

# The Impact of the Regulatory Environment on Small Business Growth in Polokwane Township

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**Abstract:** It has been widely acknowledged that Small, Medium and Micro enterprises (SMMEs) possess certain attributes akin to entrepreneurship that make them indispensable tools for economic growth and development. These small businesses, however, face a variety of challenges especially at their start-up and growth phases. Several factors account for these challenges faced by small businesses. Among these factors is the regulatory environment which comprises a variety of factors. Coming in the form of high taxes, bureaucracy, labor laws and corruption (which stems from the other factors), the regulatory environment has a significant effect on the growth of the small business sector. Although the importance of regulation cannot be denied, it is critical to examine how the regulatory environment may act as a hindrance to the growth of this sector and their ability to stay in business. This study was carried out in Polokwane, Capricorn District Municipality, Limpopo Province, South Africa. The study used the quantitative research method and the descriptive research design. The stratified and convenience sampling techniques were utilized. Thus, a sample size of 121 participants was selected. Questionnaires were utilized as the data collection tool and the collected data were analyzed using SPSS version 25. Descriptive statistics, cluster analysis and Kruskal Wallis were also used to analyze the collected data. Results indicate that to a certain extent, the regulatory environment influences the small business sector negatively. On the other hand, the efforts and skills of the business owner influence their success and ability to remain in business and by extension the growth of the sector. As the lack of skills and managerial capacity is also a major impeding factor, training institutions should come up with better ways of training business owners to ensure not only a growing SMMEs sector, but a profitable, sustainable one.

**Keywords:** Entrepreneurship, SMMEs, Regulatory Environment, Small Business Growth and Development

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## 1. Introduction

The South African government places high emphasis on the creation of jobs to enable wealth creation and ensure the betterment of the economic situation of the nation [17, 53, 88]. This is possible with entrepreneurship through the growth of the small business sector [42, 22, 43, 45]. Conversely, their actions fail to match their words as revealed by the Small Business Project's SME Growth Index 2015 [40]. An investigation carried out among small businesses revealed that 75% of the firms complained of an increase in the burden of red tape during the year 2015 and additionally, 40% of them cited government policies as one

of the prominent factors for their impaired growth [40]. Eniola & Entebang [24] also found a relationship between government policy and small business performance and competitiveness. Sage South Africa Proprietary Ltd (SAGE) remarked on the contradiction of the government looking to the development of the small business sector and entrepreneurship as the pathway to economic growth but being the greatest inhibitor of growth of entrepreneurship and small businesses through their policies brought to life in the form of laws, rules, regulations [40].

The Department of Trade and Industry (DTI) classifies small businesses into different categories according to the size and class allocation, with some appearing to be larger

than others although they all belong to the same small business sector [46, 52]. These medium firms seem to bear the regulatory burden much better than their micro, very small and small colleagues [3, 8, 16, 63, 79, 78]. This is contradicted by Dixon, Gates and Kapur [20] who stated that, by virtue of being “larger” (medium businesses), the “larger” businesses bear a higher regulatory burden than the much smaller ones (micro, very small, small businesses). Again, in their findings, Crain and Crain [16] support this assertion stating that “larger” businesses to a certain degree and as per certain regulations bear a high regulatory burden.

Several reasons account for the challenges faced by the small business sector in South Africa. According to Herrington [34], Makinane [48], Scholtz [74], Simrie *et al.* [75] and Timmis [85] prominent among these challenges is the regulatory environment which ranks highest as a challenge than even finance or infrastructure [61]. Consequently, small businesses invariably bear the cost of regulation [22, 79, 80]. This results in deficient growth and curtailed promotion of this sector. However, there is evidence that contradicts the notion that the regulatory environment is hostile to small business growth [38, 65]. The aforementioned authors recommend further research to be carried out in this regard as they believe that the South African regulatory environment is conducive to small business growth and development. Further, Simrie *et al.* [75], Makinane [48] and Musara & Gwaindepi [56, 57] fail to point out the fact that not all firms within the small business sector suffer under the burden of regulation as by virtue of certain aspects such as size, annual income, years of existence and number of employees, some firms bear the regulatory burden much better than their counterparts [52, 87, 86]. It is on this note that the research was conducted and an investigation of firms within this sector with regards to the regulatory burden borne was done.

The results of this study will prompt policy makers to examine and revise these regulations as the growth of the small business sector is essential to the nation. It is therefore on this basis that this study aims at first, to examine the factors within the South African business regulatory environment and secondly, to ascertain how the factors within the South African regulatory environment influence the growth of the small business sector. It also aims at investigating the magnitude or degree of the regulatory burden borne by the different categories of businesses within the small business sector. As a result, the hypotheses are as follows:

*H<sub>1</sub>*: Regulatory complexity has a significant impact on small business growth.

- a) Taxation;
- b) Bureaucracy;
- c) Labour restrictions;
- d) Corruption;
- e) Policy compliance.

*H<sub>2</sub>*: Firms within the small business sector bear a significantly different regulatory burden from each other although in the same sector.

- a) Size;
- b) Years of existence;
- c) Employee base;
- d) Annual income.

## 2. Literature Review

### 2.1. Small Business Definition

Small businesses have various definitions in different parts of the world. In South Africa, although many definitions have been given to small businesses, they are mostly identified by the category in which they fall. The study differentiates these small businesses according to which category bears the burden more. This was done by grouping them according to indicators such as their size, employee base, annual turnover (in terms of total assets and capital investments) and years of existence. In most contexts, the term SMME is used interchangeably with the term “small business”.

### 2.2. An Overview of the South African Regulatory Environment

The OECD also defines regulations as a diverse set of instruments by which governments establish requirements for enterprises and citizens. These regulations include laws, formal and informal orders, subordinate rules issued by all levels of government, and rules issued by non-governmental or self-regulatory bodies to whom governments have delegated regulatory powers [62]. Therefore, the regulatory environment is a combination of all these aspects through which the government seeks to ensure scrupulous and transparent practices for the betterment of businesses in the economy.

However, unintentionally, some laws, rules, regulations and policies laid down by the government places a disproportionate burden on small businesses and entrepreneurs [37, 78, 80]. The general regulatory environment of a country amongst other factors play a key role in the start-up, growth and overall success of the small business sector [56]. By the same token, burdensome or complex rules, regulations, laws, policies may act as a hindrance curtailing the growth of this sector and their ability to stay in business [54]. Ardagna & Lusardi [4]; Eniola & Entebang [24] and Klapper *et al.* [39] confirm that a burdensome regulatory environment reduces the rate of business growth and entrepreneurial activity.

#### 2.2.1. Bureaucracy

Bureaucracy is also among the factors within the regulatory environment hindering the growth of small businesses and entrepreneurship. Sourvas [82] comments on the current legal environment in South Africa lacking the ability to support small business owners and entrepreneurs and helping them grow. For businesses in the small business sector, bureaucracy manifests in experiences such as waiting in long queues (only to find you were in the wrong one) as well as filling out and repeatedly submitting a confusing and lengthy application

forms (only to have it returned 6 weeks later with a request to submit additional information. Timmis [85] also agrees with this argument in his study on government regulation by stating that many business owners and entrepreneurs struggle through complex legislation and compliance requirements. Small businesses suffer the most from bureaucracy because they have less resources and time to deal with it [14]. These frustrating bureaucratic processes and penalties only serve to discourage new business growth as well as individuals who will want to venture into such endeavours for the betterment of their economy [46].

### **2.2.2. Labour Regulations**

Labour regulations are laws and legislation pertaining to the right to fair labour market practices which employers and by implication, business owners are obliged to comply with. These regulations also relate to terms and conditions of employment, wages and remuneration, maximum working hours and leave-taking as well as prohibitions to forced labour and restrictions to child labour (Department of Labour, 2004). The small business sector in South Africa is a significant employer. Thus, employers in this sector are therefore expected to be acquainted with and accustomed to various acts such as the Basic Conditions of Employment Act (BCEA), Labour Relations Act, Employment Equity Act, and Skills Development Act [31]. In a survey carried out by the World Economic Forum (WEF), it was discovered that South Africa's labour laws have been found to be a significant regulatory obstacle to business growth and South Africa took the 7th place out of 139 countries in restrictive labour laws [63].

These acts are implemented to protect employers and employees, but they seem to make workers' rights a matter of priority, thus those of the employers suffer – and employers are small business owners. Harris [31] remarks that although these regulations are for good, they are having an ever-increasing impact on employers' former autonomy to pursue their shareholders' self-interest. Commenting on the current labour regulations, Maye [51] asserts that they are overly restrictive especially in impeding small business growth. These firms are hardly able to put up with the expenses or withstand the financial burden that it imposes on them.

### **2.2.3. Corruption**

Rampersad [68] defines corruption as the abuse of public resources or public power for personal gain. This includes gifts, kickbacks or bribes to ensure that the giver receives an unfair advantage. These are dishonest or fraudulent practices indulged in by those in positions of power such as government officials or police officers or generally any one with the power to confer favours, give support and protection, or to appoint to office or position. Again, corruption is a situation whereby an individual, party or institution offers another individual or party or institution something of value aimed at persuading them to act in favour of the said party, individual or institution (The Prevention and Combating of Corrupt Activities Act, PRECCA, 2004). Corruption is illegal by law as it involves

one individual inducing another to do wrong or engage in unlawful acts [10]. SMMEs are probably the most pressurized to get involved in corruption when it comes to getting established or staying on in business. They often feel they have to give 'gifts' or do 'favours' for people who have the ability to influence or speed up the process of business licensing or paperwork as it concerns staying on in business. The licensing officers even mention that they are entitled to such small payments to facilitate routine administrative processes possibly accompanied with the threat of withholding a service [89]. These bribes are called facilitation payments and fall under the corruption category. One of the ways in which this happens is through kickbacks which are most of the time a portion of the profits obtained from the business [21].

### **2.2.4. Regulatory Complexity**

Complexity of regulation refers to the inaccessibility and incomprehensibility of regulation [62]. It also refers to the difficulty businesses face in complying with or understanding regulations, leading to regulatory burdens and consequently regulatory cost [77]. While regulations are implemented to serve specific purposes (e.g. provide job security, health and safety, environmental protection, intellectual property rights etc.), they can also unintentionally raise costs and barriers to investment and employment.

Since its inception in 2011, SBP's SME Growth Index has repeatedly identified the regulatory burden as a critical challenge facing small businesses. A notable regulatory burden was also reported by the Small Business Project's SME Growth Index which was found to hinder the ability of small businesses to grow [40]. In most cases, complying with regulations means that the small business owner spends more time tracking changes in the regulatory environment, which are frequent, or dealing with contradictory, overlapping regulatory requirements, or poor communication or access to communication. Apart from the central government, local governments also add to the burden through their licensing practices by requiring multiple inspections to obtain a license.

However, it is important to note that although regulations maybe burdensome, the government is not entirely clueless to this situation and has indeed taken steps to reduce the sting of the process and costs accompanying regulations [3].

## **2.3. Effect of the Regulatory Environment on the Growth of the Small Business Sector**

According to Lumpkin and Dess, (1996) the growth of SMMEs are affected by its business climate. Clement et al. (2004) noted that an unfavorable business climate has negative affect on small firm growth. Davidsson (1989) noted that an unfavorable tax system, complicated rules and regulations can heavily hamper small firms' growth. Krasniqi [41] showed that corruption is a major source of the rise in unfair competition. He further emphasized that the cost of complying with regulations and increased tax rates increases small firms' expenses while limiting their growth. Likewise,

St-Jean *et al.* (2008) noted that unfair competition from the informal sector, cumbersome regulations, and tax rates are the main obstacles on small business growth.

Further, government regulation seems to become a challenge once a company grows. 36% of small businesses reported government regulation as a challenge [69]. A 2014 Gallup Poll revealed the control regulations had on business owners as they were consistently required to adjust their behaviors to ensure regulatory compliance. This includes laws related to securing customer data and worrying about the impact of a minimum-wage increase on their operations. As businesses grow, governmental compliance appears to occupy a greater share of their leaders' time [69]. This will reduce the rate at which these businesses grow. As entrepreneurs, they are to be focusing on ways in which they can improve or introduce innovation. With regulations and compliance taking a better portion of their time, they will hardly be able to work at their full capacity to deliver the benefits that accompany their establishment and growth [69].

Easing the regulatory burden and reducing red tape are one of the key issues to be addressed if unlocking the economic and job creation potential of SMMEs is going to be a reality [93]. The slow business registration process, late payment of small businesses, licensing procedures and small business taxation are more issues to be looked into as a healthy SMME sector has the potential to create more employment opportunities and generating higher production volumes. Zulu [93] remarks that small business development is one of the key ways South Africa can defeat the triple challenges of poverty, unemployment and inequality.

#### **2.4. Comparison of the Regulatory Burden on Firms within the Small Business Sector**

In seeking to determine which firms bear the burden easier or better than others, the size, years of existence, income level and employee base will be used as yardsticks. But in some cases, they are interrelated.

##### **2.4.1. Income Level**

There are some firms in the small business sector that are more financially viable than others. This is evident when the banks confirm that they have reasonable collateral than their smaller colleagues. With this income, they are able to spread their costs of technology, financing, marketing, legal and compliance expenses over a large revenue base which most times gives them a lower unit cost, thus they are able to cope much better than smaller firms [17].

##### **2.4.2. Years of Existence**

The same goes for those who have been in existence for a while. Here, they may have known how to navigate the system and thus they may have grown bigger (from micro to small) or known much more than those who just recently got into the market and thus are able to cope much better with the regulatory burden than the new entrants. In contrast, there are yet others who have been in existence for a long time but still

face difficulties as a result of capital for example the sole proprietors (CCIQ, 2017). However, for those who have been operating for some time, the frequency of having to navigate and undertake the red tape required of them stops them from spending time growing their businesses. This means less innovation, less opportunities for job creation and a loss for consumers who are looking for new products or services that have kept pace with changing consumer demands.

##### **2.4.3. Employee Base**

Having a large employee base could be beneficial or detrimental to a small business. The benefits come with the large income obtained from their service. The detriments come with the payment of remuneration and filling tax forms for them as well as using those resources earned for the payment of employee levies and training, compounded with the erratic rules in the labour law especially concerning hiring and firing practices [50]. Smaller businesses are exempted from paying these taxes because of the nature or forms of business. This brings the issue of the larger ones bearing the burden better because of the income they receive, and on the other hand not being able to absorb the burden because of detriments involved with the registration processes and giving the funds away for remuneration, in comparison with the smaller firms who do not have such responsibilities to fulfil [50].

##### **2.4.4. Size**

The size of a business helps it to bear the burden more. This could be because of the income it now earns or the accumulated profits. Again, it could be the fact that it has been around for quite a while and has years of practice over its newer or smaller counterparts. This highlights how "larger" (medium) businesses are able to absorb the cost and time imposed of the various factors of the regulatory environment to a greater extent than small businesses and thus, are not to be "swept with one broom" [6].

### **3. Research Methodology**

The study adopted the descriptive and exploratory designs. The survey method was particularly useful in this study for a number of reasons. Firstly, this method ensures quality in validity and reliability. Secondly, a relatively large sample across an expanded geographic coverage was accessed [7]. The research objectives including hypotheses necessitated the collection and analysis of quantitative data. Questionnaires were adopted as a method of collecting data, however, there were open-ended questions which led to further discussions between the researcher and the respondents. The target population can further be defined "in terms of elements, sampling units, extent, and time" [49]. The population of the study involved small business owners within the specifications of their categories. These small business owners were individuals, partnerships, close corporations and private companies in charge of micro, very small, small and medium businesses.

Time and financial resources were some of the limitations

of the study, it was difficult for the researcher to gather information from everyone in the population. The aim was therefore to find a representative sample (or subset) of that population. Thus, the study adopted the convenience sampling technique.

To determine the sample size, three criteria were followed: (a) minimum sample size to conduct meaningful data analysis, (b) sample sizes used in past research, and (c) cost associated with collecting the information from respondents. Again, to ensure that the population was representative, the Raosoft sample size calculator was used to derive a sample of 121 participants.

In order to make useful interpretations of results, reliability tests, and chi-square tests were conducted. A number of these tests stipulate minimum sample sizes. The study adopted a quantitative approach, going for 121 questionnaires with open ended questions which probed into the issue at hand and enabled the small business owners to ask for clarity which resulted in them discussing their issues as pertain to the regulatory environment.

Thus, to analyze the various types of data;

- 1) Descriptive statistics was used to describe the sample's demographic profile and their business profiles.
- 2) Chi-square tests were used to determine associations among categorical variables.
- 3) Reliability analysis, using Cronbach's alpha to assess the measure of internal consistency (reliability) of the measurement scales.
- 4) Cluster analysis was used to identify and classify the groups in the small business sector.
- 5) Cross-Tabulation was used to find out the relationship between the variables.
- 6) Kruskal Wallis test – used to test and highlight the differences between the various categories of businesses.

### 3.1. Validity and Reliability

**Table 1. Reliability: Cronbach's alpha of individual items.**

Variables	Cronbach's alpha
High and continually increasing taxes	.790
Bureaucracy	.742
Labour restrictions	.772
Legal constraints	.765
Corruption	.793

To improve the quality of any study, researchers often rely on validity and reliability. Cronbach's Alpha was used to determine the internal consistency (reliability) of the instrument. It is expressed as a number between 0 and 1, although, for high internal consistency, the value of the alpha has to exceed 0.7. For the study, the Cronbach's Alpha(s) for the individual items were 0.790, 0.742, 0.772, 0.765 and 0.793 as Table 2 indicates. However, the overall alpha was  $\alpha = .812$ , which shows that the questionnaire is reliable and that the items are measuring the same characteristic. A reliability analysis was carried out on the perceived values scale comprising 5 items. Their individual alphas proved that most

items appeared to be worthy of retention, resulting in a decrease in the alpha if deleted.

Most items appeared to be worthy of retention, meaning they are worthy of measuring regulatory complexity.

### 3.2. Validity

Validity is the extent to which a construct measures what it is designed to measure [33, 29]. To determine the validity of the instrument, a correlation analysis between the variables was performed.

**Table 2. Validity: Correlation between the variables.**

Variables	1	2	3	4	5
1. High taxes	1				
2. Bureaucracy	.479	1			
3. Labour restrictions	.295	.550	1		
4. Legal constraints	.409	.632	.563	1	
5. Corruption	.489	.449	.444	.331	1

Often, variables with correlation starting from 0.5 are considered correlated. From the table above the variables, high and continually increasing taxes and filling of paperwork are correlated, this may be due to the fact that as taxes continue to increase, businesses are required to do more paperwork; although their correlational value is just a little bit below the cut-off value. However, this is not the case with high and continually increasing taxes and labour restrictions. This is because the shared value which is 0.295 is significantly lower than the cut-off. This may be due to the fact that high and continually increasing taxes has little or nothing to do with labour restrictions. The rest of the variables had strong relationships with each other as they had figures which if rounded up will give 0.5. This goes to say that they relate to each other and as such are valid.

To further determine validity, covariance was used to determine the direction of the linear relationship between items on the questionnaire. If both variables tend to increase or decrease together, the coefficient is positive. If one variable tends to increase as the other decreases, the coefficient is negative.

**Table 3. Covariance: Measuring validity.**

Variables	1	2	3	4	5
1. High taxes	1				
2. Bureaucracy	.777	1			
3. Labour restrictions	.456	.857	1		
4. Legal constraints	.700	1.090	.925	1	
5. Corruption	.920	.852	.803	.662	1

In the table above, the relationship between taxation and corruption is positive as their figures increase consistently throughout. Meaning, as taxation increases, corruption also increases, we therefore expect corruption to increase as taxation increases. However, the same is not true for high and continually increasing taxes and labour restrictions as their shared value is significantly lower than that of the rest of the variables. The rest of the variables have positive relationships as well.

## 4. Data Analysis and Results

Questionnaires were distributed to small business owners in different parts of Polokwane town. A total of 121 small business owners participated in the study. Of these, 66 of them (55%) constituted the male population while 55 of them (45%) constituted the female population.

Again, the respondents were asked to indicate their age group in years. The majority (over 64.5%) of the respondents fell in the 18 – 29 and 30 – 39 age group. Those between 40 and 49 years were the second highest group, at 24.8%, while about 13 per cent of the respondents were above 50 years old. Most of the participants fell in the youthful age group, demonstrating the dominance of youth entrepreneurship. This is consistent with the findings by Ndou [59].

### 4.1. Highest Qualification / Level of Education

Figure 1 illustrates eight categories of levels of education: less than 10% (11) of the respondents had finished primary level. 21.4% (25) had reached Grade 12 or high school level. 24.8% (29) had diplomas, while those with some certificates came up to 19.7% (23). Those who had attained their undergraduate degree level were 17.1% (20). Those who had attained postgraduate level, which includes masters and doctorate, were below 2% (2), implying that, although entrepreneurs had gone to school, they had not managed to attain particularly high levels of education. The largest

proportion of them had only managed to reach high school and obtain some certificates. 2.6% (3) of the respondents admitted having had no education while 3.4% (4) fell under the “other” category which included a series of trainings.

It was observed that almost 75.3% of the respondents did not have a first degree. This is a phenomenon within the socio-economic realities of the country, where access to and availability of jobs and employment are low (Du Toit, 2017). Entrepreneurship and small business ownership are utilised by individuals to secure employment as the absence of jobs will prompt them to either be entrepreneurial in their thinking or establish businesses as a means to survive [11]. This is consistent with the study by Matlala (2014) and Perks [66] who determined 87% and 80% respectively, of business owners who did not have tertiary education but went into business after failing to secure jobs. This brings in the relationship between business success and education. The failure of small businesses within the first 2 to 3 years of their existence maybe as a result of their owners having difficulty understanding or applying stipulated laws and regulations. This points to the fact that education is essential to the performance and success of businesses [35, 36]. It is also worth mentioning that some respondents were sensitive to this question and failed to answer it as they considered it offensive. Thus, 117 out of 121 respondents answered this question. This implies that education is significant to performances of entrepreneurs.

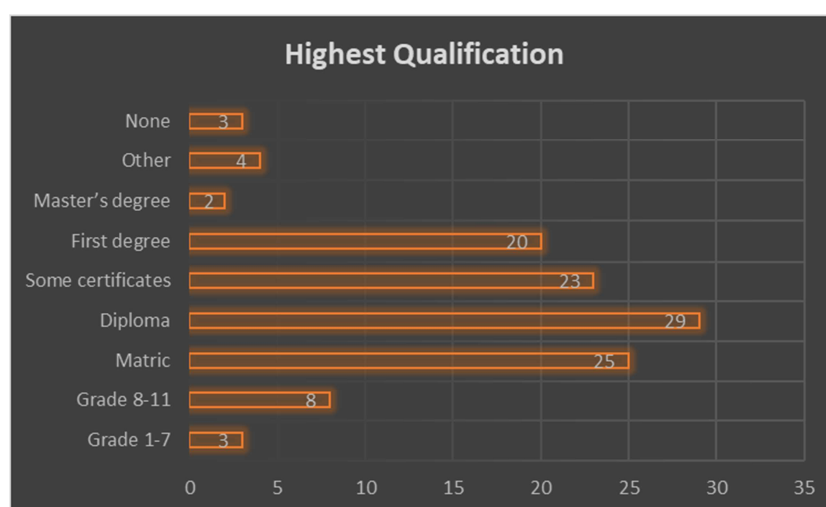


Figure 1. Highest Qualification.

### 4.2. Position Held in the Business

In terms of the position held in the business, 50.4% of the respondents indicated that they were the owners of the business. 28.1% indicated that they managed the business while 20.7% of them said they held other positions in the business. This category of people was for those who had been with the business for a long period of time enough to know specific details about the business enough to respond truthfully and confidently.

One respondent or 0.8% did not fill in the information on

the position held in the business.

Table 4. Position held in the business.

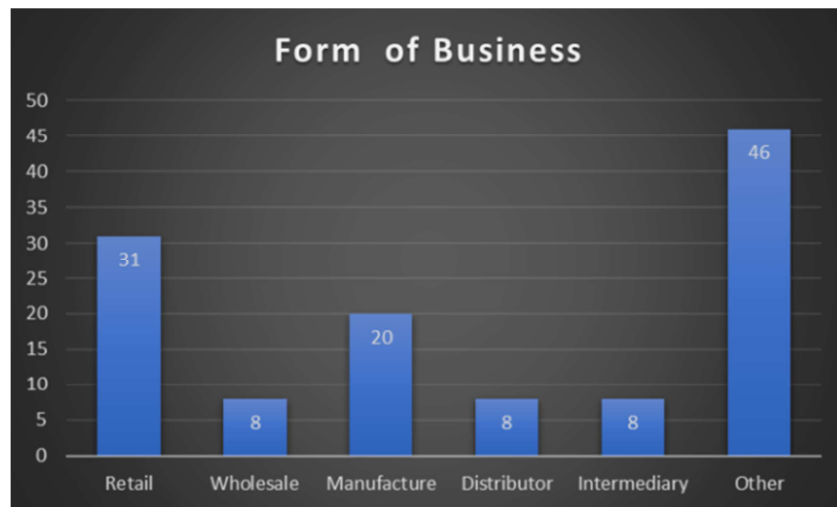
	Owner	Manager	Other	Total
Frequency	61	34	25	120
Percentage	50.4	28.1	20.7	99.2

### 4.3. Form of Business

As indicated by figure 2 below, the respondents' operating retail businesses were 25.6%, followed by 6.6% operating as wholesalers and 16.5% operating as manufacturers. The

results also showed that 6.6% of the respondents are operating as distributors, 6.6% operated as intermediaries while 38% indicated that they operated other forms of business in the services sector. These included services like

barbing, catering, wedding and décor services, hair dressing, hotel and accommodation, tourism services, funeral services, key cutting, sewing, dentistry, optometry, cybercafé for typing, printing and other internet services.

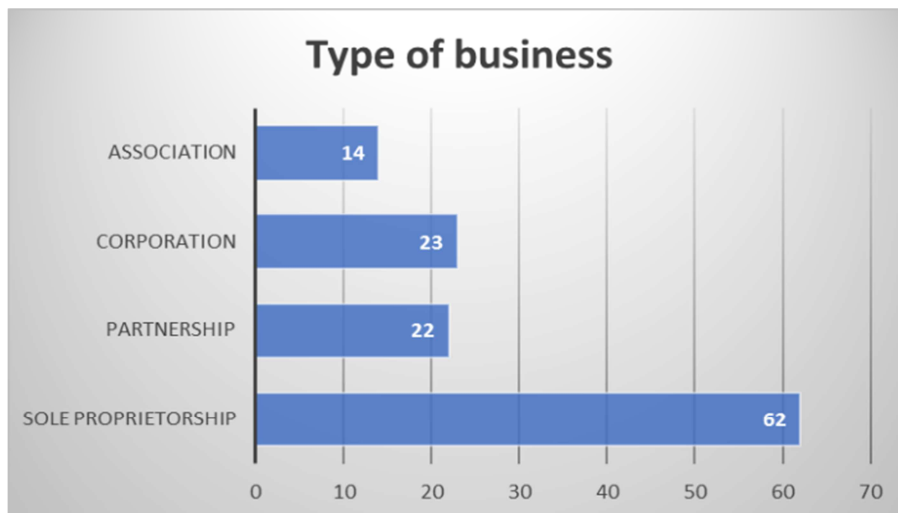


*Figure 2. Form of business.*

#### 4.4. Type of Business

The results also showed the type of businesses the respondents were operating. 51.2% indicated that they were a sole proprietorship business, with 18.2% stating that they are in a partnership, followed by 19% who were a corporation type

of business and 11.6% indicated that they were operating other types of businesses. The results showed that most of the respondents are operating as sole proprietors and this may be due to the fewer formalities linked to the start-up, running and probable benefits associated with this type of business.



*Figure 3. Type of business.*

#### 4.5. Annual Income

Although quite a few respondents were reluctant to disclose this information which is demonstrated by the missing figures, the researcher was able to convince them about the importance of this information. None of them had as annual turnover below R10 000. 25.5% of them had incomes ranging from R10

001 – R50 000, while 14.4% of the businesses had as annual income R50 001 - R100 000, while 16.9% of them stated that R100 001 - R150 000 was their annual income. 12.7% of the respondents also admitted to earning up to R150 001 - R300 000 and only 8.5% of them admitted to getting from R300 001 - R500 000. Lastly, 22.0% of them admitted above R500 000 as annual income.



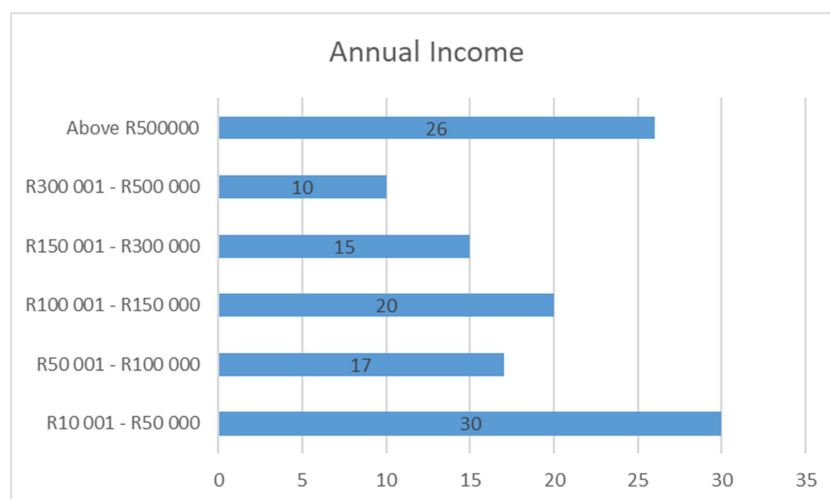


Figure 4. Annual income.

#### 4.6. Years of Existence

Regarding the number of years spent in business it was discovered that a majority of them (46.3%) had been running for 1 – 5 years. This may explain the reason why most of them complained about the difficulty in staying in business. The second category had been in business for 6 – 10 years and the percentage came up to 20.7% while those who had been in

business for 16 – 20 years were 8.3%. Those that had been in existence for 20 years and above constituted 9.9%. These years of existence can be used to explain why some businesses within the small business sector fare better than their counterparts. This is because of the experience gotten as a result of being older in business [92]. The figure below also shows that as years go by, fewer business remain in business. This may be associated by the difficulties involved in staying on in business.



Figure 5. Years of existence.

#### 4.7. Number of Employees

The results showed that 15.8% of the enterprises had no employees. Those operating with 1-5 employees constituted to 55.8%, followed by 17.5% who had 6-10 employees, whilst those with 10-15 employees were less than 4% and only below 3% indicated to have between 20 and above 200 employees. The reason that a greater majority of them had between 1 – 5 employees maybe as a result of their size. This shows that small businesses indeed can be categorized in terms of the

number of employees [6]. A greater majority may have a certain number of employees because of the expenses that come with running the business and paying wages to these employees [91]. Further, Matlala (2014) attributes financial position and sustainability with a higher number of employees as such businesses are financially stable and can afford to pay wages and salaries. This section indicates that small businesses are doing their part as employers. This is shown in their contribution in trying to alleviate unemployment [9].



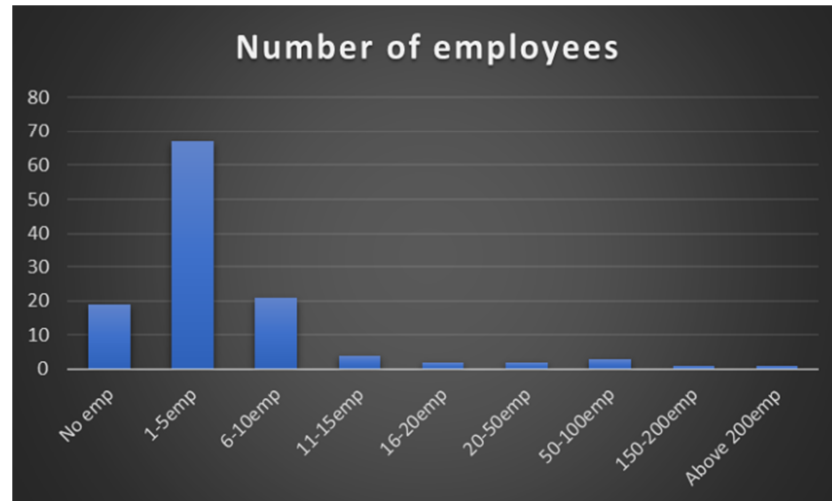


Figure 6. Number of employees.

#### 4.8. Regulatory Complexity

Regulatory complexity deals with all issues relating to the difficulty businesses face in complying with regulations, leading to regulatory burdens and consequently regulatory costs. Thus, the questions posed or dealt with in this section involved a summation of the above aspects; starting from the level of difficulty faced in commencing the business and further, in continuing on in business. These issues pertained to licences, permits, laws governing business operations in the municipality, as well as the costs borne in terms of time and money overtime. Also, this section contains the results as concerns the degree to which each main factor in the regulatory environment (taxation, bureaucracy, labour laws and corruption), in particular, South Africa's regulatory environment as a whole, constituted a burden. The results read as follows;

##### 4.8.1. Legal Challenges

When asked if they encountered any legal challenges when opening their businesses, a greater majority of them admitted to having faced one challenge or the other as a result of either commencing business or continuing in business. These challenges involved mostly obtaining permits, licenses, different regulations as pertain to their municipality or council. The percentage of those facing challenges was 65.5%. While the rest, 34.5% stated that, they did not encounter any challenges as regards to legal issues. This is consistent with the studies by Adomako & Danso [1], Bouazza, Ardjouman, & Abada [8] and Salamzadeh & Kawamorita [72] who also discovered that among other factors, legal challenges constrain the growth of small businesses.

Table 5. Legal challenges.

Legal challenges	Frequency	Percentage
Yes	76	65.5
No	40	34.5

##### 4.8.2. Regulatory Complexity

Complexity comes in several forms. It is often associated with understanding and adapting to new rules and obligations [76] costs associated with taxation and costs involved to get expertise

[13], and even less direct costs where regulatory compliance requires accompanying changes that may disrupt the way business is run [23]. Again, psychological costs such as stress [12]. It was therefore in this light that the questions were posed.

In terms of assessing the degree of difficulty in obtaining documents or complying with the requirements to commence business, a greater majority admitted to not having experienced any issues in obtaining the documents required or complying with the requirements to commence business. This high percentage could be explained by looking at the percentage of those who operate a sole proprietorship as their requirements are fairly easy to obtain than other types of business [83, 44]. Furthermore, looking at the Ease of Doing Business ranking, in 2019, South Africa is ranked at the 82<sup>nd</sup> position out of 190 countries and is classified under the "easy" category (Doing business report, 2019). It is however predicted that it will be at the 84<sup>th</sup> position in the year 2020. It is also important to highlight that as years go by, its position will drop further to the bottom of the list. It started at the 28<sup>th</sup> position in the year 2006 and progressively dropping further down to 29<sup>th</sup>, 35<sup>th</sup>, 32<sup>nd</sup>, 34<sup>th</sup>, 34<sup>th</sup>, 35<sup>th</sup>, 39<sup>th</sup>, 41<sup>st</sup>, 43<sup>rd</sup>, 73<sup>rd</sup>, 74<sup>th</sup>, 82<sup>nd</sup> and as predicted 84<sup>th</sup> position in the year 2020 (Doing business report, 2019).

A greater majority admitted to not being constrained by time as relates to commencing or staying on in business, because they just started their businesses. Almost 50% of them agreed that they did not spend a lot of time on complying with regulations, municipal bylaws or any such inconvenience or obtaining permits or licenses. Less than 20% of them adopted a neutral stance and another 20% of them agreed to time lost as a result of complying with regulations and the like. This could be those who had stayed longer in business and also the type of business they operate under. These were mostly partnerships and corporations [19, 83].

Concerning financial constraints, a majority of the respondents did not face any difficulty in terms of financial costs as relates to compliance with regulation, licences, permits, bylaws and so forth. This is shown in the 50% respondents who indicated that it was affordable to obtain their licenses or permits and comply with all the regulations

surrounding the establishment of their businesses. Therefore, although it was easy to start or commence the business, it was

a different story as they advanced on in business and the realities started kicking in [55, 61, 63].

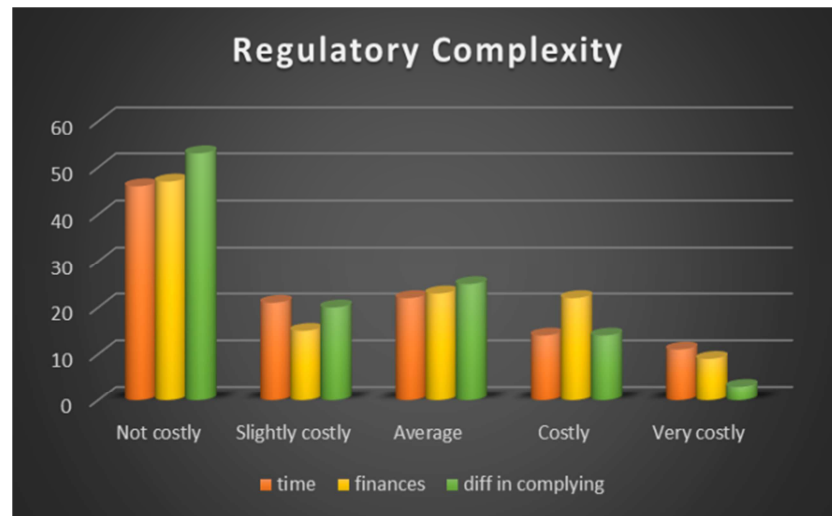


Figure 7. Regulatory complexity.

#### 4.9. Degree of Burden as Pertains to Variables

The variables measured were taxation, bureaucracy, labour restrictions and corruption. Firstly, when asked about taxes and its effect on their growth, less than 30% of them did not consider increasing taxes as a problem. This means that, almost 73.3% of them considered taxes and increasing taxes to be a problem that affected their growth as they used the money obtained from sales to pay their taxes instead of reinvesting it into the business [57, 58, 27]. However, it is important to note that a few of the businesses did not pay taxes, they paid a municipal fee monthly, quarterly, biannually or weekly, which differed according to their business type.

As the businesses were different according to their type – sole proprietorship, partnership, corporation and other, they were taxed differently. For the sole proprietorship, it is owned and operated by an individual and has no existence separate from the owner who is called the proprietor [73]. Although arguments exist that this type of business does not pay taxes, the SARS report [73] show that when commencing business, the owner must include the income from such business in his or her own income tax return and is responsible for the payment of taxes thereon. It records that the business' income is limited to whatever the owner can personally secure. This limits the expansion of the business and is common cause for failure as it restricts the ability of the sole proprietor (owner) to operate the business effectively and survive [73].

The tax requirements for partnership businesses state that each partner is taxed on his or her share of the partnership profits. Each person may contribute money, property, labour or skills, and each expects to share in the profits and losses of the partnership [73]. This type of business is similar to a sole proprietorship except that a group of owners replaces the sole proprietor, meaning that there is greater financial strength than the sole proprietorship.

According to the Companies Act 71 of 2008, a CC is similar

to a private company as it is a legal entity with its own legal personality and as a result, must register as a taxpayer in its own right. This type has more legal requirements than a sole proprietorship or partnership [73].

With each type of small business having its own definition and specific requirements and according to the progressive nature of the tax system, each type falls under a different income group, which means differences in terms of their percentage contribution, indicating that the higher the income or revenue bracket, the higher the percentage contribution [37, 38, 58, 73, 79-81].

In terms of bureaucracy and its effect on their growth, 63.8% of the respondents considered bureaucracy as a problem while 36.1% of them did not consider filling up paperwork a problem. The rest 1.7% did not respond to this question.

In terms of labour restrictions and its effect on their growth, 40.3% of the respondents did not consider labour restrictions a problem. This percentage could be because they are businesses that had few workers and were sole proprietorships. However, 59.6% of the respondents indicated that restrictions on labour and some labour laws were unfavourable to them and did not act in their favour as it was a drain on their income and their ability to make profit, reinvest and expand their businesses [91].

Again, 43.1% of the respondents did not see legal requirements to be a problem. However, 57% considered it to be a problem as they explained that as a result of not being in possession of their permits or licenses, they were fined. Other respondents reported that they were also fined, or their contribution was increased through no fault of theirs as the municipality or offices will fail to issue these permits and they end up being fined during routine checks. This normally leads to bribery to avoid being fined huge amounts as 77.1% of the respondents considered bribing an official a problem, while 22.3% of them faced no problem as far as this factor was concerned. This usually involves them giving tokens and gifts to representatives of the municipality who come on routine

checks, especially if they are about to be fined [2, 26].

This is all presented in the figure below where all five factors are presented; with the coloured bars representing the degree to which the respondents considered them a problem. When ranked, the factor that topped the charts was bribery and

corruption, followed by taxes or increasing taxes which was the second in line when it came to rank. Bureaucracy was the third ranked factor. Labour restrictions was fourth in line and finally legal procedures took the fifth position.

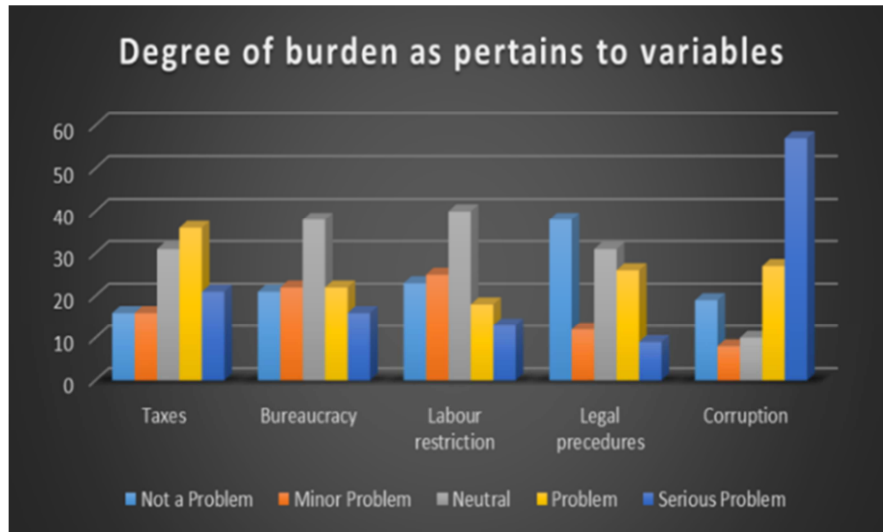


Figure 8. Degree of burden.

#### 4.10. SA Regulatory Environment

When asked if government policy, rules and regulations play a key role in the start-up, establishment and growth of small businesses, 58.4% agreed with this assertion, while just above 20% denied this assertion stating that the efforts of the owner and entrepreneur counted more than whatever rules and regulations were set [30, 37, 65]. 20.8% of the respondents adopted a neutral stance on this issue.

On the questions of south Africa's regulatory environment and its effect on the growth of entrepreneurial activity or small

business growth, 62.2% agreed that South Africa's regulatory environment posed a problem to small business growth Eniola & Entebang [24], Adomako & Danso [1], Nieuwenhuizen [61] while 10.9% denied this assertion again stating that it was up to the owners and entrepreneurs to make sure their businesses work [37, 65]. 26.9% of the respondents were neutral on this issue.

In the figure below, the respondents agreed to the regulatory environment being unconducive or restrictive to their growth. This is illustrated where the bar peaks in the 'agree and strongly agree axis and slopes down the neutral and disagree points on the axis.

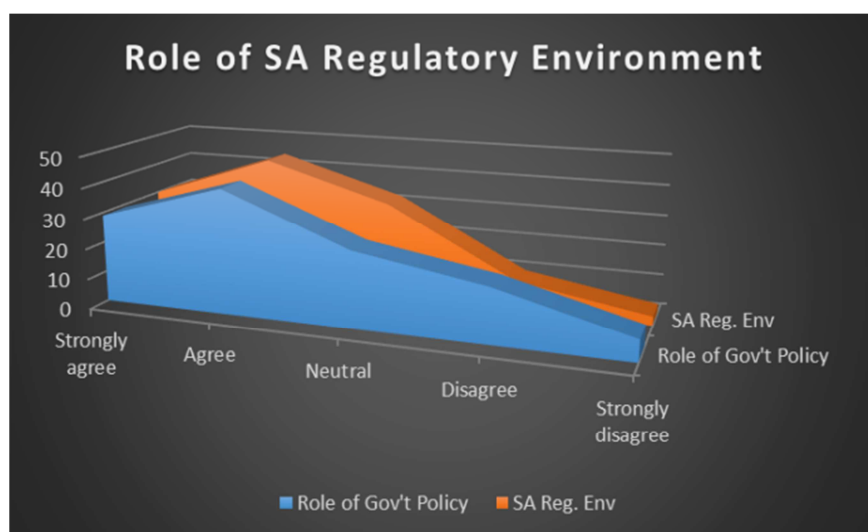


Figure 9. Role of the SA regulatory environment.

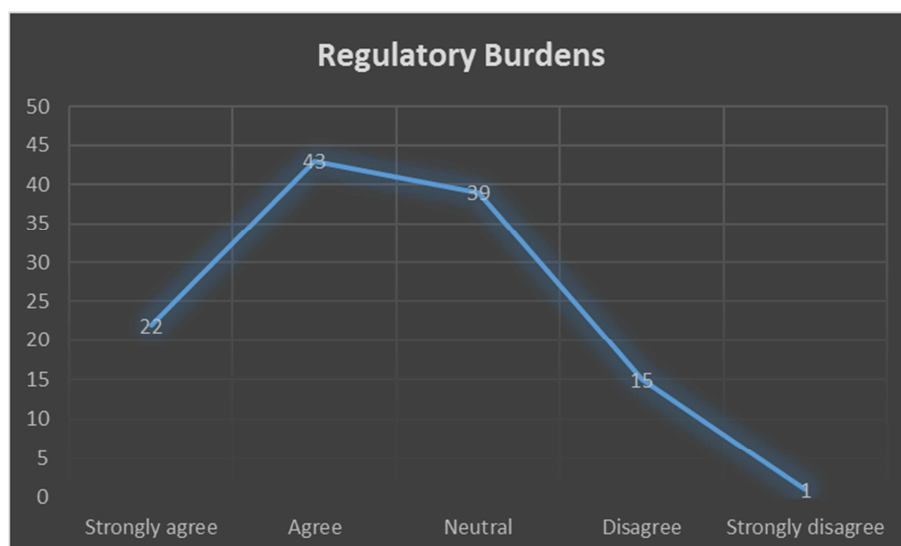
##### 4.10.1. Regulatory Burdens

Compliance to certain rules by the government imposes

certain burdens which manifest as costs to small businesses. 54.1% of the respondents agreed that the expenses associated

with regulatory burdens cost them in terms of time and money, 32.5 were neutral, while 13.8% disagreed about incurring any costs borne as a result of regulatory burdens. In order for a business to run smoothly, the owner or entrepreneur has to be present most of the time to run his business. When he/she spends this valuable time and resources on trying to comply with regulations, it costs him

more finances that would have come with purchases from customers. The figure below illustrates their responses to this question. The line starts to increase from the strongly agree point and peaks at the agree point before sloping down to the neutral and disagree, strongly disagree points. This confirms the report by the [65] that regulatory burdens continue to be a major obstacle to small business growth.



**Figure 10.** Regulatory burdens.

#### 4.10.2. Comparison Within the Sector

This section comprised questions dealing with the burden borne by small in relation to medium businesses within the sector. The small business sector is classified according to the sizes of businesses within the sector - survivalist, micro, very small, small and medium businesses which are classified this way because of their ownership structure, years of existence, registration detail, turnover, annual income and employee base. It is on this basis that the comparison was made as respondents were asked to compare the degree of regulatory burden looking at these factors.

When asked if larger firms within the small business sector have it easier than smaller firms when it comes to legal requirements, 52% of the respondents agreed with this assertion. They stated that there were some small businesses that were considered bigger and sold different things that qualified them to have different requirements, that was why they were classified as micro, very small, small and medium [73]. 23.1% were neutral on this issue and 24.8% of them disagreed, stating that because they were in the same sector, they surely had the same requirements.

Respondents were asked if their annual income affected the number of requirements to be complied with. 54.6% agreed stating that obviously, those with more income were charged or taxed much more than those with lower incomes because of the progressive nature of the taxation system [38, 73]. 29.4% were neutral, while 16% of them disagreed with this assertion.

To further determine the degree of the regulatory burden

borne by the firms within the small business sector, respondents were asked if firms with more years of existence have more experience with regulatory requirements than start-ups and those with fewer years of existence within the same sector. 70% of them agreed stating that because they must have acquired quite some experience over the years, they were obviously more equipped to face such challenges than those who are just getting into business. They also probably have enough income to hire experts to handle such issues. This qualifies them as significantly bigger than those obviously smaller businesses who are just getting into the world of business [22].

When asked if all categories of firms within the same sector have the same tax treatment, 24.2% of the respondents agreed with this statement explaining that since they are in the very same sector, they are convinced that they must have the same tax treatment. On the other hand, 54.1% denied this saying that bigger firms with more income will be charged more than the smaller ones [79, 80]. The rest 21.7% were neutral.

Lastly, respondents were asked if some firms bear a lighter regulatory burden as compared to smaller firms within the same sector. 32.2% disagreed with this assertion stating that since they are in the same sector, they bear the same burden. 31.4% were neutral, while 36.4% agreed stating that as a result of their being large enough, they are able to bear the burden better than smaller firms that do not have years of existence, a large income or experience on their side [79, 80].

Their responses are summarized in the figure below.

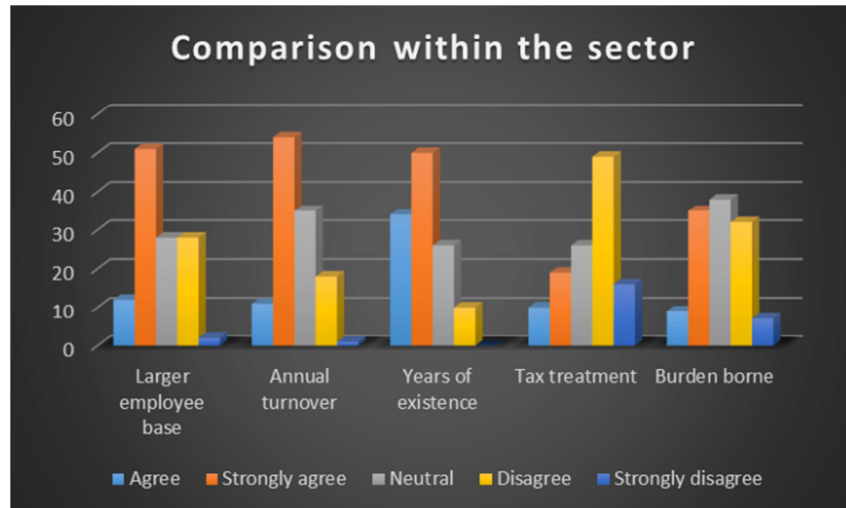


Figure 11. Comparison within the sector.

#### 4.10.3. Regulatory Reforms

As a result of the complexities and difficulties firms within the small business sector go through and in line with the fourth objective, the researcher included a section which gave the respondents the liberty to answer as well as give their own opinions on the reforms they think will help them fare better in business. A number of suggestions were given apart from the questions they were restricted to. These results will be better explained with the use of thematic content analysis in the section that follows. However, the statistical results are reported as follows;

In terms of regulatory reforms, a higher percentage (76.5%) of the respondents agreed that introducing reforms in the regulatory framework will ensure a more enabling business environment. 16.8% neither agreed nor disagreed, while 6.7% of them disagreed with this assertion stating that even if the reforms were put in place, it would not change much.

In addition, respondents were asked if the offering tax incentives and improving tax consultancy services to small business owners and would-be entrepreneurs will encourage small business development, 89.1% of the respondents agreed with this suggestion while 7.6% of the respondents were neutral. Less than 5% of them disagreed as they said such training will go a long way to help them run their businesses better and pay their taxes earlier because they will know what tax to pay at a given period.

Lastly, respondents were asked if regulatory requirements should differ according to categories of the businesses, although in the same sector. 77.5% of them agreed that given their form, type and orientation, it will be best not to make these different categories have the same requirements. Less than 10% of the respondents disagreed and 14.2% of the respondents were neutral on this issue. The figure below depicts their responses.

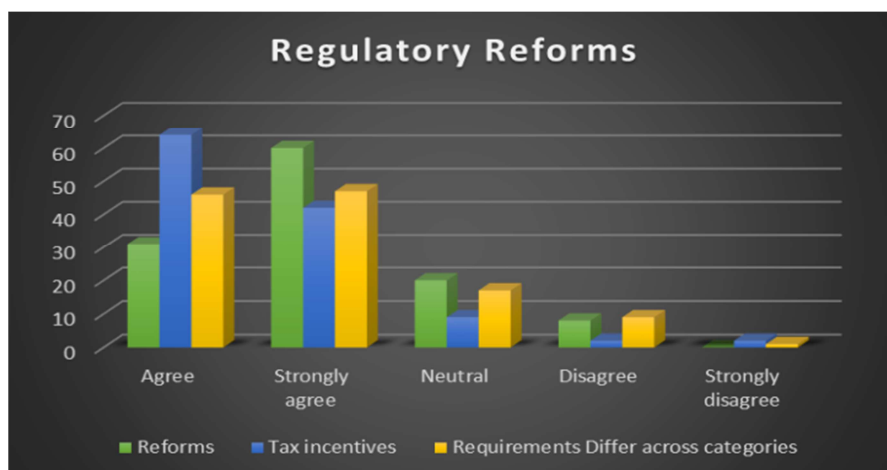


Figure 12. Regulatory Reforms.

## 5. Hypothesis Testing

In order to test the formulated hypothesis, several methods

were used - cross-tabulation, cluster analysis, Kruskal-Wallis test [90], and the Chi-square values were utilised.



### 5.1. Cross-Tabulation

In cross-tabulation, the p-values are used to determine whether to reject or fail to reject the null hypothesis. To determine whether variables are independent, a significance level (denoted as  $\alpha$  or alpha) of 0.05 is the valid figure of comparison. A significance level of 0.05 indicates a 5% risk of concluding that an association between the variables exists [71]. Chi-square tests determine whether or not the two variables are independent. If the variables are independent (have no relationship), then the results of the statistical test will be “non-significant”, meaning that there is no relationship between the variables and the null hypothesis cannot be rejected. If the variables are related, then the results of the statistical test will be “statistically significant” and the null hypothesis can be rejected and the alternative accepted, meaning that we can state that there is some relationship between the variables.

$P\text{-value} \leq \alpha$ : The variables have a statistical association (Reject  $H_0$ ).

If the p-value is less than or equal to the significance level, you reject the null hypothesis and conclude that there is a statistically significant association between the variables.

$P\text{-value} > \alpha$ : The variables have no association (Fail to reject  $H_0$ ).

If the p-value is larger than the significance level, you fail to reject the null hypothesis because there is not enough evidence to conclude that the variables are associated.

The hypotheses of the study were as follows;

Hypotheses

The following are assumptions for the study:

$H_1$ : Regulatory complexity has a significant impact on small business growth.

- a) Taxation;
- b) Bureaucracy;
- c) Labour restrictions;

d) Corruption;

e) Policy compliance.

$H_0$ : Regulatory complexity (when it comes to a-e) has no significant impact on small business growth.

$H_2$ : Firms within the small business sector (depending on their size) bear a significantly different regulatory burden from each other although in the same sector.

a) Years of existence;

b) Employee base;

c) Annual income.

$H_0$ : Firms within the small business sector (depending on their size, a-c) do not bear a significantly different regulatory burden from each other although in the same sector.

One of the main aims of the study was also to determine the degree of the regulatory burden borne by firms within the small business sector. Therefore, based on the hypothesis and the various aspects which can measure the degree of the burden and the aspects which will indicate what category bears more of the burden as compared to the other, it will be determined if the burden borne by each category is different. Several cross-tabulations were done to determine the relationship and association between various variables. (In annexure A, the tables of the other related variables can be seen. This table 6 depicts only that for the form of business and bureaucracy).

To fully determine whether the degree of burden from bureaucracy borne by a small business could be due to its form, the researcher used the chi-square test of association to determine the relationship between the two variables (form of business and bureaucracy) using cross-tabulations [28]. This test for association between bureaucracy and form of business revealed that the two variables are associated. The results indicate that the various forms of small businesses bear different burdens according to their form [2].

**Table 6.** Cross-Tabulation of form of business and bureaucracy.

Cross-Tabulation of form of business and bureaucracy			Bureaucracy					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
What form of business do you operate	Retail	Count	8 (5.5)	6 (5.7)	6 (9.9)	9 (5.7)	2 (4.2)	31
	Wholesale	Count	3 (1.4)	0 (1.5)	3 (2.6)	2 (1.5)	0 (1.1)	8
	Manufacture	Count	2 (3.5)	5 (3.7)	7 (6.4)	0 (3.7)	6 (2.7)	20
	Distributor	Count	0 (1.4)	0 (1.5)	5 (2.6)	2 (1.5)	1 (1.1)	8
	Intermediary	Count	1 (1.4)	2 (1.5)	3 (2.6)	1 (1.5)	1 (1.1)	8
	Other	Count	7 (7.8)	9 (8.1)	14 (14.1)	8 (8.1)	6 (5.9)	44
Total		Count	21 (21.0)	22 (22.0)	38 (38.0)	22 (22.0)	16 (16.0)	119 (119.0)

$X^2 = 32.664$ ,  $df = 20$ ,  $p < 0.05$ ,  $p = 0.037$ .

**Table 7.** Summary of variables tested and their P-values and chi-square values showing an association between them.

Variables tested	P-value	Chi-square
4.8.2 Number of employees and taxes	0.033	28.759
4.8.3 Number of employees and bureaucracy	0.028	22.828
4.8.4 Number of employees and labour restrictions	0.001	27.095
4.8.5 Annual turnover and taxes	0.011	30.282
4.8.6 Annual turnover and bureaucracy	0.018	35.066
4.8.7 Annual turnover and labour restrictions	0.004	44.814
4.8.8 Form of business and taxes	0.013	27.130
4.8.9 Compliance and taxes	0.006	9.053

Variables tested	P-value	Chi-square
4.8.10 Financial constraints and taxes	0.027	18.876
4.8.11 Financial constraints and bureaucracy	0.003	19.938
4.8.12 Financial constraints and labour restrictions	0.033	22.328
4.8.13 Years of existence and taxes	0.002	20.027
4.8.14 Years of existence and bureaucracy	0.007	12.295

All the variables tested in the table below showed an association or relationship as their P-values fell below the cut-off point 0.05 or were < 0.05.

There were some relationships that showed no association between the variables as indicated by the P-values which are above the cut-off point 0.05. or > 0.05.

**Table 8.** Summary of variables tested and their P-values and chi-square values showing no association between them.

Variables tested	P-value	Chi-square
Form of business and fining	0.435	20.374
Form of business and corruption	0.156	26.316
Type of business and fining	0.808	7.708
Products sold and taxes	0.904	23.805
Products sold and bureaucracy	0.158	21.568
Products sold and labour restrictions	0.531	14.912
Products sold and fining	0.598	14.011
Products sold and corruption	0.060	25.623
Annual turnover and fining	0.256	28.099
Annual turnover and corruption	0.098	33.307
Years of existence and fining	0.833	10.603
Years of existence and corruption	0.791	11.295

## 5.2. Cluster Analysis

In this section cluster analysis was employed to classify small businesses into 3 clusters. The results from K-means clustering method was presented despite having used other clustering methods such as two stage clustering and hierarchical clustering. Two stage cluster (TSC) was dropped after the method had failed to produce more than 1 cluster for the data while the hierarchical clustering algorithm was

dropped because the results could not be intuitively used for purposes of identifying a reasonable number of clusters. K-means clustering was chosen for the specific reason that it allowed the number of clusters to be determined in advance. Consequently, small businesses were classified in terms of costs incurred, regulatory complexity, government policies and regulations among other variables as listed in the table below.

**Table 9.** Small business clusters.

Clusters	Number of small businesses in each Cluster
1	33.000
2	42.000
3	32.000
Total	107.000

The table below shows a list of variables used for purposes of grouping small businesses and the analysis of variance results obtained from the K-means method. Since the F tests are used only for descriptive purposes as clusters were chosen to maximize the differences among cases in different clusters. Consequently, the observed significance

levels are not corrected for this and hence cannot be interpreted as tests of the hypothesis that the cluster means are equal. Therefore, Kruskal Wallis will be used for purposes of identifying variables for which clusters are different or the same.

## 5.3. Analysis of Variance (ANOVA) Results

**Table 10.** ANOVA results.

Variables	Cluster		Error		F	Sig.
	Mean Square	Degree of freedom	Mean Square	Degree of freedom		
Cost in terms of time	47.167	2	1.016	104	46.416	.000
High and continually increasing taxes	23.416	2	1.238	104	18.908	.000
Bureaucracy	37.934	2	1.015	104	37.376	.000
Labour restrictions	35.907	2	.914	104	39.304	.000
Fining due to compliance issues	36.624	2	1.237	104	29.605	.000



Variables	Cluster		Error		F	Sig.
	Mean Square	Degree of freedom	Mean Square	Degree of freedom		
Corruption	43.014	2	1.511	104	28.470	.000
Government policy, rules and regulations play a key role in the start-up, establishment and growth of SMMEs	1.577	2	1.430	104	1.102	.336
South Africa's regulatory environment has been said to constrain the growth of entrepreneurial activity and consequently, the small business sector	1.156	2	1.027	104	1.126	.328
The expenses associated with regulatory burdens sets you back you in terms of time and monetary costs	9.120	2	.692	104	13.180	.000
Firms with a larger employee base have it easier than firms with a smaller employee base when it comes to legal requirements	2.915	2	.992	104	2.937	.057
Amount of annual income affects the number of regulations you need to comply with	1.108	2	.792	104	1.398	.252
Firms with more years of existence have more experience with regulatory requirements than start-ups and those with fewer years of existence within the same sector	.407	2	.806	104	.505	.605
Large and small firms within the sector are subject to the same tax treatment	4.641	2	1.177	104	3.942	.022
Larger firms generally bear a lighter regulatory burden as compared to smaller firms within the sector	5.333	2	1.001	104	5.328	.006
Introduction of reforms in the regulatory framework will ensure a more enabling business environment	1.433	2	.712	104	2.013	.139
Offering tax incentives and improving tax consultancy services to small business owners and would-be entrepreneurs will encourage small business development	2.774	2	.654	104	4.244	.017
Regulatory requirements should differ according to categories, although in the same sector	.080	2	.918	104	.087	.917
Costs in terms of finances	66.522	2	.678	104	98.122	.000
How difficult or tasking was it to obtain the documents or comply with the requirements to start your business	24.905	2	.971	104	25.655	.000

Kruskal Wallis test for equality of cluster means

The classification of small businesses was succeeded by performing Kruskal Wallis test for comparing the clusters. Kruskal Wallis is a rank-based nonparametric test that is useful for determining if there are statistically significant

differences between two or more groups of an independent variable on a continuous or ordinal dependent variable [90, 14]. The table below shows the list of variables for which the three clusters are different.

Variables depicting differences between clusters.

**Table 11.** Variables depicting differences between clusters.

Variables	Chi-Square	Degree of freedom	p-value
Cost in terms of finances	69,53178	2	0,00
Difficulty in obtaining and complying with regulations	35,30106	2	0,00
Cost in terms of time	52,25711	2	0,00
High and continually increasing taxes	29,19269	2	0,00
Filling of paperwork	44,6963	2	0,00
Labour restrictions	48,84931	2	0,00
Fining due to permit and licence issues	38,98122	2	0,00
Bribing an official	38,86715	2	0,00
Expenses associated with regulatory burdens	22,11546	2	0,00
Firms within the sector are subject to the different tax treatment	7,500893	2	0,02
Within the sector, medium firms generally bear a lighter regulatory burden as compared to micro and small firms	10,28515	2	0,01

In a nutshell, these clusters are different in terms of the challenges they encounter during their day-to-day operations. Among the challenges are;

- 1) Taxation;
- 2) Cost – in terms time and finances;
- 3) Bureaucracy;
- 4) Labour restrictions;
- 5) Corruption;
- 6) Compliance.

Summary of findings

The following is the summary of the findings from the analysis and how they answer each objective.

### 5.3.1. Objective 1: To Examine the Regulatory Factors Constraining small Business Growth

Findings: Various factors within the regulatory environment affect small business growth.

From the review of literature, certain factors were determined to be elements of the regulatory environment which negatively affected growth within the small business sector. They were taxation, bureaucracy, labour restrictions and corruption. Each of these factors affected small businesses in their own ways; the effect of taxation being the inability to understand taxation laws and high, increasing taxes which lead to their inability to reinvest into their

businesses to make them grow. When it came to bureaucracy, the main difficulty was how frequently renewal of permits and long queues in getting served in offices. Labour restrictions were considered problematic mainly because of the minimum wage law, stating that the amount was too high for growing businesses like themselves. Corruption was also an important factor which dealt with fining and bribery during certain procedures.

### **5.3.2. Objective 2: To Determine the Extent to Which the Regulatory Environment Affects Small Business Growth**

**Findings:** The growth of the small business sector is influenced to a certain extent by the regulatory environment and other factors.

Although the regulatory environment negatively affects the growth of the small business sector, the cause of failure should not weigh on this factor alone as other factors also contribute to curtail the growth of small businesses. The results revealed that despite the external factor of the regulatory environment, other factors also influence the growth of the sector, especially internal factors such as the manager's skills and managerial ability.

### **5.3.3. Objective 3: To Compare the Effects of the Regulatory Burden on Firms Within the Small Business Sector**

**Findings:** The different categories of businesses within the sector bear different regulatory burdens.

Various aspects of a business determine the ease with which they bear regulatory burdens. These aspects which make them different from each other in the first place like their sizes (classifications into survivalists, micro, very small, small and medium businesses because of peculiarities like their annual incomes, years of existence and number of employees) are the very factors which will make one category to bear the burden of regulation easier than their counterparts.

### **5.3.4. Objective 4: To Suggest Viable Solutions that Improve the Regulatory Environment to Enhance Growth of the Small Business Sector**

Considering the findings discussed in chapter 4,

Firstly, taxation as the respondents indicated will not be a problem if they are educated on the rundown of costs and how their individual businesses are charged. Complaints and non-compliance result from situations where they just receive tax reports without knowing how the system works or tax rates that change frequently without prior warning. Consistency and trustworthiness are therefore suggested to taxation and municipal authorities and institutions in charge. Again, governmental and municipal institutions should be charged with the responsibility of educating their clients or "customers" about changes in taxation laws and practices. This will allow for a willingness to pay taxes and reduce tax evasion scenarios. This will also save them the funds used to hire experts employed to take care of taxation paperwork. Such funds will be channelled towards improving other aspects of the business.

In addition, bureaucracy and its accompanying drawbacks should be addressed by reducing some requirements, procedures and length of time taken toward the establishment of, issuing of licences, permits and other such documentation. This also reduces the anxiety of the owner or entrepreneur who will want to speed up the process as much as possible and so resort to questionable practices in order to obtain them without any hassle, thus resorting to corruption. This can be done by establishing one-stop shops. This has already been put in place in some areas [64]. One-stop shops which will ensure that businesses can access the services rendered by these institutions. This will reduce the run-arounds and additional costs it brings to small businesses [64].

Furthermore, corrupt officials should be stripped of their positions of authority and they should be replaced by trustworthy and upstanding officials. Other measures such as whistle-blowing and corruption hotlines may reduce the level of corruption. This will ensure that best practices will be implemented to ensure that the small business sector and entrepreneurship flourish.

Concerning labour laws and practices, an agreement can be reached by an employer and his employees concerning the wage or salary to be paid. This is because an employee looking to be employed in a given business by its owner must have taken stock of how large the business is and how much they may be paid. The employer must set the record straight at the very beginning so that the employee knows what it is he or she is getting himself or herself into by being employed by this employer.

Lastly, the above results show that apart from the regulatory environment, there are other factors which cause the failure of small business sector growth. In light of this, small business owners need to take stock and figure out what aspects limit their growth and development so as to find ways to succeed.

### **5.4. Other Findings**

The study identified several relationships between the variables measured, while those which were assumed to have relationships proved to have little or no relationship.

### **5.5. Limitations of the Study**

- 1) This study was subject to time and budget constraints;
- 2) The findings of the study were limited to only small business owners;
- 3) The scope of the study was restricted to Polokwane.

### **5.6. Directions for Future Research**

To address the gaps within the body of knowledge that remain, the following areas are suggested for further research:

- 1) Burden of regulation borne by SMMEs in the whole of South Africa but categorized as urban and rural SMMEs.
- 2) Direct impact of regulation on profitability and sustainability of SMMEs sector.

### 5.7. Contribution to the Body of Knowledge and Recommendations

Having examined the definitions of SMMEs within the South African context as well as the breakdown of the categories within the small business sector according to aspects such as their annual income, years of existence and number of employees, the study then proceeded to examine the factors within the regulatory environment which affects their growth as well as their compliance level to assess the extent to which some of these businesses bear the regulatory burdens stemming from regulatory factors more easily than others probably because of their number of years in existence or their annual income or just the fact that they are bigger in size than others although they are all in the small business. Recommendations were suggested to address the research problem and the study. It was discovered that;

- 1) The various categories of SMMEs often bear the burden of regulation differently or easier by virtue of the above aspects that they are classified. For example, it was discovered that a small business with a sole proprietor maybe making more money and so bear more of the taxation burden because it is bigger than a medium business that is considered bigger.
- 2) It was also observed that in Polokwane, the small business sector is playing a phenomenal role in the employment and income generation, they should continue to be a priority of policy makers in the alleviation of poverty and unemployment.
- 3) It was also discovered that although small businesses encounter challenges that relate to the regulatory environment, the success and growth of a business depends partly on the skills and managerial capabilities of the owner of the business (consequently, the growth and prosperity of the small business sector depends also on the efforts all small business owners can put in in this area). If the lack of skills and managerial capacity is also a major impeding factor, training institutions should come up with better ways of training business owners to ensure not only a growing SMMEs sector, but a profitable, sustainable one.
- 4) Again, legislation and procedures are relatively mild in the initial stages of formation, the establishment and continuity of the business lives in their ability to maintain profits and in the business environment, thus taxation, municipal fees should be a matter of concern as pertains to the frequency and amount. Although suggested technological changes have been already put in place, their effect is not felt as yet.
- 5) It was discovered that variables that were purported at the beginning and from other studies to be related, had no relationship whatsoever.

## 6. Conclusion on Research Problem and Question

The study sought to investigate the following research

problem:

Several reasons account for the challenges faced by the small business sector in South Africa. Prominent among these challenges is the regulatory environment which ranks highest as a challenge than even finance or infrastructure. Consequently, small businesses invariably bear the cost of regulation. This results in deficient growth and curtailed promotion of this sector. However, there is evidence that contradicts the notion that the regulatory environment is hostile to small business growth. Thus, further research is recommended to be carried out in this regard as South African regulatory environment is regarded to a certain extent unconducive to small business growth and development. However, not all firms within the small business sector suffer under the burden of regulation as by virtue of certain aspects such as size, annual income, years of existence and number of employees, some firms bear the regulatory burden much better than their counterparts. It is on this note that the study aims to conduct further research and make a comparison of firms within this sector with regards to the regulatory burden borne.

Consequently, the research question was formulated as follows:

What factors within the regulatory environment constrain small business growth and to what extent? And how much of the regulatory burden do firms within the small business sector comparatively bear?

To fully address the research problem and answer the research question above, both quantitative and qualitative methods was used to collect primary data from 121 small business owners in Polokwane. The conclusion from the evidence collected in this study suggests that various factors in the regulatory environment negatively affects growth in the small business sector, however only to a certain extent as other factors such as the owner's skill and abilities also play a vital role. Furthermore, the findings indicate that the various categories within the small business sector bear different burdens according several characteristics that distinguish them.

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