

Internal and external factors affecting the growth of SMMEs: A qualitative study



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Background: Small, medium and micro-enterprises (SMMEs) are vital to South Africa's economy, creating jobs and providing livelihoods. However, South Africa has the world's highest SMME failure rate, with 70% – 80% failing within 5 years. Addressing growth barriers is crucial.

Aim: This study explored the internal and external factors affecting SMME growth in Overstrand.

Setting: The study setting involves Overstrand Local Municipality, Western Cape, South Africa.

Methods: To capture the experiences of 12 owners, an interpretivist, qualitative approach using semi-structured interviews was employed. Purposive sampling ensured participants met the *National Small Business Act* criteria for SMME classification. The thematic analysis examined perspectives on motivation, skills, infrastructure, finance access and government backing.

Results: Growth was limited by business expertise gaps, poor infrastructure and lack of external funding. Despite national promotion efforts, SMME support was seen as inadequate and misaligned with entrepreneurs' needs. Key internal barriers were financial illiteracy and human capital shortages, partly addressed through training. Externally, poor utilities, premises and transport severely hindered development. The location also limited market access.

Conclusion: Targeted skills programmes and infrastructure improvements can boost small businesses. However, better access to finance and coordinated policies is needed to support SMME growth fully.

Contribution: Understanding growth obstacles can inform policies to assist South African SMME advancement, economic participation and unemployment reduction.

Keywords: business growth; government support; internal factors; external factors; SMMEs; entrepreneurship; South Africa; financial access; infrastructure; skills development.

Introduction

Small, medium and micro enterprises (SMMEs) are pivotal in driving economic growth, job creation and socio-economic development in South Africa. According to the Small Enterprise Development Agency SMME 2023 Q2 report, approximately 2.69 million SMMEs were operating in the South African economy, accounting for over 9.2 million jobs, which equates to employing between 50% and 60% of the country's workforce (DSBD 2024). Notably, jobs provided by the SMME sector rose by 2.4 million year on year, while jobs provided by large enterprises declined by 1.8 million over the same period (DSBD 2024). Furthermore, according to the National Development Plan, SMMEs are expected to create 90% of South Africa's 11 million needed jobs by 2030 (DSBD 2024). These figures underscore the crucial role that SMMEs play in creating employment opportunities, providing livelihoods and fostering inclusive economic growth and equitable income distribution (Chimucheka 2015; Zhou & Gumbo 2021).

However, despite their significant contributions, SMMEs in South Africa face numerous challenges that hinder their growth and sustainability. The growth of SMMEs is essential for addressing the country's triple challenges, namely, poverty, inequality and unemployment (Chimucheka 2015; Zhou & Gumbo 2021). Neneh and Vanzyl (2014) emphasised that the growth of SMMEs is the primary driver of employment creation, which is crucial for economic development. On a national, provincial and municipal levels, the South African government has made significant efforts to support the development of SMMEs. Despite substantial government attention, the SMME sector in South Africa continues to encounter obstacles, resulting in business failure or the stagnation of many start-up businesses (Maduku & Kaseeram 2021).

Researchers in the field of entrepreneurship concur that challenges faced by SMMEs include a lack of training and education, limited access to financial resources, inaccessibility to markets and appropriate technology, lack of support structures and lack of access to other resources like human capital (Islam et al. 2021; Udimal & Biyase 2021).

It has been reported that a significant percentage of SMMEs only survive up to their initial 2 years because of various challenges that hinder their growth potential (Nyathi 2021). Recent research by the University of Western Cape revealed that South Africa has the highest SMME failure rate globally, with 70% – 80% of these enterprises failing within 5 years of their establishment. Those who stay afloat typically do not grow much, as they remain unregistered micro-level enterprises (Nyathi 2021).

Existing literature has extensively examined the internal and external factors affecting SMME growth in various regions of South Africa, particularly in the provinces of Gauteng and KwaZulu-Natal. However, limited research focuses specifically on the factors influencing SMME growth in the Western Cape province. In the third quarter of 2020, the Western Cape was home to over 268 000 SMMEs, making it the province with the third-largest population of SMMEs in the country, following Gauteng and KwaZulu-Natal (SEDA 2022). Given the significant presence of SMMEs in the Western Cape, it is crucial to investigate the factors influencing their growth and development to inform targeted policies and support programmes.

The primary aim of this study was to identify the main factors impacting the growth of SMMEs in Overstrand, a local municipality in the Western Cape province of South Africa. To achieve this aim, the study sets out three specific objectives: to determine the perceptions of SMMEs regarding the internal factors affecting their business growth, to determine the perceptions of SMMEs regarding the external factors affecting their business growth and to assess the perceptions of SMMEs regarding government support in enhancing their business growth.

By addressing these objectives, the study not only contributes to the existing body of knowledge on SMME growth factors but also provides practical insights for the development and implementation of targeted policies and support programmes.

Literature review

Defining small, medium and micro-enterprises

The definition of SMMEs varies across countries and industries. Small, medium and micro-enterprises are generally defined based on the number of employees, total revenue and total assets (Kumar 2014). According to Rogerson (2013), SMMEs are businesses with asset values up to R10 million (land and working capital excluded), employing between 10 and 300 people. However, Marivate (2014) used a broader definition for SMMEs, stating they have asset values ranging from R2500.00 to R20 million, again excluding land

and working capital costs. Globally, most governments define SMMEs as enterprises that employ up to 249 persons (OECD 2023).

In South Africa, SEDA's (2022) definition of SMMEs specifies that they are businesses with growth potential, managed by one or more individuals, with annual turnover not exceeding R150 000.00. The Department of Trade and Industry (DTI 2015) further specifies that SMMEs are enterprises with an asset value of less than R25 million, excluding land and working capital costs. The *National Small Business Act 102 of 1996* provides a legal definition of SMMEs as independent business entities, including cooperatives and non-governmental organisations, managed by one or more owners (*National Small Business Act 1996*). The *Act* classifies SMMEs based on their size, specifying that they have an annual turnover of up to R50 million and employ between 10 and 200 people, depending on the industry (Rogerson 2013). This study adopted the SMME definition established in the *National Small Business Act*.

Contribution of small, medium and micro-enterprises to the South African economy

Small, medium and micro-enterprises drive economic growth, job creation and socio-economic development in South Africa. According to the latest SEDA SMME Quarterly Update of the second quarter of 2023, SMMEs accounted for approximately 2.69 million businesses in South Africa, showing a remarkable 20% increase in formal SMMEs from the previous year and highlighting their dominant presence in the country's economic landscape (DSBD 2024). These businesses provided over 9.2 million jobs, which rose by 2.4 million year on year, while jobs provided by large enterprises declined by 1.8 million over the same period (DSBD 2024). This underscores SMMEs' significant contribution to job creation and unemployment reduction. According to the World Bank, SMMEs represent about 90% of businesses and more than 50% of employment worldwide (World Bank 2019).

Moreover, SMMEs are estimated to contribute 40% to the gross domestic product (GDP) of South Africa (Bhengu 2024). This substantial contribution to the country's economic output underscores the vital role that SMMEs play in driving economic growth and development. Small, medium and micro-enterprises also play a critical role in promoting innovation, entrepreneurship and economic competitiveness (Cant & Wiid 2013).

The growth and sustainability of SMMEs are essential for addressing the persistent challenges of unemployment, inequality and poverty in South Africa (Chimucheka 2015). By creating jobs, providing income opportunities and stimulating local economic development, SMMEs have the potential to uplift communities and contribute to the overall well-being of the population (Ndweni et al. 2019). Given their significant economic and social contributions, the South African government has recognised the development and support of SMMEs as a key priority in its efforts to promote inclusive economic growth and development (BER 2016).

The growth of SMMEs is influenced by a complex interplay of internal and external factors and the effectiveness of government support initiatives. Understanding these factors is crucial for policymakers, support agencies and SMME owners to create an enabling environment that fosters the growth and sustainability of these enterprises.

Internal factors affecting small, medium and micro-enterprise growth

Entrepreneurial motivation is a key internal factor influencing SMME growth. Opportunity-motivated entrepreneurs tend to be more growth oriented and willing to take risks, contributing to business expansion (Ephrem et al. 2021). In contrast, necessity-driven entrepreneurs often prioritise survival over growth (Valliere 2013).

Closely related to entrepreneurial motivation, the level of education and managerial skills of SMME owners also significantly impact growth. Studies have found a positive correlation between owners' education level and their businesses' growth rates (Peters & Brijlal 2011; Ayandibu & Houghton 2017). Moreover, managerial skills in areas such as strategy, planning, marketing and finance are essential for effective decision-making and business growth (Erasmus, Strydom & Rudansky-Klopper 2016; Udimal & Biyase 2021). Fatoki (2014) found that education facilitates the absorption of new technologies and managerial innovations, enabling business expansion and faster growth.

In addition to education and managerial skills, financial management competencies are crucial for SMME competitiveness, efficiency and sustainability (Olawajun & Msomi 2021; Schmidt, Van Zyl & Van Zyl 2017). Poor financial management skills can hinder access to external finance and lead to business failure (Bismark et al. 2018). Furthermore, human resource management (HRM) practices also impact SMME growth. While many SMMEs face challenges in implementing formal HRM systems, studies have shown that practices such as compensation, training and planning positively affect performance (Mululli, Islami & Skenderi 2015; Sheehan 2014).

External factors affecting small, medium and micro-enterprise growth

Moving from internal to external factors, access to finance emerges as a critical issue influencing SMME growth. Many entrepreneurs face significant challenges in accessing financial resources, which can hinder their ability to invest, innovate and expand (Udimal & Biyase 2021). Small, medium and micro-enterprises often rely on personal savings and informal sources of finance because of the difficulties in securing bank loans and other formal financing (Owusu et al. 2021). Compounding the challenge of access to finance, high competition also affects the performance and growth of SMMEs (Ayandibu & Houghton 2017). Small, medium and micro-enterprises often lack the capabilities and resources to compete effectively against large, established firms (Cant & Wiid 2013). Intense competition can lead to declining sales, profits and market share for SMMEs (Zondo & Ncube 2022).

Beyond finance and competition, infrastructure and location play a significant role in SMME growth. Inadequate infrastructure, such as poor roads, unreliable electricity supply and lack of communication technology, can hinder the productivity and operations of SMMEs (Mbonyane & Ladzani 2011; Obokoh & Goldman 2016). The location of a business also influences its accessibility, proximity to customers and suppliers and exposure to crime (Kelly et al. 2022; Fatoki & Garwe 2010). Closely related to location, access to markets is another crucial factor for SMME growth. Limited access to raw materials, restrictive government regulations, high tariffs and intense competition from large firms can constrain SMMEs from entering new markets and expanding their customer base (Nyathi 2021; Rogerson 2013).

The legal and regulatory environment also significantly influences SMME operations and growth. Burdensome regulations, complex compliance requirements and high costs associated with adhering to laws and regulations can divert resources away from productive activities and hinder SMME growth (Ayandibu & Houghton 2017; Khoase et al. 2020; Zulu & Zondi 2023). This highlights the importance of considering the role of government support in promoting SMME growth.

Government support

Government support initiatives are crucial in promoting the growth of SMMEs. In South Africa, various agencies and programmes have been established to provide financial assistance, training and mentoring to SMMEs (Udimal & Biyase 2021). However, despite the comprehensive framework for SMME support, studies have shown that government support does not fully meet the expectations and needs of SMMEs (Kelly et al. 2022). Lack of awareness and accessibility to government support interventions may contribute to the failure of SMMEs (Mbonyane & Ladzani 2011). There are apparent gaps in both awareness of programmes and utilisation of these services.

The GEM SA 2021/2022 report suggests a need to evaluate government-led entrepreneurial support at a national level, measuring the impact of support initiatives among stakeholders (Bowmaker-Falconer & Meyer 2022). Key areas for improvement include access to relevant information, single agency contacts for support and the level of competence of government representatives. Addressing these gaps in government support is essential for creating an enabling environment that fosters the growth and sustainability of SMMEs.

Research methods and design

The research methodology was designed to align with the study's objectives and provide a comprehensive understanding of the phenomenon under investigation.

Study design

An interpretivist paradigm was chosen to guide this research, as it emphasises the subjective nature of social reality and seeks to understand phenomena through the perspectives

and experiences of individuals (Saunders, Lewis & Thornhill 2012). This paradigm is particularly suitable for exploring complex social issues, such as the growth of SMMEs, as it allows for an in-depth examination of the participants' views, meanings and interpretations (Creswell 2013). In contrast to positivism, which seeks objective, measurable truths and causal relationships, interpretivism acknowledges that reality is socially constructed and can vary between individuals (Collis & Hussey 2014). Unlike critical realism, which assumes an objective reality exists independently of our perceptions, interpretivism focuses on how people make sense of their lived experiences (Saunders et al. 2012).

Within this paradigm, an inductive, qualitative approach was employed to gather rich, contextual data from SMME owners. Qualitative research is appropriate for investigating subjective and nuanced topics, as it enables the capture of participants' unique voices and experiences (Bryman 2016). The inductive approach allows for the emergence of themes and patterns from the data, rather than imposing pre-existing theories or hypotheses (Saunders et al. 2012).

Setting

The study was conducted in the Overstrand Local Municipality, situated in the Western Cape province of South Africa. The Overstrand region encompasses several towns, including Hermanus, Gansbaai, Hawston, Kleinmond and Stanford, and boasts a diverse economy driven by tourism, agriculture and fishing (Overstrand Local Municipality 2022). Despite being the smallest municipal area in the Overberg District, Overstrand has the second-largest economy in the district (Western Cape Provincial Treasury 2022). The region's economy is characterised by its strong tourism sector, particularly whale watching and shark cage diving, alongside significant agricultural and fishing industries. Small businesses in retail, hospitality and personal services form the backbone of the urban economies. However, the region faces challenges such as seasonality in tourism and the need for economic diversification, creating a unique operating environment for SMMEs.

Study population and sampling strategy

The target population for this study consisted of SMME owners operating within the Overstrand Local Municipality. To ensure the inclusion of participants who met the criteria for SMME classification, purposive sampling was employed. Purposive sampling is a non-probability sampling technique that involves selecting participants based on specific characteristics or criteria relevant to the research objectives (Babbie 2016).

Participants were approached through multiple channels to obtain a diverse sample:

- *Direct outreach:* The researcher visited various business premises within the Overstrand Local Municipality to approach SMME owners in person and invite them to participate in the study.

- *Referrals:* A snowball sampling technique was utilised, where initial participants were asked to recommend other SMME owners who may be interested in participating.
- *Municipal assistance:* The Local Economic Development (LED) department of the Overstrand Municipality was contacted to provide contact details of potential SMME participants.

The sampling criteria for this study were as follows:

- SMMEs falling under the classification of the *National Small Business Act, Act No. 102 of 1996*.
- SMME owners residing in the Overstrand Local Municipality.
- Individuals of both genders, aged 18 years or older.
- SMMEs with a minimum operational period of 1 year.

A total of 12 SMME owners were selected to participate in the study. This sample size aligns with the recommendations of Saunders et al. (2012), who suggest a sample size of 5–25 is appropriate for conducting semi-structured interviews in qualitative research. The final sample consisted of eight male and four female participants, whose ages ranged from 18 years to 42 years and had an average age of 29 years.

Data collection

Data were collected through semi-structured, face-to-face interviews with the selected SMME owners. Semi-structured interviews were chosen as they provide a balance between structure and flexibility, allowing the researcher to explore predetermined topics while also enabling participants to share their experiences and perspectives freely (Bryman 2016).

An interview guide was developed to facilitate the data collection process. The guide was piloted with three SMME owners to refine the questions and ensure clarity, enhancing the reliability of the data collection instrument. Following this phase, the final guide was organised into five sections, each focusing on specific aspects of the research objectives:

- Section A: Demographics
- Section B: Internal factors affecting business growth
- Section C: External factors affecting business growth
- Section D: Government support
- Section E: Business growth

The interviews were conducted at the participants' business locations to ensure their comfort and convenience. Each interview lasted approximately 45–60 min and was audio recorded with the participants' consent. The researcher also took detailed notes during the interviews to capture non-verbal cues and contextual information.

Data analysis

Thematic analysis, as described by Maguire and Delahunt (2017), was employed to analyse the qualitative data collected through the semi-structured interviews. This method involves identifying, analysing and reporting patterns or

themes within the data, providing a structured approach to understanding the participants' experiences and perspectives.

Thematic analysis has several advantages over other qualitative data analysis techniques. Firstly, it offers a flexible and adaptable methodology for diverse research queries and data types (Maguire & Delahunt 2017). It enables the identification of meaningful and relevant patterns and themes pertinent to the research objectives. Secondly, thematic analysis enables a systematic and rigorous examination of qualitative data, allowing for a thorough investigation of the data set. It provides a transparent and repeatable procedure, increasing the credibility and dependability of the findings. In addition, thematic analysis facilitates the interpretation of individual experiences and viewpoints, documenting the richness and depth of qualitative data.

Trustworthiness

To ensure the trustworthiness of the study, several strategies were employed, according to Saunders et al. (2012):

- *Credibility*: The researcher used established qualitative research methods to enhance the credibility of the findings. Multiple data sources were used for triangulation, including interviews, field notes and existing literature, to provide a comprehensive understanding of the phenomenon. Participants were informed of their right to withdraw from the study at any point, and the findings were compared with the results of similar studies to assess their congruence, further strengthening the credibility of the research.
- *Transferability*: Detailed descriptions of the research context, participants and methodology were provided to enable readers to assess the transferability of the findings to other settings.
- *Dependability*: The research process was thoroughly documented. The researcher verified the data gathered from participants by linking it to theories and language that correlated with the research study.
- *Confirmability*: The researcher maintained an audit trail of the research process, including raw data and research notes, to demonstrate the confirmability of the findings. Direct quotations from the interview transcripts were

used to support the themes and interpretations, ensuring that the findings were grounded in the participants' experiences and perspectives.

Ethical considerations

The researcher compiled an application for ethical approval in accordance with the University of South Africa's Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment. The low-risk application was reviewed by the Graduate School of Business Leadership Research Ethics Review Committee (GSL_RERC), which granted ethics approval for this research with the reference number 2023_SBL_MBA_004_FA_0991. Voluntary participation of participants was ensured through written informed consent, and the anonymity of the participating SMMEs was maintained throughout the study.

Results and findings

Demographic information

The sample of SMME owners who participated in this study consisted of eight male participants (67%) and four female participants (33%), with ages ranging from 18 years to 42 years and an average age of 29 years. All participants had at least a high school education, with one participant possessing a diploma and two having additional certificates (Table 1). The majority of the SMMEs (83%, or 10 out of 12) operated in the formal sector, while the remaining 17% (2 out of 12) were informal businesses.

The SMMEs represented various industries, including clothing and textiles, information technology, retail, cleaning services, internet cafes and beauty services. The age of the businesses ranged from 1 year to 11 years, with an average of 6 years in operation. Half of the SMMEs had no employees, while the other half employed between one and nine individuals. All participating SMMEs reported an annual turnover of less than R500 000.00, categorising them as micro-enterprises according to the *National Small Business Act*.

These demographics align with other research showing that the typical South African SMME owner is male, younger,

TABLE 1: Demographics of the participants who took part in the research study.

Participant	Gender	Age (years)	Education	Sector	Industry/type of business	Business age (years)	Number of employees	Annual turnover
1	Male	32	High School and a security certificate	Formal	Clothing/textiles industry, with sneaker cleaning as a core service offering	3	3	Less than R 500 000.00
2	Male	34	High School	Formal	Internet café	11	9	Less than R 500 000.00
3	Male	23	High School	Formal	Cleaning services – Bin cleaning	5	1	Less than R 500 000.00
4	Male	26	High School	Formal	Fashion industry – Traditional African pattern hat/sneaker painting	3	0	Less than R 500 000.00
5	Female	29	Certificates	Formal	Beauty industry	3	1	Less than R 500 000.00
6	Male	30	High School	Formal	Commercial cleaning services and maintenance	7	1	Less than R 500 000.00
7	Female	33	High School	Formal	Beauty industry	11	0	Less than R 500 000.00
8	Male	36	High School	Informal	Upholstery	9	2	Less than R 500 000.00
9	Female	21	High School	Formal	Apparel printing and business services	1	0	Less than R 500 000.00
10	Female	18	High School	Informal	Wholesale and retail	3	0	Less than R 500 000.00
11	Male	27	High school	Formal	Clothing fabrication and design	8	0	Less than R 500 000.00
12	Male	42	Diploma	Formal	Media and IT	11	7	Less than R 500 000.00

IT, information technology.

with lower education levels, operating in retail and services, less than 6 years old and very small in terms of employees and revenue (Cant & Wiid 2013).

Internal factors affecting small, medium and micro-enterprise growth

The analysis of the interviews revealed several key internal factors that influenced the growth of SMMEs in Overstrand.

Entrepreneurial motivation

To understand the motivation of SMME owners in Overstrand to start their businesses, participants described their reasons for starting a business. Their responses provide insight into the key drivers of small business creation in this context.

Previous research has examined the motivations that drive individuals to start their own businesses. These motivations are often classified as either 'push' factors, where necessity drives one to entrepreneurship, or 'pull' factors, where opportunities pull people towards starting a business (Akinyemi & Oluwabunmi 2017).

The participants expressed diverse motivations for starting their businesses, ranging from necessity-driven factors, such as job loss and financial hardship, to opportunity-driven factors, including passion, self-fulfilment and encouragement from others. Some participants, like Participant 1, started their businesses out of necessity during the coronavirus disease 2019 (COVID-19) pandemic after losing their jobs:

'I started my business during COVID-19, which was the lockdown. At that time, I was working for Business X on a casual basis. So what was happening during that lockdown is that we had to be temporarily laid off' (Participant 1, Male, 32, High School and a security certificate)

This exemplifies a push factor, where adverse circumstances pushed the participant into entrepreneurship out of a need for income. This aligns with evidence that necessity-based entrepreneurship is often a response to unemployment (Fatoki & Odeyemi 2010).

Others, such as Participant 4, was pulled into entrepreneurship by their passion for art and beauty, respectively:

'I was always just tryna be an artist, making paintings on canvas and whatnot. But to get my name out there, I started painting on my t-shirts ... Then one day this random woman, she was a foreigner, saw me wearing my painted up shirt. And she was like "You should turn this into a business!" I didn't even know her but she invested in me and helped me see how I could sell my art.' (Participant 4, Male, 26, High School)

The findings suggest that while necessity-driven entrepreneurs may face more challenges initially, passion and perseverance can help them overcome obstacles and achieve growth. Participant 1, for example, developed a love for his business over time, finding 'peace and freedom' in it despite the initial hardships. Tsenki (2021) found that combinations of necessity and opportunity motives foster resilience. It can be derived

that SMMEs are driven by both necessary and opportunity or passion, which interact in dynamic ways.

Level of education and business management skills

Most participants reported limited formal education beyond high school and minimal exposure to business management training before starting their ventures. This lack of education and skills posed significant challenges in effectively running their businesses, particularly in the early stages. Participant 3 acknowledged that his current level of education was 'not high enough to reach that standard' in terms of growing the business to higher levels. Participant 2 shared, 'I was running this business without really knowing how to properly run a business'. Participant 7 acknowledged, 'I had no training, nothing' related to managing a salon professionally.

Participant 9 echoed this, saying, 'I didn't have any prior business management education or experience before starting'. Participant 11 shared that initially, 'I was running this business without really knowing how to properly run a business'.

However, several participants emphasised the importance of workshops and training programmes in bridging the knowledge gap and equipping them with essential business management skills. Participant 2 credited programmes by Programme X and Programme Y with teaching crucial skills like 'how important it is to keep records and track expenses'. He says this new financial knowledge 'greatly aided the growth of my business'. Participant 5 similarly stated that training through Programme X 'helped improve financial management abilities'. Participant 8 highlighted how early training aided success, stating that the business management, pricing, costing and finance skills he learned through his initial sewing course were very beneficial in starting and running the business.

These experiences align with studies showing SMMEs often lack management training, and their growth is hampered by limited financial, operations and marketing skills (Ayandibu & Houghton 2017). Udimal and Biyase (2021) contended that business owners with managerial training, education and experience can successfully manage SMMEs because they can mitigate the effects of binding constraints on business growth. Baporikar, Nambira and Gomxos (2016) suggested that more entrepreneurial education positively affects productivity, thereby fostering business growth.

Financial management

Financial literacy and management emerged as critical factors influencing the growth of SMMEs in the Overstrand. Participants were asked about their financial management skills and capabilities and how it affects their business growth. Participant 1 highlighted, 'You have to learn everything ... finances, operations, employees, etcetera. So I think the most important thing is knowledge'. This aligns

with research stating that financial literacy is imperative for small business owners to make sound decisions and plans (Olaewaju & Msomi 2021).

Many participants admitted to lacking financial management skills, such as bookkeeping, budgeting and financial planning, before receiving training. Participant 5 acknowledged that financial management was an area where 'we in the township fail because I don't think we actually sit down and track how much came in, how much went out'.

Participants who received financial training reported significant improvements in their financial management practices and business growth. Participant 2 explained how, after attending training sessions, he managed to save and expand his business space. Proper record-keeping was a key financial competency acquired through training programmes, as Participants 3 and 5 highlighted.

Participant 7 also remarked:

'It's a huge difference because I think it has grown financially since then because before you don't track how much you make, save, spend – with no records, you just use the money and don't know where it goes.' (Participant 7, Female, 33, High School)

Participant 8 stated, 'That training helped me understand how it's done – that you buy material, add value through your work, and then price accordingly'. This highlights that equipping SMMEs with financial knowledge can significantly impact their growth and sustainability.

Human resource management

Attracting and retaining skilled employees was identified as a challenge for many SMME owners. Participant 1 noted that finding well-skilled people with the required level of expertise was difficult, stating, 'Maybe the level we require here, they don't have that. They have limitations'. Financial constraints were cited as a primary reason for the inability to hire and pay competitive salaries to skilled staff. Participant 2 admitted: 'I might not be able to pay their salary'.

Several participants expressed a desire to hire more employees to enable business growth but faced hurdles in recruiting because of limited resources and infrastructure. Participant 11, for example, believed that hiring at least one person would make his clothing fabrication and design business 'much more productive'.

Furthermore, Participants 3, 7 and 8 wanted more skilled staff to work faster and attract customers to grow their businesses, but they struggled to find qualified candidates during recruitment. Participant 7 further highlighted that unskilled employees cause harm to her business, saying:

'I once had somebody who was helpful before. The problem is finding people who know what they're doing – it's a huge loss for me ...'

These findings align with research showing skills shortages and difficulty paying high salaries hinder SMME recruitment of qualified talent (Hung, Cant & Wiid 2016).

External factors affecting small, medium and micro-enterprise growth

The interviews also shed light on the external factors that significantly influenced the growth of SMMEs in the Overstrand.

Access to finance

Access to financing was overwhelmingly cited as one of the number one challenges facing SMME growth and development across the interviews, aligning with past studies. Participant 7 summed it up as 'One major challenge is lack of funding to grow. If we had better access to financing, my salon would look more advanced', while Participant 2 shared how the rejection of his loan application 'affected the business very badly'. This resonates with Udimal and Biyase's (2021) study citing access to finance as a key barrier and Olaewaju and Msomi (2021) who found poor financing constrained South African SMME growth.

Most participants started enterprises using personal savings, with minimal external financing. Participant 5 stated, 'With my own money'. Participant 8 explained, 'I started from my own personal funds'. This confirms Mazanai and Fatoki's (2012) finding that South African SMMEs rely heavily on internal funds. Participant 10 also highlighted getting funds from 'siblings and my mother'. Family loans are thus an important funding source.

Furthermore, participants found it challenging to secure loans or grants because of strict requirements and lack of collateral. Participant 9 stated, 'most of the time, when you apply for funding, they want your business to have reached a certain threshold or be in the industry for X amount of years'. This aligns with findings from Udimal and Biyase (2021) that strict requirements constrain access to finance for SMMEs.

Participant 2 shared how the rejection of his loan application 'affected the business very badly', while Participant 5 highlighted the lengthy waiting times and lack of feedback from funding institutions.

Participants who received funding from government agencies or private institutions reported positive impacts on their businesses, such as purchasing equipment, stock and branding materials. However, they also emphasised that the funds were often insufficient to meet all the needs of their growing businesses, particularly in terms of infrastructure and human resources. Participant 4 mentioned, 'You want to rent out this space? The funding institutions don't look into paying rent, getting employees and paying them'.

Limited access to financing has severely constrained participants' abilities to expand their businesses. Without the

necessary capital, infrastructure and human resources, many SMMEs remain stuck as micro-enterprises. Greater access to appropriately structured SMME financing and support around infrastructure and staffing could provide vital lifelines to growing township businesses. As Participant 9 surmised, 'access to funding' is the 'number one obstacle' but also the 'number one for growth'.

Infrastructure and location

Inadequate infrastructure and challenging business locations emerged as significant barriers to SMME growth. Participants highlighted issues such as unreliable electricity supply, lack of suitable business premises and limited access to transportation as factors hindering their operations and expansion. Participant 7 shared, 'There's no infrastructure. I have challenges as I don't get municipal electricity here, so I'm paying much more than at a proper salon'. The participant mentioned that she needs to purchase electricity from her neighbours.

The location of businesses within high-crime areas also posed risks and deterred potential customers. Participant 5 noted that while her business benefited from high foot traffic near a taxi rank, the 'very high' crime rate led to theft of equipment and made some clients uncomfortable. Participant 11 noted how the inability to expand structures limits growth. He stated: 'Since it is in an informal settlement, some people get lost when trying to find me. I can't really do proper marketing. Another issue is that I can't expand the structure'. Participant 5 described: 'There aren't really designated spaces here from the municipality for small businesses. I had to fund all my own infrastructure'.

Participants expressed interest in expanding to more central urban locations but cited high rental costs and lack of municipal support as barriers.

These findings align with research showing how poor infrastructure significantly constrains SMME operations in South Africa. Ayandibu and Houghton (2017) found that 51% of SMMEs surveyed considered infrastructure limitations as having a high or very high adverse impact on their operations. The desire for high visibility, foot traffic locations and concerns about crime and safety also reflect previous studies on how location impacts resource availability and customer access (Mbonyane & Ladzani 2011).

Access to markets

Accessing markets beyond the immediate township location was identified as a challenge for many participating SMMEs. Participants reported difficulties in reaching customers outside their area because of transportation logistics and crime concerns. Participant 1, for example, highlighted the long transit times for courier services, which negatively impacted customer satisfaction and geographical expansion:

'Transportation is really a challenge. Although we've got some other things to market and do other stuff, we still suffer with transportation.' (Participant 3, Male, 23, High School)

However, some participants actively worked to overcome these constraints through marketing strategies such as referrals, social media and innovative product offerings. Participant 9 leveraged digital platforms for international sales, while Participant 5 updated her service offering to meet current trends and attract clients from various towns.

The research indicates that SMMEs face significant obstacles in accessing markets and customers outside of their immediate locality. Transport, safety concerns, land regulations and product relevance were recurring hurdles. The findings reinforce conclusions from studies that geographical isolation and unfavourable local conditions impede market access and expansion (Mbonyane & Ladzani 2011).

Competition

The impact of competition on SMME growth varied among participants. Some, like Participants 1 and 2, reported minimal competition in their niche markets, enabling them to retain customers and expand:

'I don't have any real competition in my chosen niche, which has allowed me to grow my customer base and expand my services.' (Participant 1, Male, 32, High School and a security certificate)

Others, such as Participants 6 and 10, faced more intense competition, with 'copycats' and new product offerings from competitors hindering their growth:

'The competition is tricky, you know. There are always copycats trying to imitate what you're doing. It's hard to succeed when everyone is doing the same thing. Maybe only 1 in 5 businesses really make it in this environment.' (Participant 6, Male, 30, High School)

Participants who successfully navigated competitive pressures emphasised the importance of focusing on unique value propositions and niche markets. Participant 9, for example, targeted the youth market with innovative designs, while Participant 7 used competition as motivation to 'work harder' and improve her services.

The results correspond with other studies indicating competition can negatively affect small businesses. A survey by the BER (2016) found that 34% of SMMEs regarded competition as a primary obstacle. Likewise, a study by Cant and Wiid (2013) found that 75% of surveyed SMMEs encountered moderate to high competition.

However, niche strategies and innovation can enable SMMEs to compete successfully (Islami, Mustafa & Topuzovska Latkovikj 2020). Islami et al. (2020) also found that competition encourages productivity and innovation. The experiences vary based on niche, resources and innovation. However, competition appears to be a significant factor affecting SMME growth.

Laws and regulations

The impact of laws and regulations on SMME growth varied among participants. Some noted challenges related to business registration, marketing and expansion. Participant 8 shared his experience with municipal regulations during the construction of his business premises:

'I hit problems with the municipality for 3 months ... they halted operations during construction. Even though there were other similar structures around, they said I wasn't complying with regulations. It really set me back.' (Participant 8, Male, 36, High School)

Participant 11 highlighted constraints on expansion because of municipal by-laws, while Participant 6 explained how sector-specific regulations like the Construction Industry Development Board (CIDB) grading system limit opportunities for small businesses in the construction industry.

Marketing and advertising regulations were another concern. Participant 12 critiqued restrictions on marketing in townships, stating, 'The municipality does not allow us to grow the township economy through marketing our products in key locations. There is too much red tape'.

These findings align with Nyamwanza et al. (2016) who found government regulations to be a key challenge. Excessive municipal red tape was also highlighted in South African research by Cant and Wiid (2013) who found government regulations were an inhibiting factor for 60% of SMME owners surveyed.

Participant 9 emphasised the administrative burdens and costs of tax compliance for small businesses:

'Recently, SARS wanted me to submit returns, etcetera, and it's overwhelming as a new small business to have to get audited financials just to comply and not get deregistered. I feel the government should be less harsh on small startups.' (Participant 9, Female, 21, High School)

This aligns with Smulders and Stiglingh (2012) indicating relative tax compliance costs are regressive, with a disproportionate burden on smaller firms.

However, some participants recognised the benefits of formalising their businesses through registration, such as accessing support programmes and presenting a more professional image.

Government support

The interviews revealed mixed perceptions regarding the effectiveness of government support for SMME growth in Overstrand. While most participants were aware of some government agencies, such as SEDA and National Youth Development Agency (NYDA), their knowledge of specific support programmes and services was limited.

Participants expressed disappointment with the current level of government support, citing issues such as lack of visibility, slow response times, inadequate funding and a mismatch between the assistance offered and the actual needs of SMMEs. Participant 7 stated that the government was doing 'nothing' to help them, while Participant 12 criticised the lack of understanding among government officials about the realities faced by small businesses:

'The people working in these organisations know nothing about businesses, which makes it difficult for them to understand our issues.' (Participant 12, Male, 42, Diploma)

Suggestions for improving government support included increased practical assistance through infrastructure provision, equipment funding and more accessible grants with post-funding oversight. Participants also emphasised the need for regular dialogue between government agencies and SMME owners to better understand and address their challenges and requirements.

Discussion

The perception of small, medium and micro-enterprises in the internal factors affecting business growth

The study revealed that the owner's skillset and motivation were the most significant internal drivers of business growth, aligning with Sarwoko and Frisdiandara's (2016) findings on the importance of entrepreneurial attributes. However, insufficient business and financial acumen initially posed substantial hurdles, corroborating Wiid and Cant's (2021) assertion that inadequate managerial abilities contribute significantly to SMME failures.

Most SMME owners reported limited formal education and minimal business management training prior to startup, echoing Ayandibu and Houghton's (2017) findings on education gaps among South African SMME owners. Many emphasised learning critical operational, marketing and financial skills only after startup through various workshops and courses. This lack of initial expertise negatively impacted business operations, supporting Mbonyane and Ladzani's (2011) argument that poor decision-making and ineffective management hinder SMME growth. Several participants highlighted how their limited expertise and acumen negatively impacted their ability to effectively run their businesses initially.

Importantly, participants who accessed focused training programmes gained crucial capabilities to professionalise operations, particularly in financial management. This finding extends Udimal and Biyase's (2021) work by demonstrating how targeted interventions can mitigate binding constraints on SMME growth. The tangible benefits of programme participation in bridging early knowledge gaps underscore the potential of adult education and vocational training in fostering SMME development. Participants specifically emphasised how interventions helped build financial management proficiency through record-keeping, budgeting, accounting and reporting upskilling.

The research confirms that lower entrepreneurial education and lack of specialised skills posed major internal obstacles to successfully operating and expanding SMMEs. Targeted support through adult education, vocational training and lifelong entrepreneurial learning is vital to empower small business owners across contexts. The findings demonstrate the tangible benefits programme participation conferred to partially bridge early knowledge gaps. Participants expressed needing further education across business functional areas to keep enhancing management capacities for growth.

The perception of small, medium and micro-enterprises in the external factors affecting business growth

Limited access to finance emerged as the most significant external growth constraint, echoing findings by Rungani (2022). Most participants relied heavily on personal savings, unable to secure formal loans or grants because of strict requirements. This financial exclusion kept many SMMEs extremely small-scale, supporting Olarewaju and Msomi's (2021) assertion that poor financing contributes to the high failure rate of South African SMMEs.

Infrastructure inadequacies severely impacted productivity, expansion capacity and market access, aligning with Ayandibu and Houghton's (2017) findings on infrastructure challenges. The study extends this understanding by highlighting how locational disadvantages in high-crime areas further compound these issues, reducing customer demand despite high foot traffic. This nuanced insight suggests that infrastructure development alone may be insufficient without addressing broader socio-economic challenges in these areas.

Market access obstacles beyond townships posed significant barriers to sales growth, partially mitigated through online channels and niche targeting. This finding supports Blose's (2018) argument that market access is crucial for SMME growth and suggests that digital literacy and e-commerce capabilities may be increasingly important for township-based SMMEs.

The findings confirm infrastructure deficiencies, restricted funding channels and geographic isolation fundamentally limit SMME growth prospects below optimal levels. Resolving these external bottlenecks through upgrading utility networks, providing commercial hubs, expanding online retail capabilities and easing access to finance is critical for unlocking growth.

The perception of small, medium and micro-enterprises in government support in enhancing small, medium and micro-enterprises business growth

The study revealed a prevalent view that current government support for SMMEs is inadequate and has limited tangible impact, consistent with Kelly et al.'s (2022) findings. While awareness of some initiatives existed, particularly NYDA

and SEDA, knowledge remained limited. There were differing opinions on whether the current support provided to small businesses was adequate. The majority opinion is that the support programmes are not well aligned with the real requirements of SMMEs.

This suggests that the assistance being offered may not be practical or relevant to the challenges small businesses face. Small, medium and micro-enterprises recommended more tangible and useful forms of support, such as: (1) *Infrastructure*: Providing necessary facilities and systems to enable small businesses to operate effectively; (2) *Equipment provisions*: Supplying SMMEs with the tools and machinery they need to function and grow and (3) *Accessible funding with oversight*: Making financial support more readily available to small businesses, along with proper monitoring to ensure the funds are used appropriately.

Several issues were identified that undermined the effectiveness of government support for SMMEs, including low visibility of support programmes, perceived insufficiency of assistance, delayed response times to SMME needs, poor communication between the government and SMMEs and government officials' limited understanding of business realities. These findings extend Sibiya et al.'s (2023) work on SMME support challenges by highlighting specific areas where government initiatives fall short in meeting entrepreneur expectations.

The absence of genuine policy-practice collaboration in designing support programmes was implicit yet profound, supporting Scheba and Turok's (2020) argument for more proactive and tailored support for SMMEs. Several business owners cited issues they felt curtailed the potential positive impact of government SMME initiatives. Participant 1 criticised the government for not understanding actual small business needs. Participant 8 felt excluded by regulations aimed at big businesses. Participant 11 called for more small business infrastructure like market stalls to assist entrepreneurs. Participant 12 recommended governments 'support the businesses once they have funded them' through assistance like marketing and accounting to ensure proper fund usage.

Limitations to the study

The study was conducted on a limited sample from a single local municipality in the Western Cape province of South Africa, which restricts the generalisability of the findings beyond the research setting's specific geographic and demographic context. To produce reliable results that can be inferred from the broader population of South African municipalities and SMMEs, future studies should involve larger and more representative samples from multiple municipalities across South Africa. Moreover, the qualitative nature of the study prevents statistical generalisation, rendering the conclusions tentative and suggestive rather than definitive. Conducting quantitative studies that test the prevalence of the themes identified in a broader cross-section of South African SMMEs would significantly contribute to the field.

Also, the study focused solely on small enterprises, while medium enterprises at different growth stages likely face distinct challenges. Therefore, researchers should distinguish between small and medium firms across the business lifecycle to fully elucidate the range of obstacles facing SMMEs and provide finely tuned recommendations. Targeted studies of specific business sectors would also enhance granularity and policy relevance. A comprehensive understanding of optimal support for South African SMME development will require a programmatic progression of scholarship incorporating multiple methods, samples and segmentation strategies.

Synthesis and implications

The findings reveal a complex ecosystem of internal and external factors influencing SMME growth, moderated by the effectiveness of government support. The interplay between these elements creates challenges and opportunities for SMME development in South Africa.

While entrepreneurial motivation provides a strong foundation internally, it must be complemented by ongoing skill development and professional growth. Externally, systemic issues like limited access to finance and inadequate infrastructure create significant barriers that individual motivation alone cannot overcome. Government support, while well intentioned, often fails to bridge this gap effectively because of misalignment with actual SMME needs and implementation challenges.

These findings have several important implications:

- *For Policy Makers:* There is a clear need for more collaborative, adaptive and integrated approaches to SMME support. Policies should be designed with direct input from SMME owners and address internal capacity building and external barrier removal.
- *For Financial Institutions:* Traditional lending models are inadequate for supporting SMME growth. There is an opportunity to develop innovative financing solutions that account for the unique challenges and potential of small businesses, specifically in township economies.
- *For Entrepreneurship Education:* Curriculum design should focus on practical, immediately applicable skills while fostering long-term learning habits. Blended learning models that combine formal instruction with on-the-job application could be particularly effective.
- *For SMMEs:* The importance of continuous learning and adaptation is clear. Small, medium and micro-enterprise owners should actively seek out training opportunities and build networks for knowledge sharing and mutual support.

Recommendations

Based on the findings, the following recommendations are proposed to support the growth and development of SMMEs:

- *Expand entrepreneurial education and training programmes:* The research revealed that many SMME owners had

limited formal business training, which hindered their ability to manage and grow their enterprises effectively. To address this challenge, it is recommended that government agencies, educational institutions, and private sector partners collaborate to develop and expand entrepreneurial education and training programs.

- *Develop affordable infrastructure:* inadequate infrastructure and the lack of suitable business premises emerged as significant barriers to SMME growth. To address this issue, it is recommended that local government, in partnership with development agencies and the private sector, invest in the development of affordable business infrastructure and shared services facilities, such as business incubation centres and industrial parks, to provide SMMEs with access to essential services and create an enabling environment for growth.
- *Enhance access to finance through innovative funding models:* Limited access to finance was identified as a critical obstacle to SMME growth, with many entrepreneurs relying heavily on personal savings and struggling to secure external funding. To improve access to finance, it is recommended that government agencies, financial institutions and development partners collaborate to develop innovative funding models that cater to the unique needs of SMMEs, such as SMME-focused venture capital funds and alternative financing mechanisms.
- *Strengthen market access through targeted interventions:* The study highlighted the challenges faced by SMMEs in accessing markets beyond their immediate localities, which limited their growth potential. To address this issue, it is recommended that government agencies and business support organisations implement targeted interventions to facilitate market access for SMMEs, such as organising trade fairs and exhibitions, providing market intelligence and networking opportunities, and establishing online platforms that connect SMMEs with potential customers and suppliers.
- *Foster a culture of entrepreneurship and innovation:* To create a more supportive environment for SMME growth, it is recommended that government, educational institutions and civil society organisations collaborate to foster a culture of entrepreneurship and innovation by incorporating entrepreneurship education into school curricula, celebrating entrepreneurial success stories and promoting mentorship programmes.
- *Enhance policy coordination and regulatory support:* The research revealed that SMME owners often perceived government support as inadequate and misaligned with their needs. To address this challenge, it is recommended that government agencies at the national, provincial and local levels work towards enhancing policy coordination and regulatory support for SMMEs by streamlining business registration and licensing processes, reducing red tape and establishing one-stop shops that provide comprehensive support services to SMMEs. Conduct regular policy dialogues with SMME owners to ensure that support interventions are responsive to their needs.

By implementing these recommendations, policymakers, support institutions and other stakeholders can create a more enabling environment for SMME growth. Through targeted interventions that address the internal and external constraints faced by SMMEs and by fostering a culture of entrepreneurship and innovation, it is possible to unlock the full potential of these businesses as engines of economic growth, job creation and socio-economic development in South Africa.

Conclusion

This exploratory qualitative study examined internal and external factors impacting SMME growth in Overstrand Local Municipality. Semi-structured interviews were conducted with 12 SMME owners to understand motivations, capabilities, barriers and perceptions of government support based on their lived experiences.

The findings reveal that SMMEs in Overstrand face significant internal constraints, primarily related to the lack of financial literacy and human capital deficits among business owners. Many participants reported limited formal education and minimal exposure to business management training prior to starting their ventures, which hindered their ability to manage and grow their enterprises effectively. However, those who participated in targeted skills development programmes reported improved capabilities, particularly in financial management, highlighting the potential of such interventions to bridge knowledge gaps and foster growth.

External factors, particularly infrastructure inadequacies and limited access to finance, emerged as critical barriers to SMME growth in the region. Participants emphasised the challenges posed by unreliable utilities and lack of suitable business premises that fundamentally impeded their ability to operate optimally and expand their businesses. Additionally, restricted access to funding sources severely constrained the growth potential of these enterprises, as they heavily relied on personal savings to sustain their operations.

Despite the visibility of some government support agencies, such as SEDA and NYDA, participants largely perceived the current support landscape as insufficient and misaligned with the realities faced by entrepreneurs. The mismatch between the assistance offered and the actual needs of SMMEs, coupled with the lack of coordination among support initiatives, limited the effectiveness of government interventions in promoting business growth.

Proposed recommendations, therefore, centre on expanding entrepreneurial training partnerships, constructing shared business infrastructure hubs, easing access to alternative funding models, creating a digital support portal and instituting public-private policy dialogues to optimise government support. Additional suggestions include market

access assistance via subsidised expo participation and a paid internship programme.

Enabling progress for South African SMMEs to reduce high failure rates requires coordinated efforts addressing skill limitations, financial and infrastructure obstacles and fragmented, ineffective government support. An inclusive approach informed by regular engagement with entrepreneurs themselves is imperative for interventions to respond to on-the-ground obstacles meaningfully.

By incorporating entrepreneurs' insights and experiences, support initiatives can be better tailored to address the region's specific challenges and needs of SMMEs. Moreover, streamlining access to finance beyond traditional debt instruments and providing post-funding oversight and mentorship can help bridge the funding gap and ensure the effective utilisation of resources. Small businesses can better drive employment and empowerment for disadvantaged groups with targeted, collaborative policies and programmes nurturing sustainable growth.

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Competing interests

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Authors' contributions

N.B. conceptualised the study, wrote the initial draft and reworked where necessary. O.O. ensured that the research idea is well conceptualised, edited and reviewed the article before submission.

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Data availability

The data that support the findings of this study are not openly available because of confidentiality and are available from the author, N.B., upon reasonable request.

Disclaimer

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