THE EFFECTIVENESS OF LOCAL BUSINESS SERVICE CENTRES IN SMALL BUSINESS DEVELOPMENT: A STUDY IN GAUTENG PROVINCE, SOUTH AFRICA

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DECLARATION

I declare that the thesis,

"THE EFFECTIVENESS OF
LOCAL BUSINESS SERVICE CENTRES
IN SMALL BUSINESS DEVELOPMENT:
A STUDY IN GAUTENG PROVINCE, SOUTH AFRICA",

is my own work, that all the sources used or quoted have been indicated and acknowledged by means of complete references, and that this thesis was not previously submitted by me for a degree at another university.

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01 November 2009

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ABSTRACT

The Local Business Service Centre (LBSC) programme launched by the government of the Republic of South Africa in 1995 to provide business development services to small business, moreso in the Black communities, did not live up to expectations. This is according to the responses of a sample of 400 small business owners who were researched regarding the effectiveness of the LBSC programme, with a usable questionnaire response rate of 37.8 %. The purpose of this *ex post facto* research, conducted in 2006 and 2007, was to evaluate the impact of the LBSC programme on small businesses in the Gauteng Province of South Africa. The results will assist in developing strategies for the delivery of business development services (BDSs) that would meet the expectations of all stakeholders. This is the challenge facing South Africa.

The better-known service centres include the Small Business Development Centres in the United States of America and Business Link in the United Kingdom of Great Britain; and international brands like the Enterprise Development Centres sponsored by the International Labour Organisation. These centres provide business development services such as information, basic management training and referrals to more advanced services.

The quantitative research was based on a questionnaire consisting of 42 variables and one open-ended question. The questionnaire was sent to 400 small business owners who had received counselling from the LBSCs. The questionnaire was developed from a literature review on service centres in the developed and developing world; the qualitative studies of Bloch & Daze in 2000 and Urban-Econ in 2002 which were conducted nationally, and structured qualitative interviews with former government officials and existing LBSC owners. The open-ended question solicited respondents to specify the type of service centre that would meet their requirements. According to the four-point Likert scale used, most respondents “disagree” that the LBSCs were effective, and the rating was just shy of the

2.5 median. Three factors emerged from the responses: "capacity and professionalism"; "productive relationship" and "empowering association".

According to a t-test and an analysis of variance (Anova), there was no statistical difference between the means and mid-points of the independent variables for the three factors which indicated "disagree", except "capacity and professionalism" and "empowering association" in terms of turnover. The independent variables included the age of the SMME owner, the qualifications of the owner, the turnover, the number of employees and the age of the entity.

The researcher has recommended an eight-point SMME development strategy as the basis to introduce a new generation of service centres to stimulate entre-preneurship and provide business development services. The recommended eight-point strategy will also assist to assess new business development services centres being introduced by various governments.

KEYWORDS: small business development, small business service centres, business development centres, small business entrepreneurship, development of SMMEs

To the creation of a vibrant economy
in which all South Africans, black and white,
can live in peace and harmony.

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ABBREVIATIONS, ACRONYMS AND GLOSSARY

ANC	African National Congress
BDS(s)	Business Development Service(s)
BSM	Business Sophistication Measure
BuDS(s)	Business Development Service(s)
CBO(s)	Community-based Organisation(s)
DFID	Department of Foreign Investment and Development (of the UK government)
dti	Department of Trade and Industry
FAO	Food and Agricultural Organisation of the United Nations
GTZ	German Deutsche Gesellschaft für Technische Zusammenarbeit
ICFI	International Committee of the Fourth International
ILO	International Labour Office
Khula	Khula Enterprise Finance
LBSC(s)	Local Business Service Centre(s)
Namac	National Manufacturing Centre(s)
NGO(s)	Non-Governmental Organisation(s)
Norad	Norwegian Agency for Development Cooperation
Ntsika	Ntsika Enterprise Promotion Agency
OECD	Organisation for Economic Co-operation and Development
RSA	Republic of South Africa
SADC	Southern Africa Development Community
SBDC(s)	Small Business Development Centre(s)
SBS	Small Business Service
Seda	Small Enterprise Development Agency
Sida	Swedish International Development Cooperation Agency
SME(s)	Small medium enterprise(s)
SMME(s)	Small, medium and micro enterprise(s)
Start-up	An enterprise that has been in existence for less than two years
UK	United Kingdom (of Great Britain)
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
US / USA	United States (of America)
USAid	United States Agency for International Development

CHAPTER 1

BACKGROUND AND DEFINITION OF STUDY

1.1 INTRODUCTION

One of the priorities in the national strategy for the development of small, medium and micro enterprises (SMMEs) in South Africa was a "nation-wide network of Local Service Centres" (Republic of South Africa (RSA) (RSA 1995a:70)), more appropriately called "Local Business Service Centres" (LBSCs).

The White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a:70) proposed that the LBSC network would be one of the most important instruments to spread support for small enterprises as each centre would operate at local level and would be independent. It should be noted that the ruling African National Congress (ANC) (ANC 1994:94) wanted more focus on the development of small business as it believed this was essential to grow the South African economy.

The ANC's outlook resonates with views by Acs (2008:xvi), Hisrich, Peters & Shepherd (2005:15), Floyd & McManus (2005:144) and Timmons (2002:16) who posit that the creation of small businesses is a necessity for national economic development. They argue, and this aspect refers specifically to South Africa, that small business has a great redistributional effect and fundamentally restructures society.

Bennett (2008:375), in a seminal paper, reinforced the above by further arguing that small businesses account for 99 % of all companies in developed countries and account for around half of unemployment and turnover. He suggests that they are a constituency that government must continually engage with to improve the dynamism of their economies.

LBSCs were thus established in South Africa to support small businesses (RSA 1995a:40,70). It was also evident in terms of writings by Pretorius (2009:309) and Timmons (2002:32) that this support is critical as the failure rate of new ventures is high. Pretorius (2009:309) holds that the failure rate of new ventures oscillates between 30 % and 80 % within two years of commencement of the new enterprise. According to Timmons (2002:32), 24 % of small businesses collapse in the first two years after starting up; 52 % within four years and 63 % within six years of starting up.

However, despite the launch of the LBSCs in 1995 to provide services to the SMME sector, there has been no noticeable improvement in their success rate over the years. Indeed, as recently as 09 August 2009, Sibanyoni (2009) notes that state bodies intend to reduce the number of consultants (some of whom are in the LBSC category) because of shoddy service. Concerns on the roll-out of the LBSC programme were originally brought to light by the Bloch and Daze 2000 study (Bloch & Daze, 2000) and the Urban-Econ 2002 study (Urban-Econ 2002). These were conducted nationally and both highlighted numerous problems in the roll-out of the LBSC network.

The Department of Trade and Industry (**dti**) then introduced the National Small Business Amendment Act, Act 26 of 2003 (RSA 2003) because of this apparent lack of success in providing support to SMMEs. In a workshop involving all support agencies, the **dti** (**dti** 2007:2) accepted that there was a lack of co-ordination in the provision of services to small businesses.

These observations reinforce similar ones in the **dti**'s *Review of Ten Years of Small Business Support in South Africa 1994–2004* (**dti** 2004b). In this 10-year review (**dti** 2004b:8) the **dti** claimed that support programmes had their successes and shortcomings. Among the shortcomings were a lack of co-operation, poor co-ordination of services, insufficient depth and a lack of professionalism among staff of support agencies, and an erratic spatial coverage of needs. The **dti** rightfully pointed out that there were problems in the dissemination of services to SMMEs. This was a direct indictment on the LBSC programme.

Apart from past history in terms of small business support, a look must be taken at the future. Statistics South Africa (SouthAfrica.info 2008:1) cites national unemployment as being 23 %.

Momberg (2009) and Mpahlwa (2009) declare that by the end of January 2009 thousands of employees in South Africa would have lost their jobs as a result of the economic downturn. Thus, well-functioning LBSCs are going to become crucial as more people are likely to take the entrepreneurship route and this means that service centres will be needed to provide assistance to these new entrants. The study is thus relevant as it interrogates the previous generation of LBSCs and it will suggest solutions and/or alternative methodologies in the provision of business development services to SMMEs.

This is also timeous as in November 2008 the Gauteng Provincial Government's Department of Economic Development released the Draft Gauteng SMME Policy Framework (2009-2014) (Gauteng Provincial Government Department of Economic Development 2008) on a new strategy to supply business development services (BDSs). This study will assist policy makers eliminate factors that will impact negatively on the effectiveness of service centres and include and encourage those that will make them effective.

1.2 LITERATURE REVIEW

As the present *ex post facto* study probes the effectiveness of LBSCs, the focus of the literature review is on the delivery of business development services to SMMEs by service centres. This necessitates an understanding of SMMEs, the role of service centres the SMME environment and the underlying factors that influence the outcomes of the interaction between service centres and SMMEs.

The literature review on these focus areas will assist the researcher to gain a better insight into the research problem. It will evaluate various models for developing an SMME with a special focus on management and skills development. It will entail a review of existing published research for South Africa, Africa south of the Sahara, the developed world and the developing world. The information acquired will also assist in compiling the research questionnaire.

To commence with, the literature review assists in determining the understanding of the concepts “business development services” (BDSs), “service centres” or “one-stop shops”, and their “effectiveness”. Although they are discussed in detail in the body of the thesis (Sections 3.2.1 to 3.3.2.3), a brief understanding of these is important so as to put them in context and in relation to each other right from the onset.

1.2.1 An understanding of “business development services”

Gibson (2001:3) maintains that there is no universally accepted definition of “business development services” and the best approach is to relate them to the needs of businesses. However, The Committee of Donor Agencies for Small Enterprise Development (ILO, 2001b:5) gives a broad definition when it holds that BDS refers to a wide range of services used by entrepreneurs to help them operate and grow their businesses.

Rogerson (2006:56) and the Committee of Donor Agencies for Small Enterprise Development (ILO 2001b:5) see BDSs as a wide array of non-financial services critical to the entry, survival, productivity, competitiveness, and growth of small enterprises and an effective strategy of private sector development. Rogerson (2006:56) maintains that BDSs help entrepreneurs to operate their businesses more efficiently.

The Commission of the European Communities (ILO 2001b:6) and International Finance Corporation (Hallberg 2000:13) refer to BDSs as “services originating in a public policy initiative”. Bellini (2002:8) endorses the International Finance Corporation and European Union and points out that an essential feature of these is that they provide collective learning.

Harper (2005:viii) and the International Labour Office (ILO) (BDS n.d.) postulate that they offer a wide variety of non-financial services. According to them, they include labour and management training; extension, consultancy, and counselling; marketing and information services; technology development and diffusion; and a mechanism to improve business linkages through sub-contracting, franchising, and business clusters. Rogerson (2006:56) quotes from research by Miehlbradt

and McVay in 2003 to argue that BDSs have the broader purpose of making small businesses contribute to economic growth, employment generation and poverty alleviation.

For the purposes of the present study the definitions by the European Communities (2001:6) and the International Finance Corporation (Hallberg 2000:13) definitions apply. The LBSCs, the basis of this study, were set up as a result of public policy and these definitions are thus relevant. It is also asserted that the difference in opinion between the European Communities (2001:6) and the International Finance Corporation (Hallberg 2000:13) and between Harper (2005:viii), the Donor Committee and the ILO is a mere question of semantics as it does not matter what the basis, they are a wide range of non-financial services.

1.2.2 An understanding of "service centres"

Matlay (2004:507) and Sievers, Haftendorn & Bessler (2003:3) define a "service centre" as a structure set up under an existing national legal framework to provide business development services to small enterprises. Adams (2003:171) explains this further when she indicates that it is a vehicle for local partnership and a mechanism for directing local economic development.

A "service centre" is also known as a "one-stop shop", "business centre", "enterprise development agency", "business support" or "local enterprise agency". Bridge, O'Neill & Cromie (2003:416) define a "one-stop shop" as the provision of "a seamless collection of services" to small business under one roof. They say that this is difficult to attain and talk should rather be of "first-stop shops", which would mean first-time entrepreneurs get service under one roof to set up shop.

Matlay (2004:507) and Sievers *et al* (2003:3) declare that the stated objective of such centres is to offer a full range of services to SMMEs in a specific locality. Bridge *et al* (2003:416) summarise the essentials as:

- Bringing the main suppliers of enterprise support together in partnership arrangements so as to bring about their meaningful integration and coherence and, for the client, a single point of contact;
- Upgrading (and monitoring) the quality of service and support; and,

- Having a strong and visible network across Britain with a high degree of physical concentration of supply partners in each location.

Matlay (2004:507), Sievers *et al* (2003:3), Adams (2003:169) and Bridge *et al* (2003:416) are in agreement that service centres assist entrepreneurs and business start ups. All these authors believe service centres strengthen job creation and the productivity and competitiveness of micro and small enterprises.

It is suggested that "service centres" for the purpose of this study are individuals or entities that provide business development services or co-ordinate their provision.

1.2.3 An understanding of "effectiveness"

Fearne & Fowler (2006:284) claim that "effectiveness" in the construction industry is the extent to which a project is able to deliver against the objectives of building to budget, programme and quality; while Ferguson, Paulin, Pigeassou & Gauduchon (1999:58) assert "'effectiveness' is when customers in a health resort judge the service to be highly good; they are satisfied; they are prepared to tell others and they are prepared to repurchase".

The above assertions reinforce a generally accepted view, as is further postulated in Section 4.2.1, that "effectiveness" is "doing the right thing" and "satisfying customer needs" or "satisfactorily meeting objectives".

1.2.4 The sense in which "service centres" and "business development services" are used in the study and how "effectiveness" relates to them

It must be pointed out that the two terms, "business development services" and "service centre" are used interchangeably. In the present study, "service centres" are entities that provide services as distinct from the "services" themselves, for example, training and information. The providers could be individuals or organisations as defined in the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a:70). They are distinguishable on the basis of their having been created by policy and are a government programme. They thus provide "specific" services.

"Effectiveness" in relation to the study is increased viability of the SMMEs that were ministered to by service centres. "Effectiveness" also refers to the extent to which the delivery of services met the expectations of policy makers, small business and donors.

1.2.4.1 Public policy and programmes

De Coning (2006:3) says that "policy" is the basic principle to be observed in attaining a specific goal, while Hart (2003:8) declares that "public policy" is the intentional use of the powers of government to achieve an outcome which it perceives to be in the interests of society. This was the basis for the launch of the LBSC programme whose objective was the creation of viable SMMEs.

1.2.5 Current dynamics on the delivery of BDSs

While there is necessarily no dispute that BDS centres and the services they must provide are essential, there is debate on how these services should be provided. Some press for a demand-led approach, while the general practice has understandably been supply driven. This is addressed in Chapter 3.

1.3 IMPORTANCE OF THE STUDY

It was pointed out above that the LBSC programme has progressed erratically and there is no noticeable improvement in the lot of small business. Two previous studies, the Bloch and Daze study (Bloch & Daze 2000) and the Urban-Econ study (Urban-Econ 2002), indicated that there were problems in the roll-out of the LBSC programme.

The present *ex post facto* study establishes whether the LBSC programme was effective or not and evaluates if it had any impact according to the recipients. Cooper & Schindler (2008:142) make the point that an "*ex post facto* study" is effective in analysing the variables. After all, it can be argued that an erratic roll-out does not mean there was no impact as the programme could have corrected itself. It is, therefore, to establish the nature of the impact.

It is thus held that the present study will suggest solutions or alternatives in the delivery of support to small business. The contribution and importance of this research, therefore, is:

- It will identify factors that prevented LBSCs from being effective in providing information and management development to SMMEs;
- It will identity the causal factors that impact on the delivery of business development services to SMMEs;
- It will help to develop an instrument or processes to evaluate LBSCs on their ability to provide business development services to SMMEs; and
- It will, in the process of investigation, propose alternative models for providing these services. This is probably the most important contribution of the present study.

1.4 DEFINITION OF THE RESEARCH PROBLEM

The **dti** (**dti** 2007:12) maintained that various problems around the Ntsika Enterprise Promotion Agency (Ntsika); its offspring – the National Manufacturing Centres (Namac); and the **dti**'s former Centre for the Promotion of Small Business had made remedial action unavoidable.

Ntsika was responsible for the LBSC programme. The **dti** (**dti** 2005:3) has lauded the performance of the institutions it set up but admits that challenges remain. It also notes that there has been poor co-ordination, and inadequate operational capacity regarding programmes and support institutions.

To add to these woes there was other criticism on the small business strategy as a whole and this, notably, could also be directly related to the LBSC programme. Chalera (2006:234), Kesper (2002:21) and Biepke (2002:17) agreed that considerable progress has been made towards creating an enabling environment for small business. However, they point out, some of the interventions have not had much success.

Berry, von Blottnitz, Cassim, Kesper, Rajaratnam & van Seventer (2002:38) also postulate that although little research has been undertaken to specifically assess the effectiveness of new and restructured institutions in providing support to South Africa's SMMEs, indications were that the original well-intended policy measures suffered from sub-optimal implementation.

Biepke (2002:17) and Chalera (2006:234) specifically criticise the institutions set up to promote small business such as the National Small Business Council, the Ntsika Enterprise Promotion Agency (Ntsika) and Khula Enterprise Finance (Khula). Kesper (2002:21) identified specific shortcomings on the strategy in her thesis on manufacturing in South Africa. Although Kesper's criticism is on the SMME strategy as a whole, it also applies to the LBSC network. She prevails that (Kesper 2002:21):

- There is no identification of target segments for specific parts of the strategy. She rightly asserts that specific markets should have been identified instead of the programme being "all things to all people". For instance, there should be a differentiation of policies and services to survivalists, start ups, pre-start ups or operating SMMEs.
- The development capacity of the SMME sector was overrated. She states that there are too many survivalists. This resonates with the present researcher's recommendations that the LBSCs should offer solutions suited to survivalists to enable them to grow their enterprises.
- There is little local input and the strategy mostly consists of international experience. She also points out that while cohesion could be achieved in other parts of the world as the culture was basically national and uniform and quotes Bukula who in 1999 stated that South Africa's racial past makes co-operation and interaction between Black- and White-owned SMMEs a bit of a challenge.
- The **dti** strategy focuses on constraints and does not identify strengths on which to build South Africa's SMME community.

It was no surprise when the **dti**, as a result of the above and its own investigations, concluded that challenges remain (**dti** 2007:3). To crown it all, Mseleku (2004:15) raised concerns about the provision of services to the small business sector and said this needs to be streamlined. According to him, providers were coming from

all directions but there was no management of the business development services market – an indictment indeed.

1.5 PURPOSE OF THE STUDY

In light of the above, the purpose of this *ex post facto* study, undertaken more than 10 years after the LBSC programme had been launched and subsequently abandoned, is to investigate the effectiveness of the LBSC programme. As discussed, it will look at the past performance and also consider the present and future options in light of the economic downturn affecting South Africa and the rest of the world since late 2008.

1.6 RESEARCH OBJECTIVES

The objectives of the study are the primary objective and secondary objectives.

1.6.1 Primary objective

The primary objective is to evaluate the effectiveness of LBSCs in the Gauteng Province in providing business development services to SMMEs.

1.6.2 Secondary objectives

The following secondary objectives support the primary objective and the study will thus also:

- Evaluate the capacity of the LBSCs to provide services to SMMEs;
- Evaluate the effectiveness of the relationship between LBSCs and SMMEs;
- Evaluate the ability of the LBSCs to provide all services prescribed by the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a) in terms of:
  - The effectiveness of the LBSCs to provide information to SMMEs;
  - The effectiveness of the LBSCs to provide development services to SMMEs.

1.7 PROPOSITION

Cooper & Schindler (2008:64) define a "proposition" as being a statement about observable phenomena that may be judged as "true" or "false". Thus, the following proposition will be tested as true or false:

- Gauteng's LBSCs were not effective in providing services to SMMEs.

1.8 RESEARCH METHODOLOGY

"Research methodology" refers to the scientific processes that will be followed to interrogate the degree to which the objectives of setting up the LBSCs have been met. Figure 1.1 shows a pictorial depiction of the research process.

The research methodology consists of a literature review, which includes a brief experience survey; personal interviews and an empirical study. These three approaches are outlined below.

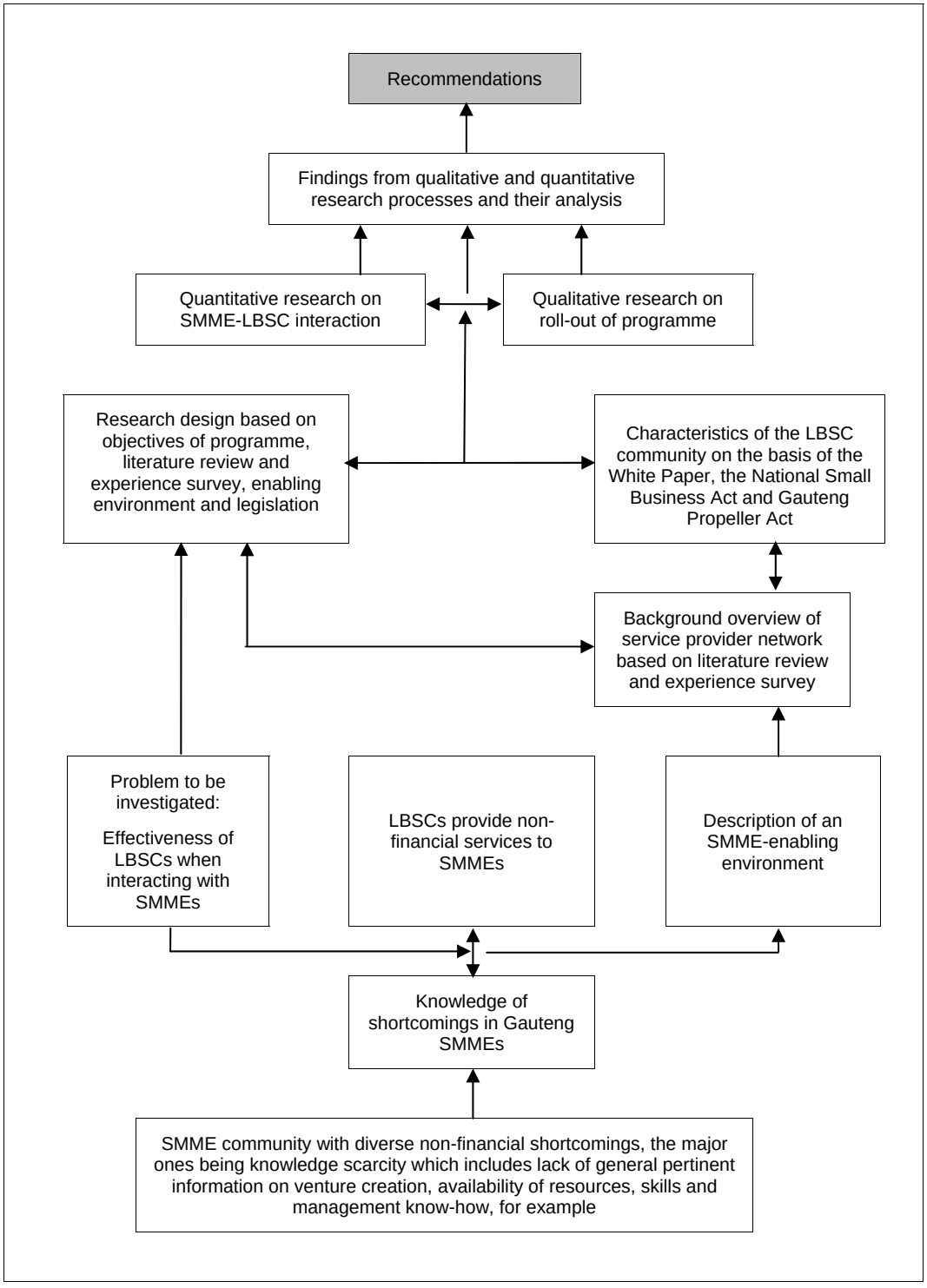
1.8.1 Literature review

The literature review is relevant to the study and interrogates the research problem in terms of best practice in other parts of the world and most recent developments in the delivery of services. Text books, journal articles, recent research, internet articles and newspaper articles were referred to. The Harvard method of referencing was used when compiling the extensive list of references cited.

1.8.2 Personal interviews

The Bloch and Daze study (Bloch & Daze 2000) and the Urban-Econ study (Urban-Econ 2002) were undertaken nationally in 2000 and 2002, respectively. As these studies were dated, the structured interviews were conducted in 2006 and 2007 with surviving LBSCs and some of the officials involved in the initial roll-out of the LBSC programme. This updates the previous studies, gives them currency and establishes a body of knowledge about the effectiveness of LBSC operations in the Gauteng Province.

Figure 1.1: Schematic representation of the research



1.8.3 Research questionnaire

The empirical study was based on the literature review, legislation which includes the initial White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a), the National Small Business Act, Act 102 of 1996 (RSA 1996), and the Integrated Small Enterprise Development Strategy (**dti** 2005) among others.

A questionnaire (Appendix A) was compiled to achieve the primary and secondary objectives of the study. It was sent to 400 SMMEs in Gauteng Province that had received assistance between 1995 and 2005 from LBSCs. The questionnaire consists of two sections:

- General and demographic information about the respondents
- Specific information on the experiences of SMMEs in obtaining assistance from LBSCs.

All respondents are cited anonymously to ensure objectivity.

1.9 DEMARCATION AND LIMITATIONS OF THE STUDY

The “demarcation” of the study refers to the specific location from which the sample was selected; and the “limitations” of the study refer to factors which, in the opinion of the researcher, could affect the outcomes but could not be excluded.

1.9.1 Demarcation of the study

The study was restricted to the Gauteng Province of South Africa as it is the most economically active province in terms of small business activity. In any case, the cost of a national study would have been prohibitive and unnecessary as the LBSCs were not evenly spread nationally. Secondly, although the LBSC pilot programme was in Cape Town, the administration of the programme was transferred to Pretoria in 1998.

Most LBSCs were concentrated in Gauteng Province and it was logical, and more cost-effective, to use a sample from Gauteng Province. In addition, as the LBSCs were initially concentrated in the urban areas, the research concentrates on the Johannesburg and Pretoria areas in the main, and on Ekurhuleni and Sedibeng where there was less activity.

1.9.2 Limitations of the study

The LBSC programme was launched in 1995 and the present research was conducted in 2006 and 2007. Not all SMMEs, even those that were serviced, will necessarily be able to answer all questions in the questionnaire as up to 12 years could have passed since the service was received. However, the responses are able to give an indication as to why LBSCs were effective or not effective and, for this reason, a proposition is being tested.

It was not possible to completely eliminate other elements of the enabling environment (such as finance) and only concentrate on the effectiveness and efficiency of LBSCs. Indeed, other factors (for instance, the relationship between LBSCs and Ntsika) also influenced the skills transfer process between LBSCs and SMMEs.

It is pointed out in Chapter 7 that the annual revenue demographics of the sample should have been broken down into smaller intervals. For instance, in the present study SMMEs were classified into those that received more than R250 000 revenue per annum and those that received less. In fact, the classification should have concentrated on income levels below R200 000 per annum (as determined by the National Small Business Act, Act 102 of 1996 (RSA 1996) as amended by the National Small Business Amendment Act, Act 26 of 2003 (RSA 2003)) as 83 % of SMMEs sampled received less than R200 000 revenue per annum. The R200 000 should then have been further divided into intervals of R50 000 which would have made the findings more appropriate to the sample and the South African situation for Black-owned SMMEs.

1.10 STRUCTURE OF THE STUDY

Chapter 1: Background and definition of study

This chapter introduces the study and the introduction explains the importance of SMMEs in a country's, and specifically in South Africa's, economic development. The literature review defines "business development services", "service centres" and "effectiveness", the objective of the study. The chapter also gives a background to the LBSC programme and stresses the necessity of well-functioning service centres. The demarcation of the study and its limitations are also provided.

Chapter 2: The business environment and SMME development

This chapter introduces the importance of the small business community in restructuring society and creating equitable societies, a key challenge facing South Africa. It then gives an overview of the Gauteng SMME community and its peculiarities. Thereafter the chapter looks at the challenges that face SMMEs and details these constraints in the different phases of the life-cycle of small businesses.

An overview of the environmental variables is then given and their impact on small business. A number of models are given to illustrate the pressures on SMMEs which then gives the reasons governments create enabling environments. Several SMME development models are illustrated for both developed and developing countries.

Chapter 3: The distribution and delivery of business development services through service centres

This chapter starts with the contextualisation of business development services in the environment. It shows the link between the providers of services, the services in various forms and the SMME community. It then contextualises the providers in service centres.

It gives the various forms of service centres in the developed world and how these different forms are being exported to the developing world.

The chapter then reverts back to the intervening variables in Chapter 2 and notes that the distribution of services also has intervening variables.

Thereafter the chapter addresses the current debate on the delivery of business development services where some call for a demand-led approach and decry the supply-led approach of the past. The researcher rejects the "one-size-fits-all" approach of the demand-led approach proponents and suggests that the approach should depend on the market being served.

Chapter 4: Evaluating and determining the "effectiveness" of business development service centres

The chapter takes a more in-depth look at "effectiveness" as defined by several authorities and an understanding is determined for the present study. As the present research is about the "effectiveness" of business development service centres, various methods of evaluating service centres are looked at. The rationale for evaluation and the pitfalls that are encountered are discussed.

The evaluation of "impact" is also discussed as it must be ascertained whether the SMMEs benefited from their exposure to the LBSCs. For instance, "matching" is suggested but the problem with this approach is that it is not possible to have a perfect match. Another problem highlighted is that of self-selection when many volunteer to participate in an LBSC programme although they do not necessarily fit the selection criteria.

The last section of the chapter looks at various ways of developing measures to measure impact and these are then used as a base to develop the instrument for the questionnaire to be sent to respondents.

Chapter 5: The Local Business Service Centre programme

This chapter details the LBSC programme, its conceptualisation and implementation. It takes into account that two national studies have already been

conducted (in 2000 and 2002); and gives an analysis of the findings of these studies and how they relate to the current one. It also looks at the findings of the structured interviews with officials and surviving LBSCs.

There is also a current review of approaches for a new generation of LBSCs. The chapter identifies the variables that affected the roll-out of service centres. For instance, funding problems and lack of monitoring and evaluation were among the factors that contributed to the non-effectiveness of the centres.

Chapter 6: Research methodology

This chapter describes the methodology for the empirical study. This methodology includes designing and compiling the questionnaire sent to the SMMEs. It details the statistical approaches used and the various statistical methods used to analyse the data received from the respondents. These include a “factor analysis”, a “t-test” and an “analysis of variance”. The chapter also deals with the reliability and validity of the study.

Chapter 7: Research findings

The research findings of the empirical study are fully interrogated in this chapter in terms of the descriptive data based on the responses. In addition to the analysis of the demographics, the outcomes of the factor analysis are also given. Three factors, “capacity and professionalism” (Factor 1), “productive relationship” (Factor 2) and “empowering association” (Factor 3), emerged.

A t-test was performed as was an analysis of variance (Anova). The t-test revealed two instances of statistically significant differences. However, according to the findings, respondents were not happy with the services of the LBSCs.

Chapter 8: Discussions, conclusions and recommendations

This chapter discusses the attainment of the objectives of the study. It also relates the primary objective to the secondary objectives and thus identifies the intervening variables. The recommendations specify the methodology suggested for an effective service centre network and do not necessarily support the proposal

that BDSs must be demand-led as the market being served or researched comprised more than 80 % informal enterprises. A more flexible approach is appropriate.

An eight-point SMME development programme is suggested for an effective delivery of business development services and it covers the shortcomings identified in the research findings.

1.11 ABBREVIATIONS AND ACRONYMS

The abbreviations, acronyms and glossary are provided immediately before the commencement of Chapter 1.

CHAPTER 2

THE BUSINESS ENVIRONMENT AND SMME DEVELOPMENT

2.1 INTRODUCTION

This chapter introduces the importance of small businesses as a catalyst for economic growth in the fight against poverty and unemployment and to ensure the competitiveness of economies as debated in Section 1.1. The need to support SMMEs is a worldwide phenomenon as environments are not necessarily sympathetic or friendly towards small business.

Hallberg (2000:9) aptly illustrates this when she makes the following points in respect of SMMEs and the sometimes hostile business environment in which they operate:

- There are barriers to entry and non-competitive behaviour in markets where SMMEs are potentially competitive;
- There are expensive and time-consuming regulatory requirements such as licensing and registrations;
- There are levies or costs that discourage small enterprises from growing and becoming formal;
- The legal framework for commercial transactions and the resolution of disputes that affect transactions with larger entities are onerous for small enterprises;
- Laws governing the protection of business and intellectual property; and the use of property as collateral do not favour small enterprises;
- Tax structures that distort incentives and discriminate against small firms;
- Government procurement processes that are sometimes, or most of the time, unfriendly to successful bidding by SMMEs;

- Zoning regulations that restrict SMME operations and entry into high-income markets;
- Labour-market rigidities that make hiring and firing workers difficult and expensive, and limit the flexibility and mobility of labour; and
- Infrastructure that opens access to information and markets, particularly transportation, market communications, and communications infrastructure is often a barrier to entry for small businesses.

Given the above, and taking into account the importance of SMMEs for socio-economic development, governments intervene to create environments within which SMMEs can grow and be sustainable. Stevenson & Lundström (2001:57) believe that "one-stop shops" are examples of this intervention as they provide business development services so that SMMEs can survive and grow.

The present study – undertaken in 2006 and 2007 – interrogates the effectiveness of the LBSCs in Gauteng Province, South Africa. LBSCs were a South African variation of one-stop shops and were introduced in 1995 (Durham University Business School 1996).

To give a clearer insight into their role, the importance of SMMEs must first be highlighted to explain why governments do all they can to help them survive and grow.

2.2 THE IMPORTANCE OF SMMES

The importance of SMMEs has been well documented regarding their significance. Acs (2008:xv) and Thurik & Wennekers (2004:140) suggest that small firms are the mechanism through which millions of people enter the economic and social mainstream of American society. The number of new entrants and their success depends on entrepreneurship and small business policies.

Kropp, Lindsay & Shoham (2008:102), Venter, Urban & Rwigema (2008:6), Wickham (2006:7), Butler (2006:8), Thurik & Wennekers (2004:140) and Stevenson & Lundström (2002:23) make the point that "entrepreneurship" and "small business development" are inter-related concepts, but different. They claim

that “entrepreneurship” refers to the identification of opportunities, whether in big or small organisations. “Small business development” refers to the management of resources in such a way that small businesses, which are very vulnerable as will be argued, survive and grow.

Put differently and in terms of policy, Stevenson & Lundström (2002:23) posit that “entrepreneurial policy” focuses on government interventions to stimulate entrepreneurial activity which leads to the growth in numbers of firms; while “small business policy” specifically deals with interventions by government to ensure that small businesses survive, grow and remain productive.

The link then between “entrepreneurship” and “small business” is that small business is an outcome of entrepreneurship. However, venture creation could be a result of necessity or opportunity entrepreneurship. For instance, Maas & Herrington (2006:12) observe there is more “necessity-driven” rather than “opportunity-driven” entrepreneurship in Black communities.

“Necessity-driven entrepreneurship” occurs when individuals start ventures out of sheer desperation because they are unemployed and there is no other source of help. In contrast, “opportunity-driven entrepreneurship” occurs when individuals identify a niche or opportunity in the market and develop it into a business idea. It needs to be pointed that differing understandings of “entrepreneurship” often lead to the conflation of small business development and entrepreneurship.

In Table 2.1 Dollinger (2003:6) illustrates these differing approaches of “entrepreneurship” as separate from “small business development”.

Returning to the main point, small business development proceeds as soon as a venture has been created and this is what this thesis is about. Hisrich *et al* (2005:15), Floyd & McManus (2005:144) and Timmons (2002:16) should also be taken seriously when they state that the creation of small businesses is a necessity for national economic development. Amini (2004:371) contends that small business has a redistributional role in terms of power, income and investment.

Table 2.1: Understandings of "entrepreneurship" by different authorities (Dollinger, 2003:6)

Source definition	Understanding
Knight (1921) Knight F. 1921. *Risk, Uncertainty and Profit*. Houghton Mifflin: Boston.	Profits from bearing uncertainty and risk
Schumpeter (1934) Schumpeter J. 1934. *The Theory of Economic Development*. Harvard University Press: Cambridge MA.	Innovation from new combinations of raw materials and production methdologies
Hoselitz (1952) Hoselitz B. 1952. "Entrepreneurship and Economic Growth". *American Journal of Economic Sociology*.	Uncertainty, coordination of resources, innovation and the provision of capital
Cole (1959) Cole A. 1959. *Business Enterprise in its Social Setting*. Harvard University Press: Cambridge MA.	Purposeful activity to initiate and develop profit orientated business
McClelland (1961) McClelland D. 1961. *The Achieving Society*. John Wiley: New York.	Moderate risk taking

Source definition	Understanding
Casson (1982) Casson M. 1982. *The Entrepreneur*. Barnes and Noble, Totowa NY.	Decision and judgments about the coordination of scarce resources
Gartner (1985) Gartner W. 1985. "A conceptual framework for describing the phenomenon of new venture creation". *Academy of Management Review*: 10: 696-706.	Creating new organisations
Stevenson, Robertson & Grousbeck (1989) Stevenson H., Roberts M. and Grousbeck. 1989. *New Business Venture and the Entrepreneur*. Irwin: Homewood IL.	The pursuit of opportunity without regard to resources currently controlled
Hart, Stevenson & Dial (1995) Hart, M., Stevenson H. and Dial J. 1995. "Entrepreneurship: A definition revisited". *Babson Frontiers of Entrepreneurship Research*.	The pursuit of opportunity without regard to resources but constrained by the founder's previous choices
Source: Dollinger (2003:6)	

Acs (2008:xv) and Thurik & Wennekers's (2004:140) views concretise Timmons' (2002:16) discussion which describes small business as a great equaliser and mobiliser of opportunity, which is redistributional. Hisrich *et al* (2005:15) express similar sentiments as they believe that small business involves more than an increase in per capita output and income.

Hisrich *et al* (2005:15) opine that small business also initiates and constitutes change in business and society, while Amini (2004:371) maintains this is its redistributional role.

Matambalya & Assad (2002:6,7) reinforce observations by Amini (2004:371) Hisrich *et al* (2005:15) and Timmons (2002:16) and detail specific benefits that flow from small business development:

- They play a key role in the creation and generation of skills as seedbeds for entrepreneurial growth and through active training initiatives. The former is relevant to all economies and the latter is evident in the economies of developed countries;
- The creation of jobs in both the formal and informal sector which assists to minimise the effects of poverty and hunger in urban and rural areas. In urban areas poverty and hunger expresses itself as slums;
- They are the dominant type of business in rural areas and facilitate rural economic development, which also assists in curbing rural-urban migration; and,
- They use local technology and provide a flexible economic base, deepen economies and open up new markets and various production methods.

As illustrated above there are many reasons small business is important. It is posited that local dynamics determine the reasons to support small business development and their order of importance.

Thus, South Africa – with its high unemployment and skewed income structure – must view small business as a creator of jobs and should also realise its potential as a redistributor, equaliser and mobiliser as put forward by Hisrich *et al* (2005:15) and Timmons (2002:16).

After all, the International Committee of the Fourth International (IFCI 2004:1) maintains that between 5.2 million and 8.4 million South Africans are unemployed, depending upon whether one applies the official definition or an extended definition of unemployment. It points out that household surveys in 2001 revealed that 87 % of the bottom 40 % of South African households had “no or one working family member and relied heavily for their livelihoods on pensions and remittances”.

The most affected section of the population is Black, with “about 45 % of households in the lowest two income quintiles” having “no income earners in 2001” (IFCI 2004:1). The report points out that being employed “does not necessarily mean having full or adequate employment” and large numbers of people, predominantly women, are underemployed.

It could be argued that South Africa hopes to stimulate small business development through the Codes of Good Practice for Black Economic Empowerment (RSA 2007a) where enterprise development is a critical component of the seven pillars.

This is particularly important given South Africa’s assessment by the Organisation for Economic Co-operation and Development (OECD) (OECD 2008:11). The OECD posits that the most disappointing aspect of post-apartheid economic performance is the continuation of widespread poverty and the widening of inequalities.

The inequality is frightening to say the least. Monteiro (2008:1) opines that inequality is high in South Africa and income for the top 10 % of the upper earners is 94 times that of the 10 % of the households in the lower echelons of society. This, it is argued, is a recipe for social restlessness.

The OECD warns that the restlessness and popular discontent may lead to pressures to try more radical and activist approaches with the risk that this could lead to wastefulness and counter-productive outcomes. In fact, the ruling party – the ANC (ANC 2008:1) – and its partners see increased government control and centralism in economic planning as the best strategy to address the poverty facing South Africa. Bodibe (2008) declares that Cosatu (South Africa’s biggest labour

movement) is calling for an interventionist state. He further makes the point that markets cannot absorb the structural transformation required.

While national planning is critical, it is doubtful if increased government control of the economy would produce the desired results. The point being made is that the concerns of the OECD are now becoming fact. Thus, and as put forward by Amini (2004:371), Hisrich *et al* (2005:15), Floyd & McManus (2005:144) and Timmons (2002:16), an aggressive implementation of SMME development has the potential to deepen economic activity by Blacks in South Africa and thus promote socio-political stability.

This approach was endorsed by former Gauteng Premier, Mbhazima Shilowa (Shilowa 2008:1) in his "State of the Province" address to the Gauteng Provincial Legislature when he stated that SMMEs provide a key mechanism to expand participation in the economy. Flowing from these comments by Shilowa (Shilowa 2008) and the demarcation of the study, it is pertinent to take a look at the Gauteng SMME community.

2.3 GAUTENG'S SMME COMMUNITY

The FinMark Trust (FinMark) (FinMark 2006:7) and the Gauteng Provincial Government Department of Economic Development (the Draft Gauteng SMME Policy Framework (2009-2014) (Gauteng Provincial Government Department of Economic Development 2008)) indicate that there are over 1 000 000 small entities in Gauteng Province. A follow-up study by FinMark (Kubheka 2006:8) reveals that 200 000 more SMMEs were created in Gauteng Province between 2005 and 2006. Gauteng has the highest number of small businesses because of the size of its economy.

The Gauteng Economic Development Agency (2008:1) notes that Gauteng Province's Gross Domestic Product for 2006 (estimate) was R549 billion. The Gauteng Economic Development Agency also adds that Gauteng generates 9 % of Africa's Gross Domestic Product and 38 % of South Africa's. Gauteng Province's per capita Gross Domestic Product is R61 000. This per capita Gross

Domestic Product and the growth rate of 5.7 % (estimate) mean that Gauteng Province is a magnet for entrepreneurs or those in search of a better life.

The heightened economic activity has as one of its unintended outcomes the mushrooming of micro enterprises. This is confirmed by Sanchez (2004:223) who maintains that the distribution of SMMEs is in line with the national distribution of Gross Domestic Product – the larger the Gross Domestic Product, the higher the number of SMMEs.

Figures from Statistics SA (2007:9-10) show that Gauteng Province has a population of 9.68 million (or 20 % of the country's population) out of South Africa's total population of 47.8 million. This population also suggests that, proportionately speaking, the highest number of new entrepreneurs would come from Gauteng.

Close analysis of these small entities shows that most are informal enterprises and they are mostly Black owned as will be shown later. At this point it is important to point out that the South African understanding of "micro" as in "SMME" differs from the international connotation. Table 2.2 details how small business is classified in South Africa in terms of the National Small Business Amendment Act, Act 26 of 2003 (RSA 2003) (Table 2.2).

In terms of South African legislation (RSA 2003) a business with fewer than five employees and a turnover of less than R200 000 (Table 2.2) is defined as a "micro" business. According to Devins, Gold, Johnson & Holden (2005:541), a "micro" business is one with fewer than 10 employees but it is a formal business.

It could be "high tech" or "low tech" but the differentiator is that it has few employees and could be somebody working from home. Rogerson (2000:675) distinguishes the South African "micro enterprise" from the "informal entity" when he asserts that "micro enterprises" have the potential to grow into large enterprises.

What, however, is of importance is that arguably the universally accepted understanding is that of a “formal” undertaking as some micro businesses have turnovers of millions of US dollars. South Africa unfortunately uses “micro” interchangeably with “informal”.

Reinecke & White (2004:157) show that the criteria for classification of small business differ from economy to economy. This is contrasted with the classification of small business in South Africa. Tables 2.2 and 2.3 then illustrate how small business in South Africa relates to small business in selected countries (in accordance with Reinecke & White (2004:157) who include South Africa in their analysis).

If Tables 2.2 and 2.3 are contrasted the following emerge:

- The classification of “micro” as entities with fewer than 10 employees is nearly the same except for Tanzania and Guinea;
- Similarly, countries define “small business” as a business with less than 50 workers except for Guinea which has a cut-off at 60 workers;
- Guinea classes “small” and “medium” together while South Africa classes “medium” and “large” together; and
- The classification of “large” varies from 100 employees to over 800 but this is of no consequence in this study.

As stated above, the classification of “small business” in terms of employees is nearly the same except for subtle differences. Numerous factors, for instance, the geography of a country, also influence differences.

Furthermore, it is argued that the classification of “small business” in terms of turnover and assets is much more complex. One of the reasons is the purchasing power parity. Mohr (2001:152) describes “purchasing power parity” as the value of units in one currency that enables the holder to purchase a basket of similar goods with a different currency.

Table 2.2: Classification of small business in terms of the National Small Business Amendment Act, Act 26 of 2003

Sector or Sub sector	Size or class	Total number of employees	Total turnover	Total gross asset value
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very small	10	R500 000	R500 000
	Micro	5	R200 000	R100 000
Mining and quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very small	10	R4m	R2m
	Micro	5	R200 000	R100 000
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5m	R2m
	Micro	5	R200 000	R100 000
Electricity, gas and water	Medium	200	R51m	R19m
	Small	450	R13m	R5m
	Very small	20	R5.1m	R1.9m
	Micro	5	R200 000	R100 000
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very small	20	R3m	R500 000
	Micro	5	R200 000	R100 000
Retail and motor trade and repair services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very small	20	R4m	R600 000
	Micro	5	R200 000	R100 000
Wholesale trade, commercial agents and allied services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very small	20	R6m	R600 000
	Micro	5	R200 000	R100 000
Catering, accommodation and other trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very small	20	R5.1m	R1.9m
	Micro	5	R200 000	R100 000

Source: National Small Business Amendment Act, Act 26 of 2003 (RSA 2003)

Table 2.3: Classifications of enterprise size classes in the countries under study as cited by Reinecke & White (2004:158)

Country	Source	Criteria for size classes	Micro	Small	Medium	Large
Chile	CASEN (Household survey)	Number of persons engaged	2 to 9 (excluding self-employed)	10 to 49	Medium and large classed together	
	The survey includes formal and informal enterprises in all sectors but, for the analysis, agriculture has been excluded. Size classes exclude the army and workers not knowing the business size.					
	Internal Revenue Service (SII) (and ENIA)	Annual turnover (in UF)	1 to 2 400	2 401 to 25 000	25 001+	
Guinea	"Programme cadre pour le soutien au développement du secteur privé, 1998"	Turnover (in millions of Guinean francs)	<15	Small and medium classed together 15 to 500		>500
		Number of employees	1 to 3	3 to 60		>60
		Investment (in millions of Guinean francs)	<10	10 to 300		>300
		Type of management and organisation	Manager is the owner, and organisation is rudimentary	Managed by owner or a delegation, modest organisational structure		Managed by a delegation and very structured organisation
	"Code des Investissements, 1998"	Assets (excluding land used and liquidities, in millions of Guinean francs)	(Implicitly: maximum 5 workers)	Small and medium classed together Value of assets: 15 to 500		Formal enterprises only
		Number of permanent workers		>5		
		Bookkeeping		Regular bookkeeping		
	Kourouma (2003)	Number of permanent workers (including the owner)	1 to 4	Small and medium classed together 5 to 49		

Country	Source	Criteria for size classes	Micro	Small	Medium	Large
Peru	Country papers (using ENAHO data for urban Peru and Metropolitan Lima)	Number of workers (including the owner)	1 to 9	10 to 49	50 to 199	200+
Pakistan	Census of Establishment (1988)	Number of persons engaged	1 to 9	10 to 49	50 to 99	100+ (also available: large 100 to 199 and very large 200+)
	Including government-owned establishments, formal and informal sector					
South Africa	National Small Business Act (1996) and Ntsika Enterprise Promotion Agency	Paid employees and formality	0 to 4 employees, or informal. For Ntsika, divided into: "**survivalist**" (income lower than poverty line, no paid employees, asset value negligible), "**micro**" (informal with <5 paid employees), and "**very small**" (formal with 0 to 9 paid employees)	20 to 49 (sometimes include very small)	Medium and large classed together 60 to 99 (except for mining, electricity, manufacturing and construction)	
	Labour Force Survey	Number of regular workers (employees, employers and self-employed)	1 to 9	10 to 49	<50	

Country	Source	Criteria for size classes	Micro	Small	Medium	Large
Tanzania	Small and Medium Enterprise Development Policy: 2002-2012 (draft, November 2001)	Number of employees	1 to 4	5 to 49	50 to 100	>101
	Includes only national businesses registered and paying First Category taxes. Commerce and other less visible sectors might be unregistered, thus under-represented					
		Capital investment (in millions of Tanzanian shillings)	>5.0	5.1 to 200	200.1 to 800	>800
		Turnover (in millions of Tanzanian shillings)	0 to 12	12 to 150	150 to 300	>300
	Country papers	Number of employees	1 to 9	10 to 49	50 to 100	101+
European Union	European Commission (2002)	Number of employees	0 to 9 (including self-employed and enterprises with only unpaid family workers)	10 to 49	50 to 249	250+
Source: Reinecke & White (2004:158)						

In this instance, even though a small business may have a turnover of 5 million Euros in Europe and R5 million in South Africa, the two amounts of money will not buy equal volumes even if the product is the same.

2.3.1 Typology of the Gauteng SMME community

The Gauteng Provincial Government Department of Economic Development (the Draft Gauteng SMME Policy Framework (2009-2014) (Gauteng Provincial Government Department of Economic Development 2008)) points out that 69 % of entities are run from home, whether it is a garage, back room or part of the house. Others operate from a path or street. The same department also points out that most entities are in the "trade or selling of goods" and only 7 % add any value.

It declares that throughout South Africa 38 % of enterprises do not employ and 15 % of the micro enterprises have at least one to four employees. The FinMark (2006) study indicates that the Gauteng SMME population could be classified as shown in Table 2.4. In this table, "informal" entities constitute 65 % and "registered" entities constitute 17 % of the Gauteng SMME community. "Unregistered" entities, those who are big enough to be formal but not registered, constitute 18 % of the Gauteng SMME body.

Table 2.4: Classification of Gauteng SMME community by percentage and number of businesses in terms of the FinMark (2006) study

	Informal	**Unregistered**	**Registered**	**Total**
Percentage SMMEs	65 %	18 %	17 %	**100 %**
Number of SMMEs	673 578	195 250	184 992	**1 053 820**
Source: FinMark (2006) study				

In the early days of democracy when international organisations were trying to assist South Africa, Riley (1993:ix) pointed out in a collection of World Bank discussion papers on the South African economy that there was an explosion of the micro-enterprise sector. The downside, he opined, was that this was more necessity-driven than opportunity-driven entrepreneurship.

This sector, Riley (1993) continued, consisted of one-person operations, mostly retail and was 62 % women. The fatality rate was high and close to 70 % and these entities grew at the rate of 24 % a year. Riley (1993) referred to the national picture but it can be held that there is not much of a difference in typology between the provincial and national landscapes. The FinMark (2006) study was the first study to provide a descriptive comparison of very small business entities. Finmark (2006) classifies these entities through what it calls the Business Sophistication Measure (BSM).

As the name implies, the BSM measures the extent to which the business or business owner uses advanced methods of doing business. According to FinMark (2006:25), "Sophistication of a business was gauged by a set of empirical variables that a business enterprise may or may not have. These variables ranged from the place where business is conducted [such as a footpath or office block] to whether the business keeps financial records, contracts of employment, access to finance and many more." The lowest (least sophisticated) category is BSM 1 and the highest (most sophisticated) is BSM 7.

Further profiling of Gauteng SMMEs, in accordance with the FinMark (2006) study, is provided in Table 2.5.

This descriptive study also identifies a zone of transition (BSM 5 and BSM 6) when entities graduate from being very informal into being the more sophisticated BSM 7. The businesses in BSM 7 are formal and they are technologically advanced and have the following facilities:

- Credit card machine (23 %);
- Fax machine (55 %);
- Photocopier (50 %);
- Website (20 %);
- Internet and email facilities (58 %); and
- Computers (77 %).

The differentiators between the transition zone businesses and the lower level businesses are given in Table 2.6.

Table 2.5: Profile of Gauteng SMMEs in terms of the FinMark (2006) study

Category	BSM 1	BSM 2	BSM 3	BSM 4	BSM 5	BSM 6	BSM 7
Number	123 522	97 378	278 291	247 075	110 512	100 171	96 876
Market %	12 %	9 %	26 %	23 %	10 %	10 %	9 %
Annual turnover	R9 113	R10 723	R16 793	R24 710	R27 842	R66 597	R463 747
Employees	0.1	0.14	0.23	0.47	0.85	1.78	8.88
Banking	79 % No	64 % No	62 % No	47 % Yes	64 % Yes	81 % Yes	97 % Yes
Premises	Street	Street	Home	Home	Home	Home	Business Premises
Education	Post-Primary High school	Post-Primary	Post-Primary	Matric	Matric	Post-Matric	Post-Matric
Sector	Trade	Trade Service	Trade Service	Trade Service Letting	Trade Service Letting Constr.	Trade Service Manuf. Constr.	Trade Service Constr. Profes.
Skills	Self-taught	Self-taught	Self-taught	Self-taught	Self-taught	Self-taught	Self-taught
Source: FinMark (2006)							

Table 2.6: Comparisons between businesses in a transition zone in terms of the FinMark (2006) study

Zone of transition					
Differentiator	**BSM 3**	**BSM 4**	**BSM 5**	**BSM 6**	**BSM 7**
Planning – had:					
Budget	4 %	8 %	14 %	27 %	57 %
Marketing plan	1 %		4 %	6 %	36 %
Strategy			2 %	10 %	30 %
Business plan				10 %	30 %
Financial records:	None	None	None	10 %	47 %
Transport:					
Company car	None	2 %	11 %	27 %	49 %
Age of business:					
<1 year	17 %	17 %	14 %	13 %	16 %
1 to 4 years	18 %		12 %	14 %	18 %
5 to 6 years					
>10 years					
Location:					
Informal area	33 %	61 %	60 %	42 %	13 %
Township			12 %	48 %	19 %
Central business district				6 %	61 %
Suburbs					12 %
Small holding					
Education:					
Primary	9 %	43 %	33 %	38 %	29 %
Post-Primary	50 %	30 %		21 %	48 %
Matric				4 %	8 %
Post-Matric					5 %
Degree					
Post-Graduate					
Source: FinMark (2006)					

What is worrisome is that the entities in the top echelon (BSM7) lack in planning. Fewer than 50 % of them have business plans and financial statements. Only 36 % have marketing plans. What is also frightening is that the more sophisticated undertakings are not found in the townships to kindle these local economies.

Pretorius (2009:309), Timmons (2002:32), Lowe & Marriot (2006:207) and Hisrich *et al* (2005:536) emphasise the fact that failure rates among small businesses are very high. They believe that internal issues (mostly management related) and poor funding are among the major reasons for the failures. Caniëls & Romijn (2005:592) add to this when they claim that while globalisation creates new opportunities, there are new competitive pressures on SMMEs.

This argument is supported by Lotz & Marais (2007:694) and Strydom & Tustin (2004:1), who maintain that lack of skills account for small business failures, and who suggest that skills shortages affect even big organizations. Lotz & Marais (2007:694) note that Kuratko and Hodgetts in 1998 claimed that product and market problems, financial and management problems account for small business failure.

When referring to causes of failure for local entities, Makatiani (2006:1) notes that local SMMEs, weakened by a lack of skills and capital, cannot face competition. They have a high mortality, Makatiani explains. Ligthelm & Cant (2003:41) classified the problems that faced a sample of Gauteng businesses as “economy based”, “industry related” and “firm linked”.

The “economy-based problems”, over which the entrepreneur had no control, included the inflation rate, HIV-Aids, business cycles and exchange rates. The “industry-related problems” included competition, demand-and-supply factors and barriers to entry. “Firm-linked problems” included management and skills, and financial management to name a few.

Brink, Cant & Ligthelm (2003:1) then elucidated on the above at a conference in Australia. They posited that deficiencies in the internal environment are major causes of SMME failure and revolve around management skills, financial knowledge and lack of skills in functional areas such as marketing, human resources and, as stated, financial management.

Riley (1993:x), in the World Bank discussion paper, holds that financial constraints, regulations, market access, business premises and tenure arrangements constitute the biggest problem for micro enterprises. Although the

World Bank discussion papers related to the whole of South Africa, they apply to the Gauteng economy as it is the economic hub of the country.

Brink *et al* (2003:1) stress internal issues as a major cause of small business failure. These arguments are reinforced by two studies, Frankel (2000:12) and Rwigema & Karungu (1999:120). Although the two studies were undertaken nine and ten years ago [in 2000 and 1999], the findings still give insight.

The study by Frankel (2000:12) reveals that 76 % of 820 SMMEs interviewed admitted that their most dire need is training in business management. This is reinforced by Holmes (2006:1) who says "statistics reveal that 90 % of small business failures are due to a lack of knowledge or skills on the part of the entrepreneur".

The study by Rwigema & Karungu (1999:120) reveals that "typical problems" hampering SMMEs in Soweto and northern Tshwane include constraints in marketing, finance, lack of information and training. "Respondents were keen to improve themselves, as demonstrated by their eagerness to learn even if they had to pay for tuition", opine Rwigema & Karungu (1999). Although research by Frankel (2000:12), Rwigema & Karungu (1999:120) and Strydom & Tustin (2004:1) concentrates mainly on SMMEs in Soweto and northern Tshwane, it could be extrapolated for the rest of Gauteng Province or even the rest of South Africa.

2.3.2.1 How constraints on SMMEs differ

It must also be stressed that small businesses experience different sets of problems in various phases of their life-cycle. The relevance of this is that SMMEs are heterogeneous which suggests that problems differ from one SMME to the next. In addition to this the problems differ at the various levels of growth which further compounds matters.

Table 2.7 illustrates the challenges that face SMMEs at various levels of their life-cycle and gives a breakdown of the constraints on small businesses in terms of the five phases of the small business life-cycle. Each of these phases has different drivers and areas that need emphasis and these are also driven by different factors in the environment.

Reverting to the Gauteng SMME community, the FinMark (2006) study and Kubheka's (2006) study reinforce the research by Frankel (2000:12) and Rwigema & Karungu (1999:120). The FinMark (2006) analysis of shortcomings is summarised in Table 2.8.

Analysis of the above confirms earlier analysis on the SMME environment in South Africa. Ntsika's *Annual Review 2002 on the State of Small Business Development in South Africa* (Ntsika n.d.:45 – undated but released in 2004) shows that Black SMMEs predominate in the informal sector and micro-enterprise community while Whites, and an increasing number of Asian and Coloured people, are in the more established, formal and growing SMMEs. This is shown in Table 2.9.

From Table 2.9, in 1999 Whites owned only 12 % of survivalist businesses and 88 % of formal very small businesses. This was a 13 % increase from 78 % in 1996. Ntsika makes a pertinent observation that the number of enterprises owned by Blacks decline the more sophisticated the entity.

In terms of Table 2.9, Asians, Blacks and Coloureds own over 80 % of enterprises in the informal sector while over 60 % of small businesses are owned by Whites. The 2006 Global Entrepreneurship Monitor report (Maas & Herrington 2006:12) and the 2001 Global Entrepreneurship Monitor report (Driver, Wood, Segal & Herrington 2001:39) are of the view that the reason for this distortion is that the type of education previously given to Blacks did not encourage entrepreneurship.

Table 2.7: Constraints on SMMEs at various levels of their life-cycle in accordance with Henry, Hill & Leitch (2003)

Phase of business	Constraint
Prestart	The external challenge in this phase is the generation of ideas to obtain the information that will make the project worth starting and how to make it work.
Start up (external)	The challenges are the typical Porter's model (Porter 2008) in which the new entity must attract the attention of customers and suppliers, seek advice, draw up business plans, source information, and find appropriate business premises.
Start up (internal)	This is the testing period as the owner of the idea hardly has the infrastructure in place or is barely known. The internal capacity of the small business is most often the most key constraint.
Growth	Market opportunities; product development. Strategy and management skills and finance. Growth has its challenges as each function of management has growth constraints.
Decline	Confidence, customers, finance, strategy and planning. The turnaround is complex given the fact that competitors are driving the entity to the limits.
All phases	Information on small business needs.
Source: Henry, Hill & Leitch (2003:16) and adapted from Bridge, O'Neill & Cromie (1998:241)	

Table 2.8: Analysis of BSMs in terms of shortcomings at the various levels in terms of the Finmark (2006) study

Level	Market access	Access to finance	Skills capacity	Management capacity	Regulatory constraints	Infrastructure
BSM 1 and BSM 2	Very limited access to markets	Very limited access to finance except for personal banking	The nature of the economic activity suggests basic selling skills needed	Low base for management	City Council traffic by-laws and regulations	Do not have infrastructure and operate from streets
BSM 3	The nature of the activity, informal, suggests a limited access to specific markets except passers by	Very little access to finance except for 24 % who have business banking	Only basic selling skills required	The base for activity is low and basic skills adequate	As most are informal they are affected by by-laws	Most are informal, some are home based and less than 8 % need electricity
BSM 4	The nature of the activity, informal, suggests a limited access to specific markets except passers by	Qualify for micro loans	Informal and unregistered entities have low skills base but home industries more sophisticated	Basic management skills or understanding adequate	The informal and unregistered who sell in streets must comply with by-laws	64 % are informal businesses and 24 % unregistered businesses. Unregistered businesses operate from home

Level	Market access	Access to finance	Skills capacity	Management capacity	Regulatory constraints	Infrastructure
BSM 5	Unregistered and informal businesses have limited access to market but registered businesses (13 %) have advantage as they are in premises and attract buyers	The unregistered and informal could qualify for micro loans and the registered business entities have problems accessing finance	The informal and unregistered businesses need basic selling skills	The informal and unregistered businesses do not need management skills and the registered businesses need basic management skills	The informal and unregistered businesses trading in the open are affected by council by-laws and registered by the registration and taxation regulations	The registered businesses need electricity, water and so on but the bulk of entities in this level operates from the street or open spaces
BSM 6	At least 30 % are registered businesses and attract limited custom while the rest are informal and depend on passers-by	The unregistered and informal businesses qualify for better micro products because of higher turnover	The unregistered and informal businesses have a low skills need while registered businesses require people with basic skills	Registered businesses need management skills but most still do not need sophisticated management skills	Affected by by-laws for outside selling while registered businesses affected by other regulations	Formal businesses (30 %) need premises, for example, while informal businesses do not as above
BSM 7	At least 90 % are registered businesses and attract custom	Most have access to finance except those with a turnover of less than R500 000 per annum	Most businesses require and compete in the market for skills	Most businesses require management skills	Affected by all regulatory constraints	Need infrastructure and must compete in property market

Source: Compiled from FinMark (2006) study

Table 2.9: White ownership of formal SMMEs in terms of Ntsika (n.d.)

Year	Survivalist	Micro	Very small	Unspecified*
1996	13 %	43 %	78 %	64 %
1999	12 %	37 %	88 %	68 %

***** "Unspecified" represents small medium or large enterprises.
Source: Ntsika (n.d.:45)

The relevance of this dichotomy to the study is that it could be argued that the number of White-owned SMMEs relate to the White population while the number of growth entities are disproportionate to the Black community. According to Statistics SA (2006:12), Whites made up 9 % of South Africa's population and Blacks 79 %.

This justifies arguments for more aggressive entrepreneurship and SMME development in the Black community and, in line with this thesis, more effective LBSCs.

2.4 THE GENERAL ENVIRONMENT AND SMMEs

Butler (2006:237) and Pretorius (2003:275) buttress what is now a common understanding that variables in the environment influence the fortunes of businesses, including small businesses. It must first be emphasised that there are numerous environments but they are contained within the basic one. After all there is only one economy.

The basic environment is also known as the PESTLE model (Chartered Institute of Personnel Development, 2008) an acronym derived from the first letters of the influencers: politics, economics, social, technology, legal and environment. There are other versions, hybrids or interpretations of the external environment depending on the purpose of the analysis.

Claims by Kennerley, Neely & Adams (2003:37) that the business environment, like the physical one, changes over time must be taken into account. Kennerley *et al* (2003:37) made this point as they suggested that performance measurement

systems must always be adapted to the present-day changes so that they stay relevant.

Some of the issues that impact on the external environment will be global developments (for instance, the price of oil), national politics (for instance, the dismissal of President Thabo Mbeki in September 2008 before his term ended in April 2009), and changing socio-economic dynamics (for instance, fashion and technology).

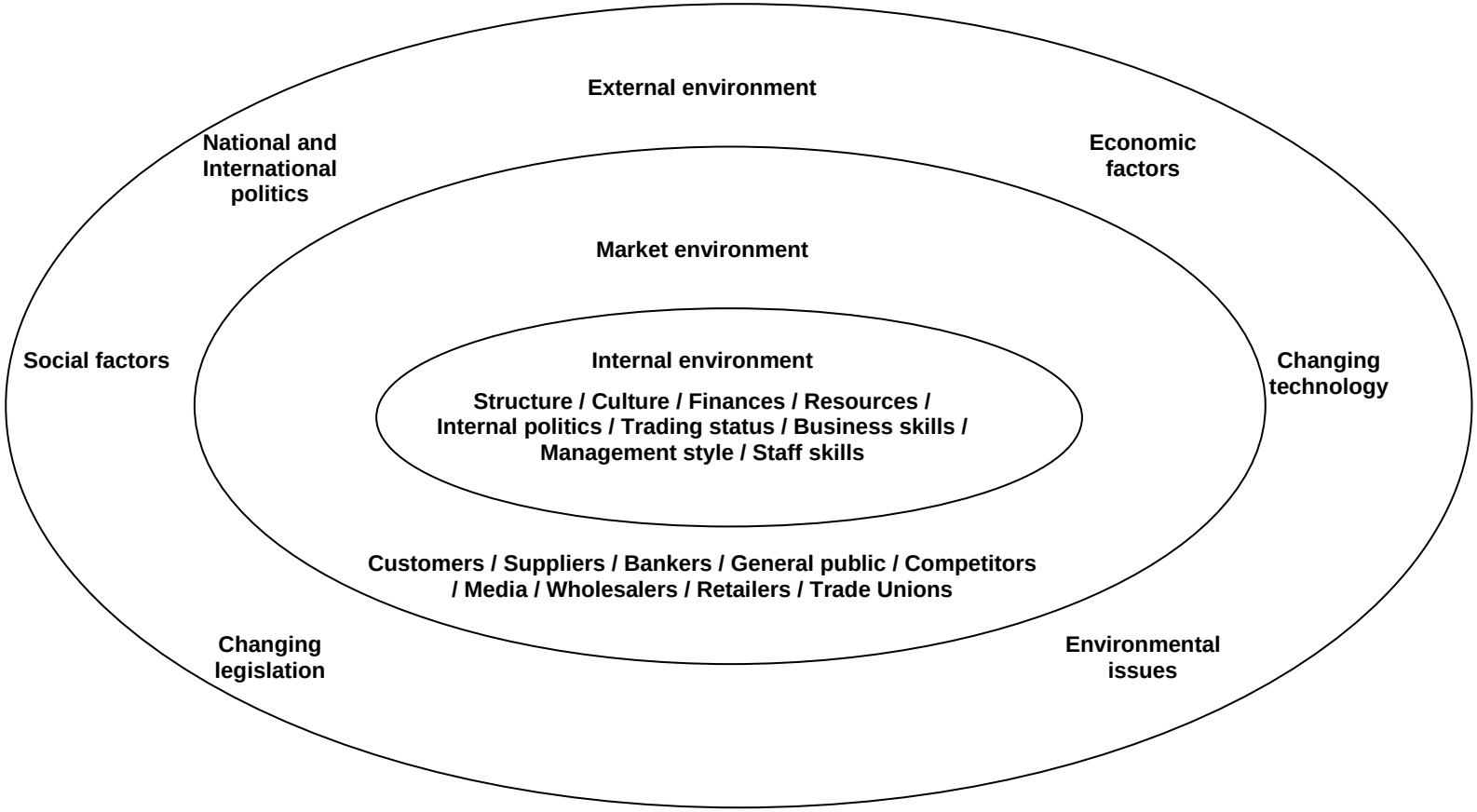
It must also be noted that the environmental dynamics in 2008 could be different to those in 1995 when the LBSC programme was launched. This is likely to impact on the study as the LBSC environment in 2008 is different from what it was in 1995. Many SMMEs can now take advantage of technological advances and access information much more easily.

Figure 2.1 reflects the overall business environment, which includes external and internal variables. The outside circle reflects the PESTLE environment (Chartered Institute of Personnel Development, 2008) and it is beyond the control of many policy makers and entrepreneurs. The major influences in the external circle will be global issues, national developments and changing legislation.

The second circle is the marketing environment which could also be seen as the business environment. The discussion below on Porter's five forces (Porter 2008:4) relates to this environment but, suffice to add, the market environment is vibrant and is influenced by developments in the outer circle. The inside circle is the internal environment and a very important part about it is that it is within the control of entrepreneurs, business owners and business leaders. It is this environment that carries the "seeds" for SMMEs as stated by Ligthelm & Cant (2003:41) that problems are industry related and firm linked.

The basic environment is also known as the PESTLE model (Chartered Institute of Personnel Development, 2008) an acronym derived from the first letters of the influencers: politics, economics, social, technology, legal and environment. There are other versions, hybrids or interpretations of the external environment depending on the purpose of the analysis.

Figure 2.1: Butler's (2006) business environment



Source: Butler (2006:237)

Bridge *et al* (2003:423) have suggested a "basic enterprise analysis framework" (Figure 2.2) to illustrate the forces that impact on SMMEs. This framework takes the PESTLE model (Chartered Institute of Personnel Development, 2008) a step further as it assists in the diagnosis of SMME growth and sustainability and the resultant processes to correct deviations and ensure survival, growth and profitability of SMMEs. Figure 2.2 depicts businesses and individuals within the basic enterprise environment. Bridge *et al* (2003) note that there is only one environment and all businesses, big and small, must survive in it. Figure 2.2 shows that there are businesses and enterprising people within the basic enterprise environment.

They are affected by the six elements that constitute the regulations, fiscal policy, skills, economy, societal attitudes and infrastructure. In Butler's (2006) model (Figure 2.1) this was the outer environment and it should be noted that the PESTLE elements (Chartered Institute of Personnel Development, 2008) are also referred to. For instance, the "economy" refers to macro (for example, inflation) and micro (for example, prices) policies and the elements of these two also constitute specific challenges for SMMEs.

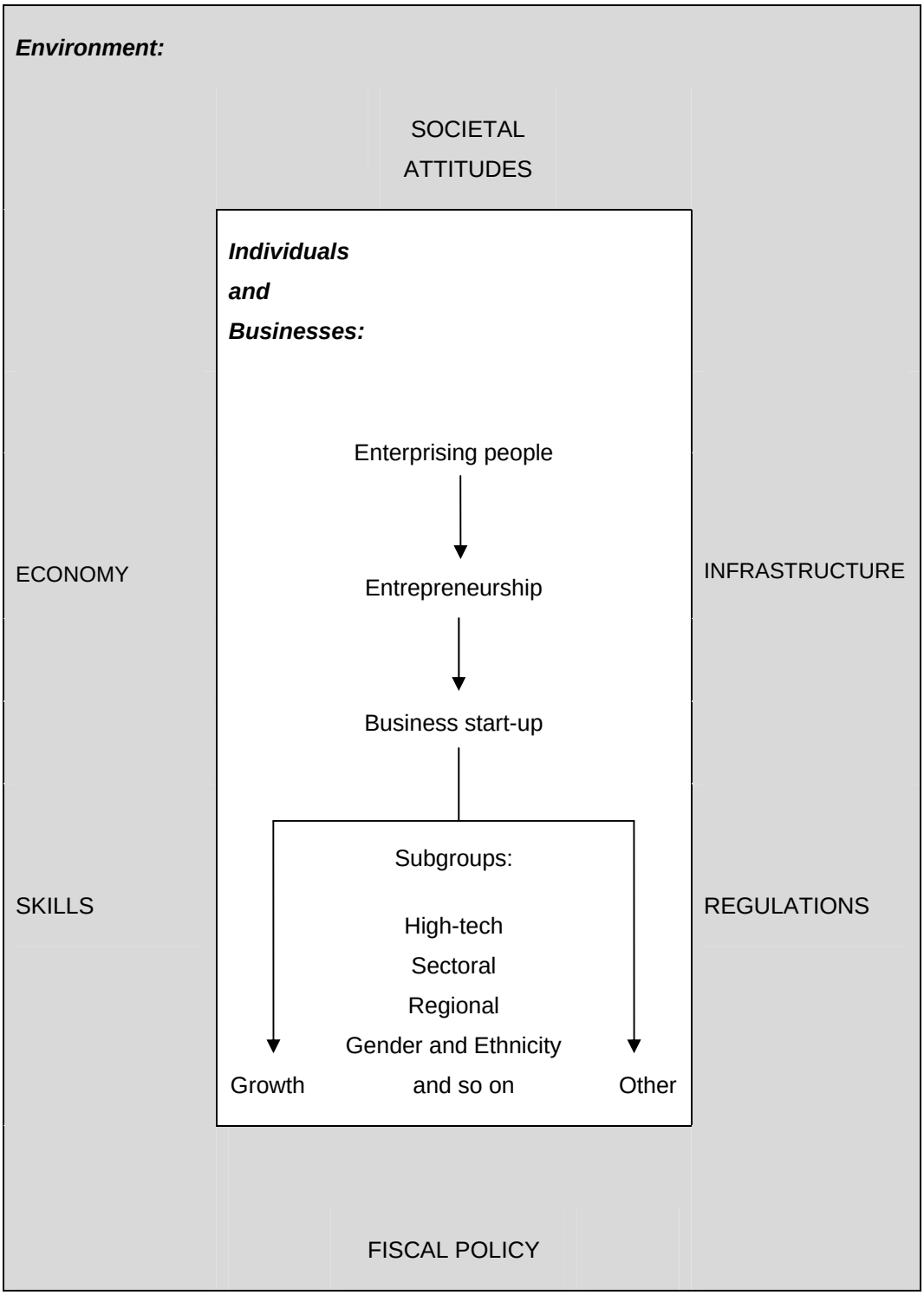
The more enterprising of the people set up businesses and these businesses could be in any sector. There are various sub-groups that constitute the enterprising people and the enterprises they create (for instance, it could be women and youth), and it could be in any sector (for instance, agro-businesses and manufacture).

All these enterprises must survive in the environment that constitutes the regulations, economic dynamics, fiscal policy, lack or abundance of skills, societal attitudes and the infrastructure.

Henry, Hill & Leitch (2003:10) probe more deeply into Bridge *et al's* (2003) and Butler's (2006) models on the environment to express them in terms of pressures on SMMEs.

Before getting to the viewpoints of Henry *et al* (2003:10) a closer analysis of Porter's five forces model on competitive strategy (Porter 2008:4) illustrates how

Figure 2.2: Bridge *et al's* (2003) basic enterprise environment framework



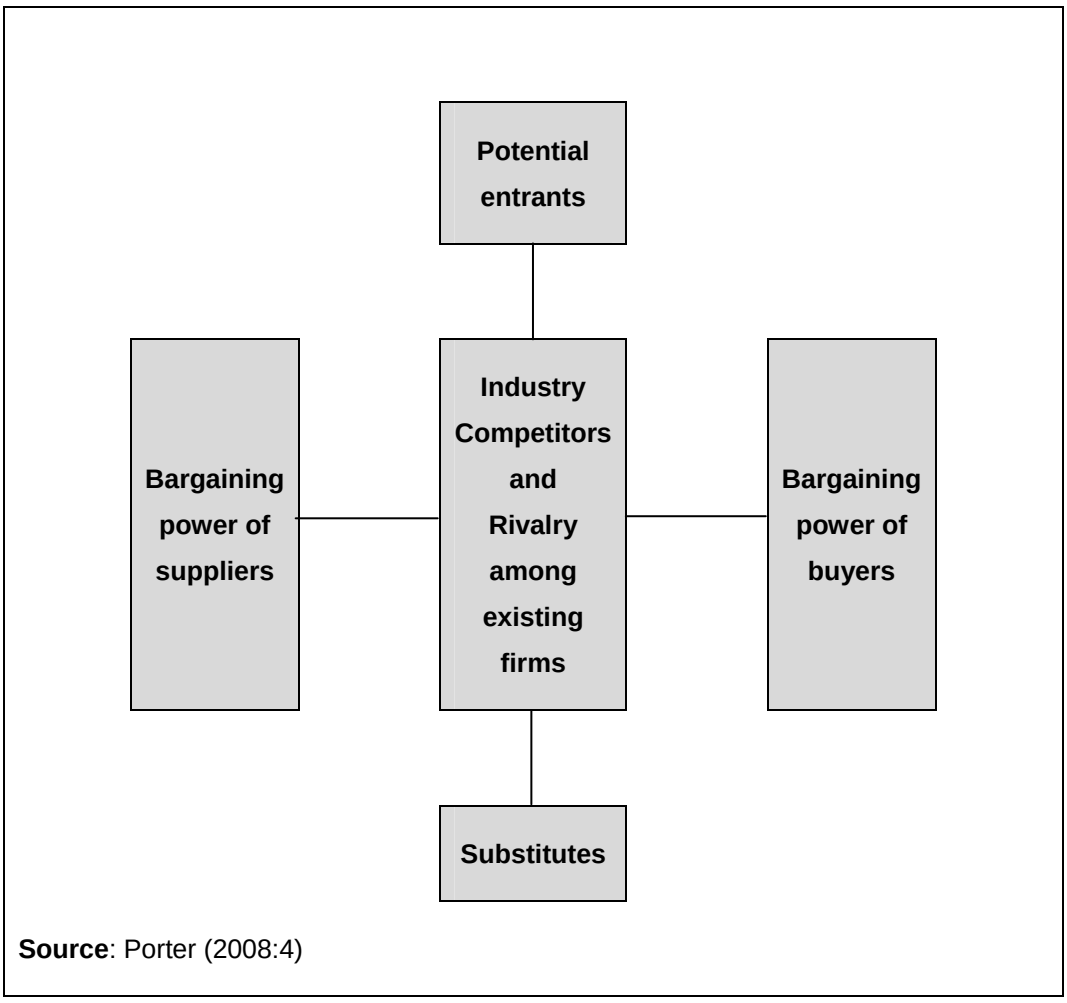
Source: Bridge *et al* (2003:423)

small businesses fail in the business world. It resonates with Henry *et al's* (2003) reasoning on pressures on the small business sector. It must be pointed out that

while Porter's (2008) model on strategy is of great influence, it is not the only model and, secondly, it also has its shortcomings as O'Shaughnessy (1996:14) asserts. O'Shaughnessy (1996:14) says that Porter's reasoning does not take culture into account sufficiently, is not sensitive to economic history and, to sum it up, is specific to the developed world and not the developing world.

As argued, Porter's (2008) model is referred to in Figure 2.3 to reinforce views that small businesses are heavily handicapped in the marketplace and it is not a discussion on strategy.

Figure 2.3: Porter's (2008) five forces of competitive strategy



Source: Porter (2008:4)

Porter's (2008) arguments on competitive strategy are referred to in an effort to mirror the forces that impact on business development, which also affects small

business. In Figure 2.3, Porter posits that there are five basic forces that drive competition.

Porter (2008) reasons that the collective strength of these forces determines the ultimate profit potential for an industry and the individual participants. The five forces Porter referred to are buyers, suppliers, new entrants, substitutes and the existing competitive intensity. Various factors influence the five forces such as bulk-buying, cost-switching, numbers.

These will be discussed briefly to illustrate the competitiveness of the environment in general; to be followed by a deeper interrogation of the elements specifically in the SMME environment over and above Porter's (2008:4) generic model.

Briefly, the arguments on Porter's five forces (Porter 2008) are:

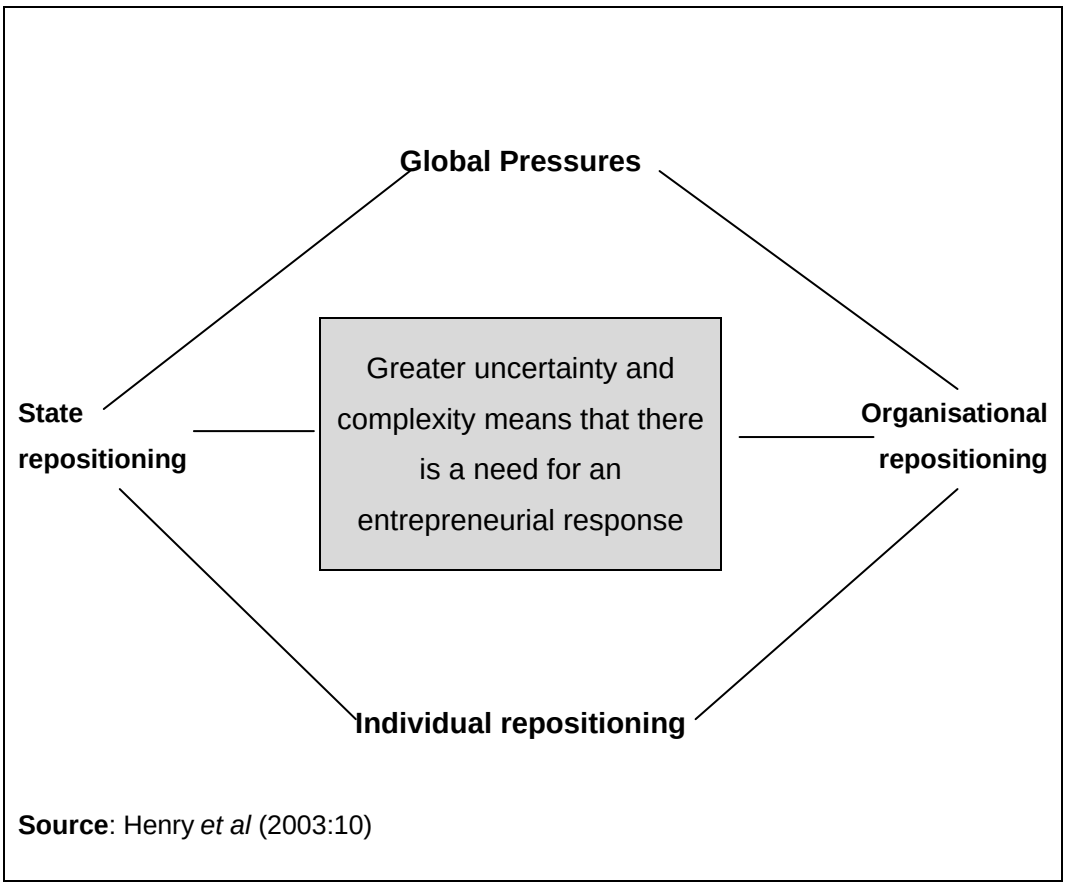
- Buyers have the ability to force prices down as they have various positions of leverage, for instance bulk-buying or threatening to switch to competitors;
- Powerful suppliers have the ability to influence prices to protect their own margins – moreso in monopoly or oligopoly situations in specific niches;
- New entrants bring in new capacity and resources and this impacts on the retention or decrease of prices;
- Substitutes limit the potential returns in an industry as the threat of switching by buyers puts a ceiling on prices; and,
- The intensity of existing rivalry among existing participants in the market also has an effect on prices and raises the barriers to entry and survival for all entities.
- As stated Porter's (2008) model captures the determination and implementation of strategy of the market in general but it is more the transactional relationships that he refers to. While these transactions are normal, they have varying impacts on organisations, as these have differing strengths and also respond differently to the pressures.

The forces then also impact on small business as these entities are in the same environment. For instance, when buyers drive prices down, smaller organisations will not necessarily be able to absorb the reduced margins. The same applies to

suppliers and new entrants: smaller organisations find it difficult to respond effectively unless they are in an unassailable position, for instance their product enjoys exclusivity. To explain this further, Henry *et al* (2003:10) have developed a model (Figure 2.4) that illustrates the pressures on SMMEs.

For instance, it can be posited, it is obvious that big organisations offer suppliers better terms of payment for high volumes. The supplier would rather deal with one big buyer as they help dispose of inventories, reduce ageing debtors, minimise breakages and theft, and at the same there is a greater certainty of payment, and sometimes even advance or cash payments.

Figure 2.4: Pressures on SMMEs



Source: Henry *et al* (2003:10)

Henry *et al* (2003:10) show that global pressures, organisational repositioning, state repositioning and individual repositioning impact on small business operations (Figure 2.4). Global pressures mean more competition in domestic

markets by overseas participants and this pressure impacts on local SMMEs who are not robust enough to withstand such pressures.

At societal level there are environmental factors, labour legislation and other public pressures that are brought to bear on businesses and smaller entities cannot cope.

Larger organisations downsize, form strategic alliances, integrate vertically or merge with others and this also threatens smaller organisations.

Lastly, owners/managers have personal pressures. Some owners/ managers do not have the appropriate educational background and this impacts on their ability to respond effectively to the pressures in the marketplace.

It can also be demonstrated that big organisations use their size to compete in the marketplace and this is usually to the disadvantage of their smaller competitors. For instance, if small businesses are integrated into Porter's (2008) five forces the situation even becomes clearer. The following could apply:

- In terms of Porter's five forces, buyers have the ability to force prices down. Most small businesses are unable to compete on price against bigger competitors;
- In terms of Porter's five forces, powerful suppliers have the ability to dictate prices to ensure their margins. Small business have no option but to be price followers;
- In Porter's five forces new entrants bring in new capacity and resources. Small business can hardly fight back in such situations and depend on key niches to hold their own;
- In Porter's five forces, substitutes limit the potential returns in an industry. Substitute products are also a major concern to small entities as they can hardly compete; and,
- The intensity of rivalry among existing participants in the market also has an effect on prices and raises the barriers to entry and survival for all entities. Small businesses are at a disadvantage in such rivalry as they can be swallowed by bigger entities or lose their staff to bigger participants who offer better remuneration packages.

It is evident from the above that small business is at a disadvantage with regard to the competitive forces in the market. They also come second to bigger entities in the provision of finance and credit. Bigger organisations receive preference as transaction costs are lower for big volumes of money and credit. These are some of the reasons that governments create an enabling environment for SMMEs.

Despite this, Bennett (2008:377) cautions that market failures do not necessarily mean that government intervention is the best and only option. He also opines that there is no evidence that small entities want this government intervention. He warns that such interventions are prone to bureaucratic bungles or failures because of ineptitude and instead harm the very entities they want to assist. Bennett also points out the cost of intervention may exceed the benefits.

In any case, and also taking Bennett's beliefs (2008:377) into account, the constraints that have been identified above do not mean that small entities do not survive in a hostile environment. Thus, before discussing the enabling environment, it is necessary to illustrate how small business succeeds and identify the strategies that also lead to small business success in a hostile environment.

2.4.1 Strategies and indicators of success for small business

Wickham (2004:422) maintains that the entrepreneur has an obligation to ensure the long-term viability and success of the entity. It is argued that research is awash with strategies for small business survival. In fact strategies for business such as a competitive edge, mergers and/or acquisitions apply equally to small business.

Wickham (2004:422) quotes Porter who, in as early as 2000, advocated a sustainable competitive advantage as a central pillar of strategic thinking. The source of the competitive advantage could be price, features, marketing strategy or access to specific inputs to the exclusion of others. Or, as can be argued from the writings of Schumpeter (2008:65), it could be innovation.

Schumpeter (2008:65) aptly holds that "continuous changes…by continual adaptation made through innumerable small steps make a great department story out of a small retail business…". This correlates with arguments by Porter (2008:7) that a company's ability to differentiate itself through various elements in its value chain gives it an edge in the market.

In contrast, Schumpeter (2008:66), dubbed the “Father of Innovation”, neatly sums up his statements on his continual regeneration of products through his pronouncements on creative destruction. He also opined that innovation, which leads to new products, is characterised by the introduction of a new good or of a new quality; new production methods; new markets; new sources of raw materials or inputs; and the creation of a new organisation which could also give it a monopoly position.

The theme that runs through what are now doctrines by Schumpeter (2008) and Porter (2008) is that production must not be static and market participants must continually look for opportunities to gain an edge. This could be through Schumpeter’s creative destruction or Porter’s development of a competitive edge through market analysis. This applies to small business.

It was posited above that there are varied approaches to develop strategies for survival by small businesses. It is also important to stress that small businesses can and do start with certain attributes that will give them an edge in the marketplace. Some of these are the “internal characteristics” that Lussier & Halabi (2008:490) and Simpson, Tuck & Bellamy (2004:481) have identified elements that contribute to success. Simpson *et al* (2004:485) refer to Porter’s research in 1985 and Fiol’s research in 2001 when they noted that competitive advantage is often seen as the key to sustainability. Simpson *et al* (2004:485) then opine that small firms could achieve uniqueness in relation to their competitors.

Simpson *et al* (2004:486) further point out that other research refers to core competencies and these are centred on human assets, procedures and tacit knowledge. Simpson *et al* (2004:488) conducted their own research to determine success variables for small business (Table 2.10). This research was conducted in Sheffield in the United Kingdom of Great Britain (UK) among 20 successful entrepreneurs.

Although Simpson *et al*’s (2004) sample was not large, they point out that it was sufficiently big for four groups to emerge in the discussions and the analysis (Table 2.10). This indicates some of the elements that drive entrepreneurial success.

Table 2.10: Simpson *et al*'s (2004) success variables for SMMEs

Grouping	Characteristics
Empire builders	This group believes that the recipe for success is growth, profitability and teamwork. This group tends to believe in empire building and places a lot of emphasis on customer care and quality maintenance.
Happiness seekers	This group believes in happiness at work and that staff and customers must enjoy the experience. Self-fulfilment for the owners is their mantra.
Vision developers	This group sees success as the collective sense of achievement within the firm and recognition from others in the marketplace.
Challenge achievers	Sense of achievement and recognition are major drivers for this group.
Source: Simpson *et al* (2004:489)	

In contrast, Lussier & Halabi (2008:490) undertook a literature review on research that focused on elements that contribute to the success of small business. Elements that emerged as detailed in Table 2.11 included “record keeping and financial control”, “industry and management experience” and “education and training”. These few specifically reflect the practical know-how that service centres should introduce into fledgling businesses. This, apart from the fact that the use of advisors and the service centres, is also a sign of professional maturity as can be gleaned from Lussier & Halabi’s arguments (2008:490).

Lussier & Halabi (2008:490) and Simpson *et al* (2004:486) illustrate the compensating factors that provide small businesses with chances of success even in a hostile environment. Closer analysis shows that Simpson *et al*’s (2004:486) variables can also be part and parcel of the elements in the Lussier & Halabi (2008:490) model. For instance, there are better chances of success for the empire builders if they have some of the elements determined by Lussier & Halabi (2008:490), such as having been in business for several years.

Finally, it must be emphasised that while certain strategies could determine success, they do not necessarily guarantee survival. After all they are also prone to the various and numerous variables in the environment that impact on and influence performance. They do, however, suggest a higher probability of success against other entities that do not have these characteristics.

This takes the discussion back to Wickham (2004:422) when he asserts that the entrepreneur has an obligation to ensure the long-term viability and success of the entity. Given the obstacles that face him or her, chances of survival and growth are enhanced if he or she uses the arsenal of strategies above in an environment that is responsive.

Policy makers thus still have an obligation to create an enabling environment to assist small businesses cope, which includes the elements above. It gives small entities a better chance of surviving the challenges they encounter. After all, SMME survival and growth assist government to cope with socio-economic demands and enhance the benefits that flow from SMME development described above.

Table 2.11: Lussier & Halabi's (2008) variables that determine small business success

Variable	Reasons for success
Capital	Businesses that start undercapitalised have a greater chance of failure than those that started with adequate capital
Record keeping and financial control	Businesses that do not keep proper and updated records and do not have controls have a greater chance of failure than businesses that do
Industry experience	Businesses managed by people without prior industry experience have a greater chance of failure than businesses managed by people with prior industry experience
Management experience	Businesses managed by people without prior management experience are more likely to fail than those managed by people with a track record in management
Planning	Businesses that do not develop specific business plans have a greater chance of failure than businesses that do
Professional advisors	Businesses that do not use professional advisors have a greater chance of failure than businesses that do
Education	People without tertiary education have a greater chance of failure than people with at least one or two years of college
Staffing	Businesses that cannot attract and retain quality staff have a greater chance of failure than businesses that do

Variable	Reasons for success
Product/service timing	Businesses that introduce products or services that are too old or too early have a greater chance of failure than businesses that bring in products or services that are in their acceptance phase
Economic timing	Businesses that start in a recession have a greater chance of failure than businesses that start in an expansion phase
Age	Younger people starting a business have a greater chance of failure than older people
Partners	A business started by one person has a greater chance of failure than one started by a number of people
Parents	Business owners whose parents never owned a business have a greater chance of failure than those whose parents did
Marketing	Business owners without marketing skills have a greater chance of failure than business owners who have such skills
Source: Lussier & Halabi (2008:481)	

2.5 GOVERNMENT MANDATE TO CREATE AN ENABLING ENVIRONMENT FOR SMMES

Bridge *et al* (2003:344) assert that "governments throughout the world intervene in the economies of their countries". Atherton & Fairbanks (2006:335), White (2004:8) and Adams (2003:165) reinforce this argument and, with Bridge *et al* (2003:344), further state that governments must create an enabling environment to ensure SMME growth and sustainability. Reinecke & White (2004:1) analysed seven countries and identified the efforts of these governments to make life easier for small businesses.

Atherton & Fairbanks (2006:335) refer to the resolve by the Government of the Peoples Republic of China which, after embracing market principles for some sectors of its socialist economy, continued to create an environment in which small business could survive and grow.

The European Union goes even further and launched a best procedures project on "Education and Training for Entrepreneurship" spearheaded by Norway (Commission of the European Union 2003:25). This project identifies best practices in enterprise development and these are then disseminated to the rest of the European community for replication and adaptation.

Undoubtedly, the Southern Africa Development Community (SADC) regional economic bloc, which has not yet done any visible work in coordinating SMME activity in Southern Africa can learn a lot from these initiatives and thus accelerate regional economic development.

White (2004:8,26) cautions that direct measures to support small business distort the market. He is correct as it cannot be overlooked that supply-side interventions do create problems, particularly in the developing world as they create a conducive arrangement for corruption and, in addition, the usual distortions of the market. This is discussed more fully in Section 3.5.

Adams (2003:165) further believes that an enabling environment refers to a supportive environment consisting of institutions, programmes and policies which assist emerging entrepreneurs to function effectively. White (2004:8) confirms this

point when he asserts that governments have launched incubators, training programmes, given out money, encouraged mentoring and/or introduced a variety of programmes to assist in areas of concern involving small business.

Gibb, according to Lundström & Stevenson (2002:17), opines that an effective enabling environment achieves the following:

- It removes obstacles in terms of the regulatory and transactional environment for SMMEs and creates macro economic and social conditions which maximise the opportunity for the use of entrepreneurial behaviour;
- It supports a culture at national, regional and local community level that supports individual entrepreneurial behaviour as a desirable, respectable, ethical and moral way of life;
- It supports the creation of a growing, quality stock of small businesses measured by the excess of business births over business deaths; and
- It supports the development of existing businesses through the phases of survival, early growth, sustained growth and internationalisation.

These interventions provide support for the start ups and to grow existing SMMEs. In short, appropriate interventions are central in the creation of a “growing, quality stock of small businesses” as is commonly declared by researchers and policy makers. The interventions must also support the existing businesses through their various phases of development.

It must, however, be argued that while the elements that constitute the enabling environment are by and large the same, the format and mix differs from country to country. These differences are based on the characteristics and needs of countries. Thus the points made in the previous section on the complexity of the environment must also be taken into account.

The next section looks at some of the models for SMME development in terms of the challenges that face SMMEs.

2.6 STRATEGIES FOR ENTREPRENEURSHIP AND SMME DEVELOPMENT

There are several participants in small business development, including the private sector and households. These are critical for the mere survival of small entities as they are the market for products and services. The private sector specifically develops linkages that ultimately grow small business. The Chambers of Commerce represent small business owners and provide advocacy work and are also responsible for training and the provision of information.

Educational institutions, which include schools and universities, play a major role at various levels. They are the third pillar following the private sector and households, and then the Chambers of Commerce. The fourth pillar is government. Government is the principal role player as it is responsible for creating an environment that will allow the above, and itself to play their role. Stevenson & Lundström (2002:160) capture this succinctly when they give the basics for a small business development model.

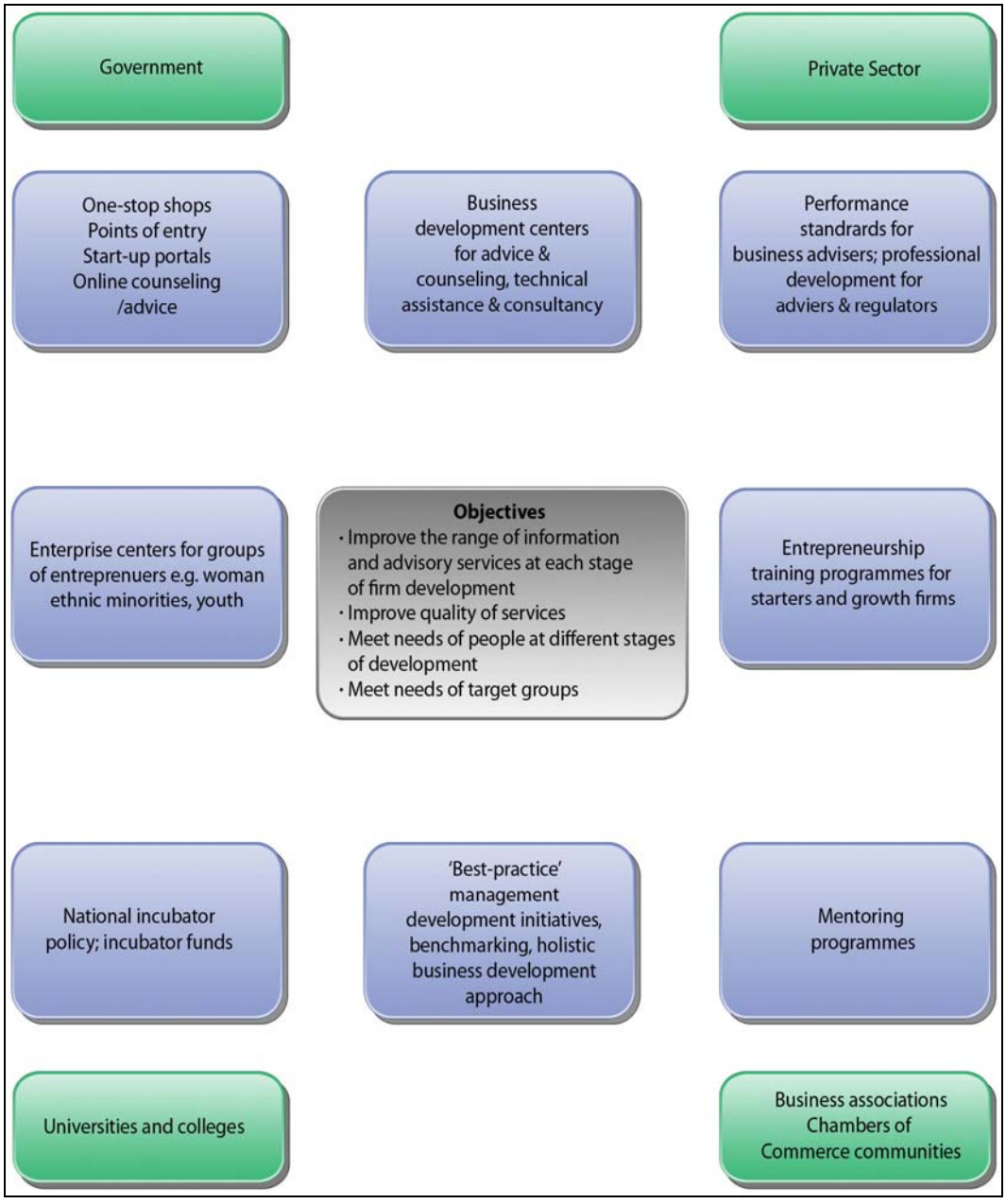
The message that is conveyed by Stevenson & Lundström (2002:160) is that close co-operation between the four pillars facilitates success. Figure 2.5 illustrates this model.

Stevenson & Lundström (2002:160) hold that the objective of policy is to:

- Improve the range of information and advisory services at each phase of growth of the SMME and the local economy;
- Improve the quality of services to SMMEs;
- Meet the needs of people at different phases of development; and
- Meet the needs of the target group, both nationally and locally.

It must be argued that the Stevenson & Lundström (2002:160) model in Figure 2.5 may have some omissions and the most noticeable omission is “culture”. Although national culture plays a large role in determining entrepreneurial activity, it is

Figure 2.5: Stevenson & Lundström's (2002) key business support measures in favour of start ups and early stage growth



Source: Stevenson & Lundström (2002:160)

doubtful if it can be included at this basic level. However, it must be stressed that it is the national culture that inculcates creativity and innovation.

The model also does not refer to the "regulatory environment" or "infrastructure". Although the environment being looked at is that of start ups, infrastructure

influences the success or failure of start ups. The regulatory environment also limits entrepreneurship as a country with, say, monopolies would need to address this as a matter of concern as big participants limit the entry of smaller ones into the economy unless it is a matter of self-interest.

It can be inferred from the two models, Stevenson & Lundström's (2002:160) (Figure 2.5) and Bridge *et al's* (2003) (Figure 2.2), that they influence the packaging or formulation of programmes to support SMMEs as will now be illustrated.

2.6.1 Stimulating entrepreneurship and venture creation

Nieman, Hough & Nieuwenhuizen (2003:11) suggest that external variables determine entrepreneurship in any country. According to them, entrepreneurial orientation is crucial for the economic development of a country. They suggest that this orientation includes culture, value systems, role modelling and work experience.

Boter & Lundström (2005:245), Bridge *et al* (2003:107) and Burns (2001:25) reinforce arguments by Nieman *et al* (2003) when they also point out that "culture" determines "entrepreneurial behaviour". Boter & Lundström (2005:245), point out that research has convincingly demonstrated the role culture plays in entrepreneurship and they refer to research undertaken by Hofstede in 1994 and Dennis in 1997.

Nearly all of the above have referred to "culture" and a clearer understanding of culture must thus be determined. Hofstede (2001:10) and Trompenaars & Hampden-Turner (1998:9) agree that "culture" is a common understanding of relationships between people which determines how they react to situations or make decisions.

According to Bridge *et al* (2003:107), "culture" includes individuals with their attributes, resources, beliefs, traits and intentions. Burns (2001:25) also refers to personal character traits, culture of society and antecedent influences.

In the present study "culture" is seen as the force that plays a major role in determining entrepreneurial behaviour and small business development makes sense.

This view relates to those of Boter & Lundström (2005:245), Bridge *et al* (2003:107), Burns (2001:25), Hofstede (2001:10) and Trompenaars & Hampden-Turner (1998:9). It is, therefore, not surprising that Nieman *et al's* (2003) personal orientation is one of three pillars that underpin entrepreneurship.

In fact, this underpinning addresses the lack of an entrepreneurship culture in South Africa as confirmed by Maas & Herrington (2007:13). The other pillars identified by Nieman & Nieuwenhuizen (2009) are "supportive" and "co-operative" environments. A "supportive" environment will be laws, infrastructure, finance and training while a "co-operative" environment refers to the framework of supportive institutions created to support SMMEs. Their conception of the country's entrepreneurial strategy will then be based on the three pillars as illustrated in Figure 2.6.

In Figure 2.6, training and development is provided in the "supportive" and "co-operative" environment. Skills include management training, a critical need in South Africa. The results of entrepreneurship provide the economic growth that is currently needed in terms of the model.

In other economies, for instance countries in the developed world, the problem area is regulatory and this element will thus be identified. Nieman & Nieuwenhuizen (2009) assert that the development of entrepreneurs flows from the three pillars.

Nieman & Nieuwenhuizen (2009:11) also maintain that "power distance" [closeness to the corridors of political and economic power] also plays a major role in developing countries and this is the case in South Africa.

According to Boter & Lundström (2005:246), various markets and conditions influence people to take advantage of opportunities. Figure 2.7 contains a model they reproduce which was developed by Gnyawali & Fogel (1994:56).

Boter & Lundström (2005:246) opine that “opportunity” in Figure 2.7 signifies that different types of markets provide varying conditions for business activity. These opportunities are influenced, positively or negatively, by various government policies and regulations. This would include incentives on the positive side, and labour regulations and taxes on the negative side.

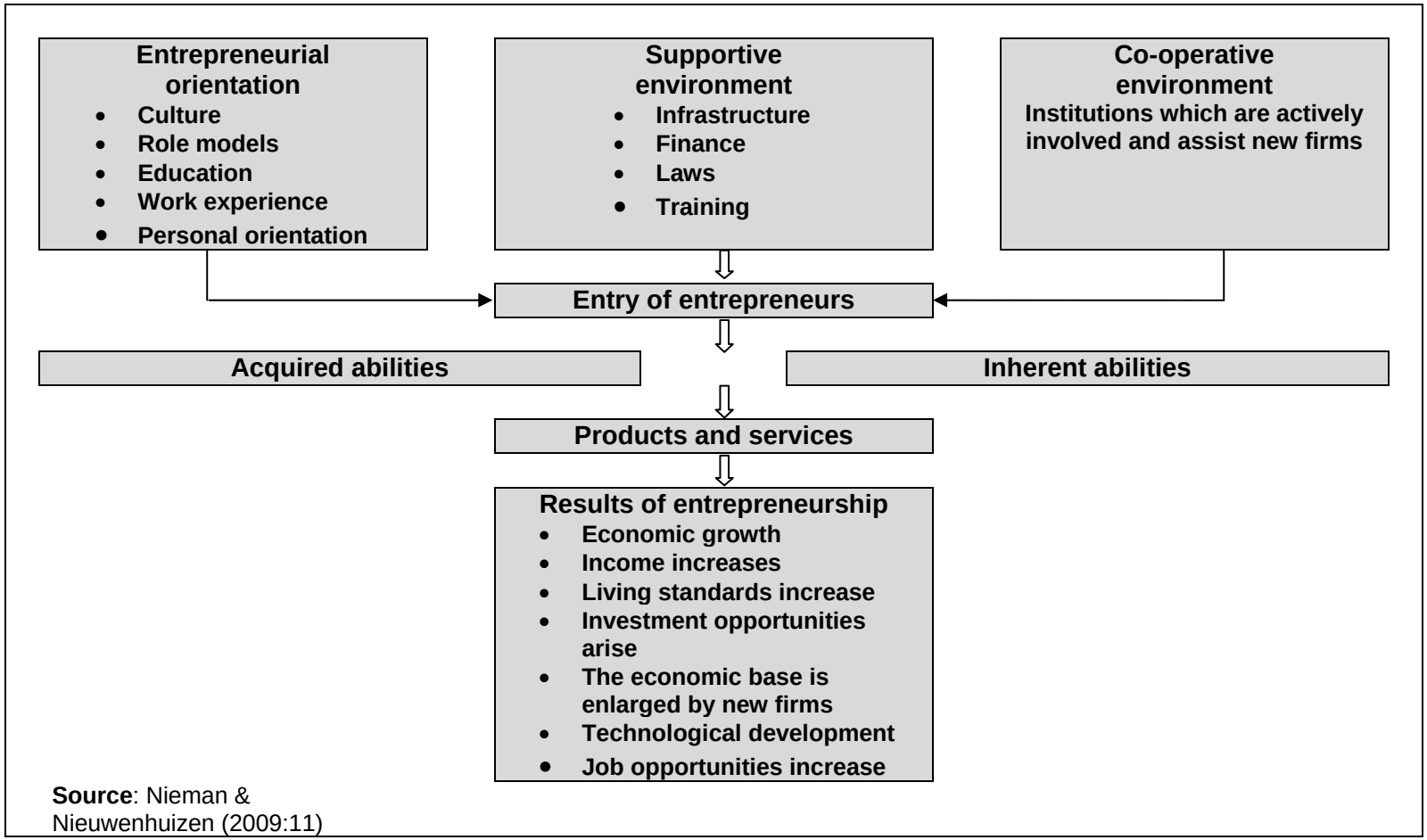
The “socio-economic factors” (Figure 2.7) refer to the environment per se in which culture, norms and practice play an important role in stimulating entrepreneurship and enabling individuals to run businesses.

Boter & Lundström (2005) assert that “propensity to enterprise” refers to the ability of an individual to identify the opportunities in the marketplace, while “ability to enterprise” refers to the degree a person can turn these ideas into businesses. These are entrepreneurial and business skills.

“Propensity” would include innovativeness and McClelland’s (1994) “need for achievement”, Boter & Lundström (2005:246) postulate. They then also point out that “opportunity”, “ability” and “propensity” to enterprise provide the platform for entrepreneurial activity. The “probability to enterprise” refers to the ignition of the three – “opportunity”, “ability” and “propensity” – to start the venture. This then results in new venture creation.

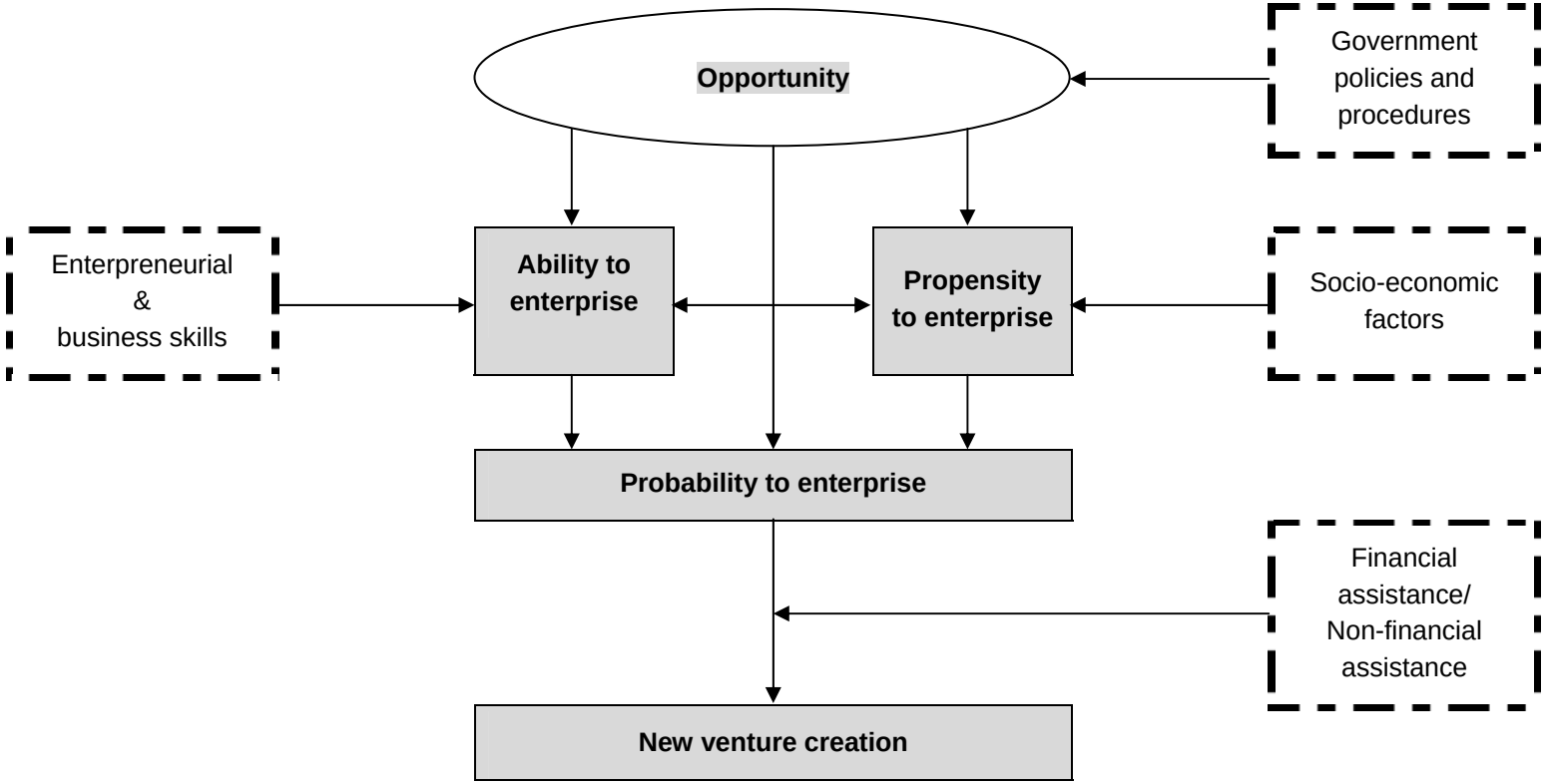
In this model, government policies and procedures, socio-economic factors, and financial and non-financial assistance are the enabling environment to stimulate entrepreneurship in the individuals who have an “ability” and “propensity” to enterprise. Government policies and procedures would include tax breaks and various incentives – for instance, export promotion. “Socio-economic factors” refer to environmental dynamics which include how business is done in any one locality. Such practices have evolved over the years and constitute a business culture. “Economic dynamics” would include macro-economic issues while micro-economic issues would still be part of the business culture. This model is very easy to understand but it also has holes: for instance, it is silent on “infrastructure”. Yet, many governments find that they have to intervene in this direction.

Figure 2.6: Nieman & Nieuwenhuizen's (2009) model of entrepreneurship



Source: Nieman & Nieuwenhuizen (2009:11)

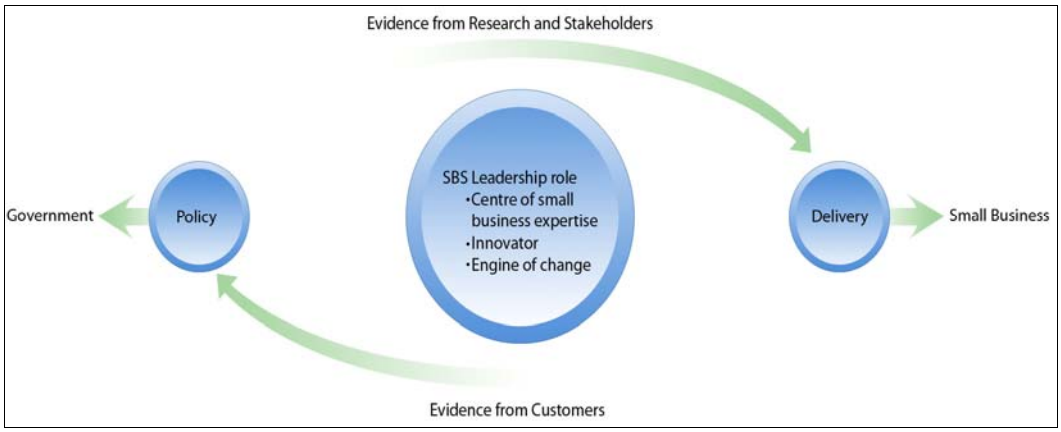
Figure 2.7: Gnyawali & Fogel's (1994) core elements of new venture creation



Source: Gnyawali & Fogel (1994:56)

The model developed by the SBS in the UK government (Figure 2.8) operates on the basis of a "virtuous circle" between government, determining policy, and delivery to customers – that, is, the SMME community. It intervenes with centres of higher education and other stakeholders to identify constraints or bottlenecks.

Figure 2.8: The SBS model



Source: SBS UK Govt (2004:7)

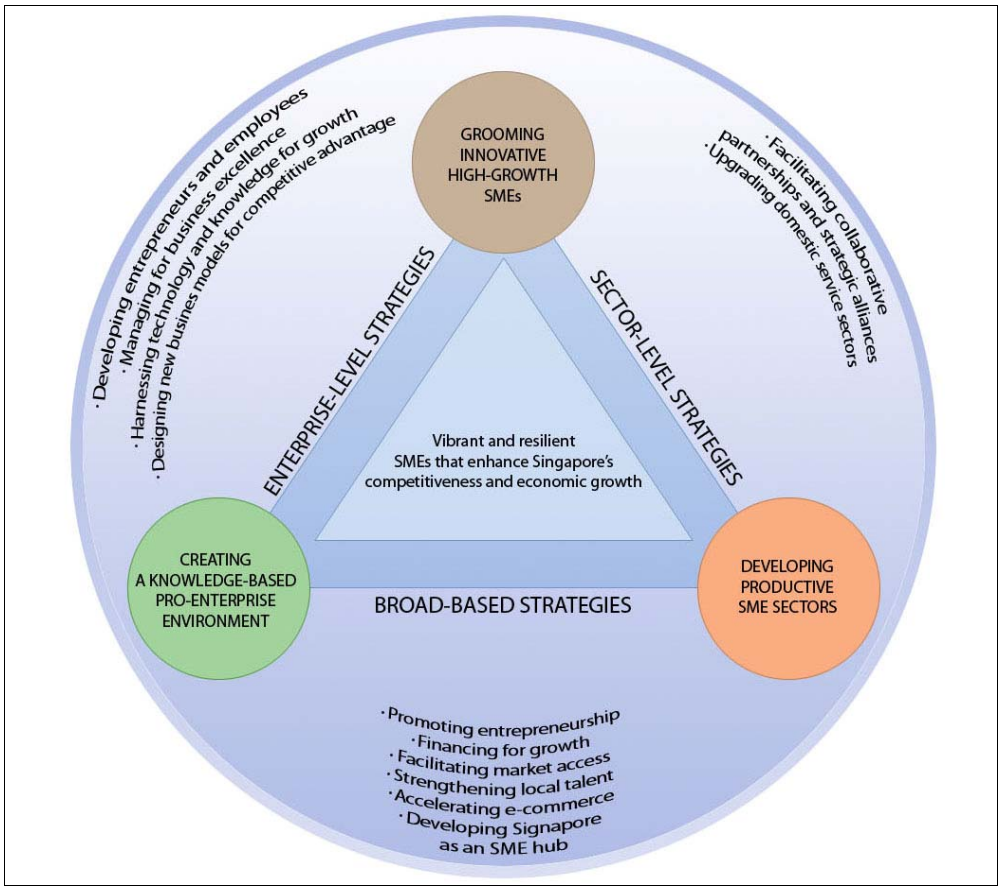
According to Figure 2.8, the SBS holds that SMME development must be demand led. It thus has an arrow from government that explains government policy to SMMEs and advises them of incentives. At the same it highlights research from stakeholders (for example, banks and universities) and feedback from customers, which are the SMMEs and the Business Link outlets.

The SBS plays a central role and provides leadership on expertise, innovation and change. The disadvantage of such an approach is that "innovation", "expertise" and "change" must be at the rock face rather than at the central agency level, although the saving grace is that in England there are seven SBS regions, each with a fully resourced office.

In the model in Figure 2.9 Singapore has premised its SME support strategies on three pillars which are "broad-based strategy", "sector-level strategy" and "enterprise-level strategy". This resonates with Cant & Ligthelm's (2003) analysis of small business problems (Section 2.3.2) There are also specific actions on

these pillars such as the basic strategies (at the bottom of the figure) which promote entrepreneurship, finance and market access, for example.

Figure 2.9: Singapore Productivity and Standards Board's (2000) enabling environment



Source: Singapore Productivity and Standards Board (2000:8)

The Singaporeans then go to "enterprise level" where they strengthen the enterprises and, ultimately, to the "sector level" where industry associations take over. This model reveals Singapore's export culture as this model, known as "2014", is based on Singapore controlling more than 60 % of the "high-tech" market by 2014. Thus, the cross-cutters are: "developing productive SME sectors"; "creating a knowledge-based environment" and "grooming innovative high-growth SMEs".

2.6.2 Summary of SMME development models

It is postulated that the models of Nieman & Nieuwenhuizen (2009) (Figure 2.6) and Boter & Lundström (2005:246) (Figure 2.7) are appropriate for developing economies, while the SBS (Figure 2.8) and Singapore (Figure 2.9) models could be more applicable to developed economies. The latter depend on the market while the first two have a developmental approach in that they are more emphatic about business development services.

This does not in any way suggest that the UK and Singapore models do not refer to business development services, but they are more tacit and there is an emphasis on market processes. For instance Singapore stresses development at enterprise, sector and the broader society level.

It is argued that the attainment of the objectives of the above models depends on an effective delivery of business development services. In fact, the essence of the enabling environment is to assist SMMEs access the services that will help them grow and be sustainable. While the models provide a useful conceptual framework for small business development, their validation remains a problem. The absence, limited existence or inaccessibility of monitoring reports on the impact of government interventions pose a further problem in this regard.

2.7 CONCLUSION

This chapter introduced the study and explained the importance of SMMEs in the economic development of countries. It gave an overview of the Gauteng SMME community. The chapter highlighted the challenges and constraints facing SMMEs which then introduced the study as the challenges and constraints can then be linked to the South African SMME community.

The next phase of the chapter was an in-depth discussion on the environment in an attempt to identify the variables that impact on the business community. It is these variables that create some of the challenges for SMMEs. The chapter then demonstrated how these variables impact on the delivery of business development

services to SMMEs. It also highlighted the factors that contribute to the success of SMMEs despite the challenges they encounter.

The chapter gives a background on the need for government to create enabling environments for SMME development and defines the enabling environment. Thereafter it highlights the various methodologies to package business development services which are known as “models for SMME development”. It concludes by determining the strategies used to assist SMMEs to overcome challenges.

The next chapter will focus on business development services and their distribution through service centres. It will also highlight the new variables that impact on the delivery of services to SMMEs.

CHAPTER 3

THE DISTRIBUTION AND DELIVERY OF BUSINESS DEVELOPMENT SERVICES THROUGH SERVICE CENTRES

3.1 INTRODUCTION

This chapter takes a closer look at BDSs and the environment within which they operate. It describes BDSs in their various forms and contextualises them in the study. It locates them in BDS centres and then illustrates their relationship and interaction with SMMEs. This interaction then inculcates a new set of intervening variables. The new intervening variables then impact on the distribution of BDSs to small businesses of varying sizes.

The impact could be positive or negative but it is mostly negative, hence the need for continued government intervention and vigilance in ensuring the growth and sustainability of SMMEs. This chapter also analyses the debate on whether BDSs must be supply orientated or demand driven. This discussion has gathered momentum and it is of significance to the developing world as its SMMEs are the ones likely to be severely affected.

This also applies to South Africa as the government is continually being asked to provide support to SMMEs while many question if these SMMEs will ever be weaned of this support. Regardless, the relevance of the debate in the context of the developing world is also called into question, moreso the fact that models from the developed world are being used. To what extent can these, uprooted from developed countries, make a difference in developing ones and their differing environments?

3.2 THE CONTEXTUALISATION OF BUSINESS DEVELOPMENT SERVICES IN THE ENVIRONMENT

It was posited in Chapter 2 that governments intervene to support SMMEs so that they survive and grow. This ensures economic growth and socio-economic development and promotes political stability which are of dire importance to governments. Governments intervene through appropriate policies and institutions, which include BDSs.

3.2.1 Defining Business Development Services

The Commission of the European Communities (2001:6) refers to business development services (BDSs) as "services originating in a public policy initiative" while Burgess (2000:53) and Gibb (1997:17) describe them as "publicly and privately funded organisations that provide advice and support for small- and medium-sized enterprises".

The view by the European Commission is limited as not all BDSs will necessarily originate in public policy although in many instances policy plays a key role in determining service centres. In contrast, Burgess (2000:53) and Gibb (1997:17) do not distinguish between the "services" and the "provider".

Harper (2005:viii), the International Finance Corporation (Hallberg 2000:13), Dawson, Kapila & Mead (2002:1) and Gibson (2001:4) are nearer the mark when they postulate that BDSs are a wide variety of non-financial services. Gibson (2001:14) asserts that non-financial services differ from financial services in that they are an "inherently broad and diverse field with products offered in a variety of ways and by different types of providers".

Differentiating between financial and non-financial services is appropriate as it could be argued that a major difference between them is that the latter are elastic while financial services are rigid.

An increase in the price of a specific non-financial service invariably results in a fall in demand for it as there are many other participants and substitutes. For that

matter, some SMMEs may even choose to do without the service or obtain it for free from family or from suppliers such as banks or wholesalers.

However, when the cost of money rises, demand does not drop substantially as it does not have many substitutes and very few businesses, if any, can operate without capital or finance. A close substitute to money is supplier credit but this does not enjoy the same value as money and is not acceptable tender in many instances.

Further assertions by Harper (2005:viii), Dawson *et al* (2002:1) and the International Finance Corporation (Hallberg 2000:13) that non-financial services include labour and management, training, extension, consultants, counselling, marketing, information, technology development, improving business linkages through sub-contracting, franchising and business clusters also need fine-tuning to relate to the present study.

Bellini (2002:24) also maintains that from the wide array of non-financial services, which Harper (2005:viii), Dawson *et al* (2002:1) and the International Finance Corporation (Hallberg 2000:13) also speak about, the following should be excluded:

- Specialised services such as incubation;
- Services to the agricultural community; and
- Services supplied by major corporations to increase the competitiveness of their suppliers for services supplied to both big and small organisations.

On the one hand, the exclusion of the first two makes sense as Bellini (2002:24) rightly opines that incubation services and agricultural services are specialised and differ in terms of delivery to SMMEs. On the other hand, the exclusion of the services supplied by major corporations may be on the basis that big corporations are developing their own suppliers rather than for the market although in the long run it benefits the market.

For the purposes of the present study business development services will be similar to that of the European Union (2001:6) and, to further fine tune, will be the basic offerings as determined in the White Paper for the Development and

Promotion of Small Business in South Africa (RSA 1995a). They include services such as the provision of information, training and development. The White Paper also includes sector programmes and these are included in the present research.

Finally, when discussing "non-financial" services it is usual to refer to "hard" and "soft" services. Bridge *et al* (2003:390) describe "hard services" as science parks and incubation services (where business is germinated and grown). "Soft services" are activities such as advice, mentoring, networking, counselling and training. Thus, "hard" does not necessarily mean "financial" services.

3.2.2 The Business Development Services environment

It was argued in Chapter 2 that there are numerous environments in the economy and Figure 3.1 gives a clear picture of where, in the general scheme of things, BDSs would fit in.

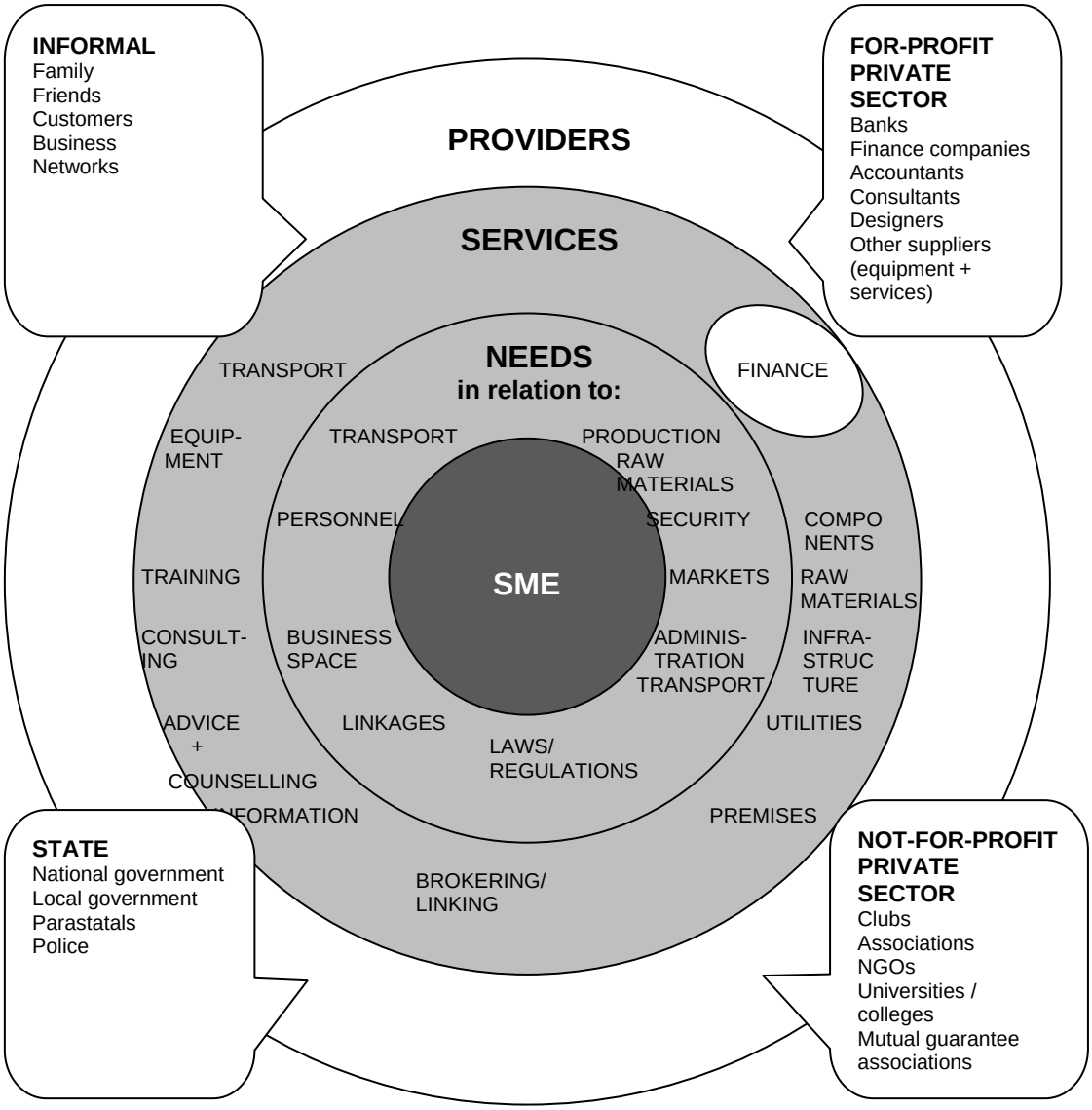
Figure 3.1 reflects the SMME-BDS environment within the broader PESTLE environment (Chartered Institute of Personnel Development, 2008) depicted in Figure 2.1. In Figure 3.1, the "blob" in the centre represents SMMEs.

The circle surrounding the SMME community depicts their "needs" which are related to the constraints that affect the SMME community. As maintained, the needs are both financial and non-financial and pertain to management, human resources, the regulatory environment, the institutions in the business environment, market access, security, business linkages and production constraints.

The financial and non-financial "services" that can be offered to overcome the needs of SMMEs are in the circle surrounding the circle depicting the "needs". They include the provision of information, brokering, advice and counselling, consulting, training and development, the provision of inputs and infrastructure.

Infrastructure" would include premises specifically for SMMEs, the provision of facilities such as electricity and water, and the provision and availability of transport and such logistics to enhance the supply chain.

Figure 3.1: Gibson's (2001) Business Development Services environment



Source: Gibson (2001:2)

Infrastructure" would include premises specifically for SMMEs, the provision of facilities such as electricity and water, and the provision and availability of transport and such logistics to enhance the supply chain.

The outer circle reflects the "external environment" in the Butler (2006) model (Figure 2.1). The variables include levels of government, the police, parastatals,

and business networks to name a few. They are not only the elements in the Butler environment but it is the business environment in its totality.

This outer circle also clusters the providers (defined in Section 3.2.3) in four groups which are informal or social relationships (such as family); the profit-making community (such as bankers, accountants and consultants); the not-for-profit sector (such as NGOs and universities); and the government (with its policy-driven offerings).

3.2.3 The providers of Business Development Services

Lewis, Massey, Ashby, Coetzer & Harris (2007:554), Gooderham, Tobiassen, Døving & Nordhaug (2004:5), Bennett & Robson (1999:155) and Gibb (1997:17) asserts that the suppliers of BDSs in the broadest sense include a variety of agencies and persons that provide direct and indirect assistance.

They exist in many forms and the most common are accountants, lawyers, banks, friends and relatives, customers, suppliers, consultants, non-executive directors, Chambers of Commerce, and trade and professional organisations. Lewis *et al* (2007:554) made the point that in New Zealand accountants took pride of place as the suppliers of external advice to small busineses.

This was reinforced by Gooderham *et al* (2004:5) who were referring to research by Greenwood and others in 2002 who also opined that, in a number of countries, accountants who have small firms as their client base have been developing services over and above traditional accountancy services. As such they have increasingly depicted themselves as multidisciplinary practices or “one-stop shops” for an extensive array of services, including financial, advisory, management, consulting, and legal services.

To add on to this providers also include SMME-focused service providers, the consulates and specialist providers (for instance, marketing and export-import specialists). However, consultants cannot be seen as providers in the sense of service centres.

Chrisman & McMullan (2004:234) and Timmons (2002:330) posited that "consultants" are professionals who are "hired to solve particular problems and to fill gaps not filled by the management team". Or, they postulate, consultants are also called in to give advice. In the opinion of these authors, this differs from "counselors" who provide direction and mentoring and see to the completion of the task and that the client knows what he or she is doing.

It can be postulated that there is a clear distinction between consultants and the providers of BDSs. The former is called in for a specific reason and, when the assignment is completed, the consultant is expected to leave. In contrast, the BDS provider is part and parcel of the strategy for the development of small business and of the service centre.

Chrisman & McMullan (2004:234) stress that knowledge is transferred with the spirited efforts of the entrepreneur who seeks to master the art of making a profit and ensuring the business succeeds. Thus, counsellors and, to a great extent, community-based organisations (CBOs) could be better conduits for the delivery of services as they become actively involved.

Gibb (2006:265) and Shah (2005:7) warn that using NGOs is both a plus and a negative. Gibb makes the point that NGOs are more flexible than state entities, however Shah posits that while NGOs do some good, there is also widespread criticism because of the way they go about their business. Both Gibb and Shah point out that NGOs are not independent as they depend on the government or corporate for their funding.

3.3 THE DISTRIBUTION OF BUSINESS DEVELOPMENT SERVICES

Bratton, Bennett & Robson (2003:730) classify BDSs into three forms, which are: private-sector suppliers, business associations and the public service providers created or sponsored by government. The private-sector suppliers provide BDSs in a variety of ways driven by market demand, while business associations provide these services to members or are supposed to. It is noted that this classification is very close to Gibson's (2001) model in Figure 3.1.

The policy-driven approach is the supply of BDSs through service centres created in terms of the law. This is the basis of this study as is argued in the next section.

In a later paper Bennett (2008:375) declared that four strands stand out in the supply of BDSs: increasing the rate of business start ups; improving the survival or growth prospects of existing SMEs; improving the general environment for all firms, but targeting effort where most benefit accrues to SMEs (for example, information, skills, access to finance); and reducing the burdens, regulation, and compliance costs for SMEs (for example, by various special tax and exemptions requirements for SMEs).

3.3.1 Defining and contextualising Business Development Services centres

"Service centres" or "one-stop shops" are at the heart of government interventions to provide assistance to small businesses and Levitsky (2000:7) opines that they are suitable for the delivery of BDSs. Levitsky (2000:7) believes that not all service centres have the same organisational form or offer the same products or services.

It was pointed out in Section 1.2.2 that the understanding of "service centre" is a facility that provides basic business development services and, as Matlay (2004:507) and Sievers *et al* (2003:3) opine, it was set up under a national legal framework to provide business development services to small enterprises.

This is exemplified in the creation of the Small Business Development Centres (SBDCs) (Section 3.3) in the United States of America or the Small Business Service (Section 3.3) in the UK.

Pinto (2005:111) contextualises these centres by asserting that they reflect the reform of small business development which is addressed at regulatory level. According to him, "reform" includes creating institutions that provide support to small business and, more importantly he stresses, there should also be relatively easy access to finance and business development services.

Pinto (2005:111) then contends that these are co-ordinated through "one-stop shops". Although Pinto (2005:111) was referring to efforts in the former socialist

economies of Eastern Europe to set up support centres for small businesses, he inadvertently makes the case for service centres.

Stevenson & Lundström (2002:135) and Haskins & Gibb (1987:48) declare that there is a need for “one-stop shops” where the entrepreneur can either conclude all dealings for setting up a business or complete dealings with government in the registration of a new business (for example, the Netherlands Business Counters and Finland’s Employment and Economic Development Centres).

The importance of one-stop shops is aptly illustrated by Van Dijk & Sverrisson (2003:200) who rightfully contend “it is impractical to support” millions of small-scale firms through direct and costly interventions for each”. Service centres are thus needed to deal with entire localities in a cost-effective way as there is ultimately a combination of government funds and interaction by private individuals and organisations.

Another distinguishing feature of these centres is referred to by Matlay (2004:507) and Sievers *et al* (2003:3) when they suggest that the stated objective of such centres is to offer a full range of services to SMMEs in a specific locality.

These service centres occur in many forms and the United States of America was among the first, in an effort to support local small businesses, to create the Small Business Administration in terms of the Small Business Act of 1953. The Small Business Administration was to aid, counsel, assist and protect the interests of small business (Small Business Administration 2008). The Small Business Administration has set up SBDCs.

Gatewood (1997:242) and Chrisman & Carsrud (1991:210) state that there are now about 950 service locations organised into 57 Small Business Development Centre territories – one or more in each of the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands and these offer “one-stop assistance” to small businesses and start ups by providing a wide variety of information and guidance in central and easily accessible locations.

The Small Business Service (SBS) was set up in 2000 as an agency of the Department of Trade and Industry in the UK (SBS 2007:5). The SBS is now

responsible for Business Link, an agency that distributes services to SMMEs. “Business Link” becomes “Business Connect” in Wales and “Business Shop” in Scotland.

Oztel & Martin (1998:265) say the Business Link “one-stop shop” network was launched in 1992 by the UK Department of Trade and Industry “to rationalise the competing and conflicting sources of SME support”.

It must, however, be taken into account that these centres have progressed and mutated into more sophisticated and specialised entities that look at small business development from various perspectives. Sections 3.3.2 to 3.3.2.3 interrogate these service centres in their various formats and roles.

Business Link (Business Link 2005) now assists people to buy or sell businesses; offers advice on taxation; assists with payrolls, and advises on health and safety issues. The point is that Business Link offers a variety of services across the spectrum and hence it maintains that it provides the broadest range of public and private sector business support services at a national, regional and local level.

What is of essence is the fact that Business Link provides this range of assistance while Pinto’s (2005) centres provide only basic services and supports the view that service centres mutate as time progresses and become more comprehensive and sophisticated. This is a function of the business environment as the environment will dictate what needs to be offered to small business.

For instance, Izushi (2005:183) holds that, as many small businesses in Japan have weak research and development capacity, this has been centralised to service a specific locality or industry. What must be noted is that, in this instance, they are privately owned and part of public policy. What is of relevance here is that the Pinto (2005) and Izushi (2005) models are chasms apart, but they are still seen as one-stop shops. However, reference to the Izushi (2005) example is merely to illustrate that the concept of service centres is not restricted to government or basic information.

The definition of “service centres” in terms of this study is entities that provide business development services prescribed by the law to SMMES. The services

are defined in the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a) and other relevant legislation such as the National Small Business Amendment Act, Act 26 of 2003 (RSA 2003:12) and the Gauteng Enterprise Propeller Act, Act 5 of 2005 (Gauteng Provincial Legislature 2005). These entities include NGOs, private providers, educational institutions and government-created organisations.

3.3.1.1 Service centres and local economic development

It is noted that as service centres are located within communities, it is obvious that they should also be at the centre of local economic development. The Department of Provincial and Local Government (Department of Provincial and Local Government 2006:10) states that local economic development encourages local people to work together to achieve sustainable economic growth and development thereby bringing economic benefits and improved quality of life for all residents in a local municipal area.

The World Bank (World Bank 2008) says that local economic development builds up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.

The emphasis of “local” in economic development points to the fact that the political jurisdiction at a local level is often the most appropriate place for economic intervention as it carries accountability and legitimacy. Nel & Rogerson (2005:3) reinforce the fact that government has identified local authorities as agents of change and tasked them to respond to the development needs of their economies.

This is a logical development and does not need debate as this, according to Nel & Rogerson (2005:3), will generate a lot of activity. Taylor & Plummer (2003:558) assert that an appropriate way to encourage local economic development is two-fold:

- Entrepreneurship education which includes management and skills training; and

- Enterprise facilitation which involves getting local communities to participate fully in local economic activity.

It is therefore argued that service centres are an integral part of local economic development and that these centres should then be at the centre [of local economic development]. The Department of Provincial and Local Government has released the "National Framework for Local Economic Development" (Department of Provincial and Local Government 2006:10) which, with 13 guiding principles, must stimulate and develop sustainable local economies. The principles are:

- The developmental state has a decisive and unapologetic role to play in shaping the economic destiny of the country;
- Private companies of all sizes and origins have a crucial role to play in local economic development;
- People are the single greatest resource a nation possesses;
- Local initiatives, energy and creativity will ultimately unlock the latent potential in local economies;
- Confident, active local citizens and communities are best placed to shape their own destinies;
- Local resources – for example, local assets, leadership and skills – are important as external inputs in shaping local spaces;
- Despite the existence of this national framework, locally appropriate solutions and strategies must emerge;
- Urban and rural local spaces both play an important role in the South African economy and society;
- Promoting robust and inclusive local economies requires the concerted, co-ordinated action of all spheres and sectors of government;
- Partnerships and networks amongst all role players – public, private and community – are what will ultimately stimulate robust and inclusive local economies;
- We live in a globalised world whose threats must be minimised and whose opportunities must be exploited;
- Local economic development should occur in a way that promotes sustainable development; and

- Local economic development should occur in a way that promotes the upliftment of women, youth and the disabled.

Needless to add, the above principles are too broad and need to be tightened and sharpened. It is also noteworthy that views by Taylor & Plummer (2003:558) on entrepreneurship education, skills training and enterprise development to get local communities to participate fully in local economic activity can be integrated into this framework.

3.3.2 The typology of Business Development Services centres

According to Levitsky (2000:7) and Massey, Tweed & Lewis (2003:444), there is no single model for service centres as they operate in widely differing situations. Massey *et al* (2003:444) further argue that service centres could be classified by the nature of services they give; in terms of their autonomy, and/or in terms of their level of expertise.

In fact, this view was reinforced when several models of Business Development Service centres emerged at a conference held in Brazil in 1999 (Levitsky 2000). The conference was hosted by the Donor Committee for Enterprise Development. The committee consists of international and national aid, donor and development agencies which include the World Bank Group, the Organisation for Economic Co-operation and Development and United Nations agencies such as the United Nations Development Programme (UNDP) and the Food and Agricultural Organisation of the United Nations (FAO).

Agencies from the developed world such as the US government-controlled United States Agency for International Development (USAid), the Swedish International Development Cooperation Agency (Sida), the UK government's Department of Foreign Investment and Development (DFID), the Norwegian Agency for Development Cooperation (Norad) and the German Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) are also part of the committee.

The Donor Committee for Enterprise Development has initiated BDS Centres in developing countries. Some, if not most, of the BDS Centres set up were models of these agencies or those in their developed countries. These included

Switzerland's SwissContact, the UK's Business Link, the USA's SBDCs, the ILO's Enterprise Development Centres and centres sponsored by the United Nations Industrial Development Organisation (UNIDO).

3.3.2.1 Types of Business Development Services centres in the developed world

The better known BDS Centres are Business Link in the UK, and the Small Business Advisory Centres in the US. Numerous models of these service centres are found in the developed world and in various formats. Lundström & Stevenson (2001:173) state that the support (through for instance, one-stop shops) could also be directed at specific and vulnerable groups, for instance the youth, unemployed people, women, minorities or people with disabilities.

Massey *et al* (2003:442) contend that the New Zealand government started the Biz Training programme with the specific intention of providing training to the country's SMMEs. It provides most BDSs and graduated from a New Zealand version of the one-stop shop. Previously New Zealand had the Business Development Boards, a network of service centres which delivered the business development programme.

This programme had four components: preliminary business assessment; business training as identified in the assessment; access to grants for innovation, strategy and implementation; and, best practice education and recognition such as business development quality awards.

Stevenson & Lundström (2001:57), also stressed that the US now has a second generation series of service centres, the sector-based, "one-stop shops", while Australia was opening "first-stop shops" that are basic entry and referral points specifically for start ups. Sweden has "Startcentrum" which are also start-up centres for unemployed people.

Sugiura (2002:349) says that the Keiretsu-type relationship in Japan is now being reviewed as the country reviews its policies in the supply of business development services to SMMEs. This relationship saw concentric rings of suppliers and suppliers-of-suppliers develop around a major corporation. The corporation purchased from these, but also supplied services such as finance and accounting.

Interestingly, Sugiura's (2002) Keiretsu-type relationships were a progression from among others the Testing and Research Centres in Japan which controlled and nurtured small and medium-sized enterprises in the motor industry. Ruigrok & Tate (1996) hold that these were responsible for creativity and innovation in the industry.

Kienzle & Shadur (1997:2334) maintain that there were advantages in Keiretsu-type alliances, including "access to low-cost and long-term financial assistance, management and technical support and the likelihood of regular orders from the parent arm". However, as soon as the economy took a turn for the worse, the relationships between the big companies and their small suppliers soured as the big entities went on cost-saving exercises which resulted in them reducing their support for their small suppliers.

Harvie & Lee (2002:252) further suggest that the Korean government has established a network of small merchants' and industrialists' support centres in 14 locations across the country to support business foundation skills for SMMEs (Harvie & Lee 2002:252).

Furthermore, an analysis by Pietrobelli & Rabelloti (2002:28) in three regions in Italy reveals that there were 30 service centres. Of these, 14 service centres provide services to several sectors while the rest were uni-sectoral and serviced the following sectors: agro-industry, hosiery, glass, bio-medical, metal work, plastics, wood, ceramics and footwear. Fifteen service centres were located inside industrial districts and the rest were located outside industrial districts.

3.3.2.2 The spread of Business Development Services centres in the developing world

BDS centres are found in the developing and transition economies (formerly communist countries) as a result of the efforts of the Donor Committee for Enterprise Development. As can be expected, they are a replica of those found in the developed world and/or models developed by international agencies. The assumption could be that they are also appropriate for the developing world.

Sievers *et al* (2003:3) refer to centres set up by UNIDO and the UNDP in transition economies. Bucharest in Romania has UNIDO business centres which are operated by private consultants and offer advisory services.

There are ILO-sponsored Enterprise Development Centres in a number of South American countries whose function is to help SMMEs identify their needs and advise them. They also offer referral services. Russia has business service centres sponsored by USAid and these provide support services to SMMEs but also try to develop strategic alliances with other organisations that offer support.

Other countries in the developing world use various outlets, in which the enterprise agency is a recurring feature, to deliver BDSs. Amha & Ageba (2006:310) opine that skills development centres, NGOs, Chambers of Commerce and other public institutions facilitate the delivery of BDSs in Ethiopia. Amha & Ageba (2006:312) further contend that if one wants to make BDSs more market orientated, the following apply:

- Identifying the BDS needs of SMMEs;
- Designing a product that will satisfy the needs; and
- Developing effective strategies to the BDS programme.

In this instance, the skills development centre in Ethiopia becomes the BDS Centre and concentrates on skills development as the name suggests and the market takes care of the rest.

3.3.2.3 Diversity and overlap of Business Development Services centres

It is evident from Sections 3.3.2 to 3.3.2.2 that BDSs appear in many forms and there are no common formulae on which they are based, which reinforces suggestions by Massey *et al* (2003:444) that BDS centres could in general be differentiated in terms of the services they give, their autonomy and/or their level of expertise.

The argument that immediately comes to the fore is whether the BDS centres still operate in terms of their original mandate of providing basic services to start ups,

and new or growth businesses. This has fundamental implications as there is a gap between the developed and developing worlds. It also brings into question to what extent the models being exported are of relevance in the developing world.

It is opined that the time has come to differentiate between BDS centres in terms of those providing basic services and those assisting mature entities to gain a competitive advantage, as is the case in Italy in terms of the Pietrobelli & Rabelloti (2002:28) study. The two are not mutually exclusive but such a distinction will add value in the current debate on whether BDSs should be supply driven or demand driven.

It is clear to the researcher that second generation one-stop shops, incubators, research and development, and even the sector programmes, should be excluded from the present study. In accordance with assertions by Bennett (2008:375) in Section 3.3 that four strands stand out in providing services; it is maintained that BDS centres need to assist entities that fit into the criteria below if they are to be relevant to the basis on which they were created:

- Start ups;
- Less than five-years old;
- Turnovers of less than R1 million per annum;
- Ailing entities of less than five-years old in designated areas.

It is assumed that the above would include providing specialist services to women, youth and people with disabilities and other groups that need targeting like people in rural areas.

Additional support for the above contention is that entities need to be weaned off BDS support at one stage or another. If entities continue to be on “life support”, as this is what it means, many may want to remain on this life support because it is cheaper and easier than trying to survive in the open market when they already qualify for the open market. These entities then become “free-loaders”.

Furthermore, the situation in the developing world is different from that in the developed world and BDSs must enable the informal entities that make up the business community to become more formal. To introduce BDSs that provide more sophisticated assistance than basic help also results in “crowding out” and is discussed further in Section 3.5.

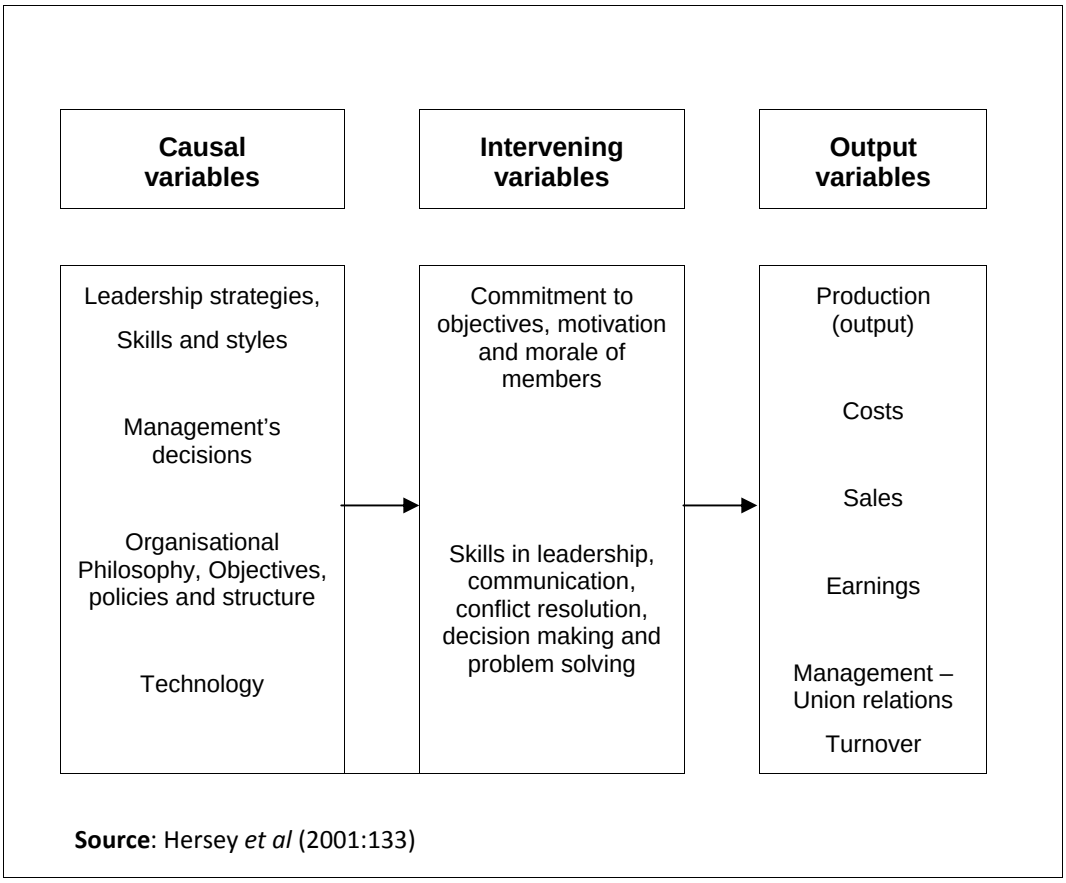
3.4 THE ENVIRONMENT AND THE DELIVERY OF BUSINESS DEVELOPMENT SERVICES

Ligthelm & Cant (2003:41) Section 2.3.2 classified problems that faced a sample of Gauteng businesses as “economy based”, “industry related” and “firm linked”. It is now argued that the same issues affect the delivery of BDSs by service providers and, to add to this, there are other forces flowing from the interactions in the market that impact on service provision. The next section deals with these processes and how they impact on service delivery.

It will be recalled that Butler (2006:237), Pretorius (2003:275) and Kennerley *et al* (2003:237) opined that intervening variables abound in the business environment and impact on processes. Porter’s (2008) five forces model (Figure 2.3) and Henry *et al’s* (2003) model (Figure 2.4) show the causes of the variables and that most of the time the general business environment is not small business friendly.

In Figure 3.2 Hersey, Blanchard & Johnson (2001:133) reinforce contentions by Bridge *et al* (2003:53) and Hjalmarsson & Johansson (2003:83) that internal and external variables influence the provision of services to SMMEs and thus influence outcomes. In fact, Bordens and Abbot (2008:98) believe that in causal relationships one variable directly and indirectly influences another. The indirect influence is at issue here as the variables are intervening and not necessarily made to intervene.

Figure 3.2: Rensis Likert's causal, intervening and output variables



Source: Hersey *et al* (2001:133)

In Figure 3.2 the "causal variables" refer to the objectives or mandate of the organisation or programme. The "intervening variables" are influences or elements within the organisation such as morale and commitment. In terms of the explanation by Bridge *et al* (2003:53), it suggests the "dependent variables", at which the mandate or objectives are directed, will respond in differing ways because of the "intervening variables".

After all, commitment and morale are not constants. One person could, perhaps, be more motivated than another on a programme. To this end Ho & Mula (2004:4) suggest that the ultimate performance of the SMME "is the outcome of the interaction between strategic (controllable) and environmental (uncontrollable) factors". They encapsulate what is generally accepted in the economy.

If Ho & Mula's (2004:4) assertion is related to the service centre and its clients, the "organisational variables" referred to are the environmental variables within which the service centres and SMMEs operate. This is an "environment within the environment" referred to in the Porter (2008:4) model. In this environment within another, effectiveness in the provision of business development services becomes unpredictable because of these intervening variables.

3.4.1 The variables that impact on the provision of services

The "intervening variables" in Figure 3.2 include traditional practices or cultures. Lambrecht & Pirnay (2005:91) refer to several barriers in the provision of service by external consultants to SMMEs. Lambrecht & Pirnay (2005:91) group these barriers into "demand and supply" constraints.

Lambrecht & Pirnay (2005:91) further posit that the "demand-driven constraints" include the characteristics of both entrepreneur and enterprise in the use of consultants. For instance, they quote from research conducted by Smallbone and others in 1993 who opine that entrepreneurs with higher educational qualifications are more likely to use external consultants. This makes sense as better educated entrepreneurs would understand the importance of using consultants when necessary.

Lambrecht & Pirnay (2005:91) identify supply-side problems as "adverse selection", when the consultant serves his own interests rather than those of the client. Other supply-side problems, Lambrecht & Pirnay maintain, are aggressive sales selling, abandoning the SMME, cultivating a dependency relationship and they cite research by Donckels in 1992, Boschaart in 2001 and Soriaro and others in 2002 who expressed similar sentiments.

These dynamics express themselves in various ways and influence the SMME-Service Centre relationship. They include the following and this list is not exhaustive:

- The fact that solutions being provided to SMMEs were initially aimed at big organisations;

- The phase of growth of an organisation determines the services that are needed;
- SMME and BDS heterogeneity;
- SMME attitudes to education and training; and
- The target market also determined the type of intervention.

These aspects are now explained to give a clearer perspective as to how they create constraints or become constraints.

3.4.1.1 An SMME is not a small "big organisation"

One of the supply-side constraints that can immediately be identified is that service centres and other providers of services use models and programmes designed for big organisations. Yet, Culkin & Smith (2000:150) quote from previous research and say: "SMEs need the same level of knowledge and technology as large organisations, but their capacity to receive and adapt is weak…"

Culkin & Smith (2000:148) then state: "…Smaller businesses – although they have a simple structure – often exhibit highly complex attitudes and behaviours. First, of course, there is an alarming variety of small firms who are particularly difficult to categorise. Second, they will often be 'personality driven' in a way that larger organisations are not. In other words, understanding the context, attitudes and behaviour of the individual small businessperson becomes equally important as understanding their business".

Thus arguments that "a small business is not a small 'big business'" have greater credence. For instance, the ILO (2004:1) and Billet (2001:421) further assume that organisations of different sizes face differing obstacles. The ILO (2004:1) states that small businesses have different needs because they face different obstacles.

According to Billet (2001:421), "Approaches to learning in and training for small business fail to take into account the reality of small business; instead they reflect large business or industry needs. For example, a general criticism of small business management courses is their adaptation of big business management theory and practice".

Billet (2001:421) continues to assert that small businesses are "kinds of enterprises that have particular operational characteristics and needs…" Welsh & White (1981:1) endorse this when they warn that management of a small business is a distinct discipline characterised by severe constraints on financial resources, a lack of trained personnel, and a short range management perspective imposed by a volatile competitive environment. The analytical models applicable to big business are of limited use in this arena, they feel.

Arguments by Billet (2001:421) suggest that analytical models must be based on these "operational needs and characteristics" as Welsh & White (1981:1) rightfully point out that analytical models applicable to big business are of limited use in the SMME community.

Yet, it is these programmes that the providers of business development services use when advising SMMEs and it suggests that programmes for small business must be SMME specific so that they accommodate the needs and characteristics that Billet (2001) refers to.

Additionally McAdam (2000:317) points out that when models applicable to big business are applied to SMMEs, "employees could be constrained with measuring systems, which actually hinder their natural flexibility in the SME context".

McAdam (2000:317) then recalls that in 1998 Chittenden and others also voiced this concern about applying ISO 9000 in SMMEs.

SMEs in McAdam's study (2000:317) concluded that the "balanced scorecard seems more suited to larger organisations…than to smaller close-knit SMEs. It is a good concept but it is too difficult to implement properly in SMEs".

3.4.1.2 How the business lifecycle of an organisation determines the nature of the services required

It is argued that one of the reasons for the ineffectiveness of business development services is that providers do not necessarily differentiate between businesses in various phases of the business life cycle and provide services relevant to that specific phase. This also applies to small business.

This contention is supported by Poutziouris, Binks & Bruce (1999:150), Chrisman & Carsrud (1989:77) and Churchill & Lewis (1983:2) who feel that the specific phase in the life cycle of an organisation determines the nature of the services that are needed. Chrisman & Carsrud (1989:77) differentiate between pre-venture clients and established businesses to make the point that the assistance required differs.

Churchill & Lewis (1983:2) believe that the problems of a six-month-old business differ from those of a mature entity, just as the needs of a business with 15 employees will differ from those of a business with more than 50 employees. For the six-month-old business, cash-flow planning is paramount; for the latter, strategic planning and budgeting to achieve co-ordination and operating control are most important.

Boocock, Loan-Clarke, Smith & Whittaker (1998:183) further declare that larger SMMEs are better placed than smaller ones for education and training. This is echoed by Dabbs, Hall & Muir (2000:137) who note that size is a major factor in relation to the type and level of sophistication of training for SMMEs. They suggest: "…the results suggest that there is considerable evidence, within the Cypriot micro-enterprise sector, for a relationship between the nature of problems encountered and the phase of a firm's development…".

3.4.1.3 SMME and supplier heterogeneity

It is postulated that the fact that the SMME population is heterogeneous and suppliers are also diverse creates constraints. Westhead & Storey (1996:21) point out that the suppliers of services are numerous and each has his or her own way of doing things. They assert: "Some training may focus upon developing particular functional skills; others may focus upon SMEs at particular business development phases – start ups, growth businesses, for example. Some training is provided by public organisations such as universities and colleges, whereas for other courses it is provided by private-sector training consultants. Some courses are for one day or less, whereas others are in a distance-learning format or taken over a long period of time."

In contrast, the SMME community is also numerous and highly heterogeneous. This then suggests BDS Centres must provide services to their SMME clients – yet these solutions may not necessarily be appropriate to all clients.

Bennett & Robson (1999:159) differentiate between different types of advisors and the levels of trust that exist between the advisors and their SMME clients. They expostulate that institutional advisors such as lawyers and bankers enjoy a high level of trust because of the self-regulation in their professions. Consultants, using reputation, branding and recommendations, enjoy a higher level of trust while public-sector advisors have a lower level of trust which depends on marketing and access to grants.

In the view of Johannisson (1992:98), there is a distinction in orientation between entrepreneurs, artisan owners/managers and professional managers. This orientation is relevant in that it enables BDS Centres to better know the type of clients they are dealing with. For instance, the true entrepreneur is a “creator” while the artisan is an “imitator”. Their approach to training differs: the entrepreneur tries to find opportunities in change while the artisan wants to understand state-of-the-art production. Table 3.1 reflects that the artisan is less questioning than the entrepreneur and the professional manager.

It must be noted that views by Johannisson (1992:98), when addressing the heterogeneity and differentiation of the SMME community, complement each other and they also bring in the internal dynamics referred to in Likert’s model (Hersey *et al* (2001:131). Thus, it is again necessary to make the point that although this heterogeneity and differentiation do not necessarily suggest or reject complementary relationships, contradictions or conflict with each other, it does affect the delivery of training to SMMEs.

Table 3.1: Johannisson's comparison on training orientation between entrepreneurs, artisans and professional managers

	Entrepreneur	Artisan owner/manager	Professional manager
Mission	Urge to create	Independence	Planning
Environment orientation	Vision and action	Action	Planning
Risk orientation	Ambiguity management	Risk avoidance	Pro-action
Time orientation	Synchronicity	Time as an irritant and reminder	Time management
Focal resources	Social	Physical	Financial
Generic competence	Intuition	Imitation	Professional experience
Education and training	Organic, qualified practice	Formal and practical	Institutionalised
Source: Johannisson (1992:98)			

3.4.1.4 SMME attitudes to training

While governments are creating institutions for SMME support and development, it remains to be seen how many SMMEs welcome these interventions. Lange, Ottens & Taylor (2000:515) expostulate quite persuasively that there are four internal barriers to the development of skills:

- Cultural – which include primary attitudes towards skills development;
- Financial – which refer to those barriers directly relating to the perceived cost of training and learning;
- Access and provision barriers – which refer to problems which either prevent interested parties from accessing skills development opportunities or manifest themselves in the lack of suitable provision learning; and
- Awareness barriers – which relate to knowledge of learning opportunities.

Their view makes sense and, in fact, the four internal barriers are also some of the major constraints that affect survival and growth of SMMEs worldwide.

Wyer, Mason & Theodorakopoulos (2000:249) confirm this when they say: “Within the small business, owner-manager motivations, attitudes, values and/or abilities can be constraining… Instances are abounding where the owner/manager does not want to place key workers in positions whereby they can question his or her authority; or information or knowledge may be jealously guarded because it is regarded as sacred to the business”.

Chaston, Badger & Sadler-Smith (1999:36) further suggest that SMMEs are “constrained by their very limited ability to either acquire adequate information from external sources and/or utilise such information to evolve new operational practices”.

Boocock *et al* (1998:184) add a rider to the view by Chaston *et al* (1999:36) when they say that SMMEs are loath to train employees. Their fear is that trained employees may leave them for somebody else and their investment could benefit a competitor.

Boocock *et al* (1998:180) note that the broadening opportunities to acquire knowledge and skills have not been met with enthusiasm and positive action as SMMEs remain unclear about the value of training in general. Even though the value of training could be accepted by many, SMMEs do not see it as a priority.

Storey (1994:189) further postulates that for many small businesses there is no readily available proof that links the success of an SMME to training. Yet, Chrisman & McMullan (2004:240) and Boocock *et al* (1998) confirm there is causal link between successful SMMEs and training.

When the assertions by Lange *et al* (2000:515) and Wyer *et al* (2000:249) are contextualised within Likert's model, it illustrates the impact of internal dynamics in an organisation even if the organisation is an SMME. These internal dynamics, which reflect the internal environment, thus impact on the efficiency and effectiveness of business development support services.

3.4.1.5 The nature of the target market determines interventions

Sriram, Mersha & Herron (2007:237) and Haan (ILO 2001a:17) say that training in the informal sector is fundamentally different from that in the formal sector. In fact, and on a much broader scale, Lapide (2008:8) and Hultén (2007:257) contend that market segmentation is an appropriate way to match supply and demand.

Lapide (2008:8) and Hultén (2007:258) believe that it optimises profitability and at the same time retains customers. It is, however, not that simplistic as these authors opine that it also involves taking psychographics and behaviours into account in the geographic or demographic segmentation. As segmentation is in itself complex and falls outside this study, it is examined here in terms of the differentiation of markets for effectiveness in distributing BDSs.

Thus the informal and formal sectors require different forms of assistance programmes for them to perform optimally. Growth SMMEs should also be differentiated from informal micro enterprises when providing assistance as is argued below. The focus on the formal and informal sectors gap is important, moreso as Liedholm & Mead (1999:84) recall that different types of small entities

have different contributions to make and, it is argued, will need differing forms of assistance.

According to the ILO (ILO 2008a:1) the Fifth International Conference of Labour Statisticians conceived the informal sector as consisting of very low productivity units that are mostly indistinguishable from households and do not offer contractual employment. Fajana (2008:378), ILO (2008b:1), the Global Development Research Centre (2008), Munbodh (2003:5), the World Bank (2001:13) and Morris, Pitt & Berthon (1996:62) reinforce this view when they say it is characterised by unregulated and competitive markets; small-scale operations with individual or family ownership; ease of entry; reliance on locally available resources, and labour-intensive and adapted technology.

The ILO (2008b:1) states “because of the heterogeneity of the informal sector, and its multiple dimensions, conceptual and statistical definitions of this sector are not as clear-cut as one might expect.” This strengthens Munbodh’s (2003:5) declaration “that it is a heterogeneous sector operating in a number of fields offering products at low cost and situated reasonably near its consumers.”

Fajana (2008:378) and Morris et al (1996:62) clinch it when they assert that the informal sector includes people who are desperate for jobs and will do anything to earn money and, secondly, it operates outside the realm of taxation, registration of business and other regulations that affect the business community.

A poor education or low skills endowment and even no skills is one of the reasons for the low productivity of these entities. In the South African context the problem might be alleviated by linking Adult Basic Education and Training literacy courses to BDS support.

Flowing from the above, it can be confirmed that the nature of the market determines the necessary interventions. Thus, interventions that are inappropriate for a market will not be effective.

3.5 CURRENT DEBATE ON THE DELIVERY OF BUSINESS DEVELOPMENT SERVICES

Harper (2005:viii), Schmitz (1998:38), and Steel, Tanburn & Hallberg (2000:39) believe that the distribution of BDS centres should be "demand driven" as opposed to the "supply-side approach" in which government provides subsidised services directly or through intermediaries. They are demand driven when SMMEs specify what they want and supply orientated when officials decide what they need and they provide it.

The Committee of Donor Agencies for Small Enterprise Development (2001:v) argues that the debate on the delivery of business development services can be traced back to conferences in Harare (in 1998), Rio de Janeiro (in 1999) and Hanoi (in 2000). These were called to determine best practice in the delivery of services as there were problems with the current supply-driven procedures.

The end result of these conferences and other interactions (Committee of Donor Agencies for Small Enterprise Development (2001:1) resulted in the determination of the guiding principles which reflect:

- A fundamental belief in the principles of a market economy, where the state has a role in providing an enabling environment;
- That business development services are private goods and similair to any other service and market rules; and
- The expectation that with the appropriate product design, delivery and payment mechanisms, business development services can be provided on a commercial basis even for the lowest income segment of the entrepreneurial small business sector.

Harper (2005:viii), Schmitz (1998:38), and Steel, Tanburn & Hallberg (2000:39) declare that the supply-side approach is lacking as markets become distorted when services are provided on the basis that clients cannot afford or the services are a "public good".

A "public good" is defined as a good that is available to all on a non-excludable basis such as defence or air (Wikipedia 2009: sv "public good"). Economist Paul Samuelson is credited as being the first to develop a theory of "public goods"

which he described as "…goods which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtraction from any other individual's consumption of that good…".

Schmitz (1998:38) further asserts that attempts to provide non-financial assistance on a "supply-side basis" suffer from three deficiencies:

- They are supply orientated and are not focused on who would buy the services;
- They are rarely sustainable as the cost of reaching out to a multitude of small firms is prohibitive and cost recovery is very low; and
- They tend to have a "once-off effect" on the part of assisted enterprise; rarely leading to a better capacity for self-help and continual improvement.

SwissContact operates in this context as the International Finance Corporation (Hallberg 2000:15) claims that SwissContact attempts to develop commercially viable and sustainable institutions that provide marketing and technical assistance services to SMMEs. The International Finance Corporation states: "The philosophy of SwissContact is that the development of business institutions takes place in an environment which employs "real" market and business conditions, and not in an environment that relies on subsidies" (Hallberg 2000:15).

Harper (2005:xi) has developed a table (Table 3.2) that compares the demand-led and supply-led approaches.

Table 3.2 illustrates the benefits to be derived from the neo-liberal approach. While this approach is quite progressive, it needs closer scrutiny. There is nothing new in the "new paradigm" and it merely endorses an ongoing debate on the sustainability of small businesses.

This was evident even in the late 1990s when Lean, Down & Saddler-Smith (1999:610) argued that the UK government put pressure on Business Link to at least meet 25 % of their costs. The issue is: "Is it really possible to have BDSs that are 100 % market driven?" – particularly when Gibb (2006:265) maintains that the agencies have been sustainable in their home countries because of government grants and subsidies.

Table 3.2: Harper's (2005) comparison between approaches to provide business development services

Aspect	"Old style" development finance to "new" paradigm micro finance	"Old style" business assistance to "new" paradigm BDS
Sustainability of provision	Permanent subsidisation replaced by temporary start-up subsidy leading to sustainability	Permanently subsidised replaced by enhanced existing indigenous provision, pump-priming subsidy, and developing service markets
Cost of service	Grants, cheap loans and other free services replaced by market-priced savings and credit products	Narrow range of high-quality, high-cost services with subsidised delivery replaced by larger range of market driven and market-priced services delivered at quality price determined by users
Clients	Large and often ill-targeted poverty elimination schemes replaced by direct tailor-made provision to the poor through small groups or individually	Official public sector providers reaching a few businesses replaced by private sector providers to reach businesses that need their services

Aspect	"Old style" development finance to "new" paradigm micro finance	"Old style" business assistance to "new" paradigm BDS
Poverty impact	Short-term benefits often hijacked by intermediaries replaced by long-term vulnerability reduction and income increases for large numbers	Few benefits to a minority of businesses replaced by long-term benefits to providers and clients indirectly benefiting the poor through job creation
Gender impact	Majority of male beneficiaries replaced by females	Mainly male clientele replaced by general SMME population with no specific gender target
Services provided	Integrated development programmes including, for example, standardised grants, cheap loans, training, replaced by tailor-made loans and savings products usually on a minimalist basis without non-financial services	Limited range of business services replaced by facilitation of providers of every service that businesses need and that can be delivered on a commercial basis
Source: Harper (2005:xi)		

In any case, the supply side is not that bad as, in a paper presented in 2000, Bateman (2000:149) feels that the new trends seem to overlook the positive role the state and its agencies played in many of the economic successes of the past.

Bateman (2000:150) specifically refers to the rise of Asian economies as a result of state intervention. He sums up his debate by stating that fairness, equity and a commitment to social welfare were key ingredients in the role the state played in the provision of business development services to all who were interested.

It can be argued that these contentions are similar to those made for compulsory free basic education or free basic medical services. At the end of the day, cogent arguments can be made that BDSs are as key as education and health – moreso for unemployed adults.

Chrisman & Carsrud (1991:210) point out that the SBDCs in the United States were started in order to offer free managerial assistance and new ventures. They believe that many of these small businesses could not afford the services of private consultants. At the end of the day it is the right of each and every individual to make a living and BDS Centres assist people to start their own businesses.

In any case, returning to the main thread of the discussion, a few points in some of the arguments above by the protagonists of the “new paradigm” must be responded to. One of the points made is that the market is distorted. The protagonists of the new paradigm seem to ignore the fact that the presence of participants of unequal strength does distort the market.

Hence, Gibb (2005:263) feels: “to depend upon market mechanisms when the institutional supply side may be substantially asymmetrically distorted in favour of corporate players or big players will not solve the problem of sustainability.”

Gibb’s (2005) assertion is accurate as this is why government introduced an enabling environment. Now to the three “deficiencies” to which Schmitz (1998) refers and the following must be debated:

- They are supply orientated" – it must be argued that there are several markets. The first is the pre-venture participants and another is the micro enterprises market. These should be differentiated from the "growing small businesses" market. The "growing small businesses" would be in a position to differentiate between various products while the micro enterprises and pre-ventures need basic information.

Basic information is not supply- or demand-orientated as it is "basic information". It is "life skills" and should be readily accessible when needed and at very reasonable cost.

- "They are rarely sustainable" – It is contended that providers operating in markets where annual revenues are less than R50 000 can hardly be expected to be sustainable. After all, if the R50 000 is broken down it means the turnover of some entities is about R4 000 per month. This is turnover and, if profit is calculated on a best-case scenario of 10 %, profit is about R400 per month.

The mooted BDS market could thus be ideal for the growing small businesses. However, critical mass is a major factor. Furthermore, Bratton *et al* (2003:735) feel that critical mass is also needed for the variety of services, number of transactions and number of clients. This suggests mass volume and it is doubtful if developing world SMME markets can cope.

- They tend to have a "once-off effect" – this once-off effect is what is important as it introduces the client to BDSs. The more sophisticated clients, on realising the value of the service, will make use of the market system.

Harper's (2005) contentions – Table 3.2 – must be challenged as he uses the "one-size-fits-all approach". The following applies:

- Sustainability – the permanent subsidisation of small businesses is a result of the state of development in countries.

Most rural areas, specifically in South Africa, do not have the resources or the market to sustain even one service provider. The benefits of the new approach may apply in Johannesburg, Pretoria, Durban and Cape Town; and in the market of sophisticated SMMEs. What about the rest of the country?

- Cost of service – the narrow range cannot be broader as this is basic information for first-time entrepreneurs and micro entities.

This lower end of the market needs basic skills and information and does necessarily need access to a broad range of products.

- Clients – official providers reaching a few people.

This is obviously a research situation and the problem with the conclusion is that it is misplaced. The problem is not of reaching a few, but of targets not being set and there being inadequate monitoring.

- Poverty impact – in terms of business development services, the benefits would be the number of people introduced to entrepreneurship and the long-term benefits are for the more sophisticated market of growth businesses;
- Gender impact – There is no scientific proof that the traditional approach actively discriminated against women; and
- Services provided – there are at least two markets. The more sophisticated market needs a variety of services and a service provider with a broad spectrum of products will not necessarily survive in a market consisting mainly of micro enterprises or start ups.

Notwithstanding, the new paradigm has its merits. After all, Suzuki (2002:80) aptly posits that three observations support this: the content of private-sector training is more likely to be SME tailored than that of the publicly funded entities; trainers are quality conscious; and trainers are better paid and this attracts better qualified and more competent people.

This does not mean business development services provided by public entities must be done away with. Instead, the “new paradigm” should exist side by side with the traditional supply-side approach as the two are not mutually exclusive. Indeed, Harper (2005:ix) recommends that a market-driven approach could be replaced by a limited period of subsidies.

It is difficult to envisage a time when the demand-side approach is supreme, not when there is no evidence that the UK and US one-stop centres are now self-funding. If the one-stop centres in developed countries are not self-funding, as

postulated by Wichmann & Boze (2007), why the expectation that those from developing countries should be?

True, the publicly funded programmes have not necessarily been a financial success, but they were not intended to be so. They serve a specific need of ensuring there is access to business development services for people who cannot afford to pay, locally and in more remote areas.

The micro and first-time entrepreneurs need publicly funded support and the more sophisticated enterprises can go into the BDS market. Alternatively, the micro enterprises could be subsidised with coupons and they then pay any difference.

It has to be considered that the “new” market approach is also not necessarily a success story. The results where it has been tried have been mixed. For instance, Caniëls, Romijn and Ruijter-De Wildt (2006:426) and Sievers *et al* (2003:8) confirm that the new paradigm has had its shortcomings. Sievers *et al* (2003:8) point out the Russian business service centres did not succeed in recouping all of their costs – with the best at 70 % and some as low as 50 %. Most struggled when USAid support dried up.

Caniëls *et al* (2006:426) point out that while there has been spectacular success in some respects, many small enterprise programmes based on this new philosophy continue to struggle. They say that a conference in Turin accepted that the new approach has not been effective for the poorest sections of the small enterprise community. It is evident, they continue to assert, that not enough is understood about making business development services effective.

Hence, Bateman (2000:145) suggests that the local government-initiated service agency would have been better suited for the transition economies rather than the market-driven new paradigm. He lists several factors and the first makes the point that, as international funding comes to an end, all the business service centres in the transition economies are deteriorating rapidly.

The other factors are:

- There was an understanding that local government would participate as international funding was phased out. However, apart from the scarcity of resources, local governments were not willing to

participate fully in a structure they could not control because of its market economy founding principles. This was the case even with governments that were market orientated;

- The stress on self-sufficiency has driven the service centres to seek paying clients and the marginal SMMEs have been abandoned. This can be contrasted with problems at small business institutes in South African universities as illustrated in Table 5.3, where an institution needed 100 % funding. Universities cannot afford to provide free or subsidised services *ad infinitum*. Bateman (2000:145) further makes the point that the search for profitable business opportunities has resulted in the neglect of the vital wider local economic development externalities arising out of SMME development activities such as the development of local technology;
- There has been a sidelining of local government small business development capacity as a result of the new paradigm. Initiatives by local government have now simply atrophied. This has been to the disadvantage of local SMME communities who cannot afford the new market-driven service providers; and
- Contrary to declarations that the BDS Centres in the transition economies are doing quite well, closer examination reveals that the operations are problematic (Bateman 2000:148).

Bateman's (2000) views are reinforced by Sievers *et al* (2003:6) who postulate that while SwissContact claims success as cost recovery is high; considerable non-financial support has not been costed and taken into account. Furthermore, in terms of the papers presented at the Brazil conference, not all of the payments to the centres by clients match the subsidy.

This, however, does not mean that the market for business development services has not been growing. For instance, the Enterprise Development Centre project in Costa Rica has grown from 300 clients in 1996 to 698 in 1998 (Tabuenca & Llisterri, 2000:128). Part of this growth has been repetitions of up to 50 %. The point being made is that some of the Enterprise Development Centres are receiving some market share and not necessarily breaking even. Others, in terms of the study, are simply not sustainable.

It could be further pointed out that, as some of the service centres concentrated on clients that could afford to pay for the service received, as argued by Bateman (2000) above, the gravitation by service centres towards customers that are more affluent and a proliferation of new products and services is not in itself a negative factor.

Indeed, Kaplan & Norton (2004:36) feel that organisations must "ring-fence" problem customers; find and look after those that pay and even see to what extent they can obtain financial support from the customers that can afford to pay. This is fairly widespread in the business environment as most businesses avoid dealing with non-paying customers.

Of concern in the provision of BDSs is that the "ring-fenced" customers must still be serviced, and this is where publicly funded initiatives come in.

Levitsky (2000:9) believes that there are also two schools of thought on service centres. The one proposes that the concept is appropriate in provincial areas where there are not many businesses. In major cities or business districts a market for BDSs should be developed so that the services are provided by consultants on a "market-needs basis".

This assertion also misses the point. Service centres were set up to provide most services under one roof. The level of sophistication of many – even in the major cities – is not that high and suggests that the "most-services-under-one-roof" approach is beneficial. After all, small business does not have the luxury of resources and time.

Secondly, South Africa's idea of service centres was to address the imbalances of the past where there were no business development services in most parts of the country. True, service centres are needed in the provincial towns but it does not mean that people in the cities, moreso those in squatter camps, would not find them useful.

3.5.1 Africa and the future of Business Development Services

A further concern around the debates is the extent to which they are relevant to the developing world, moreso Africa. Secondly, will the developing world ever

match the developed world in the support of SMMEs or come close? It must first be noted that the entry of service centres such as SwissContact, Enterprise Development Centres, UNIDO and the SBDCs, to name a few, will in principle benefit the developing world.

After all, the developing world still has to deepen capacity in SMME support strategies and thus strengthen their economies. The importation of brands such as Business Link in the UK and the SBDCs in the US will help attain this objective. The downside is that knowledge creation on SMMEs in the developing world will still be premised on systems in the developed world.

Ringberg & Reihlen (2008:927) and Gibb (2006:265) suggest that knowledge transfer is multidimensional and to a great extent also depends on the recipient and his or her environment. Gibb (2006:265) cautions that care must be taken when importing systems from other parts of the world.

Gibb (2006:265) believes discontinuities have been created in the developing world with the importation of advanced systems as these are landed on cultures that are different from the home country. Pérez-Nordtvedt, Kedia, Datta & Rasheed (2008:733) endorse this view and add that these discontinuities could be overcome by the determination of recipients to learn, the attractiveness of the source or the project and relationships.

In terms of this study, it is a question of to what extent it relates to the inner sensitivities of locals in a practical sense. This suggests that when programmes are imported they must then be linked to a research programme that ensures that local conditions drive it and in the process local knowledge on the programme is created.

Better still; the developing world must work harder to develop its own programmes which are founded on their knowledge of their own environment. These can then be benchmarked against the older systems and synergies exploited.

To return to the main discussion, allied to this is the development chasm between the developed and developing world and, unfortunately, small business support is more au fait with modern systems. Although the primary purpose of service

centres is to provide BDSs to small business, it goes without saying that service centres and SMMEs must be on the information technology “highway”.

This is urgent: already Lundström & Stevenson (2001:169) refer to online portals in the provision of services. Mutula (2005:128) and Fors & Moreno (2002:203) declare there is no choice for Africa and emphasise this point when they debate that without an educated information-and-communications-technology-aware population, no community can fully participate in the networked world.

Mutula (2005), speaking at an international conference, detailed the gap in terms of literacy skills, literacy levels and the paucity of regional specific research. Fors & Moreno (2002:203) reinforce this point when they hold out for a “bottom-up” approach in development strategies for the developing world. This approach suggests that development should be based on people, more especially those who have been marginalised or excluded from the development process.

These views by Mutula (2005:128) can also be interpreted to mean that services such as BDS Centres must be technologically based so that communities join the information technology “highway” while views by Fors & Moreno (2002:203) restate assertions that importing programmes must have a bottom-up approach to them as debated earlier.

3.6 CONCLUSION

It can be concluded that this chapter reinforced the fact that, unless there are urgent interventions, the interests of the start ups and new SMMEs that are less than five-years old may fall by the wayside because of global competition that now sees government intervene and use BDS Centres.

It is urgent that BDS Centres be standardised and concentrate only on assisting new entrants and the unemployed. Older entities can be part of a BDS market that can be developed. Also, the new parading is a rehash of old arguments and there is nothing new. It is acceptable that the supply of BDSs should be demand driven but it must be noted that this must apply to mature businesses and not to new ones.

Chapter 4 will evaluate and determine various methodologies that have been used to measure the impact of BDS Centres. In Chapter 2 and this chapter it was argued that there were intervening variables. Chapter 4 will look at how these intervening variables can be isolated so that impact evaluation can be undertaken to ensure that services are effective.

CHAPTER 4

EVALUATING AND DETERMINING THE "EFFECTIVENESS" OF BUSINESS DEVELOPMENT SERVICE CENTRES

4.1 INTRODUCTION

The previous chapter described service centres in the context of delivering BDSs associated with public policy. It was shown that there are intervening variables in the environment and these impact on the effectiveness of BDS Centres in assisting their clients, the small- and micro-businesses.

Government policies and programmes must be evaluated to ensure that they meet their objectives in bettering the lives of people. This also determines the return on investment as Government cannot afford to throw scarce resources into a bottomless pit. This affects its relations with the population or when elections are held.

This chapter interrogates the evaluation of the effectiveness of policies and programmes. It introduces an understanding of "effectiveness" as will be used in the present study and how this effectiveness is evaluated. It is evident that evaluation, or a systematic examination, is similar to research but it has its limitations in ensuring the validity and reliability of the findings.

This chapter also looks at how various methods of evaluation have their downsides and how these can be improved. It ends by introducing the "surrogate measures" or "indicators" that facilitate the evaluation of effectiveness. It is these indicators that will ultimately be used as variables in the questionnaire when the market is being interrogated on the effectiveness of the BDSs that were delivered.

4.2 EVALUATING "EFFECTIVENESS"

It is argued that before entering into the thrust of discussions a common understanding of "effectiveness" in the context of the present study should be established as "effectiveness" is a generic term that applies to numerous situations.

4.2.1 An understanding of "effectiveness"

"Efficiency" and "effectiveness" are used interchangeably and, as the present research probes "effectiveness", the two need to be differentiated. Lubieniecki & Desrocher (2003:42), Veldsman (2002:20) and du Plooy & Jackson (1995:16) feel that "efficiency" refers to doing things the right way while "effectiveness" means doing the right things.

Kelly (1995:26) puts it neatly when he asserts that "efficiency" means resources are well matched with the problem while, in contrast, you can effectively solve the problem inefficiently by tossing an inordinate amount of money at it.

In this instance, "effectiveness" was achieved but "efficiency" was neglected. Neely, Gregory & Platts (1995:80) rightly assert "'effectiveness' refers to the extent to which customer requirements are met, while 'efficiency' is a measure of how economically the firm's resources are utilised when providing a given level of customer satisfaction."

To sum up "efficiency" is about "maintaining a satisfactory relationship between costs and benefits…and "effectiveness" is about "satisfying customer needs" or "satisfactorily meeting objectives". This relates to effectiveness and most authorities stress the customer satisfaction angle on effectiveness as shown below.

According to Fearne & Fowler (2006:284), "'effectiveness' in the construction industry is the extent to which a project is able to deliver against the objectives of building to budget, programme and quality"; while Ferguson *et al* (1999:58) assert "'effectiveness' is when customers in a health resort judge the service to be highly

good; they are satisfied; they are prepared to tell others and they are prepared to repurchase".

Thus, the above researchers are agreed on the meaning of "effectiveness" as "customer satisfaction", a view which is also postulated by Carton & Hofer (2006:47). Carton & Hofer (2006:47) quote Cameron's research undertaken in 1980 that further breaks up the construct "effectiveness" into four performance dimensions. These are: the accomplishment of goals and objectives; the acquisition of critical resources; effective systems and trust, and the satisfaction of stakeholders.

Carton & Hofer (2006:47) make this distinction as they deliberate on organisational effectiveness which, they say, has been the subject of debate in terms of accounting, strategic management, entrepreneurship, balanced scorecard and micro enterprise perspectives. It can reasonably be concluded that the five perspectives all refer to customer satisfaction.

A summary of deliberations by Carton & Hofer (2006:47) and Fearne & Fowler (2006:284) as quoted and Ferguson *et al* (1999:58) show that the accomplishment of goals and objectives, acquisition of resources, enterprise growth, budget control, quality control, repeat sales, word-of-mouth by happy clients and stakeholder satisfaction are all reflective of effectiveness.

As the present study is about the "effectiveness" in the delivery of business development services to SMMEs, it will refer to the extent to which small businesses are satisfied with the delivery of these services and that they contribute positively to their operations. Although the emphasis is on "effectiveness", it is felt that "efficiency" could be assumed in "effectiveness" as budget and quality control are also elements in the evaluation of "effectiveness".

4.2.2 Evaluating the "effectiveness" of service centres

It was pointed out in Section 3.3, that service centres are at the centre of the framework for the delivery of business development services provided in terms of public policy. In Section 4.2.1 the point was also made that "effectiveness" refers to the extent to which SMMEs are satisfied.

It stands to reason that the effectiveness of service centres must be measured through the improved abilities of the SMMEs they serviced. Thus, the OECD (OECD 2003:43), Oldsman & Hallberg (2003:11), Gibb (Lundström & Stevenson 2002:17) and Chrisman & Katrishen (1994:275) rightly assert that service centres are effective if the services they provide result in the increase of start ups, sales revenues, the decrease of small business fatality rates, and the growth and sustainability of SMMEs.

Gibcus, de Jong-'t Hart & Kemp (2007:127) also used growth in employment in a longitudinal study to measure the determinants of growth in start-ups in the Netherlands. According to these authors, employment figures are used as they are standardised and more comparable. The other determinants they mention are "sales", "economic value add" and "size of assets". They maintain that sales need to be adjusted for inflation while the valuation of assets is particularly difficult.

Oldsman & Hallberg (2003:11) point out that there are no set criteria but increases in personal incomes, sales volumes, the productivity per targeted enterprise, and labour force participation are all indicators that play a role in evaluating impact while Chrisman & Katrishen (1994:273) also suggest that a cost benefit analysis should be part of the process.

This is reinforced by the OECD (OECD 2003:43) which states that "effectiveness" must result in an increase in incomes and employment, in tax revenues, improved services and retention of income by local residents. As SMMEs are at the centre of revenue generation it suggests that the increase in incomes also means that revenues increase. Hence the taxes they pay also increase which, in turn, assists government to meet socio-economic imperatives.

The evaluation of the United Nations Conference of Trade and Development's Empretec programme is based on increases in employment, sales and productivity, three of several indicators) as evidenced by two studies in Ghana and Brazil (Sebrae 2002:24). According to Sebrae, 71 % of companies (in a sample of over 408 companies) showed increased revenues, 69 % revealed added value, 62 % increased their staff by 48 % and 61 % had increased the salaries of their workers after interaction with BDSs. Manu (2005:16) claims that sales, profits and

employment in assisted companies in Ghana grew by 51 %, 49 % and 25 %, respectively. This illustrates that sales, profits and employment are used to measure impact in Empretec as in other programmes.

However, determining the degree to which there has been an increase in incomes, employment, taxes and improved services is not a straightforward analysis. Intervening variables either retard or accelerate the effectiveness of service centres as shown in Chapter 2.

This suggests that appropriate systems must be developed that will enable the isolation and/or neutralisation of these variables or to take them into account. In the present study it means that the factors that impacted on service delivery by the LBSCs must be isolated so that the actual impact of the programme can be determined.

4.3 THE RATIONALE OF EVALUATING PROGRAMMES

Owen (2006:19), Bee & Bee (2003:139) and Bramley (2003:6) assert that "evaluation" establishes the "worth" of a programme. "Worth", Bramley further postulates, means the "value, merit or excellence" of the thing. In fact, Broad (2005:115), Owen (2006:19), King, Morris & Fitz-Gibbon (1987:10), McClelland (1994:4) and Erasmus & van Dyk (2003:55) also rightfully make the point that "evaluation" assesses return on investment. They further believe that evaluation can also be devised to measure long-term reactions and effects, such as what learning or behavioural changes have occurred. This validates the debate that evaluation is important for stakeholder satisfaction as it establishes worth or return on investment.

Bennett (2007:435) stresses that client satisfaction is becoming increasingly an important aspect of evaluation. This makes sense and relates to discussions above on the "effectiveness" of BDS programmes. While there is now a broad understanding for "evaluation", differentiation must be made between "measurement", "evaluation" and "monitoring".

Meyer, Opperman & Dyrbye (2003:118) opine that “measurement” is the gathering of data and the allocation of a numerical value to it while “evaluation” can be regarded as a “systematic examination”. This “systematic evaluation” involves measurement, value assessment and feedback of interventions that have been applied. Storey (2000:180) feels that “monitoring” has narrower objectives than “evaluation” as it is limited to observing and recording practical indicators of inputs and outputs.

In terms of the above, the difference between “evaluation” and “monitoring” is that “evaluation” includes establishing the impact of the programme while “monitoring” does not. However, “evaluation” has its own shortcomings. Thus, interrogating the evaluation process assists in developing a tool that can be used to evaluate the LBSCs in such a way that the findings are found to be valid and reliable. Hence Section 4.4 looks at the pitfalls when evaluating service centres.

4.4 PITFALLS OF EVALUATING SERVICE CENTRES

The variables described in Sections 3.4.1.1 to 3.4.1.5 suggest that evaluating the impact of service centres in communities could pose a major challenge. Section 4.4.1 investigates some of the challenges. It does not suggest solutions but illustrates the methods that have been used and the pitfalls to avoid.

4.4.1 Challenges in evaluating “impact”

There are various approaches to evaluating “impact” but it must be pointed out that very few of them do not have downsides or shortcomings. The challenges that are encountered in the evaluation of impact must be interrogated so that the evaluation delivers what is expected of it.

“Evaluation” includes short-term processes such as the completion of forms in restaurants or hotels, “satisfaction sheets” and other forms of data collection which do not reveal any scientific content as they are applied in general and in various situations without necessarily accommodating the differences in the environment.

For instance, somebody could go to a service centre or hotel with preconceived ideas. Or, a client could be out of sorts or happy and this state of mind influences his or her assessment of the encounter. The subjectivity is then immense.

4.4.2 Attempts at evaluating "impact"

Kirkpatrick (1998:19) and Hodges (2002:3) are of the view that the value added must be the final determinant in determining "impact". Hodges referred to "impact" as "performance evaluation", while Kirkpatrick said it was "Did it make a difference?" evaluation.

Kirkpatrick (1998) puts forward four levels of evaluation which are: reaction (referring to the initial reaction); learning (if there has been an absorption); behaviour (if the learning has resulted in a change in doing things), and results (if there has been any impact). This is the referred to "Did it make a difference?". Hodges' (2002) research came four years after Kirkpatrick's but their ideas were similar, with Hodges refining Kirkpatrick's debate.

Abernathy (1999:2;7) noted that Zondlo and Rutherford took issue with Kirkpatrick (1998) and opined that while it was true that the end impact was the most important measure, intervening variables could influence outcomes. In fact, their opinion could still be applicable as closer analysis of arguments by Kirkpatrick (1998) and Hodges (2002) leave the impression that they did fully take these intervening variables into account.

Thus, Abernathy (1999:7) notes that Rutherford rightly stressed that conclusions on impact were not definitive. But Abernathy (1999:7) asserted that Rutherford also misses the point when he surprisingly suggests that subjective assessments or the first-time evaluation sheets are adequate.

After all, declarations by Bee & Bee (2003:168), that a major shortcoming of subjective assessments ("satisfaction sheets") is that not all participants can differentiate between "popularity" and being "productive", apply. In fact, it must be argued that respondents who had a previous experience will probably be more reliable than first experience responses and, worse still, could influence "first timers" in group situations.

It can also be argued that the first-time response sheets could be handy when physical or tangible goods are evaluated, for instance a bus ride or service at a restaurant. However, when the assessment involves mental processing and time and space are involved, bias and subjectivity could come to the fore.

In any case, Bee & Bee (2003:168) further assert that these "satisfaction sheets" cannot be dismissed as they achieve the following:

- They help detect possible shortcomings when a learning programme is described as not being effective and is the starting point in finding the weaknesses;
- The initial reaction of a participant to a learning programme does determine its success or continuity and these "sheets" are a preliminary exploration;
- If participants find the first experience exciting, they are likely to apply it and use it regularly; and,
- The participants will have the first experience on the quality of the venue, teaching materials and mode of delivery.

Storey (2000:189) questions impact assessment from a different perspective when he says the "did it make a difference?" assertion could be flawed if there is no matching group ["control group"] against which the recipients could be matched. This brings in another dimension that even if there is matching, it is by no means definitive as Westhead, Storey & Martin (2001) posit that a sample is not necessarily 100 % reflective of the target population.

It is evident from the above that the first line in evaluation was the "satisfaction sheet" and Kirkpatrick (1998) then introduced his model of four levels evaluation (referred to earlier in this section). These were challenged and research methods, for instance "matching", are used in the evaluation process.

It is clear that "satisfaction sheets" cannot be discarded but ways must be found to make them more accommodative of time and space and the sophistication of subjects. "Matching" seems not to be satisfactory because the SMME environment and that of service providers is highly heterogeneous and the possibility of scientific and effective sampling is not easy to achieve.

4.4.3 "Matching" and "impact" assessment

Sexton & Landström (2000:180) note that Sexton in 1994 proposed the "matching" approach in which an assisted company is compared to companies that did not receive any assistance. While this could be an improvement on Kirkpatrick's model as the comparison between "treated" and "untreated" communities is more reliable; this approach would be a bit onerous to the point of being impractical.

After all, Cooper & Schindler (2003:426) feel that the disadvantages of "matching" are the artificiality of the laboratory and the fact that the two samples, the treated one and the untreated one, will not necessarily be identical.

This is reinforced by Curran (2000:39) who quotes Storey's 1998 research and asserts that matched samples in small business evaluations are very difficult to construct. He says that the main reason is the heterogeneity of small businesses. This debate is not new as in Chapter 3 it was argued that the heterogeneity of providers and clients was a major source of the intervening variables which influenced outcomes.

Curran (2000:39) further quotes Storey's 1998 research which maintains that small firms operate in all areas of the economy. They are run by people of different ages and genders, with different social and educational backgrounds and different ethnic origins. As if this were not enough, Curran (2000) quotes from the 1995 research of Goffee and Scase when he pinpoints two further problems. They are the lack of suitable sampling frames for selecting firms of matched samples. The second problem, he says, is response bias, particularly where representative samples upon which statistical analyses can be undertaken, are needed. "Unfortunately response bias is common, and it is also evident in small business research," he says. He further postulates that it arises in two forms. First, as size bias, that is smaller firms are less likely to respond than larger firms but firms of differing size operate differently internally and relate differently to the external environment.

The above arguments reinforce the earlier view that effective and scientific sampling is a bit remote from the nature of the units of analysis, the SMMEs and their service providers. Instead there are further pitfalls.

4.4.4 Further pitfalls in evaluating "impact"

Henry *et al* (2003:105) quote from Westhead & Storey's research in 1996 and identify several activities that impact on evaluation and state: "First, there is the issue of whether the participants on a particular course are representative of the target population as a whole. Second, respondents to a survey can be tempted to give answers that they feel the evaluator wants, instead of providing an honest response. Third, the impact of a programme can only judged by comparing it with what would have happened had the respondent not participated on the course. Fourth, failure to take into account the personal characteristics of individuals might lead to an exaggeration of the effectiveness of a programme. Fifth, researchers should appreciate that participants actually self-select themselves onto programmes, which can, when evaluating courses, lead to inaccurate assessments being produced. Sixth, the subsequent behaviour of respondents is actually more important than reporting their opinions."

Curran (2000:39) reinforces the suggestion by Hodges (2002:128) from research conducted in 2000 that the more obvious approach would be the "control versus experimental group" methodology where supported firms are compared to unsupported firms. Unfortunately, some of the shortcomings above would still apply, for instance the impracticality of constructing a laboratory setting given the nature of the sample and population, self-selection and additionality.

The imponderables regarding evaluation suggest that the validity and reliability of evaluation is not easy to establish despite the variety of instruments. Curran (2000:38) feels that three other factors must be considered before the success of an entity is credited to a specific programme. The three factors are:

- "Additionality", which is the net positive outcome (desired and even unanticipated outcomes) attributed to the reliability of the programme;
- "Dead-weight", which refers to the desired outcomes even if the policy or programme had never been initiated; and,
- "Displacement" which occurs when, as a result of the policy or programme, other firms not involved cease to trade or have lower sales or employment or suffer higher costs.

The point being made is that “dead-weight” and “displacement” ask the question whether the process was worth it after all. Why start a programme if displacement will occur as there has been cannibalisation rather than the creation of value?

Despite the fact that research methodologies are now part and parcel of evaluation, it is clear from the above that the environment still does not allow any easy pointers towards establishing validity and reliability via evaluation. However, as argued, ways must be found to achieve this as policy makers need the feedback.

4.5 DETERMINING “EFFECTIVENESS” IN THE DELIVERY OF BUSINESS DEVELOPMENT SERVICES

Having established the fact that evaluating the delivery of services has serious challenges, it must be borne in mind that policy makers still want to know whether or not their programmes or policies are effective. This means specific strategies must be developed to overcome the difficulties expressed in the previous section and measure services.

The literature review reveals that service providers and the actual interaction are evaluated separately. This makes sense as there is no need to even think of “effectiveness” if, in the first place, service providers are not up to standard. Thus, ways must be found to weed out the non-performers even before they start. This is achieved through accreditation and other methods which will be discussed below.

4.5.1 Ensuring that service providers are up to standard

It was stated in Section 3.3.2 that there are various forms of service centres. It stands to reason that each type of service centre will have its own systems in the selection and accreditation of entities that will interface with the SMME community. Below are some of the more recent approaches.

Sievers *et al* (2003:3) hold that UNIDO, USAid and the ILO service-centre networks have a two-phased approach in which the second phase, after setting up

shop, is the selection of providers. This selection is also two-fold as they are either in-house or they are contracted professionals.

The in-house counsellors are selected by simply interviewing applicants. External professionals or service providers are also selected through an interviewing process. The interviewing process ensures quality consultants and these stay on the roster for as long as they perform to satisfaction and wish to participate.

Sievers *et al* (2003:14) further point out that the ILO process also consists of an in-depth assessment of the existing market, including the demand-and-supply side. It evaluates existing providers and whether their offerings are suited for the market. It also ascertains the affordability of the offerings. The centre is not encouraged to offer existing products but must act as an innovative force and unblock constraints.

Steel *et al* (2000:39) opine that as the provision of services must be demand led, organisations are forced to obtain the best people available. They then use accredited suppliers. As serving informal markets has limitations, they advocate that subsidies must be contingent upon specific performance targets being set to improve management and accountability.

Sievers *et al* (2003) further maintain that in the quest for quality services, centres in eastern Europe select partners and service providers on the basis of the specific strategies each centre has and who best can assist. The selection strategies are determined by the nature of the market to be served, cost, size of the small business market, sophistication of the market in terms of the free-market system, and the philosophy of the international agency that is involved.

Sievers *et al* (2003:5) maintain that SwissContact follows a “tendering process”. It then evaluates local applicants on the basis of their business plans and other documents, and qualitative assessments. There is no indication of the basis on which contracts are renewed but, as SwissContact insists on viability, it can be argued that the system should reject non-performers.

According to Sievers *et al* (2003:9), the Enterprise Development Centre outlets in South America also select service providers in a tendering process. Each outlet appoints service providers that fit best and can provide the services.

After looking at the internationally driven service centres, a brief look at the national ones shows different approaches to accreditation or the selection of service providers. The US-based SBDC concentrates on pre-ventures, start ups and long-term clients. It thus operates on in-house consultants who do most of the work.

One of the precepts of the SBDC programme is that it is aimed at entities that cannot afford private consultants. Thus, most of the work is undertaken by internal consultants and their performance is compared to private-sector consultants. There is thus no need for accreditation as service providers are in-house.

UK-based Business Link has a different approach. Business Link appoints service centres on the basis of a tender process and this ensures they select the best. The researcher went on an experience survey and had discussions with officials of the Small Business Service, the government entity which manages SME development in the UK.

In the course of the above survey, the researcher interviewed Christine West (personal communication 2003) of SBS who, on being asked how they measure the efficiency and effectiveness of service providers, said that as Business Link awards the right to operate an outlet after a tendering process and for five years, the franchisee is under pressure to perform.

- An annual performance evaluation is conducted through a performance management framework with the appropriate targets. When the contract nears expiry, the contractor is judged on the basis of the reports. The contract is not renewed for non-performers. She asserts that this applies in the appointment of service providers by outlets.
- The outlet keeps a roster of local providers and those from nearby counties. The assessment of these providers takes place at two levels. Firstly, the small business clients fill in a questionnaire and rate the provider. Secondly, West notes, the outlet must also perform an annual survey of service providers in an area. This could be undertaken by an independent agency or officials. “This helps us decide if they keep a specific service provider on the roster or whether that service provider is removed”.

- Finally, “There is an annual impact survey and it has various levels. It surveys the impact of Business Link at a national level for our annual report, at the levels of each SBS and, thirdly, at the level of the specific Business Link outlets. This way the SBS also learns how each outlet performs and each outlet must similarly know how each provider performs”.

From the above it is evident that a variety of instruments are used to select the providers. These include accreditation processes, renewal of provider licences based on performance, tendering, performance measurement, internal consultants and business advisors on performance contracts and regular appraisals. This also includes researching the SMME community on the services they receive from local providers.

However it does not follow, even if there is thoroughness in the selection of providers, that the desired outcomes will be achieved. In fact, it is also felt that there is sometimes a huge difference between the interview and the actual performance and, secondly, the intervening variables are at the interface. Thus, challenges of evaluations at the interface have not disappeared.

4.5.2 Evaluating the “interaction” between service providers and clients

LeBrasseur & Zinger (2005:410) and Bartik (1994:99) note that while “impact” can be assessed on the basis of an increase in sales, earnings or in the number of employees; the data do not necessarily reflect the ability of the organisation to sustain itself economically.

LeBrasseur & Zinger (2005:410) are of the view that figures could include recent injections of capital, development aid or other assistance while Bartik (1994:100) stresses the point that using such indicators should be more long term than short term. His assertion seems to be that long-term sustenance proves “impact” instead of the “flash-in-the-pan” conclusions.

These arguments reinforce earlier ones on how intervening variables influence outcomes. This does not suggest that the growth in sales, for example, is not relevant; it merely means that it should not be used in isolation. Debate by Sharma

& Patterson (1999:152) on the difficulty of measuring services also comes into play.

Sharma & Patterson (1999:152) hold the view that many receivers of services, for instance legal advice, would not necessarily be able to know whether or not they are obtaining good advice unless they have some form of legal understanding. The two do not include BDSs but it is believed that, given the nature of the small business community in developing countries, this could also apply at the time of the service.

Within this maze of uncertainly, Walsh (2005:37) and McMullan, Chrisman & Vesper (2001:39) rightly assert that the achievement or attainment of targets can be ascertained through “surrogate measures” or “indicators”. The above authors refer to these measures/indicators as the confirmation of satisfaction or dissatisfaction in the measurement of evaluation.

McMullan, Chrisman & Vesper (2001:39) refer to these indicators as “objective measures”. These would include growth in profits, employment and turnover. They also refer to “subjective measures” such as the satisfaction sheets referred to earlier and client attributions to success.

These indicators, according to Walsh (2005:37) and McMullan, Chrisman & Vesper (2001:39), simplify measurement – particularly that of intangibles. Botha, Nieman & van Vuuren (2006:4) refer to these as “primary performance measures” as they quote a study in 1991 by Kallenberg and Leicht that classified measures in terms of primary, proxy (geographical), subjective (confidence in running a business) and entrepreneurial (the desire to start a business).

The above positions reconfirm previous assertions by Haskins & Gibb (1987:66) that identified “surrogate measures” to reflect a measurable and effective relationship between providers of services and SMMEs. These are:

- Visibility and accessibility of the service to SMMEs;
- Suitability of the information and solutions for the owner/manager;
- Flexibility of the service to address specific problems for the owner/manager;

- Scope of the service to address varied problems that arise, also unexpectedly and which are not clearly discernible;
- The simplicity of the paperwork given to the enterprises;
- Relevance of the supplied service to the specific needs of the entrepreneur, start up or growing concern;
- Affordability, confidentiality and credibility;
- Pro-activity and informality;
- Ownership of the service by the business community being served; and,
- Integration of assistance to varied needs.

Although Haskins & Gibb (1987:67) made these conclusions more than twenty years ago, the principle still holds. According to Chrisman & McMullan (2000:23) and Ferguson *et al* (1999:58), this is still the case.

After all, in their study on the impact of SBDCs in the US, Chrisman & McMullan (2000) use several "surrogate measures". Interestingly these include "knowing SME issues" and "working relationship" from the above list while Ferguson *et al* (1999:58) suggest that "repeat sales", "word of mouth" and "highly expressed satisfaction" indicate effectiveness.

It is for this reason that indicators such as these also become the variables for questionnaires. They enable the client to delve better into his or her experience and provide answers that will indicate the level of satisfaction. This is what will occur in the present study when some of the measures above and others derived from the literature review will be used to determine the effectiveness of LBSCs.

Chaston & Baker (1998:250) suggest thirteen factors which influence the relationship between SMMEs and business advisors and contribute to effectiveness. The factors are:

- Advisor personal attributes such as the clothing worn by the advisor; advisor mannerisms, advisor personality and their client's perceptions of the advisor's personal lifestyle.
- Advisor business skills covering the knowledge and expertise in areas such as marketing, planning, financial management and human resource management.

- Contact regularity in relation to the advisor staying in regular contact with the client;
- Advisor personal sharing in terms of the advisor spending time providing the client with information on his or herself.
- Client personal sharing in terms of the advisor spending time seeking information from the client about the latter's personal circumstances.
- Closeness of relationship in terms of the advisor and client working together to create a strong problem-solving partnership.
- Advisor availability in terms of the client being able to contact the advisor.
- Advisor competence in terms of the client's perceived abilities of the advisor to provide effective guidance.
- Advisor consistency in terms of the advisor behaving in a consistent manner throughout the relationship;
- Advisor openness in terms of the advisor offering the client a frank and open opinion on all issues.
- Advisor trust in terms of the client feeling they can trust the advisor to always act in the client's best interest.
- Advisor commitment in terms of the advisor's clear desire to really contribute to the problem-solving process.
- Advisor listening skills in terms of the client perceiving that the advisor listens carefully to all information being provided and takes the client's views into consideration when formulating advice.

Haskins & Gibb's (1987) "surrogate measures" relate to the "service" and Chaston & Baker's (1998) "factors" deal with the "provider". The commonalities between them (for instance trust, confidentiality and commitment), provide a base to measure the "effectiveness" of service centre-SMME relationships.

The "indicators" concept is applied throughout the service sector as, on a more general scale, Lovelock & Wirtz (2007:421) developed evaluative criteria for the services industry based on a table developed by Zeithaml, Parasuraman & Berry in 1990. The provision of BDSs is part of the services sector.

Regular indicators which become variables consist of: credibility, security, access, communication, understanding the customer, tangibles, reliability, responsiveness,

competence and courtesy. Some of the measures (such as reliability, understanding the customer, and responsiveness) correlate with Haskins & Gibb's (1987) "surrogate measures" and Chaston & Baker's (1998) "advisor attributes".

Various instruments have been developed around these measures but the defining point is that they are general, while those of Haskins & Gibb (1987) are specific to SMMEs. This point is emphasised to illustrate industry practice as service centres are part of the service and Lovelock & Wirtz (2007:34) classify them as "mental stimulating processes".

Haskins & Gibb's (1987) "surrogate measures" above specifically interrogate the service provided by the service centres and it is possible to arrive at conclusions that eliminate intervening variables, or some of them. The determination of these surrogate measures must in itself be scientific and flow from the objectives of the study. This approach is akin to "factor analysis" except that in this situation the factors are determined beforehand.

4.6 CONCLUSION

This chapter determined the development of the measuring instrument for the empirical research by first defining "effectiveness" in the context of this. It then detailed the various challenges and pitfalls in evaluating programmes and policies so that the results can be accepted as being valid and reliable.

Methods normally associated with research methodology were introduced into the discussions on evaluation and it was found that there were still gaping holes until the "surrogate measures" and "indicators" were introduced. These have been used in the USA and other parts of the world and in other forms of research. It is suggested that they could be the required solution.

However, Botha, Nieman & van Vuuren (2006:4) indirectly make a pertinent point that a decision has to be made whether to use cross-sectional or longitudinal studies when evaluating programmes. Their study on the effectiveness of an entrepreneurial programme was done over six months and they feel that it should be over a longer period.

This point was made by LeBrasseur & Zinger (2005:410) and Bartik (1994:99) suggests that indicators should be more long term than short term. It is evident in light of the assertions made by Botha, Nieman & van Vuuren (2006:4), LeBrasseur & Zinger (2005:410) and Bartik (1994:99) that this study would have been more effective had it been longitudinal.

A close look will be taken at the LBSC network in the next chapter. This will involve the conceptualisation of the network, the pilot launch in Cape Town, it being handed over to Ntsika and the ultimate implementation. It will also look at two studies set up to interrogate the implementation of the network.

CHAPTER 5

THE LOCAL BUSINESS SERVICE CENTRE PROGRAMME

5.1 INTRODUCTION

The Local Business Service Centre (LBSC) network of one-stop shops was launched in 1995 and was a result of a process of consultation involving local and overseas participants. The participants came from the tertiary sector, government, business membership organisations and the private sector. It was the first time that all these participants came together in South Africa (Nieman 2001:445).

The process then led to the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a) and the promulgation of the South Africa's first law on small business, the National Small Business Act, Act 102 of 1996 (RSA 1996). It was the launch of small business policy in South Africa.

This chapter interrogates the policy from the launch of the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a) until the latest intervention (in 2008) by the Gauteng Provincial Government Department of Economic Development (the Draft Gauteng SMME Policy Framework (2009-2014) (Gauteng Provincial Government Department of Economic Development 2008)).

5.2 THE LBSC PROGRAMME

The White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (RSA 1995a:40) envisaged the setting up of a decentralised network of local service centres to facilitate the systematic spread of business-related information, advice and services.

In 2003, realising that the network had fallen far short of expectations, the South African government introduced the National Small Business Amendment Act, Act 26 of 2003 (RSA 2003:12) to remedy the situation. It observed that there had been poor operational capacity regarding programmes and support institutions on the small business strategy, which also relates to the LBSC programme.

The government also singled out problems around Ntsika, which was the implementing agency for the LBSCs programme, as well as it had other programmes. As far as government was concerned there was poor co-ordination in the approach to small business development by Ntsika and the Department of Trade and Industry's (**dti**) Centre for the Promotion of Small Business.

This resonated with feelings of the general public and small business community. Chalera (2006:234), Kesper (2002:21) and Biepke (2002:17) are of the view that, while a lot of progress has been made creating an enabling environment for small business, some of the interventions did not meet with much success.

Biepke (2002:17) and Chalera (2006:234) specifically criticise the institutions set up to promote small business such as the National Small Business Council, the Ntsika Enterprise Promotion Agency and Khula Enterprise Finance. Kesper, for her part (2002:21) identified specific shortcomings of the strategy in her thesis on manufacturing in South Africa.

Despite the above, Nieman (2001:445) has pointed out that the strategy was the first time South Africa had a policy on small business, although in 1985 the President's Council had recommended the setting up of a Council for Small Business (RSA 1985:102), and teething problems were to be expected. He opines that entrepreneurship now involves the government, its agencies, parastatals, universities and private-sector organisations, something that did not exist in the previous 300 years.

The implication is that, as this was the first strategy in South Africa, it could not be expected to be perfect *ab initio* but would require ongoing iterative refinement. Thus, Biepke (2002), Chalera (2006) and, to a lesser extent, Kesper (2002) must accept that the strategy was the beginning of a journey. The amendments to the National Small Business Act, Act 102 of 1996 (RSA 1996) – that is, the National

Small Business Amendment Act, Act 26 of 2003 (RSA 2003) – and developments in the Gauteng Provincial Government Department of Economic Development (the Draft Gauteng SMME Policy Framework (2009-2014) (Gauteng Provincial Government Department of Economic Development 2008)) show that the journey continues.

5.2.1 Government discontinuance of some small business development institutions

The National Small Business Amendment Act, Act 26 of 2003 (RSA 2003) merged the Ntsika Enterprise Promotion Agency and its offspring, the National Manufacturing Centres (Namac) and Tender Advice Centres (TACs), to form the Small Enterprise Development Agency (Seda). The legislation that established Seda maintains that regional and local input in the implementation of policy and a more bottom-up approach were needed (RSA 2003).

This would include more direct participation by important stakeholders such as business associations in the support process and better co-ordination of government departments around small business. The objectives of Seda in terms of The National Small Business Amendment Act, Act 26 of 2003 (RSA 2003) and in relation to SMME support are to:

- Design and implement development and support programmes;
- Promote a service delivery network that will increase the contribution of small enterprises to the South African economy; and
- Generally strengthen the capacity of service providers to support small enterprises and small enterprises to compete successfully domestically and internationally.

In fact, the **dti** (**dti** 2003:6) asserted that Seda's mandate is to design and implement a standard and common and uniform national delivery network in respect of small enterprise development, integrating all government-funded small enterprise support agencies across all tiers of government.

However, when Seda then created the Enterprise Information Centres (Seda 2007:8) it was evident that the LBSC programme was no longer in favour. These

enterprise information centres were to provide basic information and referrals to enterprises, which was one of the key functions of the LBSCs, if not the main one.

5.2.2 Products for delivery

It is evident that Seda created the Enterprise Information Centres in terms of the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (RSA 1995a:71) which provided for:

- Counselling – This encompasses support from pre-start up through to launch, survival and growth.
- Basic business management training – This includes personal and entrepreneurial development, functional skills training (such as bookkeeping and marketing), and training which relates to management development.
- Signpost and referral – LBSCs refer clients to specialised services, information on business opportunities, varieties of financial support, other network services and regulatory issues; and
- Experience exchange (mentoring) – Entrepreneurs should have the opportunity to share and learn from the experience of other entrepreneurs. This may be accomplished through newsletters and seminars, for example.

5.2.2.1 Areas that required special focus

The White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a:33) also specifically identified the following for targeted support:

“Agro business, small-scale farming and fishing; small-scale manufacturing with focus on clothing, furniture/carpentry, metal works, arts and crafts; small builders and contractors; transport sector operators; start ups and expanding enterprises owned by women and, in particular, women with children; small exporters revealing a competitive advantage; small-scale tourism operators; youth self-employment start-up efforts with the focus on school leavers and unemployed youth; self-employment start-up efforts by retrenched people and those in resettlement areas; rural business start ups and expanding firms including the

retail sector; physically disabled people involved in self-employment; small-scale mining; small enterprises in disaster areas; SMMEs in ecologically sensitive activities; and small-scale, hi-tech ventures with a strong catalyst role."

The aforegoing illustrates the point that the above is a "wish list" and too substantial for an LBSC. This "wish list" is debatably the starting point of the woes that accompanied the roll-out.

5.3 GAUTENG AND THE LBSC PROGRAMME

The Gauteng Provincial Government Department of Economic Development (the Draft Gauteng SMME Policy Framework (2009-2014) (Gauteng Provincial Government Department of Economic Development 2008)) has announced guidelines on the creation of a new generation of "one-stop shops" for "SMME development and co-location of services". It is not the first time that the province has toyed with one-stop shops as these were also launched in 1995 when South Africa had its first experiment with these centres.

South Africa's provinces were unhappy about the roll-out of the LBSCs and developed their own strategy to support SMMEs. The announcement referred to above is the latest development and follows the decision by the Gauteng Provincial Legislature to create the Gauteng Enterprise Propeller in terms of the Gauteng Enterprise Propeller Act, Act 5 of 2005 (Gauteng Provincial Legislature 2005). The Gauteng Enterprise Propeller must:

- Establish and promote a support network (for SMMEs) in order to increase the contribution of small enterprises to the Gauteng economy;
- Design and implement small enterprise development support programmes within Gauteng; and,
- Strengthen the capacity of service providers to assist small enterprises.

The Gauteng government (Shilowa 2008:20) has now introduced new one-stop shops and says that the service providers must achieve the following:

- Identify and respond to the specific needs and development constraints experienced by targeted SMME groups;
- Provide services in a sustainable, practical and business-like manner;
- Identify strategies for maintaining outreach and impact in the provincial SMME sector;
- Share information with other service providers operating in the province;
- Participate in partnership projects and collaborative approaches to SMME service delivery; and
- Set targets for service delivery and report on these on a regular basis.

The Gauteng Provincial Government Department of Economic Development (the Draft Gauteng SMME Policy Framework (2009-2014) (Gauteng Provincial Government Department of Economic Development 2008)) will also establish new institutions alongside the one-stop shops and in addition to the Gauteng Enterprise Propeller as part of its overall SMME strategy. These include:

- The Gauteng SMME Development forum, an informal network of SMME support structures in the province including those controlled by national departments;
- The Micro Enterprise Development Initiative to service micro businesses by creating micro enterprise support groups and others;
- The Gauteng Informal Economy Initiative to assist those in the informal sector to become formal and access assistance being provided;
- A Gauteng Small Business Advisory Council; and
- A provincial mentor database of experts to call on to assist small businesses by mentoring them.

Other initiatives include programmes to strengthen business membership organisations, introducing e-governance, and regular impact assessments to be capped by an annual “SMME month”. From the above, and the ANC’s election manifesto (ANC 2009), it is clear that the government is now moving aggressively in developing the SMME sector.

There were specific problems that affected the LBSCs and these must be juxtaposed against the solutions offered by the Gauteng government (the Draft Gauteng SMME Policy Framework (2009-2014) (Gauteng Provincial Government Department of Economic Development 2008)) and the amendments by the **dti** in accordance with National Small Business Amendment Act, Act 26 of 2003 (RSA 2003). To achieve this it is crucial that a more in-depth background on the LBSCs be undertaken to place the changes in context.

5.4 THRUST OF THE LBSC PROGRAMME

Ntsika (2002:4) states that the LBSC programme had two broad functions: market intervention in which the strategy is developed and, secondly, the operationalisation of the network when services are supplied.

5.4.1 Services to be supplied by the LBSCs

As reflected in Section 5.2.2, it is argued that the services to be supplied by the LBSCs were more of a “wish list” than anything else. For instance, there was a mixture of core and basic services (such as information provision, counselling and training); more advanced services (like targeted support for agro business, small-scale farming and fishing and manufacturing to name a few); and they also focused on specialised groups (like women, youth and the physically disabled).

5.5 IMPLEMENTATION OF THE LBSC PROGRAMME

It is not surprising that the roll-out was erratic as shown by the Bloch & Daze (2000) study and the Urban-Econ (2002) study. As these studies were conducted nine and seven years ago, respectively, it was important in view of the time lag to undertake structured interviews with surviving LBSCs and former officials. These will assist in determining if the changes brought in will bring in new benefits and have addressed previous problems. The essence of these structured interviews is reflected below.

5.5.1 Structured interviews with LBSCs

According to Saunders, Lewis & Thornhill (2003:381), an accepted way of analysing qualitative data is that of categorising the information into key themes, indicators or patterns. The interviews are categorised into constructs in line with the sub-problems of the study.

Interviews could be held with only six of the 11 LBSCs that existed in 2002. These six LBSCs are enough to indicate trends since the previous studies were undertaken. Salient data, taken from the interview transcriptions, are presented for each LBSC in Tables 5.1 to 5.6.

Table 5.1: Interview with LBSC 1

Focus issue	Response
Type of entity	A Section 21 company – Not for profit
How was the entity accredited?	They existed before Ntsika came up with the programme, being supported by big business. They applied to be part of Ntsika programmes/partners and qualified immediately
Capacity to provide services	There was no capacity to provide services as the staffing consisted of only three people as detailed below. The LBSC had a relationship with a legal firm to instruct SMMEs on regulatory issues and another with a private college for training needs
Number of staff	1 chief executive officer, 1 administration manager, 1 information officer, 1 accountant part-time (i.e 3.5 people)
How many clients does the LBSC see per day?	The centre sees about 7 to 11 people a day
How big were your clients' businesses?	Emerging and established businesses wanting to enter the mainstream economy

Focus issue	Response
What services are offered?	Business information, counselling, advice, mentorship, linkages, training and tendering
Does the centre depend on money from Ntsika and/or Seda?	The centre was funded by other agencies as well. Ntsika's funding accounted for about 40 % of their total funding. Currently there is no funding from the **dti** agency Seda
Does the centre charge its clients? If "Yes", do they pay?	The centre charges for the services rendered at a subsidised rate from the funding acquired. The centre also affords further discounts for those who joined them as members
Monitoring and evaluation: What was evaluated and how frequently?	Ntsika only came when they suspected that there was something wrong within the centre, otherwise they did not come at all. Micro Economic Alliance was appointed by Ntsika to conduct evaluations – they tried. Clients also did an evaluation after every training session
Approximately how many businesses did the centre help to set up?	Approximately 400
Approximately how many jobs did the centre help to create?	Approximately 1 000

Table 5.2: Interview with LBSC 2

Focus issue	Response
Type of entity	Partnership (Business)
How was the entity accredited?	They existed before Ntsika came up with the LBSC programme. Ntsika encouraged them to join and they went through the accreditation process. They qualified with flying colours.
Capacity to provide services	The LBSC had the capacity to provide services and was the best performing of the six interviewed
Number of staff	1 chief executive officer, 1 manager, 1 communication officer, 1 executive secretary, 4 officers (i.e 8 people)
How many clients does the LBSC see per day?	The centre sees about 4 people a day. The others are telephone enquiries
How big were your clients' businesses?	Individuals, start ups and established businesses
What services are offered?	Accounting, bookkeeping, training, mentoring, after-care service, advisory and referrals. They also provide aftercare as a matter of course. Clients receive two visits and, at the end of the month, the centre provides them with financials and the state of their business. It even recommends improvements to their operations.

Focus issue	Response
Does the centre depend on money from Ntsika and/or Seda?	The centre is not funded by Ntsika and merely wanted accreditation to source other opportunities. They have not had any other support from Ntsika except referrals and have been part of capacity building. They then obtain other funding as they have relations with other agencies, for instance the Wholesale and Retail Seta. They have also had dealings with Eskom, Khula and the Tshwane Metropolitan Council. They also submit proposals to a variety of organisations and the fortunes are mixed
Does the centre charge its clients? If "Yes", do they pay?	The centre also generates a substantial part of its income from services levied. They charge for the services rendered and clients are told upfront and must accept the charges before service commences. There are different service categories.
Monitoring and evaluation: What was evaluated and how frequently?	No monitoring and evaluation was undertaken by Ntsika since they did not fund the centre. Clients evaluate themselves by putting into practice what they have been taught at the centre by filling in appraisal forms and we also have meetings with them.
Approximately how many businesses did the centre help to set up?	Approximately 30
Approximately how many jobs did the centre help to create?	Approximately 57

Table 5.3: Interview with LBSC 3

Focus issue	Response
Type of entity	Further Education and Training College
How was the entity accredited?	The institution applied and was provisionally accredited and had to work hard to meet the criteria stipulated and deliver on certain services.
Capacity to provide services	It ostensibly had the capacity but these were lecturers who specialised in teaching students and it could not be established to what extent they could adapt to existing small and micro businesses
Number of staff	1 project manager, 1 secretary, 1 cleaner and 8 lecturers (training) (i.e 11 people)
How many clients does the LBSC see per day?	The centre sees about 7 to 10 people a day
How big were your clients' businesses?	The centre attended to different sizes of enterprises including individuals and youth, and SMMEs
What services are offered?	Business information sharing, opportunities, business planning, finance sourcing, aftercare, company audits, business registration, marketing, tender assistance and opportunities.

Focus issue	Response
Does the centre depend on money from Ntsika and/or Seda?	The centre was funded by Ntsika 100 % and the centre felt it was not enough.
Does the centre charge its clients? If "Yes", do they pay?	Though they were funded by Ntsika, they encouraged enterprises to pay for services to increase their sustainability. Some clients could not afford to pay but they were assisted anyway.
Monitoring and evaluation: What was evaluated and how frequently?	Ntsika used to come and monitor their performance every three months or so and conducted an evaluation after their financial year.
Approximately how many businesses did the centre help to set up?	Approximately 250
Approximately how many jobs did the centre help to create?	Approximately 400

Table 5.4: Interview with LBSC 4

Focus issue	Response
Type of entity	A Section 21 Company – Not for profit
How was the entity accredited?	They existed before Ntsika came up with the programme. It was recognised by government as it was an internationally based organisation
Capacity to provide services	It had the capacity to provide the services as it had the track record although it was in youth entrepreneurship
Number of staff	1 managing director, 7 officers, and 1 intern (i.e 9 people)
How many clients does the LBSC see per day?	The centre works with groups, especially young people from schools, on a programme-based scenario and not a day-to-day scenario
How big were your clients' businesses?	The centre, as the name "Junior" articulates, targets young people and mostly from schools
What services are offered?	Promotion of entrepreneurship, e.g. competitions and business training

Focus issue	Response
Does the centre depend on money from Ntsika and/or Seda?	The centre was funded by other agencies as well. Ntsika's funding was for specific projects and not for the entire organisation, thus difficult to put percentages
Does the centre charge its clients? If "Yes", do they pay?	The centre does not charge for the services but believes strongly that when businesses are established they should contribute something towards their growth and sustainability.
Monitoring and evaluation: What was evaluated and how frequently?	It was undertaken after each financial year-end, i.e. after reporting to them. Ntsika did not do more than expected. Evaluation of services by clients was achieved through filling in of evaluation forms after every training session.
Approximately how many businesses did the centre help to set up?	Approximately 350
Approximately how many jobs did the centre help to create?	They are not sure about the number of jobs but the project has reached up to 6 500 young people through the programme.

Table 5.5: Interview with LBSC 5

Focus issue	Responses
Type of entity	NGO
How was the entity accredited?	Was invited to be an LBSC and there was no accreditation
Capacity to provide services	Had the capacity to provide services but did not get the final support
Number of staff	Had six satellite offices in the Tshwane area, with about 40 staff
How many clients does the LBSC see per day?	Did not have numbers as he had left the centre
How big were your clients' businesses?	Did not have numbers as he had left the centre
What services are offered?	All the core services in terms of the White Paper for the Development and Promotion of Small Business in South Africa [ie RSA 1995a]

Focus issue	Responses
Does the centre depend on money from Ntsika and/or Seda?	Yes, the centre depends on both Ntsika money and fees paid by clients. Mostly Ntsika and the town council
Does the centre charge its clients? If "Yes", do they pay?	Some of the clients who can afford to do pay but, for the basic services, we expect the government to pay
Monitoring and evaluation (what was evaluated and how frequently?)	Yes, there was monitoring and evaluation every six months. Clients also filled in client "satisfaction sheets"
Approximately how many businesses did the centre help to set up?	Did not have numbers
Approximately how many jobs did the centre help to create?	Did not have numbers

Table 5.6: Interview with LBSC 6

Focus issue	Response
Type of entity	The centre was set up by the local corporate community to empower local business by giving them a centre to use for training purposes. It was also seen as a place to accommodate enterprises that were in the supply chain for the big steel houses in the area
How was the entity accredited?	It applied for accreditation hoping it would obtain funds to assist in local entrepreneurial activities. It finally received accreditation after filling in forms after initially operating on provisional accreditation.
Capacity to provide services	The centre did not have this capacity in terms of its own mandate as it was set up to support local business. It offered business premises and expected the owners/managers of the enterprises to form a body corporate to run the centre, and they would then decide on other activities. A relationship could also be established with the entrepreneurship centre at the university. Big business in the area provided support in so far as it would be within our capacity and interests.
Number of staff	1 manager, 1 secretary and 1 clerk (i.e never more than 3 people). Never had much to do in terms of LBSC functions
How many clients does the LBSC see per day?	There was no real demand for services and local traders used the premises as a meeting centre. It also received assignments from Ntsika but no real existence of its own
How big were your clients' businesses?	Small struggling local entrepreneurs, mostly retail

Focus issue	Response
What services are offered?	Basic services
Does the centre depend on money from Ntsika and/or Seda?	Completely and on a subsidy from the local steel company in the form of rent and salaries for staff. It terminated the relationship after 18 months when it failed to receive even a cent from Ntsika
Does the centre charge its clients? If "Yes", do they pay?	No it did not
Monitoring and evaluation: What was evaluated and how frequently?	It never really took off
Approximately how many businesses did the centre help to set up?	Never really took off and did not set up any businesses
Approximately how many jobs did the centre help to create?	Could be anything from 15 to 50 by assisting local entrepreneurs
Other factors	Big business in the area did not allow local business to purchase steel at low prices and then on-sell it before adding value. Furthermore, the major steel companies changed to "just-in-time" production and this resulted in less work for smaller local entities as steel was made for specific orders.

5.5.2 Structured interviews with the Department of Trade and Industry and Ntsika officials

Most officials have since left the **dti** and Ntsika. Their responses (Table 5.7 to Table 5.13) indicate some of the issues that affected the roll-out and could have had an impact on the outcome of the interaction between LBSCs and SMMEs.

5.6 ANALYSIS OF THE PROBLEMS ENCOUNTERED IN THE ROLL-OUT OF THE LBSC PROGRAMME

The analysis of the programme will be premised on the sub-problems of the study. This is consistent with the objectives of the study and it further gives immediacy as it investigates the environment within which the LBSCs were implemented. Thus, and in the process, it analyses the variables that could have impacted on the implementation.

In Section 1.6.2 the following secondary objectives were identified in relation to the primary objective:

- The first is the capacity of the LBSCs to provide services to SMMEs;
- The effectiveness of the relationship between LBSCs and SMMEs;
- The ability of LBSCs to provide all services prescribed by the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a) in terms of:
  - The effectiveness of the LBSCs to provide information to SMMEs;
  - The ability of LBSCs to provide development services to SMMEs.

The findings are presented in Chapter 7.

Table 5.7: Interview with Official A from Seda

Focus issue	Response
Background	There are two phases to the LBSC programme. The first phase was the pilot study, the BuDs [Business Development Service(s)] project in Cape Town. The second phase was the relocation to Pretoria and location in Ntsika. Frankly, things were not right and only one person from the Cape Town team relocated with the programme and this means that we had to start from scratch
How was an entity accredited?	One of the shortcomings of the BuDS project was lack of an accreditation strategy and accreditation was a critical element of the Ntsika approach. However, existing LBSCs were allowed to continue but the new ones had to go through the accreditation process. The fact that funding was not directly linked to accreditation was a major factor. Added to this was the fact that "reach" was another priority and, to crown it all, the typology of the entities to service SMMEs needed enhancing. We decided to include tertiary institutions with the usual menu of NGOs. We then had to have accreditation and at the same time get the programme rolling
Nature and capacity of providers	Some of the providers were political veterans and they could not supply business development services as they did not know much about them. It is for this reason that we included tertiary institutions and other more professional entities. Official A further postulates that the LBSC programme was put together in a hurry. After the road shows, workshops and President's Conference on Small Business in 1995 [i.e. RSA 1995b], expectations were high. However, the concept was wrong as the government ran with a "European programme" rather than develop a South African response to SMME development

Focus issue	Response
Capacity building	The NGOs came to the capacity-building workshops and they were like “sponges”. They tried to absorb everything in terms of skills, development and transfer. We trained them a lot in facilitation skills and in the training of trainers. In their desire to learn they also took in other methodologies from other training programmes. This created a multiplicity of approaches but this needed more of an informed base as the NGOs could not understand what applied and when because of their limited training
Ability to deliver services	The LBSCs could to a great extent deliver the core services required in terms of the White Paper for the Development and Promotion of Small Business in South Africa [i.e. RSA 1995a]. However, a major shortcoming was that they tried to be “everything to all people”, while the best strategy was a needs-based supply of business development services. In the delivery of services the private sector performed much better. They were more aggressive and did much better than the NGOs and CBOs. They stressed quality and did not bother about quantity. They had a good mix of products and were also sector-specific
Interaction between providers, Ntsika and SMMEs	The interaction between LBSCs and Ntsika was not constructive, neither was the interaction between the **dti** and Ntsika
Co-ordination by Ntsika	Co-ordination by Ntsika was bedevilled by poor relations with the **dti** and lack of funds. LBSCs were angered by the lack of funds

Focus issue	Response
Funding	It never was the intention to fund LBSCs and Ntsika made a mistake in this regard
Monitoring and evaluation: What was evaluated and how frequently?	Monitoring and evaluation were never taken seriously. We never evaluated the impact of the programmes on the ground. Two systems, including the system devised by the Council for Scientific and Industrial Research, were developed to monitor and evaluate programmes. These were never implemented. Every two years we had independent evaluations and one of these was the Urban-Econ exercise [i.e. Urban-Econ 2002]. This was the last one undertaken. Ntsika depended on the reports it received from the LBSCs but these were not tested by an independent agency. They were accepted as fact. Worse still, and as would be expected, not all LBSCs presented reports. Some LBSCs simply could not generate reports because of a lack of technical “know how”; some did not because they could not find the time; while other LBSCs simply could not be bothered to do so as they lived from “hand to mouth”. When somebody was “everything to all people”, structured reports became difficult to produce. Also, funding was not linked to accreditation and/or evaluation on the basis of the previous year’s performance. There was thus no incentive for LBSCs to perform.
Impact evaluation	We did not do impact studies as we should. Funding should have been linked to accreditation and evaluation on the basis of the previous year’s performance. There was thus no incentive for LBSCs to perform.

Table 5.8: Interview with Official B, formerly of the National Small Business Council

Focus issue	Response
Background	The LBSC programme was part of our national effort to strengthen small business. It was supposed to work closely with our entity, the National Small Business Council. We would give feedback from the ground and it would come with appropriate interventions or solutions. The people who were appointed as LBSCs were simply out of their depth
How was an entity accredited?	It was haphazard. Official B said that very few of the accredited entities had the infrastructure or experience and this was a national problem. Government was also in a hurry to get the process going and many of the entities were accredited because they had been providing business development services even before the advent of the LBSCs
Nature and capacity of providers	Very critical of the providers and says their inclusion was a mistake by government
Capacity building	Very dismissive of the NGOs as they did not understand the business environment

Ability to deliver services	Most of the LBSCs did not understand small business and could not deliver services
Interaction between providers, Ntsika and SMMEs	The interaction between LBSCs and Ntsika was not helpful. The LBSCs accused Ntsika of stopping funding. The relationship between Ntsika and the **dti** was also a burden
Co-ordination by Ntsika	Co-ordination by Ntsika bedevilled by relations with the **dti**, and this impacted on LBSCS
Funding	The LBSCs could not cope and needed funds
Monitoring and evaluation: What was evaluated and how frequently?	There was limited monitoring from the side of Ntsika
Impact evaluation	Looked at sustainability of LBSCs and if SMMEs were improving

Table 5.9: Interview with Official C of the dti

Focus issue	Response
How was an entity accredited?	He was not involved
Nature and capacity of providers	Registered Section 21 companies. These included NGOs and CBOs. They could not deliver to specifications
Capacity building	It was the policy of the **dti** to capacitate LBSCs so that they provide good service
Ability to deliver services	Most could not deliver on the mandate and that is why they had to be capacitated
Interaction between providers, Ntsika and SMMEs	There was tension between the LBSCs and SMMEs. The **dti** was not happy
Co-ordination by Ntsika	It was affected by bad relations between LBSCs and SMMEs
Funding	Non-committal
Monitoring and evaluation (what was evaluated and how frequently?)	The **dti** monitored Ntsika and its board. More about governance issues. Ntsika was supposed to monitor the LBSCs
Impact evaluation	The **dti** did not evaluate impact and left it to Ntsika

Table 5.10: Interview with Official D, former dti and Seda official

Focus issue	Response
How was an entity accredited?	Accreditation was followed to the letter and the board of Ntsika gave the final approval. Some LBSCs even obtained provisional accreditation and then full accreditation on satisfying the requirements
Nature and capacity of providers	When BuDS started, the focus was on Section 21 companies. This was later expanded to include tertiary institutions. They had varying levels of capacity and some needed help
Capacity building	A lot of providers entered into the SMME sector after 1995 and they needed a lot of orientation into being able to support SMMEs. There was training at all levels. There were also trips to international destinations to assist the providers understand the SMME sector
Ability to deliver services	We believed that the people who got accreditation would be able to deliver. As time went on we realised that there were problems with some of them
Interaction between providers, Ntsika and SMMEs	There was a “love-hate relationship” between Ntsika and the LBSCs. Most of the acrimony was caused by the delays in funding. There were also problems between Ntsika and the **dti**

Focus issue	Response
Co-ordination by Ntsika	The relationship between the **dti** and Ntsika and between the LBSCs and SMMEs affected co-ordination negatively
Funding	The initial once-off payment was R100 000 as the understanding was that the micro entities had to be subsidised. This changed to funding based on capacity. The LBSCs were also encouraged to tap into other sources of funding, and some did
Monitoring, evaluation and impact: **What was evaluated and how frequently?**	Ntsika monitored the LBSCs and they submitted reports. Ntsika had to report to the **dti** on the basis of these reports. Independent surveys show that jobs were created by the LBSCs

Table 5.11: Interview with Official E, former official of the Gauteng Provincial Government Department of Economic Development

Focus issue	Response
Background	The province set up a provincial desk for SMME support. Also had a conference on small business to start strategy rolling. Relations between Ntsika and the desks not clearly spelt out
How was an entity accredited?	There were set criteria but we in the province did not play any major role. We thus could not monitor the detail of the process
Nature and capacity of providers	The entities were all forms of operations but mostly NGOs. Some did not have capacity. The province was not involved in accreditation although it felt it should be. MEC Moleketi launched a number of LBSCs and the idea was to link them up with provincial parastatals
Capacity building	They helped develop the LBSC concept and even opened some of them. They wanted a much broader outreach and support
Interaction between providers, Ntsika and SMMEs	There were problems between various parties, including the provinces and metros who felt left out. There were no clearly spelt-out relationships or lines of communication
Co-ordination by Ntsika	It could have been better and they assisted where they could
Funding	The province could not provide funding but it could help where it could. It gave support in kind, for instance, a link to the fresh-produce market
Monitoring and evaluation: What was evaluated and how frequently?	The provinces were not involved in the roll-out and we could not advise. We realised that things were not going well but we were not being consulted. There was no monitoring and evaluation when I was still there

Table 5.12: Interview with Official F, former Ntsika official

Focus issue	Response
How was an entity accredited?	Not involved at all in the original launch of the programme
Nature and capacity of providers	There was a preference for CBOs and not for profit
Capacity building	All LBSCs attended the capacity-building workshops
Interaction between providers, Ntsika and SMMEs	The relationship was robust and aggressive because Ntsika did not deliver on the promises it made to the LBSCs
Co-ordination by Ntsika	The poor relations between Ntsika and the **dti** and between the LBSCs and Ntsika resulted in poor co-ordination
Funding	Not involved in the funding and does not have all the facts
Monitoring and evaluation: What was evaluated and how frequently?	It was not “monitoring” as such but they were submitting reports to justify the funding from the **dti**
Impact evaluation	No idea if any such impact study was undertaken

Table 5.13: Interview with Official G of Seda

Focus issue	Response
Background	The first mistake was to appoint a non-South African consultant as the first CEO of Ntsika: Anton Balasuriya launched the organisation. He did not understand local dynamics and, naturally, had a purely formulae-driven approach. This did not endear him to the local staff who knew the terrain much better than he did. He was the technical person but simply did not fit into the environment.
How was an entity accredited?	There were set criteria which all had to comply with. Unfortunately some slipped through the cracks.
Nature and capacity of providers	Marketing and funding problems affected their capacity to deliver right from the outset. A critical mass of SMMEs was needed which the LBSCs would then service. It was not there. The LBSCs ended up being “everything to all people” as they tried to grab at every customer that came their way to alleviate their market and funding problems. They were not focused. This impacted on the quality of their service. They lacked vision, leadership and management. Lack of capacity and the competing programmes became a self-perpetuating process on the LBSC programme. Many did not have the specialist skills and understanding. For instance, costing is a major issue for SMMEs. If the LBSC does not understand costing, what help can it give to the SMME? Another factor worth mentioning is that some of the South African trainers were not that well educated.

Focus issue	Response
Capacity building	Many LBSCs went to capacity-building programmes organised by Ntsika. The downside with capacity building is that anybody could come, in other words the LBSCs could send anybody. Capacity building will always be from a specific point. Many started from a low base and thus could not be at the same level as their competitors who had better skills, people and resources. You could then put in a programme specially designed for those LBSCs that are not yet there and very few would come as it impacted on their self-esteem. A major hurdle was that Ntsika itself had capacity problems. The organisation had teething problems. The **dti** was aware that something was wrong at Ntsika and it withheld portions of the budget allocations as it feared that it would be difficult to obtain appropriate reports on budget expenditure given the instability in the organization.
Interaction between LBSCs, Ntsika and SMMEs	There were competing SMME programmes from international agencies. These engaged the best NGOs and CBOs and other types of partners who could provide services to SMMEs. These overseas organisations, who had guaranteed funding, could pick and choose the best service providers. Other LBSCs also tried to compete. If the trainer is not educated enough to differentiate between local and overseas environments, it is not to the advantage of the SMME. In other parts of Africa trainers have degrees and are in a position to tell overseas agencies whether their programmes are relevant or not. This is “real capacity”. The overseas programmes were also not obliged to deliver services according to the White Paper for the Development and Promotion of Small Business in South Africa [i.e. RSA 1995a] and they did not have the onerous load the LBSCs had to carry in servicing everybody who came. They could thus “cherry pick” customers and leave the more inferior clients to the LBSCs. This lower level clientele made the LBSC programme look inferior as it catered for the less successful SMMEs.

Focus issue	Response
Funding	Funding has undoubtedly been a major problem in the LBSC programme. It was a “chicken-and-egg situation” in which funds were needed to make them grow, but they should also develop to attract funding. The LBSCs themselves were not creative or entrepreneurial. They failed to tap into the multiplicity of funds there were from national, provincial and local government, in addition to overseas funding. This was clearly due to their inability to attract such funding on the one hand because of their image while, on the other, this problem was a result of not knowing how to attract such funding.
Monitoring and evaluation (what was evaluated and how frequently?)	Monitoring and evaluation was very weak. There had to be monitoring and evaluation at two levels. There had to be monitoring at the level of the **dti** and then the monitoring of the LBSC programmes. Ntsika did not monitor its programmes properly and the reports submitted to the **dti** by the organisation were not consistent. These reports did not show that the LBSC programme was succeeding. They answered little things. In addition, the **dti** itself did not analyse the reports. The **dti** did not have people who could identify the problems and offer solutions. When you have an organisation, you must not allow it to reach crisis stage, as the problems become too difficult to untangle.
Impact evaluation	As monitoring and evaluation were weak, it was difficult to measure impact. We still cannot say if there was an impact or not. We are all very disappointed with the performance of some.

A number of constructs were developed in line with the sub-problems, the literature review and experience survey. They are: conceptualisation of the programme, nature of the entities and their capacity, accreditation, funding, interaction between LBSCs and SMMEs, co-ordination of the programme, monitoring and evaluation, and impact.

These constructs constitute the topics under which the LBSCs will be analysed and the analysis will be based on the following documents or studies:

- The legislation that created the LBSCs;
- Two previous studies that were undertaken on the LBSCs; and
- Structured interviews to update the previous studies as these were done in 2000 and 2002, respectively.

5.6.1 Conceptualisation of the LBSC programme

The White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a:18) notes that South Africa must absorb the "rich experience and best practice built up elsewhere" as it proposed the LBSCs.

There is nothing wrong with this as long as observations by Gibb (2000:201) and Curran (2000:213) that various elements in the environment affect the transfer of ideas and systems are taken into account.

Hofstede (2001:11) agrees with Gibb (2000:201) and Curran (2000:213) when he illustrates this succinctly as he believes that national history, culture, education, political systems, the nuances of language and rituals create "software" in the person that determines how he or she reacts to specific inputs/stimuli.

To take this further and with reference to the present study, it is not only history and culture, for example, that create this mental software, national institutional frameworks (such as banks) operate to different rules, and consumer expectations between societies are not necessarily the same. Hence Official A (Table 5.7) aptly observed that the South African government "ran with a European programme rather than developed a local response".

Curran (2000:213) is incisive when he says that small enterprises have key differences in their institutional forms due to, for example, differences in ethnicity, owner-manager attitudes, employer-employee relations, legal constraints, supplier-buyer relations, customer attitudes, and banking systems. The same applies to support policies, Curran (2000:213) continues to assert, and stresses – especially those from other counties.

It is thus argued that while this service-centre concept was debated during the President's Conference on Small Business in South Africa in 1995 (RSA 1995b) and, although it was tried out in Cape Town in a pilot project, there is nothing to show that there was a scientific evaluation of the concept in which South Africa's environment was compared to those countries in which the concept was operational.

5.6.2 Typology and capacity of LBSCs

The White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a:71) noted that LBSCs should include NGO and other community formations in addition to the Chambers of Commerce and other regular providers. Yet, these organisations, despite their sense of mission, have serious shortcomings such as continuity, organisation and accountability as Swanepoel & de Beer (2006:119) postulate.

Interviews with Official A (Table 5.7), Official B (Table 5.8), Official D (Table 5.10) and Official G (Table 5.13) also confirm that there were capacity problems with the NGOs and that it had been a mistake to assign them as LBSCs. It is apparent that Ntsika (2002:11) realised that these LBSCs had capacity problems as Urban-Econ (2002:11) notes that the agency explored several strategies to improve delivery in its first year of operation.

Official A (Table 5.7) says that some of the people involved in the initial roll-out were political veterans and they did not know much about business development services. Official B (Table 5.8) also observes that their inclusion was a mistake by government while Official C (Table 5.9) feels they could not deliver to the

mandate. Official D (Table 5.10) is much more specific – saying they were of varying ability and some clearly needed help themselves.

Official G (Table 5.13) says that overseas networks succeeded in attracting the best service providers and Ntsika could not compete with the benefits they offered. This official also points out that the overseas operations did not have to the fulfil government's mandate and go to remote areas or assist those SMMEs that could not afford to pay for services.

The arguments by the officials are very specific that there were capacity problems with the type of entities that were recruited. What about the recruitment process itself?

5.6.3 Accreditation of LBSCs

The White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a:69) and Ntsika (1995:8) rightfully extol the accreditation of service providers to ensure quality yet Bloch & Daze (2000:7) assert that in the first few years of the programme the accreditation procedures changed continually. The Auditor General (Ntsika 2004:18) criticised the agency in its 2004 audit on the basis that its LBSC service providers did not go through an accreditation process.

The Urban-Econ study (2002:31) is even more scathing as it points out that Ntsika was criticised for accrediting many new and inexperienced organisations with the result that many centres did not have the capacity to deliver to a certain level. Official A (Table 5.7) confirms that when Ntsika inherited the pilot BuDS programme, there were already concerns that the preferred NGOs and CBOs were not able to live up to expectations.

Hence, in the structured interviews, Official B states (Table 5.8) that most NGOs simply could not qualify. This official said that the NGOS did not have the infrastructure or the personnel. The same official further maintains that some entities nationwide were accredited on the basis that they had been in existence before the launch of the network. Official B (Table 5.8) also makes the point that there was political pressure to show progress and accredit LBSCs.

In contrast, Official D (Table 5.10) makes the point that accreditation was professional and panels were set up. The final decision was taken by the board. Interestingly, Official D (Table 5.10) is the only official who relocated to Pretoria from Cape Town when the BuDS pilot study was closed down. Interviews with the LBSCs indicate that some went through the accreditation process while others did not.

LBSC Owner 6 (Table 5.6) attests that their LBSC filled in a questionnaire and there was no inspection *in loco*. LBSC Owner 1 (Table 5.1) and LBSC Owner 4's (Table 5.4) operations received automatic accreditation without going through the process. The LBSC Owner 2 (Table 5.2) notes that their operation "passed with flying colours".

The above information reveals that the accreditation was inconsistent, which confirms the claims in the Bloch & Daze (2000) report. It can thus be assumed with a fair degree of certainty that the accreditation process was neither thorough nor rigorous and there was a lack of tight control.

The final indicator that cast doubt on the accreditation process is the fact that Ntsika set up a capacity-building division. This shows it realised that not all entities were able to provide services. Participation in workshops was compulsory. There were also overseas trips to assist LBSCs understand the small business sector as it affected other countries. The capacity-building programme arguably makes sense as the agency had to do something to salvage the situation.

5.6.4 Funding of LBSCs

The government had no intention of funding the LBSCs (RSA 1995a:72) as it claimed that these CBOs were already involved in providing services to the public and they were entitled to programme funding for the services they rendered. In other words, they were not entitled to receive set-up funds, for example.

However, Ntsika made an initial a once-off payment of R100 000 to the LBSCs on accreditation and R80 000 on provisional accreditation Urban-Econ (2002:34). Unfortunately, funds were limited and the funding policy changed to giving the

LBSCs a total of R100 000 incrementally over a period of time. It was soon decided that not all centres would be funded.

Official B (Table 5.8) felt that the LBSCs needed to be funded as this was a government programme. Official D (Table 5.10) makes the point that the funding that was granted was to assist the LBSCs service the micro enterprises that could not afford to pay for services. Official A (Table 5.7) makes the point that there was not an intention to fund LBSCs and the grants were an oversight and led to problems.

It must be argued that this was indeed a cardinal error on the part of Ntsika as it set a precedent and created an expectation from the LBSCs. When funding ceased, this created problems. What may also be added is that Ntsika's funding was limited (Urban-Econ 2002:34) compared to that from other funders, and it did not come on time. LBSCs had to use funding from other donors as bridging funds for Ntsika-related projects which, in any case, were unsustainable.

Urban-Econ (2002:34) further asserts "according to some LBSCs the funding does not come to the LBSCs on time and there seems to be uncertainty and high risk around the future of the funding from Ntsika." Urban-Econ (2002) also notes that some LBSCs had serious concerns around Ntsika subsidies and on the basis on which they are granted.

But the cost, notes Urban-Econ (2002:16), is that of foregoing a more efficient, target, non-erratic and ultimately effective service delivery. A grave outcome from this state of affairs is that without funding there was no moral pressure on the LBSCs to perform or apply for accreditation. Yet, if the LBSCs were not accredited, the provision of quality and controlled services would suffer.

What may be added is that Official A (Table 5.7) and Official D (Table 5.10) make the point that the LBSCs were expected to use their accreditation to source programmes from other agencies which would then also come with funding. These other programmes were those implemented by Umsobomvu, the Setas, the National Development Agency, overseas agencies and business organisations.

LBSC Owner 2 (Table 5.2) confirmed that they used their accreditation to source business from other government departments, including provincial and local government. Of the other LBSC owners interviewed, LBSC Owner 1 (Table 5.1) received a “once off” grant from a foreign embassy. LBSC Owner 5 (Table 5.5) received provincial assistance. Three LBSCs received assistance in the form of office accommodation, of which one LBSC was accommodated by a business organisation in the steel industry.

This suggests that the LBSCs could not make ends meet as some then had to scrounge for assistance which had an adverse impact on their day-to-day core functions. LBSC Owner 2 (Table 5.2) was the most successful as that LBSC charged their clients and did not ask for and receive the “once-off” payment from Ntsika. This suggests that it survived on the revenues received from clients, whether the revenue was from implementing programmes or charging clients direct.

The LBSCs were expected to charge for their services and only two seemed to get this right. Both functioning and the LBSC programme was simply another door. The LBSCs in question made it clear to clients from the start that they had to pay and made them pay a deposit.

5.6.4.1 Observations on funding

From the research, it can be noted that Ntsika could have created the funding problem as it funded the LBSCs when it should not have done so. Four issues can be raised as the funding problems impacted on the delivery of services:

- Ntsika did not “stick to its guns” on the fact that it was not obliged by law to provide funding to the LBSCs and these had to depend on their clients and other programme implementtation. Thus, the initial payment of R100 000 created a precedent and it would have been difficult to maintain this level of funding in any case as more LBSCs would have come in attracted by the once-off payment;
- Secondly, the fact that there was no funding model suggests that the government did not do its homework on CBOs and NGOs. Had it done its homework on these, it would have realised that they would

need funding. In any case a funding model could have been used as an incentive for accreditation, monitoring and evaluation.

- Thirdly, the authorities were unrealistic in not anticipating that micros would not be able to pay. The "new paradigm" school of thought maintains that micros will pay so long as the service is good. This does not necessarily apply in all instances. In any case, whether government had a policy or not on paying; it had to differentiate between a "good" and a "service", and what a specific market can pay for. Providing information for micro enterprises is a developmental service and government should have known it would have to pay for this; and
- There was an unfortunate assumption that the LBSCs were literate regarding financial management. This was misplaced despite the fact that one of the requirements for accreditation is being solvent and having a structure. However, the monitoring and evaluation does not provide for financial management, something critical in the delivery of services to the public.

5.6.5 Co-ordination of the LBSC programme by Ntsika

Urban-Econ (2002:30) is succinct when it stated that Ntsika could not play the linking and coordinating role for various reasons which include funding. Bloch & Daze (2000:11) rightly conclude that this key LBSC programme should not have been one of many Ntsika's programmes.

In fact, Bloch & Daze (2000) and Urban-Econ (2002) agree that linkages between the LBSCs, financial institutions, provincial and local authorities and other stakeholders are not what they should be. Urban-Econ suggest that some of Ntsika's powers and responsibilities should be devolved to the provinces, perhaps with provincial "Ntsikas" being formed.

It argued that this would make the LBSC programme more effective when administered from a provincial office rather than a national one. Furthermore, Urban-Econ (2002:30) points out, Ntsika was "too far from the action" to provide any guidance and, to add to this, had poor communications with the LBSCs.

Urban-Econ (2002:30) cites that “another area of difficulty concerns the provision of information specific to Ntsika’s links regarding the needs of SMMEs, economic activities, strategies, plans, programmes and opportunities within a specified geographical area”.

Urban-Econ (2002:28) then notes that many LBSCs express disillusionment and disappointment with the manner in which Ntsika operates and interacts with them. Some of the LBSCs feel that Ntsika’s “feedback is not forthcoming as quickly as they expect”.

The distribution of products and services is a core responsibility of the service centres but, in terms of the Urban-Econ (2002) study, there is confusion as to who is responsible for what. This is worrisome as the provision of the services is the very basis of the LBSC programme. This has resulted in Urban-Econ (2002:32) pointing out that Ntsika was also “retailing” when it is a “wholesaler”. The retailing is in the Tender Advice Centres and Business Opportunity Centres.

Bloch & Daze (2000:29) note that there is no consistency in information systems, information exchange and the various LBSCs operate in “silos”, and do not even know whether there are other LBSCs in the same town or province.

5.6.6 SMME – LBSC interaction

The interaction between the LBSCs and SMMEs is captured in the empirical survey. However, the officials were not happy with the relationship. Official A (Table 5.7), Official B (Table 5.8), Official C (Table 5.9), Official D (Table 5.10), Official E (Table 5.11) all agree that it was not helpful with comments ranging from “robust” to “aggressive” to “worrisome”, for example. This, the officials maintain, was a result of the funding and the poor relations between the **dti** and Ntsika.

In contrast, Ntsika dealt with LBSCs on a daily basis and they had a solid relationship. This was evident in workshops and in the visits by Ntsika officials to LBSCs. The SMMEs and LBSCs also had overseas visits and capacity-building workshops. It could thus be argued that at the practical level the relationship was healthy, but at the funding level things became ugly.

5.6.7 Monitoring and evaluation

Bloch & Daze (2000:22) observe that while an elaborate evaluation system lacked, there was a limited degree of monitoring. For instance, the LBSCs kept count of clients served and the products that are consumed. However, in the 2004 audit (Ntsika 2004:31) the Auditor General castigated Ntsika for not evaluating contract conditions.

This refers to the projects given to LBSCs by Ntsika. Not only were contracts not being evaluated as the Auditor General (Ntsika 2004) found, there is also no evidence that there was a global evaluation of LBSCs in terms of the effectiveness and efficiency of products and services provided.

Hence both Bloch & Daze (2000:24) and Urban-Econ (2002) recommend monitoring and evaluation as one of the components to improve service delivery to SMMEs. Incidentally the LBSCs themselves rate the lack of monitoring and evaluation (Bloch & Daze 2000:22) as a weakness. Additionally, the Auditor General (Ntsika 2004:31) emphasises that monitoring and evaluation, like accreditation, was not rigorous.

Some of the LBSCs confirm that they submitted reports to Ntsika, with one LBSC owner saying he submitted quarterly and half-yearly reports. The LBSC owners confirm that there is no systematic monitoring and evaluation programme in place. They indicate Ntsika was interested in the number of consultations and workshops held and did not look any deeper or undertake systematic follow ups.

One LBSC owner maintains that there was monitoring in the past when Ntsika officials would simply appear without notice and check the centre. They would inspect documents and also see if there are clients. Some LBSC owners advised they would submit quarterly reports but they do not confirm that any impact study was undertaken or follow-up interviews held with the clients they had served.

Failure to monitor and evaluate the LBSCs meant that as providers of services, they were not being held to account for poor delivery as nobody was inspecting

the work that had been done. This impacts on effectiveness as standards were not upheld.

LBSC Owner 1 (Table 5.1) indicates they were assessed when Ntsika feared that something had gone wrong. There were sporadic assessments of the LBSCs but they were infrequent and rare. LBSC Owner 2 (Table 5.2) and LSBC Owner 4 (Table 5.4) did self-evaluation on the basis of questionnaires.

It is evident from the aforegoing that there was no systematic monitoring and evaluation. The following come to the fore: the Auditor General's comments (Ntsika 2004); infrequent quarterly and half-yearly reports; infrequent surprise calls – only when Ntsika thought something was wrong – and the self-evaluation forms.

Thus, the structured interviews with LBSC owners reveal that monitoring and evaluation were sporadic and, furthermore, it was not done scientifically. That the research reports do not refer to any monitoring and evaluation reports kept for reference is alarming as this is the first source of appraisal information. The next step is verification with the entities themselves.

Similarly, the structured interviews with the officials also do not refer to any systematic monitoring and evaluation. In fact, the officials confirm that it occurred infrequently. Even the Auditor General (Ntsika 2004) had to comment on the lack of monitoring and evaluation. Yet, accreditation, monitoring, evaluation and impact assessment are critical ingredients for any successful programme.

The accreditation ensures that credible entities are selected; the monitoring ensures that standards are maintained; and, finally, impact evaluation measures the deliverables. The mere fact that there is going to be an impact evaluation ensures that providers perform beyond expectations.

When contrasted with the other issues referred to above, a conclusion that can arguably be made is that Ntsika could have been beset with its own start-up problems and the systems were not in place. Hence the most basic ground rules in programme implementation were not observed.

5.7 CONCLUSION

It can be concluded that the combination of the above problems cannot result in a successful LBSC programme. The roll-out was erratic and, as shown, the accreditation of LBSCs was faulty: there was insufficient monitoring to ensure standards were maintained and, finally, there was no impact study to see if there was any positive impact and the LBSC providers knew this. Thus, an acceptable standard could only come from the effective LBSCs while the others simply limped along as has been shown.

In addition to this there was acrimony between Ntsika, the government and the LBSCs to the extent that the SMMEs were the “meat in the sandwich”. The funding model was inconsistent and caused acrimony between the LBSCs and Ntsika. To add to this the town councils and provinces did not play a substantial role and thus the institutions dealing with residents daily were marginalised.

This chapter gave a thorough insight into the implementation of the LBSC programme and the next chapter will provide the quantitative basis that will determine whether there was any positive impact for the assisted small businesses.

CHAPTER 6

RESEARCH METHODOLOGY AND DATA ANALYSIS

6.1 INTRODUCTION

Cooper & Schindler (2008:13), Creswell (2009:15), Saunders, Lewis & Thornhill (2007:5) and Welman & Kruger (2004:2) concur that good research generates dependable data, derived through practices that are conducted professionally. It is postulated that research is undertaken to find a solution to a problem that has been identified and the solution to the problem must be determined on the basis of an accurate analysis of the problem.

Cooper & Schindler (2008:13), Creswell (2009:15), Saunders *et al* (2007:5) and Welman & Kruger (2004:2) suggest that "methodology" refers to the theory on the research undertaken and the various steps taken to ensure dependability of the data. These would be systematic, detailed and transparent. In fact, they postulate that research must be driven by ethics to ensure credibility.

Of importance is that while methodology consists of these various methods, techniques and principles, it must be borne in mind that they are inter-related. Thus "methodology" is not only concerned with the manner in which information is acquired, but fundamental to this is the type of study being undertaken. Welman & Kruger (2004:2) sum it up when they say methodology describes the research procedure as including the overall research design, the sampling procedures, the data collection, the field methods and the analysis procedures.

This chapter thus gives an insight into the type of the study and the appropriate research methods associated with it. It then gives an understanding of the methods and techniques that were used.

This chapter thus gives an insight into the type of the study and the appropriate research methods associated with it. It then gives an understanding of the methods and techniques used for the present study.

6.2 DEFINITION OF THE RESEARCH PROBLEM AND OBJECTIVES

6.2.1 Problem definition

Welman & Kruger (2004:12) maintain that a research problem refers to some theoretical or practical difficulty for which a solution is needed. The problem is clearly defined in Chapter 1 (Section 1.4) of this thesis when it is argued that the LBSC programme introduced by government to provide information and other services to Black-owned SMMEs has not had identifiable and desired levels of success.

The programme was intended to provide information and business development services to SMMEs.

Berry *et al* (2002:38) confirm this lack of identifiable success. They believe that although little research has been undertaken to specifically assess the effectiveness of new and restructured institutions providing support to South Africa's SMMEs, there are indications that the originally well-intended policy measures suffer from sub-optimal implementation.

The **dti** (**dti** 2004a:133) indirectly endorses this when it asserts "a starting point for many observers and practitioners has been the disappointments associated with the historical under-achievement of BDS interventions…."

The same organization says (**dti** 2004a:133): "the provision of BDSs has been typified by disparate and inconsistent methodologies and high-cost/low-outreach programmes which are dependent on continuous subsidies."

This study aimed to have the following outcomes:

- The research will determine the effectiveness of the LBSC programme on SMMEs in Gauteng and conclusions can be extrapolated for the rest of the country;

- It will highlight key areas to be addressed in the conceptualisation and roll-out of service centres for the delivery of BDSs to SMMES; and
- It will serve as a basis to measure service centres which can be applied nationally and internationally.

6.2.2 Objectives of the research study

6.2.2.1 Primary objective

The primary objective is to evaluate the effectiveness of LBSCs in the Gauteng Province in providing business development services to SMMEs.

6.2.2.2 Secondary objectives

The following secondary objectives support the primary objective and will:

- Evaluate the capacity of LBSCs to provide services to SMMEs;
- Evaluate the effectiveness of the relationship between LBSCs and SMMEs;
- Evaluate the ability of the LBSCs to provide all services prescribed by the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a) in terms of:
  - The effectiveness of the LBSCs to provide information to SMMEs;
  - The effectiveness of the LBSCs to provide development services to SMMEs.

6.3 PROPOSITION

Cooper & Schindler (2008:64) note that a “proposition” is a statement about observable phenomena that may be judged as “true” or “false”. Thus, the following proposition will be tested as true or false:

- Gauteng’s LBSCs were not effective in providing services to SMMEs.

The study did not test a hyphothesis as most of the units of analysis, the LBSCs, have been discontinued and only a few still exist, making it an *ex post facto* study.

The clients for these, which are the SMMEs for the questionnaire, were thus limited, moreso as they had received services from these LBSCs more than 10 years ago.

However, the study is important as South Africa still has a huge SMME population that needs services and the LBSCs will have to re-appear in one form or another. It is also crucial as it will suggest how more effective centres can be conceptualised and established.

6.4 UNIVERSE, POPULATION AND UNITS OF ANALYSIS

Before dealing with the units of analysis, it is important to find support for and justify the form of research to be undertaken as it influences the selection of the units of analysis.

6.4.1 Type of research

Babbie (2005:94) asserts that although it is useful to differentiate between "types of research", most studies will use several of them as they converge. Types of research include the explanatory, predictive, descriptive, exploratory and reporting approaches.

This research is more exploratory and also has descriptive aspects. The "exploratory approach" answers the questions "How?" and "Why?", while the "descriptive" part answers the questions "Who?" and "What?". These approaches specifically addressed the point made by Berry *et al* (2002:38) that very little has been done to investigate the effectiveness of new government interventions.

6.4.2 Universe and population

According to Strydom & Venter (2002:198), it is critically important to differentiate between the "universe" and "population". Strydom & Venter quote from research by Arkava and Lane in 1983 who describe the "universe" as all potential subjects who possess the attributes in which the researcher is interested.

Cooper & Schindler (2008:374) and Saunders *et al* (2007:206) concur that a "population" represents the elements about which we wish to make inferences. This would refer to service centres that provide business development services, which includes information, to SMMEs in terms of the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a).

Thus, people and organisations that provide business development services should be seen as the "universe". "Population" then refers to the LBSCs. Furthermore, Babbie (2005:94) holds that it is important to distinguish between "units of analysis" and the "aggregates of generalization" as it assists the researcher in being clear on what he/she is studying.

As an example Babbie (2005:94) points out that the researcher must be clear he/she is studying "marriage" and not "marriage partners".

Thus, the "units of analysis" in the present study are defined in the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a) and consist of:

- NGOs and CBOs that have been accredited as LBSCs;
- Tertiary institutions that have the accreditation to operate as LBSCs;
- Business entities that are accredited LBSCs; and,
- Other institutions or organisations that obtain this accreditation.

6.4.3 Variable(s) of interest

The study is the "effectiveness" of the LBSC programme. The LBSCs are the "independent variable" while the SMMEs are the "dependent variable". Fraenkel & Wallen (2005:38) emphasise the fact that dependent variables are those that the researcher chooses to study in order to assess the impact of other variables on them. In the present study the variables of interest are the SMMEs.

6.4.3.1 Relation between population, units of analysis and sample

It is important to stress that while the units of analysis, the entities being studied, are the LBSCs, the sample comes from the SMMEs that received services from

the units of analysis. This study is univariate and deals with two populations. The one population is the independent variables about which inferences must be made, and the other is the SMME population from which data must be drawn so that the inferences can be made. Inferences are not being made about the SMMEs.

Grimm & Yarnold (2008:4) point out that "multivariate" analysis refers to the analysis of several variables and "univariate" to the analysis of one variable, for instance the LBSCs.

6.5 SAMPLE FRAME AND SIZE, METHODS AND RESPONSE RATE

Parasuraman, Grewal & Krishnan (2004:357) define "sampling" as the selection of a fraction of the total number of units of interest to decision makers for the ultimate purpose of being able to draw conclusions about the entire body of units. This fraction is then known as the "sample" which Cooper & Schindler (2008:90) opine is part of the "target population" and has been carefully selected to represent that population. These authors hold that the sample contains the desired information and can answer all the questions.

6.5.1 Sample frame

Cooper & Schindler (2008:374) believe that the "sample frame" is the list of elements from which samples will be drawn. In this instance, there will be a sample frame of SMMEs (as receivers of the LBSC services).

The SMME sample frame will be those enterprises that received services from the accredited LBSCs. A shortcoming is that not all the LBSCs still had lists of clients they had serviced and, secondly, there was the possibility that the LBSCs may give the names of only those SMMEs whose fortunes improved as a result of their intervention. Because of the above factors, the researcher received the names of only about 400 SMMEs.

6.5.2 Sample size

Cooper & Schindler (2008:376) assert that the ultimate test of a sample is how well it represents the characteristics of the population it purports to represent. Welman & Kruger (2004:46) agree that researchers usually take a "representative sample" of the population. The conclusions around this sample are then extrapolated for the population.

De Vos *et al* (2002:198) declare that the larger the population, the smaller the percentage of that population the sample needs to be. If the population itself is relatively small, they believe the sample should comprise a reasonably large percentage of the population. Larger samples enable more representative and more accurate conclusions, and more accurate predictions to be made, they say. There are specific principles to be observed and methods used to ensure that the selection is scientific and that it can be used to represent the population. Similarly, there are specific rules or precepts to observe in determining the size of the sample.

Cooper & Schindler (2008:385) postulate:

- The greater the dispersion, the larger the sample must be to provide estimation precision;
- The greater the desired precision, the larger the sample;
- The narrower the interval range, the larger the sample;
- The higher the confidence level in the estimate, the larger the sample;
- The greater the number of sub-groups of interest within a sample, the greater the sample must be as each of the sub-groups must meet minimum size requirements;
- If the calculated sample size exceeds 5 % of the population, the sample size may be reduced with a concomitant sacrifice of precision.

Cooper & Schindler (2008:375) further suggest that sampling is preferred because it is cost effective, produces greater accuracy of results, greater speed of data collection and availability of population elements. However, they point out that in a diverse population a sample of less than 50 will not necessarily be representative of the characteristics.

In this research the sample size was 400 SMMEs who had received training from LBSCs in the Gauteng Province. It is argued that given the fact that the LBSCs were operational in the late 1990s and this study was conducted *ex post facto* in 2006 and 2007, the sample of 400 SMMEs that were serviced was commendable.

However, the shortcoming is that there are justifiable concerns about people's memories regarding responses given in 2006 and 2007 for a process that started in 1995. Secondly, the research occurred mainly in Johannesburg and Pretoria, and in Ekurhuleni and Sedibeng where there was less LBSC activity. Another shortcoming of the study could be that, as the questionnaires were not area-coded, there could be response bias as one of the areas of the sample could have proportionately more responses than another. But, this would not affect the outcomes.

6.5.3 Sampling methods and response rate

"Purposive" or "judgemental" sampling was applied and consisted of SMMEs that had interacted with LBSCs. This is "non-probability" sampling (Saunders *et al* 2007:207). It differs from "probability" sampling as there was no chance of the SMMEs that received a questionnaire not being selected. The process of locating the SMMEs was through obtaining lists of SMMEs from the LBSCs themselves. Babbie (2005:179) asserts that it is acceptable to select a sample on the basis of knowledge and the purpose of the study.

Cooper & Schindler (2008:397) also confirm that using "purposive" sampling, which is "non-probability" sampling, is appropriate for this research. According to them, purposive or non-probability sampling occurs when the researcher selects samples to conform to some criterion. In this case the criterion was SMMEs that had received services from LBSCs.

6.6 DATA COLLECTION

Blankenship & Breen (1993:122) state that there are certain fixed guidelines as to which methods a researcher should use for collecting primary data and the most important is that the researcher must collect data as accurately as possible. The

most popular methods for data collection are usually observation, the interview and the questionnaire.

These three methods are not necessarily mutually exclusive but can be inter-related. However, the questionnaire is the centrepiece of data collection as it stands on its own. Additionally, it can be the base for the other forms of data collection, for instance the in-depth interview or the focus group. For this research it was decided to use the questionnaire.

Cooper & Schindler (2008:335) say a questionnaire should:

- Encourage each participant to provide accurate responses;
- Encourage each participant to provide an adequate amount of information;
- Discourage each participant from refusing to answer specific questions;
- Discourage each participant from early discontinuation of participation; and
- Leave the participant with a positive attitude about survey participation.

The letter to the SMMEs exhorted them to participate fully and there is little doubt, although this cannot be verified except on the basis of the response rate, that the respondents wanted this research done.

6.6.1 The design of the questionnaire

The questionnaire was designed around “constructs” determined by the training and information requirements for SMMEs as determined in the legislation, literature review and experience survey. Cooper & Schindler (2003:43) assert that a “construct” is a grouping of specific concepts to express a specific issue or reality under discussion.

The constructs are: the needs analysis; relations with SMMEs; resources to deliver services; the capacity to provide services; marketing and visibility; delivery of statutory LBSC services; excellence as one-stop shops; accessibility and aftercare; and monitoring and evaluation. There were 42 variables around the nine

constructs intended to measure the effectiveness of LBSCs in servicing SMMEs (Appendix A.2).

The constructs in Table 6.1 were derived from the literature review, the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a:) and the interviews with officials and the LBSC managers. Delport (2002:176) points out that the format of a questionnaire will be influenced by whether it will be a personal interview, or a mail or telephone interview, including a focus group or web-based interview. Cooper & Schindler (2003:364) then suggest four pillars on which to premise questions. These pillars are:

- Should this question be asked?
- Is the question of proper scope and coverage?
- Can the participant adequately answer this question as asked? and,
- Will the participant willingly answer this question as asked?

When the above parameters have been determined, it is important to focus on the type of questions that will be asked.

Saunders *et al* (2007:362) postulate that questions can be distinguished in terms of “opinion”, “behaviour” and “attribute” and this influences the way in which questions are worded. According to these authors, “Opinion variables record how respondents “feel” about something or what they “think” or “believe” is true or false. In contrast, data on behaviours and attributes record what the respondents “do” and “are””.

This research focuses mainly on the “opinions” of SMMEs without necessarily excluding “behaviour” and “attributes”. The questionnaire sought the “opinions” of SMMEs on the effectiveness of the LBSC programme. The questionnaire (Appendix A) was divided into three major sections: a description of the SMMEs (Appendix A.2: Questions 1 to 6), the actual Likert scale questions (Appendix A.2: Questions 7 to 42) and an open-ended question (Appendix A.2: Question 43).

Table 6.1: Table of constructs and their indicators

Needs analysis	Relations with SMMEs	Resources to deliver services	Capacity to provide services	Delivery of statutory services	Marketing and visibility	Excellence as one-stop-shop	Accessibility and aftercare	Monitoring and evaluation
The LBSC asks me the financial affairs of my business	The LBSC talks to me in my home language	The LBSC offers practical solutions	The consultant is knowledge-able on SMMEs	The LBSC offers information to SMMEs	The SMME community knows about the services of the LBSC	The LBSC assists with most of my needs	SMMEs know where to find the offices of the LBSC	I formally assess the LBSC after every session
The LBSC asks me the processes of my business	The LBSC and I have a good working relationship	The LBSC has training aids (eg videos, projectors etc)	The consultant is easy to work with	The LBSC offers basic training to SMMEs	The LBSC services are affordable	The LBSC assists people start a business	The LBSC is in an accessible area	Independent people visit me to assess the LBSC
The LBSC asks me questions on the skills of my workers	The LBSC consultant has good communicatio n skills	The LBSC hands out easy to understand material	The consultant offers good solutions	The LBSC offers advanced training on HR, marketing etc	I got to know about the LBSCs because of the media	The LBSC assists people get business contracts from government and the private sector	The LBSC consultant responds promptly	My business made more money because of the LBSC
The LBSC asks me questions on the technology of my business	I can trust the LBSC with confidential information about my business	The LBSC has sufficient clients to serve clients	The consultant does not offer the same solution for differing problems	The LBSC offers training that is specific to sectors	I am prepared to recommend the LBSC to other people	The LBSC assists people get finance	The LBSC consultant gives me aftercare	My workers perform better because of the LBSC

The questions were derived from:

- The secondary objectives of the research;
- The objectives of the LBSC programme as determined in the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a); and,
- The experience survey and literature review on service centres.

Hjalmarsson & Johansson (2003:83) suggest that service-centre delivery is at two levels. The first is the “market intervention” in which the strategy is evolved and the second, which is the “operationalisation” at the “rock face”. The study focuses on the second level and this is the basis on which the questionnaire was developed.

Thus, the questionnaire sections are centred on operations of service centres and they focus on (1) visibility, (2) accessibility, (3) services that were provided, (4) the professionalism of the services, and (5) monitoring and evaluation.

6.7 MEASUREMENT AND INSTRUMENTS

Parasuraman *et al* (2004:266) define “measurement” as the assigning of numbers to responses based on a set of guidelines. They believe that this has two potential benefits. “First, one can summarise quantified responses from a sample more efficiently and economically… Secondly, we can manipulate quantified responses by using a variety of mathematical techniques”, they explain.

These then require different levels of measurement and this will also apply to the data. When measuring data, nominal, ordinal, interval and ratio data are applied because of their characteristics (Table 6.2). For instance, according to Cooper & Schindler (2008:282):

- Data must distinguish between two properties (in other words it should be dichotomous (nominal));
- It must distinguish in terms of order of rank (for instance more than (ordinal));
- It must distinguish in terms of intervals between successive numbers (for instance, interval) and, lastly,
- It must distinguish in terms of absolute size (that is, ratio).

These elements are then adapted to the various forms of study as each uses a specific set of data.

Table 6.2: Types of data and their measurement characteristics in accordance with Cooper & Schindler (2008)

Type of data	Characteristics of data	Basic empirical operation	Example
Nominal	Classification (mutually exclusive and collectively exhaustive categories) but no order, distance or natural origin	Determination of equality	Gender (female and male)
Ordinal	Classification and order but no distance or natural origin	Determination of greater or lesser value	Doneness of meat (well, medium-well, medium-rare and rare)
Interval	Classification, order and distance, but no natural origin	Determination of equality, of intervals and differences	Temperature in degrees
Ratio	Classification, order, distance and unique origin	Determination of equality of ratios	Age in years
Source: Cooper & Schindler (2008:282)			

6.7.1 The process of measurement

The process of measurement is the assignation of values in the collection of data. Cooper & Schindler (2003:250) feel that developing a scale of measurement requires decisions in six key areas: study objective, response form, degree of preference, data properties, number of dimensions, and scale construction.

The following apply in this research:

6.7.1.1 Study objective

The choice is between measuring the characteristics of the participants who complete the study, or to use the participants as judges of the objects or indicants

presented to them. The latter applies in this research as the participants will describe their experience of LBSCs.

6.7.1.2 Response form

Measurement scales are either “rating”, “ranking” or “categorisation”. Cooper & Schindler (2003:251) distinguish between the three as follows: “Rating” refers to scoring an object without comparing it to another; “ranking” makes comparisons among two or more objects; and “categorisation” asks participants to put themselves or property indicants in groups or categories. In this instance, “rating” scales were used as the respondent rated the LBSC he/she dealt with.

6.7.1.3 Degree of preference

The measurement may involve “preference” evaluation, which dwells on likes or the preferred solution. Participants are asked to give an “objective” judgement rather than a “personal” one. Preference evaluation will apply in this case.

6.7.1.4 Data properties

This refers to measurement scales, namely, “nominal”, “ordinal”, “interval” and “ratio” as detailed in Table 6.2. In this research an “ordinal” scale was used.

6.7.1.5 Number of dimensions

Measures can be “one-dimensional” or “multi-dimensional”. “One-dimensional” measures have one attribute, while “multidimensional” measures have several attributes. In this instance, several attributes of LBSCs were measured in line with the secondary objectives of the study.

6.7.1.6 Scale construction

Cooper & Schindler (2003) hold that the following “scales” apply: “arbitrary”, “consensus”, “item analysis”, “cumulative” and “factoring”. An “arbitrary” scale construction was used. This choice was made because the scale was custom designed, in this instance, the “Likert” scale.

The Likert scale was used for the study. Ordinal data were used as it was ordered in one way or another, high or low. Respondents chose answers from a scale of

options. The objective of the research was to evaluate the "effectiveness" of LBSCs in Gauteng and this necessitated choosing from several options to obtain an aggregate.

6.7.2 Determination of values for the questions

Cooper & Schindler (2008:308) rightly point out that the Likert-type scale has "in-built summated rating" and the data are interval as illustrated in Table 6.3.

Table 6.3: The summated Likert scale used in this study in accordance with Cooper & Schindler (2008)

Strongly disagree	Disagree	Agree	Strongly agree
1	2	3	4
Source: Cooper & Schindler (2008:308) as for interval data			

Cooper & Schindler (2008:308) opine that the Likert scale is appropriate when an organisation wants to undertake a programme of change or improvement. This suggests that something could be wrong with an existing programme, as is the current case. It judges whether or not the programme has achieved the desired results. It goes without saying that positive responses, which will indicate the success of the LBSC programme, will score highest and negative responses will score lowest.

The participant is asked to respond to each question through a tick in the appropriate box. Each of the boxes is given a numerical value to reflect its degree of attitudinal favourableness and the scores may be totalled to measure the participant's attitude. Cooper & Schindler (2003:253) contend that between 20 and 25 well-constructed questions will be required for a reliable Likert scale result.

6.7.3 Pilot testing the questionnaire

Preliminary questionnaires were sent to five owners/managers of SMMEs selected at random from the list of SMMEs provided by the LBSCs. The responses from the pilot test indicated that the respondents understood the questionnaire and it did not need further editing.

6.7.4 Data processing and analysis

The researcher personally processed the responses. Questionnaires were sent to 400 owners of SMMEs that had been serviced by LBSCs. Two-hundred and twenty-six (226) completed questionnaires were returned, giving a response rate of 56 %. Of the returned questionnaires, 20 were scrapped as they were illegible or unusable. Thus, the final response rate was 51.5 %.

6.7.5 Editing of data and code frame

The researcher edited the raw data that were collected. The data were first checked for comprehensiveness and consistency. Damaged questionnaires or those that could not be read were destroyed. The variables were matched and a code frame was developed. The code frame was specifically designed for the descriptive section of the questionnaire (Appendix A.2: Questions 1 to 42) and, secondly, for the open-ended question (Appendix A.2: Question 43).

6.8 DATA ANALYSIS AND INTERPRETATION

Welman & Kruger (2004:201) and Harman (1976:11) concur that one of the first tasks in the analysis of data is the formulation of some kind of theoretical statistical model. They postulate that the selection of the appropriate statistical methods and/or software is dependent, among other things, on the level of measurement.

Diamantopoulos & Schlegelmilch (2000:63) note that a careful re-examination of the overall aims of the research provides an excellent point of departure for developing analysis objectives. The overall formulation, it can be argued, is also influenced by – among other issues – whether the data are univariate, bivariate or multivariate.

Taking literature by Welman & Kruger (2004:201), Harman (1976:11) and Diamantopoulos & Schlegelmilch (2000:63) into account, the level of measurement is ordinal (as explained in Section 6.6.1.4) and the data are univariate as there is only one dependent variable, the SMMEs.

6.8.1 Data processing and analysis

The purpose of the research was to establish the effectiveness of LBSCs in providing services to SMMEs. The field work was on SMMEs who had received services. Questionnaires were sent to 400 owners of SMMEs that were serviced by LBSCs, of which 226 questionnaires were returned. This is a response rate of 56 %.

Of this 226, twenty (20) were damaged in the faxing and could not be read or had missing pages or values. This reduced the number of questionnaires for analysis to 206 (that is, 51.5 %). Missing values in the variables taken into account for factor analysis (Section 6.7.2) caused another 18 questionnaires to be deleted, thus resulting in 188 (that is, 47 %) questionnaires being used for the factor analysis.

Another 37 questionnaires were eliminated for the analysis of variance (Anova) and t-test because of missing values in the biographical data. This reduced the number of questionnaires for analysis in terms of the accepted responses for the two tests to 151 (that is, 37.8 %).

Validity and reliability were conducted on the basis of the 188 responses for the factor analysis and the 151 responses for the Anova and t-test. This is argued later in the chapter but, sufficient to state, the results can be extrapolated for the entire sample and by extension the study as a whole.

6.8.2 Approaches to data analysis

Cooper & Schindler (2008:562) assert that when the variables being analysed are inter-related, some dependent and others independent, then “factor analysis” is appropriate for analysing the data. In fact, Cooper & Schindler (2003:11) posit,

"factor analysis" is one of the techniques applicable in multivariate analysis, where many variables are involved. In this instance, there were many constructs and this technique was used although the overall research is univariate. It is for this reason that factor analysis was used for the interpretation of data in this research.

An Anova was performed on the biographical data to see whether the age of the owner/manager, his or her level of education, the number of employees in the entity, the turnover and the age of the business had any influence on the factors. Lind, Marchal & Wathen (2005:438) and Cooper & Schindler (2008:493) concur that the Anova establishes if means from different sets of data come from the same sample which, in this case, establishes whether there is any difference in the means of the five sets of data. This would establish if there were any differences in the services of the LBSCs on categories of the SMMEs.

The t-test interrogated the differences in the mean of the scale and the mid-points of the factors to establish the level of significance in the difference, if any, between them. Lind, Marchal & Wathen (2005:438) Cooper & Schindler (2008:483) assert that a t-test determines the significance of a sample distribution and a parameter.

6.8.3 Factor analysis

There are several approaches to "factor analysis" and, in this instance, the model used is the Maximum Likelihood Method. Kim & Mueller (1978:9), Kerlinger (1986:138), Kline (1994:3) and Cooper & Schindler (2003:613) agree that "factor analysis" identifies patterns or underlying combinations in variables.

Thompson (2004:5) makes the point that there are two forms of factor analysis: "confirmatory" and "exploratory". In this instance, it will be "exploratory" factor analysis (Kim & Mueller 1978:9) as the factors were not known.

Factor analysis is used for data reduction when patterns can be recognised to develop specific constructs. This occurs when there are too many variables and some concentration could benefit the exercise. The questionnaire had 42 variables (Appendix A.2: Questions 1 to 42) and one open-ended question (Appendix A.2: Question 43). In addition there was a descriptive section in the questionnaire (Appendix A.2: Questions 1 to 6) which also subdivided the independent variables.

Kim & Mueller (1978:9) are incisive and insist that factor analysis is based on the fundamental assumption that some underlying factors, which are smaller in number than the number of observed variables, are responsible for the "co-variation" among the observed variables. "Co-variation" here refers to the commonality between variations.

6.8.4 Test of significance (t-test)

The data were subjected to a "t-test" technique to determine any statistically significant differences between the factor "means" and the "mid-point". Fraenkel & Wallen (2005:232) opine that a "t-test" determines if there is a statistically significant difference between the means of two or more samples. This test was applied to interrogate the differences between the means of the sample and mid-points of the factors that emerged.

Bordens & Abbot (2008:442) maintain that statistical tests detect differences and it was decided to apply this test as the mid-points of the independent variables were close to each other and the analysis of variance below also did not reveal any major differences.

6.8.5 Analysis of variance (Anova)

An "analysis of variance" (Anova) was applied. This is also a test of significance between and within the different independent variables in the same factor. Saunders *et al* (2007:448) and Cooper & Schindler (2008:493) agree that Anova tests the similarity of several means or other measures by using the variances between and within groups of data. If they are equal, it means they come from the same population (or factor in this case).

6.9 THE RELIABILITY AND VALIDITY OF THE MEASURING TOOL

A major concern with all scientists is the "credibility" of research findings. This suggests the degree to which the research is "reliable" and "valid". In fact, the two are key to authenticate research. It is, therefore, natural that this research must be tested for reliability and validity.

6.9.1 Reliability

Strube (2000:24) declares that “reliability” refers to the consistency of the results. Tests are applied to check whether the results will be the same should the research be repeated by another scientist and in a different context or environment (Saunders *et al* 2003:101).

Cooper & Schindler (2008:293) then assert that “reliability” refers to the extent to which the procedure gives consistent results and the extent it is free of random error or unstable error. In this instance, it would relate to the accuracy and consistency of the responses. According to Saunders *et al* (2007:149), “reliability” is assessed by posing the three questions:

- Will the measures yield the same result on another occasion?
- Will similar observations be reached by other observers? and,
- Is there transparency in how sense was made from the raw data?

Saunders *et al* (2007:149) further point out that the threats to reliability are “bias” – whether it is from the interviewer, participant or observer. This is aptly summed by Frankfort-Nachmias & Nachmias (2000:154) who explain that the measurement of intangibles could have more errors than measuring physical instruments. They point out that momentary distractions by the participant could result in an error. Thus, it can be argued that “reliability” stresses “consistency” of outcomes and this occurs when the threats to reliability (for example, bias and distractions), are reduced as elimination might not be possible. It must also be added that when talking about “consistency”, it follows that even if the outcomes are wrong, for as long as they are consistent, they are reliable.

There are three regular tests for reliability:

- The “test-retest method” which requires administering the same treatment [that is, the questionnaire] twice and comparing the results. It is common, for instance, to take a patient’s temperature more than once in hospital. However, it differs from situation to situation and the in-between periods will differ depending on the nature of the research;

- In terms of the “equivalent forms method”, two differing measuring instruments are used for the same research or experimentation. For example, it could consist of two different questionnaires for the same sample and, finally,
- The “Kuder-Richardson approach” in which the “mean”, “standard deviation” and the “number of items” are used to establish what is known as the “reliability coefficient”. Fraenkel & Wallen (2005:161) claim that a reliability coefficient of 0.00 suggests a complete absence of a relationship between values. One of the Kuder-Richardson approaches is determining “Cronbach’s alpha”.

In this instance, the high Cronbach’s alpha of 0.923 warrants reliability. The questions were juggled to eliminate patterning or uniformity. Despite this, there was a high Cronbach’s alpha which suggests that the answers were consistent. This intimates that this research is reliable.

6.9.2 Validity

Cooper & Schindler (2008:714), Bordens & Abbot (2008:129), Saunders *et al* (2007:614) and Fraenkel & Wallen (2005:150) are appropriate when they assert that “validity” refers to the extent to which a test measures what we actually want to measure.

Hence, Frankfort-Nachmias & Nachmias (2000:149) indicate that “validity” is concerned with the question: “Am I measuring what I intend to measure?” Fraenkel & Wallen (2005:150) explain that “validity” refers to the appropriateness, usefulness, correctness and meaningfulness of the inferences.

In this instance, the “validity” would be the extent to which the questionnaire measures the impact that LBSCs have on SMMEs. Cooper & Schindler (2008:289) hold that “validity” occurs in various forms and the most common ones are presented in Table 6.4.

Table 6.4: Cooper & Schindler's (2008) summary of validity estimates

Type of validity	What is measured	Methods of measure
Content	Degree to which the content of the items adequately represents the universe of all relevant items under study	Judgemental or panel evaluation with content validity ratio
Criterion	Degree to which the predictor is adequate in capturing the relevant aspect of the criterion	Correlation
Concurrent	Description of the present: criterion data are available at same time as predictor scores	
Predictive	Prediction of the future: criterion data are measures after the passage of time	
Construct	Answers the question: "What accounts for the variance in the measure?" Attempts to identify the underlying construct(s) being measured and determine how well the test represents them	Judgemental. Correlation of proposed test with established one. Convergent discriminant techniques. Factor analysis. Multi-variate multi-method analysis
Source: Cooper & Schindler (2008:290)		

The relevant validity forms to the present study are “content” (Cooper & Schindler 2008:291) and “construct” validity (Cooper & Schindler 2008:292). Cooper & Schindler (2008:291) further postulate that the determination of “content validity” is judgemental. Thus, it is tested by the extent to which the measuring instrument provides adequate coverage of the issues.

It can thus be argued that to a great extent the sequencing of the variable for the questionnaire in terms of the training cycle, the National Small Business Act, Act 102 of 1996 (RSA 1996) and international benchmarking warrants some degree of content validity.

In fact, Bryant (2000:112) makes the point that “construct validity” involves the formulation of clear and explicit definitions of the underlying constructs, what Thompson (2004:4) sees as “factors”. Babbie (2005:148) endorses this approach when he suggests that “construct validity” is based on a relationship among variables.

The “factor analysis” reveals this relationship between the factors in the present study. There were originally five factors but, after eliminating loadings and rotation, they were reduced to two. However, the loadings were still high. The “validity” is inferred but certainly not conclusive from the relationship, even if close.

However, the “probability” is high from observation that the constructs are closely related and, on the whole, the research can be regarded as “valid” in that it has measured what it set out to measure, which is the “casual relationship” between LBSCs and SMMEs.

Furthermore, the responses to the open-ended question (Appendix A.2: Question 43) were relevant to the training cycle and this further confirmed the “validity” of the instrument. However, it must be pointed out “reliability” is itself a measure of “validity”, although by no means conclusive. The high Cronbach’s alpha suggests “reliability” which then also contributes to determining the validity of the measurements.

6.10 CONCLUSION

The techniques used in this chapter ensure that the research is scientific and the findings are acceptable in the scientific community. The purposive and judgemental sampling procedures ensured that only SMMEs that had an experience with LBSCs were used.

This technique was more accurate, apart from it being economic. Random sampling would have been expensive and would not necessarily have provided the specific SMMEs required for the study. Thereafter exploratory factor analysis was used which revealed the underlying constructs that could contribute to effective LBSCs. The next chapter will detail the findings flowing from the above techniques as used on the raw data.

CHAPTER 7

RESEARCH FINDINGS

7.1 INTRODUCTION

Chapters 2, 3, 4 and 5 were instrumental in determining the theoretical foundation of the present study. These were a literature review on small business service centres; a limited experience survey in the UK; a review of the LBSC network since inception; limited interviews with **dti** officials and limited interviews with LBSC owners/managers.

The analysis formed the basis of the questionnaire (Appendix A) sent to SMMEs that interacted with LBSCs. The questionnaire consisted of three sections: the first section (Appendix A.2: Questions 1 to 6) related to the demographics of the SMMEs that participated; the second section (Appendix A.2: Questions 7 to 42) contained the statements that tested the effectiveness of LBSCs, and the third section (Appendix A.2: Question 43) contained an open-ended question.

The raw data from the responses were analysed using SAS and BMDP[1] software and included descriptive statistics, factor analysis, a t-test of significance, and the analysis of variance (Anova). The results are presented in tabular format for better understanding: the analysis and interpretation are simpler.

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[1] BMDP Statistical Software, Inc.
12121 Wilshire Blvd, Suite 300
Los Angeles, CA 90025 USA
Phone (310) 207-8800
Fax (310) 207-8844
Release: 7.1 (IBM/CMS)
Manual: BMDP Manual Volumes 1, 2, and 3.

BMDP Statistical Software
Cork Technology Park, Model Farm Rd
Cork, Ireland
Phone +353 21 542722
Fax +353 21 542822
DATE: 13-MAR- 1993 AT 09:57:13
Digest: BMDP User's Digest.

The findings from the structured interviews with officials of the department and LBSCs are included in this chapter and follow the findings on the empirical data. This directly links the quantitative and qualitative data. The conclusions are presented and discussed in Chapter 8.

7.2 EMPIRICAL FINDINGS

This section details the results of the field research. A questionnaire was sent to 400 SMMEs that had received services from LBSCs. The findings are classified under “demographics”, “factor analysis”, “analysis of variance”, “tests of significance” and “responses to the open-ended question”.

7.3 DEMOGRAPHICS OF THE RESPONDENTS

The National Small Business Act, Act 102 of 1996 (RSA 1996), as amended by the National Small Business Amendment Act, Act 26 of 2003 (RSA 2003), classifies entities with a sales turnover of less than R200 000 per annum as “micro”. As 83 % of the respondents had sales turnovers of less than R200 000 per annum, this suggests that the sample was predominantly micro enterprises and very small entities. The demographics of the respondents at the time of their interactions with the LBSCs are presented in Tables 7.1 to 7.5.

It must be acknowledged that while the sample constituted SMMEs that were defined as “micro” in terms of the National Small Business Act, Act 102 of 1996 (RSA 1996), a further breakdown of the sample into varying levels of turnover below R200 000 per annum might have yielded more detailed results.

Table 7.1 illustrates the age of the owners/managers at the time of their interactions with the LBSCs.

Table 7.1: Age of owners/managers at time of interaction with LBSCs

Age (years)	Frequency (N)	Percentage
18 to 29	28	16.18
30 to 39	60	34.69
40 to 49	57	32.95
50+	28	16.18
Total	**173**	**100.00**

In terms of the age of the entrepreneur, 67.6 % of the sample falls in the 30 to 49-year age group (Table 7.1).

Table 7.2 illustrates the qualifications of the owners/managers at the time of their interactions with the LBSCs.

Table 7.2: Qualifications of owners/managers at time of interaction with LBSCs

Qualification	Frequency (N)	Percentage
Less than matric	43	24.85
Matric	73	42.20
Diploma	37	21.39
Degree	20	11.56
Total	**173**	**100.00**

In terms of qualifications, 75.2 % of the respondents have a matric or tertiary certificate (Table 7.2). Almost 33 % have a degree or a diploma. Close to 25 % do not have matric. Some respondents with less than matric might have only a primary school certificate or might not have attended school – a grim situation.

Table 7.3 shows the number of employees per entity at the time of their interactions with the LBSCs.

Table 7.3: Average number of employees per entity at time of interaction with LBSCs

Number of employees	Frequency (N)	Percentage	Type of entity in terms of Act 102 of 1996 (RSA 1996)
<5	114	65.90	**Micro**
6 to 20	51	29.48	**Very small**
21+	8	4.62	**Small (less than 50 employees) and medium (50+ employees)**
Total	**173**	**100.00**	

The biggest concentration of respondents, 66 % of the sample, consists of entities that employ fewer than five people (Table 7.3). The **dti** (Act 26 of 2003) classifies enterprises of less than five employees as “micro enterprises”. From this classification, 30 % qualify as “very small” (Table 7.3), 4.62 % as “small business” and there are no medium or large businesses in the sample.

Table 7.3 reinforced the stark reality that these are mostly micro enterprises, which is confirmed by the turnovers of the entities at the time of their interactions with the LBSCs which is presented in Table 7.4.

Table 7.4: Annual sales turnover of entity at time of interaction with LBSCs

Sales turnover per annum	Frequency (N)	Percentage
<R250 000	144	83.23
>R250 000	29	16.77
Total	**173**	**100.00**

Over 80 % of the respondents have revenues of less than R250 000 [USD25 000 at January 2009 exchange rates] per annum (Table 7.4). This equates to R20 000 [USD2 000] per month.

Table 7.5, the last tabular exposition of the independent variables, presents the ages of the businesses at the time of their interactions with the LBSCs.

Table 7.5: Age of entity at time of interaction with LBSCs

Age of entity (years)	Frequency (N)	Percentage
<3	52	30.06
3 to 10	81	46.82
>10	40	23.12
Total	**173**	**100.00**

About 70 % of the businesses have been in existence for more than three years (Table 7.5). The Global Entrepreneurship Monitor study (Orford, Herrington & Wood 2004:12) classifies businesses of less than 3.5 years old but more than three-months old as “new” businesses. Businesses in existence for more than 3.5 years are classified as “established” businesses. Only 30 % are new businesses (Table 7.5).

7.3.1 Summary of the demographics for the purposes of the present study

The following stand out in the demographics:

- About 51 % of the respondents are aged below 40 years and about 49 % are over the age of 40 years (Table 7.1);
- The data show that about 83 % of the entities have a sales turnover of less than R250 000 per annum (Table 7.4). When the R250 000 per annum is broken down it works out to R20 000 per month;

- Of the entities, 66 % employ less than five people (Table 7.3). Some of the entities that employ less than five people could in fact be self-employed persons.

As the demographics reveal, 65.9 % of the entities were micro enterprises (Table 7.3). As argued, a shortcoming of the study is that the classification of the sales turnover should have been broken down further, starting at R25 000 per annum to R50 000 per annum; R50 000 per annum to R75 000 per annum; R75 000 per annum to R100 000 per annum; R100 000 per annum to R200 000 per annum and then over R200 000 per annum.

If the age of the business (Table 7.5) were broken into smaller intervals of, say, two years each, it might have yielded more detailed insights as to when SMMEs are most vulnerable.

It would have been beneficial for the study to differentiate between self-employed persons, those who employed relatives and those who comply with the Labour Relations Act, Act 66 of 1995 (RSA 1995c).

7.4 FACTOR ANALYSIS

A “factor analysis” was performed to identify the underlying constructs. As previously stated, Kim & Mueller (1978:9), Kerlinger (1986:138), Kline (1994:3) and Cooper & Schindler (2008:613) agree that “factor analysis” identifies patterns or underlying combinations in variables. These factors are then rotated to assist in identifying patterns.

7.4.1 Emergence of factors

The variables were rotated to facilitate the emergence of the underlying factors. Because of the high correlation of the variables, oblique rotation was applied. Five potential factors initially emerged. However, there were many double-factor and low-factor loadings.

Four factors were then tried and the end result was also a preponderance of double loadings within and across factors. Finally, after double- and low-factor loadings were identified and eliminated, three workable factors emerged:

- Factor 1: “Capacity and professionalism”;
- Factor 2: “Productive relationship”; and
- Factor 3: “Empowering association”.

The next section explains the naming of the factors which were informed by the constructs and their indicators (Table 6.1).

7.4.1.1 “Capacity and professionalism” in the provision of services

This factor is informed by the variables in Table 7.6. When these variables are synthesised and summarised, the following constructs can be extracted to denote “capacity”: “knowledgeable on small businesses”, “responds promptly to calls” and “has enough consultants” to provide services and solutions to problems.

The following are extracted to denote “professionalism”: “communicating with different cultures” and “maintaining good relationships”, “interested in the financial health of the client” and “in the skills levels of employees”, “after care”, “trustworthy”, “easy to work with” and “visible in the media”.

The two sets of constructs relate to each other and the 12 variables refer to “capacity and professionalism”.

7.4.1.2 A “productive relationship” with clients

This factor suggests that the “relationship” between the LBSC and the client bears results. It is informed by the eight variables in Table 7.6. When they are synthesised and summarised the “productive relationship” is reflected in the fact that the LBSC is expected to “source business for clients from the private sector and government” and, secondly, the LBSC “has been with the client since the founding of the business”.

The “relationship” is reflected in the “interest shown by the LBSC in the inner workings of the company”, the fact that “issues are discussed and explained to the client” and “the LBSC is considered resourceful as he has solutions for various problems”. This could be seen as a “productive relationship”. The ultimate test is that the SMME should be prepared to tell others about this worthwhile relationship.

7.4.1.3 An “empowering association” with LBSCs

This third factor is informed by the four variables in Table 7.6 and the most telling three relate to “development” and they are the “provision of basic training” and “information”; and “training on advanced management skills like HR”. These “empower” the SMME and it is a “developmental relationship”. This may suggest the SMME could make more money as a result of “empowerment” by the LBSC.

“Making money” is similar to the variable on “sourcing business” for the small business from the private and public sectors in the last factor. Although this could be seen as similar, a “complementary relationship” is an “empowering association” relationship. In the eyes of small business, and the current talk in the country, an “empowering association” means helping to make money.

7.4.1.4 Summary on the three factors

An interpretation of the above is that the respondents consider “capacity and professionalism”, a “productive relationship” and an “empowering association” as critical for the effectiveness of LBSCs. These three factors determine the effectiveness of LBSCs in terms of the present study. They could also apply to service centres in general.

The three factors are illustrated in Table 7.6 in terms of the rotation of the variables.

Table 7.6: Rotated factor loadings

Variable	Statement	Factor 1 Capacity and professionalism	Factor 2 Productive relationship	Factor 3 Empowering association
V26	The LBSC consultant offers a variety of solutions for different problems	0.879		
V23	The LBSC consultants are good at communicating with people of different cultures	0.877		
V27	The LBSC consultant is interested in the financial health of my business	0.871		
V28	The LBSC head office regularly sends people to assess the work of consultants	0.838		
V25	The LBSC consultant is interested in the skills levels of my workers	0.749		
V21	The LBSC consultant has good communications skills	0.743		
V39	The LBSC consultant is knowledgeable on SMMEs	0.741		
V29	The LBSC responds promptly	0.726		
V30	The LBSC has sufficient consultants to service me	0.718		
V42	I can trust the LBSC consultant with confidential information	0.665		
V32	The consultant is easy to work with	0.639		

Variable	Statement	Factor 1 Capacity and professionalism	Factor 2 Productive relationship	Factor 3 Empowering association
V13	The LBSC is visible in the media	0.597		
V8	The LBSC consultant is interested in the business processes in my company		0.877	
V7	I have an opportunity to formally assess the LBSC consultant after each session		0.843	
V11	The LBSC assists me with most of my business needs		0.749	
V12	The LBSC consultant and I have a good working relationship		0.746	
V10	I am prepared to recommend the LBSC to other people		0.644	
V38	The LBSC consultant gives me after-care		0.524	
V9	The LBSC assists people to obtain contracts from the government and the private sector		0.500	
V24	The LBSC supported me from start to finish in the setting up of my business		0.490	
V34	The LBSC supported me by giving me basic training			0.817
V35	The LBSC supported me by giving me the information I needed			0.630
V33	The LBSC supported me by giving me advice on management functions (for example, HR, marketing)			0.581

Variable	Statement	Factor 1 Capacity and professionalism	Factor 2 Productive relationship	Factor 3 Empowering association
V41	My business made more money because of help from the LBSC			0.450
Mean		2.45	2.34	2.30
Mode		2.00	1.00	1.00
Median		2.42	2.38	2.00
Variance		0.69	0.65	0.89
Standard deviation		0.83	0.80	0.94
Cronbach's alpha		0.957	0.923	0.920
Eigenvalues		16.441	1.594	1.317
Variance explained		16.034	4.7	2.5
Cumulative percent		**16.03 %**	**23 %**	**25.5 %**

From Table 7.6, the following stand out:

7.4.2 Measures of central tendency

The measures of central tendency are the most elementary form of analysis or interpretation. They give a "first glance" interpretation of the data and consist of the mean, the mode, median, variance and standard deviation.

7.4.2.1 Mean

The mean for "capacity and professionalism", "productive relationship" and "empowering association" is close to the mid-point or median of 2.5 on a 4-point Likert scale. A score of 2 is "disagree" which, in this instance, means respondents "disagree" on the effectiveness of LBSCs in terms of the factors. This suggests that respondents "disagree" that LBSCs are effective in terms of each of the factors. All three factors scored below 2.5.

7.4.2.2 Mode

The mode, the value that appears most frequently, is 1.00 for "productive relationship" and "empowering association" and 2.00 for "capacity and professionalism". This indicates that in terms of the factors, "productive relationship" and "empowering association", the respondents "disagree strongly" that LBSCs are effective. In terms of the factor "capacity and professionalism" respondents "disagree" that LBSCs are effective.

7.4.2.3 Median

The median or mid-point for "capacity and professionalism" is 2.42 and this is below the factor mean (2.45) and the Likert scale mid-point of 2.5. The median or mid-point for "productive relationship" (2.38) is slightly above the factor mean (2.34). For "empowering association" the median or mid-point is 2.0 which is below the factor mean (2.30) and scale mid-point (2.5). This means that the distributions for the factors are skewed to the left or most values lie to the left. This confirms the concentration of responses in the "disagree" portion of the scale.

7.4.2.4 Variance

The variance for “capacity and professionalism”, “productive relationship” and “empowering association” is 0.69, 0.65 and 0.89, respectively. As the spread is lower than 1 but greater than zero, it suggests there is a high concentration towards the mean. The closeness to the mean suggests that the variables in “capacity and professionalism” and “productive relationship” are very close to each other, while those in “empowering association” are slightly more spread out.

7.4.2.5 Standard deviation

The standard deviation for “capacity and professionalism”, “productive relationship” and “empowering association” is less than 1 and this indicates that the values are close to the mean. Thus, there is little difference of opinion between the respondents who maintain that LBSCs are not adding that much value and those respondents who say LBSCs are adding value.

7.4.3 Cronbach’s alpha

Cronbach’s alpha or the “reliability” of the responses for the factors is above 0.70, the universally accepted threshold. In this instance, “capacity and professionalism” has a Cronbach alpha of 0.96; and 0.92 for “productive relationship” and “empowering association”.

7.4.4 Eigenvalues

Kline (1994:30) and Thompson (2004:21) assert that the “eigenvalue” of a factor reflects the indices that constitute the sum of information and, secondly, is the total variance of each factor. According to the data the eigenvalue for “capacity and professionalism” is 16.44, for “productive relationship” it is 1.59 and for “empowering association” it is 1.32. “Capacity and professionalism” is thus more populated with indices that denote “capacity and professionalism”.

7.4.5 Variance explained

The total variance is 23.23 % which means that the variables in the factors "capacity and professionalism", "productive relationship" and "empowering association" are closely congregated around the mean.

7.4.6 Correlation between factors

The correlation between "capacity and professionalism", "productive relationship" and "empowering association" is illustrated in Table 7.7.

Table 7.7: Correlation between the three factors

	Factor 1 **Capacity and professionalism**	**Factor 2** **Productive relationship**	**Factor 3** **Empowering association**
Factor 1 Capacity and professionalism	1.000		
Factor 2 Productive relationship	0.775	1.000	
Factor 3 Empowering association	0.529	0.493	1.000

The following can be read from Table 7.7:

- The correlation coefficient of 0.78 denotes that "capacity and professionalism" and "productive relationship" are highly and positively correlated;
- The correlation coefficient of 0.53 denotes that "capacity and professionalism" and "empowering association" are also highly and positively correlated; and

- The correlation coefficient of 0.49 denotes that "productive relationship" and "empowering association" are highly and positively correlated.

This is a strong correlation between the three factors and it can be concluded that the variables that constitute the factors are closely related. As Heppner & Heppner (2004:277) assert this suggests that "capacity and professionalism", "productive relationship" and "empowering association" are interchangeable.

However, this also reflects that the variables are still highly loaded despite the elimination of double loadings. Heppner & Heppner (2004:243) assert that such high correlations could also result in the researcher combining variables.

7.5 TESTS OF SIGNIFICANCE (T-TEST)

The data were subjected to a t-test technique to determine any statistically significant differences between the factor means and the mid-point (2.5) and are tabulated in Table 7.8. There was no statistically significant difference between the mean and the mid-point for "capacity and professionalism" but the differences were statistically significant for "productive relationship" and "empowering association".

Table 7.8 illustrates the results of the t-test.

Table 7.8: Results of the t-test

Factor	Factor mean	t-test mean	P-value
Factor 1 Capacity and professionalism	2.45	-0.055	0.365
Factor 2 Productive relationship	2.34	-0.158	0.007
Factor 3 Empowering association	2.30	-0.202	0.003

According to the probability value reflected in Table 7.8, there was a statistically significant difference at the <1 % level between the mean and mid-point for "productive relationship" and "empowering association". This indicates that, in terms of these two factors, most respondents "disagree" that there was a "productive relationship" between them and the LBSCs or that the LBSCs were "empowering association".

7.6 ANALYSIS OF VARIANCE (ANOVA)

An analysis of variance (Anova) was performed to determine the significance of the differences, if any, between and within the independent variables. The analysis of variance determines if the response that SMMEs "disagree" that LBSCs are effective applies to all formulations or categories of the sample and, this time, in terms of the age of the entrepreneur; qualifications of the entrepreneur; number of employees; sales turnover, and age of business.

For instance, the "disagree" may not apply to entities that employ scores of people. Thus, in this instance, Anova assists in a further analysis of the factors "capacity and professionalism", "productive relationship" and "empowering association" in terms of the age of the entrepreneur; qualifications of the entrepreneur; number of employees; sales turnover, and age of business and is shown in Tables 7.9 to 7.26.

Saunders *et al* (2007:448) conclude that if the difference (known as the F-value, ratio or statistic) is less than 0.05 it suggests that there is little likelihood of the difference occurring by chance alone.

7.6.1 Analysis of variance in terms of the independent variables for "capacity and professionalism"

The analysis of variance in terms of the five independent variables (age of the entrepreneur; qualifications of the entrepreneur; number of employees; sales turnover, and age of business) for "capacity and professionalism" is given in Tables 7.9 to 7.14. Table 7.9 presents the broad picture of the Anova results for the independent variables for "capacity and professionalism".

Table 7.9: Anova for "capacity and professionalism"

Independent variable and/or sources of variation	DF	Type III SS	Mean Squares	F	Pr > F
Age of entrepreneur	1	0.7974	0.7974	1.19	0.2766
Educational qualification	1	0.1167	0.1167	0.17	0.6766
Number of employees	1	1.3598	1.3598	2.03	0.1560
Sales turnover	1	2.2318	2.2318	3.34	0.0698
Age of entity	1	1.5664	1.5664	2.34	0.1281

The following pertain to "capacity and professionalism":

The probability values in Table 7.9 indicate that there were no statistically significant differences between the means of the groups between the five independent variables for "capacity and professionalism" except for sales turnover (Table 7.13).

Thus, for sales turnover the P-value of 0.0698 indicates that there was a statistically significant difference (Heppner & Heppner 2004:251) between the means of a turnover of over R250 000 and that of a turnover of less than R250 000 as is shown in Table 7.13.

The Anova for each of the independent variables for "capacity and professionalism" is now reflected individually. Table 7.10 presents the Anova results for "capacity and professionalism" in terms of the age of the entrepreneur.

Table 7.10: Anova for "capacity and professionalism" in terms of age of entrepreneur

Age of entrepreneur (years)	N	Mean	Standard deviation	t-statistic or F	Pr > F
18 to 39	76	2.4770	0.7597		
40+	75	2.3111	0.8983		
				1.19	0.2766

The difference between the means of the respondents who are less than 40 years old (2.4770) and the mean of those who are over 40 (2.3111) (see Table 7.10) is not statistically significant as indicated by the P-value of 0.2766.

Table 7.11 presents the Anova results for "capacity and professionalism" in terms of the qualifications of the entrepreneur.

Table 7.11: Anova for "capacity and professionalism" in terms of educational qualification of entrepreneur

Educational qualification	N	Mean	Standard deviation	t-statistic or F	Pr > F
Up to matric	105	2.3873	0.8222		
Post-matric	46	2.4112	0.8657		
				0.17	0.6766

The P-value of 0.6766 (Table 7.11) indicates that there was no statistically significant difference between means. The mean of those with post-matric qualifications and those without indicate the respondents "disagree" that the LBSCs are effective in terms of "capacity and professionalism".

Table 7.12 presents the Anova results for "capacity and professionalism" in terms of the number of employees.

Table 7.12: Anova for "capacity and professionalism" in terms of number of employees

Number of employees	N	Mean	Standard deviation	t-statistic or F	Pr > F
0 to 5	96	2.2960	0.8297		
>5	55	2.5667	0.8173		
				2.03	0.1560

In Table 7.12 the P-value of 0.1560 suggests there is no statistical difference in agreement between the mean of entrepreneurs with more than five employees and those with less than five employees. However, the difference between the means appears larger than for other variables but is not statistically significant.

Table 7.13 presents the Anova results for "capacity and professionalism" in terms of sales turnover of the entity.

Table 7.13: Anova for "capacity and professionalism" in terms of sales turnover

Sales turnover (per annum)	N	Mean	Standard deviation	t-statistic or F	Pr > F
<R250 000	124	2.3239	0.8236		
>R250 000	27	2.7191	0.8119		
				3.34	0.0698

In Table 7.13 the P-value of 0.0698 indicates that entities with a turnover of more than R250 000 per annum showed significantly higher mean scores on sales turnover (M = 2.7191, SD = 0.8119) than entities with a turnover of less than R250 000 (M = 2.3239; SD = 0.8236). The statistically significant difference (at 10 %) arose because entities with a sales turnover of more than R250 000

per annum “agree” that the LBSCs are effective, whilst those with a lower annual sales turnover “disagree”.

Table 7.14 presents the Anova results for “capacity and professionalism” in terms of the age of the business.

Table 7.14: Anova for “capacity and professionalism” in terms of age of business

Age of business (years)	N	Mean	Standard deviation	t-statistic or F	Pr > F
<5	70	2.4774	0.8447		
>5	81	2.3230	0.8209		
				2.34	0.1281

The P-value of 0.1281 reflected in Table 7.14 indicates that there is no statistically significant difference in the means of the responses of respondents whose entities are less than five-years old and those respondents whose entities are more than five-years old.

7.6.2 Analysis of variance in terms of the independent variables for “productive relationship”

The analysis of variance in terms of the five independent variables (age of the entrepreneur; qualifications of the entrepreneur; number of employees; sales turnover, and age of business) for “productive relationship” is given in Tables 7.15 to 7.20. Table 7.15 presents the broad picture of the Anova results for the independent variables for “productive relationship”.

Table 7.15: Anova for "productive relationship" with LBSCs

Independent variable and/or sources of variation	DF	Type III SS	Mean Squares	F	Pr > F
Age of entrepreneur	1	0.0456	0.0456	0.07	0.7924
Educational qualification	1	0.0418	0.0418	0.08	0.8008
Number of employees	1	0.0367	0.0367	0.06	0.8131
Sales turnover	1	5.2276	5.2276	7.98	0.0054
Age of business	1	0.6850	0.6850	1.05	0.3083

The following pertain to "productive relationship":

The probability values in Table 7.15 (which are all >0.05) indicate that there is no statistically significant difference between the groups except in terms of sales turnover (Table 7.19). This is similair to the previous factor.

Table 7.16 presents the Anova results for "productive relationship" in terms of the age of the entrepreneur.

Table 7.16: Anova for "productive relationship" in terms of age of entrepreneur

Age of entrepreneur (years)	N	Mean	Standard deviation	t-statistic or F	Pr > F
18 to 39	76	2.3042	0.8277		
40+	75	2.2500	0.8269		
				0.07	0.7924

Table 7.16 indicates that in terms of "productive relationship" the SMMEs "disagree" that the LBSCs are effective and according to the means there is no statistically significant difference in this disagreement between those who are less

than 40 years old and those who are over 40 as indicated by the P-value of 0.7924.

Table 7.17 presents the Anova results for “productive relationship” in terms of the qualifications of the entrepreneur.

Table 7.17: Anova for “productive relationship” in terms of educational qualification of entrepreneur

Educational qualification	N	Mean	Standard deviation	t-statistic or F	Pr > F
Up to matric	105	2.2392	0.7912		
Post-matric	46	2.3641	0.9005		
				0.08	0.8008

The P-value of 0.8008 reflected in Table 7.17 indicates that there is no statistically significant difference in disagreement between the means of those who have a post-matric qualification and the means of those with less than a matric qualification. This means that in terms of “productive relationship” the SMMEs “disagree” that the LBSCs are effective.

Table 7.18 presents the Anova results for “productive relationship” in terms of the number of employees.

Table 7.18: Anova for “productive relationship” in terms of number of employees

Number of employees	N	Mean	Standard deviation	t-statistic or F	Pr > F
0 to 5	96	2.2226	0.7778		
>5	55	2.3727	0.9009		
				0.06	0.8131

The P-value of 0.8131 indicates that there is no statistically significant difference in disagreement between the means of those with less than five employees and the means of those with more than five employees. This is reflected in Table 7.18 which shows that in terms of “productive relationship” the entrepreneurs “disagree” the LBSCs are effective.

Table 7.19 presents the Anova results for “productive relationship” in terms of sales turnover of the entity.

Table 7.19: Anova for “productive relationship” in terms of sales turnover

Sales turnover (per annum)	N	Mean	Standard deviation	t-statistic or F	Pr > F
<R250 000	124	2.1824	0.7890		
>R250 000	27	2.7129	0.8610		
				7.98	0.0054

Table 7.19 shows that for “productive relationship” there is a statistically significant difference in the responses.

Table 7.20 presents the Anova results for “productive relationship” in terms of the age of the business.

Table 7.20: Anova for “productive relationship” in terms of age of business

Age of business (years)	N	Mean	Standard deviation	t-statistic or F	Pr > F
<5	70	2.3303	0.7625		
>5	81	2.2315	0.8775		
				1.05	0.3083

The P-value of 0.3083 in Table 7.20 indicates that there is no statistically significant difference between means of respondents whose entities are less than

five-years old and the means of those respondents whose entities are more than five-years old.

Thus, Table 7.20 indicates that in terms of "productive relationship" the entrepreneurs "disagree" that LBSCs are effective.

7.6.3 Analysis of variance in terms of the independent variables for "empowering association"

The analysis of variance in terms of the five independent variables (age of the entrepreneur; qualifications of the entrepreneur; number of employees; sales turnover, and age of business) for "empowering association" is given in Tables 7.21 to 7.26.

Table 7.21 presents the broad picture of the Anova results for the independent variables for "empowering association".

Table 7.21: Anova for "empowering association"

Independent variable and/or sources of variation	DF	Type III SS	Mean Squares	F	Pr > F
Age of entrepreneur	1	0.0163	0.0163	0.02	0.8913
Educational qualification	1	0.0218	0.0218	0.03	0.8744
Number of employees	1	0.7951	0.7951	0.91	0.3411
Sales turnover	1	2.2180	2.2180	2.54	0.1128
Age of business	1	0.5285	0.5285	0.61	0.4374

The following pertain to "empowering association":

The P-values for the five independent variables in the factor "empowering association indicate that entrepreneurs "disagree" that the LBSCs are effective and the probability values in Table 7.21 (which are all >0.05) indicate there were

no statistically significant differences found for “empowering association” in the different levels or classes for the groups, except for sales turnover (Table 7.25).

Table 7.22 presents the Anova results for “empowering association” in terms of the age of the entrepreneur.

Table 7.22: Anova for “empowering association” in terms of age of entrepreneur

Age of entrepreneur (years)	N	Mean	Standard deviation	t-statistic or F	Pr > F
18 to 39	76	2.2270	0.9002		
40+	75	2.1900	0.9733		
				0.02	0.8913

The P-value of 0.8913 reflected in Table 7.22 suggests that in terms of “empowering association” the SMMEs “disagree” that the LBSCs are effective and there is no statistically significant difference in disagreement according to the mean of entrepreneurs aged over 40 years (2.1900) and the mean of those below 40 years old (2.2270).

Table 7.23 presents the Anova results for “empowering association” in terms of the qualifications of the entrepreneur.

Table 7.23: Anova for “empowering association” in terms of educational qualification of entrepreneur

Educational qualification	N	Mean	Standard deviation	t-statistic or F	Pr > F
Up to matric	105	2.1976	0.9435		
Post-matric	46	2.2337	0.9225		
				0.03	0.8744

The P-value of 0.8744 indicates that there is no statistical difference in disagreement between the means of respondents with a matric or higher

qualification and those with less than a matric qualification in terms of "empowering association".

Table 7.24 presents the Anova results for "empowering association" in terms of the number of employees.

Table 7.24: Anova for "empowering association" in terms of number of employees

Number of employees	N	Mean	Standard deviation	t-statistic or F	Pr > F
0 to 5	96	2.1250	0.9283		
>5	55	2.3545	0.9350		
				0.91	0.3411

In Table 7.24 the P-value of 0.3411 indicates that there is no statistically significant difference in disagreement between those with more than five employees and those with less than five employees in terms of "empowering association".

Table 7.25 presents the Anova results for "empowering association" in terms of sales turnover of the entity.

Table 7.25: Anova for "empowering association" in terms of sales turnover

Sales turnover (per annum)	N	Mean	Standard deviation	t-statistic or F	Pr > F
<R250 000	124	2.1391	0.9108		
>R250 000	27	2.5277	0.9911		
				2.54	0.1128

The P-value of 0.1126 in Table 7.25 indicates that there is no statistically significant difference even though entities with sales turnover of more than R250 000 per annum "agree" that the LBSCs are effective and those SMMEs with a turnover of less than R250 000 "disagree" that the LBSCs are effective.

Table 7.26 presents the Anova results for “empowering association” in terms of the age of the business.

Table 7.26: Anova for “empowering association” in terms of age of business

Age of business (years)	N	Mean	Standard deviation	t-statistic or F	Pr > F
<5	70	2.2464	0.9074		
>5	81	2.1759	0.9613		
				0.61	0.4374

The P-value of 0.4374 in Table 7.26 indicates there is no statistically significant difference between the means of respondents whose entities are less than five-years old and the means of those respondents whose entities are more than five-years old in terms of “empowering association”.

7.6.4 Summary of Anova for the three factors

The Anova results for “capacity and professionalism”, “productive relationship” and “empowering association” do not reveal any major differences in the means and standard deviations between four of five independent variables (age of the entrepreneur; qualifications of the entrepreneur; number of employees, and age of business. However, there is a statistical difference between the means and mid-points for sales turnover in two of the factors: “capacity and professionalism” and “productive relationship”. Although there is a difference between the means and mid-points of the turnovers above and below R250 000 per annum, it is not statistically significant.

As stated, Saunders *et al* (2007:448) and Cooper & Schindler (2003:567) agree that Anova tests the similarity of several means or other measures by using the variances between and within groups of data. As stated, Saunders *et al* (2007:448) contend that if the difference (known as the F-value, ratio or statistic) is

less than 0.05 it suggests that there is little likelihood of the difference occurring by chance alone.

Thus, in terms of the Anova it indicates that the factors reflect or represent respondents from the same population. This is more so because their demographics in terms of Tables 7.3 and 7.4 show that most of these SMMEs are micro or informal entities. Fajana (2008:378), ILO (2008b:1), the Global Development Research Centre (2008), Munbodh (2003:5), the World Bank (2001:13) and Morris, Pitt & Berthon (1996:62) concur that the informal sector or micro enterprises are homogenous.

It is thus argued that the homogeneity reinforces the findings in Tables 7.3 and 7.4 and this suggests that they are very small enterprises. In addition to the homogeneity, a more detailed analysis of the Anova for the variables is schematically represented in Table 7.27 and reveals trends which are not of statistical significance but will be discussed fully in the conclusions. At this stage they are merely a summary of the findings on the Anova.

Table 7.27: Anecdotal trends in LBSC effectiveness of factors

	Factor 1 Capacity and professionalism	**Factor 2 Productive relationship**	**Factor 3 Empowering association**
Age of owners/ managers	"Disagree" but younger ones less emphatic	"Disagree" but younger ones less emphatic	"Disagree" but younger ones less emphatic
Qualifications of owners/managers	"Disagree" but those with higher qualifications less emphatic	"Disagree" but those with higher qualifications less emphatic	"Disagree" but those with higher qualifications less emphatic
Number of employees	"Disagree" but those with more employees less emphatic	"Disagree" but those with more employees less emphatic	"Disagree" but those with more employees less emphatic
Sales turnover	"Disagree" but those with higher sales turnover less emphatic	"Disagree" but those with higher sales turnover less emphatic	"Disagree" but those with higher sales turnover less emphatic
Age of business	"Disagree" but younger businesses less emphatic	"Disagree" but younger businesses less emphatic	"Disagree" but younger businesses less emphatic

7.7 RESPONSES TO THE OPEN-ENDED QUESTION

Respondents were asked to answer the open-ended question: "*What do you suggest for an effective LBSC?*" The responses to this open-ended question (Appendix A.2: Question 43) were categorised and 13 groupings emerged from the 153 responses (Table 7.28) as not all respondents answered the open-ended question.

A feature of the open-ended responses (Appendix A.2: Question 43) is that many replicate a variable in the questionnaire and thus triangulate the data already obtained. They also correlate with the factors "capacity and professionalism"; "productive relationship", and "empowering association". For instance, the respondents say the LBSC must be "more interactive" yet the questionnaire has variables such as "the LBSC knows SMMEs", "the consultant is interested in the business processes of my company" and "the consultant and I have a good working relationship".

Interactivity correlates with "empowering association" which suggests that LBSCs must, naturally, "empower".

This applies to the bulk of the other suggestions, one of which was "more visibility and accessibility". "Visibility and accessibility" could also correlate with "capacity and professionalism". The open-ended responses that referred to "interactivity" included "know more about SMMEs", "be more interactive", "be more transparent to the people", "go out to the ordinary man in the street", "visit us in our areas", "more workshops" and "be committed to serve".

Other suggestions included, for example, "influence government", "work with Chamber [of Commerce] movement", "society must realise importance", "follow up", "after-care", "monitor improvement to clients", "assist with technology", "assist with finance", "have workshops after hours", "network with big business". These suggestions also correlate with the factor "empowering association".

Table 7.28: Categorisation of responses to the open-ended question "what do you suggest for a more effective LBSC?"

Suggestion	Frequency (N)	Percentage
Be more interactive with SMMEs	40	26.14
Be more visible and branded	41	26.79
Advice on finance	16	10.46
Access to markets	6	3.92
Aftercare, maintenance and more sessions	9	5.88
Give attention to more specialised training like import, manufacture, technology, marketing	9	5.88
Professionalism viz time keeping, integrity, consistency	8	5.23
Understand small business	2	1.31
Help grow the business	3	1.96
Must show improvement	2	1.31
Improve networking and interaction with communities	4	2.61
Be more affordable	3	1.96
Others (persons with lone unrelated suggestions)	13	8.49
Total	**153**	**99.32**

Some of the responses to the open-ended question (Appendix A.2: Question 43) duplicate or emphasise variables in the questionnaire, as shown in Table 7.29.

Table 7.29: Responses to the open-ended question that duplicates variables in the questionnaire

Open-ended statement	Duplicated variable in questionnaire
Be more interactive with SMMEs	The consultant is interested in the processes in my company
	The LBSC assists me with my business needs
	The LBSC is interested in the technology in my business
	The skills of my workers have improved because of the LBSC
Be more visible and branded	The LBSC consultant is visible in the media
	The offices of the LBSC are in an area that is easy to find
Advice on finance	The LBSC assists people to obtain finance
	The LBSC is interested in the financial health of my business
	My business made more money because of help from the LBSC
Give attention to more specialised training	The LBSC supported me by giving me advanced training on management functions
	The LBSC assists with training that is specific to sectors e.g. tourism
Aftercare, maintenance and more sessions	The LBSC supported me from start to finish in the setting up of my business
	The LBSC consultant gives me aftercare

Also, as in interactivity, some of these comments on accessibility and visibility simulated variables in the questionnaire. For instance, “the LBSC is in a popular area that everybody goes to” and “the offices of the LBSC are in an area that is easy to find”. It can be argued that the fact that LBSCs referred to these points emphasises their importance.

More than 10 % of the respondents wanted the LBSCs to “provide finance” as distinct from “provide *advice* on finance” which LBSCs are expected to provide. The other comments include diverse suggestions such as “networking with big business”, “help grow the business”, “consistency”, “keep time and deadlines”, “act with integrity”, “be more affordable”, “assist with business opportunities”, “train people in manufacturing” and “more specialisation”.

It is evident that the replications could be regarded as being what the respondents believe should be provided by LBSCs or what is lacking. Looking at the groupings themselves, the “be more interactive with SMMEs” category (26.14 % of the responses) resonates with “empowering association”. It is argued that this should be seen as an emphasis on an issue that is of concern for the SMMEs in that the LBSCs could be perceived as being “impersonal”.

For the respondents to stress “interactivity” in their responses to the questionnaire as revealed by the factor analysis, and then to repeat their statement in the open-ended question, indicates the importance of “interactivity”.

Of the respondents, 26.8 % indicated that LBSCs must be “more visible and branded”. This also suggests their lack of accessibility to LBSCs. Some of the responses want the centres to be in Black areas instead of in towns and cities. This suggests that the SMMEs needed to travel to a city centre.

This may indicate that the LBSCs are not in areas where they are most needed such as rural areas or economically deprived areas. The aspect on “branding” suggests that the SMMEs do not have the feeling that they are dealing with the LBSCs and this could suggest that the level of service was not what the market expected.

It must be stated that “interactivity”, “visibility and branding” were integrated and, at the same time, separate variables in the instrument to measure LBSCs. The fact that responses to the open-ended question refer to these two constructs emphasises the fact that the LBSCs are neither interactive, nor visible. Additionally, the responses to the open-ended question also resonate or correlate with “empowering association”.

There is no conflict between the questionnaire and the open-ended question and, instead, the open-ended question lends weight to the validity of the instrument.

7.8 FOCUSED INTERVIEWS WITH GOVERNMENT OFFICIALS AND LBSCS

As detailed in Chapter 5, interviews were held with government officials, officials of agencies and LBSC owners/managers. The government and agency officials were interviewed on their perception of issues that affect the delivery of services and the LBSC owners/managers were interviewed on their fortunes when delivering services to SMMES.

7.8.1 Interviews with government and agency officials

Interviews with government officials reinforced the outcomes of the empirical survey in that the officials provided the reasons SMMEs “disagreed” that LBSCs are effective. Table 7.30 reflects a summary of the views of the officials in terms of variables in the environment and is a summary of the views reflected in Tables 5.7 to 5.13 on the basis of structured interviews with the officials.

7.8.2 Summary of interviews with LBSCs

A summary of these interviews is given in Table 7.31.

Table 7.30: Summary of focused interviews with officials of the dti and Ntsika

Intervening variable	Summary of responses
Were LBSCs properly accredited?	Official A (Table 5.7), Official B (Table 5.8) and Official G (Table 5.13) "agree" that **the accreditation process was flawed**. Official C (Table 5.9) and Official F (Table 5.12) say they were not involved, while Official D (Table 5.10) believes it was done properly. It could reasonably be concluded that the accreditation process was lacking.
Were NGOs effective as service providers?	There is general "agreement" between Official A (Table 5.7), Official B (Table 5.8), Official C (Table 5.9), Official D (Table 5.10) and Official G (Table 5.13) that **many of the providers were inadequate** for the challenge. Only one or two could perform to expectation. Official B (Table 5.8) is critical of the process, saying it was a mistake to include NGOs. Official F (Table 5.12) says it was a deliberate strategy to attract NGOs because of their closeness to communities.
Did capacity-building workshops help?	The capacity-building workshops helped to varying degrees, depending on the sophistication of the LBSCs on SMMEs. There is general "agreement" that **they helped a lot**. This underscores the fact that the NGOs needed help themselves but they were service providers.

Intervening variable	Summary of responses
Did LBSCs deliver successfully?	The officials "agree" that there were problems affecting the delivery of services by LBSCs and most **could not deliver** effectively. The poor funding model for LBSCs and lack of capacity contributed to the poor delivery of services by LBSCs.
Was interaction between LBSCs and SMMEs conducive?	The four officials "agree" in general that the relationship between LBSCs and SMMEs was affected by **poor funding** and the LBSC's relations with Ntsika. Official G (Table 5.13) also makes the point that the more professional LBSCs had relations with overseas agencies and Ntsika had to make do with the remainder. In contrast, Official E (Table 5.11) says that the provinces were not happy with Ntsika as they felt they should play a more prominent role in the delivery of services to SMMEs.
Was co-ordination by Ntsika successful?	Official G (Table 5.13) and other officials make the point that Ntsika was a newly formed entity which had **capacity problems** of its own. It made promises to LBSCs on funding and when the government did not give it funding, it could not keep the promises it had made. It made co-ordinating the LBSC programme that much more difficult.

Intervening variable	Summary of responses
Was there effective monitoring and evaluation?	According to Official C (Table 5.9), Official D (Table 5.10) and Official F (Table 5.12) the LBSCs submitted reports to Ntsika. There was **no formal evaluation** save when Ntsika officials went to the LBSCs to follow up on complaints or verify reports. Official A (Table 5.7) and Official G (Table 5.13) says that monitoring and evaluation was not taken seriously and was weak. Official B (Table 5.8) is equally critical.
Did the funding model work?	Official A (Table 5.7), Official B (Table 5.8), Official C (Table 5.9), Official D (Table 5.10), Official F (Table 5.12), and Official G (Table 5.13) all "agree" that the funding model **did not work**. The **dti** was not obliged to provide funding to LBSCs except in special cases but Ntsika made the undertaking. The LBSCs were expected to generate funding on the basis of support from money made available for specific programmes which they would implement. The edifice then collapsed under a welter of promises and expectations.
Was impact measured?	The officials all "agreed" that there were **no systems to monitor impact** except for the reports submitted above which were inadequate.

Table 7.31: Summary of focused interviews with LBSCs

Intervening variable	Summary of responses
Were LBSCs properly accredited?	LBSC 2 (Table 5.2), LBSC 3 (Table 5.3) and LBSC 6 (Table 5.6) went through the accreditation process. The others received automatic accreditation as they had been in existence even before the LBSC era. However, LBSC 2 (Table 5.2) and LBSC 5 (Table 5.5) were the more successful LBSCs.
Were NGOs effective as service providers?	The NGOs were LBSC 1 (Table 5.1), LBSC 5 (Table 5.5) and LBSC 6 (Table 5.6). LBSC 5 (Table 5.5) was effective. LBSC 1 (Table 5.1) and LBSC 6 (Table 5.6) simply **did not make the grade**. The others were professional institutions whose mandate was originally distributing business development services.
Did capacity-building workshops help?	All the LBSCs attended the workshops and found them **helpful**.
Was interaction between LBSCs and SMMEs conducive?	The LBSCs maintain that their relationship with SMMEs was professional. They could not say anything else and the SMMEs questionnaire addresses this point.

Intervening variable	Summary of responses
Was co-ordination by Ntsika successful?	The questionnaire addresses this point.
Was there effective monitoring and evaluation?	Some of the LBSCs state there was **no evaluation and monitoring**; some say they submitted reports and there was **no formal monitoring and evaluation**, while others say that there was at end of the quarter or year. This aspect is also part of the empirical study.
Did the funding model work?	The LBSCs are **all unhappy** on this issue of funding. They received ad hoc funding from Ntsika and it was not formal or structured. LBSC 2 (Table 5.2) did not expect any funding and did not ask for any.
Was impact measured?	There was **no impact study** except on an ad hoc basis and this also part of the empirical study.

7.9 CONCLUSION

The factor analysis has revealed that the SMMEs that went to the LBSCs "disagree" that they were satisfied in terms of the three factors "capacity and professionalism", "productive relationship" and "empowering association" as, in terms of the Likert rating, they scored below 2.5.

If they "agreed" that the relationship was effective they would have scored at least 3. The Anova did not reveal any differences of statistical significance bar sales turnover. The mean of less than 2.45, which was replicated in the analysis of variance (Anova) and the factor analysis, made a convincing case of this. However, there is a shortcoming.

The high fatality rate for SMMEs makes it difficult to find a large and consistent sample of SMMEs which would make more definitive findings, more so in a longitudinal study. However, a sample of 400 with a usable response rate of 51.5 % is not dismissible and provides the basis of discussion and an appropriate strategy, and further study.

These research findings form the basis of the discussions and recommendations in the next chapter. While this was an exploratory study which is among the first to minutely interrogate SMMEs on the services they receive from LBSCs, it can by no means be conclusive. This is addressed in Chapter 8.

CHAPTER 8

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

8.1 INTRODUCTION

This chapter presents the discussions, conclusions and recommendations that have been arrived at on the basis of the scientifically driven techniques that were applied.

It first discusses the attainment of the proposition on the basis of the research process; and then discusses the relevance of the findings in the support of small business. The attainment of the research objectives is based on the literature review and the quantitative and qualitative research.

The quantitative research was an empirical survey which was then subjected to a factor analysis, an analysis of variance and a t-test. The qualitative research consisted of structured interviews with government officials, officials of agencies and LBSC owners.

Creswell (2009:3) opines that quantitative and qualitative approaches are not disparate but represent the “different ends of a continuum” and reinforce each other. This combined approach was used in the present study.

8.2 LITERATURE REVIEW

The literature review approached the study from different perspectives which included small business and economic development, differentiating between entrepreneurship and small business development and policy, and the distribution of non-financial support to small businesses. The review was spread over Chapters 2, 3 and 4 and sections of Chapter 5.

Chapter 2 introduced SMMEs and their role in the economy; Chapter 3 ushered in the business development services and service centres in the distribution of services to support SMMEs; Chapter 4 dealt with various methodologies to monitor and evaluate the servicing of SMMEs by service centres; and Chapter 5 interrogated the South African version of service centres. These chapters are now looked at in detail.

Chapter 2 elucidated the importance of small businesses, the constraints that faced them and in the process gave an overview of the Gauteng SMME community. This overview revealed that informal and micro entities dominate the Black SMME community. Chapter 2 and Chapter 5 also referred to service centres which the Gauteng Government wants to introduce. Various models for SMME support were also interrogated.

Chapter 3 looked intently at the business development services and their distribution in the market in which they operate. It also looked at their distribution and located them in the service centres, assessed their relationship with the SMMEs they must service and how this creates new constraints.

Chapter 3 also interrogated the debate on whether business development services should be supply driven or demand orientated. This debate is very relevant to South Africa and the developing world in general as it is evident that while the demand-orientated approach is ideal, specific problems encountered dictate otherwise. It is evident that the level of maturity of SMMEs will determine the best approach and it is not an “either” / “or” situation.

The evaluation of the “effectiveness” of policies was the focus for Chapter 4. It defined “effectiveness” in terms of this study and how it could be evaluated. It is manifest from the review that evaluation has its limitations in various environments.

Chapter 4 introduced “surrogate measures” or indicators that determined the variables for the questionnaire. Chapter 5 investigated the LBSCs since the network was launched. Research commissioned in 2000 and 2002 has shown that the implementation of the network staggered from crisis to crisis. These studies investigated the “implementation” and not the “impact”.

This chapter also brought to the fore that Seda-linked enterprise information centres (Seda 2007:8) have been created to provide basic services to SMMEs. The Gauteng Provincial Government also created the Gauteng Enterprise Propeller in terms of the Gauteng Enterprise Propeller Act, Act 5 of 2005 (Gauteng Provincial Legislature 2005).

It was mentioned in Section 5.4 that the fact that Seda created the enterprise information centres and the Gauteng Government established the Gauteng Enterprise Propeller could have been an indication of lost confidence in the LBSCs. Although LBSCs are not referred to and may or may not be an element of the national small business strategy, van Dijk & Sverrisson (2003:200) rightfully point out that "it is impractical to support millions of small-scale firms through the direct and costly interventions".

This suggests that while the agency-linked information centres are now in place; sooner or later South Africa will have to find a formula for effective service centres to supplement and complement these information centres in the delivery of services to SMMEs. This integrated approach is among the recommendations arising from this research and, as was illustrated in the literature review, is the norm.

8.3 ACHIEVEMENT OF THE STUDY'S OBJECTIVES

With reference to Section 1.7 and, on the basis of this study, the proposition tested was:

- Gauteng's LBSCs were not effective in providing services to SMMEs.

This study now discusses the subject and notes that English & van Tonder (2009:194) and Heppner & Heppner (2004:329) concur that discussions must comment on and interpret the findings; compare these results to the literature review; put the results in the study in perspective; show whether the results reflect a problem; and, if a number of problems are revealed, prioritise them.

Heppner & Heppner (2004:329) further refer to the "So what?" element and the "road map". The "So what?" asks if there are any areas of significance brought to the fore by the research and the "road map" is "How did we get there?" The "road

map" is the interpretation of the findings in terms of the techniques used; comparing the results to the literature review and putting them into perspective with the country's business environment.

The achievement of the study's objectives is presented in the following format:

- Discussions on the "So what?" of the study which, according to the study, ask if there are any new areas of significance brought to the fore by the research;
- This will be followed by discussions to extrapolate the findings of the study and their relevance to the small business community and, in particular, business development services and their distribution through service centres in terms of the research;
- Discussion on the findings of the study in relation to the literature review that was studied in terms of this study;
- Discussion on the attainment of the primary and secondary objectives. This will be a strictly technical discussion relating specific objectives to the findings of that were applied;
- An analysis of the limitations of the study and will reflect on the research gap of this study in terms of the objectives and the findings and to what extent the findings are still relevant; and
- Conclusions and suggestions for further research to improve on the current study.

The next sections cover the discussions as above and, for ease of reference, Table 8.1 gives a summary of the findings in terms of the techniques. These, with the literature review referred to in Table 8.1, constitute the findings that will guide the discussion.

Table 8.1: Tabular representation of techniques used to attain objectives

Form of analysis	Technique used	Results of application
Literature review	Bloch & Daze (2000) study commissioned by the government of Canada and the Urban-Econ study (2002) commissioned by Ntsika Enterprise Promotion Agency	The literature review consisted of studies undertaken in 2000 (Bloch & Daze 2000) and in 2002 (Urban-Econ 2002). As they were done nine and seven years ago, respectively, structured interviews were held with LBSC managers and officials of the **dti** and Ntsika to update the research. However, as the studies were undertaken during the life of the LBSCs and on their roll-out, they are the most cogent institutional memory on the LBSCs and relevant for the current research. According to the interviews, which reinforced the studies, several intervening variables impacted on the delivery of services and these variables were: co-ordination, funding, accreditation, capacity of providers, SMME-LBSC acrimony, Ntsika-LBSC acrimony and lack of monitoring. Both studies recommended improved accreditation, funding, better monitoring and evaluation.
Empirical research	Factor analysis	Three factors emerged from the quantitative study: “capacity and professionalism”, “productive relationship” and “empowering association”. The means were 2.45 for “capacity and professionalism”, 2.34 for “productive relationship” and 2.30 for “empowering association”. The means are all below the mid-point, indicating that respondents “disagree” that LBSCs are effective.
	Tests of significance	The tests of significance for “productive relationship” and “empowering association” indicated that the differences between the mean and mid-point were statistically significant. This means that respondents definitely “disagree” that LBSCs are effective in terms of the two factors.

Form of analysis	Technique used	Results of application
	Measures of central tendency	The means, modes and medians of the factors indicated that the respondents “disagree” that LBSCs are effective. The means of “capacity and professionalism”, “productive relationship” and “empowering association” are 2.45, 2.34 and 2.30, respectively. The modes of “productive relationship” and “empowering association” indicate that respondents “totally disagree” that LBSCs are effective; and for “capacity and professionalism” they “disagree”. The medians for “capacity and professionalism”, “productive relationship” and “empowering association” are 2.42, 2.38 and 2.00, respectively. All measures of central tendency lie to the left of the scale mid-point (2.5) signifying that most values are in the “disagree” quadrants.
	Analysis of variance	The analysis of variance revealed that the only statistically significant difference in the factors and among the independent variables was for sales turnover. Those with a higher turnover “agreed” that LBSCs were effective. The rest of the independent variables indicated “disagreement” that LBSCS were effective. The independent variables were age of owner, qualification(s) of owner, average number of employees, annual sales turnover and age of entity.
Qualitative research	Government officials	The interviews with government officials as per Table 7.30 revealed that there was unhappiness as the LBSCs did not perform to expectations. The officials also criticised the following intervening variables: accreditation, monitoring and evaluation, relations between LBSCs and Ntsika, funding, co-ordination of programme, and capacity of providers.

8.3.1 Areas of significance in terms of findings

As argued, the "So what?" of the study are the areas of significance and necessarily of new knowledge in terms of this study. The survey (Section 7.3) and literature review (Section 2.3.1) revealed a specific target market or niche in which service centres could make a difference in the economy of Gauteng Province and, naturally, South Africa. This resonates with Bennett (2008) as is reflected in Section 8.4.2.1.

The discussions on the findings and the recommendations thus focus on this niche. It is the link between the very small and small entities (turnover of less than R500 000 per annum) and those in the informal sector (turnover of approximately R75 000 per annum and two employees) likely to grow. These constitute the hundreds of thousands of entities that make up the Black SMME community. This responds to Kesper's (2002:21) criticism of the new small business strategy.

Lovelock, Wirtz & Chew (2009:60) and Lovelock & Wirtz (2007:187) make the point that a targeted market must share common characteristics, needs, and behaviour or consumption patterns. The characteristics of this niche are:

- entities with a turnover of less than R250 000 per annum;
- entities that employ less than five (5) people;
- entities that are desperate for survival;
- entities that can be regarded as growth entities because they are in high-growth sectors such as the information and communications technology field or the construction industry in the current boom; and
- Informal entities that can become formalised and even grow.

The following reasons are advanced for the selection of this niche as the outcome of the study that determines the "So what?" for the future:

- These entities predominate and an improvement in their fortunes will have far-reaching implications for socio-economic development;

- These entities went to the LBSCs and this suggests that they wanted to improve their performance. Thus, they had the will to survive and grow and could benefit as Pérez-Nordtvedt *et al* (2008:733) opine that the determination of recipients to learn determines their success;
- As stated, this niche also consists of informal entities that can be transformed into formal ones and, secondly, small and very small businesses that can be transformed into growth entities;
- A clear and identified focus on a specific niche and area of need has a better chance of being effective than a "buckshot" approach in which the target is the broad small business community in terms of the Small Business Act;
- Lapide (2008:8) and Hultén (2007:257) concur that segmentation is a strategic intervention that matches supply with demand, it also makes it easier to develop and distribute products for a specific niche; and
- There is a far better chance of measuring a specific area of focus than there is of measuring the impact of interventions on the broad small business community.

Having determined the niche, it stands to reason that "business development services", "service centres" and "effectiveness" must also be defined in terms of this niche as is now done in Sections 8.3.1.1 to 8.3.1.3.

8.3.1.1 Business Development Services

It is argued that in the light of the findings of this study, the understanding of "business development services" to be delivered to small business, very small and informal entities is:

> "Services emanating in a public policy initiative aimed at providing information and training for the majority of small, very small and informal entities in specific localities and in terms of what they need to grow into formal and growth entities".

The word "micro" is included on the assumption that the South African definition applies. Medium-sized entities are excluded as they do not fit into this niche. The key word in the new definition is "need" and this immediately ushers in market-related services.

8.3.1.2 Service Centres

Likewise, the understanding of "service centres" should now read:

> "entities or cluster of service providers operating in terms of policy to provide information and training to small, very small and informal entities. The said entities shall provide services on the basis of identified needs in the SMME community. The entities shall include annually accredited NGOs, private providers, educational institutions and government-created organisations. This accreditation shall also include infrastructure".

The inclusion of "infrastructure" will be discussed in the recommendations.

The above understanding brings in annual accreditation, which presupposes monitoring and evaluation. It also indicates market-driven products and, with an abundance of providers, could result in healthy competition.

8.3.1.3 Effectiveness in Service Centres

It is argued that in terms of Sections 8.3.1.to 8.3.1.2 the understanding of "effectiveness" must now read:

> "the effectiveness of service centres is determined on the basis of the delivery of services resulting in a reduction of fatality rates, an increase in turnover and the creation of more formal entities from informal ones".

Reference has been made to accumulation of assets and increased productivity as indicators. A gradualist approach is needed and the starting point of turnover and jobs is appropriate. This approach is also advocated by Gibcus, *et al* (2007:127,139). "Effectiveness" now focuses on a specific niche and, secondly, there is a stress on growing small businesses that will play a more robust role in the economy.

8.4 Discussions

Having provided an understanding of the key elements in the provision of services to small, very small, micro and informal entities, the findings of the study will now be discussed in terms of:

- A summation of the techniques and the findings of the study that seeks support for the proposition or does not support it; and
- Relate the findings to the literature review.

8.4.1 Discussion on the findings of the study

This study measured the impact of the service centres and confirmed the assertions in Chapter 1 that service centres did not live up to expectations as expostulated in the definition of the research problem (Section 1.4). The following supported the negative proposition that LBSCs were not effective:

A triangulation of the results from the factor analysis, analysis of variance (Anova) and t-test indicate that the respondents to the questionnaire “disagree” that the LBSCs were effective and the negative proposition was thus supported. The following reflect this:

- The means of the three factors that emerged: “capacity and professionalism”, a “productive relationship” and an “empowering association” which are respectively 2.45, 2.34 and 2.30 and all are shy of the 2.5 scale mid-point;
- The Anova and the t-test that were performed showed that most respondents “disagree” that there was a “productive relationship” between them and the LBSCs or that services from the LBSCs resulted in an “empowering association”;
- The initial measures of central tendency in which the mean, mode and median were less than the scale midpoint (2.5) show that respondents “disagree”;
- The standard deviation and variance of the factors are highly concentrated around their means. The factors are highly and positively correlated; and,

- The qualitative interviews provided the reasons the LBSCs did not live up to expectations.

The above are now discussed.

8.4.1.1 The factors indicate that respondents "disagree"

The respondents identified the factors "capacity and professionalism", a "productive relationship" and an "empowering association" as major elements in determining the ability of service centres to provide support to small businesses. This makes sense as the relationship must be "productive" and "empowering", which is a literal translation of the second and third factors.

However, this productive and empowering relationship is possible only if the LBSCs are properly capacitated and are professional. A wide gulf emerges between properly capacitated and professional LBSCs and the findings reflected in Tables 7.30 and 7.31, and are discussed in Section 8.4.3.1.

The failure of the LBSCs to meet expectations is reflected in the means of "capacity and professionalism", a "productive relationship" and an "empowering association" which are respectively 2.45, 2.34 and 2.30 and all are shy of the scale mid-point of 2.5. Respondents thus "disagree" that LBSCs were effective.

8.4.1.2 Anova and t-test reflect "disagree"

The analysis of variance (Anova) and the t-test that were performed on the factors reinforced the view that respondents "disagree" that the LBSCs were effective. The breakdown of the analysis of variance shows that in terms of the age of the small business owner, his or her qualifications, number of employees and age of the entity, respondents "disagree" that the LBSCs were effective.

The analysis of variance, which identifies differences between and within the categories in terms of the demographics, also revealed that in terms of sales turnover the respondents "agree" that the LBSCs were effective. The "agree" was in respect of businesses with a turnover of more than R250 000 per annum. There was a statistically significant difference between "agree" and "disagree" in terms of sales turnover for "capacity and professionalism" and "productive association",

while for “empowering association” it was not statistically significant but signified a trend to towards “agree”.

This statistical deviation is significant in that, as will be argued later, it indicates there is a case to be made for LBSCs, a viewpoint strongly held by Hjalmarsson & Johansson (2003:83) as discussed earlier.

For the t-test the probability values reflected in Table 7.8 show that there was a statistically significant difference at the less than 1 % level between the mean and mid-point for “productive relationship” and “empowering association”. This indicates that, in terms of these two factors, most respondents “disagree” that there was a “productive relationship” between them and the LBSCs or that services from the LBSCs resulted in an “empowering association”.

8.4.1.3 Measures of central tendency reflect “disagree”

The means of “capacity and professionalism”, “productive relationship” and “empowering association” are 2.45, 2.34 and 2.30, respectively, and lie to the left of the scale midpoint (2.5).

The mode, the value of the observations that appear most frequently, is 1.00 for “productive relationship” and “empowering association” and 2.00 for “capacity and professionalism”. This indicates that in terms of “productive relationship” and “empowering association” respondents “disagree strongly” that the LBSCs were effective. In terms of “capacity and professionalism” respondents “disagree” that LBSCs were effective.

The median for “capacity and professionalism” is 2.42 and this is below the Likert scale mid-point of 2.5. The median for “productive relationship” (2.38) is just below the scale midpoint (2.5). For “empowering association” the median is 2.0 which is below the scale mid-point (2.5). This means that the distributions for the factors are skewed to the left or most values lie to the left. This confirms the concentration of responses in the “disagree” portion of the scale.

The variances for “capacity and professionalism”, “productive relationship” and “empowering association” are 0.69, 0.65 and 0.89, respectively. As the spread is less than 1 but greater than zero, it suggests there is a high concentration towards

the mean. The closeness to the mean suggests that the variables in “capacity and professionalism” and “productive relationship” are very close to each other, while those in “empowering association” have slightly more spread.

This trend is replicated for the standard deviation for “capacity and professionalism”, “productive relationship” and “empowering association” which is less than 1. This indicates that there is little difference of opinion between the respondents in that they “disagree” that the LBSCs were effective.

8.4.1.4 Factor correlation is towards “disagree”

It has been shown that the mode, median and mean are all skewed towards “disagree”. Of further significance is that the three factors were highly and positively correlated with a correlation coefficient of 0.78 for “capacity and professionalism: and “productive relationship”; a correlation coefficient of 0.53 for “capacity and professionalism” and “empowering association”; and a correlation coefficient of 0.49 for “productive relationship” and “empowering association”.

The high correlations reveal the closeness reflected in the variances and standard deviations. Furthermore, they also reflect the skew towards “disagree” as reflected in the means, modes and medians. This suggests, as argued by Heppner & Heppner (2004:243), that the variables underlying the factors are closely related. It also means that the factors “capacity and professionalism”, “productive relationship” and “empowering association” can substitute each other in terms of “disagree”.

8.4.1.5 Qualitative interviews provide reasons for “disagree”

The structured interviews with the LBSC managers and officials of the **dti** and Ntsika (Table 7.30 and Table 7.31) detail the variables that impacted on the delivery of services. These resulted in the LBSCs not having the desired impact. According to the qualitative survey (Appendix A.2: Question 43) and the structured interviews (Table 7.30 and Table 7.31), the reasons were the accreditation of LBSCs was flawed; the monitoring and evaluation of service delivery was virtually non-existent and there was no impact evaluation. Other reasons were the funding

model, the quality of the service providers, and poor co-ordination of service delivery by government, to mention a few.

8.4.2 Relating the findings to the literature review

This section contrasts the findings with the literature review and identifies any addition to existing knowledge, areas of disagreement, congruence or issues for further analysis and discussion. The literature, excluding the introductory parts on entrepreneurship and the definition and importance of small business, can be summarised into:

- The typology of small business and implications for economic development and knowledge creation;
- Culture and other intervening variables in the delivery of business development services;
- The supply-demand approach in the delivery of business development services; and,
- The indicators of impact or effectiveness in the delivery of services.

8.4.2.1 The typology of small business and implications

The identification of a specific market can be regarded as a new approach to South Africa's SMME development programme. It identifies the areas of need and resonates with thinking by Bennett (2008) in which he identifies specific areas of intervention when providing business development services.

This targeted approach specifically promotes economic growth as it intervenes where there is a great need for assistance to develop SMMEs and it is a heavily populated niche. When this results in more formal entities, it suggests better incomes and more employees.

The demographics of the research show that 83 % of entities have turnovers of less than R200 000 per annum (Table 7.4) and 66 % employ less than five people (Table 7.2). This resonates with the demographics of the Finmark (2006) study in Section 2.3.1 and Table 7.2. The comparison between the Finmark (2006) study and the empirical research is given in Table 8.2.

Table 8.2: Comparison between FinMark (2006) study and data for this study

Category	Finmark (2006) study	This study
Turnover	90 % have a turnover of less than R200 000 per annum	83 % have a turnover of less than R200 000 per annum
Number of employees	90 % employ less than two people	66 % employ less than five people
Qualifications	81 % have matric and less	67 % have matric and less
Source: Analysis of data from the two studies		

There were no corresponding data in the Finmark (2006) study on age of business and age of owner of business; nor was the comparison in the empirical research on the sectors and gender. The Gauteng government (2008:6) also points out that 69 % of entities are run from home, whether it is a garage, back room or part of the house. Others operate from a path or street. Most of these entities, the Gauteng government maintains, are in the “trade or selling of goods” and only 7 % add any value. The characteristics of the sample for this study resonate with those of the entities reflected in the Finmark study and described by the Gauteng government. This suggests that the sample is not necessarily different from the general SMME environment in Gauteng as described in Section 2.3.1.

However, the characteristic of the sample and those of the general SMME environment reflect those of the informal sector which are aptly described as homogeneity, unregulated and survivalist by ILO (ILO 2008a:1), Fajana (2008:378), ILO (2008b:1), the Global Development Research Centre (2008), Munbodh (2003:5), the World Bank (2001:13) and Morris, Pitt & Berthon (1996:62).

It is thus argued that in terms of the literature review the bulk of entities that visited the LBSCs are “informal”. The “So what?” of this resonance is whether the existing research or knowledge is relevant to this specific niche and does not merely differentiate between “informal” and “formal”. The literature review shows that

there has been a traditional divide between “informal” and “formal” and this study brings the two together, at least ensuring that informal businesses graduate into becoming formal.

Furthermore, the meanings of the terms “micro” and “informal” differ between the developing and developed world. South African legislation defines a business with fewer than five employees and a turnover of less than R200 000 per annum (Table 2.2) as a “micro” entity. Devins, Gold, Johnson & Holden (2005:541) and the EU (2001:14) define a “micro” business as one with less than 10 employees but do not refer to turnover. This means in the developed world micro businesses can have turnovers running into tens of millions, while in South Africa the turnover is less than R200 000 per annum.

Also, there are differing understandings of the word “informal”. According to Williams (2007:350) “informal” refers to the paid production and sale of goods and services but this is unregistered or hidden. Williams (2007:350) says this understanding is also that of the European Union (1998).

Yet, the developing world sees informal entities as unregistered and of low value economic activity as corroborated by the ILO (ILO 2008a:1), Fajana (2008:378), ILO (2008b:1), the Global Development Research Centre (2008), Munbodh (2003:5), the World Bank (2001:13) and Morris, Pitt & Berthon (1996:62).

The discrepancy in understanding on “micro” and “informal” suggests that there is a case for a relook of definitions and classifications by the developed and developing world so that language when writing about small business is standard.

Finally, and this leads to the next point for further analysis, although there is confluence in the definitions of “small businesses” between the developed world as reflected in Table 2.3 and this is not exhaustive, the concentration may be different. For instance, as in this study, businesses with a turnover of less than R500 000 per annum have a high concentration in the developing world while the reverse applies in the developed world and mature economies.

This suggests that reference to, or literature on, small business may not be comparing entities in the developing world with like entities from the developed

world. It is for this reason that comparing small business in terms of turnover may also be problematic because of the differences between purchasing power parity between countries and regions.

8.4.2.2. Culture and other interventions in the delivery of services

The structured interviews with officials (Table 7.30) and LBSC managers (Table 7.31) revealed that the roll-out had an ineffective accreditation processes, the LBSCs lacked capacity, the funding model was not up to standard, there was acrimony between the different role players and the programme was poorly coordinated. It is argued that these were the intervening variables that made the LBSCs ineffective as determined by the empirical survey.

The literature review revealed that lack of accreditation resulted in LBSCs that did not have capacity-providing services to SMMEs. It was discussed in Section 3.3.2 that the various forms of service centres had accreditation processes. Sievers *et al* (2003:3) stated that UNIDO, USAid and the ILO service-centre networks had a two-phased approach in which the second phase, after setting up shop, is the selection of providers.

This selection is also two-fold as they are either in-house or they are contracted professionals. This process ensures quality consultants and these stay on the roster for as long as they perform to satisfaction and wish to participate. The study revealed that as there was no accreditation the LBSCs were not effective and this confirms existing knowledge.

It was stated in Section 3.4.1 in the literature review that there are numerous interventions that impact on the delivery of services and they include the fact that solutions being provided to SMMEs were initially aimed at big organisations, the phase of growth, the heterogeneity of the SMME sector, attitudes to learning by SMMEs and the niche at which the services are aimed.

The elements identified in Section 3.4.1 do not necessarily correlate with the findings. However, the underlying variables of the factors echoed views by Lange, Ottens & Taylor (2000:515) in Section 3.4.1.4 that culture, financial constraints, accessibility and awareness of opportunities are barriers to knowledge transfer.

For instance, the awareness barriers are addressed by the variable “the LBSC is visible in the media” in the factor “capacity and professionalism” while the variable “the LBSC consultants are good at communicating with people of different cultures” in the same factor could address the culture barrier as informing the SMME in his or her language could make it more amenable to training.

Chaston, Badger & Sadler-Smith (1999:36) further opine that SMMEs are “constrained by their very limited ability to either acquire adequate information from external sources and/or utilise such information to evolve new operational practices” and this is referred to in the factor “empowering association” and “productive relationship”.

This makes the factors very pertinent to the body of knowledge for SMME development. Chaston *et al* (1999:36) note that SMMEs are loath to train employees and this is brought to the fore as an area that needs attention as the variable “the LBSC consultant is interested in the skills levels of my workers” is an underlying variable in the factor “capacity and professionalism”.

Storey (1994:189) asserts that small businesses do not readily link success to training. The opposing assertion by Boocock *et al* (1998) could find support in the fact that the research shows the larger entities “agree” that LBSCs are effective. This means there is a causal link between successful SMMEs and training.

8.4.2.3 The supply-demand debate in the delivery of services

Bennett (2008:377) makes the point that market failures do not always mean government interventions are necessary. His view is that government interventions should be circumspect and well thought out, a point that comes out clearly in the study as the LBSC interventions were, in the view of the researcher, neither strategic nor circumspect.

Bennett (2008:377) concurs with academics who advocate market-driven services but he cautions that this decision must be strategic and not ad hoc. This means the decision should be based on the conditions in the environment. If the study is further analysed it is clear that the introduction of LBSCs into South Africa was influenced by overseas trends and local needs.

If this is the case, it begs the question whether South Africa compared firstly the environments from which the service centres were imported and, secondly, whether the needs in both markets were similar.

The LBSCs were obviously supply orientated. However, the researcher did not interrogate this aspect of business development services though it is possible to draw some conclusions.

An analysis on the efficacy of LBSCs shows that mostly informal entities accessed the centres. Even if it is accepted that there were a few biggish entities, does their limited participation in the LBSCs not suggest they saw them as “charity” rather than serious “business providers” and thus went to consultants?

The literature review points out that small businesses are not enthusiastic about training as they do not see a link between training and profits. The fact that most “disagree” that LBSCs were effective suggest that their expectations were not met and they did not see any value add.

Among the LBSCs themselves, the successful one was market driven and charged fees (Table 5.2). It had the capacity to provide services and was the best performing of the six that were interviewed. It did not depend on Ntsika for funding. This confirms debates that demand-orientated services can be viable. However, that it is the only one does not make a strong case, moreso that this is not part of the study and was not addressed in the questionnaires. An overall assessment indicates that there should be flexibility in the delivery of services. The very small entities can obviously not afford to pay and should receive generic services; while the bigger small businesses should be made to pay for tailor-made services.

8.4.2.4 The indicators of impact or effectiveness in the delivery of services

The underlying variables of the factors that emerged in the study emphasised indicators such as employment to measure impact are in line with the literature review if views by Gibcus *et al* (2007:127), OECD (OECD 2003:43), Oldsman & Hallberg (2003:11), Gibb (Lundström & Stevenson 2002:17) and Chrisman & Katrishen (1994:275) are taken into account. They rightly assert that employment creation is a good measure of impact.

In Section 4.2.2 the United Nations Conference of Trade and Development's Empretec programme also refers to increases in employment, sales and productivity as indicators of effective programmes. Gibcus *et al* (2007:127) stresses that these are the foremost indicators of effectiveness.

In relating this to the study, the underlying variables of "capacity and professionalism", "productive relationship" and "empowering association" confirm the above citations that "increased incomes", "increased numbers of employees", and "increased productivity" indicate the impact of business development services.

The variables underlying "capacity and professionalism" include "The LBSC consultant offers a variety of solutions for different problems", "The LBSC consultant is interested in the financial health of my business", "The LBSC consultant is interested in the skills levels of my workers", "The LBSC has sufficient consultants to service me" contribute to improve productivity.

This also applies to those underlying "productive relationship" which include "The LBSC assists me with most of my business needs", "The LBSC supported me from start to finish in the setting up of my business", "The LBSC consultant is interested in the business processes in my company", "The LBSC consultant gives me after-care" and "The LBSC assists people to obtain contracts from the government and the private sector". These variables contribute to increased turnovers, moreso the one on contracts.

The variables underlying "empowering relationship" include "The LBSC supported me by giving me advice on management functions (for example, HR and marketing)", "The LBSC supported me by giving me basic training", "The LBSC supported me by giving me the information I needed" and "My business made more money because of help from the LBSC" reflect a relationship that empowers small businesses to succeed.

It is therefore argued that the variables that underlie the factors have a strong relationship to the elements that the literature identified as indicators of an effective relationship. Chrisman & Katrishen (1994:273) also suggest that a cost-benefit analysis should be part of the process and although there was no cost-benefit analysis in the research, it is clear that the factors identify benefits.

What is of significance are observations by Botha, Nieman & van Vuuren (2006:4), LeBrasseur & Zinger (2005:410) and Bartik (1994:99) that longitudinal studies are more appropriate in the measurement of impact. This study was cross-sectional and the limitations identified by LeBrasseur & Zinger (2005:410) and Bartik (1994:99) must be taken into account.

The indicators also do not contradict Abernathy's (1999:27) contentions that intervening variables could influence outcomes even if Kirkpatrick's (1998:27) model of four levels evaluation is applied (Section 4.4.2). The findings do not bring finality to this debate and instead they leave the door open for continued speculation and the assertion that longitudinal studies could be more appropriate.

After all, flowing from views by LeBrasseur & Zinger (2005:410) and Bartik (1994:99), Kirkpatrick's four levels would not take into account recent injections of capital to turn the organisation around. The same argument applies in this instance, as the injection of capital into the LBSCs by Ntsika justifies concerns by LeBrasseur & Zinger (2005:410) and Bartik (1994:99) on their viability, a condition of accreditation.

8.4.3 Linking the quantitative survey to qualitative interviews

The arguments in this section relate the findings to the environment and thus specifically deal with the interaction between the LBSCs and the SMMEs. This is captured in the qualitative study and must be linked to the quantitative study in addition to the previous references in this regard.

8.4.3.1 The qualitative research in relation to the environment

The qualitative research captures the interaction between LBSCs and SMMEs from the perspective of the LBSCs and the government officials. Its relevance to the study is that it gives an indication as to the reasons that could have led to the demise of the LBSC concept.

The qualitative research revealed that the roll-out had ineffective accreditation processes, the LBSCs lacked capacity, the funding model was not up to standard,

there was acrimony between the different role players and the programme was poorly co-ordinated. The findings of the structured interviews and the Bloch & Daze (2000) and Urban Econ (2002) studies are illustrated in Table 7.30.

The above responses provide the reasons the LBSCs were not effective.

8.4.4 Conclusions

English & van Tonder (2009:299) believe that while the conclusion is short and deals with the salient points, it must also highlight important pointers that have implications for the future. The salient points that emerge from the findings are:

- A specific market that could be more receptive to business development services has been identified. This is a new approach and different to what has hitherto been the case. The emergence of this new market is new knowledge in terms of the Gauteng Province, South Africa and the developing world. Previous studies merely divided this niche into formal or informal and did not determine or promote linking the two together;

- Evidence from this study indicates that there has to be greater selectivity in importing programmes and knowledge so that there is greater relevance to the South African and, by extension, the Gauteng Province market;
- There has to be impact evaluation on an ongoing basis and simple measures like increases in turnover and job creation are of the essence as they also make sense to the small businesses themselves; and
- The literature review was specific that market-driven solutions could have greater impact and this could be reinforced by an assiduous adherence to the factors that were identified. The reality is that a substantial part of the client market cannot afford the market-led approach and the supply-led approach should not be excluded.

Finally, of significance are the trends reflected in Table 7.27. Although the trends are not of statistical significance save for turnover, in two of the factors, they reveal that:

- The owners with more employees were less emphatic that LBSCs were not effective;
- The owners with higher turnovers were more in agreement that LBSCs were effective; and,
- The owners with higher qualifications were less emphatic that LBSCs were not effective.

An analysis of the above suggests that entities with more employees, entities with higher turnovers and more educated operators see value in the LBSCs. While this is not statistically conclusive, it makes the case for an LBSCs network and, if the qualitative research is taken into account, the roll-out and implementation must meet basic requirements.

This is not only an area for future research and ongoing research but it supports the contention by the researcher that this is a new niche on which to focus. The next section deals with the attainment of the objectives.

8.5 ATTAINMENT OF STUDY OBJECTIVES

Attainment of the study objectives is achieved by technically relating the primary and secondary objectives to the techniques that were applied. In view of the fact that there was in-depth argument in the discussion on the techniques that were applied, the discussion on the attainment of the objectives is brief and for the record.

8.5.1 Primary objective

The primary objective was to evaluate the effectiveness of LBSCs in Gauteng Province in providing business development services to SMMEs. The primary objective was met as, according to the empirical survey, SMMEs “disagree” that LBSCs were effective. This was fully discussed in Section 8.4.1

8.5.2 Secondary objectives

The secondary objectives were to:

- Evaluate the capacity of the LBSCs to provide services to SMMEs;
- Evaluate the effectiveness of the relationship between LBSCs and SMMEs;
- Evaluate the ability of the LBSCs to provide all services prescribed by the White Paper for the Development and Promotion of Small Business in South Africa (RSA 1995a) in terms of:
  - The effectiveness of the LBSCs to provide information to SMMEs;
  - The effectiveness of the LBSCs to provide development services to SMMEs.

According to the research, SMMEs "disagree" that LBSCs were effective in terms of the above secondary objectives.

The findings were reported in Chapter 7 and brief reference is made here in terms of the secondary objectives for the record and ease of reading to avoid reverting to Chapter 7.

8.5.2.1 The capacity of the Local Business Service Centres to provide services to SMMEs

The capacity to provide services was determined by the factor "capacity and professionalism". The mean for "capacity and professionalism" was 2.45 and there was no statistically significant difference between the mean and the mid-point. This suggests that the responses were hovering between "agree" and "disagree".

In terms of the analysis of variance, entities with a high turnover "agreed" that LBSCs were effective. But, as pointed out, it was only this independent variable that showed some statistically significant differences between those that "agree" and those that "disagree" in the responses to the questionnaire. But this was only for "capacity and professionalism" and "productive relationship".

In terms of the other independent variables which are "age of owner", "age of entity", "number of employees" and "qualifications of owner/manager", the SMMEs "disagree" that the LBSCs had capacity.

8.5.2.2 The effectiveness of the relationship between LBSCs and SMMEs

This secondary objective related to "productive relationship". The mean for the factor is 2.34 and, in terms of the tests of significance, there is a statistically significant difference between the mean and scale mid-point which clearly indicates that respondents "disagree" that there is a productive relationship.

8.5.2.3 The ability of the Local Business Service Centres to provide all services as defined by the White Paper for the Development and Promotion of Small Business in South Africa

The factor "capacity and professionalism", addresses this secondary objective and was explored in Section 8.5.2.1.

8.5.2.4 The effectiveness of the Local Business Service Centres to provide information to SMMEs

The provision of information is a fundamental objective of the LBSCs and thus relates to "capacity and professionalism". Additionally, the fact that the mean for this factor is 2.45, as reflected above, means they were not effective providers of information to SMMEs.

8.5.2.5 The effectiveness of the Local Business Service Centres to provide development services to SMMEs

This secondary objective also falls under "capacity and professionalism" and it has been posited that the LBSCs were not effective in providing services to SMMEs.

8.6 LIMITATIONS OF THE STUDY AND AREAS FOR FUTURE RESEARCH

The study had several limitations and these should be considered as potential areas of reference for future study.

8.6.1 Limitations of the study

Heppner & Heppner (2004: 340) reported that all studies have limitations. The limitations could relate to sampling, the instrument, procedures and methodology.

8.6.1.1 Limitations in terms of sampling

The questionnaires were sent to 400 SMMEs that visited the LBSCs that were interviewed. Of the 226 questionnaires that were returned only 151 were usable, which is a response rate of 37.8 %. Frankfort-Nachmias & Nachmias (2000:207) assert that a response rate of between 20 and 40 % is normal for mail surveys, but the point must also be made that this also depends on the number of questionnaires sent out.

Furthermore, the LBSC programme was launched in 1995 and the research was undertaken in 2006 and 2007. Obviously, memories cannot be that clear for many of SMMEs and this has to be factored in. Thus, while the 37.8 % is average and could have been higher, the structured interviews with the officials and the LBSCs managers buttressed the findings and also brought some currency and balance.

8.6.1.2 Limitations in terms of instrument

The entities that responded to the questionnaire were mostly micro and informal entities. This is reflected in Section 7.3.1 in which 83 % of entities have turnovers of less than R250 000 per annum and 65 % employ less than five people. It is evident from the above that entities with a turnover of more than R250 000 per annum were 17 % of the sample. The sample is therefore more reflective of the micro sector than it is for bigger small businesses.

The questionnaires were also not area coded as Gauteng has six districts. The sample came from three of them: Johannesburg, Pretoria and Ekurhuleni. There were no LBSCs in two districts and the LBSC in Sedibeng was dysfunctional and never took off. Regretably, as the LBSCs have all but disappeared, taking into account that Seda and Geda linked agencies now provide basic services, it is not easy to redo the questionnaire.

These shortcomings pertain to the constitution of the units of analysis within the sample and not the sample itself. It is argued that the data cannot be weakened by the lack of a strong presence of formal and bigger entities but it is debatable whether the findings can be extrapolated to apply to all entities. It could also be pointed out that the area bias also does not necessarily affect the findings as the study related only to the Gauteng Province. It is true that differentiating between

regions would have revealed deeper insights and made regional comparisons possible. However, the fact that there was no area coding does not diminish the importance of the findings.

8.6.1.3 Limitations in terms of methodology

The factor analysis differentiated the three factors statistically and, therefore, they exist. The correlations demonstrate high associations and this is acceptable. It was hoped that more clarifying factors should have emerged. Although this does not necessarily have an impact on the findings, conceptually different factors would have provided more insight and analysis.

As this was an *ex post facto* study, a major limitation is that it was undertaken more than 10 years after the LBSC programme had been launched and subsequently abandoned. But there is no doubt that there are serious lessons to be learnt as to why the LBSC programme did not live up to expectations, as shown in this study. The findings are thus acceptable in this case.

There is a view that impact studies should be longitudinal rather than cross-sectional if research by Botha, Nieman & van Vuuren (2006:4), LeBrasseur & Zinger (2005:410) and Bartik (1994:99) is taken into account. It suggests that intervening variables are better overcome in the measurement of impact.

8.6.2 Suggestions for further study

It is evident from Section 8.5 that informal entities with turnovers of less than R250 000 per annum constitute the bulk of Black entrepreneurs in Gauteng, not that there is nothing beyond this. However, as the Black community represents more than 75 % of the population; strategies are needed to enable more Black entities to graduate from the informal sector and become part of the formal one.

This means a more focused strategy to deliver business development services to local SMMEs, with more products specifically to graduate these entities. A longitudinal study could be necessary for the specific purpose of initiating and monitoring the graduation of informal entities into formal ones, and identifying constraints if any. More value will thus be added to the economy.

8.7 RECOMMENDATIONS

It was concluded in previous sections that the SMMEs "disagree" that LBSCs were effective and various intervening variables were identified that could have contributed to the non-performance of the LBSCs. This section now identifies elements that will create effective BDS programmes and, at the same time, minimise the impact of the intervening variables.

8.7.1 Principles for future SMME development programmes

As there are many approaches to the roll-out of BDS programmes, the recommendations will not be a "step-by-step" approach but rather a "must-include elements" line of attack. Thus, the following "must-include elements" should be an integral part of more enhanced service centres for Gauteng:

- An understanding of the macro- and micro-environments (Section 8.7.2);
- The typology and level of maturity of SMMEs is a major consideration and a proper needs analysis needs to be made to identify the services needed;
- BDS programmes should be identified in a rigorous process, certificated for a year and the certificate should be renewable on the basis of performance;
- A market for BDSs should be actively created with funding for start ups and the informal sector made available with specific criteria to access it;
- Implementation of the programme should be at local level and include role players in the local economy;
- There should be sustained interactivity between the future BDS programmes, role players and communities;
- The suppliers of BDS programmes should be visible and accessible; and
- Appropriate monitoring and evaluation systems should be put in place.

8.7.2 Implementation of the recommendations

Hjalmarsson & Johansson (2003:83) and Owen (2006:27) agree that programmes are conceptualised and then evaluated at two levels, the macro and the micro. Owen was referring to programmes in general while Hjalmarsson & Johansson (2003:83) specifically referred to service-centre delivery.

The point being made is that macro- and micro-factors determine the success of any programme. It is interesting to note that impact, sustainability and outreach relate to "capacity and professionalism", "productive relationship" and "empowering association", as well as to the open-ended responses. This suggests that the recommendations must be in line with comments by Steel et al (2000:33), who maintained that outreach, impact, sustainability and cost effectiveness ensure the effectiveness of BDS programmes.

Furthermore, it is argued that the "new paradigm" in terms of the supply of business development services must be factored in. After all business development is not about dependency but about creating viable entities that can stand on their own.

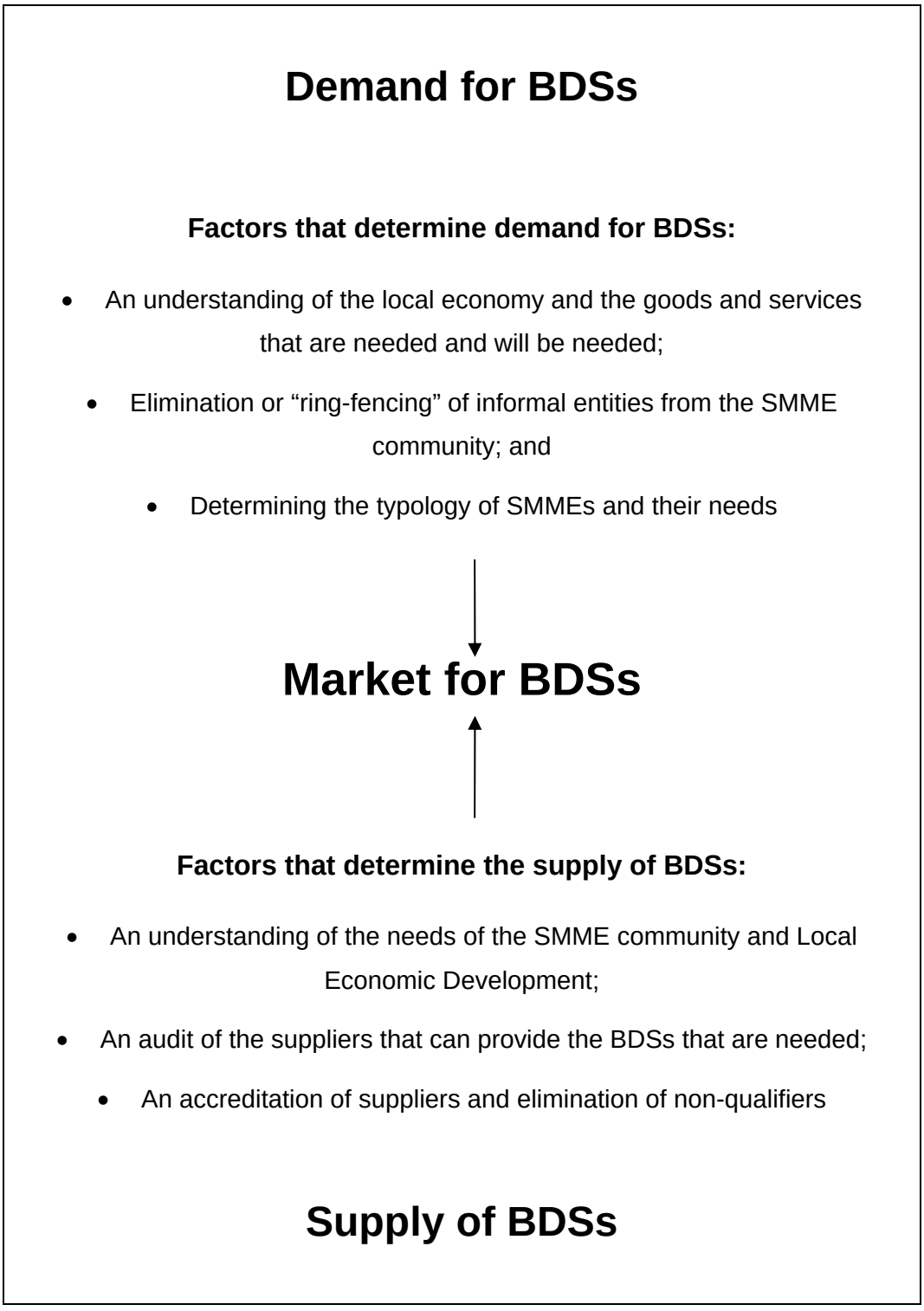
Figure 8.1 illustrates the conditions for an ideal interaction between the suppliers of BDSs and SMMEs and this should be at local level. The following arguments are advanced on the suggested eight "must-include elements" mentioned above.

8.7.2.1 An understanding of the macro- and micro-environments

Environments determine and influence economic activity and it stands to reason that if the suppliers of BDSs and SMMEs must interact to the satisfaction of all, a deeper understanding of the environment is *necessary*. In fact knowledge-driven local economic development is about deeper insights into the strengths and weaknesses of the locality.

A periodic assessment of the macro- and micro-environments for SMMEs enables policy makers to gather information on the small business sector on a regular basis. This deepens their understanding of the local economy as information is regularly updated. In turn, the SMMEs, BDS providers and various stakeholders also deepen their knowledge of the local economy.

Figure 8.1: The recommended development strategy for BDS implementation at local level



8.7.2.2 Typology and level of maturity of SMMEs is a major consideration and requires a proper needs analysis to identify the services needed

The present study revealed that an understanding of the SMME community is critical to ensure that appropriate remedies are introduced. While the National Small Business Amendment Act, Act 26 of 2003 (RSA 2003) classifies entities and makes provision for those with a turnover of less than R200 000 per annum, it is evident that the bulk of entities in Black areas have turnover of less than R700 000 per annum according to the FinMark (2006) study.

It therefore makes more sense to introduce classification that provides for these sizes so that interventions can be appropriate. Thus the level of sophistication in terms of employers, employees (if any) and age of business must be determined. A needs analysis will then determine the interventions most likely to benefit SMMEs. This needs analysis also assists in determining the BDS market as discussed below.

8.7.2.3 BDS suppliers must be identified in a rigorous process, certificated for a year and the certificate renewable on the basis of performance

The success of the BDS programme depends on certifying entities that can deliver effectively whether they are NGOs, Close Corporations, Agencies or any other form of service provider. Secondly, the criteria need to be specific and be relevant to the needs of the SMME community. In other words future BDS suppliers that deliver what the local SMME community needs must be accredited.

The criteria must include assessing whether the would-be BDS supplier has the basic infrastructure to provide information and training to the market. For instance, the least an BDS supplier should have is an internet website that offers information for tenders, for example.

The certificate shoule be renewable after a year so that entities compete in terms of services for certification and then accreditation. Furthermore, future BDS suppliers must also be allowed to dispense government incentives or assist clients

to apply for these incentives. This widens the scope of what they can do, makes them attractive to the public and gives them greater credibility.

8.7.2.4 A market for business development services must be actively created with funding for start ups and the informal sector made available with specific criteria to access it

It is argued that the provision of information and training must be fully funded by government for start ups and informal entities. Entrepreneurship and enterprise development, like basic education and basic health care, are a basic right and/or should be one and thus a responsibility of government.

However growth entities, save where there are special government programmes, must fund themselves as viability is the name of the game. Subsidising SMMEs in perpetuity does not create sustainable businesses. In contrast, the creation of a vibrant market for business development services creates more activity in the economy and more job opportunities.

Discourse by Amha & Ageba (2006:312) must also be recalled (Section 3.3.2.2) that if one is committed to the market-development approach, the following apply:

- Identifying the BDS needs of SMMEs;
- Designing a product that will satisfy the needs; and
- Developing effective strategies to the BDS programme.

The above was in reference to Ethiopia where a market is being mooted for business development services. The arguments also apply in Gauteng which, while superior to Ethiopia in many respects, still has a massive SMME community, in much the same way as in Ethiopia.

8.7.2.5 Implementation of the programme must be at local level and include role players in the local economy

Nel & Rogerson (2005:3) say that government has identified local authorities as agents of change and tasked them to respond to the development needs of their economies. This is a logical development and does not need debate as this, according to Nel & Rogerson (2005:3), will generate a lot of activity.

The present research suggests that the local economic development agenda should determine the goods and services to be provided. The role players to be included must be the organised small business formations, local tertiary institutions, and the private sector and policy makers. Thus, a market for SMMEs is being developed and local SMMEs and the suppliers of BDSs are included in the strategy.

The co-ordination of the programme must be a responsibility of a local entity (like a municipality or a district authority) to ensure that all corners of the province are reached. The provincial entity (such as the Gauteng Enterprise Propeller) should be responsible for partnering with local authorities in the setting up of local service centres; the development of products; the accreditation of the suppliers or service providers, and the monitoring and evaluation of the services they render to SMMEs.

National entities (for example, Seda) need to be involved in monitoring and evaluation at a national level; the development of the national development strategy, and national research on issues around small business. It was noted in Chapter 2.2 that the private sector dominates the environment. When it is included at co-coordinating level it is able to realise the importance of being more SMME friendly. Currently business membership organisations and the private sector are accommodated at board level in the Gauteng Enterprise Propeller and Seda. They need to become even more involved.

8.7.2.6 There has to be sustained interactivity between BDS suppliers and stakeholders

Responses to the open-ended question (Appendix B: Question 43) in the questionnaire stressed the need for interactivity. This must, however, not be confined to the BDS supplier–SMME relationship but must encompass all role players. Thus, government needs to keep in touch with the relationship just as the local business community needs to know to what extent the relationship is meeting the interests of all.

8.7.2.7 BDS suppliers must be visible and accessible

Responses to the questionnaire were vehement that LBSCs were neither visible nor accessible. This has more to do with the number of BDS suppliers in operation and where they are located. Many districts are widely spread but sparsely populated while others (like squatter camps) are densely populated. In both instances BDSs are hard to access as they are mostly located in the cities where the sophisticated clientele is supposed to be.

8.7.2.8 Appropriate monitoring and evaluation systems need to be put in place

One of the reasons that the LBSC programme did not live up to expectations was lack of appropriate accreditation to ensure that capable entities rendered services to SMMEs. To aggravate the situation there was also laxity in monitoring and evaluation. It is argued that just as proper accreditation processes are critical, the end game is just as important as the benefits of the programme need to be determined.

The three factors must determine the evaluation tool. This means that the evaluation tool (a questionnaire, for instance), must be premised on “capacity and professionalism”, “productive relationship” and “empowering association”. This is only logical following the factor analysis.

8.8 CONCLUSION

As the suggested eight “must-be-included elements” are based on the findings of the research, there is a very strong likelihood that the returns on any future BDS programme will be better. Although the intervening variables are not necessarily addressed directly, it is clear that the eight elements take into account the intervening variables.

For instance, co-ordination at local level by local people and for locally generated strategies is more effective. Similarly, the funding strategy ensures that only start ups and informal entities are funded, which is where the need is. Growth

entities must then fend for themselves and incur costs like any other business. In the process a market for business development services is developed.

Finally, the analysis of the SMME community, BDS suppliers and the local landscape itself enables more knowledge-driven strategies to be devised based on what the analysis reveals. This heralds an end to the “one-shoe-fits-all” approach or “off-the-shelf” solutions. Each environment has its own characteristics that merit specific solutions.

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APPENDIX A

LETTER TO SMME OWNERS/MANAGERS AND QUESTIONNAIRE TO SMMES IN GAUTENG TO DETERMINE THE EFFECTIVENESS OF THE LBSC NETWORK

A.1 LETTER TO SMME OWNERS/MANAGERS

Dear Respondent

This questionnaire investigates the roll-out of the LBSC network. As you may be aware, this is a network of service centres to support and grow SMMEs in various parts of South Africa. We want to establish whether the implementation and operations were properly done and whether SMMEs benefited.

It would be appreciated if you could co-operate with us and answer the questions as thoroughly as possible. All information will be treated as confidential and will be used for academic purposes only. We hope that the research will help determine a blueprint to improve on the existing framework and create a network that will provide services more effectively and efficiently so that South Africa's SMMEs grow and prosper.

We thank you in anticipation

Sincerely

E T Mazwai

Post Graduate Student

Department of Business Management
University of Pretoria
Tel: 011-3261020 or 083 376 9111

Instructions for completion:

1. Please answer all questions as honestly as possible.
2. When asked for comment, please keep it as short as possible.
3. Mark a cross in the space provided on the right side of the question.
4. Answer all questions, if possible, as this will enable an accurate analysis and interpretation of data, and thus lead to more effective recommendations and conclusions.

A.2 QUESTIONNAIRE TO SMME OWNERS/MANAGERS

1. Number of respondent	V1 1-3
2. What is your age?	V2
3. What is your highest qualification?	V3
4. What is your average number of employees over the past year?	V4
5. What is the annual turnover of your business? Tick the correct box	V5
6. In which year did you start your business?	V6

Less than R250 000	
R250 000 to R15 million	
R15 million to R50 million	
Over R50 million	

Below are a number of statements. Please indicate your level of agreement in the appropriate space.

Statement	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly agree	*For office use only*			
7. I have an opportunity to formally assess the LBSC consultant after every session						V7		
8. The LBSC consultant is interested in the business processes in my company						V8		
9. The LBSC assists people to obtain contracts from government and the private sector						V9		
10. I am prepared to recommend the LBSC to other people						V10		
11. The LBSC assists me with most of my business needs						V11		
12. The LBSC consultant and I have a good working relationship						V12		

Statement	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly agree	*For office use only*			
13. The LBSC is visible in the media						V13		
14. The LBSC assists people to obtain finance						V15		
15. The LBSC offers practical solutions						V15		
16. The LBSC assists with training that is specific to sectors (for example, tourism, agriculture)						V16		
17. The LBSC offers services that I think are good						V17		
18. The LBSC consultant is interested in the level of technology in my business						V18		
19. The SMME community knows about the services of the LBSC						V19		

Statement	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly agree	*For office use only*			
20. LBSC services are affordable						V20		
21. The LBSC consultant has good communication skills						V21		
22. The skills of my workers have improved because of assistance from the LBSC						V22		
23. The LBSC consultants are good at communicating with people of different cultures						V23		
24. The LBSC supported me from start to finish in the setting up of my business						V24		
25. The LBSC consultant is interested in the skills levels of my workers						V25		
26. The LBSC consultant offers a variety of solutions for different problems						V26		

Statement	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly agree	*For office use only*			
27. The LBSC consultant is interested in the financial health of my business						V27		
28. The LBSC head office regularly sends people to assess the work of consultants.						V28		
29. The LBSC responds promptly						V29		
30. The LBSC has sufficient consultants to service me						V30		
31. The offices of the LBSC are in an area that is easy to find						V31		
32. The consultant is easy to work with						V32		
33. The LBSC supported me by giving me advanced training on management functions (for example, HR, marketing)						V33		

Statement	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly agree	*For office use only*			
34. The LBSC supported me by giving me basic training						V34		
35. The LBSC supported me by giving me the information I needed						V35		
36. I have confidence in he LBSC as it has the latest equipment such as charts and videos to assist me						V36		
37. The LBSC hands out easy to understand training material						V37		
38. The LBSC consultant gives me aftercare						V38		
39. The LBSC consultant is knowledgeable about SMMEs						V39		
40. The LBSC is in a popular area that everybody goes to						V40		

Statement	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly agree	*For office use only*			
41. My business made more money because of help from the LBSC						V41		
42. I can trust the LBSC consultant with confidential information						V42		

43. What do you suggest for an effective LBSC network that will grow and sustain SMMEs?

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APPENDIX B

LETTER TO THE DEPARTMENT OF TRADE AND INDUSTRY AND NTSIKA OFFICIALS AND INTERVIEW PROTOCOL FOR STRUCTURED INTERVIEWS WITH FORMER OFFICIALS OF NTSIKA, FORMER AND CURRENT OFFICIALS OF THE DEPARTMENT OF TRADE AND INDUSTRY, AND CURRENT OFFICIALS OF SEDA ON THE ROLL-OUT AND IMPLEMENTATION OF THE LBSC PROGRAMME

B.1 LETTER TO THE DEPARTMENT OF TRADE AND INDUSTRY AND NTSIKA OFFICIALS

Dear …….…….. [full name]

This document is the basis of an in-depth interview we would like to have with you to investigate the roll-out of the LBSC network. It would be appreciated if you would co-operate with us and answer the questions as thoroughly as possible. All information will be treated as confidential and will be used for academic purposes only. We hope that the research will help determine a blueprint for the most effective methodology for LBSCs to provide non-financial services efficiently and effectively so that South Africa's SMMEs grow and prosper.

Thank you for your co-operation

Sincerely

E T Mazwai

Post Graduate Student

Department of Business Management
University of Pretoria
Tel: 011-3261020 or 083 376 9111

Instructions for completion:

1. Please answer all the questions regarding the LBSC network implementation and performance as honestly and objectively as possible;

2. Please answer **all** questions as this will provide more information to the researcher and an accurate analysis and interpretation of data can be made; and,

3. Your responses will be tape-recorded to ensure that your responses are transcribed accurately.

B.2 INTERVIEW PROTOCOL FOR STRUCTURED INTERVIEWS WITH FORMER OFFICIALS OF NTSIKA, FORMER AND CURRENT OFFICIALS OF THE DEPARTMENT OF TRADE AND INDUSTRY, AND CURRENT OFFICIALS OF SEDA ON THE ROLL-OUT AND IMPLEMENTATION OF THE LBSC PROGRAMME

The questions will cover:

- The conceptualisation of the programme
- The typology of the envisaged LBSC community, spread and market niches;
- The LBSCs in Gauteng;
- The selection and accreditation of LBSCs;
- The relationship between the LBSCs and Ntsika and any other government agency;
- The capacity and delivery of services to SMMEs;
- The monitoring and evaluation of LBSCs;
- Marketing and visibility of the programme; and
- The funding of LBSCs.

Detailed questionnaire:

1. Information on official(s)

- Name
- Position held at the time and responsibilities
- Period involved in the LBSC programme.

2. Conceptualisation of the programme

- As this was an imported idea, was enough done to ensure it fits into the South African environment?
- Was an appropriate comparison done between the local environment and the overseas environments from which we copied the programme?
- Was there enough pre implementation consultation with all stakeholders?

3. Planning of the implementation

- Were the objectives clearly spelt out?
- Were there clearly defined areas of responsibility for all stakeholders, could you please explain this if this was the case?
- Were there review processes in the programme to monitor the implementation periodically?
- Was provision made for impact evaluation?

4. The typology, spread and market niches:

- Form of entity preferred e.g. Section 21 company, NGO, CBO
- Was the differentiation between urban and rural areas?
- Was there a specific spread, e.g. radius to be served by each to ensure profitability?
- Was there any differentiation on SMMEs to be served e.g. start up, small, medium?

5. The LBSC community in Gauteng

- How many LBSCs were planned for Gauteng?
- Was there specific spread, radius and niches?
- Differentiation in terms of maturity and size?

6. In the selection and accreditation of LBSCs, there is evidence that some entities were approached LBSCs while others applied;

- What were the criteria in approaching entities to be LBSCs
- Were the accreditation criteria followed to the letter in their evaluation?
- Were the accreditation criteria applied to the "last t" in evaluating those that applied?
- It appears that there were some differentiation, why?
- Were the instances where provisional accreditation was granted?
- How did social or community entities like NGOs and CBOs fare?

7. Capacity building

- Did the community organisations go to capacity building workshops and how did they fare?
- Did the business orientated entities, for instance consultancies, go to these workshops and how did they fare?
- In as far as your organisation was concerned, were the community organisations ever able to deliver given the variety of services needed by a complex community like SMMEs
- How did the business orientated organisations cope? Were they able to deal with the differentiation in providing services?

8. Delivery of services

- Were spatial issues taken into account in the planning stage so that rural areas are provided for?
- Was differentiation in size and age taken into account in the planning stage?

9. Relationship between Ntsika and LBSCs

- What was the relationship like between Ntsika and the LBSCs?
- What caused this relationship?
- Was the dti aware of this?

- How did it impact on the LBSC programme?
- Was the dti happy with Ntsika during the implementation phase?
- If no, why? If yes, why do you say so?
- Did the relationship between the **dti** and Ntsika have a positive or negative impact on the programme and why do you say so?

10. Monitoring and evaluation

- Did Ntsika and the dti monitor the implementation of the programme?
- Did Ntsika and dti monitor individual LBSCs or those that must provide critical services?
- Did you ever do an impact study to evaluate the effectiveness of the programme in starting, growing and developing SMMEs? How did you measure effectiveness, suitability and relevance?
- How did you evaluate the success of the programme?

11. Marketing and visibility of the programme

- How did communities know about the LBSC programme?
- How did target markets know about it, if that was the case?
- Are you happy with the visibility of the programme and, more importantly, the LBSCs as a brand?

12. Funding

- Was there a viability study done in the planning stage to see if support from SMEs could sustain LBSCs?
- What formula was used to determine the funding formulae for LBSCs?
- Was this funding model appropriate or not appropriate? Why?
- Did the LBSCs know they could use their accreditation certificate to sell themselves to other funders?

13. Impact

- The creation of a growing, quality stock of small businesses, and how did you measure this?
- An excess of business births over business deaths; and
- The growth and strengthening of existing businesses through the stages of survival, early growth, sustained growth and internationalisation. How did you measure this?

APPENDIX C

INTERVIEW PROTOCOL FOR LBSC MANAGERS

The purpose of this questionnaire is to elicit information on the implementation of the LBSC programme and flesh out issues that impacted on this roll-out. The interviewers had to concentrate on problem areas viz funding, for example.

C.1 – Details of the LBSC

Name:

Qualifications:

Gender:

Name of organisation:

Size and type of organisation:

Registration of organisation (cc, agency or (Pty) Ltd):

Type of service provided:

Age of organisation:

C.2 – Board and governance

1. The White Paper for the Development and Promotion of Small Business in South Africa [RSA 1995a] recommends specific criteria on the structuring of

LBSCs. Is your board constituted in line with the recommendations of the White Paper or Ntsika's booklets?

2. Which stakeholders are represented on the board?

3. Is the board multi-skilled as the White Paper prescribes?

C.3 – Implementation of the LBSC programme

4. How did you get involved in the LBSC programme?

5. How was your relationship with officials of Ntsika, the government agency responsible for the roll-out?

6. The criteria for accreditation consisted of 10 elements. Did you qualify with immediacy or did you first get provisional accreditation?

7. Are the criteria appropriate for the services to be provided?

C.4 – Capacity and delivery of services

8. Did you have the capacity to deliver services as specified in the White Paper and were you thus able to satisfy your clients?

9. Were you involved in Ntsika's capacity building programme and how did you find it?

10. The following were regarded as core services: Counseling and information, basic business management training, signpost and referral, and experience exchange. Were you able to provide these core services?

11. The White Paper has recommended that LBSCs further provide specialist services, for instance sector specific assistance such as agribusiness or transport. Were you able to provide these?

12. Were you able to provide further specialist services for growing SMEs, for instance marketing, HR, import and export?

13. Were you able to provide branded services, for instance through franchisee arrangements or by linking up with well-known institutions that provide business development services?

14. Did your clients want non-financial services or did they want finance?

15. Were your clients receptive to your services?

16. Is aftercare part of your offering and how?

C.5 – Monitoring and evaluation

The Act provides for monitoring and evaluation.

17. Did Ntsika monitor your performance and did you have periodic evaluation?

18. Did your clients evaluate your services after every session by filling in evaluation forms? How did they find your services?

19. Did you have performance evaluation of your staff in terms of delivery?

20. Did any other agency or provider of funds evaluate your services and what was the frequency of evaluations, if any?

C.6 – Funding

21. Did you get any government or Ntsika funding, was it sufficient and did it come on time? Were you ever self-sufficient?

22. Did you get funding from other funding agencies, for instance overseas embassies or local organisations?

23. Could the SMMEs afford to pay for services that were not subsidised?

C.7 – Community participation

24. Did the community and local organisations know about you as a LBSC and did you get support?

25. Did you participate in community activities?

C.8 – General comments

26. There is a view that too much was expected of the LBSCs. What is your view?

27. According to the White Paper on the Promotion of Small Business, a Code of Ethics had to be formulated for LBSCs. Was there a Code of Ethics to which LBSCs had to comply?

28. What was outstanding about your LBSC?

29. What was most frustrating?

30. What was the general perception on LBSCs in general?

APPENDIX D

LIST OF PEOPLE AND ORGANISATIONS INTERVIEWED

The names of the interviewees have been withheld as they were assured of confidentiality

Organisation	Interviewee Code
Business Opportunity Centre	LBSC 1
Centre for Business Education and Training	LBSC 2
Tshwane North College (Mamelodi campus)	LBSC 3
Junior Achievement South Africa	LBSC 4
Centurion LBSC	LBSC 5
Boipatong Development Centre	LBSC 6
Seda	Official 1
National Small Business Council	Official 2
dti	Official 3
dti and Seda	Official 4
Gauteng Department of Economic Affairs	Official 5
Ntsika	Official 6
Seda and **dti**	Official 7