

# How do SME owners management information in the Tshwane area, South Africa

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## **ABSTRACT**

The high failure rates of SMEs, due to lack of managerial skills, motivated the lecturers of the Department Marketing & Retail, CEMS, Unisa to initiate training workshops at municipalities in their region. The Small and Medium Enterprises (SME) skills development community engagement project SME skills transfer workshops are being presented on a monthly basis with Prof Louise van Scheers as one of the project leaders. The aim of this project is to improve managerial skills of small business owners of the formal and informal sectors in the Tshwane municipality area. In South Africa there has been an increase in the number of small businesses starting up which increase competition amongst businesses. Advertising has been seen as a means to aid these small businesses to differentiate them from the competition. Quantitative was used in the form of survey with managers and owners of small businesses participating in the workshops. The most successful advertising medium used by small businesses in the area according to the conducted research is wall painting. With an increase of tourist to the area, the Internet should be considered a more popular form of advertising. The conducted research established that information management of SME owners are below the normal business standards. The research also indicated that information management, managerial skills and access to finance are the biggest hindrances to growing and managing their businesses better. Unfortunately, the basic structural information that smaller entities like SMEs struggle with together with lack of resources hinder their information management. The conducted research recommends that tailor made business management workshops on information management should be designed, and appoint appropriate and accountable organisations with specific outcome targets

## **KEY WORDS**

Information management, informal sector *SME* owners, constraints, Tshwane area, informal sector

## **1 INTRODUCTION**

Secondary research [Chandra & Rajatnam (2001); Chen (2005); Davies & Thurlow, (2009); Bosma, Acs, Autio, Coduras & Levie (2008); Van Scheers (2006); Van Scheers (2010); Bennet (2009) and Centre for Development and Enterprise (CDE) Focus (2007)] confirm that the South African informal sector plays a pivotal role on the economy that is still developing, and that is

finding it difficult to match a proportional employment rate to that of economic growth. The South African Trade and Industry Monitor (2007) states that African countries are significantly behind in achieving the Millennium Development Goals of halving world poverty by 2015. The modest growth of the economy over the past ten years has not been able to make significant inroads in unemployment numbers, with the yearly new entrants of the labour market exacerbating the challenge (Devey, Skinner & Valodia, 2006). The various measures taken by the government towards dealing with macro-economic problems facing the country leave a very limited labour absorption capacity in the formal sector. Labour laws are perceived to be too rigid, thereby negatively affecting private investment and capital expansion programmes (Mc Garth, 2005). The setting up of minimum wages, the industrial action rights, the difficulty in firing employees, are all regulated with good intentions to protect the vulnerable from exploitation, but tend to contribute to the low productivity culture in South Africa.

As part of our departmental (Marketing & Retail) community engagement program SME skills transfer project workshops are being presented on a monthly basis with Prof Louise van Scheers as project leader. The aim of this project is to improve managerial skills of small business owners of the formal and informal sectors in the Tshwane municipality area. As we believe community engagement should benefit the community as well as our department we use these workshops as an opportunity to develop SME skills to improve the community; liaise with industry; create a culture of teamwork at the department as well as use the research to publish research articles in accredited journals.

Bennet (2009) and Van Scheers (2009) observe that *SMEs* operate within a complex and dynamic business environment of the informal sector in Tshwane. According to the Bureau of Market Research at UNISA (2008) and Van Scheers (2009), the small business failure rate is particularly high in Tshwane, and that includes street vendors and home-based businesses. The study aims to determine whether small businesses owners, *SMEs* in particular, are actively seeking information that pertains to their businesses at their level; how much of the information relevant to their businesses reaches them; and if the information that reaches them is understood and usable.

## **2. PROBLEM STATEMENT**

*SMEs* in the townships generally have a short lifespan and rarely grow. This is in spite of government initiatives to support and develop small business. The aim of this research is to establish the information management of *SME* owners and their main constraints in growing and sustaining their businesses in the Tshwane area. The study also wants to establish whether *SME* owners are empowered and able to seek and use information to prevent business failure in the Tshwane area. The flow and interpretation of the relevant business information among and within *SMEs* and the subsequent actions, viewed as determining factors of success and failure, will be the key analysis points. The study therefore seeks to answer the following questions:

- Are *SME* owners empowered to look for information; and
- Are *SME* owners able to manage information to prevent business failure?

### **3. OBJECTIVES AND HYPOTHESES**

The aim of this research is to establish how SME owners manage information in the Tshwane area. Also the research aims to establish whether *SME* owners are empowered and able to look for information and use information to prevent business failure. The research wants to explore whether *SME* owners in the township make efforts to look for relevant market information, and also to ascertain whether the information resources and structures meant to develop small and micro business are accessible and useful to them.

The objectives of the research are to:

- Establish how *SME* owners manage information in the Tshwane area;
- Explore whether *SME* owners in the township make efforts to look for relevant market information; and
- Ascertain whether the information resources and structures meant to develop small and micro business are accessible and useful to them

### **4. RESEARCH METHODOLOGY**

The research followed a quantitative analysis of the research question, to establish whether *SME* owners are empowered and enabled to seek and use information to prevent business failure in the Tshwane area. To address the topic problem adequately, the research methodology was based on the primary data collected from *spaza* shop owners. The Bureau of Market Research (2004) estimates that there are about 40 000 *SMEs* in Gauteng alone. This number results from the high concentration of these forms of business in the province, an economic hub beleaguered by unemployment, but is also a consequence of various economic and social factors mentioned above. According to Goldstuck (*SME Survey Research*, 2008), Gauteng contributes 38.4% to South Africa's GDP, and the difference is split between the eight other provinces.

The sample consisted of 400 *SME* owners operating from homes and other fixed locations. To achieve a low level of error, the simple random sample was followed, taking an equal probability of inclusion approach. The method is appropriate in that entrepreneurship in South Africa is among the lowest in the world, coupled with a high failure rate among small and micro enterprises. Considering that most of the informal sector settings are temporary, these two factors have been long-term trends and the findings will therefore have reasonable prospects of validity. Questionnaires were used to collect the data between 5 October and 10 November 2012.

### **5. LITERATURE REVIEW**

*SMEs* are traders rather than producers, in that they purchase formal sector goods which they sell on to customers at a margin (Davies & Thurlow, 2009). As observed by Van Scheers (2011) they are mainly a form of a convenience shop, selling essentials and basic products like bread, milk, paraffin and sugar, largely to the immediate neighbourhood. The Labour Force Survey (2009) shows that, as at September 2007, of the 2 409 informal sector participants, 1109 were involved in wholesale and retail trade, making up 46% of total informal sector workers.

### **SMEs in Tshwane area**

SMEs form an integral part of society mainly among the low income areas and communities (Van Scheers; 2008). Previous studies by Van Scheer (2005; 2006; 2009 and 2011) indicates that the overall informal sector in Tshwane is largely un-quantified, but the study undertaken on the socio economic activity by the City of Tshwane in this township estimated that this sector employed about 14 000, which was most likely an undercount. In a largely impoverished population of around 1.2 million (Tshwane Investment Framework and City of Joburg, 2007), located remotely from industrial sites, it could have been expected that the sector would actually parallel the main economy within the area.

The general standard of living has also been on the rise within the township (BMR, 2004), with most of the residents preferring to stay in the area even when they can afford wealthier neighbourhoods. The Centre for Development and Enterprise (CDE) Focus (2007) explains that *SMEs* potentially have large customer bases and a financially progressive immediate environment to serve. The prospects are huge, but to the contrary, but these businesses are mostly characterised by inefficiency, lethargy and indifference, and are considered by many to be simply a means of survival. In spite of this heightened activity and a considerable multidirectional information flows, the high mortality rates and stagnation of *spaza* shop businesses still prevails (BMR, 2007), warranting an investigation for appropriate intervention. Among many of the challenges that form of businesses have, Litghelm (2002) and Van Scheers(2009) also list the following as being the most significant:

- shortage of trading stock/finance;
- high crime rate/robbery;
- severe competition;
- expensive transport; and
- bad debt/too much credit.

It is clear from the above that *SMEs* exist within turbulent structural imperfections of the economy, most of which will be changing within a short period of time. It will require a long term co-ordinated effort from various structures and role players integrating the informal sector activities into the mainstream economy, with the purpose of attaining the macro-economic objectives. In his Small Business Sustainability study 2007-2008, Professor Ligthelm, of the Bureau of Market Research at UNISA found out that over a year after he identified them, only 54.4% of home-based businesses (*SMEs*, *spaza retailers* and tuck shops), and 28% of street vendors were still operational.

### **SME growing and sustaining constraints**

Chandra & Rajaratnam (2001); Banerji & Jain (2007); Centre for International Private Enterprise (2007); Van Scheers (2001); Chiware (2008); Heath (2005) list the following on their surveys conducted, concerning *SME* growing and sustaining constraints:

- access to financial services; credit and savings;
- access to information to grow and sustain their shops
- access to training: business skills, technical training, adult basic education and training;

- industry or sector specific constraints;
- access to infrastructure and basic services: housing, water, electricity, waste removal;
- access to business related infrastructure: manufacturing space, close to others involved in similar activities, trading and storage space; and
- regulations: how public space is regulated, licensing and by-laws.

It is clear from the above that *SMEs* exist within turbulent structural imperfections of the economy, most of which will be changing within a short period of time. It will require a long term co-ordinated effort from various structures and role players integrating the informal sector activities into the mainstream economy, with the purpose of attaining the macro-economic objectives.

### **Information Management of the SME owners**

Information, as we know it today, includes both electronic and physical information. The organizational structure must be capable of managing this information throughout the information lifecycle regardless of source or format (data, paper documents, electronic documents, audio, video, etc.) for delivery through multiple channels that may include cell phones and web interfaces (Banerji & Jain, 2007).

Orna (2004) states that the transformation of information into knowledge, and knowledge into information, forms the basis for all human learning and communication, and it allows ideas to spread across space and time, linking past and present in a network that embraces generations and cultures over millennia; by virtue of that quality it is also fundamental to the working of organisations of all kinds. While Malhotra (2000) highlights that the increasing complexity and turbulence of the external environment imposes upon organisations the greater demand for information processing and making quick decisions, it is the basic structural information that smaller entities like *SMEs* struggle with, before the dynamism demanded by the competitive business environment is addressed.

## **6. RESEARCH FINDINGS**

### **6.1 Demographic Data of the SMEs in the Tshwane area**

The demographic data on *SMEs* in the Tshwane area covered the gender, age range and level of education. This part also enquired about the number of years respondents had been in business, why they were in this business, number of people employed in the business and on average, how much the business was making monthly. The names and addresses of the businesses were also requested as optional on the questionnaire, and those who provided the details were assured it would be treated as private and confidential. Figure 1 illustrates these findings.

**Gender and Age Distribution**

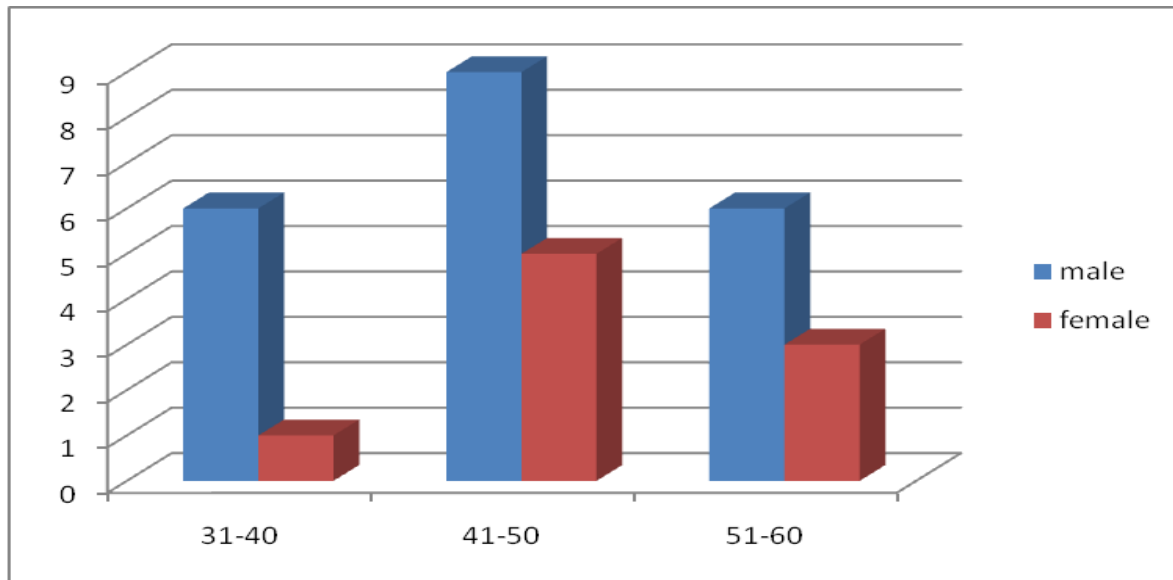


Figure 1 Gender and Age Distribution

Of the SME owners participating in the research, 70% were male and 30% female. As per figure 1, the researcher found none of the participants to be under 30 years or over 60 years of age; 23% in the 31-40 age range; 46% in 41-50, and 31% within 51-60 years. There were 20% males in the 31-40 age group: 60% in 41-50 and 20% in the 51-60 age range, whereas 16% of the female respondents were in the 31-40 range; 74% in the 41-50 group, and 10% in the 51-60 range.

Whilst the high rate of unemployment has been blamed on unsuitable skills in the structural changing economy, it is middle aged and the older individuals who have mainly been impacted by jobs losses, and who find being re-skilled for services a major challenge. Figure 2 illustrates these findings.

**Level of Education**

Higher level of education is normally associated with a better understanding of engagements and practices. The response is shown in figure 2.

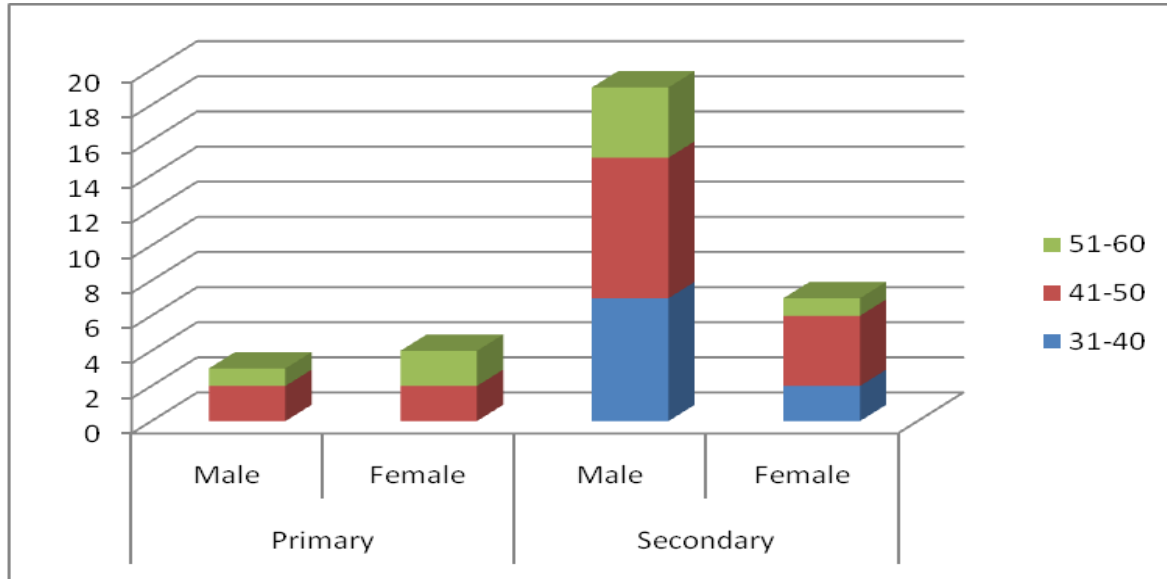


Figure 2 Level of Education According to Age and Gender Distribution

Of the respondents, none had education beyond secondary school, 17 % had only up to primary level, with 83% of them having secondary level education. 7% of the respondents with primary level education were males, 56% were in the 41-50 age bracket, 44% were in the 51 - 60; and the 10% of females in this category were 34% in the 41-50 bracket, and 66% in the 51-60 as indicated in figure 2.

This factor highlights the skills plight of the economy, with none of the participants having tertiary education. Most of these elderly respondents were young at the height of the apartheid days where schooling in townships was not a priority, and meaningful economic participation in these areas was unheard of. The economic transition from manual primary sector activities was going to be arduous to deal with, with these set of skills.

### Years and reason for being in this business

Figure 3 below reflects a graphical presentation of the age distribution for the different reasons of the origins of the businesses, reflecting this business either as a measure of surviving joblessness, or an alternative inspired by formal sector experience.



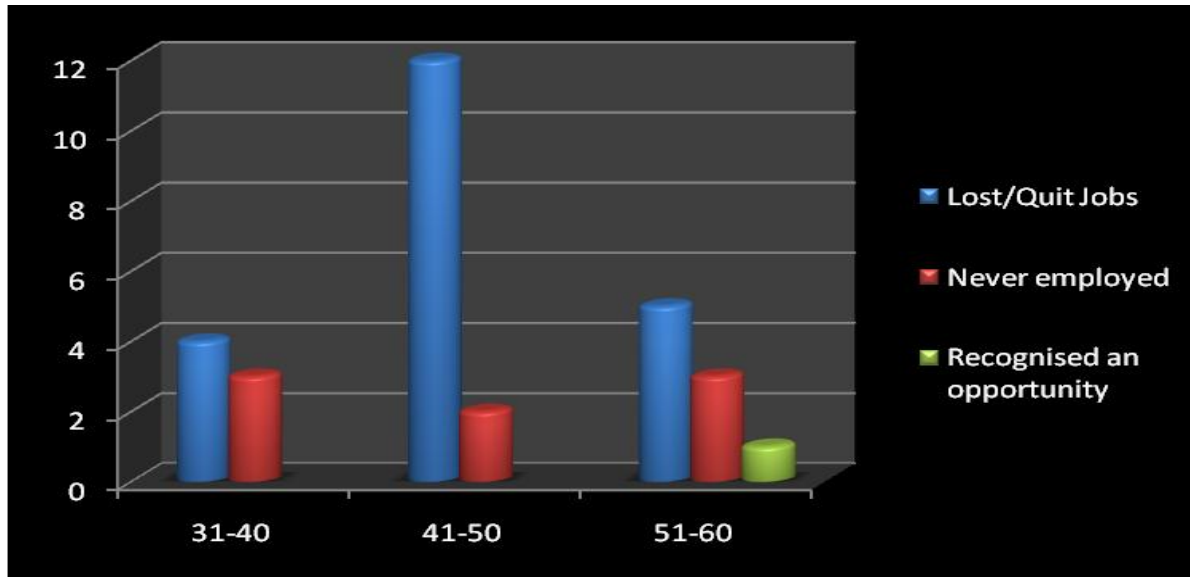


Figure 3 Reasons for Starting SMEs

Figure 3 shows how long participants had been in business, 37% had been operating SMEs for less than 3 years, with the rest of them (63%) having been in business for longer than three years.

On reasons given for being in the business, 58% had either lost or quit their jobs, with 42% of these respondents being in the 41-50 age range; 16% in 51-60, while 42% were in the 31-40 age bracket. 27% of the participants, 13% were male, have never been employed; while 4% in the 51-60 age group, having being in business for over three years, stated that they recognised an opportunity. 65% of those that quit or lost their jobs were males, and none of the participants operated a *spaza* shop to earn extra income, meaning none of the respondents had a full time job or any other source of main income.

8% of the participants who were never employed had secondary education with the 92% having primary education; and of these, 18% were aged within the 31-40 bracket, 63% in the 41-50 group, and 19% in the 51-60 bracket. The 41-50 age range seemed to be the median age with a high concentration of *spaza* shop ownership. Notable as well was that 63% of the SME owners once had a job, and had to come up with something to survive.

## 6.2 Business Information Needs

### Spaza shop growing and sustaining constraints

The respondents were requested to choose from a list of nine probable constraints to growing their businesses which included finance, market knowledge, training, access to information, government regulations, product/service quality, supplies/inputs, crime and contentment. They were further requested to rate of each of these elements as impediments, from being major constraints, through to not being a constraint at all. Figure 4 below reflects the findings in this category.



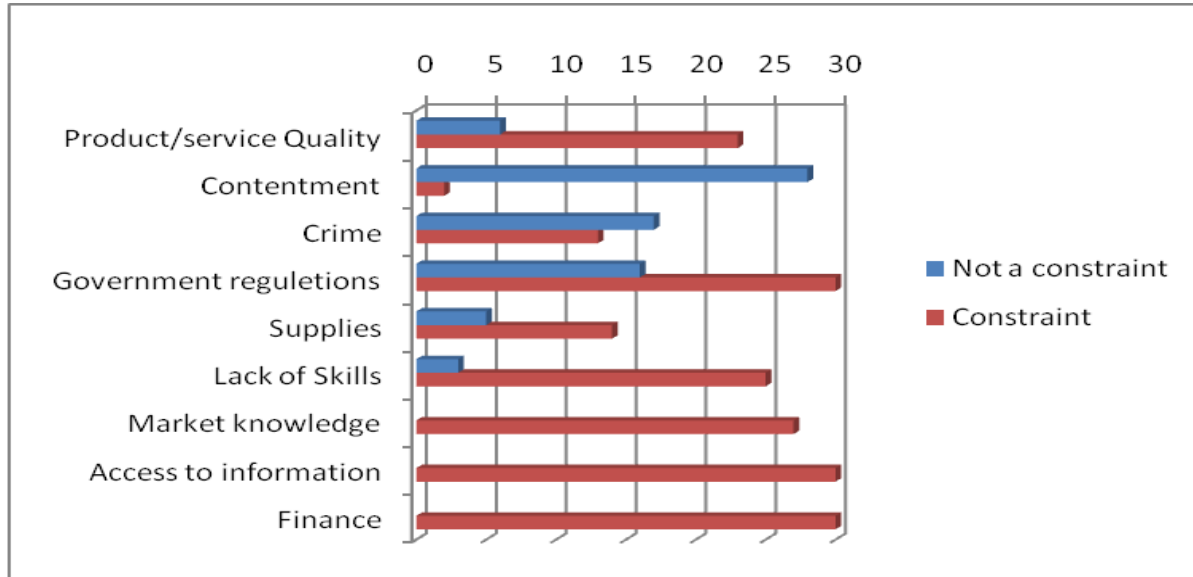


Figure 4 Constraints to Business Growth

All the respondents rated finance as being a restriction upon growing their business. 80% identified market knowledge as being a major constraint; 10% believed it is a medium constraint; 6% characterised it as a low constraint, whilst the last 3% believed market knowledge was not an impediment at all. The respondent listing market knowledge as not being an impediment was never employed, and had been in the business for over three years, earning between R1000 and R5000 a month.

Regarding the training/lack of skills, 66% of the respondents believed it was a major constraint; 17% identified it as a medium constraint; 13% as a low constraint, and 3% as not a constraint at all. The 3% identifying lack of skills as not being an constraint was within the 31-40 age bracket, had a secondary education, had been in business for less than three years, and had an income of between R1000 and R5000 a month.

All the respondents agreed that access to support information was a major constraint, and all also agreed that government regulations in the form of licences, permits and compliance standards were a major impediment. 77% of these respondents believed the quality of the products/services they sold was another major constraint to growing their businesses, whilst 10% believe it is a low constraint and the other 13% of respondents did not see quality as constraint at all.

Notably illustrated in Figure 4 above, the supplies/inputs to the *SMEs*, the split was almost even among those finding it challenging, and those believing this aspect of their business was under control. 47% respondents believed this was a major constraint, whilst 40% said it is a low constraint and the last 13% believed it was not a constraint at all (with the last 2 classifications combined in the graph). This stems largely from the fact that these respondents bought their trading stock from specific wholesalers, which does not necessarily imply any bargain on the quantities traded.

While the general perception was that crime was high in townships, the respondents were even when it comes to the this factor: 43% of the respondents believed crime was a major constraint

in their business, while 23% believed it is a low constraint, and 33% were of the opinion that it was not a constraint at all. Those who believed crime was not a major impediment felt that good relations within the closer neighbourhood offered an implicit shield, and they did not need huge investments in security. The last element under this category was contentment.

Only 3% pointed out that with everything else, contentment with what they had was keeping them from growing their business further. 3% pointed out that it was a medium constraint, while 10% viewed it as a low constraint, and 83% believed it was not a constraint at all in an attempt to grow their business further.

The participants in this study revealed that skills, access to finance, crime and access to information are the biggest hindrances to growing and managing their businesses better. Among factors critical in ensuring business success, Power (2009) identifies having adequate capital, obtaining the necessary business knowledge, having sufficient resources, and being able to manage.

These findings are a direct challenge to Tshwane Economic Development which has the following as strategic objectives for the informal sector development in the township:

- encouraging home businesses that support the mainstream economy;
- identifying and developing trading areas around Tshwane that enhance self-employment for the unemployed;
- providing basic life and business skills for informal business operators;
- addressing access to finance for informal businesses; and
- where appropriate, encourage migration of informal economy players into the formal economy.

Though somewhat hopeful that these proclamations will become a reality for spaza shop owners, most have not come any close to being introduced to them, let alone experiencing them.

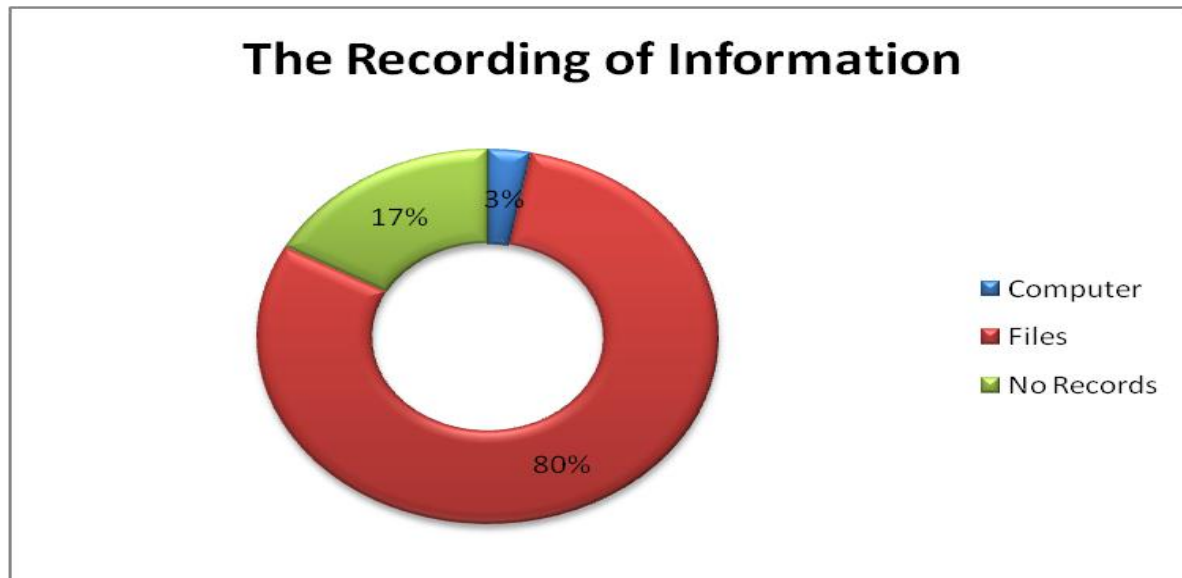
### **Information management of SME owners**

This section was aimed at assessing the information management of these businesses, to determine if their services are communicated to the market; to detect if and how information is recorded; whether trends are noticed and the expectation concerning business prospects in the future. This data was required to reveal the extents of keeping up the basic principles of sound business practices, and determine flaws that could hinder the flow of information required to develop *SMEs*.

Data collected in this section overwhelmingly points out that most spaza shop owners (86%) are aware that information management should form an important part of their daily tasks. 83% of the respondents were of the opinion that information management is considered indispensable by *SME* operators in Tshwane. Unfortunately, 90% of the participants revealed that they did not know how to manage information in their businesses.

### Information recording

The respondents were asked to disclose if business information was recorded and/or stored, and whether it was manually filed or through a computer. The data sought was aimed at identifying management methods and capabilities, on which the businesses operated, and could help to build efficiencies for the future.



As illustrated in Figure 5 above, 3% in the 31 – 40 age bracket with secondary education, indicated that he recorded his information in a computer. This respondent had been in business over three years after he lost/quit his job. 17% disclosed that they did not record their business information or transactions at all; while the other 80% said they use files to store information.

As a closing question, the respondents were requested to offer comments on an ideal information delivery on small business development in the township.. The following were matters of concern from the *SME* owners:

- Mall and chains stores in the township pose a great threat to these businesses.
- Helplessness caused by the perception that local government is distant and not supportive.
- Perceived unfair pricing by suppliers exists.
- Information is required to connect these businesses with other industries with government support.
- There is a lack of financial support to upgrade business.
- There is also the issue of crime, with no resources for measures to protect businesses, coupled with inadequate safety and security from the authorities.

While the spaza shopkeepers acknowledge the challenges of the business environment, many have resigned themselves to the perception that the battle is theirs to fight alone, and they were not on the list of priorities of the authorities.

## **Conclusion**

The data collected in this research reflects that information management of spaza owners are below the normal business standards. While most of these SME owners use files to store data which is manual, error prone, and inefficient; it is largely the most affordable and the easiest technology they can apply, in the context of the size and complexity of these entities.

*SME* owners are also challenged by financial resources and the skills level of owners to apply technologies and techniques which would enable these outlets to develop and impact their neighbourhood. While the skills of owners as a shortcoming could be overcome by hiring more skilled individuals to complement them, the respondents have highlighted the difficulty of a healthy and sustainable cash flow, and sourcing finance to expand their businesses. These shops are also not making enough money for the business to invest in any form of valuable asset. While most of the owners (53%) believe things got worse in the last two years, most have not done much to counter the negative trend. Around 80% stated that business either remained the same or got worse in the last two years, yet 87% barely market their products and services in the neighbourhoods. The factor confirms the point highlighted by these participants that information and training to better run their businesses is greatly needed. Despite the challenges, there was some level of optimism within the respondents with 37% hoping things would get better in the next six months.

## **Recommendations**

The conducted research on managing information of *SMEs* advice the following recommendations in improving business prospects of these entities:

- Associations and representative bodies should be formed, which would focus on the information management needs and the plight of these businesses to deal with issues and work out the long-term goals of the sector.
- Strategic links with local government should be negotiated and designed for preferential supporting role for these businesses to the formal sector, e.g. feeding schemes at local schools, at sanctioned events in the township and on ongoing formal projects within and beyond the township.
- Approaches should be made to sources of funds, with pooled resources to enhance the chances of success and mitigate risk to creditors.
- The focus should be on the marketing of services in community media, mirroring the Proudly South African initiative, and also endorsing and start encouraging the support of local businesses within the township.
- In supporting these businesses, tailor made business management workshops on information management should be designed, and appoint appropriate and accountable organisations with specific outcome targets.
- Partnerships with industry and local government need to be established, for continuous monitoring, support, skills transfer, leadership and guidance.

## **Concluding remarks**

The aim of this research is to establish how *SME* owners manage information in the Tshwane area. The conducted research established that information management of *SME* owners are below the normal business standards. The research also indicated that information management, apply technologies and techniques, managerial skills, and access to finance are the biggest hindrances to growing and managing their businesses better. The increase complex and turbulence of the external environment imposes upon *SME* owners' greater demand for information management. Unfortunately, the basic structural information that smaller entities like *SMEs* struggle with together with lack of resources hinder their information management. This study has also prompted the need for further research on the development of *SMEs*, and the informal sector as a whole in Tshwane. The further research initiatives should be applied to test various approaches toward enhancing survivalist enterprises in the townships to grow to be standing business that can impact communities and uplift living standards of stakeholders. This also needs to be extended to support agencies and local government regarding the issue of bureaucracy, strategies, objectives, implementation, and accountability.

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