A PROPOSED MODEL FOR THE MEASUREMENT OF CAPITAL GENERATION BY SMALL BUSINESSES AS A CONTRIBUTION TO ECONOMIC DEVELOPMENT

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A PROPOSED MODEL FOR THE MEASUREMENT OF CAPITAL GENERATION BY SMALL BUSINESSES AS A CONTRIBUTION TO ECONOMIC DEVELOPMENT

by

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Preface

I am extremely grateful to my supervisor, Dr Marius Pretorius for his guidance, insight and constructive comments for the past three years.

I appreciated the enthusiastic encouragement of my friends and family during the past years. The patience and support of my wife, Louise, and my sons, Christiaan, Nicholaas and Sebastiaan, kept me going.
Synopsis

Economic development is a relatively new field of economics that started only thirty years ago. Many of the measurements applied in measuring the effectiveness of small businesses in South Africa are based on measuring growth, which is not always related to development. Using capital generation as one of the measurable parameters in economic development, a model was designed to measure the contribution of small business towards capital generation and, subsequently, development.

The model considered the contribution of small businesses towards capital generation by measuring growth in assets, owners’ incomes, employees’ incomes and taxes paid. For these parameters to contribute to growth, additional capital needs to be generated by businesses. Job creation was also measured as an important parameter used to calculate employees’ and owners’ incomes.

The model was tested with actual data gathered through personal interviews with businesses and analyses of the financial information of the businesses. The data were collected to cover a five-year operational period. The model contributed to an understanding of the ability of small businesses to support development in South Africa.

The model was used to test the capital contributions of businesses of different age groups and sizes as well as within different manufacturing environments and locations in Gauteng and North West. Reducing the high failure rate of small businesses will play an important role in any future developmental interventions to increase the contributions of these small businesses. If the high failure rate is ignored and if only successful businesses are considered, it is seen that small businesses contribute to job creation. Small businesses, in general, increased employment below the total employment growth rate for the areas of the study,
although the businesses which employed fewer than ten people outperformed the industry average.

The data suggest that small businesses generally do contribute to capital generation. Small businesses, which employed fewer than 20 people, contributed positively to all aspects of capital contribution, compared to businesses which employed more than 20 people. These businesses performed positively only in tax contribution. It is positive that small businesses invest in, and increase, assets, but it is concerning that tax contribution growth outperforms all other capital generation parameters. Employees’ incomes, and especially owners’ incomes, showed a negative growth contribution to capital generation. There were definite trends in the data that businesses which employ the most assets, with large salary bills, large owners’ payments and large tax contributions showed slower growth than did businesses employing smaller total capital contributions in these parameters.

The motor industry, which showed phenomenal growth over the past few years, did not manage to increase the capital it used taking into account the effect of the consumer price index, excluding interest rates on mortgage bonds. This was also clear in the different regions which support the industry. The industry data can be used to study the different industries in more detail. Although more businesses contributed to growth in the four parameters, the net contributions in certain instances, or parameters, were negative.

The results show that small business contributes both to economic development and to growth. It is also clear that the model can be used to analyse business contributions to development. It is unclear whether small business is the best way of stimulating development based on growth in capital contributions. The results and the analyses show that the model can be used as a successful management tool to stimulate development-related initiatives.
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