

## **Top challenges for small businesses in SA**

Despite government's efforts to create an enabling environment for the promotion and development of Small to Medium Enterprises (SMEs) in South Africa, SMEs continue to face several challenges, from dealing with a lack of access to finance and a tricky regulatory environment, to overcoming cash-flow and labour issues.

According to the World Bank, "formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies." Globally, small businesses are viewed as critical to driving job creation and economic growth.

A 2016 report by the Bureau for Economic Research (BER) noted that there is a significant distinction between small businesses operating in the formal and informal sectors in South Africa. Those in the formal sector tend to be white-owned, situated in Gauteng and the Western Cape and capable of generating a higher income. The report states, however, that most small businesses are "black owned and operate in the informal sector, especially in the more rural provinces."

Innovative Staffing Solutions Managing Director, Arnoux Maré, says the current economic environment is characterised by low growth, a high unemployment rate and regulatory uncertainty. "South Africa is ranked 74<sup>th</sup> out of 190 countries on the World Bank's ease of doing business scale. This means our regulatory environment is less conducive to starting and operating a local enterprise than it should be.

"On a positive note, government recognises the role small business can play in growing the economy and creating jobs. The introduction of SME legislation in January this year, which requires that 30% of government contracts be set aside for small and black-, women- or youth-owned enterprises, is one of its initiatives to promote small business growth," he adds.

Maré's experience with starting his own business and providing outsourced staffing support to several SMEs has provided him with insight into some of the top challenges small operations face.

He highlights the five top challenges he has encountered on his business journey:

### **1. Access to finance and credit is limited**

Limited access to finance is possibly one of the greatest challenges faced by small businesses today. Banks in South Africa tend to be conservative when lending money to small businesses, especially those in the start-up phase. Amongst their reasons for not providing finance is lack of collateral, no credit history and poor business plans. While many financing bodies – private and governmental – provide finance for small enterprises with supposedly less restrictions, many entrepreneurs report difficulties in trying to access the finance.

Notably, finance that is accompanied with business support for entrepreneurs and small businesses seems to deliver higher success rates. "Providing some form of mentorship to small businesses alongside finance is critical to ensuring successful business owners in the country. This should be a priority in South Africa where the

economy is increasingly dependent on a flourishing entrepreneurial sector,” continues Maré.

## **2. Cash flow issues hinder progress**

Another significant challenge experienced by small business owners is the ability to maintain optimal cash flow. When clients do not pay them on time, small businesses can find themselves in a position where they are unable to pay staff or suppliers.

Maré says cash flow needs to be well managed to ensure they have money in the bank. “Businesses need to plan for possible pitfalls, such as delays in payments. They also need to be cognisant of their expenses. Too often, small business owners lose touch with the financial or daily operational issues. This can be a death-knell for a small business as no-one has more of a vested interest in the operation’s success than its owner.”

## **3. Lack of leadership commitment**

Maré says business owners need to be highly committed to their operations. “They need passion and a persistent will to succeed. “My personal experience is that if one process or product doesn’t work, try another. If you’re knocked down, get up and start again. Don’t see the challenges as game-stoppers, rather see them as game-changers and the opportunity to think out of the box and innovate.”

Research by the University of the Western Cape (UWC) supports Maré’s view: “The owner is typically the source of action in his firm. He is the one making important decisions on products and ways of production, as well as offered services. The business owner deals with important customers, suppliers and employees.”

The research found that highly driven and proactive business owners, who take personal initiative, are more likely to succeed than business owners who hand over responsibility to others or are reactive in their approach to challenges.

## **4. Ill-equipped to address labour challenges**

In addition to negotiating South Africa’s often volatile labour environment, hiring new employees can be an arduous, ‘hit-and-miss’ challenge for a new business owner. The human resource process comprises many ‘hidden’ costs such as employment agency fees, employee taxes and benefits, compliance with regulatory requirements, investment in equipment and provision of training.

In addition, small business owners often find once they have employed workers, South Africa’s labour regulations makes it difficult to lay the workers off if the business cannot support them any longer or they are unproductive.

Maré says businesses should consider outsourcing their staffing needs to a company such as Innovative Staffing Solutions, who currently outsources over 7,500 employees to its clients, to allow those business owners to focus on their core operational activities. “We contractually employ our clients’ staff on a permanent basis. This means we take over their drivers, hospitality workers or farm employees by employing

them as permanent Innovative Staffing Solutions employees, but they continue to work for the said client. In exchange, employees receive benefits they may not have previously received, while the client's HR needs are handled, such as, finding suitable staff and dealing with disciplinary issues.

“If our clients no longer require the services of the outsourced staff members, our employees will not find themselves unemployed. They will simply be placed at another client or upskilled for a different opportunity, making for a sustainable workforce.

“Getting help with these challenges not only impacts positively on the bottom line, it helps business owners to focus on the more entrepreneurial aspects of their businesses without the headache of finding the right people or upskilling existing employees,” he concludes.