



## **The Challenges Facing Small Businesses: A Global Perspective**

**Sanjay Soni**

This article addresses the challenges faced by small businesses in various parts of the world, and considers the lessons to be learned for the development of small business in South Africa. The word challenge, in the context of this article, will be taken to mean constraints or main issues. My research has indicated that in defining a small business, the terms Micro and Small Enterprises (MSEs), Small and Micro, or Small and Medium Enterprises (SMEs), or, Small, Medium, and Micro Enterprises (SMMEs) that is used in the South African context are all internationally accepted terms.

In South Africa, for example, Rogerson explains that micro enterprises which operate mainly in the informal sector include survivalist business activities that are carried out mainly by unemployed people who are unable to find regular employment. Another set of micro enterprises involves the owner, family members, and a maximum of between one to four employees who generally operate informally but could well change into formal small businesses. Another set comprises small and medium enterprises constituting the basis of the small business economy. Small enterprises have between 5 and 100 employees whilst the medium enterprises have between 100 to 200 employees. They are usually owner-managed, operate from fixed premises, and operate in a formal manner.

### **Contributions Made by Small Businesses**

In an advanced economy such as the U.S., small businesses make up a large component of the business population. Moreover, small businesses constitute a sizeable portion of emerging

economies. For example, in countries such as Malaysia, Brazil, Philippines, and India, small businesses can comprise as much as 60% of all companies. Small businesses are also known to play a vital role in job creation and economic development. Singh contends that large developed industrial nations have the economic backbone from small businesses, and in the U.S. for example, 90% of jobs are created by small businesses. Even in Africa, businesses create more employment and generate more output than large businesses. Tito Mboweni, the Governor of the South African Reserve Bank, in a keynote address acknowledged that small and medium enterprises are a key to African development.

### **Some General Challenges Faced by Small Businesses**

It is evident that small businesses play an integral role in both developed and developing economies. However, small businesses face numerous challenges. Small business operators often point to a range of issues when asked to identify the most important issues or challenges facing their businesses at a given point in time. In a survey which focused on the challenges and growth strategies of small businesses conducted by accounting group Grant Thornton in 2002, three main findings were reported from 6000 independent small and medium businesses across 19 countries.

Firstly, the major obstacles to business expansion faced by small, medium, enterprises (SMEs) all over the world were the competitive environment, regulations/red tape, and the availability of a skilled workforce. Secondly, in Singapore the major impediments faced by SMEs were the cost of finance and regulations/red tape. Thirdly, regarding international expansion, the main hurdles reported were bureaucracy, red tape and regulations, lack of knowledge about markets, and political and social instability.

In another global survey carried out by consulting group Arthur Anderson in 2001, the majority of small businesses surveyed reported that finding and retaining qualified workers as the most significant challenge to growth and survival. Other major concerns for the small businesses surveyed in the study, in order of importance, were governmental regulations, economic uncertainty, keeping up with technology, and access to adequate capital.

In a recent interview with John Emmins, the Honorary Chairman of The Federation of Small Businesses (FSB) in the UK the main challenges facing small businesses today were cited as:

Firstly, the 'death of distance', whereby with advances in technology such as the worldwide web, small businesses can operate on a global scale but need to be professional and efficient. Secondly, greater competition from larger firms and the public sector. Thirdly, having to contend with laws as they apply to employees and customers. It also appeared that regulatory and legal issues are important challenges facing small businesses using the analogy that the legal issues for small businesses can be like climbing a mountain with sandals and shorts! Small business practitioners may often not understand the law and as a result may end up paying penalties and fines because of this.

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### **Small Business Challenges in China**

In a preliminary analysis carried out into challenges facing SMEs in China by Zhang and Tang the following were found to be challenges:

Firstly, the biggest challenge that faced SMEs in China was the difficulty in obtaining financing. Secondly, it is interesting to note that the most important challenges facing Chinese small businesses relate to financing, competition, and cost, and not marketing tactics. Thirdly, typical

market issues were amongst the least cited challenges. These included poor product/and or service, lack of customer orders, lack of reliable market information, lack of strategic direction, and poor quality materials. Finally, other least-quoted challenges included a lack of general qualified staff, an incomplete legal system, poor infrastructure, overwhelming daily operational issues, the lack of a social welfare system to protect SMEs, and inadequate crisis management skills.

### **Small Business Challenges in Kenya**

In a study conducted in Kenya amongst small businesses (employing between 1-5- workers) Mureithi noted the following challenges: Firstly, there were variations in incomes between urban and rural-based small businesses. Secondly, women-led small businesses had a lower income than those lead by men. Thirdly, capital constraints were hampering market expansion. Lastly, there was limited access to market information with only a small number of small businesses surveyed having access to communication technologies such as telephones and fax machines.

### **Small Business Challenges in Canada**

In a Canadian study conducted into small businesses, documented by the Small Business Research Policy, the biggest challenge alluded to by the small businesses surveyed related to growth issues such as attracting new customers, accessing capital and financing, recruiting new employees, and managing growth. In addition, factors such as competition, taxation, government regulations and the cost of compliance, increased costs of running a business, customer service and the state of the economy were also listed as challenges to small business survival.

### **Small Business Challenges in India**

According to Jain, the adoption of technology by small businesses lags behind big businesses by 2-3 years. In addition, there is the challenge of competition from Chinese businesses that are selling products at much lower prices. Carter argues about improving the investment climate in

India, and identifies a number of areas that pose challenges to doing business in India. Indeed, these issues would also have an effect on small businesses. Some of the main issues identified by Indian researchers include complex labour legislation, access to finance, constraints regarding access to infrastructure (for example power breakdowns and the consequent loss of output have been found to be much higher than that of Malaysia and China), bureaucratic procedures, (for example, starting a new business in India has a median time of 89 days as compared to 2 days in Australia, 5 days in the UK, and 41 days in China) and HIV/AIDS which is conservatively estimated to be about 5.5 million.

### **Small Business Challenges in Africa**

In Africa, small businesses are faced with many challenging problems. In a paper presented by Brinders *et al.* in 2003 to the international trade conference on NEPAD priorities, a number of pertinent issues concerning small business management development were addressed. Through inference, many of these issues could be deemed to be challenges facing small businesses in Africa and indeed South Africa. The following issues were raised:

Firstly, the key challenge facing African countries is meeting global competition. Competitiveness in developing countries is hindered because of a lack of human resource and development skills and access to adequate finance. Under such circumstances, in order for small firms to maintain narrow profit margins, they are not able to introduce innovative improvements to products and processes which negatively impacts on their ability to take advantage of new market opportunities.

Secondly, the three most important reasons for small business failure were cited as the lack of business knowledge and skills, poor culture of enterprise, and the lack of available working capital. Thirdly, education and training were highlighted as important potential contributors to entrepreneurial development as they can help to bring about a differential advantage in a competitive environment. In addition, technology

development and transfer were also emphasized. Lastly, critical constraints which could be deemed to be challenges to small businesses development in Africa were identified as industrial policies and incentives favouring large businesses, difficulties in raising finance, lack of knowledge on government regulations, insufficient physical and institutional support infrastructure, and a lack of technical and managerial business skills.

### **Ways of Addressing the Challenges facing Small Business**

It is evident from the aforesaid discussion that a number of serious challenges face small businesses. Some approaches to dealing with the more frequently mentioned challenges generally faced by small businesses are as follows:

#### **Addressing the Challenge of Accessing Finance**

According to Brinders *et al.* one way to improve funding to small enterprises is to create special government-subsidised financial institutions catering specifically for the small business sector. The government subsidy can be justified where the “social benefits of a strong business sector exceeds the private returns”. Minister Mpahlwa has pointed out the following developments being made in South Africa in improving access to finance for small businesses: Firstly, establishing a Micro-credit Apex Fund. Secondly, new products to address short-term financial needs. Thirdly, the tabling of a new enterprise development bill in parliament to provide a framework for development, adjudication, and payment of incentives to all economic sectors.

#### **Addressing the Challenge of the Regulatory Environment**

Small businesses face many complex challenges having to conform to regulations emanating from government (national, regional, and local in the case of South Africa). It is reassuring to note according to Minister Mpahlwa in a recent speech that efforts are being made in reducing the regulatory burden on small businesses. These include streamlining the regulatory processes

simplifying the regulatory process through the provision of simple guides to entrepreneurs and assessing the impact of regulation on employment and investment.

### **Addressing the Challenge of Dealing with Increasing Global Competition**

Small businesses can become marginalized through increased global competition. However, increased globalisation can also bring about opportunities for those small businesses that are well prepared. It is argued by many in government that, the New Partnership for African Development creates opportunities for small businesses to work together with governments and networks of entrepreneurs to mitigate the negative effects of global competition, for example, Technonet Africa which involves entrepreneurs from seven countries.

### **Addressing some of the Other Challenges Facing Small Businesses**

According to the NEPAD priorities document, there are a number of ways of addressing some of the other challenges facing small businesses, as identified by Brinders *et al.* These include infrastructure challenges: setting up of facilities equipped to supply power, water, electricity and other important infrastructure distributed widely across the country so as to attract small businesses to all areas of the country; technology challenges: setting-up technology transfer centres demonstrating to small businesses the relevance, value, and usefulness of different technologies; human resources challenges (training and skills development): increasing the supply of trained labour by creating training and entrepreneurial development institutes. In addition, bringing about better working conditions for employees of small businesses enforced by law.

Other Challenges can be addressed as follows: through business linkages and strong networks (McGrath), liberalizing import of raw materials and machinery, marketing assistance through the formation of a Small Business Market Agency (Brinders *et al.*) provision of information and advice to small businesses through business

chambers, sector associations, municipal centres, private consultants and business service suppliers.

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### **Conclusion**

It is evident that small businesses have to contend with many challenges which may differ from country to country. Indeed, these challenges could impact negatively on their success and hence survival and thereby threaten the health of their respective economies. It is imperative therefore, that together with the help of government, developmental organizations, and other important organisations that effective strategies are developed to identify, address, manage, and reduce the negative impact of the various challenges that small businesses face so that they would have a better chance of exhibiting growth, profitability, and success.

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#### **About The Author**

Sanjay Soni lectures in marketing at The University of KwaZulu – Natal. He has a special interest in entrepreneurship and small business management, and has been a quondam advisor to The Dorrian Consulting Group on matters of small business.

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Paul Dorrian

**The Dorrian Consulting Group**  
P O Box 100620  
Scottsville 3209  
KwaZulu – Natal  
South Africa.

Tel: +27 (0) 33 386 2916  
Fax: +27 (0) 33 386 2851  
E – Mail : [paul@dorriangroup.com](mailto:paul@dorriangroup.com)  
Website: [www.dorriangroup.com](http://www.dorriangroup.com)

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