

Chapter 7: Discussion and Conclusions

7.1 Introduction

This chapter firstly describes the functionality of the model that was developed and tested using the data collected and secondly discusses the findings of this study.

The results obtained from analysing the data with the model, as was reported in Chapter 6, were used in order to discuss the effect of small businesses on capital generation keeping in mind the four main parameters of capital creation and job creation.

Various scenarios were tested using the four parameters of capital generation. Various combinations of the age of the businesses, area location, provincial location, type of industry and the number of people employed were compared. The analysis was based on a sample of 45 businesses.

Conclusions based on the analysis are supported by the literature research, as was reported in Chapter 4. It is important to acknowledge the various critically important roles that small businesses play in the economy, and that this is not contradicted or marginalised by the importance of economic development. Economic *development* is seen to be a better measure of economic contribution in a developing country than is economic *growth*.

7.2 The proposed model

The model is based on the economic theory of capital contribution as a measure of the effectiveness of a business's ability to contribute to economic development

and job creation. Capital contribution is measured by utilising the four key parameters namely:

1. The income of owners, which includes all the salary payments and benefits paid to the owners of a business, including shares and dividend payments.
2. The income of employees (total cost of employment), which includes all the salary payments, benefits paid to the employees and shares if they were issued to employees.
3. Assets, which include all the physical assets such as capital, machines and stock.
4. Company tax, which includes only after-profit taxes paid. These do not include taxes on salaries. Unemployment benefits are included in the total cost of employment and are not part of tax contributions. Regional service levies and taxes on land are also not included as part of tax contributions for this study.

The model was designed to use existing and audited business data readily available for all businesses, minimising the effort required to collect and interpret data in different formats and from different sources. This reduced the difficulty of the research dramatically. By utilising audited financial data the accuracy of the research was increased. It also reduced the possibility of human error when capturing data and when interpreting the data.

Balance sheet and income statement data were used as inputs for the model. The consumer price index, excluding interest rates on mortgage bonds, was used as a parameter in the model to calculate trend data and was used to normalise the data. Consumer price index, excluding interest rates on mortgage bonds, data are readily available and are easily updated. If businesses accept the effectiveness of capital generation as a measure to assess their contributions, the model can be effectively used to measure and control government or business development initiatives.

The model was developed by using Microsoft Excel to capture and store the data from the interviews and questionnaires and to make all the calculations illustrated in Figure 7.1:

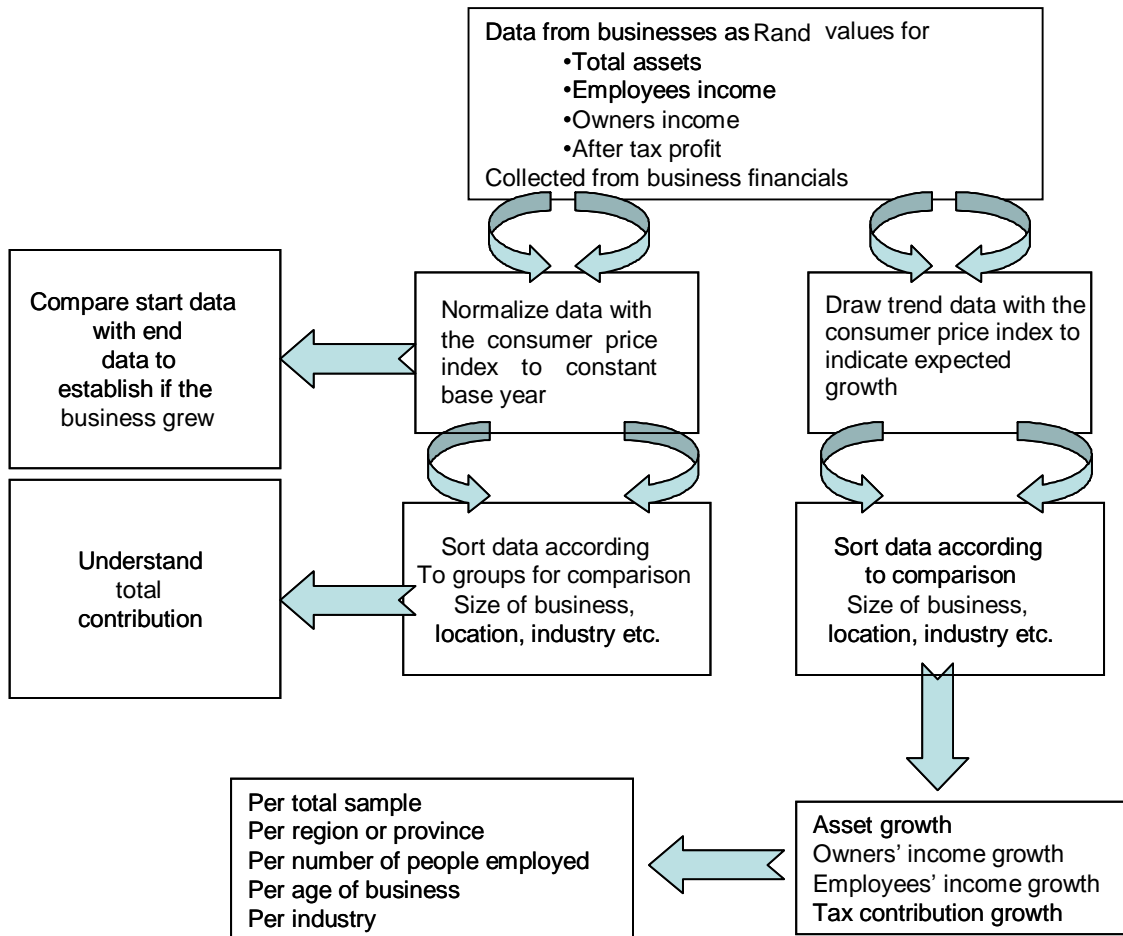


Figure 7.1 Illustration of the model's input requirements, calculation methods and model outputs

The model provided insight into the four areas of capital generation:

1. Generation of assets.
2. Generation of owners' incomes.
3. Generation of employees' incomes.

4. Generation of taxes.

This level of detail provides an ideal management tool that can be used to assess the strengths and weaknesses of businesses and of development initiatives. These will be discussed later.

The model also allows researchers to evaluate businesses in different sectors or across sectors and to draw comparisons between sectors. Researchers will be able to analyse medium-sized and large businesses on the same basis. Although only small businesses in the manufacturing sector were analysed in this study, the model appears to be applicable to all sectors and all business sizes. The model is designed to be used in micro, or informal, businesses that do not use formal accounting practises. In such cases the data will have to be reworked to fit the model. The easiest application will be in listed businesses because of access to their financial information.

The model allows for comparisons between capital contributions by analysing data in different regions or provinces, different sub-sectors, different sizes of businesses, and so on. This can be useful to extract trends, and strengths or weaknesses, in the abilities of businesses to contribute to capital generation. The economic realities of *development*, compared to *growth*, were highlighted and supported in the literature.

7.3 Findings and interpretation

The sample of 45 businesses consisted only of businesses operational during the period of the study. The businesses' capital contribution to asset generation and tax contribution outperformed the consumer price index inflation rate only in certain years, excluding interest rates on mortgage bonds, as shown in Table 6.42.

Table 7.1 List of consumer price index and gross domestic product figures for 2000/1 to 2004/5 and the capital growth figures of the businesses analysed

<i>Year (consumer price index, excluding interest rates on mortgage bonds)</i>	2000/1	2001/2	2002/3	2003/4	2004/5
	7.8%	6.6%	9.3%	6.8%	4.5%*
<i>Year (gross domestic product manufacturing)</i>	2000/1	2001/2	2002/3	2003/4	2004/5
	8.1%	3.2%	2.8%	-.09%	2.6%
<i>Year (return against consumer price index, excluding interest rates on mortgage bonds) Asset + Tax Contribution</i>	2000/1 Base year	2001/2	2002/3	2003/4	2004/5
	0%	0%	1%	7%	2%
<i>Return on contribution measured against growth in gross domestic product for industry</i>	2000/1 Base year	2001/2	2002/3	2003/4	2004/5
Tax and asset	0%	3.2%	3.8%	7.9%	4.6%
*Estimate					

If the capital generating aspects of tax and assets measured in the model had to be compared with growth in the gross domestic product, the small businesses would have outperformed growth in the gross domestic product of the manufacturing industry in South Africa to a larger extent than the consumer price index, excluding interest rate on mortgages. If total taxes and assets are seen as indicators of the businesses' contribution to gross domestic product, small businesses would have done extremely well. This is not a completely correct assumption as the capital generating aspects measured did not measure the businesses' total contribution to the gross domestic product such as total sales or

products manufactured³¹. The comparison between capital generation and gross domestic product is made to illustrate the effectiveness of capital generation as a measurement tool.

The literature shows that unemployment in South Africa can be halved by 2014 if an economic growth of 5% can be achieved (Mail and Guardian, 2003: 1). Based on the growth figures for the sample businesses analysed for 2003/4 and 2004/5, this can be achieved by small businesses (also see Table 7.1).

7.3.1 Employee income contribution

If the four capital generating factors are analysed separately, the following can be concluded about sub-hypothesis (H_{20}) regarding employee income contributions³²:

1. Generally, small business did not contribute (H_{20}) to a growth in employees' incomes (also see Table 6.42).
2. The number of businesses that succeeded in increasing their employees' incomes outweighed the number that decreased their employees' incomes (also see Table 6.5).

If the sample is divided in two, based on the number of people employed, some interesting facts emerge:

1. Businesses that employ 20 or more people did not contribute to a growth in employees' incomes (also see Table 6.17).

³¹ See 4.11.1 Gross domestic product

³² H_{20} : Small businesses do not generate additional income for their employees

H_{2a} : Small businesses do generate additional income for their employees

2. Businesses that employ fewer than 20 people did contribute to a growth in employees' incomes (also see Table 6.17).
3. If total growth, compared to consumer price index, excluding interest rates on mortgage bonds, is not considered, the same number of businesses, that employed fewer than 20 people, increased their employees' incomes as decreased it (also see Table 6.5).
4. Of businesses' that employed 20 or more people, a larger number increased employees' incomes than decreased employees' incomes (also see table 6.5).
5. Businesses that employed fewer than 20 people contributed only 43% of the total volume of physical employee income (also see Figure 6.3).
6. Businesses that employed more than 20 people paid the balance (56%) of the total volume of the employment bill (also see Figure 6.3).

This younger businesses (one to five years old), employing a smaller percentage of people, contributed positively to employment income generation while older businesses, employing a larger percentage of people, contributed negatively to employment income generation.

If the growth in employee income in industries is analysed, the motor, building and mining industries contributed positively, while the furniture and food industries contributed negatively (also see Table 6.29).

The food industry contributed the largest volume proportion of employee income (38%) and the mining, agricultural and general manufacturing industry the smallest (7%) (also see Figure 6.11).

Gauteng, which contributes 49% to total volume employee income, showed a negative growth of close to zero. North West, with a larger employees' income volume base (51%), also showed a negative employee income growth (also see Table 6.34 and Figure 6.15).

If the employee income contribution data are analysed by region, the following became clear. Rustenburg, with the largest employment income volume base (37%) showed the largest negative contribution to employee income growth. The other two regions showed a negative contribution of close to zero (also see Table 6.39 and Figure 6.19).

It can be concluded that businesses with a small number of employees have higher employee income growths generally.

7.3.2 Tax income contributions

If the four capital generating factors are analysed separately the following can be concluded about tax income contributions³³:

1. Generally, small business did contribute to additional taxes (H_{02a}) and therefore government income (also see Table 6.42).
2. The number of businesses that succeeded in increasing their tax income contributions by far outweighed (77.78%) the number that decreased their tax income contributions (22.22%) (also see Table 6.6).

If the sample is divided in two, based on the number of people employed, the following interesting facts emerged:

1. Businesses that employ 20 or more people did contribute to tax growth (H_{3a}) (also see Table 6.18).
2. Businesses that employ 20 or fewer than 20 people contributed to tax growth (H_{3a}) (also see Table 6.18).

³³ H_{30} : Small businesses do not generate additional income for government (tax).

H_{3a} : Small businesses do generate additional income for government (tax).

3. Businesses that employ ten or fewer people showed a 78% growth in tax contributions (also see Table 6.18).
4. If total tax growth, compared to the consumer price index, is not considered, businesses that employ fewer than 20 people and businesses that employ more than 20 people both increased their tax contributions by 75% and 82.35% respectively (also see Table 6.6).
5. Businesses that employ fewer than 20 people contributed only 22% of the total tax income volume base and businesses that employ 20 or more people contributed the balance of the tax income volume base (78%) (also see Figure 6.4).
6. Businesses that employ fewer than 20 people, with a small tax volume base, and businesses that employ 20 or more people, with a larger tax volume base, are both able to generate growth in taxes.
7. Businesses that employ fewer than 20 people are able to generate tax faster than are businesses that employ 20 or more people.
8. Fewer businesses that employ fewer than 20 people are able to grow their tax bases (also see Table 6.6).

Based on the above, it appears that younger businesses (one to five years old) that have a smaller tax volume base contributed most positively to tax generation (49%) while the older businesses contributed positively, but to a lesser extent (also see Table 6.18 and Figure 6.4).

If tax growth in industries is analysed, the building, mining and furniture, motor and food industries contributed positively. The mining and food industries contributed least to the tax volume base (2%) each and showed growth in tax contributions of 96% and 54% respectively. The motor, building and furniture industries, with larger tax volume bases, contributed 30%, 58% and 26%, respectively, to tax growth (also see Table 6.30 and Figure 6.12).

Businesses with a small tax base contributed most to tax growth. A notable exception is the building industry.

Gauteng, which has the smaller tax volume base, showed a negative tax growth. North West, with a larger tax volume base, showed positive tax growth. Rosslyn, with 33% of the tax volume base, showed negative contributions to tax growth, while Rustenburg, with 44% of the tax volume base and Johannesburg (23% of tax volume base), contributed positively (also see Table 6.35 and 6.40, and Figure 6.16 and 6.20).

It can be concluded that businesses employing fewer people, younger businesses and industries with smaller tax bases show larger tax growth potential. The exception is the building industry, which has a large tax volume base as well as a large contribution. Geographical areas with a smaller tax volume base showed negative growth. This contradicts the findings about age, size and industry that a small tax volume base shows the largest tax growth.

7.3.3 Contribution to owners' incomes

If the four capital generating factors are analysed separately, the following can be concluded about the sub-hypothesis regarding owners' income contributions³⁴:

1. Generally, small business did not increase growth in owners' incomes (H_{03}) (also see Table 6.42).
2. The number of businesses that succeeded in increasing their owners' incomes outweighed the number that decreased the income of owners (also see Table 6.4).

– ³⁴ H_{40} : Small businesses do not generate additional income for their owners.
– H_{4a} : Small businesses do generate additional income for their owners.

If the sample is divided in two, based on the number of people employed, the following interesting facts emerge:

1. Businesses that employ 20 or more people did not grow owners' income (H_{40}) (also see Table 6.16).
2. Businesses that employ fewer than ten people contributed to the growth in owners' incomes (H_{4a}). More small businesses, which employ fewer than 20 people, and large businesses, which employ 20 or more people, succeeded in increasing their owners' incomes if total growth compared to the consumer price index is not considered (also see Table 6.4).
3. Small businesses that employ fewer than 20 people showed a larger percentage increase in owners' incomes than did large businesses that employ more than 20 people (also see Table 6.16).
4. Smaller businesses only contributed 30% to total physical owners' incomes and the balance of owners' incomes was contributed by the larger businesses (also see Figure 6.2).
5. Businesses that employ fewer than 20 people contribute less to the owners' income volume base and are able to generate owners' incomes faster than their larger counterparts. More of these businesses are also able to grow their owners' income bases.

Younger businesses (one to five years old) contributed the least to the owners' incomes but contributed positively to owners' income generation while the older businesses contributed negatively (also see Figure 6.6 and Table 6.23).

If the growth in owners' incomes is analysed by industry, the building, food and furniture industries contributed positively. The motor and building industry contributed negatively. The motor industry has 53% of the owners' income volume base and the food industry 7% (also see Table 6.28 and Figure 6.10).

Gauteng, which has the largest owners' income volume base (60%), showed a large negative growth in owners' incomes (-44%). North West, with a smaller owners' base (40%), showed a smaller negative growth (-10%) (also see Table 6.33 and Figure 6.14).

A similar trend is seen if owners' income data is analysed by region. Rosslyn, with the bulk of the owners' income volume base, showed the largest negative contribution to growth in owners' incomes compared to Rustenburg and Johannesburg. They both contributed negatively to growth, but to lesser extents (also see Table 6.38 and Figure 6.18).

It can be concluded that businesses with smaller owners' income volume bases have a better growth in owners' incomes. This is true for different industries, the age of the businesses as well as their locations.

7.3.4 Contributions to asset income

If the four capital generating factors are analysed separately the following can be concluded about contributions to asset income³⁵:

1. Generally, small business did contribute to asset growth (H_{5a}) (also see Table 6.42).
2. The number of businesses that increased asset growth outweighed the number that decreased asset growth (also see Table 6.3).

– ³⁵ H_{50} Small businesses do not generate additional income for investment in assets (capital and goods)
– H_{5a} : Small businesses do generate additional income for investment in assets (capital and goods)

If the sample is divided in two, based on the number of people employed, the following interesting facts emerge:

1. Businesses that employ 20 or more people (larger businesses) did not contribute to asset growth (H_{04}) (also see Table 6.15).
2. Businesses that employ fewer than 20 people (smaller businesses) contributed to asset growth (also see Table 6.15).
3. A higher number of smaller businesses succeeded in increasing their asset contributions while a higher number of larger businesses decreased their asset contributions than increased their asset contributions, if total growth compared to the consumer price index is not considered (also see Table 6.3).
4. The smaller businesses only contributed 17% to total physical assets and the balance of assets were held by the larger businesses (also see Figure 6.1).
5. Smaller small businesses with fewer assets are able to generate assets faster than are larger businesses and more of these businesses are able to grow their asset bases.

Younger businesses (one to five years old) with fewer assets contributed positively to asset generation while the older businesses contributed negatively (also see Table 6.22 and Figure 6.5).

If asset growth by industry is analysed, the building, mining and furniture industries contributed positively. The motor and food industries contributed negatively with the motor industry having 50% of the asset volume base and the food industry 5% (also see Table 6.27 and Figure 6.9).

Gauteng, with the larger asset volume base, showed negative asset growth. North West, with a smaller asset volume base, showed positive growth (also see Table 6.32 and Figure 6.13).

A similar trend is seen if asset contribution data is analysed by region. Rosslyn, with the bulk of the asset volume base, showed a negative contribution to asset growth while Rustenburg and Johannesburg both contributed positively (also see Table 6.37 and Figure 6.17).

It can therefore be concluded that businesses with fewer assets have better asset growth. This is true for different industries, age of the businesses as well as their locations. The only contradiction was the food industry, which contributed negatively and had a small percentage of the total asset volume base.

7.4 The employment potential of small businesses

Based on the hypothesis³⁶, the data in the model can be used to evaluate the contribution of small businesses to job creation. A total of 26 (57.78%) businesses increased the number of employees (H_{6a}), 11 (24.44%) stayed the same (H_{60}) and 8 (17.78%) decreased the number of employees (H_{60}). Therefore 57.78% of businesses contributed to job creation (H_{6a}) while 42.22% did not (H_{60}). Only businesses that employ fewer than 20 people managed to grow their employee base (also see Table 6.6).

While 57.78% of businesses increased the number of people employed, the businesses generally did not improve the capital position of owners or employees. Businesses that employ fewer than 20 people did contribute to growth in employee and owner income. Businesses employing 20 or more people did not contribute to growth in employee and owner income (also see Table 6.5 and Table 6.4).

³⁶ H_{60} : Small businesses do not contribute to job creation

H_{6a} : Small business do contribute to job creation

The average increase in employment for the period 1999 to 2004 was 16%. This needs to be compared with the total employment in similar sectors for the same period to make any comparative analyses. This growth varied from:

1. 59% growth in businesses that employ one to ten people.
2. 21% growth in businesses that employ 11 to 19 people.
3. -1% growth in businesses that employ 20 to 40 people.
4. 14% growth in businesses that employ 41 and more people.

Based on the employment growth figures listed the smaller companies (employing less than 20 people) grew employment faster, with a negative growth by companies employing 20 to 40 people. Companies employing more than 40 people showed a positive growth rate (slower than companies employing less than 20 people).

7.5 Conclusions

7.5.1 Conclusions relating to employment contribution

Historically, South Africa has a large unemployed population. Based on the literature, conditions for growth are supported by the South African and international political, social and economic environments. These conditions will support a growth in the number of small businesses as well as the number of people employed. It is clear that this growth plays an important role in developing economies such as South Africa and India. Historically, South Africa and other countries showed a decline in formal employment that was followed by growth in small business. The model supports the literature findings and historical trends by reporting an overall positive growth in the number of people employed. These findings are valid if only the successful businesses analysed are considered.

If only 20% to 30% of small businesses are successful, the effect of the success of small business is reduced (Nattrass and Glass, 1986: 2). If the sample consisted only of successful businesses, of which only 57.78% contributed to job creation, the figure of 30% of all successful businesses that created jobs would be reduced to 17.33%. Even unsuccessful business generated jobs, and contributed in various other areas, although the net contribution was low. The question to be answered in further studies is whether the cost of generating the additional jobs can be justified.

Levy (1996: 6) showed that businesses younger than four years grew by 55% per year while businesses that were twenty years or older grew between 5% and 8% per year. In the study the younger businesses were also the smaller businesses, employing fewer people, thereby supporting the data. The data showed an employment growth of between 59%, in businesses employing ten and fewer people, to -1% in businesses employing 21 to 40 people. This shows that the more people a company employs, the less is the employment growth. These findings are supported by Dewar, (1987: 7) as, when businesses grow from very small to small, the greatest number of jobs is created, followed by a slowdown in job creation.

No reliable data for provinces could be accessed for the period of the research. If the *Statistics South Africa* data are converted for the two provinces, there is a 25.1% growth in employment in North West and a 21.6% growth in employment in Gauteng. National data shows overall employment growth to be 22.1% (Statistics South Africa Primary Tables: 66).

Generally, small businesses grew at 16% on average which is, below the provincial rates. However, businesses that employ fewer than 20 people grew on average by 38%, outperforming industry. North West, with the largest number of unemployed, grew by 20% compared to a negative growth of -7% in Gauteng for businesses employing 20 or more people. Both provinces showed a lower-than-

industry average growth for businesses employing 20 or more people. Chapter 3 concluded that, although job creation takes a burden away from government to support jobless people and therefore provides more capital that can be spent to develop the country, it does not necessarily improve the potential of these people to improve themselves. It may merely help them to survive

Businesses that showed a large percentage growth in personnel can be seen as *entrepreneurial* when compared to those with lower growth, *owner-based*, interest. The data in this research were contradictory as small business employing fewer than 20 people showed the largest personnel growth (supporting its *entrepreneurial* nature) and the largest contribution to the income of owners (supporting its *owner-based* nature). According to the Australian study, these businesses with a large employment growth would be *entrepreneurial*, but the question of why owners' incomes increased so drastically needs to be raised. This is supported by Hallberg (2000: 1) in his definition of a small business. An increase in owners' incomes should be related to *owner-based* interest more than to *entrepreneurial* interest and more research will be necessary to clarify this. The opposite also occurs in businesses that employ more than 20 people and do not generate a growth in employment. According to the definition they should be classified as *owner-based* although they show a negative contribution towards the income of owners. In South Africa an entrepreneur would start a business and rapidly expand it to a point where he or she reaches a comfort level in the size of the business and in the income generated. At his point expansion would stop.

It can be argued that a business showing a high growth in owners' incomes is focused more around the owners than the business. This would be supporting the research that small businesses support the expected growth trend in employment creation based on recent shifts in the employment market in South Africa. In a study by Riley, (1993: ix) it has been seen that younger businesses grow much faster than do older and more established ones. In a sample of 165

South African small and medium-sized enterprises, Levy (1996: 7) found that only 12 contributed significantly to job creation.

The contribution of small business to job creation can be concluded with the statements which follow:

1. Businesses which employ fewer than 20 people outperformed the businesses employing 20 or more people in employment creation.
2. Small businesses create fewer jobs than the manufacturing industry average. This is true for businesses which employ 20 or more people, but not for businesses which employ fewer than 20 people.
3. The low success rate of small businesses generally reduces the effectiveness of successful small businesses to create jobs.
4. It seems as if small businesses which employ 20 or more people reach a stable phase in their growth.
5. The jobs created by small businesses, for both employees and owners, do not contribute to capital generation and are therefore not supportive of development. This is true for businesses employing 20 or more people, but not for businesses employing fewer than 20 people.
6. Although the effect of job creation is understood, it seems as if capital generation plays a more important role in justifying support to small business development. This is based on the fact that capital generation for assets and taxes was above gross domestic product, compared to job creation that was below the industry average.

The questions that follow arose from the study:

1. Is there a relationship between the income of owners and job creation relative to the entrepreneurial nature of small business in South Africa?
2. What is the impact of job creation considering that people are still living below the breadline even if they are employed?

7.6 Conclusions relating to capital contribution

It can be concluded, considering tax and asset growth, that small businesses generate additional capital (also see Table 6.42). Hypothesis H_{10} cannot be accepted and therefore hypothesis H_{1a} that small businesses generate additional capital is therefore accepted.

Considering growth in employees' and owners' incomes, small businesses do not contribute to capital generation (also see Table 6.42). Hypothesis H_{10} , that small businesses do not generate additional capital, is therefore accepted.

Small businesses which employ fewer than 20 people contributed positively to all aspects of capital contribution, compared to businesses which employ more than 20 people. The latter only performed positively in capital tax contribution. These findings are supported by Rutashoby and Olomi (1999: 173), who found that small businesses tend to grow only to a stage and then flatten their growth rates.

Various reports are referred to in the literature study indicating that government and banks are losing millions of Rands because of small business failure. Only one example in Chapter 4 reports a loss of R68 million because of small business failure over a four year period. If the failure rate of small business is taken into consideration, a success rate of 30% will require a successful business to grow by much more than the current growth rate to cancel the losses made by an unsuccessful business. The failure rate of 70% is high compared to the United States of America, where the failure rate is approximately 15% (Perry, Steagall and Woods, 1995: 98).

It is also important to highlight that an increase in the gross domestic product does not necessarily mean an increase in the capital available within a business to pay tax or to increase assets, though it will improve a country's trade balance.

Generally, businesses performed positively in asset growth, which forms the largest proportion of capital growth (also see Figure 6.21). This is a very positive indicator, since a growth in assets shows that businesses are strengthening. This is particularly important considering that investment in assets is particularly low in Africa.

Generally, small businesses performed extremely well in creating additional tax income. A positive growth in tax income will be a benefit to government, increasing income and therefore increasing its ability to spend. A negative aspect about the growth in tax income is that it grew faster than all other aspects of capital generation, and by a considerable margin. It must also be noted that a large percentage of the businesses started at a very low tax base that enhanced this growth phenomenon. The reason for the low start-up tax rate is that many small businesses show losses at the beginning of operations and therefore pay no tax or very little tax. The finding, that the biggest contributor to small business capital generation was in tax contribution, contrasts with government's plans to lighten the burden on small business. It would have been better to see a bigger growth in asset and employee capital income generation than in capital generation in taxes. Taxes forms a small portion of the total capital volume base as indicated in Figure 6.21.

It is also important to note that government is aware of the regulatory constraints on, and costs to, small businesses and that it is working on reducing these constraints. However, no reference, other than in political statements, is made to reducing the physical tax burden on growing or developing small businesses.

The fact that owners' income did not grow proportionally with other sources of income growth is interesting. Both owners' income growth and employees' income growth placed the people involved in these businesses in a worse position regarding the capital strength of their incomes. In all the capital generating aspects, the smaller businesses which employed fewer than 20

people contributed the smallest percentage to total capital volume based contribution.

The youngest businesses generally contribute the smallest weighted average to capital growth and had the fastest growth in all measured areas. The older businesses employed the largest weighted contribution to capital employed, but had the slowest growth.

The motor industry, followed by the building industry, contributed most to the weighted average volume based capital contribution. The motor industry showed the smallest *growth* in capital generation, but not in *actual* volume based capital generation. No clear trend can be seen in the other industries. The influence of the motor industry can clearly be seen in the Rosslyn, Brits and Silverton areas (see Table 6.43 and Table 6.44). The data from these three areas are comparative. It is interesting to note, when comparing the provinces and regions, that they showed similar contributions to employee income contribution. A very strong trend in the data is observed that businesses using larger volumes of capital contribute less to growth and *vice versa*. A detailed analysis is necessary to form a clearer understanding by sector or region.

The contribution of small businesses towards capital generation can be concluded as follows:

1. Businesses generally contributed to job creation. Businesses which employ fewer than 20 people contribute positively to employees' and owners' incomes, to tax and to asset growth.
2. Businesses which employ more than 20 people contributed positively only to tax growth.
3. Small business failure is a large threat to the successful contribution of small business to job and capital generation.

4. Small business invests in assets, and this is a positive sign as assets form the bulk of capital contribution.
5. It is concerning that tax contribution is outperforming all the other parameters of capital generation. Small business in developing countries has better opportunities if capital is directed towards asset growth instead of taxes. In South Africa, government decides on programmes and interventions for growth. In a survey by Levy (1996: 10), taxes were seen as the third biggest constraint for small business development.
6. Owners' and employees' incomes showed negative contributions towards capital generation. It is known that South African labour rates do not favour competition with developing nations such as India, Brazil and China and the lower growth in employees' incomes can be related to pressure to become more competitive. It has been reported in the literature that many small business owners start businesses for reasons other than pure growth, such as independence and necessity. This can be attributed to the low growth in owners' incomes. Owners also see investment in assets as a way of building their own equity.
7. There is a definite trend, in the data, that businesses using the most capital in assets, salary bills, owner payments and tax contributions show a slower growth than businesses using smaller total capital contributions.
8. The motor industry showed a phenomenal growth over the past few years, but did not manage to grow its capital employed above the consumer price index. This was also clear in all the different regions supporting the industry.
9. The industry data can be used to study the different industries in more detail.
10. Analysing a business over a short period of one or two years will not yield a clear picture of the businesses' performance. It is important to take a longer view.

11. Although more businesses contributed to positive growth when measuring the four growth parameters, the net contributions in certain instances or parameters measured were negative.
12. The results show that small business contributes to economic development and growth.
13. Small businesses in the study did not do better in job creation compared to larger businesses, based on the industry data, but did outperform large businesses when capital generation is taken into account

The questions that need to be investigated arising from this study include:

1. What are the costs of creating jobs in small businesses compared to the capital contributions? This question falls outside the scope of this study.
2. What is the real effect of growth in the gross domestic product on job creation and reduction of poverty based on the negative results shown by the World Bank?
3. Why did owners' incomes, in particular, not keep track with inflation growth?
4. What are the drivers impacting on capital generation in the different industries?
5. How does capital generated compare with the cost of capital due to failure?
6. What is the effect of the Auto Immune Deficiency Syndrome on capital generation, seeing that small business does not really have the ability to handle the cost of the disease?

7.7 Conclusions relating to contributions other than job creation and capital creation

Small business support is not traditionally based purely on achieving economic growth, but rather on achieving various political and social objectives. The model

indicated that small business could achieve economic development objectives in South Africa if its failure rate can be reduced.

Small business development is not only for capital and job generation. It is also for various other socio-economic reasons. The United States hopes to support the concept of a free market economy, while the United Kingdom hopes to ensure that a large proportion of the economy stays active and Japan hopes to enable large corporations to outsource non-core activities at cheaper rates. It is believed in Europe that small business contributes to innovation and job creation .

If all the risk factors and other burdens can be removed, small businesses will be able to make meaningful contributions to the economy. South Africa has a strong economic base with a good infrastructure to support small business development. The areas of weakness identified in small businesses can be improved considerably if capital can be generated to reduce financial risk, to improve operating capital and to improve the use of human resources.

The contributions, in areas other than job and capital generation, can be concluded as follows:

1. South Africa and other developing countries use small business development as a measure to stimulate growth and job creation, while in developed countries the non-capital benefits are much more important.
2. It is known that productivity decreases as businesses become smaller, but the smaller small businesses managed to utilise their capital resources better than did the businesses which employ 20 or more people.
3. Additional capital generation will lower the risks associated with small businesses and improve their areas of strength.
4. There are clear differences between established economies, where small businesses play a role in innovation, outsourcing, and accessing niche

markets, and developing economies, where economic development and job creation are the important parameters.

5. The motor industry showed high *growth* but a low contribution to *development*. This supports observations by the World Bank and other writers that *growth*, as seen in the industry, does not necessarily support *development*.

7.8 Revisiting the hypotheses

The main research hypotheses were:

1. H_{10} : Small businesses do not generate additional capital ($H_{10} \geq 0$).
2. H_{1a} : Small businesses generate additional capital ($H_{1a} > 0$).

Not all the capital generating parameters measured did contribute (H_{1a}) or did not contribute (H_{10}) to capital generation and their contribution are discussed under the sub-hypotheses. The size, age, location and business sector had an impact on the capital contribution. The importance of size of a small business measured by the number of people in defining such a business will be the only parameter used in this discussion on the hypotheses. The other parameters such as location, age and business sector will not be discussed. The H_{10} and H_{1a} hypotheses have the sub-hypotheses which follow:

- i. H_{20} : Small businesses do not generate additional income for their employees ($H_{20} \geq 0$).
- ii. H_{2a} : Small businesses generate additional income for their employees ($H_{2a} > 0$).
- iii. H_{30} : Small businesses do not generate additional income for government (tax) ($H_{30} \geq 0$).
- iv. H_{3a} : Small businesses generate additional income for government (tax) ($H_{3a} > 0$).

- v. H_{40} : Small businesses do not generate additional income for their owners ($H_{40} \geq 0$).
- vi. H_{4a} : Small businesses generate additional income for their owners ($H_{4a} > 0$).
- vii. H_{50} : Small businesses do not generate additional income for investment in assets (capital and goods) ($H_{50} \geq 0$).
- viii. H_{5a} : Small businesses generate additional income for investment in assets (capital and goods) ($H_{5a} > 0$).

It can be concluded, considering tax (H_{3a}) and asset growth (H_{5a}), that small businesses generate additional capital (also see Table 6.42). Hypothesis H_{10} cannot be accepted and therefore hypothesis H_{1a} that small businesses generate additional capital is therefore accepted.

Considering growth in employees' (H_{20}) and owners' incomes (H_{40}), small businesses do not contribute to capital generation (also see Table 6.42). Hypothesis H_{10} , that small businesses do not generate additional capital, is therefore accepted.

Small businesses which employ fewer than 20 people contributed positively to all aspects of capital contribution, compared to businesses which employ more than 20 people. The latter only performed positively in capital tax contribution.

These eight sub-hypotheses are followed by the final two hypotheses regarding job creation by small businesses:

- 1. H_{60} : Small businesses do not contribute to job creation ($H_{60} \geq 0$).
- 2. H_{6a} : Small businesses contribute to job creation ($H_{6a} > 0$).

Based on the total sample 57.78% of businesses contributed to job creation (H_{6a}) while 42.22% did not (H_{60}). In total only businesses that employ fewer than 20

people managed to grow their employee base (also see Table 6.6, Appendix 6 and sub-section 7.4).

7.9 Shortcomings

7.9.1 Shortcomings of the model

The shortcomings of the model listed, considered the processes of obtaining data, analysing the data and interpreting the data. The most important shortcomings of the model follow:

1. The model needs to be populated with data that is difficult to obtain. The data is difficult to obtain because of the sensitivity of the data and the volume of data necessary to populate the model.
2. It is difficult to measure informal businesses capital contribution due to formal data (audited financial statements) necessary to populate the model.
3. The model does not acknowledge the impact of job creation on alleviating pressure from other sources such as government unemployment benefits.
4. The model does not calculate the impact of businesses that failed.
5. The model does not calculate or analyse other factors such as business cycles, competition by other countries and larger businesses, etcetera on capital generation by small businesses.
6. The data for employees and owners cannot be directly compared with the data for assets and taxes because the employees and owners data are normalised with an additional factor (number of owners or employees)

7.9.2 Shortcomings of the study

The shortcomings of the study listed considered, the processes of obtaining data, analysing the data and interpreting the data. The most important shortcomings of the study follow:

1. The sample consisted of 45 companies that represent a small percentage of the total sample size.
2. No direct comparative studies based on capital generation as a measure of development are available to benchmark the findings of this study.
3. The data cannot be directly measured against current measurements such as GDP and was only compared to these measurements.
4. The study does not calculate the cost of creating jobs to compare the cost of job creation with the actual capital created.
5. The study does not calculate the cost of capital due to failure of businesses.
6. The sample sizes for the manufacturing industry sectors were small due to the large number of manufacturing industry sectors analysed.
7. The study can only comment on businesses' effect on capital contribution, but not on the reasons for different contributions.