2000 Annual Forum

at Glenburn Lodge, Muldersdrift

Growth and Exporting of Small and Medium Enterprises in South Africa
Some Thoughts on Policy and Scope for Further Research

Vusi Gumede

Department of Trade and Industry, RSA

Growth and Exporting of Small and Medium Enterprises in South Africa
Some Thoughts on Policy and Scope for Further Research

V. Gumede [*]

There is considerable evidence to suggest that the smaller the enterprise the less likely it is to be an exporter. There is, however, almost as much evidence to the contrary. (Norman E. Philp 1998, p. 79)

Abstract

The relationship between the size of an enterprise and other enterprise dynamics seems ambiguous. This paper highlights critical policy and research questions, with specific reference to the links between enterprise size, enterprise growth and the propensity to export. Preliminary findings suggest that the prevalence of some systematic gaps in size-class economic research may lead to a misguided policy framework for supporting small and medium enterprises. The paper articulates that public policy should encompass selective enterprise programs directed at enterprises of different size-classes, informed by a thorough comprehensive appreciation of the factors, systematic and unsystematic, involved in growth and exporting of small and medium enterprises. The tentative finding of this study imply that provision of finance, provision of information and training, ensuring an enabling environment, are the most important variables to take into account when crafting support framework for small and medium enterprises. It is therefore recommended that government should address high interest rates, high inflation, ameliorate access to information and markets, accelerate training of small and medium entrepreneurs, and most significantly embellish coordination and monitoring of units dealing with SME support. It is, however, argued that small enterprises should address certain constraints that are within their control. In addition to the issue of growth and exports of small enterprises, reference to employment and output trends of small enterprises is made, a theoretic model of possible relationships between enterprise export, employment and output is presented. This paper argues for a deeper examination of export processes and export success/ failure of small enterprises. To better understand the intricate dynamics of small enterprises, researchers should undertake comprehensive case studies, longitudinal studies and surveys on SME policy issues.

1. Introduction

It should be noted, at the very outset, that this study is largely exploratory. In fact, the primary objective is to highlight some critical policy questions for the small and medium enterprise (SME) sector in South Africa with regards to exports. A relatively extensive review of studies on SME growth and export issues was done. The methods of analysis and findings of such studies are presented in section 4. In fact, survey of literature is the major part of this paper, supplemented by the discussion of the survey results of SMEs in the Kwa Zulu-Natal region. Additional sections discuss South Africa's SME performance, in terms of exports, employment and economic growth and the theoretical link between these variables is presented.

[*] Economist: Office of the Deputy Minister – Department of Trade and Industry, RSA. Thanks go to Mr. Erero for some technical assistance. I am indebted to Professors Holden, Harris, and Mead and to Ms Rasmussen for comments on an earlier draft. The usual disclaimer applies.

Although the paper is broad, it is a necessary starting step in documenting what is probably already suspected and somehow proposes some way of better analyzing export propensities of small and medium enterprises. At its present state, the paper follows no concrete conceptual framework of analysis. It simply collates information from different sources and supplements the analysis with the survey of 32 small and medium enterprises in Groutville in the KZN region and 7 SMME service providers[1] in the KZN region.

2. Research approach and data

As mentioned above, this paper makes use of different sources in order to formulate some policy thoughts on the subject. A large number of studies, especially case studies, contained in literature were reviewed, with the focus on research methods and findings. Review of studies lead to some formulation of conceptual models of growth and exporting of small businesses, particularly highlighting factors involved. The models are presented in schematic forms in section 4.

As background to the paper, existing statistical information on the performance of small business on employment, output and foreign trade was assembled. Two major sources were utilized, (1) an unpublished report of Ntsika Enterprise and the Bureau for Economic Policy Analysis (BEPA), presenting employment and output of small and large enterprises for earlier years until 1993 and (2) various issues of the *State of Small Business in South Africa*, which presents broad details of the position of small businesses in South Africa for recent years until 1997. I have also tapped on numerous SMME research projects that I participated on. For instance, data on SME and large enterprises' foreign trade were taken from a preliminary unpublished report done together with a consultant of the EIM Research Consultancy of the Netherlands.

To acknowledge the possible link(s) between exports, employment and output, the paper makes use of a simple Keynesian framework. However, this relationship, as for many issues in this paper, needs further thorough exposition. I am aware of the intricate nature of the relationships between these economic variables.

[1] There is a large number (+/- 100) of accredited SMME service providers in South Africa.Service providers offer a wide range of assistance to the small business community, including preparation of business plans, counselling, training, information, research etc.

On data, the size-class composition of employment and output was calculated from Ntsika-BEPA project data and from the *State of Small Business* publications. For 3 main economic sectors, Statistics South Africa's abstracts of industrial statistics, censuses reports, statistical yearbooks and household surveys were used. The classification of sectors is based on the Standard Industrial Classification (SIC). All data have been converted into 1995 prices.

It should be noted that, although the classification according to enterprise size follows the *Small Business Act 102 of 1996*, there are slight differences in definitions, especially in terms of turnover. For example, the 1981 census of agricultural products defined small enterprises to having between R5 000 and R19 000 whereas the 1993 definition is that small enterprises have between R20 000 and R100 000 turnover per annum. These definitional changes depict inconsistencies in data, which in turn make time-series comparisons questionable. This paper acknowledges problems with SME data and further investigation of the data is underway. The results presented here are meant to assist in brainstorming on the issues of SMEs and should accordingly raise our eye browse on the data problems engulfing this sector.

Foreign trade data by size of enterprise are calculated from the European Union (EU) trade data set called EUROSTAT. This data set contains foreign trade of the EU countries with the rest of the world and between EU nations. Until 1989, South Africa's trade data with the EU incorporated Namibia. Given this, the analysis of SA-EU trade begins from 1990. Also, the EU foreign trade data for some new Member States (i.e. Austria, Finland and Sweden) have very low coverage, especially in earlier years. The focus, therefore, is on the 12 older Member States. Data for later years could not be found, which makes the period of analysis to be 1990 to 1996.

The demarcation between "small" and "large" trade is based on the methodology used by the European Union (see, the First Annual Report – European Observatory for SMMEs, 1993). The method is simply that sectors/ products traditionally dominated by small enterprises are categorized as trade for small enterprises and the similar approach is used in categorizing large enterprises' trade.

For example, certain footwear and clothing products, metal products, timber and wooden furniture products, etc are classified as small enterprise products. The applicability of this categorization in South Africa remains to be verified. The entire approach is being studied further. In this paper, foreign trade date are used as an approximation and should help trigger our thoughts on creative ways of studying foreign trade of small enterprises.

Lastly, survey data were collected in Groutville in the KZN region. This should be understood in a context that the simple aim of the project, when I started, was to document the reasons for failures to grow and/or export of small enterprises. To undertake this exercise, 100 questionnaires were distributed to small and medium enterprises and 10 questionnaires were distributed to SME service providers. SME questionnaires were distributed through the service provider (Albert Luthuli Business Service Center) in Stanger. Service provider questionnaires were distributed to randomly 10 selected service providers out of 15 service centers in the whole of the KZN region. Out of 100 SMEs 32 responded and out of 10 service providers 7 responded. The coding and analysis of responses were done in excel. Questionnaires were comprised of 4 main sections: enterprise profile, manager/owner characteristics, problems of growth and exporting, and perceived solutions.

The next section describes the performance of the SME sector for selected years, examining the size-class composition of employment, output and trade. That is followed by extensive review of literature on the subject focus of this paper. Section 5 presents a model of exports, employment and output. Section 6 wades into a detailed analysis of survey results. A conclusion raises some critical policy questions and presents thoughts on the scope for further research.

3. The Performance of the South African SME sector

There is a major problem in analyzing the performance of small and medium enterprises in South Africa, mainly because of the dearth of continuous data. In fact, even the existing snap shots of data from Statistics South Africa, are not satisfactory.

However, this has become a common problem for many studies that examine issues that have been relatively neglected. Equally, the lack of systematic theory[2] on the issues of the performance of small and medium enterprises also complicates the analysis in that there is no theoretical framework that can be followed. Consequently, SME research gravitates towards sociological analysis than mainstream economic analysis[3]. One of the long-term aims of this project is to propose a conceptual theoretic framework for analyzing small and medium enterprises, and propose some means of interfacing SME research and mainstream economic analysis. This will, accordingly, improve the research and analysis of the SME sector and lead to some shift in the conceptual thinking about certain issues such exports and growth of SMEs.

In spite of the above-named problems, attempts are made here to at least depict the situation by simply showing the percentage shares of SMEs on total employment and gross domestic product, for the main economic sectors. Furthermore, SME trade balance between South Africa and the European Union is calculated and compared with the trade balance of large enterprises.

3.1 SME contribution to employment

The composition of employment by size-class shows that, for selected years, small and medium enterprises seem to really be playing a significant role in the creation of employment. Although calculations do not show that *per se*, examining the data and taking cognizance the hypothesis that large enterprises have shed some employment, the results of the percentage shares can tentatively be interpreted to suggest that, as many suspect, there is some recognizable role played by SMEs in creating jobs.

To start with, looking at table 1, agricultural sector's employment seems to have been dominated by small and medium enterprises. The definitional changes mentioned in section 2 must be noted when studying these tables. For instance, there seems to be some stack discrepancies between earlier years and later years.

[2] A recent book by Liedholm and Mead (1999) reviews some existing theories of small enterprise growth. It is explicit, in their analyses, that there are no conclusive small firm growth theories and they accordingly argue that "one must ultimately move beyond … and seek inspiration from empirical sources".

[3] Reid (1993) noted the lack of rigorous economic analysis in small enterprise research and presented some ways of doing that with a case study of 7 enterprises.

Calculations for earlier years until 1993 were done from Ntsika-BEPA project data whilst 1995 to 1997 calculations were done from the *State of Small Business in South Africa* (various issues)

Table 1: SME Agricultural Employment (% share of total)

	1987	***1992***	***1993***	***1995***	***1997***
Small	23.67	13.14	17.35	56.00	47.00
Medium	48.85	52.70	52.71	19.00	20.64
Large	27.48	34.16	29.94	25.00	32.35

For all selected years, small and medium enterprises combined share of agricultural employment is at least 60%. It can be noted from table 1 that the share of small enterprises in agricultural employment is higher for the recent periods than for the 1980s to early 1990s. Whereas the share of medium enterprises is lower in the later period compared to 1980s and early 1990s. It would seem that small agricultural enterprises have increased due to a number of promotional programs such as small-scale farming and rural economic development.

Small and medium mining employment is very low and has virtually remained low. The share of small and medium mining employment to total employment has slightly increased, from about 4% in 1987 to approximately 6% in 1997. It is expected that the share of small and medium mining enterprises employment to total mining employment must presently be on an increase, given specific programs such as the promotion of small-scale mining.

Table 2: SME Mining Employment (% share of total)

	1987	***1990***	***1993***	***1995***	***1997***
Small	1.86	2.14	3.43	2.00	1.93
Medium	1.82	1.97	2.59	3.00	3.52
Large	96.32	95.89	93.97	95.00	94.55

Large enterprises' employment accounts for at least 95% for the selected years. This is attributable to the manner of the development of the mining industry, the largely capital driven nature of the production processes and the highly costly character of the industry.

Unlike the agricultural sector, half of manufacturing employment is by large enterprises. However, the table below indicates that small and medium enterprises share on total manufacturing employment has increased from 39% in 1988 to almost 50% in 1997, whereas the share of large enterprises has diminished from 61% in 1988 to 52% in 1997.

Table 3 SME Manufacturing Employment (% share of total)

	1972	***1988***	***1993***	***1995***	***1997***
Small	11.98	14.33	18.23	17.00	23.95
Medium	24.20	24.54	25.54	25.00	23.95
Large	63.82	61.13	56.23	58.00	52.10

3.2 SME contribution to output

Output of small and medium agricultural enterprises has gradually overtaken the share of large enterprises. Large enterprises' output share of above 50% in 1987 is 35% 10 years later. Note the point on definitional changes mentioned above.

Table 4: SME Agricultural Output (% share of total)

	1984	***1987***	***1993***	***1995***	***1997***
Small	7.74	9.90	5.73	43.00	45.08
Medium	40.76	37.76	39.77	24.00	19.85
Large	51.50	52.34	54.51	33.00	35.06

The share of small enterprises' output to total agricultural production was about 10% in 1987 and 45% in 1997. Similar to the share of agricultural employment case, medium enterprises' share of total output seems to have lowered from 38% in 1987 to 20% 10 years later.

Unlike the case of mining employment, small and medium enterprises output share has dramatically decreased. In 1987 small enterprises had a share of 12%, which is reduced to 3% in 1997 (see table 5).

Table 5: SME Mining Output (% share of total)

	1987	***1990***	***1993***	***1995***	***1997***
Small	12.21	15.49	11.72	1.00	3.00
Medium	14.46	19.15	2.94	2.00	4.00
Large	73.33	65.35	85.34	97.00	93.00

For mining, the same applies to the share of medium enterprises' output to total, 15% in 1987 and 4% in 1997.

Large enterprises' share of total output for manufacturing has remained relatively the same for the entire period of analysis, just about 68%, as shown in table 6. The similar result is notable for small and medium enterprises.

Table 6: SME Manufacturing Output (% share of total)

	1972	***1988***	***1993***	***1995***	***1997***
Small	10.92	10.44	11.26	11.00	11.00
Medium	22.40	20.73	21.47	20.00	21.00
Large	66.68	68.83	67.27	69.00	68.00

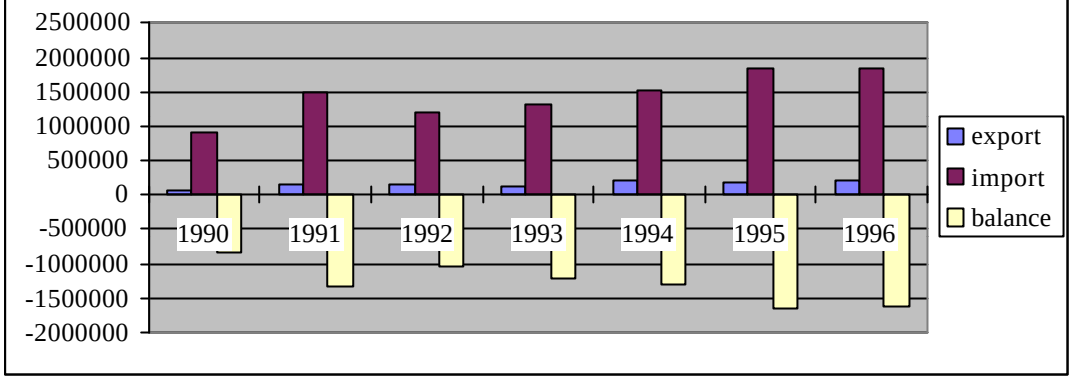
For instance, medium enterprises' share was 21% in 1988 and still 21% in 1997. For small enterprises as well, the share remains at about 11% for the entire period of analysis.

3.3 SME external trade profile

Foreign trade of small and medium enterprises, for the European Union alone, suggests that South African SMEs perform well, for the selected period, compared to large enterprises, as indicated by trade balance figures.

To begin, figure I below highlights the amount of trade, exports and imports, between South Africa and the EU for large enterprises. As noted in many publications, imports have remained relatively higher than exports. Looking at the diagram, since 1990 exports have been low and relatively constant whilst imports have been high and continued increasing.

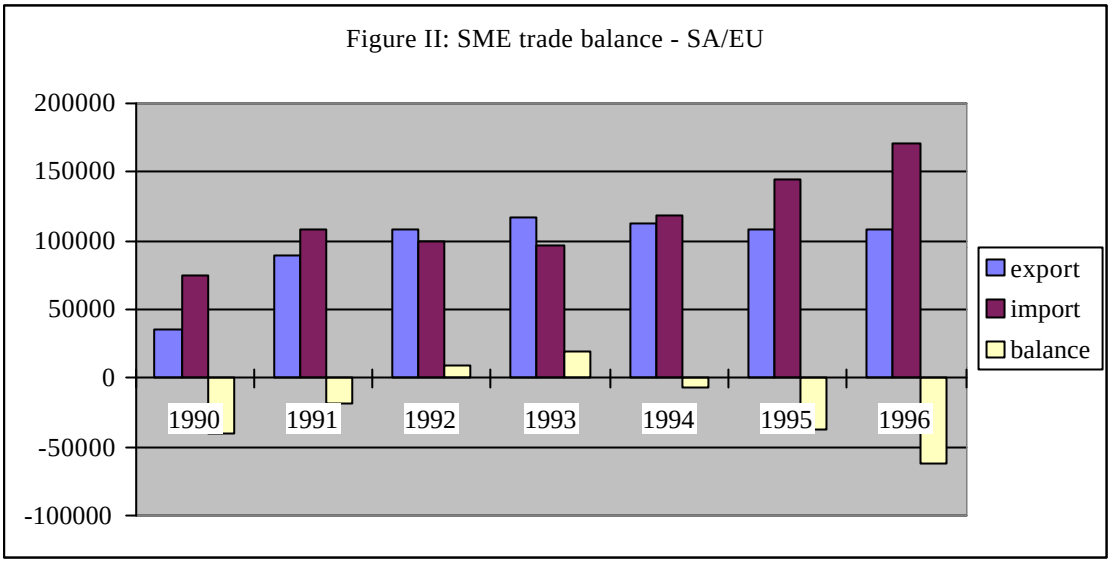
Figure I: Large Enterprises trade - SA/EU



As a result, the trade balance for the entire period of analysis is negative and has widened over time. The figure above clearly shows that the gap between imports and exports is large and has risen. This bears relevance on some pertinent economic growth and balance of payments issues. However, that is beyond the scope of this paper.

For small and medium enterprises, the gap between imports and exports is smaller. For instance, for 1992 and 1993, the trade balance for small enterprises is positive. In fact, as reflected below, the trade balance for small enterprises is moderate compared to that of large enterprises. In addition, SMEs export share to total exports, for selected products, ranges between 35-40% during the period of analysis, except for 1992/93 where it stands at about 45-50%. SME imports seem very low, averaging 6-8% share of total imports.

Figure II: SME trade balance - SA/EU



In concluding, there may be a good case for promoting small business exports. Previous studies[4] argued along the same lines. In the South Africa context, or developing nations generally, it is imperative to re-invigorate the small enterprises sector such that it can take up opportunities that large enterprises fail, for some reasons, to explore. The point here is that detailed examination of small and medium enterprises' export behaviour and export processes is urgently needed.

4. Survey of Literature: Overview

It is crucial to note that research on the relationship between different firm[5] dynamics has provided quite mixed results. With reference to export behavior of firms, Philp (1998:81) concludes that evidence regarding firm size, growth and exporting demonstrates "ambiguities … that have plagued the general research to date". A relatively similar finding features in studies examining the significance of firm size in the firm survival equation. For instance, Reid (1993: 206) finds that systematic factors, such as size, influence the growth of the firm whilst Johnson et al (1999: 104) shows that growth of the firm is merely coincidental and that "no size of the firm is more or less favored than any other". Other relevant examples depicting contradictory evidence regarding relationships between numerous aspects of SME dynamics are found in literature.

[4] Among others, see Rondinelli and Karsada (1991).

[5] Terms firm, business and enterprise are used interchangeably and refer to the same thing. Similarly, terms case study and survey are used interchangeably.

For instance, Phillips and Kirchhoff (1989: 65) find that two out of three small enterprises grow, against popular belief which states that four of five firms fail. Watson et al (1993) contend that results largely depend on the definitions used, for instance defining growth as opposed to failure. Another interesting point is that some literature on small firm growth proves that managerial and firm characteristics are not significant in explaining the performance of the firm whilst other literature demonstrates that small business performance depends, amongst other factors, on management traits and firm characteristics[6].

Studies on small and medium enterprise (SME) sector are generally faced by two major constraints. That is, lack of appropriate statistical information (Wagner, 1995) and an insufficient theoretical framework (Miesenbock, 1988). According to Chetty et al (1996) this has led many studies to concentrating on correlates rather than the causalities or processes of export behavior, firm growth and other dynamics of an enterprise. In addition to this, Cheong et al (1987) recognize that many studies have studied small firms as though they were homogenous. Watson et al (1993: 36) argues that it is not proper to generalize research findings on small firm growth or otherwise because the definition or indicator utilized may not be objective, relevant, verifiable and simple. Above this, Caughey et al (1994) and Smallbone (1999) have shown that small firm performance significantly differs by sectors, country, and a host of other factors. Stanworth et al (1986) shown that the performance of an enterprise would also depend on the stage of growth which an enterprise is at. This is further confirmed in Smallbone (1990).

In order to overcome above-mentioned controversies, research has begun to distinguish between survival and non-survival, exporting and non-exporting behavior, causation, systematic and unsystematic influences, internal and external factors, and other clearly separable aspects of firm dynamics[7].

---

[6] See, for instance, Smallbone (1990; 1999), Caughey et al (1994), Petrakis (1997), Everrett et al (1998), and Gaddene (1999).

[7] Refer to Phillips et al (1989), Weaver et al (1990), Samuels et al (1991), North et al (1992), Fumagalli

Other factors such as heterogeneity of enterprises, even within similar size-classes, have been considered (for example, Wagner, 1995:29). Numerous perspectives have been applied, such as modern finance theory (Everett et al 1998: 372), life-cycle hypothesis (Chittenden et al, 1996), inter-industry analysis (Gadenne, 1999) and others. On the export behavior of small firms research has crafted pre-export behavior models (Caughey et al, 1994: 67) and export behavior models (Chetty et al, 1996: 13).

The review of literature focuses on the discussion of main findings of research on small and medium enterprises, with specific reference to firm growth, export behavior, and other related firm dynamics. The main objective is to highlight those findings that enunciate lessons that can be applied in policy formulation. Most importantly, this exercise should depict questions for further research, particularly concerning the growth problems and export performance of firms within a size-class framework. The study also discusses research methods that many studies have used in studying growth and export behavior of small firms. Consequently, the next section discusses numerous approaches used in studying small and medium firms' growth and export performance.

4.1 SME growth constraints and export propensities

Largely because of shortages of relevant data, many studies have drawn their analysis from research surveys and case studies. Nearly all studies reviewed here have used a case study approach. Romano (1989) and Chetty (1996) have explained, in a larger detail, the mechanics of a case study approach. Chetty (1996: 82) maintains that a "case study method is ideal for studying research topics where existing theory is inadequate". According to Yin (1989), a case study method is an empirical inquiry in that, amongst other things, it uses multiple sources of evidence in studying a contemporary phenomenon within its real life context. Romano (1989: 41) recommends a "mixed methodological approach in understanding small business". It is therefore unsurprising that a myriad of studies adopted mixed methods emanating from data gathered through case studies[8].

---

et al (1993), Caughey et al (1994), Chetty et al (1996), Julien et al (1997), and Philp (1998).

There is a group of other studies that apply advanced statistical techniques such as multivariate and analysis of variance, principal component analysis (Petrakis, 1997), discriminant analysis (Arrighetti, 1994), and econometric logistic regression methods (Philp, 1998). A good number of studies have based their analysis from longitudinal researches [Smallbone (1990), North et al (1992), Smallbone et al (1995), and Wagner (1995)].

As indicated above, research results seem to be mixed. Many studies report that there is a relationship between the size of an enterprise and firm growth. In fact, North et al (1992), Reid (1993), Arighetti et al (1994), and Chittenden et al (1996) attribute the growth of the firm to its size, age, asset structure and profitability. Other factors named in Smallbone (1990) and Petrakis (1997) include entreprenial ability, market situation, and incentives. Bryson et al (1997) highlight finance, managerial skills, information, and market demand as the main factors pushing growth of a small firm.
Johnson et al (1999), however, do not find any relationship between growth and the size of a firm. In fact, human capital seems to be the driving force behind growth of firms. Similarly, Gadenne (1999: 46) finds that, against other researchers' evidence, owner and firm characteristics do not explain the performance of the firm.

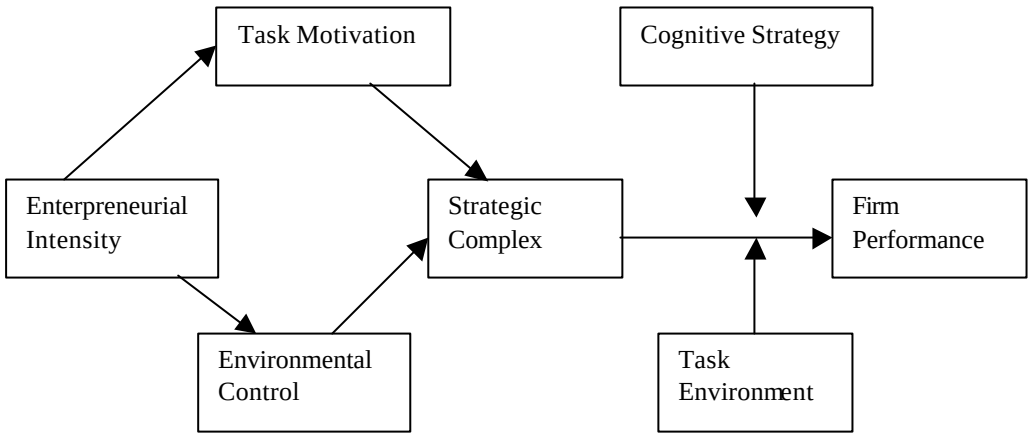
Certain country specific case studies show that firm performance depends on other factors other than those mentioned above. For instance, studies about success and failure of small firms in China conclude that success and growth of small firms in China depend on cultural and social factors such as hard working, family responsibility, and others (Chow et al, 1995). Above this, certain authors conclude that success of a firm depends on systematic and unsystematic influences.

---

[8] This refers to all studies reviewed in this collection. For instance, Hannon et al (1998), Roper (1997), Reid (1993), Arrighetti et al (1994), Bryson et al (1997), Ali et al (1991), and others named in the discussion.

That is, factors external and internal to the firm. Systematic factors relate to economic factors that are relatively beyond the firm's or owners control. The conceptual frameworks presented below schematically show main influences to the growth of the firm.

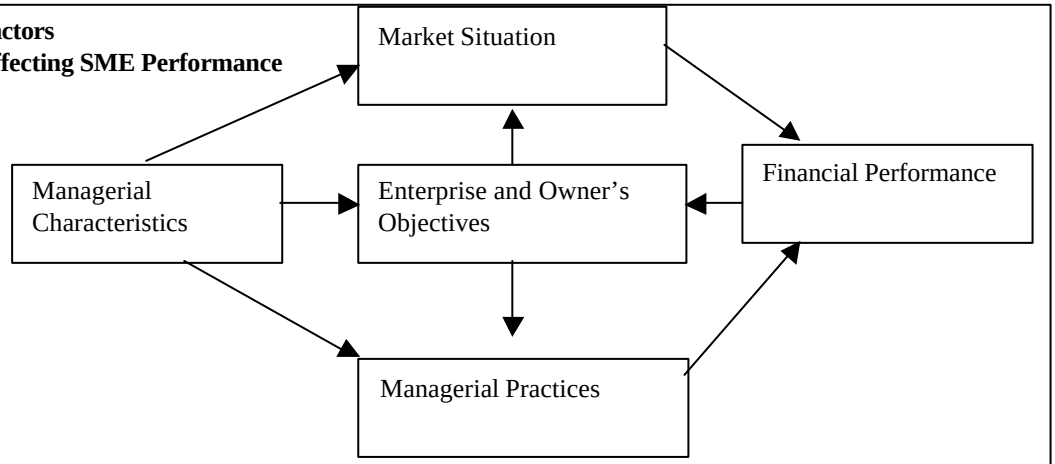
Conceptual Framework of SME Performance



Source: Adopted from Keats, B.W and Bracker, J.S (1988, p. 44)

Keats and Bracker (1988) designed a theoretical model, shown above, which explains the behavioral performance of a small firm. The main point projected here is that a firm needs a strategy if it is to perform well[9]. This is shown by arrows from different factors to export performance. That is, when a good strategy exists, emanating from task motivation, enterprenuerial skills and other factors, chances are that the firm grows. The framework below shows relatively similar factors, although emphasis are on firm and owner characteristics in influencing the financial performance of an enterprise.

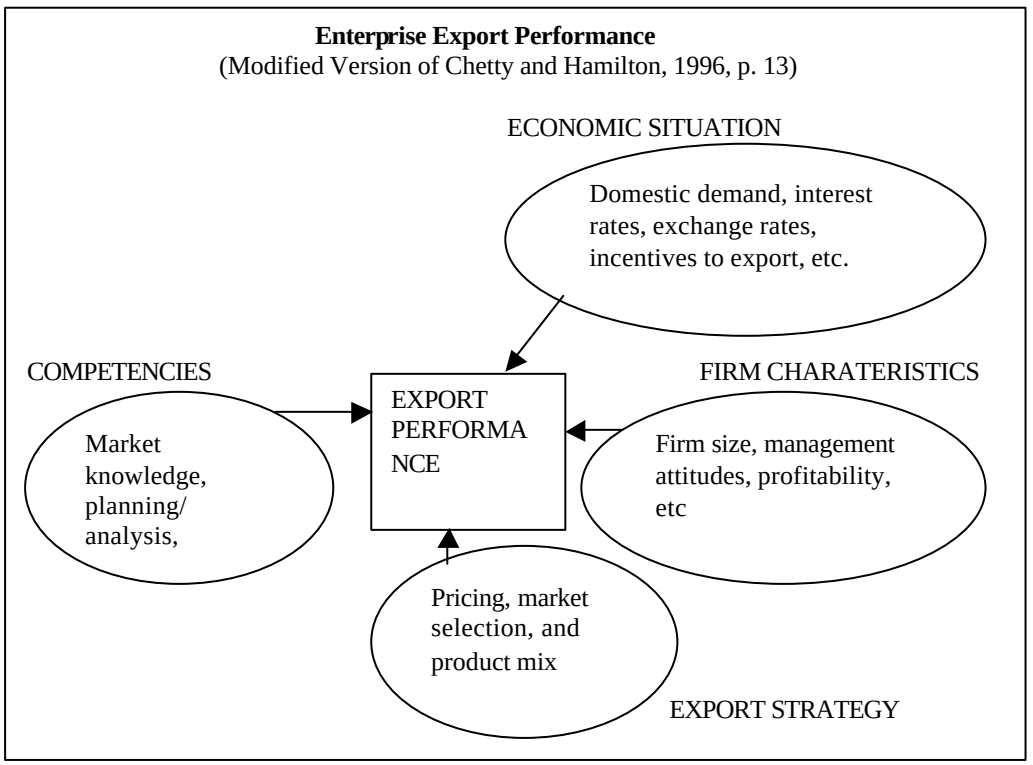
Factors Affecting SME Performance



Source: Adapted from Gadenne, D (1999, p. 38)

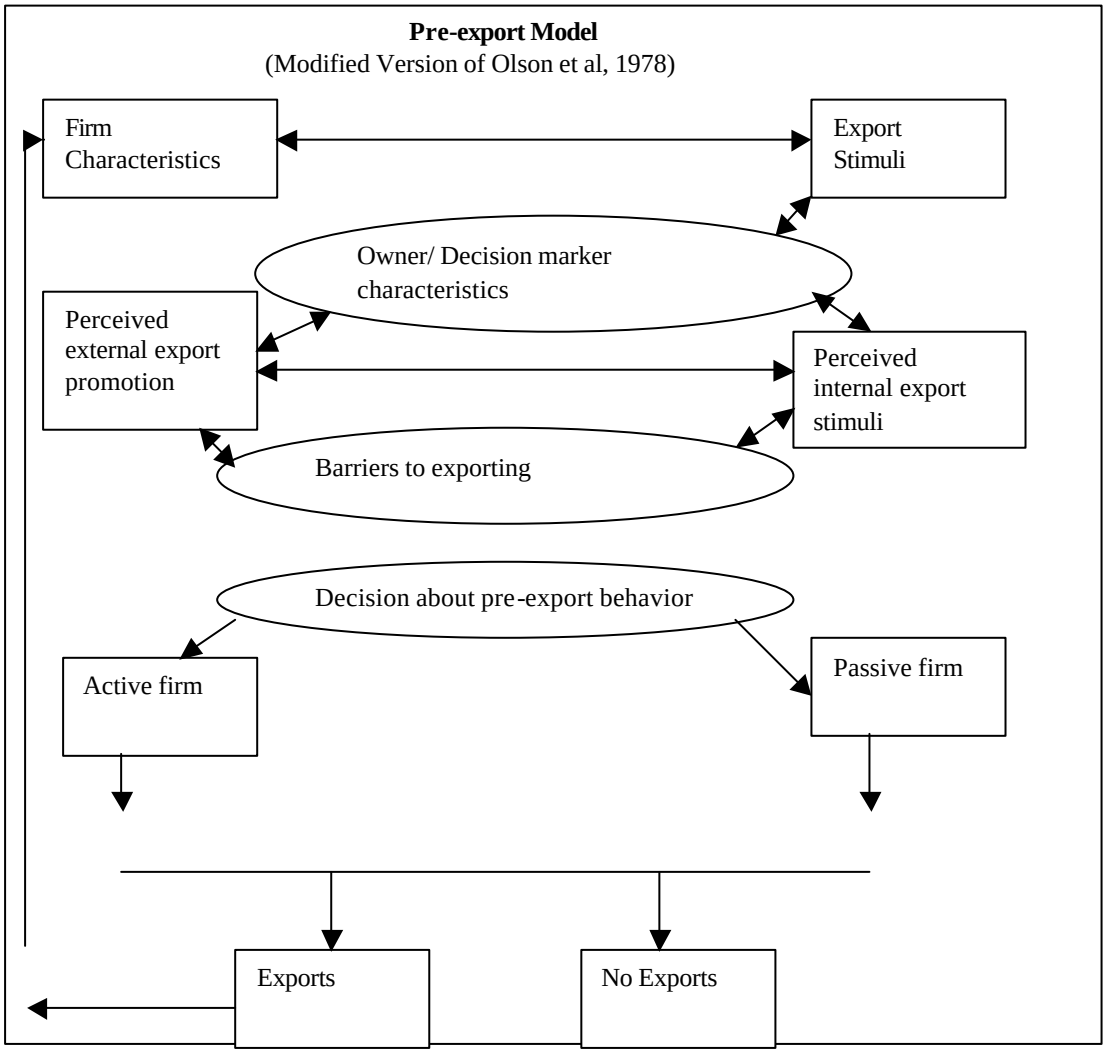
In summary, the growth of a small firm may be hindered by lack of financial and human resources, insufficient information, and unsuitable economic and business situation. Other factors that affect small business growth are mentioned in the discussion above (i.e. capital, management skills, experience, age, size, technological innovation, asset structure, interest rates, law and regulatory environment, and incentives). However, the effect of these factors and others also differ by sector, country, geographical location, and most importantly the stage of business development (Smallbone et al, 1995).

In terms of direction and destination of SME exports, it has been found that small firms generally export to economies in transition. Like growth, export performance of a firm depends on its size, sector, country, domestic conditions, government policy, and financial and human resources (Smallbone et al, 1999). Regarding firm and owner's characteristics, Philp (1998) points out that there are differences in managerial characteristics between small and large firms. Chetty et al (1996), on the other hand, emphasizes the role of stages of business growth in exporting. Studies also depict that there are marked differences between exporting and non-exporting firms, largely in terms of managerial attitudes. The figure below shows factors associated with export performance of an enterprise.



As indicated in literature, there are both internal and external factors that affect exporting of a small firm, and size is one of the factors though debatable. Similar to conceptual models of small firm growth, export performance of an enterprise depends largely on a strategy and planing.

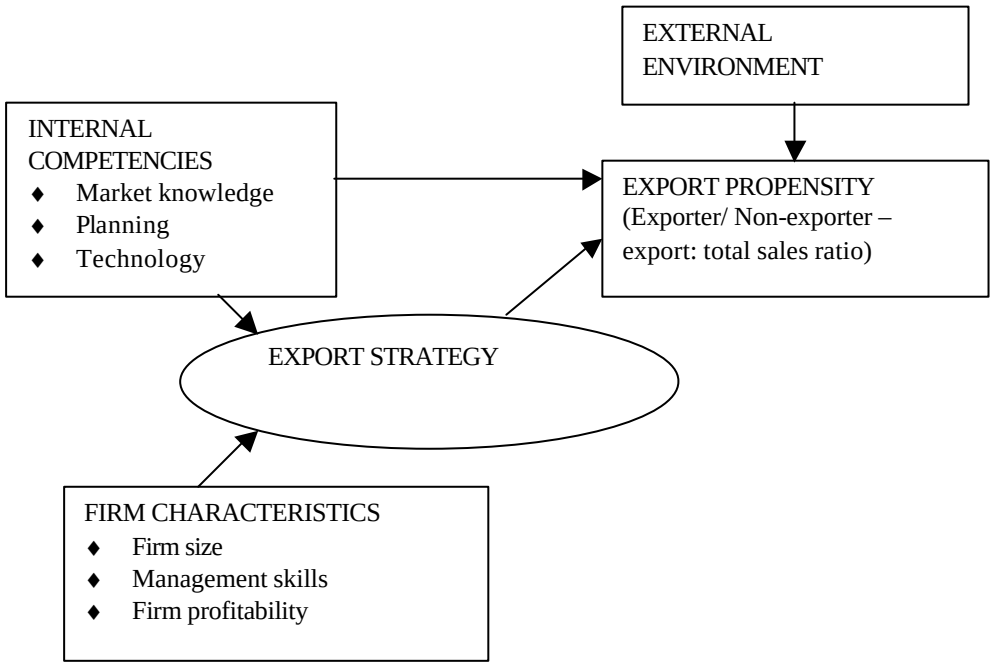
Internal factors such as firm size, managerial traits, management perceptions, and others affect the export behavior of the firm. However, the significance of firm and owner characteristics is filled with questions. For instance, as pointed out earlier, Gadenne (1999:46) contends that firm and owner characteristics are unimportant in explaining the performance of the firm. In fact, as Reid (1993: 206) puts it, largely systematic factors affect firm performance. Perhaps in the case of pre-export behavior, firm characteristics and owner attitudes play an important role. For example, Olson et al (1978) pre-export model makes emphasis on these factors.



The issue of a strategy for a small firm has been put into question by Thurik (1993) , who argues that small firms do their business by chance. This is in line with Gabrat's Law which posits that no size of the firm is more or less favored than any other because costs are assumed to be constant over all output levels (Ijiri et al, 1977). Philp (1998) also highlights an important point that there are different types of exporting businesses and this will affect the analysis and findings. Another question relates to the measures of export behavior of the firm.

The export performance of the firm, like growth, will differ by definition and indicator used. Aaby et al (1989) mentioned common factors that affect the export performance of a small firm. For example, even in this model export strategy is depicted as the most important element defining success of a small firm's export.

Factors Influencing Firm Export Behavior



Source: Adapted from Aaby and Slater (1989, p. 9)

Arrows indicate that firm characteristics and internal competencies inform the strategy which together with external factors ascertain export performance.

It is interesting to note that firm size features as well in influencing market selection, product mix, and pricing. This basically shows that there are many factors that impact on the performance of the firm, either in growing and/or exporting.

5. Theoretical overview: exports, output and employment

In a simple Keynesian model, increasing exports lead to higher output. To raise output more inputs are required. This is a very simple but appealing model that is inserted in this paper so as to provide for an insight of what exports are capable of. This model is based on a number of assumptions and overlooks other variables that may be part of the equation. For instance, it is assumed that there are two factors of production and the relationship between exports and foreign exchange is implicit in the model. This model deals with direct results of higher exports, in relation to output and employment.

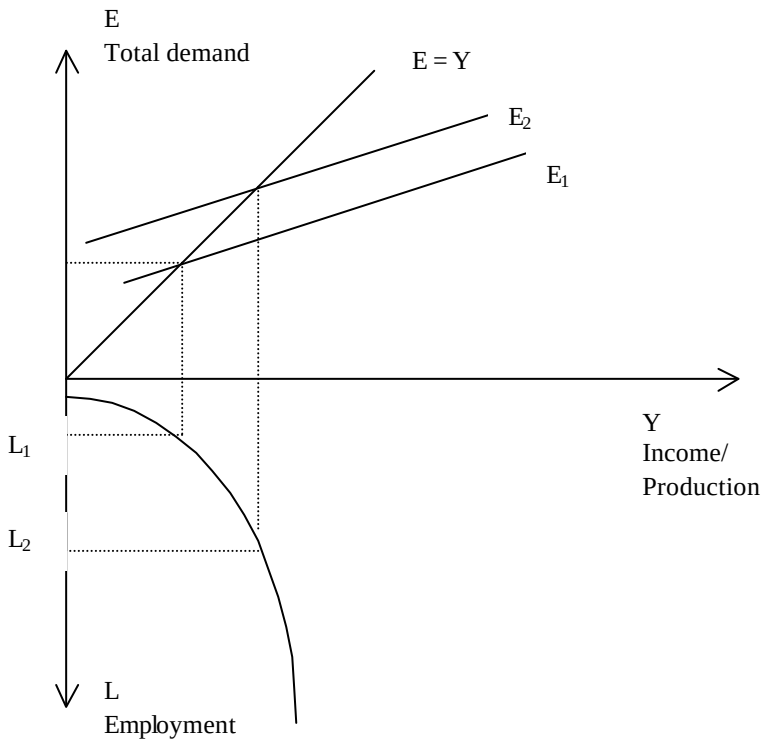
Given the total demand

$E = C(Y) + I(r^*) + G + NX(e)$

And a production function

$Y = Y(K,L)$

The model can be represented in a graphical form as



Where E = total demand, Y = production, I = investment, r* = international interest rate (domestic interest rate is presumed to be equal to the international interest rate), C= private consumption, NX = net export, and e = real exchange rate.

An increase in total demand as a result of increased/ increasing exports ($dE = C_Y dY + dNX$) is depicted by an upward shift of the aggregate demand curve from E_1 to E_2. This accordingly increases the exploitation of inputs. In this model, capital is fixed and only labour inputs can change. As a result, increased production leads to more labour ($dY = Y_L dL \Leftrightarrow dL = 1/Y_L dY$) so as to reach a new equilibrium ($dE = dY$), implying that:

$dE = dY = C_Y dY + dNX$

$(1- C_Y)dY = dNX$

It can therefore be concluded that in this simple demand model, reaching the new equilibrium condition will necessitate an increase in employment from L_1 to L_2. Although simple, it is intuitive that there is a positive relationship between exports, employment and output. The simple multiplier calculated for increased exports equals $dL = 1/[Y_L(1 - C_Y)]dNX$.

With reference to small enterprises, there are different arguments about the relationship between growth (defined as increased employment and/or output) and exporting. These are two separate subjects, which require separate detailed analysis. It should suffice to say, given time and spatial constraints, that there is some relationship, even for small enterprises, between growth and exports. The question is about the direction and the magnitude of that relationship, which the final product of this project aims to estimate for South African SMEs.

6. KZN Survey Results

This section highlights significant responses of the small and medium enterprises studied in Groutville in Kwa- Zulu Natal (KZN). The response rate by enterprises is 32% and the service providers' response rate is 70%. The study of service providers involves interviews of service providers in the whole of the KZN whilst the study of small firms concentrated in Groutville, a small town in Stanger in the KZN.

The questionnaire for small firms comprised of 4 sections: enterprise profile, owner/ manager characteristics, problems of growth and exporting, and open-ended questions. The similar format was followed for the service provider questionnaire.

The KZN province is comprised of 7.5% of the total land mass of entire South Africa, that is a land area of 91 500 square kilometers. There is approximately 8.8 million people, of which 83% are Africans, 9% Indians, 7% Whites and 1% Coloureds. The KZN province contributes just above 15% of gross domestic product. According to census data, the KZN has population density of 87%, urbanisation index of 77.9%, literacy rate of 58.7%, labour participation rate of 53.6% and the unemployment rate of 32.2%. Personal services, manufacturing, trade and agriculture are the most important sectors, respectively contributing 32%, 18%, 18% and 11% to total national employment. In terms of access to facilities and services, there is clearly skewed distribution of provision of basic needs. For instance, it is estimated that only half of Africans have access to electricity compared with 99% of Whites with access to electricity. The KZN region seems interesting, given all these dynamics, and numerous initiatives have been undertaken to improve the economic well being of the region. This includes strategies and programs such as the provincial growth and development strategy.

The idea of this section is to discuss the firm and owner characteristics, factors influencing a small firm growth, factors affecting exporting by small firms, and owners' views regarding a means to improving small business development in South Africa. From the research point of view, the undertaking of this nature will assist in the policy making pertaining to small firm development. The results of the study are not entirely unexpected but help documenting the characteristics and challenges confronting the small business community, both at the level of business operation and policy making in South Africa.

The next sub-section discusses responses by service providers. The focus is on the main characteristics of the firms that service providers in the KZN deal with, including problems faced by the firms and the service providers' suggestions as to ameliorating the conditions of small businesses in the KZN.

6.1 Service Provider perspective

According to service providers in the KZN region, most small firms that they deal with have less than 10 employees whilst medium enterprises have up to 20 full-time paid employees. Similarly, small firms have less than 5 million (in rands) of turnover compared with up to 10 million turnover of medium enterprises. This seems out of line of the size-class definition provided in the *Small Business Act of 1996*. For instance, an equivalent number of full-time employees, as specified by the Act, is 200 whilst the average given by service providers is 20.

The businesses seem to be growing either fairly or slowly, having only 14.28% respondents saying that firms are not growing. This is equal the percent of respondents (14.28%) saying that small firms are not exporting, whilst the rest responded that small firms have either fair or low exports. Those firms that have been exporting have been exporting for less than 5 years. The firms we are dealing with are a combination of retail and manufacturing, the ownership by population groups is fairly spread through all races. The owners are generally aged between 31 – 40 years and have some post matric education.

Table 7: SME level of growth and exports

Small & Medium Enterprises	**Percentage**
Growing or not growing	
Fast growth	0.00%
Fair growth	42.86%
Low growth	42.86%
Not growing	14.28%
Exporting or not exporting	
Large exports	0.00%
Fair exports	57.14%
Low exports	28.57%
Not exporting	14.28%

Service providers believe that demand and good planning are the two most important factors that drive small business growth and exports. Also, lack of information and finance are significant factors that constrain the exports of small businesses. Service providers singled out inflation, interest rates, lack of demand, and taxation as the most significant external factors that constrain the growth of small firm. The internal constraints to business growth are poor quality of products, shortage of skills, lack of finance and lack of planning. Similar factors are depicted as affecting export capabilities of small firms. For example, poor quality of products, lack of skills, lack

of finance, lack of information and lack of planning are internal constraints to small firm exporting. On the other hand, exchange rates, lack of markets, lack of government incentives and rigidity of trade instruments are significant external influences of small firm exports.

Table 8: SME growth and export constraints

External Constraints to Enterprise Growth		**Internal Constraints to Enterprise Growth**	
Inflation	42.86%	Poor quality of prod./services	85.72%
Interest rate	71.43%	Lack of skills	85.71%
Lack of Demand	42.86%	Problems with employees	42.86%
Competition	71.43%	Lack of finance	71.43%
Taxation	28.58%	Lack of strategy	71.43%
External Constraints to Exporting		**Internal Constraints to Exporting**	
Interest rate	42.86%	Poor quality of prod./services	71.43%
Exchange rate	42.86%	Lack of skills	100.0%
Lack of markets	42.86%	Problems with employees	42.86%
Lack of government incentives	57.15%	Lack of finance	85.71%
Lack of demand	28.57%	Lack of strategy	57.14%
Trade instruments	85.71%	Lack of information	57.14%

The suggestions are slightly similar for both support institutions and for the national government. Service providers suggest that capacity building, finance and information provision should be high priority if small firm growth and exporting are to be accomplished. Also interestingly, service providers believe that there is apparent lack of co-ordination of small business support by respective institutions and as a result service providers suggest that service providers, SMME desks, Ntsika Enterprise Promotion Agency, and Khula Finance should work out a co-ordinated mechanism for small business support.

6.2 Views of small businesses

The responses of small businesses are very much similar to the perspectives of service providers. This is important because it shows the understanding by service providers of the characteristics and challenges of small and medium enterprises that service providers deal with.

This sub-section concentrates on the major factors affecting small business growth and export capabilities. I however highlight a few issues regarding the characteristics of businesses and business owners/ managers interviewed. To start with, none of the firms interviewed have turnover of more than 5 million (in rands) and the number of full-time paid employees is largely less than 10 (62.5%) and the rest above 50. 12.5% firms are exporting. This is important because the interest is on the problems of exporting as well as those of growth such that the larger the number of non-exporting firms the higher the value of results of reasons for not exporting. 56.25% firms have been operating for < 5 years and the rest been in business a little less than 10 years.

Table 9: SME turnover and exporting

	Percentage
Annual turnover (million – SA rands)	
<1	37.50%
1-5	43.75%
5-10	0%
>10	0%
	Percentage
Firms Exporting (% of sample)	12.50%
Firms not Exporting (% of sample)	87.50%

Small businesses believe that demand for their products is the single most important factor that positively influences their businesses to grow. 68.8% respondents (small business owners/ managers) mentioned demand for their products, whilst 37.5% choose access to markets, and 19% ticked infrastructure as very important factors that increase the possibility of the small business to grow. In addition, amongst the important external factors affecting business growth are inflation and interest rates. In fact, 87.5% firms complained about high prices. Other constraints include poor quality of products, lack of skills, lack of planning and others. It should be noted that 100% firms feel that finance is a real hindrance to their growth and similarly 93.75% firms feel that lack of finance is problematic for exporting.

Table 10: SME internal and external growth constraints

External Constraints to Firm Growth		**Internal Constraints to Firm Growth**	
Inflation	87.50%	Poor quality of products/ services	43.75%
Interest rates	43.75%	Lack of skills	37.50%
Lack of demand	25%	Problems with employees	56.25%
Competition	31.25%	Lack of finance	100%
Taxation	31.25%	Lack of planning	81.25%

With regards to exporting, rigidity of trade instruments (93.75%), and lack of finance (93.75%) and information (93.75%) are the important factors affecting firms exports. In fact, there seems to be an apparent equal spread of answers regarding problems with exporting. It should, however, be noted that certain firms do not at all see problems with above named factors.

Table 11: SME internal and external export constraints

External Constraints to Exporting		**Internal Constraints to Exporting**	
Exchange rates	87.50%	Poor quality of products/ services	43.75%
Interest rates	81.25%	Lack of skills	43.75%
Lack of demand	56.25%	Problems with employees	50%
Lack of markets	93.75%	Lack of finance	93.75%
Lack of government incentives	87.50%	Lack of planning	93.75%
Trade instruments	93.75%	Lack of information	93.75%

Suggestions by small businesses themselves as to the ways of improving small firm development are similar to the suggestions by service providers. Small businesses suggest that the entire small business support organisations, including service providers, should focus on training and provision of finance and information.

7. Conclusion

As noted above, research on small and medium firms remains filled with ambiguities, which cautions readers to treat findings with some care. This, in a way, shows that there remains a large scope for further research on small firm growth and export performance. This section articulates some policy options and necessary further research.

Everette et al (1998: 388) recommends that government policy should be "directed at both individual firms and the economy" if small firms are to grow and export. The similar suggestion is found in other literature which suggests that government should exercise targeted support to small firms with the potential to grow and/ or export [Cheong et al, (1987) and Philp (1998)]. According to Arrighetti et al (1994), selective industrial policies should be designed.

This, therefore, calls for a clear understanding of factors involved in the growth and exporting of small firms. Consequently, Culpan (1989: 217) and Chetty et al (1996: 21) emphasizes the importance and the need of longitudinal research. This relates to Bell et al (1991) argument that projects and programs must be substantiated by research.

Amongst other suggestions, financial assistance, enabling environments, training, information provision, and development of infrastructure are the most important factors enunciated in literature. The tentative findings of the KZN study suggest that similar factors and issues highlighted in literature are equally relevant for South Africa. The description of the responses implies that provision of finance, information, training, and an enabling economic environment are the most important factors that policy makers should focus on in South Africa so as to allow small businesses to grow and export.

Johnson et al (1999: 110) contends that thorough work should be done regarding the relationship between size and growth, taking into account sectoral differences. Ali et al (1991) suggests that studies should further investigate size in exporting. Simialrly, Thurik (1993) recommends that a micro-economic study of differences between exporters and non-exporters should be undertaken.

There are many other fundamental issues that deserve further attention in terms of research. For instance, examining stages of business growth, types of exporting businesses, heterogeniety of exporting firms, causation and correlation of small firm dynamics, correctness of the measures of firm growth and export propensity, and export processes of small firms. As acknowledged by Chetty et al (1996: 21) there needs to be further embellishing of existing export (and firm growth) models and that longitudinal research be done taking into cognizance sectoral and cross-national dimensions.

In concluding, the SME research in South Africa has been constrained by paucity of relevant statistical information and shortage of resources channeled to SMME research surveys. Preliminary surveys of literature on the SMME sector, in South Africa, show that there remains widest scope for research.

Except for Levin (1997), other case studies have completely overlooked issues of growth and exporting of small and medium enterprises.

In terms of policy, it is relatively clear that the focus should be on targeted specific programs that will attend to the creation of an enabling environment, providing finance and information, and improving human resources. Given these factors, the focus should be on inflation, interest rates, taxation, training, provision of relevant incentives, increasing access to markets and finance, and improving coordination between units dealing with small business support. However, the role of government policy may be limited in dealing with some unsystematic challenges faced by small and medium enterprises. Consequently, small enterprises have to take absolute responsibility to ameliorating the capacity of their workforce, the quality of their products, relevance of information gathered, and do some planning.

In terms of research, case studies should be promoted. In fact, thorough surveys are needed for both gathering sufficient data on issues of small enterprises and also to help formulate concrete theoretic frameworks for SME economics. With reference to the external trade of small enterprises, there is a crucial urgency to unpack the export behaviour of small enterprises as opposed to exporting of large enterprises. Most importantly, the export processes and factors determining export success/failure of small enterprises should be clarified. In fact, the main long-term subject of the envisaged study centers around this question.

There are signs that many small enterprises may be exporting but through intermediaries. This is fundamental because there could be a gap in policy supporting small business directly. Perhaps an appropriate support framework, especially with regards to exports, should be on intermediaries. For policy purposes, there is a pressing need to unpack the processes through which SMEs export, to embellish our understanding of the role of intermediaries and networking for the survival of a small enterprise, and subsequently the wealth of a nation!

8. Selected references

Ali, A and Swiercz, P. M (1991), "Firm Size and Export Behavior: Lessons from Midwest", *Journal of Small Business Management*, 29 (2), pp. 71 - 78

Arrigetti, A (1994), "Entry, Growth and Survival of Manufacturing Firms", *Small Business Economics*, 6, pp. 127 – 137

Beamish, P. W, Craig, R and McLellan, K (1993), "The Performance Characteristics Of Canaadian versus U.K. Exporters in Small and Medium Sized Firms", *Management International Review*, vol. 33, pp. 121 - 137

Bell, J, Maurice, M and Madden, K (1991), "Developing Exportise: An Irish Perspective", *International Small Business Journal*, 10 (2), pp. 37 – 53

Bilkey, W. J (1978), "An Attempted Integration of the Literature on the Export Behavior of Firms, *Journal of International Business Studies*, 9 (1), pp. 33 - 46

Bryson, J, Keeble, D and Wood, P (1997), "The Creation and Growth of Small Business Service Firms in Post-Industrial Britain", *Small Business Economics*, 9, pp. 345 – 360

Caley, K, (ed) (1991), *Small Enterprise Development: Policy and Practice in Action*, Briston: Chapman

Caughey, M and Chetty, S (1994), "Pre-export Behavior of Small Manufacturing Firms in New Zealand", *International Small Business Journal*, 12 (3), pp. 62 - 68

Cheong, K.W and Chong, K.W (1987), "Export Behavior of Small Firms in Singapore", *International Small Business Journal*, 6 (2), pp. 34 - 41

Chetty, S and Hamilton, R (1996), "The Process of Exporting in Owner-controlled Firms", *International Small Business Journal*, 14 (2), pp. 12 – 25

Chetty, S (1996), "The Case Study Method for Research in Small and Medium Sized Firms", *International Small Business Journal*, 15 (1), pp. 73 - 85

Chittenden, F et al (eds) (1995), *Small Firms: Partnerships for Growth*, London: Paul Chapman

Chittenden, F, Hall, G and Hutchison, P (1996), "Small Firm Growth, Access to Capital Markets and Financial Structure: Review of Issues and an Empirical Investigation", *Small Business Economics*, 8, pp. 59 – 67

Chow, C. K, and Tsang, E.W (1995), "Entrepreneurs in China: Development, Functions and Problems", *International Small Business Journal*, 13 (1), pp. 63 – 77

Cortes, M, Barry, R and Ishaq, A (1987), *Success in Small and Medium Scale Enterprises: The Evidence from Colombia*, New York: Oxford University Press

Culpan, R (1989), "Export Behavior of Firms: Relevance of Firm Size", *Journal of Business Research*, 18, pp. 207 – 218

Curran, J, Stanworth, J and Watkins, D (eds) (1986), *The Survival of a Small Firm*, Aldershot: Brookfields

Department of Trade and Industry (1996), *National Small Business Act*, Government Printer: Pretoria

European Observatory for SMMEs (1993), First Annual Report, EIM/ European Network for SME Research

Everett, J and Watson, J (1998), "Small Business Failure and External Risk Factors", *Small Business Economics*, 11, pp. 371 - 390

Fumagalli, A and Marcora, L (1993), "New Firm Mortality, Survival and Structural Change in an Industrialized Area: The Case of Milan Province", *Entrepreneurship and Regional Development*, 5, pp. 155 - 178

Gadenne, D (1999), "Critical Success Factors for Small Business: An Inter-industry Comparison", *International Small Business Journal*, 17 (1), pp. 36 - 51

Hall, G and Young, B (1991), "Factor Associated with Insolvency Amongst Small Firms", *International Small Business Journal*, 9 (2), pp. 54 - 63

Hannon, P and Atherton, A (1998), "Small Firm Success and the Art of Orienteering: the Value of Plans, Planning, and Strategic Awareness in the Competitive Small Firm", *Journal of Small Business and Enterprise Development*, 5 (2), pp. 102 - 117

Hall, G and Young, B (1991), "Factor Associated with Insolvency Amongst Small Firms", *International Small Business Journal*, 9 (2), pp. 54 - 63

Hirsch, A and Hanival, S (1998), " Industrial Restructuring in South Africa: The Perspective from Government", *Paper Presented at TIPS/IDRC Annual Conference*, Johannesburg

Huu-Phuong, T and Soo-Jiuan, T (1990), "Export Factoring: A Strategic Alternative for Small Exporters in Singapore", *International Small Business Journal*, 8 (3), pp. 49 – 57

Johnson, P, Conway, C and Kattuman, P (1999), "Small Business Growth in the Short Run", *Small Business Economics*, 12, pp. 103 - 112

Julien, A, Joyal, A, Deshaies, L and Ramangalahy, C (1997), "A Typology of Strategic Behavior Among Small and Medium Sized Exporting Businesses: A Case Study", *International Small Business Journal*, 15 (2), pp. 33 - 49

Kirby, D (1985), "Small Firms in the Economy of South Africa", *International Small Business Journal*, 4 (2), pp. 36 - 48

Levin, S (1997), "Runners and Laggers: Why Small Manufacturing Firms Succeed In South Africa", *Ntsika Enterprise Promotion Agency Research Paper*

Leidholm, C and Mead, D.C (1999), *Small Enterprise and Economic Development: The Dynamics of Micro and Small Enterprises*, London: Routledge

Masten, J and Brown, S (1996), "Problems Facing Business Associations in Emerging Countries: The Case of Ghana", *International Small Business Journal*, 13 (4), pp. 91 - 96

Meyanathan, S.D (ed) (1994), *Industrial Structures and the Development of Small and Medium Enterprise Linkages – Examples from East Asia*, Washington D.C: World Bank

Miesenbock, K (1988), "Small Businesses and Exporting: A Literature Review", *International Small Business Journal*, 6 (2), pp. 42 - 61

Moritz, C (1994), "Trade and Industrial Policies in New South Africa", *Nordiska Afrika Institute Research Report no. 97*

Ntsika Enterprise- Bureau for Economic Policy Analysis unpublished project

Petrakis, P.E (1995), "Entrepreneurship and Growth: Creative and Equilibrating Events", *Small Business Economics*, 9, pp. 383 – 402

Phillips, B.D and Kirchhoff, B.A (1989), "Formation, Growth and Survival; Small Firm Dynamics in the US Economy", *Small Business Economics*, 1, pp. 65 - 74

Philp, N.E (1998), "The Export Propensity of the Very Small Enterprise (VSE)", *International Small Business Journal*, 16 (4), pp. 79 – 93

Reid, G (1993), *Small Business Enterprise: An Economic Analysis*, New York: Routledge

Romano, C. A (1989), "Research Strategies for Small business: A Case Study Approach", *International Small Business Journal*, 7 (3), pp.35 - 43

Roper, S (1997), "Product Innovation and Small Business Growth: A Comparison of the Strategies of German, U.K. and Irish Companies", *Small Business Economics*, 9, pp. 523 - 537

Samuels, J, Greenfield, S and Mpuku, H (1991), "Exporting and the Smaller Firm", *International Small Business Journal*, 10 (2), pp. 24 - 36

Siu, W (1991), "Corporate Enterpreneurs in the People's Republic of China: Problems Encountered and Respective Solutions", *International Small Business Journal*, 10 (4), pp. 26 - 33

Smallbone, D (1990), "Success and Failure in New Business Start-ups", *International Small Business Journal*, 8 (2), pp. 34 – 47

Smallbone, D, Piasecki, B, Venesaar, U, Todorov, K and Labrianidis, L (1999), "Internationalization and SME Development in Transition Economics: An International Comparison", *Journal of Small Business and Enterprise Development*, 5 (4), pp. 363 – 375

State of Small Business in South Africa (various issues), Ntsika Enterprise-Center for

Small Business annual reports

Statistics South Africa (SSA), various issues, Pretoria: SSA

Stern, P and Stanworth, J (1994), "Improving Small Business Survival Rates in Franchising – The Role of the Banks in Europe", *International Small Business Journal*, 12 (2), pp. 15 - 25

Thurik, R (1993), "Exports and Small Business in the Netherlands: Presence, Potential and Performance", *International Small Business Journal*, 11 (3), pp. 49 - 58

Verhoeven, W (1987), "The Export Performance of Small and Medium Sized Enterprises in the Netherlands", *International Small Business Journal*, 6 (2), pp. 20 - 33

Wagner, J (1995), "Exports, Firm Size, and Firm Dynamics", *Small Business Economics*, 7, pp. 29 - 39

Watson,J and Everett, J (1993), "Defining Small Business Failure", *International Small Business Journal*, 11 (3), pp. 35 - 48

Weaver, K.M and Pak, J (1990), "Export Behavior and Attitudes of Small and Medium Sized Korean Manufacturing Firms", *International Small Business Journal*, 8 (4), pp. 59 - 70

Weidersheim-Paul, F, Olson, H, and Welch, L (1978), "Pre-export Activity: The First Step in Internationalization", *Journal of International Business Studies*, 9 (1), pp. 47 - 58