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An exploration of strategic competitiveness of SMMEs: a South African perspective

Abstract

The importance of SMMEs in stimulating the growth in developing countries cannot be overemphasized. As a result, the South African government and various other stakeholders (such as Business South Africa & trade unions) have been seeking ways to help these SMMEs thrive and reduce the huge unemployment rate in the country. It is thus envisaged that various critical success factors affecting SMMEs will be explored in order to bolster the economy given the SMMEs' pivotal role in job creation and subsequently poverty alleviation. Nonetheless, the onus is on SMMEs to improve their strategies in order to render themselves successful. In this paper an essential contribution in a form strategic competitiveness which SMMEs can explore is identified. The paper entails a conceptual framework of strategic competitiveness required by SMMEs in South Africa. The objective of this paper is to explain the importance of strategic competitiveness for SMMEs in South Africa in terms of their longevity and growth. Secondary data will be from books, articles, briefs, and Government and other reports. The paper concludes with implications for future empirical studies.

Keywords: entrepreneur, government, SMMEs, South Africa, strategic competitiveness.

JEL Classification: L26.

Introduction

Over the years, South Africa like many other developing countries has been inundated with unprecedented economic and social challenges such as slow economic growth and subsequently unemployment (Statistics South Africa, 2013). These factors have adverse effects on the functioning of government in terms of realizing the growing economy, taking into consideration the disposable income of employees, the marginal propensity to consume by households and the strategic competitiveness of businesses, especially Small Medium Micro Enterprises, also abbreviated as SMMEs (Mohr, Fourie, & Associates, 2008; Kumar, 2000). It has been accounted for in the Global Entrepreneurship Monitor (GEM) report (2010) as well as the Global Competitiveness report that these SMMEs may go a long way in stimulating the economy and thereby address other related social ills. However, this ideal situation cannot be addressed with outintegrating strategic competitiveness into the functioning of SMMEs.

Conversely, the upswing in technology and innovation has resulted in SMMEs becoming compelled to become more relevant often through what they offer to the economy (Rahman, 2001; Keeble & Wilkinson, 1999). Moreover the consumer markets are now becoming more sophisticated and thus exerting unprecedented pressure on the SMMEs (Koo, Koh & Nam, 2004). Therefore the SMMEs strategic frameworks and tools of analysis should be at cutting edge levels so as to allow them to identify competitive advantages within these sophisticated and demanding markets (Stonehouse & Pemberton, 2002). In addition to this, South African President,

Jacob Zuma in May 2014 introduced a new and separate ministry (apart from the traditional trade and industry) for SMMEs which is dedicated to assist these businesses (Wynn, 2014). It is envisaged that the ideal ministry be positioned to liaise with existing entrepreneurs in order to identify pockets of excellences. Thus, this paper attempts to equip SMMEs with strategies that can assist them to sustain and adapt their business and apply core business strategies to grow their entrepreneurial intentions. Moreover, it is foreseen that through this paper some policy perspectives may emerge as a result of highlighting SMMEs' economic importance and their plight which require government support and other related interventions.

1. Background

According to the Global Entrepreneurship Monitor (2010) it is reported that education seems to be a major challenge facing the country. In order for the country to contribute meaningfully to the call for job creation, it is essential that government should address the lack of education dilemma and prioritise educational imperatives, as they can affect the economic activities of the citizens. Though, Ladzani and Netswera (2009) argue that there are various SMME support institutions, particularly in South Africa, that are available and these may come in the form of support mechanisms and programs. However it would appear that there is gross ignorance and lack of knowledge about such support. Chiloane-Tsoka (2009) concedes to the notion that the majority of SMMEs, in particular women entrepreneurs, do not access these training program as information is not adequately disseminated to them. Moreover, the South African government has put in place the Small Enterprise Development Agency (SEDA) in order to offer

SMMEs training, technical and other support. However, SEDA’s training programs are often criticized due to their lack of reaching out for the poor and the rural communities. Information for training and mentorship are disseminated through newspapers and the internet, structures that are not viable and conducive for most SMMEs to access.

Kelley, Bosma and Amorós (2011) are of the view that innovation-driven economies, seem to have greater potential for innovative entrepreneurial activity leading to the introduction of new combinations of products and markets. In the context of economic development and employment challenges, Segoi (2009) in Fatoki (2010) acknowledges that unemployment in South Africa has significantly increased as a result of economic recession. Turker and Selcuk (2009) as well as Fatoki (2010) support that entrepreneurial activities are an incubator of technological innovation and that they also provide the much needed employment opportunities and increase competitiveness. Nonetheless, this competitiveness cannot be realized without entrepreneurial education and strategic thinking (Herstein, 2014; Lazenby, 2014; Economist, 2011; Grant, 2010).

2. Business failure rate

There is a deliberate attempt to move from a dependency approach by SMMEs toward strategic competitiveness. While government and other similar interventions are acknowledged, business organizations are inclined to have a competitive edge so as to thrive within their volatile environments. This observable fact is much more applicable to SMMEs who are prone to failure when competing with large corporations for market space (Ladzani & Netswera, 2009). Likewise, the human factor in small businesses, specifically entrepreneurial competitive strategies, and business management skills are regarded as the strongest predictors of a small business’s continued existence (Ligthelm, 2013).

Noteworthy, at the heart of problematic areas when doing business in South Africa is poor work ethic, government bureaucracy and an inadequately educated workforce. The latter aspect could be applicable to SMMEs’ managers and require corrective measures to ensure their continued existence. Thus, Table 1, below highlights and summarizes these problems succinctly.

Table1. Problematic areas for doing business in South Africa, 2002 versus 2008

Reason	2002	2008
Inadequately educated workforce	1 (21%)	2 (16%)
Crime and theft	2 (19%)	1 (19%)
Restrictive labor regulations	3 (17%)	4 (12%)
Poor work ethic in national labor force	4 (10%)	7 (5%)
Inefficient government bureaucracy	5 (7%)	3 (14%)
Access to financing	6 (6%)	5 (9%)
Corruption	10 (2%)	6 (7%)
Inadequate supply of infrastructure	13 (2%)	8 (4%)

Note: adapted from: Herrington, Kew and Kew (2009).

3. The importance of SMMEs in South Africa and beyond

Various researches undertaken, including the one listed in the Government Gazette (2014), paint a bleak picture of the success rate of SMMEs in South Africa.

Before we could discuss the success and failure rates of SMMEs it is necessary to first describe what entails a SMME in South African context. Table two describes the size or class of SMMEs in terms of the total employees, total annual turnover well as total gross asset value. The employees range from 200 to five, turnover varies from 25 million rands to 500 hundred thousand rands. On the other hand the total gross asset value may range from eight million rands to 100 thousand rands.

Table 2. Description of SMME

Size and/or class	Total full-time equivalent of paid employees	Total annual turnover	Total gross asset value
Medium	200	R25.00 million	R8.00 million
Small	50	R10.00 million	R3.00 million
Very small	10	R2.50 million	R0.70 million
Micro	Five	R0.50 million	R0.10 million

Note: adapted from DTI (2004).

It is estimated that at least 40% of new business ventures fail; with the largest number of them being SMMEs. It follows that by the 10th year of operation almost 90% of these precious entities may cease to exist. It goes without saying that when these SMMEs go down, there is an adverse effect on

the country’s unemployment and ultimately other related social discomforts.

This impotency and predicament facing SMMEs need to be addressed and cannot be left in the hands of authorities alone. Hence, strategic interventions by SMMEs are critical, in that measures have to be

in place so as to mitigate against this growing scourge of business failure, one of these measures is having strategic competitiveness.

Besides, these organizations do have to act as an incubator and apparatuses for strategic ideas instead of becoming their own 'grave diggers'. The National Small Business Amendment Act of 2003 stipulates that SMMEs' annual turnover, in South Africa as displayed in Table 1, above describes that the annual turnover determines the size of the business organization. Furthermore, businesses are also defined by the total number of employees. For instance micro has 0 to 4 employees; while very small has 5 to 9 employees, small entails 10 to 49 employees and medium is responsible for 50 to 200 employees. On the other hand McClelland (1985) in Ibrahim and Soufani (2002) in defining entrepreneurs outlines the three traits associated with successful entrepreneurs:

- ◆ the desire to solve problems and thereby gain satisfaction from attaining goals that they have been set and prioritized themselves;
- ◆ the ability to take moderate risks after assessing the alternatives; and
- ◆ the need for feedback as a measure of their success.

In order to interrogate what McClelland outlines as traits, it is important to understand whether these traits are relevant within the South African context and business environment, in particular, to the SMMEs. Naidoo and Urban (2010) further allude that one of the reasons for the high SMMEs' mortality rate is the entrepreneurs' lack of managerial skills, which produces adverse outcomes for the new business. The mortality rate thereof indicates that there is a deficit of management skills, especially strategic management and conceptual skills (Naidoo & Urban, 2010; Ladzani & Netswera, 2009). There is also a lack of strategic competitiveness by SMMEs as a result of a serious vacuum in their management skills (Naidoo & Urban, 2010; Mclarty, 2000). During the global economic meltdown many organizations in South Africa and beyond, especially SMMEs never seem to have recovered from this ordeal. According to Jansen van Rensburg and Venter (2012) these casualties may have been averted if there had been resilient strategies in place to respond accordingly. Additionally, different markets are often affected differently during a recession.

Mmbengwa, Ramukumba, Groenewald, van Schalkwyk, Gundidza, and Maiwashe, (2011) identify human capital, infrastructure, financial and market capacity as important for the determinants of

internal capacity of an organization. Interestingly, human and market capacity in the form of managerial skills and strategic competitiveness, respectively, came out very strongly. Mmbengwa et al. go on to conclude that the SMMEs' key success factors can be financial and non-financial in nature when investing in human capital and managerial capacity, and skills are some of the major highlights. It follows that if the latter are in place, the long-term organizational goals can be better realized.

4. Strategic competitiveness

Sewdass and du Toit (2012) argue that competitive intelligence is regarded as a strategic management tool to enhance strategic competitiveness. On the other hand Zorkóciová, Šimorová and Šášiková, (2014) regard competitive intelligence as a tangible manifestation of a business organization's personality which allows it to be specific in its approach and easily recognizable within the market. More so, that there are growing demands from sophisticated consumers, growing pressure from various elements within the micro, market/industry and macro environments, and more demanding surroundings (Zorkóciová et al., 2014). These conditions afford those who remain relevant and thereby respond to the prevailing demands, to survive and even flourish, whereas other struggling organizations are prone to perish. There seems to be a relationship between environmental responsiveness and the business's performance (Gomes, Scherer, Gonçalves De Menezes, Da Luz Neto & Kruglianskas, 2013). The struggling organizations may as well be SMMEs, and their demise can prove to be catastrophic especially in developing countries such as South Africa, where the economy depends on these SMME to be incubators and not shedders of jobs. Therefore, the SMMEs market readiness, awareness, capacity, relevance and response rely highly on their level of strategic competitiveness.

Louw and Venter (2013) suggest that organizations need to adapt their strategies in accordance with environmental needs so as to prosper or just survive. David (2011, p. 187) on the other hand recognizes the significance of business organizations being equipped to deal with challenges of high velocity change as a result of turbulences within the market environment. In this instance, business organizations in this predicament are often presented with options to react, anticipate or become a market leader in terms of their own competitive strategies.

The latter option is what strategic competitiveness is all about and this is what SMMEs should abundantly possess. In this instance aggressive and offensive strategies thus become a prerequisite for a

business organization seeking to become a market leader instead of a peripheral participant within these turbulent markets.

5. Strategies for SMMEs

Various organizations in various industries and life cycles require different strategies in order to survive (Ehlers & Lazenby, 2010). Thompson and Martin (2010, p. 443) as well as Louw and Venter (2013) consider the following as vital criteria to consider when making strategic choices:

Appropriateness looks at how an organization can respond to the needs of the environment through its chosen and given resources available.

Feasibility is about seeking to address the question of timing and the availability of resources including financial and non-financial resources.

Desirability deals with the ability of the strategy to satisfy the organization's objectives and the stakeholder's preferences

Validity is where it is required of a business organization to make meaningful and grounded calculations and assumptions of the strategy in question (Lynch, 2012). There are many modern tools to assist organizations in this regard (Pearson & Wegner, 2013).

Attractiveness to stakeholders. The stakeholders' belief systems play a role in what can be perceived as attractive strategic options, though an organization cannot disregard its stakeholders' wishes as this can impact on its strategic choices.

Consistency deals with the importance of establishing whether the chosen strategy is in line with, and does not deviate from, the initial strategic intent and strategic objectives of the organization. This also requires stakeholders' engagement and constant reflection into the strategic direction and objective of the organization (Sidhu, 2003).

While, Wickham (2006) as well as Lynch (2012, p. 645) outline the characteristics of a successful entrepreneur, as follows:

- ◆ ability to focus on the task and opportunity;
- ◆ resilience against probable setbacks;
- ◆ team building and commitment;
- ◆ confidence and assertiveness in proposal making;
- ◆ self-motivated to get started, even without support;
- ◆ receptiveness to technology and changes;
- ◆ flexibility towards customers' and suppliers' demands.

Ladzani and Van Vuuren (2002) in their view highlight the following entrepreneurial traits as central to the success of small businesses:

- ◆ creativity;
- ◆ innovation;
- ◆ risk-taking;
- ◆ motivation.

This suggests that in order for an SMME to become successful over sustained periods and enjoy a competitive advantage, entrepreneurial strategy should be in place. Lynch (2012, p. 641) argues that the competitive advantage of an entrepreneurial strategy can ignite the following factors:

- ◆ *Knowledge acquisition.* This may come from the within the organization, and a resource-based view may enable the organization to put together a formidable set of human and other competitive capital.
- ◆ *Core competencies.* This can be in the form of technical competencies which an entrepreneur may possess. The entrepreneur must seek to constantly improve the business processes so as to outsmart competitors who seek to duplicate what the organization is doing.
- ◆ *Reputation and branding.* This can help the organization to find a niche market if, for example, it presents value propositions to the market.

According to Votoupalova, Toulova and Kubickova (2014), SMMEs in order of significance, employ the focus strategy (34%), differentiation strategy (29%), the cost leadership strategy (26%) and other strategies (11%) especially when they are also involved in the business of exporting products abroad. Porter (1980) suggests that in order for a business organization to be successful and its growth potential realized, the focus strategy is the path the SMME should pursue. A focus strategy allows a business organization to tap into markets which are often overlooked by its larger competitors. This seems to suggest that focus strategies are ideal for SMMEs in that their limited and often little resources are ideally utilized on niche markets which can yield relatively higher returns (Leitner & Guldenberg, 2010).

Needless to state, when a differentiation strategy is pursued, considerable resources and capabilities are often required by an SMME to acquire and thereby maintain the competitive advantage (Votoupalova, Toulova & Kubickova, 2014; Camison & Lopez-Villar, 2010). Ehlers and Lazenby (2010) as well as Barney and Hestely (2012) highlight that differentiation could take place in the forms of prestige or brand, technology and innovation, rapid

response, product reliability, a unique taste, and customer service. SMMEs may not have resources at their disposal to execute such a strategy. Whereas Leitner and Guldenberg (2010) further suggest that an appropriate product differentiation strategy is a critical determinant of an entrant's success in a particular market. Cost leadership strategy is credited for its role in attracting a relatively huge client base in a given market. This albeit can only be achieved by simplifying the product line, scheduling longer production runs for fewer models, standardizing products and services, or reaping the benefits of quantity discounts (Elhers & Lazenby, 2010; Barney & Hestely, 2012).

6. Conceptual framework for SMMEs

A conceptual framework was considered as the output of this paper. While it is widely acknowledged that SMMEs in developing countries do experience numerous challenges regarding their survival, it is important for SMMEs to take an active role in improving their prospects for survival (GEM report, 2010; Niemand & Niewenhuizen, 2009; Ladzani & Netswera, 2009) articulate that SMMEs, do seek inputs from both internal and external sources. Government and other related entities, such as SEDA, may provide funding and other technical support (DTI, 1995, 2014; Ladzani & Netswera, 2009).

7. SMME, strategic competitiveness

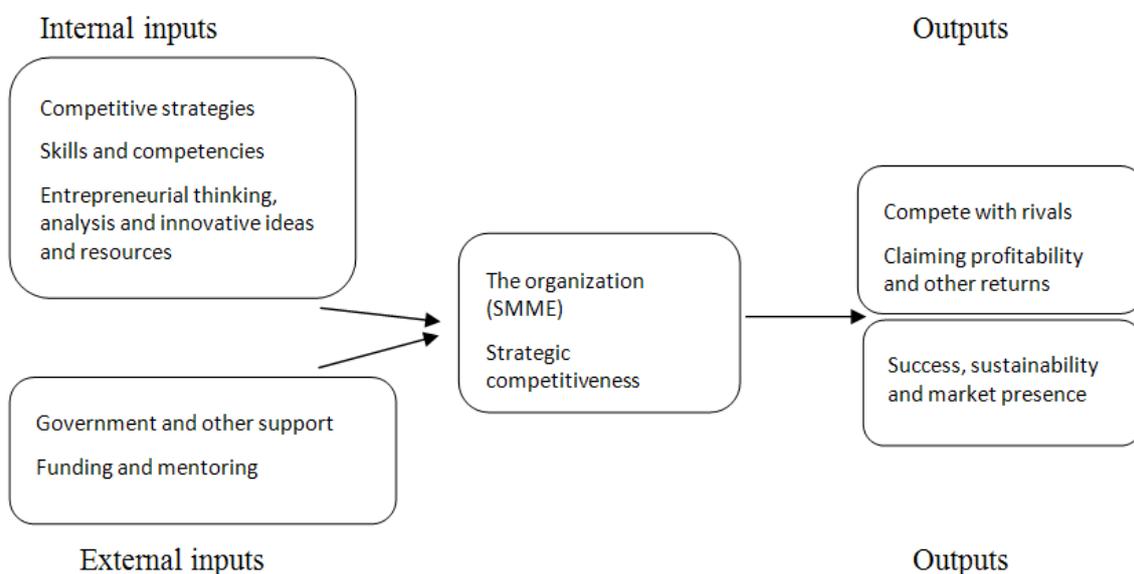


Fig. 1. Strategic competitiveness for SMMEs

8. Research design

According to Hussey and Hussey (1997), the research design is an overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data. While Terre Blanche and Durrheim, (1999, p. 29) define research design as a strategic framework for the

action that serves as a bridge between research issues and the implementation of the research. However, the responsibility lies with the SMMEs themselves to possess the necessary skills and competencies to successfully compete with their rivals and thereby establish their market presence (Robbins, DeCenzo & Coulter, 2012; Fragouli, 2014). Thus strategic competitiveness is necessary for an organization to secure market relevance, responsiveness and presence (Grant, 2010; Lynch, 2012). In essence, strategic thinking and entrepreneurial capacity are key ingredients of strategic competitiveness as they allow managers to critically analyze their environment and thereby respond with innovative ideas and relevant strategies (Amuedo-Dorantes & Serano-Padial, 2010; Lazenby, 2010; Lynch, 2012). Gomes et al. (2013) arrive at the conclusion that there is a relationship between environmental responsiveness and the business's performance. This is what strategic competitiveness is about and could be a useful tool used by SMMEs to survive and grow (Louw & Venter, 2013; Votoupalova, Toulouva & Kubickova, 2014). This may enable the organization to realize favorable outputs such as profitability, sustainability and market presence (Mohr, Fourie & Associates, 2008; Yüzer & Yüzer, 2014). Figure 1, clearly outlines the ingredients (inputs) and fruits (outputs) of strategic competitiveness, starting with inputs and subsequently outputs thereof.

action that serves as a bridge between research issues and the implementation of the research.

9. Research methods

The method used in this paper is classified as content analysis. This involved acquiring information from literature, relevant documents and annual reports

from local municipalities, government and government agents, particularly SEDA.

10. Units of observation

The units of observation for this research are written materials. Many of the research materials used were scholarly and official documents. A literature survey of the most topical books and journal articles helped improve insight into the various discourse on the function of strategy of SMMEs or the role of strategic competitiveness towards SMMEs. Information was also gathered from policy, government and official circulars. Thus, the research relied on reading and analyzing official government documents and policies. Reading and analyzing of texts was regarded as the main method of research.

Conclusion

Government programs should address skill shortages by providing a coherent framework that is sustainable for training SMMEs to avoid business failure. Local municipalities should be proactive in implementing their strategic initiatives rather than being late in their infrastructural developments. Awareness of SEDA programs to SMMEs should be facilitated through the same methods that government uses to disseminate information for immunizations and grants. Given its ability to reach wide audiences, radio should be intensively utilized and road shows should be used as platforms, especially in the rural areas. Strategic campaigns to empower SMMEs on the importance of strategizing business should be the key focus as no business can succeed if it does not have a proper understanding of strategy.

Implications to policy

- ◆ Improve education in business skills at school level to stimulate entrepreneurial capacity in the youth.
- ◆ Increase investment in training programs and educational institutions in the fields of maths and science to improve future innovative efforts by potential future SMMEs.
- ◆ Extend financial literacy and vocational training programs to the unemployed.
- ◆ Establish a wide-ranging apprenticeship system to provide artisan skills, especially for young people.
- ◆ Provide up-to-date training programs that focus on the entrepreneurs' needs, rather than outda-

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ted programs that cater predominantly for general managers.

- ◆ Entrepreneurial trainers and consultants must themselves be well-trained or experienced in the specific area of expertise they offer.
- ◆ Enterprise support programs must be properly and regularly evaluated, and constantly improved.

Managerial implications

- ◆ SMMEs are the backbone of developing economies and the integration of strategies is important in providing managerial focus that will in turn serve as a landscape in shaping the sectors growth and sustainability.
- ◆ SMMEs are a source of creating employment in every business environment, thus it is crucial that they are trained on formulating strategies as they enter the market arena. It will take an effort to adapt to implementing the strategies while the long-term benefits of proper planning will be growth and long lasting market share.
- ◆ Once they become visionary and understand the competition around them, profits will increase and this can result in cost reduction and competitive advantage. These skills can then be translated into stimulating growth and increasing employment.
- ◆ Managerial skills inform the entrepreneur where they rise from and where they lead to. Such competencies will enhance proper planning, record keeping and doing the right thing.
- ◆ Strategic management provides key directions for businesses for short- and long-term goals. It will be of good benefit to assist SMMEs because output will increase based on proper business conducts.

Limitations

- ◆ This study was done in a broad manner, whereas a blanket approach cannot provide a true reflection of the development throughout South Africa.
- ◆ There can never be a one-size-fits-all generalization as other provinces will have their own unique problems

Further studies

The paper was a conceptual study and an empirical study could assist in validating the author's contribution.

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