

# “Key internal factors affecting the small, medium and micro enterprises (SMMEs) marketing strategies in rural South Africa”

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## Key internal factors affecting the small, medium and micro enterprises (SMMEs) marketing strategies in rural South Africa

### Abstract

The purpose of this paper is to report on a study aimed at identifying key internal factors that affect the success of SMMEs marketing strategies in rural South Africa. The study employed both qualitative and quantitative methods in data collection and the analysis of primary data in order to ensure reliability and generalizability of the results. Collection of primary data was conducted in five rural areas of KwaZulu-Natal (KZN). Sample size consisted of 374 business owners/managers, with respondents completing a questionnaire. Space was provided for each question in the questionnaire, which was more qualitative to allow respondents to give additional relevant information which might have been left out during the formulation of the questionnaire. All the quantitative were coded into SPSS (Version 21.0) graphs, cross-tabulation, frequencies and descriptive statistics. According to the findings, the most significant internal factors that impact on the SMMEs' marketing strategies in rural South Africa are: access to finance, managerial skills, education and training, skills personnel. The study recommended strategies and policies SMMEs in rural South Africa with specific reference to the KwaZulu-Natal area. The results will be significant to policy makers, SMMEs sector, SMMEs stakeholders and other researchers.

**Keywords:** SMMEs, success, internal factors, rural South Africa, marketing strategies.

**JEL Classification:** M31.

### Introduction

SMMEs play a crucial role in almost all economies but, particularly, in developing countries with major employment and income distribution challenges, such as South Africa (Cant and Wiid, 2013). This phenomenon can be traced from way back, showing that worldwide, the development and growth of SMMEs can play an important role in turning an economic situation around (Kroon, 2006; Page et al., 1999). Literature reveals that more clear policies and programmes to support the development of SMMEs are an important part of the democratic government's programmes to create a better life for the local communities (Ndabeni, 2006). However, there are still many key internal factors affecting the success of SMMEs marketing strategies in South Africa, including those operating in rural areas of South Africa with specific reference to rural KZN Province. Many researches indicate that in South Africa SMMEs development and business creation are constrained by poor access to finance (Rogerson, 2008; Okpukpara, 2009), lack of education in entrepreneurship, business skills and leadership (Fieldsend and Nagy, 2006; Rogerson, 2008). Fatoki and Garwe (2010) identify internal factors, such as access to finance, management skills, networking, investment, information technology and cost of product as still a big challenge for South African SMMEs' survival and growth. Even though a vast amount of research has indicated that factors affecting entrepreneurship and small business development are a well-researched area, very little research has been done on rural businesses in South

Africa, more especially, in rural KwaZulu-Natal. Ashley and Maxwell (2001) support the premise that it is still important to do more work in rural areas because of the lack of development in rural areas.

### 1. Problem statement

There is evidence from literature review that in South Africa, access to finance, skills and leadership, managerial skills, education and training, as well as skills of personnel are the main obstacles for SMME survival and growth (Rogerson, 2008; Issaacs, Visser, Friedrich and Brijlal, 2007; Labuschagn and Van Niekerk, 2006; Khumalo, 1994). These findings were clarified further in a study conducted in the Limpopo Province by Ladzani and Netswera (2009) and indicate that finance is perceived to be inaccessible for rural SMMEs. The lack of finance constitutes the main obstacle to the growth of SMMEs (Pissarides, 1999; Tesfaayohannes, 2006).

### 2. Aim and objectives

**2.1. Aim.** This study aimed to establish and develop an understanding of the key internal factors affecting the success of SMMEs marketing strategies, and evaluate the extent of their impact on SMMEs marketing strategies in rural KZN.

**2.2. Objectives.** To identify key internal factors affecting the success of SMMEs marketing strategies in rural areas of KZN. To evaluate to what extent these factors affect the marketing strategies of SMMEs in rural KZN.

### 3. Literature review

An attempt is made to review some theoretical and conceptual issues, as well as empirical studies, in the development literature regarding the key internal

factors impacting on the success of SMMEs marketing strategies in rural South Africa with specific reference in KZN. A broad discussion of those variables is presented in the following sections.

**3.1. Education.** It has been noticed that experts in the field of entrepreneurship believe that the contribution of SMMEs to growth in South Africa can be much higher if entrepreneurship education is implemented at school level as most SMMEs' owners/managers are outcomes of grades R-12 and are poorly trained (Isaacs, Visser, Friedrich and Brijlal, 2007). Enterprise education is concerned with encouraging certain enterprising behaviors, skills and attributes associated with self-reliance (Gibb, 1993). However, according to Rogerson (2008), in South Africa, the challenges of the SMME economy consist of better access to finance, skills and leadership training, more flexible regulations are identified as key strategic elements, in supporting the national pillars of promoting entrepreneurship; strengthening the enabling environment for SMMEs; and enhancing competitiveness and capacity at the enterprise, including both urban and rural areas.

The goals of most business education programmes are to prepare people for career success and to increase their capacity for future learning. Equally important are the learner's personal fulfillment and contribution to society (Caravan and O'Conneide, 1995). The likelihood that a person with a grade 12 education will start a new firm is very small, while someone with a tertiary qualification and living in an urban (metropolitan) area is four times more likely to open a new firm (Driver et al., 2001). Someone with a tertiary education is also more likely to see good opportunities for starting a business and the survival rate is twice as high. Due to the legacy of apartheid education, the majority of the population lack basic skills as well as technical skills. As a result, large sections of the population lacks self-esteem, motivation and creativity. Furthermore, the majority of South Africans still receive poor quality education because most schools are not equipped to meet the challenge of providing a basic good education. The system is not equipping the people with entrepreneurial mindsets and skills. For one to be successful in a business venture, one needs to have a formal education. According to Hisrich et al. (1992), potential entrepreneurs should have role models such as their parents, brothers or sisters, other relatives or successful entrepreneurs in the community. Successful entrepreneurs can be an inspiration and mentors to potential entrepreneurs.

**3.2. Training.** Small firms are much less likely than large firms to provide their employees and their

managers with formal training (Storey, 2004). Entrepreneurs may need certain attributes to succeed; they may be able to acquire some skills and knowledge through education, at a business school or elsewhere (Bilimora, 2007; Dacko, 2006). Storey (2003) stresses that seeking to increase formal small firm training activity by raising the awareness of owners/managers to the benefits of training is misguided. Training is the first step in developing the entrepreneur's technique and know-how. It involves learning the basics of business (Bolton and Thompson, 2000). Many SMMEs have little or no formal skills training at all (Khumalo, 1994). Nieman (2001) maintains that the training emphasis of service providers in South Africa still seems to be more on conventional training than entrepreneurship training. This view might be the problem for this sector.

### **3.3. Value of education and training for SMMEs.**

In order to effectively manage the functional areas of a business, it is important for small business owners to have the necessary skills, which include finance, operations, marketing, planning, human resources and awareness of knowledge management (Monk, 2002). According to the World Bank Report (2001), SMMEs' owners had very little formal skills training. Studies are needed to identify the key business skills required by entrepreneurs, as well as the most effective way of offering the training (Kew and Macquet, 2002). In areas where training is required, there is no order of preference, such as communication skills, marketing legal aspects, contracting and financial record keeping (GEM, 2002). Previous research indicates that more than 50% of township entrepreneurs are in need of training, especially keeping financial records (GEM, 2002). It is believed that about two-thirds of SMMEs do not keep records (Haan, 2001). According to GEM (2002), a significant number of informal and formal business owners are prepared to be trained; more than 50% of formal business owners and more than 70% of informal business owners would attend training courses that are free; and 78% of informal business owners are prepared to pay a small fee. According to Kew and Macquet (2002), only 32% of the township entrepreneurs interviewed was not prepared to pay for training primarily due to their inability to afford the cost of training. The entrepreneur's level of education increases the probability of established firms and more jobs per firm. The higher the entrepreneur's level of education, the greater the involvement with the firm and, therefore, the greater that ability to grow the firm, which results in more jobs. There exists a strong positive correlation between education and business success (GEM, 2002). Previous researchers, such as

Reid (1987), articulate that, although management education is repeatedly cited as an effective way of providing small businesses with management expertise, they require public agencies supplying management education and they have little guidance regarding factors to consider when preparing management training programmes for small business owners/managers. Training of an ongoing nature is needed to assist the SMME owner to manage the constantly changing environment (Ladzani and Van Vuuren, 2002), and being able to respond to it with initiative and innovation. Training can assist SMME owners in managing some of their problems, which will reduce the cost and difficulties of learning the hard way (Ladzani and Van Vuuren, 2002). The SMME owners should view management training as an investment in their business. Storey (2003) suggests that small firms need training, because their owners are invariably less educated and, therefore, less able to be formally trained, compared to the managers in large firms. In addition, failed firms were poorly managed, implying that management training will improve the situation, which does not prove that if the owners had management training they would have survived; it can only be justified if a comparison can be made between two comparable groups of firms over time, where one group undergoes a training intervention and the other group does not (Storey, 2003).

**3.4. Managerial skills.** Ras and Pretorius (2007) state that countries need to provide training programmes in order to meet the demand of fostering SMMEs. National competitiveness, which is highly linked to economic growth, depends on skills (Binedell, 2008; Badroodien, 2005). SMMEs' owners/managers must have business skills in order to compete in the business sectors. Labuschagn and Van Niekerk (2006) articulate that 80% of South African SMMEs fail due to a lack of management skills. Management incompetence is one of the most important factors that lead to business failure (DTI, 1998). Management shortcomings of SMMEs may include the following: lack of managerial information, ineffective planning, insufficient control and unsatisfactory financial management. Many small black builders lack management skills (Khumalo, 1994). Many of them fail to keep simple records. Planning is an exception rather than the rule. They lack managerial information, effective planning, and sufficient control and satisfactory financial management skills. Ryan, Ray and Hiduke (1999) reckon that anyone without knowledge of business management and who fails to exercise cash-flow management is responsible for his/her own downfall. This means that if salaries and suppliers cannot be paid, then any attempt to save the sinking ship comes too late.

**3.5. Skills of personnel.** Many entrepreneurs lack organizational skills and disorganized education systems continue to produce individuals with no sense of time management, priority setting, strategic planning and decision making (Kadans, 1992). A business's success depends on the knowledge, skills, creativity and motivation of its labor force (Yasamis, Arditi and Mohammadi, 2002; Bhatia, 2003). Therefore, it is important that the small business makes provision for trade and quality-related training for its employees. According to Kroon (1998), for any business to be successful, expert, trained and productive labor is essential. However, SMMEs in remote areas find it extremely difficult to engage skilled workers because they are not able to offer the workers the same benefits as their bigger counterparts in urban areas. Furthermore, key partners and/or employees may leave the company, thus, affecting the business adversely, and can lead to the liquidation of the business (Da Silva, 1990). Furthermore, Lubisi and Mdletshe (2008) state that poverty and under-development are the main causes of poor education in rural KwaZulu-Natal. This indicates that educational opportunity is determined by socioeconomic trends, such as availability of water, electricity or television provisions that might have an influence on the SMMEs' operations in the rural areas.

**3.6. SMMEs' access to finance.** A study conducted in the Limpopo Province by Ladzani and Netswera (2009, p. 225) indicates that finance is perceived to be inaccessible for rural SMMEs. The lack of finance constitutes the main obstacle to the growth of SMMEs (Pissarides, 1999; Tesfaayohannes, 2006). SMMEs are automatically excluded from certain financial sources, such as the stock exchange, and face difficulties raising certain types of finance, such as long-term loans because of the automatically higher risk associated with firms who have little equity in the form of share capital (Deakins, 1996, p. 73). According to McDonagh and Commins (2000, p. 8), realizing the potential value of rural resources is essential for rural development. They further stress that marketing is often the weak link in rural diversification strategies. This frequently arises from the costs involved with the lack of expertise, small scale of individual production units, dependence of guaranteed prices for commodities, and the undifferentiated nature of products (Leat et al., 2000, p. 3; McDonagh and Commins, 2000, p. 8). Vinturella and Erickson (2004, p. 30) report that 80% of all new businesses fail due to under-capitalization. The inability to secure adequate long-term financing and the high cost of that financing are both serious problems. This means that small firms typically require more frequent refinancing and are more

highly leveraged, thus, exacerbating the problem. While acknowledging the elusiveness of access to financial services by SMMEs, Otero and Rhyne (1994), Makombeshamu (2001, p. 5) point out that the goal of providing financial services is attainable through the adoption of certain key principles of credit delivery, which have demonstrated a promising strategy for providing wider access to financial services. The finances available for SMMEs from lending banks and financial institutions tend to be much more restricted than for big companies (Butler, 2006). Makombeshamu (2001, p. 5) states that the emerging techniques' principles for offering finance to SMMEs are similar to those prevailing in any financial system and involve mainly a market perspective and an appreciation of the client group's preferences; and designing of products for meeting their needs; and a recognition that financial services are important for not only the SMMEs but also the providers (interest earnings) and the nation in terms of economic growth. While it is noted that SMMEs do not want charity but a chance (Wolfensohn, 2000), poverty alleviation implies enhancing the welfare of SMMEs which are income dependent, access to infrastructure and other public services. However, Macleod and Terblanche (2007) mention that, in South Africa, ABSA Bank, Khethani business finance, Khula credit guarantees, People's bank and Sizanani have been formed to assist small business with finance. However, the awareness of these financial institutions in the KZN rural areas is still questionable.

Ashely and Maxwell (2001) indicate that rural development has been central to the development effort, but rural poverty persists and funding is falling: a new narrative is needed. The study highlights that rural areas are changing, particularly with respect to demography, diversification, and strengthening links to national and global economies. According to these authors, key issues include: agriculture as the engine of rural development; the future viability of small farms; the potential of the non-farm rural economy; the challenges of new thinking on poverty, participation and governance; and implementation problems. This means that research needs to be done in this area in terms of South Africa's context, particularly in the rural areas.

**3.7. Complexity of SMME management.** A small business is owner-driven, which is fundamentally different to big business. Small businesses are not team-managed; have a high failure rate, a short-term focus on returns, no internal labor pool and a high personal financial commitment by the owner (Storey, 2002). Literature indicates that the owners tend to focus on the day-to-day operational requirements.

They ensure effective functioning of inbound and outbound logistics, which does not leave much time for planning and strategic management. The problem amplifies when an attempt at strategic management is made, especially when the records are non-existent or missing. This problem has made strategic planning difficult in a number of cases.

The problems that face SMME owners/managers in South Africa include the lack of capital, lack of technical and management skills, legal barriers and bureaucratic licensing procedures, marketing and transport problems. Less frequently mentioned problems are equipment, location, competitors and customers (Frese, 2000). The lack of awareness of these problems could be a reason why they are not identified as problem areas, which can be used as an indicator of the lack of awareness of the role of business in the total environment. The SMME owner invariably has a specific competence, such as marketing or operations. He/she lacks a broad, well-rounded exposure to the business functions required by modern business (Baumbach, 1985). This causes the individuals to have an internal focus, a lack of understanding of the pressures on business and ultimately they are not able to respond to these pressures, due to their lack of understanding of the context within which they operate.

**3.8. Research methodology.** A questionnaire comprising both quantitative and qualitative techniques was employed to collect primary data from 374 SMMEs owners/managers in rural KZN. A literature review was considered the main source of information for the questionnaire formulation, which consisted of closed- and open-ended questions.

**3.9. Target population.** The study targeted 374 SMMEs operating in five rural areas of the KZN province. It concerned only registered SMMEs. The targeted number was based on the estimate that there are about 800 SMMEs in the province as a whole (KZN YouthBiz Database, nd), the number of SMMEs specifically located in rural areas of the province is not known.

**3.10. Question design.** A questionnaire was applied as the measuring instrument which consisted of closed-ended and open-end questions. Each question also allowed for comment via an open-ended response alternative. The main questions are summarized in Table 1.

Table 1. Summary of key research questions

Research area	Questions
Training and education	In which of the following field (s) have you received training Response alternative: marketing management; human resource management; business management; building and construction management

Table 1 (cont.). Summary of key research questions

Research area	Questions
Source of funds	From which of the following sources do you obtain funding for your business? Response alternative: bank; own funds; finance companies; ROSCAs (Rotational savings and credit associations)
Internal factors affects marketing activities	Which internal factors affecting their marketing activities Response alternative: lack of knowledge and experience; limited fund; never thought about marketing; do not know why I should do marketing
Promotional activities	Do internal factors affect your promotional activities? Response alternative: strongly agree; agree; neutral; disagree; strongly disagree
Importance of marketing	Do internal factors affect marketing to the business success Response alternative: strongly agree; agree; neutral; disagree; strongly disagree

**3.11. Data collection.** The researcher with the help of research assistants distributed the questionnaire in five areas of rural KZN. Primary data were collected from 374 SMMEs owners/managers operating in rural KZN. To keep the standardization of condition in which the questionnaire were completed, teachers from local primary schools in the selected areas were recruited and trained as fieldworkers. The survey was conducted at the same time during the weekdays and over the weekend. The same instructions were provided throughout the questionnaire and the

interviewer was on hand to explain any uncertainties where necessary. The survey lasted four months. Pre-coding of all closed-ended questionnaire was done in order to avoid inconsistent data coding.

**3.12. Data analysis.** Statistical Package for Social Sciences (SPSS) version 21.0 was used to analyze primary data for this study. Quantitative data was done to generate frequencies, descriptive, inferential and cross-tabulations. Cross-tabulations with the appropriate inferential statistics (Chi-square test) were used to test the relationship of variables.

**3.13. Reliability and validity.** The questionnaire was used to assess the content and construct validity; this was done with the aid of statistical experts and by pre-testing it with a small sample similar to the population. Statistical tests were done for this study and found to be good for all the questionnaire items (Cronbach’s alpha > 0.75). The reliability of the study was acceptable.

**3.14. Results.** Research was conducted among the entrepreneurs operating in rural KZN. 374 SMMEs owners/managers participated in the survey and careful analysis of data was done to reveal the following results:

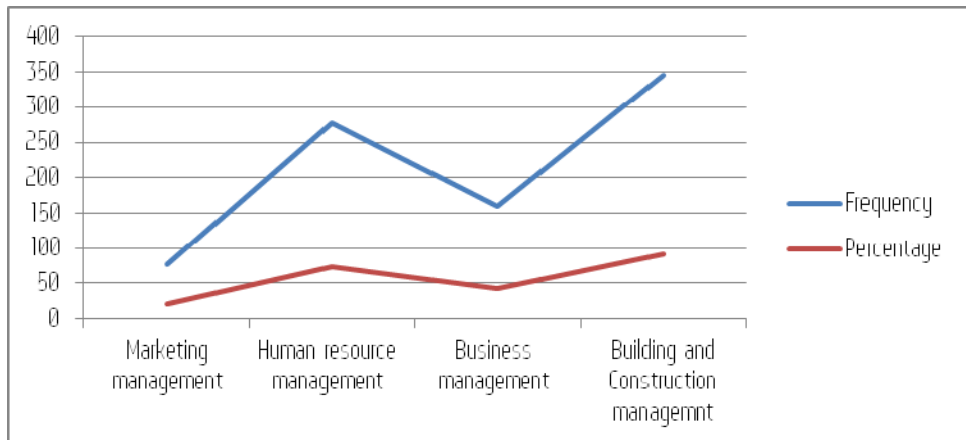


Fig. 1. Training of the respondents

Figure 1 shows that the majority of respondents across industries have training in different management areas and a small number (20.4%) have training in marketing management. There are good levels of training in human resource management, business management and building and construction management (73.7%, 42.4% and 91.8%), respectively. A Chi-square goodness of fit was conducted on training and the type of business. This question was based on a null hypothesis of uniformity of expected responses to the question. The result ( $\chi^2 = 129.412$ ,  $df = 1$ ,  $p = .000$ ) indicated that the observed findings were significantly different from the expected frequencies. In other

words, this result was statistically significant and was not due to chance. Figure 2 indicates that a large proportion of the sample used financial companies as a source of funds for starting businesses (96%). The largest percentage of the sample used their own money as a source of funds for starting a business (72.7%). Approximately half of the sample did not get finance from banks (49.7%), while about 4% of the sample used rotational savings as the source of funds for starting businesses. A Chi-square test was conducted on the relationship between ownership and source funding for business. The result was statistically significant at the 95% level ( $\chi^2 = 874.262$ ,  $df = 378$ ,  $p = 0.000$ ).

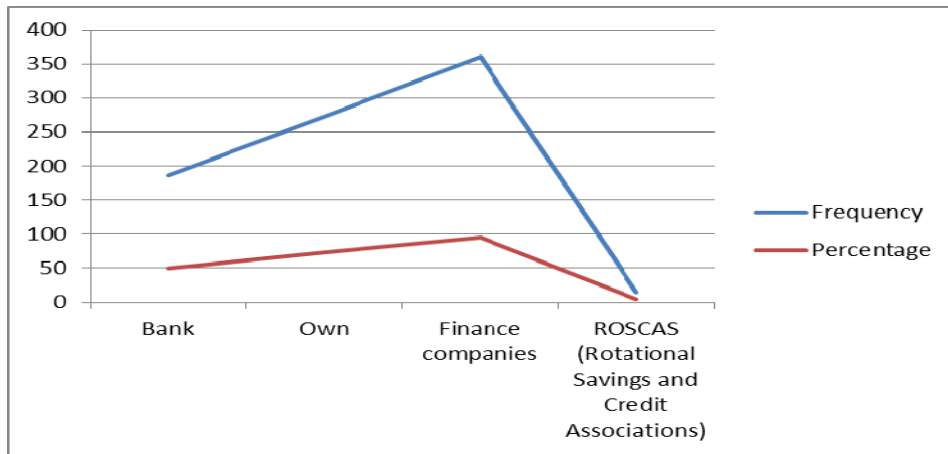


Fig. 2. Source of funds for starting business

Figure 3 shows that the majority of the respondents never thought about marketing and do not know why they should do marketing (94.4% and 93.9%). More than half of the sample indicated a lack of knowledge and experience and limited funds as the main problems for them to use marketing (67.1% and 32.9%) as they

believed that marketing needed special skills and was very expensive. A Chi-square test was conducted on the relationship between ownership question factors affecting respondents' marketing abilities. The result was statistically significant at the 95% level ( $\chi^2 = 68.232, df = 3, p = 0.000$ ).

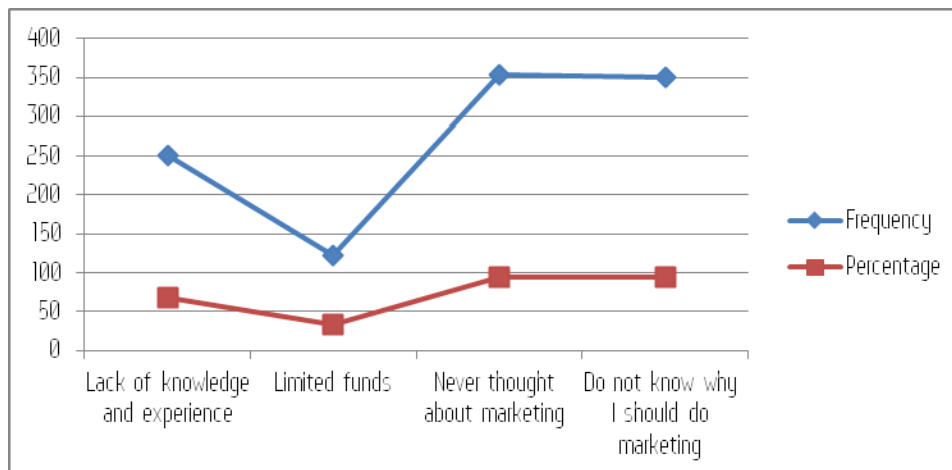


Fig. 3. What affects respondents' marketing abilities?

Table 2. Cross-tabulation – owner and promotional activities applied by SMMEs

Statement	Number of respondents					
	Yes	%	No	%	Total no:	Total %
Strongly agree	40	10.7%	45	12.0%	85	22.7%
Agree	33	8.8%	71	19.0%	104	27.8%
Neutral	47	12.6%	88	23.5%	135	36.1%
Disagree	23	6.1%	20	5.3%	43	11.5%
Strongly disagree	2	.5%	5	1.3%	7	1.9%
Total	145	38.8%	229	61.2%	374	100.0%

Table 2 shows that a cross-tabulation was conducted on the ownership of business and the the promotional activities applied by owners/managers of the business. A null hypothesis was used to determine interdependence between the variables. This analysis indicated that a large number of the business owners/managers agreed that promotional activities are very effective in increasing their business' popularity/awareness. The result indicated that owners (yes) and non-owners (no)

have the same attitudes towards promotional activities. This result was also supported by the Chi-square test. A Chi-square test was conducted on the relationship between promotional activities and business ownership. The result was statistically significant at the 95% level ( $\chi^2 = 121.683, df = 84, p = 0.005$ ). This result revealed that SMMEs' owners/managers agreed that promotional activities were very important for their businesses.

Table 3. Cross-tabulation – owner and importance of marketing to the success of business

Statement	Number of respondents				
	Yes	%	No	Total no:	Total %
Strongly agree	56	15.0%	86	142	38.0%
Agree	48	12.8%	89	137	36.6%
Neutral	30	8.0%	40	70	18.7%
Disagree	9	2.4%	9	18	4.8%
Strongly disagree	2	.5%	5	7	1.9%
Total	145	38.8%	229	374	100.0%

Table 3 shows that a cross-tabulation was conducted on the ownership of business and the perceived importance of marketing to the success of the business. A null hypothesis was used to determine the interdependence between the variables. This result indicated that a large number of the business owners/managers agreed that marketing was very important to the success of the business. This result shows that owners (yes) and non-owners (no) had positive attitudes towards the importance of marketing. A Chi-square test was conducted on the relationship between marketing success and business ownership. The result was statistically significant at the 95% level ( $\chi^2 = 125.259$ ,  $df = 84$ ,  $p = 0.002$ ). This result revealed that SMMEs' owners/managers agreed that marketing was very important for business success.

**3.15. Limitations.** The population sample for this study was 374 respondents. This sample was too small and limited for the five selected rural areas in the province. Other areas within the province might also have SMMEs operators. Most of the big areas such as Nkandla, Ijosini and Vryheid were not covered in this study. Some of the SMMEs in the rural areas, where the research was conducted, were not registered even though they seem to have all the characteristics that qualify them to be regarded as SMMEs. However, this study was limited to SMMEs that were formally registered.

**3.16. Implications.** The implications for this research include issues to three variables, being that of managerial, internal factors theory and internal factors practice.

*3.16.1. Managerial implications of internal factors.* Based on the findings of the study the managerial implication is for SME owners/managers in rural South Africa who are willing to survive and grow. The study provides some useful information in understanding the key internal factors, including source of financial support, education and training, marketing skills and knowledge, marketing abilities and promotional activities applied by SMEs.

*3.16.2. Implications for internal factors theory.* In order to identify better marketing strategies, with

specific reference to SMMEs in rural South Africa, marketers and all stakeholders of South African small businesses need to obtain a clear understanding of the relevant theories that can help to promote growth and sustain stability within the SMMEs sector, including rural areas. New small business concepts and theories should be proposed and implemented by both government and small business owners/managers. The main contribution of this study is, therefore, the implementation of theories into practice.

*3.16.3. Implications for internal factors practice.* On the practical side, the results of this study clearly indicate that due to a lack of financial support among the rural SMMEs it is difficult for them to get qualified personnel and to implement proper marketing strategies. Therefore, because of this lack of marketing strategies, their businesses are unlikely to grow. The practical implications of this study will benefit South African SMMEs with specific references to those operating in rural areas and all stakeholders by emphasizing a new way to consider future SMMEs growth.

**3.17. Recommendations.** Government needs to form a rural development fund in rural areas that will be supervised by all stakeholders, including community leaders. According to the findings of this study, there is a dire need to formulate policies to provide financial assistance to small, medium and micro entrepreneurs in rural KwaZulu-Natal areas as it is difficult to obtain financing from commercial banks. Therefore, a recommendation is to create financial schemes where entrepreneurs can have at least equal, if not concessional, access to finance. The provision of specific infrastructural requirements of rural SMMEs should be a major policy area that the South African government will have to focus on. The SBRDCs will offer courses and workshops specifically suited to small, medium and micro enterprises, owners/managers and new entrepreneur start-ups in the rural areas. The centres will also provide written training material. According to this study, being close to the relevant/local small business community will position SMMEs best in identifying their specific training needs. This will help them since only a few

rural SMMEs' owners/managers in Kwa-Zulu Natal province attended training or workshops in Ethekwini city.

### Conclusion

The conclusion for this study based on the key findings which outline the main key internal factors affecting SMMEs marketing strategies in rural

South Africa with specific reference to KZN. The study concluded by identifying that the lack of marketing knowledge and experience and limited funds seem to be problems for the rural SMMEs in KZN, few respondents had a little training in marketing management and promotional methods were not fully utilized and most SMMEs' owners/managers used their own funds to support their businesses.

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