (2004) “the contracts that emanate from the procurement processes are contracts for the provision of works, goods or services rather than contracts of employment”.

#### **2.4 Overview of SMMEs in South Africa**

The South African National Development Plan argues that small businesses can open new opportunities to create jobs as well as used as a route to economic empowerment (National Planning Commission, 2011). Global Entrepreneurship Monitor (2014) indicates that about 55% of jobs are created by Small businesses while large companies create around 40% of employment. The current available figures show that since 2008 there was not been any growth in the number of small businesses, only miniscule figures in employment rates and South Africa is lagging in the growth of SMMEs when compared with other middle-income economies (GEM, 2014).

The definition for SMMEs includes a very broad range of firms, some of which includes formally registered, informal and non-value added tax (non-VAT) registered organisations (The DTI, 2008). Small businesses range from medium-sized enterprises, such as established traditional family businesses employing over a hundred people, to informal micro-enterprises. The micro-enterprises include survivalist self-employed persons from the poorest layers of the population. In South Africa, a large majority of SMMEs are concentrated on the very lowest end, where survivalist firms are found (Berry et al., 2002). These firms can take the form of street trading enterprises, backyard manufacturing and services, and occasional home-based evening jobs.

The informal sector comprises almost exclusively of SMMEs, those classified as survival entities have very little growth potential and are less likely to hire staff (The DTI, 2008). The Integrated Small Business Development Strategy initiated by the government provides an action plan with a focus on (1) increasing financial and non-financial support to SMMEs, (2) creating a demand for the products and services provided by the SMMEs, and (3) reducing regulatory constraints (The DTI, 2008). In line with this action plan, the government established several institutions

which are responsible for the implementation of small business development strategy e.g. the Small Enterprises Development Agency (SEDA) (GEM, 2014; The DTI, 2008). Atkinson et al. (2011) indicates that major indicators indicate that the state of SMMEs in the country as measured by their impact on employment, distribution by industry and region, earnings, education levels and race and gender. The findings of the analyses suggest that:

- (a) “formal small businesses are growing more slowly than large-scale companies, which contributes to slower job creation and likely limits diversification and innovation; and
- (b) informal businesses have grown more rapidly, but remains low-income, precarious and mainly survivalist”.

Table 2.2 below indicates some statistics that support the fact that the SMME sector is dwindling, and that employment in small formal businesses in 2015 (5.8 million) was greater than employment in large businesses (3.6 million).

**Table 2.2:** Statistical profile of small businesses in South Africa

A statistical profile of small business from Statistics South Africa Labour Market Dynamics
➤ Formal small businesses in 2015: 670 000, down from 707 000 in 2008
➤ Informal small businesses: 1.5 million, virtually unchanged from 2008
➤ Total small businesses: 2.2 million
➤ Employment in small formal businesses in 2015: 5.8 million
➤ Employment in large businesses: 3.6 million
➤ Main sectors: Retail, construction and business services
➤ Main provinces: Gauteng, Western Cape and KZN (mostly in the metros)
➤ Income for formal employers and self-employed: R8000 – R12 000 a month
➤ Income for informal employers and self-employed: R2000 – R4000
➤ 51% of formal small and microenterprises are white owned, down from 62% in 2002
➤ Women own 24% of formal and 40% of informal small business

**Source:** Statistics South Africa (2017).

Table 2.3 below shows the broad classification of small businesses across three categories of SMMEs, namely medium-sized enterprises, small enterprises and micro enterprises. When the classification was announced at the very beginning, there were four categories including survivalist enterprises, which in 2019 was merged and classified as part of micro enterprises (De Wet, 2019). It used the general term “small business” and the abbreviation “SMMEs” to define the diversity of small business (De Wet, 2019). Each category is defined by the features detailed in Table 2.3 below.

**Table 2.3:** Types of small businesses in South Africa

<b>Type</b>	<b>Broad description</b>
<b>Medium enterprise</b>	<b>Medium enterprises</b> constitute a category of businesses between small and big business. They are significant enterprises with strong capabilities; they are viewed as owner/manager controlled, although there may be more complexity to the shareholding. Employment of 200 people and capital assets (excluding property) of about R5 million are perceived as the maximum thresholds.
<b>Small enterprise</b>	<b>Small enterprises</b> constitute the majority of established business, with employment levels ranging between five and 50 individuals. These businesses would usually be owner-managed or directly controlled by an owner-community (i.e. a cooperative). They are likely to conduct operations from a business or industrial premise, be tax registered, and fulfil other formal registration requirements. Classification of assets and liabilities varies, given the broad differences across business sectors such as construction, manufacturing, retailing and professional services.
<b>Micro enterprise</b>	<b>Microenterprises</b> are very small businesses that often have only one owner, some family member involvement and a maximum of two paid employees. They usually lack in formality in terms of business licences, value-added tax (VAT) registration, business premises, operating permits and accounting systems. Most of them have a limited capital base and basic technical and business skills among those that operate the business. Nevertheless, a significant number of micro businesses are presumed viable enough to advance into small businesses. Due to the similarities in some of the business obstacles faced by survivalist and microenterprises, they are often combined by government support agencies.

**Source:** StatsSA (2015)

In March 2019, the Small Business Development Minister in South Africa, Lindiwe Zulu, announced a radically overhauled definition of micro, small, and medium-sized businesses (De Wet, 2019). The definitions apply among other purposes, in determining which companies qualify for tenders set aside for SMMEs, and for various incentives and forms of assistance aimed at promoting small businesses. Table 2.4 below indicates the new turnover ceilings for each class of business, as broken down into sectors by the small business development department in the ministry of SMMEs.

**Table 2.4:** New turnover ceilings for each class of business, as broken down into sectors by the small business

Sector	Size	Maximum Turnover
Agriculture	Medium	R 35 million
	Small	R 17 million
	Micro	R 7 million
Mining & quarry	Medium	R210 million
	Small	R 50 million
	Micro	R 15 million
Manufacturing	Medium	R170 million
	Small	R 50 million
	Micro	R 10 million
Electricity, gas & water	Medium	R180 million
	Small	R 60 million
	Micro	R 10 million
Construction	Medium	R170 million
	Small	R 75 million
	Micro	R 10 million
Retail, motor trade & repair	Medium	R 80 million
	Small	R 25 million
	Micro	R 7.5 million
Wholesale	Medium	R220 million
	Small	R 80 million
	Micro	R 20 million
Catering, accommodation & other	Medium	R 40 million
	Small	R 15 million
	Micro	R 5 million
Transport, storage & communication	Medium	R140 million
	Small	R 45 million
	Micro	R 7.5 million
Finance & business services	Medium	R 85 million
	Small	R 35 million
	Micro	R 7.5 million
Community, social & personal service	Medium	R 70 million
	Small	R 22 million
	Micro	R 5 million

Source: De Wet (2019), Business Insider SA

## **2.5 Conceptual framework: procurement policies and business sustainability**

In both developed and developing nations, the utilisation of preferential procurement initiatives as an instrument to effect socio-economic sustainability and change through the promotion of employment and business opportunities to marginalised sectors of the society is commonly used (Sako et al., 2002). Soon after taking office in 1994, the new South African government initiated a series of budgetary and financial reforms on procurement. The intention of the procurement reforms was to modernise the management of the public sector, to make it more people friendly and sensitive to meeting the needs of the mainly previously disadvantaged communities it served. The government introduced one public procurement policies after another in an effort to effectively address the problems of poverty and the gross inequality that was evident in almost all aspects of South African society. Some of the notable procurement policies that were introduced include the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR) in 1995 (Chagunda, 2006) which later was swapped for the Accelerated and Shared Growth Initiative for South Africa (ASGISA) in 1996. ASGISA was further replaced by the Preferential Procurement Policy Framework Act (PPPFA) of 2000 and the Broad Based Black Economic Empowerment Act (BBBEEA) in the subsequent years. All these policies were and are aimed at promoting growth and empowerment of previously marginalised people and stem poverty.

### **2.5.1 Reconstruction and development programme policy framework (RDP)**

The Reconstruction and Development Programme (RDP) came into effect soon after the 1994 elections and was the primary socio-economic programme. The programme was an integrated, coherent socio-economic policy framework meant to mobilise the country's resources towards the final eradication of apartheid segregated policies and the building of a democratic, non-racial and non-sexist future in South Africa. All levels of the government reviewed their procurement policies to ensure that they supported small-scale enterprises. As part of the affirmative action, the RDP policy framework in particular, authorised active exploring of new policies on the procurement of furniture and school uniforms, and other services and production which micro producers were able to supply (Kahn and Thring, 2003). Small businesses, particularly those owned and operated by black entrepreneurs, formed an integral part of the national economy and economic policies. The policy encouraged changes that ensured that micro producers develop from a set of marginalised survival strategies into dynamic small enterprises that could provide a decent living for both employees and entrepreneurs. Policies to this end were also made to focus on women, who are represented disproportionately in the various sectors, especially in the rural areas (Roux, 2005). Coupled with these changes, conditions and incentives were created for big business to train, mentor and upskill owners and employees of small business to facilitate

skills transfer. Government agencies were to provide infrastructure and skills to raise incomes and create healthier working conditions in small businesses. They also were to protect the rights of workers, both family members and others, and provide training in productive and managerial skills (Makinana, 2009)

### **2.5.2 Growth, employment and redistribution policy framework (GEAR)**

The reconstruction and development programme (RDP) were shortly replaced by the Growth, employment and redistribution (GEAR) policy framework. In 1996, faced with external pressures and instability in the rand currency and concerns over the commitment to sound macro policies, the government abandoned RDP and introduced the GEAR macro framework. To restore confidence and enhance credibility, GEAR was built upon (*rather than revised*) the strategic vision set out in the RDP by committing government to specific macro targets and including a phased fiscal deficit reduction plan that was deliberately more ambitious than its predecessor (Lewis, 2001). The GEAR framework set very grand targets for the South African economy such as, by the year 2000 the economy was expected to generate a sustainable 6 percent average growth rate and approximately 400,000 new jobs each year (Heintz, 2003). A critical link in the logic of the GEAR strategy was a rapid expansion of new investment in particular, foreign direct investment (Chagunda, 2006).

### **2.5.3 Accelerated and shared growth initiative for South Africa (ASGISA)**

The accelerated and shared growth initiative for South Africa (ASGISA) was launched by the then Deputy President of South Africa, Mrs Phumzile Mlambo-Ngcuka in February 2006. The essence of the accelerated and shared growth initiative for South Africa (ASGISA) was that shared growth is a collective national effort and not something devised and implemented by government alone. The policy was rallied and known as “the greatest efforts at the second economy and anti-poverty strategies” (ASGISA annual Report, 2007). According to the ASGISA Annual Report (2007) after research, consultation and discussion with stakeholders, government identified six “binding constraints on growth” that needed to be addressed so as to progress the desired for shared growth and to achieve its target of halving unemployment and poverty between 2004 and 2014. It was envisaged that could only happen if the economy grew at an average rate of at least 4.5% in the period to 2009, and by an average of 6% in the period 2010 to 2014 (Statistics South Africa, 2007b). The binding constraints identified were:

- deficiencies in government’s capacity,
- the volatility of the rand currency,
- low levels of investment infrastructure and infrastructure services,
- shortages of suitably skilled graduates, technicians and artisans,

- insufficiently competitive industrial and services sectors and weak sector strategies and inequality and marginalisation, resulting in many economically marginalised people being unable to contribute to and/or share in the benefits of growth and development (the Second Economy).

#### **2.5.4 Preferential procurement policy framework Act (PPPFA)**

The preferential procurement policy framework act (PPPFA) and its related regulations came into effect in year 2000 and gave effect to section 217 (3) of the South African Constitution. The following principles are implied within the context of the PPPFA and its regulations,

- “Section 217 (1) of the Constitution prescribes that the public sector procurement system must be fair, equitable, competitive, transparent and cost-effective. When implementing the prescripts of the PPPFA, the system allows for preferences in the award of tenders to historically disadvantage individuals (HDIs), while set asides are not allowed.
- The principle is further established that when awarding a tender, government is prepared to give preferences to HDIs, but not at all cost. The maximum "premium" government is prepared to pay for achieving these procurement objectives is 25% in the case of the 80/20-point system, and 11,11% before the 90/10-point system. From a macro-economic point of view this should be sufficient and the percentage in this regard should not be increased”.

Following the realisation that the act had serious loopholes that were being exploited, changes were made to the PPPFA with effect from 7 December 2011 to avoid ‘fronting’ (when a non-compliant business uses a passive black partner to win a contract) corruption and fraud (Bolton, 2007). The criterion for preferential procurement now became the B-BBEE status level of a tenderers. This included the introduction of a two-step process, evaluation of functionality first, and then price/BBBEE. The changes were introduced to harmonise the PPPFA and the B-BBEE Act. The criteria for awarding tenders was now chiefly based on two of the criteria for the B-BBEE statuses of ownership and management control. If ownership of business was by black persons or the management of a tendering entity was predominantly black, more points were scored (Everatt, 2003). These new regulations apply to all organs of state including Government Departments, Municipal Entities and State-Owned Entities (which were previously excluded until end of December 2012). The move away from the emphasis on ownership towards a broad-based view of BEE meant that evaluation would be based on a formal BBBEE scorecard issued by an appointed and approved verification agency. The penalty for businesses that would falsify B-BBEE certificates and use incorrect scorecards would be automatically be removed or disqualified from the tender process

altogether (Hirsch, 2006). Other critical improvements were made to the way preference points would be calculated. For low value tenders under R1 million, the 20/80 rule apply; and for tenders over R1 million, the 10/90 rule applies. New rules for special entities such as other organs of state and tertiary institutions and to control subcontracting and fronting were also introduced, (BBBEE Act, Number 46 of 2013).

A requirement for locally produced and manufactured goods and services for tenders for certain industry sectors designated by the Department of Trade and Industry were introduced and so were the changes relating to the cancellation and re-invitation of tenders and the handling of joint venture submissions. Set asides bids that set conditions that exclude certain categories of potential bidders from bidding for government contracts were prescribed and the South African Revenue Services (SARS) Tax Clearance Certificate process was also relaxed (Watermeyer, 2003).

Since the introduction of the revised Preferential Procurement Policy Framework Act, there was strong lobbying both within the Government and State-Owned Enterprises pushing for a larger slice of parastatals' expenditure to go to black empowerment businesses by changing the Treasury's preferential procurement regulations (Bolton, 2007).

### **2.5.5 Broad based black economic empowerment Act (B-BBEEA)**

The broad based black economic empowerment (B-BBEE) Act, No. 53 of 2003 came into effect in June 2004. It was further amended in 2011, and again in 2013 after the realisation that the economy still excluded the vast majority of its people from ownership of productive assets and the possession of advanced skills (Hirsch, 2006). It was also realised that unless further steps were taken to increase the effective participation of the majority of South Africans in the economy, the stability and prosperity of the economy in the future may be undermined to the detriment of all South Africans, irrespective of race (Nzimande, 2010). The fundamental objective of the Act was to advance economic transformation and enhance the economic participation of black people in the South African economy. The changes in 2013 empowered the Minister to issue codes of good practice and to publish transformation charters, to establish the black economic empowerment advisory council, and to provide for matters connected therewith (Department of Trade and Industry, 2013). Any company wishing to bid for work with government must comply with the requirements of the two acts before being able to participate in the tendering process (Preferential Procurement Regulations, 2017).

The general definition of broad-based black economic empowerment means the viable economic empowerment of all black people, in particular women, workers, youth, people with disabilities

and people living in rural areas, through diverse but integrated socio-economic strategies that include, but are not limited to (a) increasing the number of black people that manage, own and control enterprises and productive assets; (b) facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises; (c) human resource and skills development; (d) achieving equitable representation in all occupational categories and levels in the workforce; (e) preferential procurement from enterprises that are owned or managed by black people; and (f) investment in enterprises that are owned or managed by black people (B-BBEE National Summit, 2013).

Depending on the value of contracts, up to 10 or up to 20 points can be awarded to tenderers based on their B-BBEE status. Below, Tables 2.5 and 2.6 reflect the Preferential Procurement Policy Framework point system that was operated based on the BBBEE status of a tenderer. They indicate the change in points awarded after changes to the PPPFA criteria to ownership and management.

**Table 2.5:** 2011 procurement regulations section 5 (2), 80/20 preference point system

<b>B-BBEE Status Level of Contributor</b>	<b>Number of Points</b>
1	20
2	18
3	16
4	12
5	8
6	6
7	4
8	2
Non-Compliant Contributor	0

**Source:** Department of National Treasury (2011)

**Table 2.6:** 2011 procurement regulations section 6 (2), 90/10 preference point system

<b>B-BBEE Status Level of Contributor</b>	<b>Number of Points</b>
1	10
2	9
3	8
4	5
5	4
6	3
7	2
8	1
Non-Compliant Contributor	0

*Source: Department of National Treasury (2011)*

## **2.6 Empirical literature**

According to Bodunrin (2016) procurement is the acquisition of required goods and services of the best quality and needed quantity at the best affordable total cost of ownership. When goods and services are sourced by a public sector, it is referred to as public procurement. According to Hanks et al., (2008) while sustainable public procurement (SPP) policies are common in many developed countries, the awareness and implementation of SPP is still comparatively low in most developing countries. Public procurement as a policy agenda can be used as a tool to achieve social outcomes, by way of preferential treatment in procurement, to encourage indigenisation of foreign technology, development of backward regions or protection of small-scale industries (Fayomi, 2013). Fayomi (2013) further indicates that in recent years, procurement has been leveraged to campaign for cases of environment, human rights, protection of children and gender equality.

Booyens (2011), Gray et al. (2012), and Geoffrey and Christos (2015) indicate that “it is important for the business environment to be conducive for all businesses, be it big or small than simply creating targeted procurement policies that just complying with the policy to obtain a contract to do the work. According to Beck and Levin, (2005) barriers to entry and exit, clear rights to properties and robust and enforceable contracts indicates a business environment that is conducive and encourages competition and private commercial transactions.

Magoro and Brynard (2010) assert that “the chief objectives of procurement policy, namely impartiality, equity, transparency, efficiency, competition and cost effectiveness, are destabilised by the secondary objectives of bearing in mind categories of demographics of people who were previously disadvantaged, including people with disabilities, women and youth”. In South Africa contrast, the targeted procurement system assigns a mere 10 or 20 points out of 100 points to the

attainment of the lesser objectives of procurement. According to Pratyush (2009) “the possibility of undermining the primary objectives can happen only if the procurement system is not applied correctly”.

Bolton (2007) points out that making use of targeted procurement policies is also referred to as “wealth redistribution”, referring to a method of redistributing economic resources to previously disadvantaged groups in society. This is true because preferential procurement and other affirmative action initiatives such as Broad Based Black Economic Empowerment, when applied properly and accurately do create jobs and business opportunities for the previously marginalised communities (Evenett and Hoekman, 2004). Preferential procurement is mainly focused upon equitable distribution of work ensuring that all reasonable steps are considered and applied so as to ensure that the procurement of goods and services are impartially distributed among the providers and encourages genuine fair competition (Antonites and Truter, 2010).

Evenett and Hoekman (2004) repurposed the coined term “procurement discrimination” instead of “preferential procurement”. According to Evenett and Hoekman (2004) this viewpoint states that “procurement discrimination focuses non-economic objectives that are comprised of policies that reserve certain types of contracts to businesses owned by marginalised communities, businesses located in certain geographic regions, and other particular developing enterprises”. On the contrary, McCrudden (2004) refers to equality-based procurement instead of equitable procurement. Equality-based procurement policies have their origins in North America, Australasia and Europe and started in the late nineteenth and early twentieth century. In an effort to improve the participation and welfare of marginalised minority communities in the economy, the nations started developing anti-discrimination and equality policies which principally relied upon government procurement function for implementation (McCrudden, 2004). As a result, the main strategies that were used took the form of contract compliance and set asides.

The significance of differentiating policy aspiration from procurement practice cannot be overstated. The latter eventually regulates SMMEs’ likelihood of participation in public sector rivalries. Fee et al., (2002) argued that the possible worry SMMEs have with public procurement is not with the policies themselves but mostly emanate the actions and conduct of public buyers. Beyer et al., (1983) also pointed that the success of any public policy depends mostly, not at design stage by decision makers but, at how skilfully and how well the policy is implemented.

Experiential analyses of growth suggest that at times exponential growth can be induced by the relaxing of a few constraints (OECD, 2010). This was the case for the ASGISA policy approach,

and it maintained validity, even if the specific ASGISA objectives for 2014 are now probably far beyond reach (OECD, 2010). Execution of policies is vital even though the proper policy area is identified, the actual achievement is dependent on specific measures taken and the capacity to follow through and tweak certain areas based on what is on the ground.

All State-Owned Enterprises (SOEs) in South Africa have a preferential procurement policy in place to counteract unfair discrimination practices. This is coupled with the Broad-Based Black Economic Empowerment (B-BBEE) programme, a voluntary certification through which businesses demonstrate the extent to which their operations contribute to empowerment of the blacks in South Africa (Bolton, 2007). In public procurement, contracting authorities must contract with businesses that have B-BBEE credentials and can award points to suppliers that meet specific additional empowerment criteria. South Africa's procurement policies are designed to apply pressure on all suppliers and service providers to meet the standards for black economic empowerment (Chabane et al., 2006). They are intended to increase market access and procurement opportunities in general for black owned or managed companies (Arya and Bassi, 2009). The PPPFA stipulates that when government assesses contracts, it must take into account a preference point system which prescribes functionality, price, and National Development Programme (NDP) goals (Department of Trade and Industry, 2007).

B-BBEE extends beyond just public procurement because the objectives of B-BBEE Act but also takes into account (a) the promotion of economic participation of black people (Department of Trade and Industry, 2015); (b) Shifting the racial constitution of management and ownership structures Ejon and Mbohwa, 2015; and (c) an increasing entrance to economic activities by previously disenfranchised locals (Asian Development Bank, 2012). B-BBEE also considers infrastructure and skills development as well as owning and managing of new and existing enterprises to communities and black women (Steenkamp, 2015). According to SAICA (2015), B-BBEE facilitates access to economic activities and finance by empowering rural and local communities.

Due to the fact that SMMEs businesses are not sustainable and continue to close down, Wijnberg (2018) has argued that it is critical to have a good and clear understating of the prevailing growth focused acquisition policies and approaches and go past the metrics of scorecards and delve deeper to get to grasp with the actual reasons inhibiting the growth of SMMEs Statistics have shown fewer than 30% of all SMMEs survive beyond three years (Bureau for Economic Research, 2016). Wijnberg (2018) further argues that there is a disconnect between this dream of job creation, poverty alleviation and the actual reality of these being achievement beyond three

years. Policies may need to be grounded in and well-informed by actual challenges faced by those involved in the running of SMMEs.

Several corporates and multinationals currently meet the minimum requirements of the B-BBEE scorecard, so it can be argued to be not largely a compliance issue (Wijnberg, 2018). Billions of Rands have been spent on enterprise and supplier development (ESD), so it cannot be largely a budget issue. What is clear is that when it comes to investing in emerging small enterprises, it is no longer merely strategic to just spend money and tick the boxes to fulfil BBBEE scorecard requirements. Muyengwa et al., (2013) contend that business needs a long-term strategy, and a firm focusing on investing their ESD funds efficiently to generate optimistic future attributed with growth. Rashaad et al., (2013) stated that as a country there are enough resources to support and produce a vibrant SMME sector that will enable effective distribution of wealth and grow the economy.

## **2.7 Brief overview of challenges faced by small businesses in South Africa**

SMME businesses in South Africa continue to face numerous challenges, which have resulted in a slowing down of SMME investment in the economy. According to Liedtke (2018), the fragile and economically small SMMEs are overburdened by red tape, along with far too many regulations, a highly concentrated market, tax codes and taxation concerns, inflexible labour laws and corruption. Other challenges bedevilling the sector includes, financial management, that is being able to budget properly and to manage cashflows, time to plan operations and meeting deadlines to keep things flowing smoothly and functionally (Chimucheka, 2015). Another important challenge experienced by SMMEs is their ability to maintain optimal cash flows. Delayed payments hugely cripple SMMEs cash flows and make it difficult to acquire stock and pay staff. Cash flows need to be well managed to ensure they have money in the bank which means SMME owners need to be mindful of their monthly expenses. The owners also need to always be aware of the business's financial or daily operational issues (Abor and Quartey, 2010).

Marketing is another critical challenge faced by SMMEs. Most small businesses do not have the conveniences of large budgets to market their businesses, products and services. Frequently small businesses rely on their network to get the word out (Van Scheers, 2011). According to Urban and Naidoo (2012) being able to package, promote and sell a business' product offering and services is crucial to the success of a small business. Not only are challenges around formulating a compelling marketing strategy and the costs that go with promotions or advertising. Most owners always do everything themselves as a way of saving costs. This practice compromises the growth and expansion of the business as they shy away from engaging specialist to help them

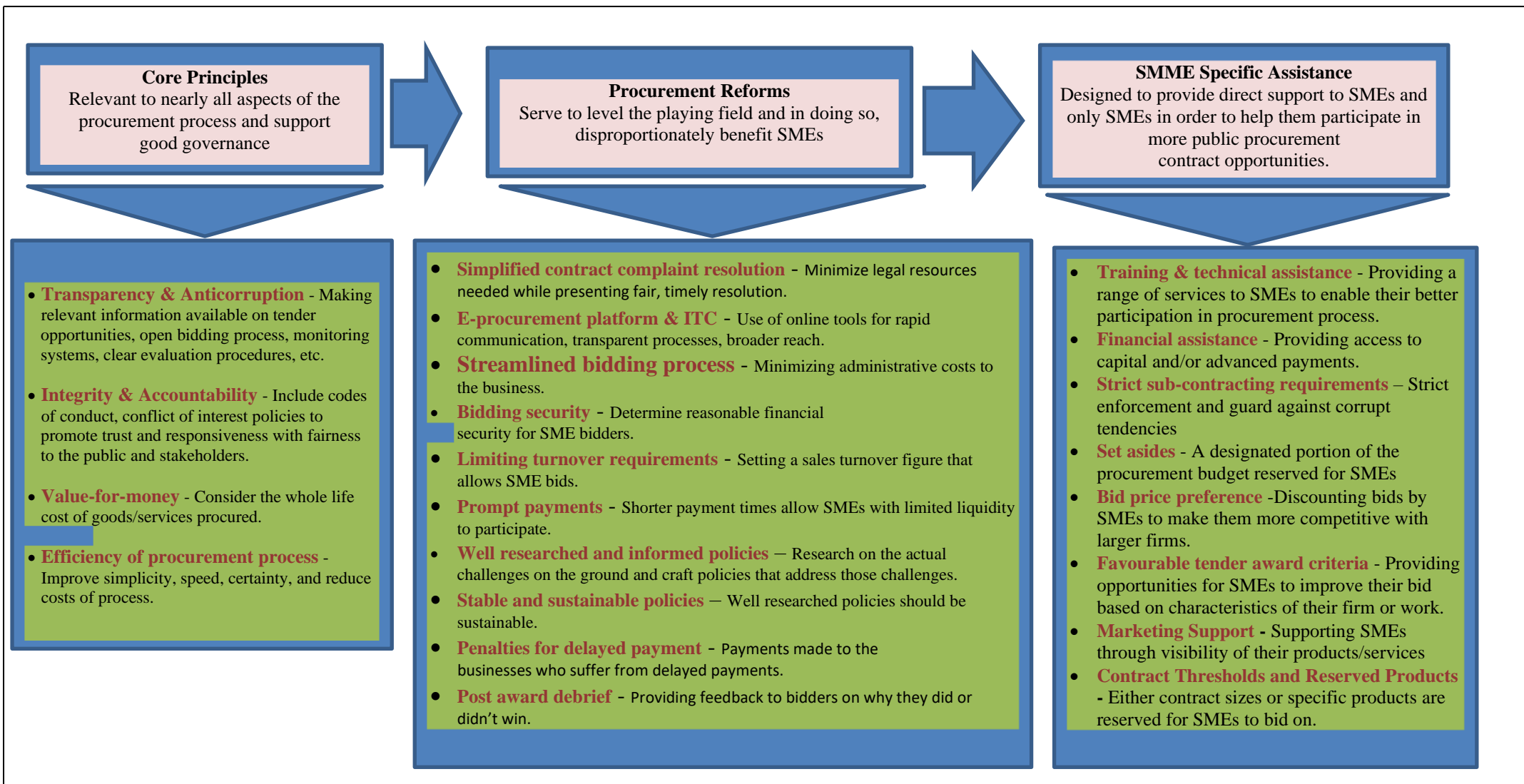
(Van Scheers, 2011). Poor planning is also a serious contributing factor to failure of SMMEs. Many SMMEs do not have formal business or management training and tend to ignore the vital step of developing a business plan or employ someone who have the requisite skills. As a result, they do not have a realistic grasp on the costs, responsibilities and medium- to long-term requirements of a business (Olawale and Garwe, 2010).

There is the issue of ineffective support to SMMEs. There are at least thirty-two state initiatives that provide support both financial and non-financial to entrepreneurs across all sectors and industries (Morongwa Business Solutions, 2018). The support is however, fragmented and uncoordinated, and most SSMMEs do not even know about the programmes offered and how to access them.

## **2.8 Initial procurement policy designs considerations**

- Preferential procurement policies design must take into account several aspects considerations from the beginning in order to maximise the achievement of the beneficial impacts desired. According to the Business Environment Working Group Report (2017), such considerations include the following: -
- the functioning of the system including legal, regulatory, taxation, institutional frameworks and government capacity, while also balancing agendas within the existing political climate.
- centralisation vs de-centralisation of the procurement systems and how the increasing use of ICTs changes the potential pros and cons of manual processes including making corruption difficult.
- providing clarity on the definitions of SMMEs and procurement criteria helps to reduce the potential for corruption compared to when criteria is left up to interpretation as well as standardise the implementation of the policies and,
- considering watertight barriers and possible risks to the preferential policies including protecting against corruption, collusion, and lack of adoption.

Figure 2.1 below provides a preferential procurement model with three broad instruments identified for transitioning from core procurement principles through to reforming to policies that are specific to provide direct support to SMEs and only SMEs in order to help them participate in more public procurement contract opportunities (Business Environment Working Group Report, 2017).



**Figure 2.1:** SMME preferential procurement model

*Source: Business Environment Working Group Report (2017)*

## **2.9 Conclusion**

This chapter reviewed literature on public procurement policies and the use of public procurement as an instrument to attain social outcomes, by way of preferential treatment in procurement, to effectively address the problems of poverty and access to economic participation through targeted procurement policies for SMME businesses. The review also explored the various South African procurement policies and laws that focus socio-economic issues with a view to promote and grow the economy so as to create jobs, poverty alleviation and the upliftment of standard of living through the establishment and growth of SMMEs sector. These policies included the RDP, GEAR, ASGISA, PPPFA and BBBEEA. These policies were applied at different times in an effort to achieve the objective of supporting SMMEs make the economy work for everyone and give opportunities for the previous marginalised people to actively participate in the economic activities of the country. The gap identified from literature reviewed is that generally, procurement in many developing countries has been identified with inherent weaknesses, making the system ineffective and non-responsive to strategic procurement needs of organisations and government alike.

The next chapter presents the methodology adopted to fulfil the objectives of this study.

## **Chapter Three: Research Methodology**

### **3.1 Introduction**

This chapter presents an outline of the research methodology which is the researcher's overall plan of undertaking the research study. The chapter discusses the type of research approach utilised for this research and the reasons for selecting the approach. It also describes the research design, the target population, the sampling strategy, the preferred data collection instrument adopted and the reasons thereof. The discussion about how data analysis was organised and conducted, trustworthiness and credibility are also provided in this chapter. The chapter is wrapped up with the major ethical issues that ought to be considered by a researcher in conducting research.

### **3.2. Research approach**

Grover (2015) defines research approach in a formal sense as “a systematic study of a problem attacked by a deliberately chosen strategy which starts with choosing an approach to preparing blue print (design) acting upon it in terms of designing research hypotheses, choosing methods and techniques, selecting or developing data collection tools, processing the data, interpretation and ends with presenting solution/s of the problem”. On the basis of the work of Guba (1990) research approaches are categorised into three types namely, quantitative approach (positivism and post positivism world view) which is an approach of measurements and numerical computations, qualitative approach, this is an approach of words, insights and images (constructivism and transformative world view) and mixed method approach which combines measurements and numerical computations and words, insights and images (pragmatism).

Onwuegbuzie and Leech (2003) states that “A subject deserve to be treated with quantitative approach has little possibility of application of qualitative approach and vice-versa although qualitative and quantitative approaches should not be viewed as rigid, distinct categories but rather different ends on a continuum”. In this study the qualitative approach was adopted because the research focuses on lives of people and their experiences about the declining state of the SMME sector and its consequences to their livelihoods in particular and the economy at large (Lincoln et al. 2011). The lives of people and their experiences cannot be captured numerically or by percentages hence a qualitative approach was preferred.

### **3.3 The research design**

Research design is the master plan or framework specifying the methods and procedures for gathering and analysing research data. Sileyew (2019) defines research design as “the overall strategy that a researcher chooses to integrate the different components of the study in a coherent and logical way, thereby, ensuring effective address of the research problem and it constitutes the blueprint for the collection, measurement, and analysis of data”.

Exploratory research design was preferred for this study because it is mostly qualitative in nature and it explores a phenomenon and increases understanding about the phenomenon (Cohen, 2013). Churchill and Iacobucci (2005) state that “Exploratory studies are a valuable means of understanding what is happening; to seek new insights; to ask questions and to assess phenomenon in a new light”. In this study, there is uncertainty and limited knowledge regarding the effectiveness of the targeted procurement policies and the reasons why the SMME sector is dwindling, hence the adoption of an exploratory research design.

### **3.3.1 Unit of analysis, population and sampling**

#### **3.3.1.1 Unit of analysis**

The unit of analysis in a research is the main entity that is analysed in a study. It is the 'what' or 'who' that is being studied. This can include individuals, groups or social organisations, thus in this study the unit of study are SMME businesses that have been doing business with SOEs and are managed from the Gauteng province in South Africa.

#### **3.3.1.2 Target population**

Target population refers to all the members (subjects) that meet and the researcher's set criteria for investigation. Alvi (2016) defines target populations as “the aggregate of cases about which the researcher would like to generalise”. In this study, the target population comprised of SMME businesses that have been doing business with SOEs, have existed and operated for at least five years or more, and are located in the province of Gauteng or are operated from the province of Gauteng.

#### **3.3.1.3 Sampling strategy**

The objective of a qualitative research is to comprehend from within the subjective reality and experiences of the study participants. It is impractical to get experiences and insights of each and every member making up the entire population. Rather reach people within the target population through some sampling plan that can share their unique reality of experiences and insights that represent the entire group.

According to Ben-Shlomo (2013) although there are different types of sampling techniques, they all can be categorised into two broad groups, namely, probability sampling and non-probability sampling. Probability (random) sampling methods are where every member or element of the population has an equal chance of being selected to form part of the sample. The findings from the study can be generalised. With non-probability sampling techniques, it is not known which element or subject from the target population will be selected to form the sample of participants. In this study a non-probability sampling method known as subjective (also known as judgemental, authoritative or purposive) sampling was preferred. It was preferred

because subjective sampling is a widely utilised qualitative research technique and it is purposely used to select subjects or individuals that are knowledgeable or experienced with the particular phenomenon (Perla and Provost, 2012). Perla and Provost (2012) state that “this technique relies on the judgement of the researcher when choosing who to ask to participate and researchers may implicitly thus choose a “representative” sample to suit their needs, or specifically approach individuals with certain characteristics”. The advantage of the subjective sampling method is time and cost effective to perform. In this study subjective sampling allowed the researcher to deliberately select research participants with enough experience and knowledge. SMME businesses doing business with SOEs for at least 5 years or more and located within the province of Gauteng constituted the research population.

#### **3.3.1.4 Sample size**

Generally speaking, the rule in qualitative research is that sampling continues until a point of saturation is reached, where no longer new information or insights are got and that determines the sample size. According to Malterud et al. (2015) the sample size with enough information is dependent on, (a) the aim of the study, (b) sample specificity, (c) quality of dialogue, and (d) analysis strategy. Dworkin (2012) proposes that saturation in qualitative research occurs about 12 participants in homogenous groups. Other researchers, Crouch et al (2006) and Guest et al (2006) concurs that in qualitative research saturation is attained with between 12 to 15 participants. The sample size for this study was comprised of 12 participants drawn from SMMEs doing business with SOEs for at least 5 years or more and operating within the Gauteng province.

#### **3.3.2 Data collection instrument**

Collection of correct and methodical data is key and crucial to performing of scientific research and various instruments used to collect the data should have both reliability and validity (Abawi, 2013). Data collection instrument reliability refers to the degree of consistency with the instrument measures the attribute it is designed to measure, and on the other hand instrument validity refers to the degree the instrument measures what it is supposed to measure. Data collection instruments is defined by Statistical Quality Standards, U.S. Census Bureau, (2010) as “the device used to collect data, such as a paper questionnaire or computer assisted interviewing system”. In this research, face-to-face interviews were preferred and adopted to collect the data through the use of semi-structured questions. Interviews consist of collecting data by asking questions. According to Abawi (2013) face to face interviews allows the interviewer a to create a rapport with the interviewee thereby earning their cooperation. Interviews in general yields high response rates compared to other methods of collecting data

and are considered the most commonly used data collection instrument for qualitative research largely because of its personal approach (Barnham, 2015). Miles et al (2013) states that “interviews allow the researcher to clarify any ambiguous answers and when appropriate, seek follow- up information”. The interview questions guide (*Appendix A*) was comprised of thirteen semi-structured questions.

### **3.3.3 Data analysis**

Flick (2014) defines qualitative data analysis as “the range of processes and procedures whereby we move from the qualitative data that have been collected, into some form of explanation, understanding or interpretation of the people and situations we are investigating”. According to McMullen (2011) data analysis is the vital phase in qualitative research and whatever the data are, it is their analysis that, in a decisive way, forms the outcomes of the research. In this study, thematic analysis which emphasises identifying, examining, and recording patterns or themes within the qualitative data, was deemed appropriate because it offers systematic and visible stages to the analysis process (Lacey and Luff, 2009).

### **3.3.4 Trustworthiness**

Gunawan (2015) indicates that “reliability and validity are important issues in all research including qualitative research therefore demonstrating that a qualitative data analysis is rigorous is especially important given a common criticism (from those less favourable to qualitative research) that qualitative results are anecdotal”. Reliability and validity concepts attributed to quantitative research, however, in qualitative research trustworthiness is the concept founded by Lincoln and Guba (1985) in his book entitled *Naturalistic Inquiry* considered foundational work in establishing quality in qualitative research. Loh (2013) states that “trustworthiness includes the concepts of credibility, transferability, dependability, and confirmability in response to the quantitative quality standards of validity, generalizability, reliability, and objectivity”. These trustworthiness concepts are discussed below.

**Credibility** (positivism comparable term is internal validity) pertains to the degree of confidence that the findings of a research represents the truth value of the participants. Lincoln and Guba 1985 stated that “How can one establish confidence in the “truth” of the findings of a particular inquiry for the subjects (respondents) with which and the context in which the inquiry was carried out”? In this study credibility was ensured by member checks where the researcher send a copy of interview transcript to each respective participant so they can review the document.

**Confirmability** pertains to the extent to which the results of the research can be confirmed or corroborated by other researchers. Guba and Lincoln (1994) indicated that “confirmability is concerned with establishing that data and interpretations of the findings are not figments of the inquirer’s imagination, but clearly derived from the data”. Confirmability was ensured in this study through detailed records of accounts for all the research decisions and activities that recorded how the research data were collected and analysed. The positivism comparable of confirmability is objectivity.

**Dependability** refers to the consistency and repeatability of the results of a research. The aim of dependability is to establish that the research study’s results are consistent with the raw data that was collected. Hammersley (2013) indicates that “dependability makes sure that other researchers were to look over the data of the research, they would arrive at similar findings, interpretations, and conclusions about the data demonstrating that there was not anything missed in the research study, or that the researcher was not sloppy or misguided in final report”. In this research study dependability was achieved but keeping detailed records of the research to enable and inquiry auditing. The comparable positivism concept to dependability is reliability.

**Transferability** pertains to the extent the results of the qualitative research can be generalised and transferred to other settings. Tuli (2010) indicates “transferability is established by providing readers with evidence that the research study’s findings could be applicable to other contexts, situations, times, and populations”. Lincoln & Guba (1985) said “It is, in summary, not the naturalist’s task to provide an index of transferability, it is his or her responsibility to provide the data base that makes transferability judgements possible on the part of potential appliers.” External validity is the positivism comparable to transferability. In this study transferability was achieved through conducting interviews at the participants’ workplaces during the first two hours of work when they were still fresh. Interviews were never done after hours because participants would be exhausted and that would not do justices to the quality of their response.

### **3.3.5 Ethical principles**

Grady (2016) states that “Research ethics are based on three fundamental principles, namely respect for persons, beneficence and justice”.

**Respect for persons:** This principle has two elements, the first being that people should be treated as autonomous and therefore are capable of making their own decision and what to agree to. It is critically important that researchers ought to respect people as individuals who should

make their own informed consent about whether or not to participate in a research. To therefore, be able to make such informed decision potential participants need to be furnished with all the information about the research study. In this study all participants were send consent forms which contained information that informed them that the decision to join the research was out of their own free will and volition. The second element relates to that people with diminished autonomy should be protected. Some people in society (*e.g. children, people with mental disabilities etc.*) may not have capacity fully informed decisions about what they do or what happens to them. Honan et al (2012) states that “in such cases, these people should be protected and only be included in research under specific circumstances, since they cannot make a true informed decision on their own”.

**Beneficence:** May (2011) defines beneficence as “action that is done for the benefit of others”. This principle specifies that research should nor do harm anyone or seek out knowledge that harm or information at the expense of others. Participants in a research can be exposed to harm or risk, it is the responsibility of the researcher to maximise benefits for participants and minimise any possible risks for participants (Thomson, (2012). In this study personal particulars of participants such as names or contact numbers were not recorded or collected to ensure their confidentiality and privacy. Any information which could make the participants identifiable was not collected unless with the consent of the participant.

**Justice:** The principle focuses on the concept of fairness. Horton and Roche (2010) indicate that “Researchers designing trials should consider what is fair in terms of recruitment of participants and choice of location to conduct a trial”. It takes into account issues of who benefits from the research and who carries the risk of the research. Also, questions asked in the research ought to be of relevance to the communities participating in the study.

The principle affords a structure for thinking about these decisions in ways that are fair and equitable (Curry et al., 2014). According to Farmer and Macleod (2011) “people who are included in research should not be included merely because they are a population that is easy to access, available, or perhaps vulnerable and less able to decline participating”. To ensure justice in the selection of participants, electronic mails were sent out to participants that were selected based on the sampling that was done and which met a certain criterion. Members has to accept and agree to participate, and all relevant information was furnished to them.

### **3.3.6 Conclusion**

In this chapter, the research methodology for this study was explained. Also, the rationale for the study and the research design was described. The selected research instrument data collection, as well as the sampling method utilised were explained. The data analysis process was also discussed. The chapter ended with discussion of the various the ethical considerations of the study. The next chapter will be focused on the discussion and interpretation of the primary data analysis results.

The next chapter provides the presentation, discussion and interpretation of the main data findings.

## **Chapter 4: Data presentation, analysis and discussion of findings**

### **4.1 Introduction**

This chapter focused on the presentation, discussion and interpretation of the main data findings. The results, themes and sub-themes that emerged were discussed. The results were also linked to the literature reviewed in chapter two. The statements of the interviewees are included to illustrate the feelings and opinions of the participants and evidence quotations. To ensure validity of the responses, they are captured and quoted verbatim, notwithstanding any language or spelling errors.

### **4.2 Sample overview**

A summary of the profiles of the respondents who were interviewed and took part in this study are reflected in Table 4.1 below. All the SMMEs have been operational for over five years; generally, they have been in business between six to eighteen years, and they operate in various industries. The owners' ages range from 41 to 52 years. All organisation owners hold degrees, except for three; and all but three are women-owned organisations. The organisation with highest number of employees has 200 employees, and the least number is 4 employees. All the organisations employ more men than women, except one which operates in the cleaning services industry.

A total of 20 invitations were sent out to prospective Gauteng-based SMMEs via email. Fourteen SMME owners responded positively and agreed to be involved in the study, thus a 70% return rate. Although 14 prospective participants agreed to participate in the study, in the end only 12 of them – including all 4 female-owned SMMEs – were actually interviewed. The other two later changed their minds and indicated they were no longer available to be interviewed and could not participate, hence they were left out of the study.

**Table 4.1: Profile of the respondents who participated in the study**

Count	SMME Reference	Type of SMME	SMME Owner Gender & Age	SMME Industry	Qualification	Number of Employees	Male Employees	Female Employees	Number of years business is in operation
1	BCI 01	Small Enterprises	Female: 47 Years	Energy	Bachelor's Degree	7	6	1	8 Years
2	TBM 02	Small Enterprises	Female: 49 Years	Construction	Bachelor's Degree	4	4	0	7 Years
3	NE 03	Small Enterprises	Female: 51 Years	Civil Engineering & General Construction	Master's Degree	22	16	6	12 Years
4	SLS 04	Small Enterprises	Male: 49 Years	Manufacturing	Post Matric Diploma	10	8	2	18 Years
5	LET 05	Medium Enterprises	Males: 47 & 49 Years	Mining	NHD & MDP Mining	200	170	30	9 Years
6	NMT 06	Small Enterprises	Male: 41 Years	IT	Bachelor's Degree	10	6	4	9 Years
7	IC 07	Small Enterprises	Male: 48 Years	Training & Development	Bachelor's Degree	20	11	9	6 Years
8	MDI 08	Medium Enterprises	Female: 49 Years	Cleaning Services	Bachelor's Degree	60	15	45	10 Years
9	MHIS 09	Medium Enterprises	Male: 52 Years	Engineering Supplies	Bachelor's Degree	30	20	10	7 Years
10	SE 10	Small Enterprises	Male 46 Years	Engineering Contracting	Bachelor's Degree	10	8	2	6 Years
11	LTEC 11	Small Enterprises	Male: 51 Years	Construction & Project Mgmt.	Master's Degree	60	40	20	8 Years
12	XC 12	Small Enterprises	Male: 49 Years	Chemical Supplies	Matric Certificate	70	45	25	6 Years

### **4.3 Findings**

The findings of the study revealed that the targeted policies have not achieved their purpose of promoting the growth and empowerment of SMME businesses, and SMME business owners have indicated that they are very concerned with the continuous swapping and changing of the policies. The results also indicated that the SMME sector strongly believes that it should have an input in the designing and implementation of the policies to ensure that the policies address the actual challenges encountered by the sector. Those SMMEs contracted to SOE highlighted issues of delayed payments, corruption, bribes and red tape as some of the challenges they must deal with in the operation of their businesses.

In order to have a better understanding of the response data collected, the researcher organised and tabulated the responses to each question on an excel spreadsheet. To get to know the data, the researcher read the tabulated data carefully and systematically, over and over again. The detailed reading permitted the researcher to derive greater meaning and understanding of the data which further enabled the identification of any possible emerging patterns and relationships. The patterns that emerged from the data were noted and colour coded. The process of identifying patterns was reiterated several times with a view to clearly enhancing any similarities. The eventual conspicuous patterns that emerged were further reviewed and eventually defined. Figures 4.1 to 4.4 are the graphical representation of how the actual data analysis progressed from raw data to terms, and eventually the themes. This is a key aspect of data analysis that demonstrates rigour in qualitative research (Pratt, 2008; Tracy, 2010).

#### **4.3.1 Progress made towards achieving the targeted procurement policies**

According to Hlakudi (2012) “some countries around the world have confidence in the use of procurement to achieve the secondary objectives of procurement and it is the government of the country that is in charge of the use of public money, which is mainly spent through procurement; and for this reason, public procurement has been identified as a policy tool to achieve the socio-economic objectives of a country”. The results of this study suggested respondents’ consensus that targeted policies are probably the best and most effective way to distribute wealth through, among others, the promotion of growth and empowerment of SMME businesses. However, the results from the data analysis highlighted the lack of progress in achieving targeted procurement policies under three main themes made up of dwindling SMME sector, disjunction between policies and challenges on the ground and worsening unemployment.

#### **4.3.1.1 Dwindling SMME sector**

The results of the study confirmed that the policies are not achieving the desired effects as the SMME sector in South Africa is shrinking, and businesses are struggling to sustain themselves beyond three years. There is very little, if any, faith in the targeted policies and the main reason for the lack of faith is failure by authorities to get input from the sector. The results indicate that these small upcoming businesses are burdened with strict and rigid labour laws, unfavourable tax rates, almost insurmountable challenges to access finance, unfriendly business environments where it is just impossible to survive, corruption, and limited contracts lasting only three years, among others. This finding is consistent with Tsai and Kuo (2011) studies on Taiwan's small and medium businesses who found that the right environment, not burdened by heavy taxes, with friendly and enabling labour laws and devoid of corruption and other such barriers to growth of SMMEs, needs to be created to spur the growth of small businesses. The respondents stated that these challenges practically make it almost impossible to sustain businesses. The other prominent reason given was competition from large and well-established organisations which have plenty of resource capacity and capabilities to unfairly flout regulations and outcompete small start-up companies. This result is in line with Bushe (2019) who concluded that big companies were allowed free rein to compete with small and under-resourced SMMEs thereby pushing them out of business through all sorts of unfair practices such as lowering of prices to outcompete small companies. The above are also the sentiments reflected in these evidence quotes:

*“Fragile and economically small SMMEs are overburdened by red tape, along with far too many regulations, a highly concentrated and insensitive market, tax codes and taxation concerns, inflexible labour laws, crippling collateral requirements by banks and corruption”, (MD08).*

*“Unfair competition from established big companies that get work because they are able to tender low on price because their capital expenditure is very low compared to SMMEs who must still acquire equipment hence their prices will be higher than established companies”, (BCI01).*

*“Financial institutions are not willing to risk funding SMMEs as there is no guarantee that they will get work beyond the existing contracts of three years offered by all SOEs, hence the issue of SOEs giving longer contracts is also key to the sustainability of SMMEs”, (NE03).*

#### **4.3.1.2 Policies and challenges mismatch**

Most of the respondents (75%) raised the point that there is a serious disjunction between what the policies are ideally meant to achieve and the actual addressing of challenges SMMEs experience daily. This is in line with the recommendations of Urban and Naidoo (2012), who pointed out that one of the critical requirements in the designing and implementation of targeted policies is to ensure they deal with the actual challenges faced. The respondents strongly feel that the policies are not pro-SMMEs, and therefore not creating enabling playing fields to help grow their businesses. This is also in agreement with the findings of Mbonyane and Ladzani, (2010), who established that, among others, the most common causes impeding SMME business growth is lack of an enabling environment and policies that are not well positioned to tackle the daily challenges faced by entrepreneurs.

The respondents also feel quite frustrated. They indicated that the policies do not address the actual problems encountered by SMMEs on the ground. The respondents further pointed out that the authorities seem not carry out investigations to establish the actual nature of challenges they face before even designing the targeted policies. This is consistent with the findings of Urban and Naidoo, (2012), who pointed out that one of the critical requirements in the design and implementation of targeted policies is to ensure they deal with the actual challenges faced. The evidence quotes below clearly indicate that the respondents do not believe policies made it any easier for them to run their businesses. When asked if the policies achieved their objectives of empowering them through growth of SMMEs, the respondents stated:

*“The policies have achieved very little if not nothing at all, if all the targeted procurement policies were having the desired impact on SMMEs, unemployment wouldn't be this rampant and widespread and the SMME sector will actually be growing and not folding”, (NMT06).*

*“No, these policies are not working, in fact they never worked. The high failure rates of SMMEs in South Africa is attributed to these theoretical policies that do not address the actual challenges on the ground”, (IC07).*

*“I am not convinced that these policies are working, the fact that they completely change policies this frequently and not tweak, says a lot, that the policies are flawed and not addressing issues on the ground”, (SE10).*

When the respondents were probed for what needed to happen to make the policies more supportive of their businesses, many indicated that the fact that they compete with established

big businesses which have massive resources at their disposal shows that the policies do not protect SMME owners. Bushe (2019) also found out that big companies were allowed free rein to compete with small and under-resourced SMMEs thereby pushing them out of business, resulting in their collapse. The other critical point raised regarding access to finance is where it was suggested that government should instruct banks to relax the collateral security requirements, as many owners are funding their businesses from their personal resources. Previous studies by Nemaenzhe, (2010); Cant and Wiid, (2013) also concluded that the collateral requirements of banks for small businesses to access finance to run their businesses were a serious impediment to the growth of SMMEs in South Africa. This is evidenced by the following quotes:

*“Large business deliberately price their quotations low to get the business because they can afford to do so as opposed to a small business who if they do the same realise huge losses, hence there is need for set asides where SMMEs of same size compete”, (MD08).*

*“There is need to have set asides for small businesses than opening up tenders to even industry leaders who simply trample over us on pricing and always get the contracts. The playing field should be levelled in such a way that small business can also compete”, (IC07).*

*“Collateral requirements needed by the banks to fund SMME’s should be relaxed as I am funding this business from my personal savings”, (LET05).*

#### **4.3.1.3 Worsening unemployment**

The results of this study paint a very gloomy picture as respondents actually think that the unemployment challenge and other economic ills bedevilling the country at the moment are as a result of the authorities not seriously considering supporting SMMEs contribution as a worthwhile solution. This ties in with the view of Lings (2014) that small businesses create the majority of new jobs in the economy, while existing large companies tend to focus on increasing output but with a more modest increase in employment. The results further indicate that if government was serious about growing the SMME sector to solve some of the economic challenges, it should, as a first step, investigate exactly why the targeted policies are not promoting the growth and empowerment of SMME businesses and establish what the actual issues are, interact with the people involved, get their input and suggestions and then design effective policies that talk to the actual challenges faced by SMMEs. The following evidence quotes are an indication of the frustration the SMME owners experience with the existing targeted procurement policies.

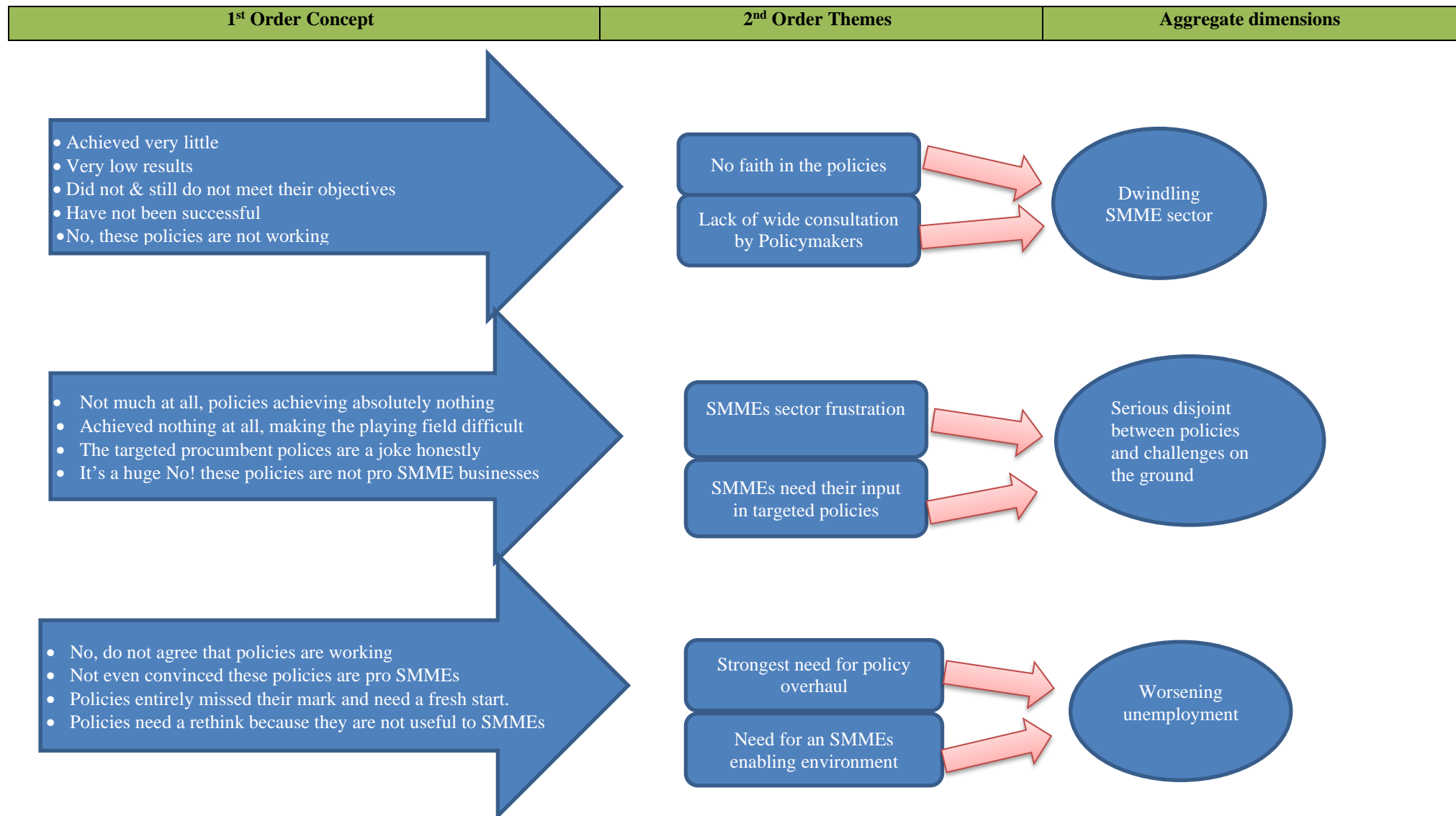
*“If all the targeted procurement policies were having the desired impact on SMMEs, unemployment wouldn't be this rampant and widespread, SMME sector will actually be growing, flourishing bearing fruits and not folding”, (NMT06).*

*“If these targeted procurement policies were having desired impact on SMMEs, unemployment wouldn't be commonplace as it is now and SMME sector wouldn't be dwindling year after year as is the case right now”, (SE10).*

*“I reckon this lack of seriousness to find out what the challenges are, is causing unemployment and other economic ills to spiral out of hand”, (BCI01).*

Figure 4.1 indicates the dominant themes and sub-themes that were identified from the data analysis process. These addresses and provide responses to the research objectives relating to exploring the progress made towards achieving the targeted procurement policies (B-BBEEA, PPPFA and ASGISA) in promoting the growth and empowerment of SMME businesses.

**Figure 4.1:** Data structure summary of key themes to assess the progress made towards achieving the targeted procurement policies (B-BBEEA, PPPFA and ASGISA) in promoting the growth and empowerment of SMME businesses.



**Source:** Researcher's design of data structure based on thematic analysis of research data as adapted from Gioia et al. (2012).

### **4.3.2 Continuous changing of targeted policies concerns SMMEs**

The results of this study revealed that the SMME sector is quite concerned with the continuous shifting and changing of the targeted policies. Three themes emerged from the data analysis, namely: understanding of the real underlying issues, creation of an enabling environment and understanding and listening to those affected. Almost all respondents indicated that they have serious concerns with the changing of the targeted procurement policies. One of the most common reasons highlighted is that authorities are not evaluating achievements of these policies to better understand the real underlying issues. It is questioned why the SMME sector is failing, if the policies are working.

#### **4.3.2.1 Lack of understanding of actual SMME challenges**

The respondents indicated that despite the frequent shifting of policies to attempt to achieve desired result—which is to distribute wealth through the growing the small businesses, the created policies have actually failed to achieve their set objectives. Urban and Naidoo, (2012) found out that one of the critical requirements in the designing and implementation of targeted policies is to ensure they deal with the actual challenges faced. The respondents believe that the failure of the targeted policies have been attributed to the Policymakers not getting to grips with the actual challenges faced SMMEs. Actually, most respondents indicated that after the first two years of implementing the targeted policies, policymakers should have commissioned a study focused on evaluating if the policies were effective and if not (as is in fact the case) to put in place the real changes needed to make the policies more effective. Antony and Bhattacharyya (2010) examined SMMEs in India based on data collected from 407 respondents and found out that evaluation of achievements of set targeted policies after a couple of years is very important to do. They found that doing so would provide the necessary information to then enable the government to address any anomalies that may cause deviation from the desired outcomes. It is argued by the respondents that had it been done this way, then the actual challenges would have been better understood. Once the understanding was in place, the government could then design policies that are effective in terms of addressing the identified challenges. Ongoing consultation with the SMME sector going forward would inform any further adjustments or tweaking of policies to make them relevant to any changes that would impact on operations of SMMEs. It was also pointed out that always changing these policies rather than tweaking them, makes the policies unsustainable, and in turn, makes the SMME sector untenable too. This also relates to what Mahmud and Hilmi, (2014) established with SMMEs in Malaysia, where it was found that targeted policies at times only needed tweaking to perform well and achieve desired outcomes; however, to change policies

frequently is not good for sustainability and more often fails to deliver completely. This shows that the policymakers do not have a better understanding of the actual challenges faced by SMMEs otherwise they would have already addressed them if they had such good understanding. The following quotations highlight the concerns respondents have.

*“I am most concerned certainly, I do because since 1994 we have had over 4 of these policies one after the other. However, as long as the authorities do not design and implement these policies together with those affected, chances of Policymakers getting it wrong each time is very wide, no matter how many times they make changes”, (MHIS09).*

*“The authorities have no clue or understanding of the actual underlying challenges faced by SMMEs and should go down to the ground and acquaint themselves with the real challenges and then come up with policies that talk to the issues on the ground”, (SE10).*

#### **4.3.2.2 Creation of an enabling operating environment**

The respondents stated that the business operating environment is actually pro big business and not pro small businesses. Examples cited included the fact that industry groupings which advocate on behalf of the industry comprised representatives from big business which means they serve mostly the interests of big business. This agrees with the findings of Beck and Levin, (2005) where it was concluded that outcomes of most industry negotiated outcomes almost always favour big businesses, as big companies have more resources and clout than SMME businesses. Usually what is good for big businesses is very unfavourable for small businesses due to a lack of resources and limited financial muscles on the part of the latter. This implies that the continuous changing of the targeted policies, which does not positively impact on such practices, will not be pro SMMEs and will not achieve the intended effect no matter the frequency of such changes; hence the concerns about what respondents called ‘artificial and cosmetic’ changes to the targeted policies. Mbizi et al. (2013) also indicated in their investigation of the impact of environmental turbulence on product innovations in SMMEs, that consistent application of correct strategies results in consistent product innovation as opposed to changing policies and strategies often which seriously harms consistency and thereby negatively impacts the expected outcomes.

The cardinal question raised by respondents was, why use trial and error methods and expect things will work out, as opposed to doing a thorough investigation, including consulting the sector itself, and get a better understanding of the actual challenges? In this case the challenges

also include the creation of a conducive operating playing field for small businesses. The results of the study also indicated that small businesses are burdened with strict and rigid labour laws, unfavourable tax rates, and almost insurmountable challenges to access finance. This agrees with the findings of Tsai and Kuo (2011), that the right environment, not burdened by heavy taxes, friendly and enabling labour laws, devoid of corruption and other such barriers to growth of SMMEs, needs to be created to spur the growth of small businesses. A number of respondents stated that, “It is such an unfriendly business environment where it is just impossible to survive, due to corruption, limited contracts lasting only for three years and after that one has to beg and pay bribes to have the contracts extended”. The laws do not take the circumstances of SMMEs into account; most of which businesses are barely established themselves. For example, changes to labour laws, where the salary negotiations are done by big business who have no idea that the wages that suit big business and are agreed to in bargaining negotiations, hugely cripple small business operations to the point of laying off workers. Hence, respondents argued that they need a different environment where they can represent themselves; for example, negotiate wages that suit them at bargaining councils and raise their own issues. Some of the evidence quotes from the respondents regarding their concerns about the continuous shifting and changing of procurement policies are indicated below.

*“I personally have serious concerns, the laws we operate under that favour established big businesses and disregard us small upcoming SMMEs. For example, the salary agreements signed at bargaining councils are beyond our reach and only established businesses can afford those figures, therefore the playing field is not even for the small businesses”, (LTEC11).*

*“The small business operating circumstances are not ideal for the growing and empowerment. We need a totally different environment where the small businesses are given an opportunity to grow by negotiating and represent themselves. Not what happens currently where it is the big businesses that represent small businesses at every level and when it comes to decision making none of our interests are considered”, (NMT06).*

#### **4.3.2.3 Trial and error method**

The respondents of this study indicated that the best solution to avoid the trial and error technique employed by Policymakers was to conduct an investigation and establish the experienced challenges. The results overwhelmingly revealed that the SMME sector is not only concerned by the continuous shifting of targeted procurement policies but is actually frustrated and angry because given the number of times the Policymakers have shifted the policies, there has been

very little progress made in resolving the problems encountered by small businesses. This ties in with findings of Mbizi et al., (2013) in their investigation of the impact of environmental turbulence on product innovations in SMMEs, where they found that consistent application of correct strategies results in consistent product innovation as opposed to changing policies and strategies, which often seriously harms consistency and thereby negatively impacts the expected outcomes. The respondents expressed frustration that, despite the failures of the series of procurement policies, the Policymakers still do not do more or change their thinking as to what effective changes need to take place to solve the issues SMMEs face and this includes wide consultations to listen to viable ideas. The sector contends that it is a significant employer and employs more people than big companies, yet it is not involved in influencing policies; even those that affect it. This is similar to the views of Lings (2014) that small businesses create the majority of new jobs in the economy, while existing large companies tend to focus on increasing output but with a more modest increase in employment. The respondents pointed out that things have to be done differently, advocating wide consultations with SMME owners. They said that SMMEs should be listened to and their views taken into account because they are the ones chiefly affected by the policies they do not help to design or influence. It was indicated that it is crucially important that SMMEs are involved and their issues be listened to and get addressed. The SMMEs believe this is the only way the sector can deal with the actual issues on the ground and grow. The following quotations are a testimony of the feelings expressed by the respondents.

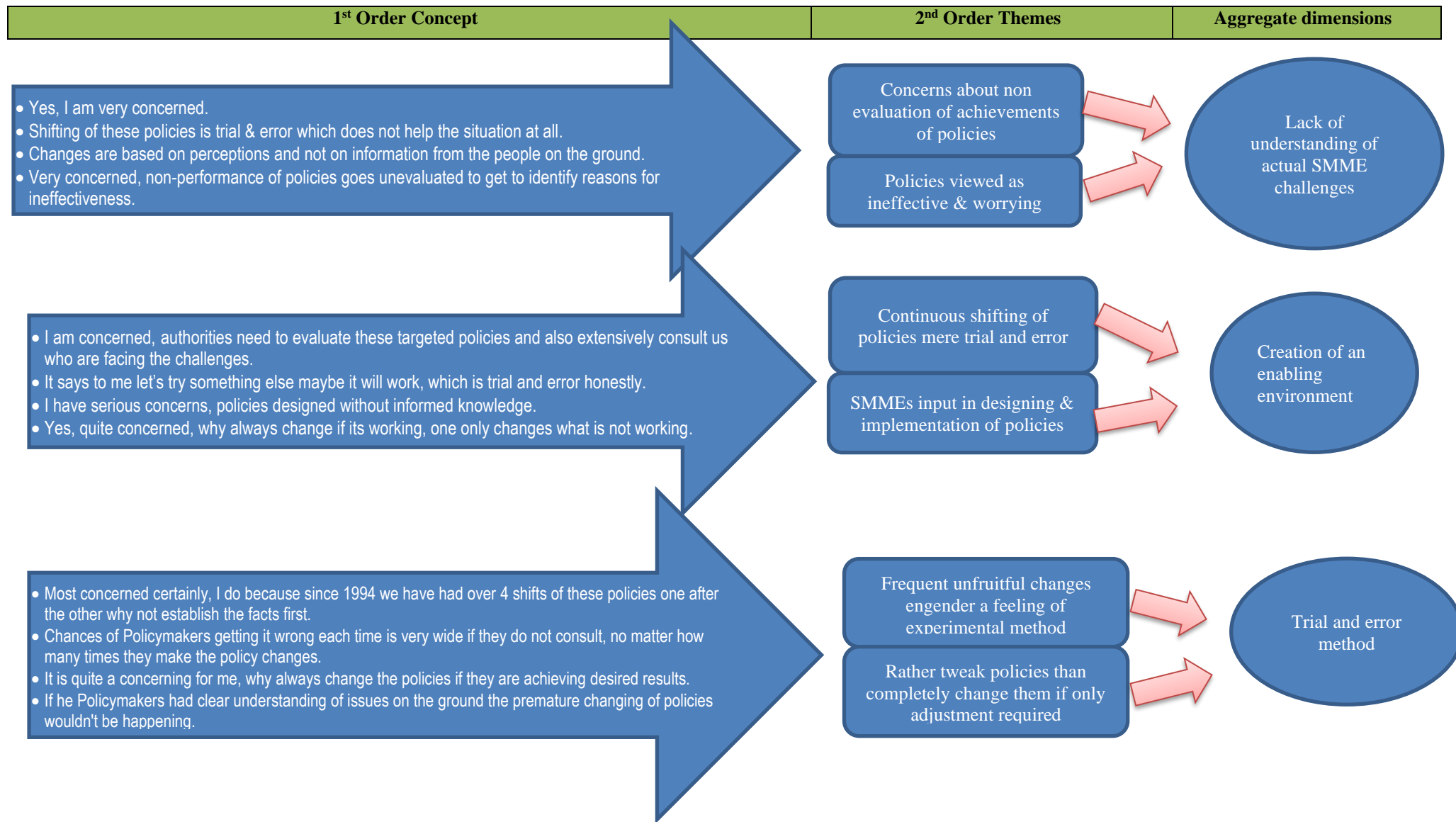
*“The lack of understanding by the Policymakers of what we go through on a daily basis is the biggest reason they should involve and listen us and the ideas we put forward. The operating environment is very much against us”, (LET05).*

*“Why they do not listen to us, yet we are affected daily boggles my mind, we are crying for help, but no one comes to our rescue”, (MDI08).*

*“The Policymakers can shift these policies as many times as they want, but as long as they do not involve and listen to us as a sector the efforts will be fruitless, and the status quo will perpetuate, and the deterioration of economic situation will accelerate”, (SLS04).*

Figure 4.2 indicates the dominant themes and sub-themes that were identified from the data analysis process that addresses and provides responses to the research objective. This pertains to understanding the perception SMME businesses have on the continuous shifting and changing of the targeted procurement policies by the Policymakers, before they even take hold.

**Figure 4.2:** Data structure summary of key themes to find out from SMME businesses whether or not they are concerned with the continuous shifting and changing of the targeted procurement policies by the Policymakers, before they even take hold.



**Source:** Researchers design of data structure based on thematic analysis of research data as adapted from Gioia et al. (2012).

### 4.3.3 Role of SMME businesses in the designing and implementation targeted policies

All respondents that took part in this study indicated that they do not play any role in the designing and implementation of targeted policies. Three themes emerged relating to the role SMMEs play in the designing and implementation of targeted policies. The three themes are important stakeholder, robust targeted policies and employment creation and innovation. The general perception among SMMEs is that Policymakers have a know-it-all attitude towards small business, hence they do not consult the owners of SMMEs. On the other hand, SMMEs believe that should they be consulted; the result being more robust policies that really address the challenges they face on the ground daily. The below quotations epitomise these perceptions.

*“Consultation means an opportunity for the Policymakers to get new ideas from the affected which will strengthen and assist in designing more robust procurement policies that are focused on dealing with raised concerns”, (BCI01).*

*“I believe consultation goes a long way to improve the environment, provided the current policies are completely overhauled and replaced by those which have our input. That way we know such policies will be sustainable and will result in sustainable small businesses as well because they will be focused on solving the challenges on the ground”, (MD08).*

#### 4.3.3.1 SMMEs are a very important stakeholder

The results of this study indicated that respondents felt very strongly that the SMME sector is such a crucial stakeholder that its opinion on issues has to be seriously considered. It was argued that SMME sector employed more people than big companies and that the sector is a hub for incubation and trying of innovative ideas to grow the economy. Maholwana (2019), the SMMEs Programme Manager in the Department of Small Business, in her write up about “Crucial Role of SMMEs in Economic Growth”, pointed out that, “SMMEs are considered as important drivers for reducing unemployment, especially since the formal sector continues to shed jobs. SMMEs are feted to be the future of business, representing forty percent (40%) of all business in SA; it has been forecast by the National Development Plan that by 2030, over ninety percent (90%) of all new jobs will be in SMMEs”.

The results also revealed that small businesses have a role to play and therefore ought to be consulted and their ideas and suggestions taken into account if the targeted procurement policies are to be effective and address some of the actual pressing problems faced by the small businesses in South Africa. Most of the respondents interviewed (70%) argued that some of the SMMEs

have been in operation for quite a number of years and have gained invaluable knowledge which comes very handy in providing crucial advice towards resolving SMME sector challenges. These respondents indicated that since the sector does not have a central body or platform where they can raise their opinions, there is critical need for the SMME sector to be consulted by the Policymakers. They indicated that they are very keen to be involved and give input in the designing and implementing of policies since they know precisely the challenges they face and have a vested interest in the economic wellbeing of South Africa. The following quotations are an indication of such sentiment expressed by the respondents.

*“SMME sector is such a huge creator of jobs therefore Policymakers need to take ideas of the sector as important and consult them on issues that affect the sector”, (IC07).*

*“All stakeholders matter and should be consulted and be involved in policies that affect us. SMME sector is where new ideas can be experimented and created before they become big business”, (XC12).*

#### **4.3.3.2 Robust targeted procurement policies**

From the results of the study, it is clear that the SMME sector is not consulted by the Policymakers which may explain why the targeted procurement policies fail to address the actual SMME challenges on the ground. A recommendation of the research a study done by (Urban and Naidoo, 2012) is that one of the critical requirements in the designing and implementation of targeted policies is to ensure they deal with the actual challenges faced. The respondents interviewed for this study also overwhelmingly expressed the same sentiment, that of a dearth of sharing ideas. They have strongly argued that their input is paramount to the policies being robust and dealing with some of the problems the sector faces. The respondents argued that as long as they do not play a role in the designing and implementation of targeted policies, they do not have much hope in their robustness and effectiveness. In fact, the SMME sector strongly feels that it has the solutions to the challenges that face them. They further argue that the solution lies in more of their input, as they have a good understanding the type of policies that should govern and administer the SMME sector. The following quotations bear testimony to the sentiments of the respondents.

*“The current targeted policies are superficial and theoretical because they are not a product of consultation and therefore do not influence and address the actual problems faced by SMMEs. To be robust and effective the sector’s input and ideas should be seriously considered and accepted”, (BCI01).*

*“There is no other better and faster way to empower and involve previously excluded people into the economy than listening to them and then design strong and effective policies that ensures that this happens”, (MHIS09).*

*“The robustness of such policies are very dependent upon the involvement of those affected in contributing to the creation and implementation of the targeted policies. Not doing so will be a rendering the policies weak and making them irrelevant”, (LET05).*

#### **4.3.3.3 Innovation and job creation**

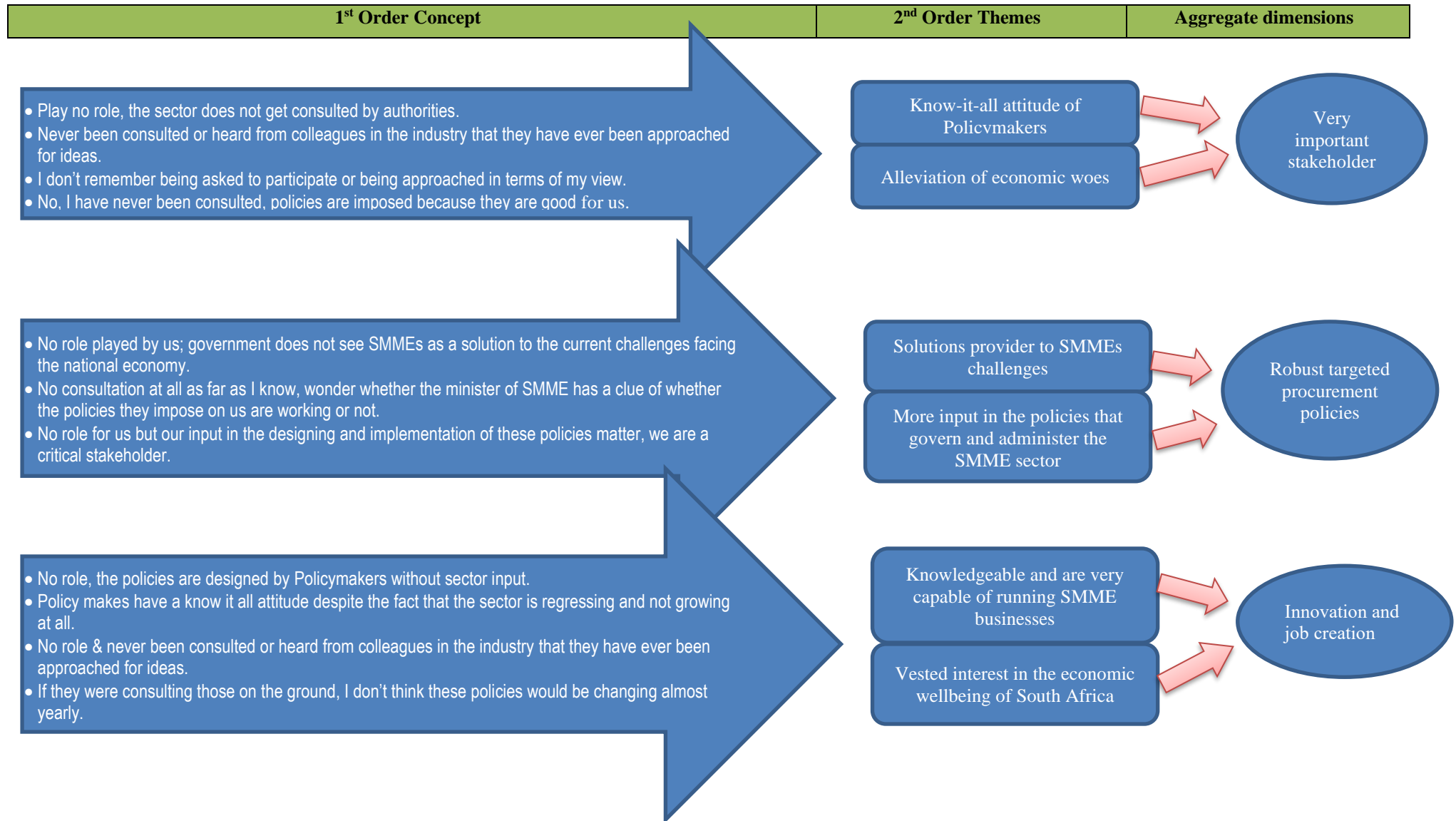
The respondents argued that the SMME sector has a vested interest in the economic wellbeing of the country, hence they call for wider consultation and their direct involvement in the designing and implementation of the policies. The findings of Ayandibu and Houghton, (2017) on the role of Small and Medium Scale Enterprise in local economic development endorse this same view, that it is also of significant importance to source ideas and insights of those who stand to benefit or are affected by whatever is to be introduced so as to come up with better and more innovative solutions. That way, the respondents feel that their businesses would grow and allow them to employ even more people and alleviate the present unemployment crisis in the country. The SMME sector argues that it is a fact that SMMEs employ the largest number of people, and that their businesses grow faster than large-scale companies, which contributes to rapid job creation. According to Chimucheka (2015) SMMEs generate nearly 50% of the country’s GDP and nearly 60% of the jobs in South Africa; and the country cannot afford to see this large and vital sector of the economy remain unsupported. Furthermore, a thriving SMME sector enables improved entrepreneurial activity, diversification and unlocking of greater opportunities for innovation, hence they should have much more input in the policies that govern and administer the SMME sector. The quotations below were expressed by some of the respondents and capture their strong sentiments about the above subheading.

*“We as SMMEs have vested interest in the economic wellbeing of this country and need to be included in matters that affect the economy especially in this period when the country is experiencing high levels of unemployment”, (TBM02).*

*“Personally, I do not think there is a better way than policy reforms that results in transfer of wealth and reduce poverty than fact-based policies that deal with the issues on the ground thereby empowering SMMEs and allowing them innovate and create much needed jobs”, (LET05).*

Figure 4.3 below indicates the dominant themes and sub-themes that were identified from the data analysis process that addresses and provides responses to the research objective regarding understanding the role of SMME businesses in the designing and implementation of the targeted procurement policies.

**Figure 4.3:** Data structure summary of key themes to understand the role of SMME businesses in the designing and implementation of the targeted procurement policies.



**Source:** Researchers design of data structure based on thematic analysis of research data as adapted from Gioia et al. (2012).

#### **4.3.4 Challenges faced by SMME businesses contracted to SOEs**

The results of the study pertaining to the challenges faced by SMMEs contracted to SOEs indicated that there are quite a number of challenges which range from an uneven business operating environment to poor governance issues. Three themes were identified for this objective and these are: a difficult SMME business operating environment, wrongdoings that seemed condoned and lack of support from government. These themes are discussed below.

##### **4.3.4.1 Difficult SMME operating environment**

Findings of this study also revealed that small businesses in South Africa operate in a very challenging environment where practically everything seems designed for big business. This agrees with the SMME Growth Index, (2019) which indicated that, "... smaller firms in South Africa are showing stagnation in both turnover and employment growth. Both these measurements are important, turnover has a strong bearing on the wealth being created in the economy, while employment is vitally important for South Africa's social stability". The existing tax and labour laws seem not to acknowledge the existence of SMMEs. For example, business contracts do not take into consideration the fact that SMME businesses do not have many resources hence their pricing is slightly more than established businesses who have an abundance of resources and therefore they can afford to charge less for the same projects. This was also stated by Bushe (2019) in the investigation of the causes and impact of business failures among SMMEs in South Africa; that big companies were allowed free rein to compete with small and under-resourced SMMEs thereby pushing them out of business through all sorts of unfair practices such as lowering prices to outcompete small companies. SMME businesses in South Africa continue to face numerous challenges, which have resulted in a slowing down of SMME investment in the economy. The results indicated a litany of serious challenges faced by small business and the biggest challenge, as highlighted by all the respondents, relates to operating in a business environment that is not an enabler of small businesses growth. Respondents cited that businesses are overburdened by red tape, an inadequately skilled and uneducated workforce, high levels of crime, lack of access to markets, along with far too many regulations, a highly concentrated market and taxation concerns, inflexible labour laws and corruption. Henrekson and Stenkula, (2010) in their study on entrepreneurship Public Policy, found that regulatory burdens, unskilled workforce, cumbersome processes and high levels of crime are some of the serious impediments and drawbacks to growth of SMMEs. Other challenges bedevilling the sector include limited access to finance and financial management, and delayed payments that hugely cripple SMMEs' cash flows and make it difficult to acquire stock and pay suppliers and staff. Marketing is another critical challenge pointed out by the SMMEs, by highlighting that most small

businesses do not have the conveniences of large budgets to market their businesses, products and services. Often small businesses rely on their network to get the word out. In their study on the constraints to the growth of SMEs in South Africa. Olawale and Garwe (2010), found out that SMMEs struggle to market their products unless they are assisted to do so. The following quotations represent the feeling of respondents regarding some of the operating environment challenges SMMEs encounter.

*“Issues such as payment terms, delayed payments, enterprise development (incubators), skills shortages, training and development initiatives, an uneven business operating environment are but some of the major challenges we are facing, especially delayed payments, SOEs are notoriously known for this”, (TBM02).*

*“Access to finance, labour laws that are rigid and treat big business and small start-up business exactly the same where SMME’s are subject to the same minimum wages requirements as for big business and the same exorbitant charges from inefficient state-owned enterprises, red tape; I have given up because no one is ready to listen to SMMEs”, (XC12).*

*“Lack of requisite skills affect my business, most of my staff I train inhouse because those with degrees are hard to get and if you get someone, they refuse the salary we can afford, high levels of crime impacts negatively on my business such that I have to invest hugely in security of my premises, thus using money that is supposed to go into production. The other growth constraining factor is lack of access to alternative markets, we only do business with SOEs because without supported it is quite a challenge to enter other markets”, (MHIS09).*

#### **4.3.4.2 Wrongdoings seem condoned**

The results of the study indicated that SMMEs contracted to SOEs have quite a number of hoops to jump through as part of their contracts with most SOEs. The other serious aspect raised frequently by respondents involves poor governance practices that seem to perpetuate without much consequences for violators. According to the Auditor General’s Report (2016/17), accountability and the need for appropriate consequences for accountability failures featured as prominent elements. Actually, consequence management seems not to exist. Respondents indicated that most of officials responsible for government tenders have their own companies that compete for the same tenders they officiate. It is argued that it is not that senior officials do not see it happening, but rather that it is the rotten practice of turning a blind eye knowing that kickbacks will be offered to them as well. The majority of

respondents pointed out that contracts are almost always for a period of three years and after the period has expired, it is very difficult to get the contract renewed without paying bribes. Issues of insider trading were also raised, where information about forthcoming tenders is released to those who pay bribes well ahead of such information being available to everybody else.

Those who are contracted to SOEs lamented the fact that parastatals are notorious for paying SMMEs very late and wanting bribes to pay timeously. SOEs are also accused of allowing big business companies to compete with SMMEs despite the tender rules clearly indicating that the tendered business should be for smaller businesses only. They blame these practices on corruption where officials are paid to turn a blind eye. The other commonly stated challenge relating to SOEs is that some officials disregard good governance and have a conflict of interest by having their own companies compete in tenders for which they are responsible and over which they officiate. The results also indicated that most SOEs only provide three-year contracts and after the period the SMME has to tender again and most of the respondents stated that in most instances without success unless bribes are paid. However, the targeted procurement policies do not state periods for any of the contracts. This is used by SOE officials as a means to coerce SMMEs to offer bribes. The following quotations indicates some of the challenges SMMEs contracted with SOEs endure:

*“SOEs are using the same scorecards for both small companies like us and big companies who have been in the industry for quite some time; late payments by SOEs has affected my business in terms of cashflow such that it takes me two to three days each month end just to follow up on delayed payments and at times I end up paying someone at the SOE to have payment processing expedited, it hurting me and my business ”, (NE03).*

*“Bribery and fraud - Officials connive to get a wanted outcome against the spirit of open competitiveness; Late payments from the parastatal; officials see invoices as profit and thus feel they “own” you then expect a lot of financial favours in the form of kickbacks this is not right”, (LET05).*

*“The government departments and especially SOEs are sitting on more than R7 billion in unpaid invoices submitted by small- and medium-sized enterprises and many of the firms who submitted the invoices are in danger of collapse. I wish we had somewhere to go where we can be heard, and something done to solves are challenges”, (BCI01).*

#### **4.3.4.3 Total lack of support from parent ministry**

Findings revealed that not much support is afforded to SMME businesses by the parent ministry, the Department of Small Business Development. Respondents indicated that the Ministry seems to only focus on policy issues and is not interested in dealing with operational challenges. It was revealed by respondents that complaints about unfavourable laws, red tape and grievances raised about lack of competence and skills of some of the officials, which were sent to the parent ministry never get responses. All that is promised is that they are looking into it and no one ever gets back to the SMMEs on the issues, which makes the playing field uneven. The Department of Small Businesses Development is also accused of not playing an enabling role and makes no visible efforts to facilitate resolution of challenges encountered by SMMEs.

Regarding corrupt tendencies and other malpractices and malfeasances attributed to some ministry officials, respondents indicated that officials protect each other and its actually very difficult to have issues of serious complaints investigated. It seems bad practices and poor governance issues are not even listened to let alone taken very seriously to the point of wanting to investigate. Some of respondents actually indicated that it is not even worth it because one gets nowhere as the officials cover up for each other and frustrate any such attempts.

The results also show that the there is much lobbying by the SMME sector to have an ombudsman for SMMEs to help them deal with the challenges of late payments by the State and organisational bullying. According to the Cape Chamber of Commerce and Industry (2018) the ombudsman for the SMMEs would help the small businesses to deal with the challenge of late payments by the State and “corporate bullying”, save many jobs and make it easier to do business. The ombudsman will also assist SMMEs with complaints regarding big companies postponing payments to small firms for as long as possible, knowing that small firms are too poor to afford to hire lawyers or go to court. The following quotations are indicative of the desperation they have to endure:

*“Total lack of effective support from the parent ministry, there is lots of red tape, delayed payments every month, challenges of access to finance and issues of collateral security requirements by banks; competing with big business who have abundant resources to out compete small business who have limited resources; No one listens to you even if you go to the ministry of small businesses, so I have resigned to status quo”, (SE10).*

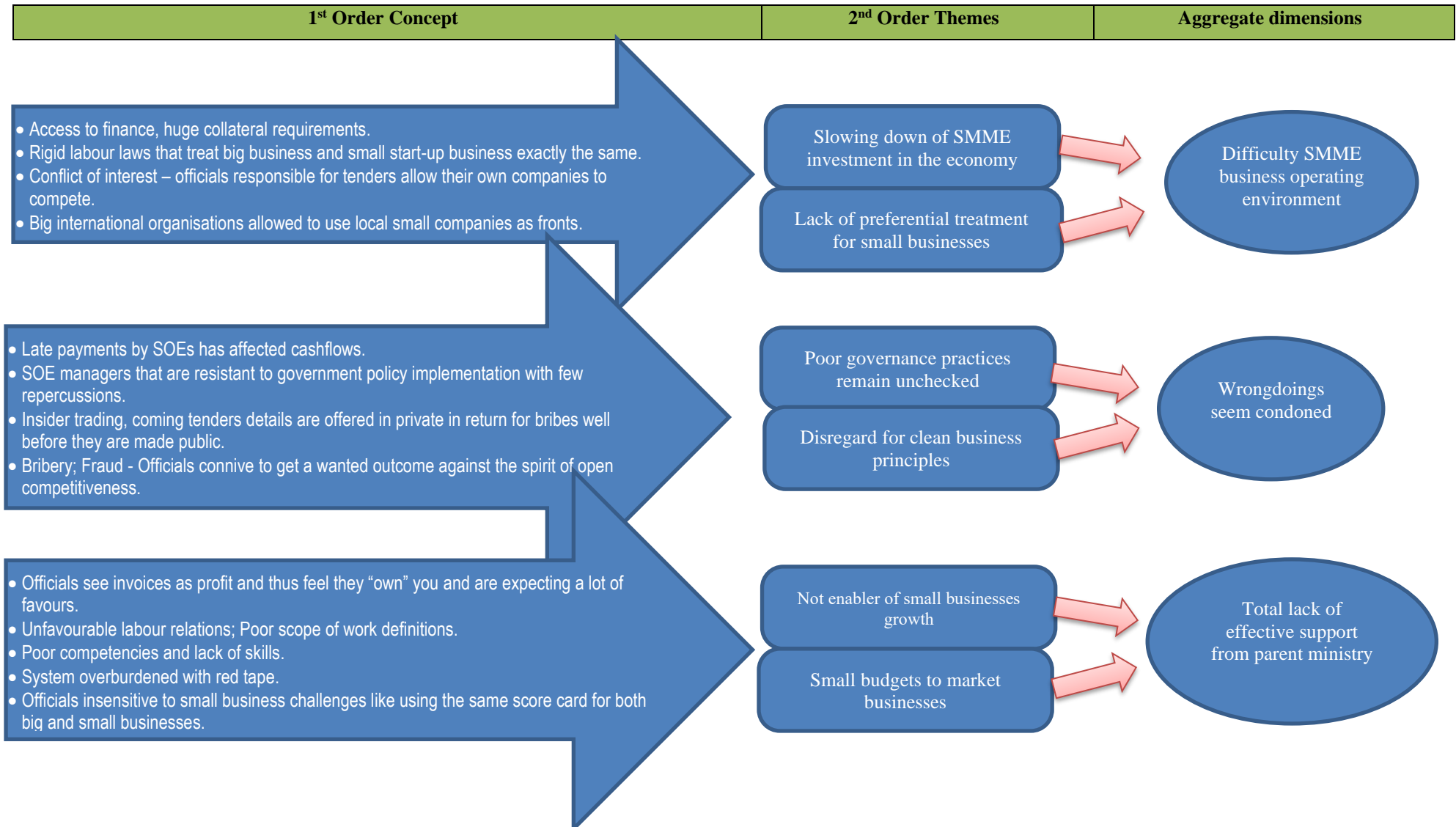
*“Complaints and grievances are never entertained by the authorities and that makes small business owners desperate for much required help but have nowhere to go where they are listen*

*to and issues resolved. It is just a pity that no one listens, and officials of the ministry protect and cover up for each other's wrongdoing therefore the status quo continues", (NE03).*

*"It is crucially important that the sector has somewhere to raise their concerns and be listened to and suggestions discussed, and this place is not the Ministry of Small Businesses and Development. It is high time we have to push hard as a sector to have a recognised ombudsman that represents and fight for us and our causes", (MDI08).*

Figure 4.4 below indicates the dominant themes and sub-themes that were identified from the data analysis process that addresses and provides responses to the research objective in respect of understanding the challenges faced by SMME businesses in dealing with SOEs.

**Figure 4.4:** Data structure summary of key themes to understand the challenges faced by SMME businesses in dealing with SOEs



**Source:** Researchers design of data structure based on thematic analysis of research data as adapted from Gioia et al., (2012).

#### **4.5 Conclusion**

This chapter discussed the findings of the primary research and interpreted the results. Whilst respondents agree that targeted policies distribute wealth, all respondents stated that the current policies in place have not worked for them. It has been indicated that the policies do not address the challenges SMMEs encounter on the ground. The results of this study indicated that the current targeted procurement policies are not sustainable, are theoretical and do not achieve their objective of distributing wealth and reducing poverty. The main reason for this, as revealed by this study, is that the prevailing business environment is not enabling for the small start-up businesses. Issues of labour laws that are rigid, delayed payments from SOEs affect cashflows, competition with big established business who simply outcompete small business using various means (e.g. undercutting tender prices to win the tenders), corruption by officials, lack of consultation and fact finding investigations with those on the ground were brought to the fore by respondents. SMMEs strongly feel and believe that frequently changing policies which concern them as a sector is not the solution to their challenges. The solutions require engagements and discussions with SMMEs during the designing and implementation phases of such policies. There was even a suggestion to have an ombudsman to help small- and medium-size businesses deal with the problem of late payments by the State, as well as with corporate bullying, in a bid to save many jobs and make it easier to do business.

The next chapter discusses the conclusion of the research, and suggested recommendations.

## **Chapter 5: Conclusions and recommendations**

### **5.1 Introduction**

In this chapter, the conclusions and recommendations are drawn from findings of the empirical research of this study. These conclusions and recommendations are based on the answers to the problem statement, the research objectives and findings of the study.

### **5.2 Findings from the study**

In this section, the salient findings of the study, from both the primary research and the literature reviewed are discussed. Findings from the primary investigation are discussed under the following sub-sections.

#### **5.2.1 Progress made towards achieving the targeted procurement policies**

The results of this study revealed that although all respondents agree that targeted policies are probably the best and most effective way to distribute wealth and empower them through, amongst others, the promotion of growth and empowerment of SMME businesses, the prevailing policies have totally failed to do that. All respondents who took part in the study stated that unfortunately the current existing targeted procurement policies (*i.e.* B-BBEEA, PPPFA, GEAR, RDP and ASGISA) have not managed to empower them and have not worked, and still leave a lot to be desired in terms of supporting them to sustain their businesses. The respondents categorically raised the fact that there is a serious disjunction between what the policies are theoretically meant to achieve and the actual challenges SMMEs experience and face daily. It was pointed out that, since 1995 when the RDP and GEAR policies were created (and followed by B-BBEEA, PPPFA and ASGISA) they all failed in one area, which is to talk to the actual challenges SMMEs encountered on the ground. Respondents have stated that they cannot believe that the authorities have not evaluated the achievements of the policies to establish whether they are achieving desired results or not. More importantly, the SMME sector is very surprised and expressed consternation at the fact that Policymakers have evidently not found it imperative to investigate the effectiveness, usefulness and sustainability of the prevailing procurement policies. Respondents argued that if the policies were working and achieving their set objectives of distribution of wealth and empowering the creation and support of SMMEs businesses, the sector should not be dwindling, and the small businesses would not be collapsing after only three years, on average.

A further argument raised by respondents is that currently, South Africa is confronted by an abundance of developmental challenges, among them, a persistent unemployment crisis, particularly amongst the youth and a shrinking economy and collapsing SMME sector that

continues to foil economic growth efforts. Cognisant of such challenges, it would be expected that Policymakers would make intensive efforts to hugely overhaul the current policies and support SMMEs to create jobs and make measurable contributions to the GDP. The overwhelming view of the respondents is that the Policymakers and government do not really care about the plight of their sector; if they did, they would have been engaged a long time ago to find a solution to the challenges bedevilling small businesses in South Africa. The results of this study paint a very gloomy picture as respondents actually think that the unemployment challenge and other economic ills plaguing the country at the moment are as a result of the authorities not seriously acknowledging SMMEs' contributions as a worthwhile solution. Respondents indicated that they suspected that these policies were borrowed from another country and adopted by South Africa without test cases to ascertain their suitability to the South African environment.

The results of the study confirmed that the SMME sector in South Africa is shrinking, and businesses are struggling to sustain themselves beyond three years. The SMME businesses are both retrenching and becoming smaller each year, and then eventually closing down. The results indicate that these small upcoming businesses are burdened with strict and rigid labour laws, unfavourable tax rates, almost unsurmountable challenges to access finance, an unfriendly business environment, where it is just impossible to survive, corruption, limited contracts lasting only three years, among other challenges. The respondents stated that these challenges practically make it almost impossible to sustain businesses. The other prominent reason given was competition from large and well-established organisations which have lots of resource capacity and capabilities to unfairly flout regulations and outcompete small start-up companies.

### **5.2.2 Continuous shifting and changing of targeted policies concerns SMMEs**

The frequent shifting and replacement of targeted procurement policies is of serious concern to all respondents that were interviewed for this study. The most notable targeted procurement policies that were introduced since 1995 include the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR) in 1995, which later was later replaced by the Accelerated and Shared Growth Initiative for South Africa (ASGISA) in 1996. ASGISA was further replaced by the Preferential Procurement Policy Framework Act (PPPFA) of 2000, and the Broad-Based Black Economic Empowerment Act (B-BBEEA) in 2003 and was subsequently amended a number of times thereafter. It has been argued by the respondents that such frequent shifting of policies one after the other in less than ten years clearly indicates that Policymakers had some feeling that the policies were not delivering the

desired results. The respondents also felt that always completely changing these policies rather than tweaking them, makes the policies unsustainable, and in turn, makes the SMME sector untenable too. Almost all respondents indicated that they have concerns with the changing of the targeted procurement policies.

The basic question raised by respondents about changes in policies was why use a trial and error method and expect things to work out, as opposed to engaging the sector and getting to understand the real issues they face and then agree on a way forward. This method would be able to aid Policymakers to formulate robust policies that are informed and speak to actual challenges on the ground. The results also indicate that the respondents strongly feel that the Policymakers have no understanding of the actual challenges faced by SMMEs, and should include people experienced in starting, running and growing SMME businesses.

All respondents in this study indicated that they have never been consulted for input by authorities and are not even aware of any business in the SMME sector that has been engaged. The respondents indicated that there is a serious need for the SMME sector to be taken on board and be involved in the designing and implementing of policies that affect them especially considering the fact that they are an important stakeholder with a vested interest in the economic wellbeing of South Africa, therefore their concerns should be noted and seriously considered. It was argued that it is a fact that SMMEs employ the largest number of people, and that their businesses grow faster than large-scale companies, which contributes to rapid job creation, hence the concerns they raise should be taken seriously as well. Further, SMMEs improve diversification and innovation faster than big business, hence they should have much more input in the policies that govern and administer the SMME sector.

### **5.2.3 Challenges faced by SMME businesses contracted to SOEs**

SMME businesses in South Africa continue to face numerous challenges, which have resulted in a slowing down of SMME investment in the economy. The results of this study indicated a litany of serious challenges faced by small business and the key challenge highlighted by all respondents relates to an operating business environment that is not an enabler of small businesses growth. Respondents cited that businesses are overburdened by red tape, an inadequately skilled and uneducated workforce, high levels of crime, lack of access to markets along with far too many regulations, a highly concentrated market and taxation concerns, inflexible labour laws and corruption, among others. Other challenges bedevilling the sector include, access to finance and financial management skills; they also experience delayed payments from SOEs that hugely cripple SMMEs' cash flows and make it difficult to acquire

stock, pay suppliers and staff. Marketing is another critical challenge pointed out by SMMEs, with respondents saying most small businesses do not have the conveniences of large budgets to market their businesses, products and services and often small businesses rely on their network to get the word out.

Those businesses that are contracted to SOE lamented the fact that parastatals are notorious for paying SMMEs very late for services rendered and wanting bribes to make payments on time. SOEs are also accused of allowing big business companies to compete with them even though at times the tender rules clearly indicate that the tendered business should be for smaller businesses only. They blame this on corruption practices where officials are paid to turn a blind eye. The other commonly stated challenge that relates to SOEs is that some officials disregard good governance and are conflicted by having their own companies compete in tenders they are responsible for and over which they officiate. The results also indicated that most SOEs only provide three-year contracts and after that period, an SMME must tender again. Most of the respondents stated that without paying bribes, getting subsequent tenders from SOEs has always proved an impossible task for SMMEs. The fact that targeted procurement policies do not stipulate the length of period a contract should be is used by SOE officials as a means to coerce SMMEs to offer bribes.

### **5.3 Conclusion**

This study has overwhelmingly revealed that indeed targeted procurement policies are used by governments as tools for the upliftment of the social and economic conditions of the ordinary people in order to bridge the gap between the rich and the poor. Every government of a nation is in charge of the use of public money, which is mainly spent through public procurement. For this reason, public procurement is identified as an appropriate policy means to attain socio-economic objectives of many nations, particularly in developing countries.

In South Africa, the targeted procurement policies were adopted shortly after the attainment of the new dispensation in 1995. The objective was to distribute wealth and redress the imbalances of apartheid to enhance the economic participation of the majority black people in the South African context and improve their welfare through changes in some legislations to favour the previously marginalised.

The results of this study indicated that although the targeted policies have been in place since 1995 and continued to be changed one after the other to try and get things right, this has not been achieved. Respondents indicated that the policies were theoretical and do not address

the actual challenges that bedevil small businesses in South Africa. If anything, the policies have not attained their set objectives of growing and empowering SMMEs; instead, as claimed by the respondents, these policies made doing and growing their business difficult as the business environment is not enabling. High taxes, inflexible labour laws, access to finance, inability to market their companies and products, and delayed payments for services rendered are some of the problems faced by SMMEs. The SMME sector is dwindling, the small businesses are folding, and the targeted policies have proved unsustainable.

#### **5.4 Recommendations**

According to Hunja (2003), one consistent error by governments, especially in most developing countries, is the absence of an individual body within government that is charged with overall responsibility for formulation and implantation of procurement. It is recommended that a single board with overall responsibility for empowering SMMEs should be established with full powers to engage sector players and provide specific mechanisms for the monitoring of public procurement and the detection and sanctioning of misconduct. Currently, the many agencies (e.g. SEDA, SEFA, NEF) that are responsible for SMMEs seem not to be doing a very good job assisting SMME businesses. They seem not to be monitored nor expected to provide detailed reports about what is actually taking place within the sector. The fact that policies meant to uplift and grow SMMEs are not addressing issues on the ground on their watch leaves a lot to be desired. Mechanisms for identifying and reporting wrongdoing should be put in place, such as an internal complaints desk, and consequence management should be put into effect for those who violate laid-down procedures.

The other recommendation is that Policymakers and the parent department for SMMEs should create structures and platforms that allow for dialogue and engagement with the SMME sector. The results of this study indicated that the affected community which the targeted policies are intended to assist have no role to play nor provide any input to the designing and implement the policies. The fact that policies are not talking and addressing the actual challenges faced on the ground is indicative of a lack of communication between Policymakers and those affected by the policies. It is also recommended that an ombudsman office for SMME business be created to help small- and medium-size businesses deal with the multitudes of problems they encounter—among these are late payments by the State and “corporate bullying” by big business.

Owing to the fact that SMMEs businesses are not sustainable and continue to close down, it is important for Policymakers to first have a good and clear understating of the prevailing growth

focused acquisition policies and approaches. They should look past the metrics of scorecards and delve deeper to obtain a grasp of the actual reasons inhibiting the growth of SMMEs. A clear understanding of the actual reasons for the failure of SMMEs will help to establish the disconnect between the dream of job creation, poverty alleviation and the actual reality of these being achieved beyond three years. The targeted procurement policies may need to be grounded in, and well-informed by the actual challenges faced by those involved in the running of SMMEs, hence their ideas matter in the whole scheme of things.

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## Appendices

### Appendix A: Interview Questions Guide

#### Research Topic: Procurement Policies and Sustainability on SMMEs: A Case study of Gauteng Province.

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1. Please can you confirm whether the business you represent is an SMME and indicate whether it is **(a)** a Medium enterprise, **(b)** Small enterprise or **(c)** Microenterprise.
2. Please provide information to the following questions
  - (i) Is the owner of this SMME business male or female, and what is his or her age?
  - (ii) What qualification or highest level of education does the owner hold or has?
  - (iii) What year did your business start and how many employees does the business employ? **Please state the number of men and women and age range of the employees.**
  - (iv) In what industry does your business operate and what products or services does the business provide?
3. How long has the business been offering its products or services to State-Owned Enterprises?
4. In your opinion, to what extent would you say the targeted procurement policies (ASGISA, B-BBEEA, and PPPFA) have managed to achieve their intended purposes of promoting growth and empowerment of SMMEs business?
5. What major challenges do SMME businesses, contracted with SOEs face, which the organisation wants Policymakers to know about and address and how have businesses been managing these challenges?
6. Do you have any concerns (or not) regarding the continuous shifting and changing of procurement policies before they even take hold by the government? **Please explain your response.**
7. Does the government (Policymakers) consult the SMME businesses for input in the designing and implementation the targeted procurement policies that are meant to empower these businesses?
8. Following up on question number **7** above, do you think if the SMME sector was consulted and contributed their input to the designing and implementation of the targeted procurement policies, most of the prevailing challenges facing SMME businesses will be better addressed? **If so, briefly explain your thinking?**
9. Various reports on the state of SMMEs in South Africa have indicated that the sector is actually dwindling; in fact, businesses are not lasting beyond three years. In your opinion what could be the reason(s) SMMEs business are not sustainable?
10. What do you suggest should be done to make the targeted procurement policies more supportive of SMME businesses to ensure their sustainability?
11. In your opinion do you think the utilisation of preferential policies as tools to effect socio-economic change through the promotion and empowerment of business

opportunities to previously marginalised sectors of the society can be effective and how do you suggest it should practically be done to produce the desired results?

12. Following up on question **11** above, what else do you suggest should be done to achieve the same objective of effecting economic change and empowerment for the previously marginalised sectors of the society to actively participate in the economy apart from utilising targeted policies?
13. What considerations do you think ought to be regarded in the initial stages of designing and implementing of the preferential policies so that they achieve the desired impacts?

**The End**

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## Appendix B: Participant’s Consent Form

Dear Prospective Participant,

I am currently doing master’s degree studies with the Graduate School of Business at University of Cape Town (UCT) which is in partial fulfilment of the requirements for the degree in Master of Commerce in Development Finance.

I kindly invite you to participate in the research study as a voluntary and willing participant. The topic of my research study is, **“Procurement Policies and Sustainability of SMMEs: A Case study of Gauteng Province”**.

This research study is being conducted by me, **Nonhlanhla D. Kraai** and the purpose of this study is to investigate and establish whether the affirmative action procurement policies are achieving their intended purpose of distributing economic wealth and reducing poverty for the previously disadvantaged people of South Africa through creation of small businesses. Procurement policies have been swapped and changed every couple of years (RDP, GEAR, ASGISA etc.), and is this chopping and changing of procurement policies causing unsustainability within SMMEs sector as the sector is actually contracting and most SMMEs cannot sustain beyond three years? The focus of the study is to hear the opinions and feelings of owners and those managing SMME businesses contracted to State-Owned Enterprises (SOEs).

For the purposes of collecting the necessary information on this study, I humbly and kindly request and invite you to participate in an interview that shall be conducted by me to answer some of the questions that will enable me to investigate the topic. The interview guide questions are hereby attached in advance for your attention and perusal. The details of the actual interview shall be sent to you via electronic mail in due course should you indicate your willingness to participate in this study. **Please note that there will be not any form of reward, remuneration or gift(s) promised for taking part in this study.**

Please note that your participation in this research study is voluntary and you take part out of your free will and you are also free to withdraw your participation at any time should you so wish to do so. There are no known risks or harm associated with your participation in this study. All of the responses collected via the interview shall be kept confidential, anonymous and only used for the purposes of this study. No identification of personal information shall be allowed or recorded anywhere before, during and after your participation in this research. Further, the information you shall provide in interview shall not be shared with or used for any other purpose apart for the purposes of the study and after the project, all information, recorded or otherwise, will be destroyed. The interview is envisaged take between 45 minutes and an hour of your time.

This research study has been approved by University of Cape Town and my supervisors are **Dr Patricia Makoni and Dr Abdul Latif Alhassan**, contactable on email addresses, [patricia.makoni@gmail.com](mailto:patricia.makoni@gmail.com) and [latif.alhassan@gsb.uct.ac.za](mailto:latif.alhassan@gsb.uct.ac.za) respectively.

I reckon your participation in this study shall be vital and provide through the information that will be collected for this research study benefit and enable an understanding of whether procurement policies are achieving intended objectives and, if not, what could be changed so that the SMME sector can grow and improve the socioeconomic challenges of communities and upliftment of standards of living of the previously disadvantaged people in South Africa.

If you have any questions or require clarification regarding this research project in general, please contact **Nonhlanhla D Kraai** on e-mail address, [nonhlanhlak1510@outlook.com](mailto:nonhlanhlak1510@outlook.com).

Please indicate your willingness to participate or not to participate in this research study, by putting an **“X”** in the provision below and return this completed letter to me using the e-mail address [nonhlanhlak1510@outlook.com](mailto:nonhlanhlak1510@outlook.com). I would appreciate it, if you return this completed letter by close of business on 26 July 2019.

<b>I am willing to participate in the study</b>	
<b>I am not willing to participate in the study</b>	

Thank you for your consideration. Your help is greatly appreciated.

**Researcher Name:** Nonhlanhla D. Kraai. **Researcher Signature:**

**Date:** .....

## Appendix C: Ethical Clearance Certificate



UNIVERSITY OF CAPE TOWN  
**FACULTY OF COMMERCE**  
 Igniting Knowledge and Opportunity



### Commerce Faculty Ethics in Research Application Form

Any person planning to undertake research in the Faculty of Commerce at the University of Cape Town is required to obtain ethical clearance. This form is intended for undergraduate students, honours students, PD Dip students and Masters students whose research component is less than 90 credits.

Once this form is completed it should be sent via email to your departmental ethics representative. Your supervisor will be able to provide you with the contact details.

**It is assumed that the researcher has read the UCT Code for Research involving Human Subjects (Available at <http://web.uct.ac.za/depts/educate/download/uctcodeforresearchinvolvinghumansubjects.pdf>)** in order to be able to answer the questions in this form. Students must include a copy of the completed form with the dissertation/thesis when it is submitted for examination.

#### 1. PROJECT DETAILS

**Project title: Procurement Policies and Sustainability on SMMEs in South Africa**

<b>Principal Researcher/s:</b>	Nonhlanhla Kraai	<b>Email address(es):</b>	nonhlanhlak1510@outlook.com
<b>Research Supervisor:</b> Patricia Makoni and Latif Alhassan		<b>Email address(es):</b>	<a href="mailto:latif.alhassan@gsb.uct.ac.za">latif.alhassan@gsb.uct.ac.za</a> <a href="mailto:patricia.makoni@gmail.com">patricia.makoni@gmail.com</a>
<b>Co-researcher(s):</b> N/A		<b>Email address(es):</b>	N/A

**Department: Master of Commerce in Development Finance**

**Brief description of the project:**

SMME targeted procurement policies in South Africa in general and in Gauteng in particular get swapped and changed every couple of years before they take hold and assessed against initially set desired outcomes; this makes them unsustainable. As such, it has become necessary for research to be undertaken to investigate those SMMEs

that do business with State-Owned Enterprises (SOEs), with the aim of establishing whether the preferential procurement policies are supportive of the growth and sustainability of their businesses. We seek further to ascertain whether the targeted procurement policies are achieving the objectives they were created for in the first place, which is to promote growth and empowerment through the growing of the SMME businesses or are they non-responsive. Lastly, this study intends to understand whether the continued swapping and changing of the targeted procurement policies is resulting in their unsustainability to grow a sustainable SMME sector in South Africa which in turn raises a question of whether the designing and implementation of these policies is well informed by the actual challenges bedeviling the sector to be able to address these challenges on the ground.

**Data collection:** (please select)

Interviews  Questionnaire  Experiment  Secondary data  Observation

Other (please specify): \_\_\_\_\_

Have you attached a research proposal OR a literature review with research methodology? (please select)  Yes  No

## 2. PARTICIPANTS

2.1 Does the research discriminate against participation by individuals, or differentiate between participants, on the grounds of gender, race or ethnic group, age range, religion, income, handicap, illness or any similar classification?	YES	NO
2.2 Does the research require the participation of socially or physically vulnerable people (children, aged, disabled, etc.) or legally restricted groups?	YES	NO
2.3 Will you be able to secure the informed consent of all participants in the research? (In the case of children, will you be able to obtain the consent of their guardians or parents?)	YES	NO
2.4 Will any confidential data be collected, or will identifiable records of individuals be kept?	YES	NO
2.5 In reporting on this research is there any possibility that you will not be able to keep the identities of the individuals involved anonymous?	YES	NO
2.6 Are there any foreseeable risks of physical, psychological or social harm to participants that might occur in the course of the research?	YES	NO
2.7 Does the research include making payments or giving gifts to any participants?	YES	NO

If you have answered **YES to any of these questions**, please describe how you plan to address these issues (append to form):

**Affiliations of participants:** (please select)

Company employees  Hospital employees  General public  Military staff  Farm workers  Students

Other (please specify): Owners of Small, medium and micro-enterprises organisations

**Race / Ethnicity:**

Are you asking a question about race/ethnicity in your questionnaire?

Yes       No

Which race categories have been used? N/A

**Have you included the option: "Prefer not to answer" as part of your race/ethnicity question?**

**3. Provision of Services**

**Does your research involve the participation of or provision of services to communities?**

If your answer is YES, please complete below: **NO**

3.1 Is the community expected to make decisions for, during or based on the research?	YES	<b>NO</b>
3.2 At the end of the research will any economic or social process be terminated or left unsupported, or equipment or facilities used in the research be recovered from the participants or community?	YES	<b>NO</b>
3.3 Will any service be provided at a level below the generally accepted standards?	YES	<b>NO</b>

**If you answered YES to any of these questions, please describe below how you plan to address these issues.**

**3. ORGANISATIONAL PERMISSION**

If your research is being conducted within a specific organisation, please state how organisational permission has been/will be obtained:

I will obtain permission from the National Treasury to use their data base in providing the list of formally registered SMMEs in Gauteng who has done business with State Owned Enterprises. The selection will be from different industries, all sizes i.e. small, medium and large SMMEs as per the definition from Department of Trade and Industry (DTI).

Have you attached the letter from the organisation granting permission? (please select)

Yes  No, but this **will be** obtained before commencing the research  Not applicable

Are you making use of **UCT students** as respondents for your research? (please select)  Yes  No

**If yes**, have you contacted Executive Director: Student Affairs for permission? (please select)  Yes  No

Was approval granted? (please select)  Yes  No  Awaiting a response

Are you making use of **UCT staff** as respondents for your research? (please select)  Yes  No

If yes, have you contacted Executive Director: Human Resources for permission? (please select)  Yes  No

Was approval granted? (please select)  Yes  No  Awaiting a response

Contact Emails: Executive Director: Human Resources ([Miriam.Hoosain@uct.ac.za](mailto:Miriam.Hoosain@uct.ac.za))  
Executive Director: Student Affairs ([Moonira.Khan@uct.ac.za](mailto:Moonira.Khan@uct.ac.za))

#### 4. INFORMED CONSENT

What type of consent will be obtained from study participants?

- Oral Consent
- Written Consent
- Anonymous survey questionnaire (covering letter required , no consent forms needed)
- Other (Please Specify)

How and where will consent/permission be recorded? **Create my own notes from interviews that shall be conducted**

Have you attached an informed consent form to your application?  Yes  No

#### 5. Sponsorship of Research

**If your research is sponsored, is there any potential for conflicts of interest? NO**

If your answer is YES, please complete below

4.1 Is there any existing or potential conflict of interest between a research sponsor, academic supervisor, other researchers or participants?	YES	<input checked="" type="radio"/> NO
4.2 Will information that reveals the identity of participants be supplied to a research sponsor, other than with the permission of the individuals?	YES	<input checked="" type="radio"/> NO
4.3 Does the proposed research potentially conflict with the research of any other individual or group within the University?	YES	<input checked="" type="radio"/> NO

If you have answered **YES** to any of these questions, please describe how you plan to address these issues (append to form)

**6. RISK TO PARTICIPANTS**

**Does the proposed research pose any physical, psychological, social, legal, economic, or other risks to study participants you can foresee, both immediate and long range?** (please select)

Yes       No

**If yes, answer the following questions:**

1. Describe in detail the nature and extent of the risk and provide the rationale for the necessity of such risks
2. Outline any alternative approaches that were or will be considered and why alternatives may not be feasible in the study
3. Outline whether and why you feel that the value of information to be gained outweighs the risks

1.

N/A

2.

N/A

3.

N/A

**I certify that I have read the Commerce Faculty Ethics in Research policy**   
 (<http://www.commerce.uct.ac.za/Pages/ComFac-Downloads>)

**I hereby undertake to carry out my research in such a way that**

- there is no apparent legal objection to the nature or the method of research; and
- the research will not compromise staff or students or the other responsibilities of the University;
- the stated objective will be achieved, and the findings will have a high degree of validity;
- limitations and alternative interpretations will be considered;
- the findings could be subject to peer review and publicly available; and
- I will comply with the conventions of copyright and avoid any practice that would constitute plagiarism.

Signed by:

	Full name and signature	Date
Principal Researcher/Student:	Nonhlanhla Kraai <i>ND Kraai</i>	17 July 2019

This application is approved by:

Supervisor	Dr Latif Alhassan <i>[Signature]</i>	17 <sup>th</sup> July 2019.
Departmental Ethics Rep A/Prof Sean J. Gossel	<i>[Signature]</i>	26-07-2019