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The Impact of Small(er) Enterprises

Dr Anton Verwey – inavit iQ
Mr Richard du Toit – inavit iQ HR

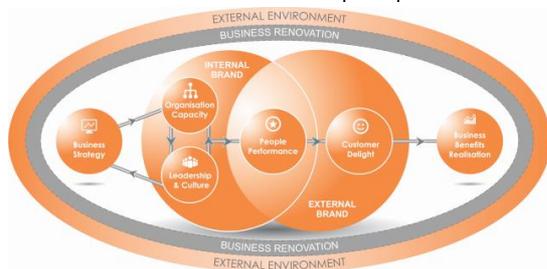
Background

In reflecting on what the themes and topics of the 2017-2018 series of articles should be, we were of the opinion that two interdependent trends may be worth exploring. These are:

- The clear indication (and not a new one), that economic growth and job creation are functions of the well-being of smaller enterprises; and
- That regardless of where you are in the world, internationalisation of your business is one of the realities you have to deal with.

For the current series of articles, we will therefore adopt these two perspectives on each of the themes explored.

As in the past, we shall again utilise the Business Value Model™ to discuss these themes and topics from different business perspectives.



The BVM utilises the following logic:

- The realisation of specific business benefits (such as operating profit, top-line revenue and market share)

The Idea in Brief

In this article we share some of the key trends at play in the macro environment in South Africa. We then show the importance of SMEs in counteracting these trends, and building sustainable businesses that contribute to our development and growth.

- is dependent on the creation of customer delight (loyal and satisfied customers);
- which is a direct result of the delivery of value adding products / services;
- by high performing people;
- who work in a fit-for-purpose work environment (organisation capacity with respect to business process, organisation structure, human capital, information flow and technology);
- who are led and managed by capable, competent and credible leadership;
- towards a common goal and strategy; and
- that addresses the dynamics of the competitive landscape in an innovate manner that builds the business brand and reputation.

This specific article focuses on global trends, specifically from the perspective of internationalisation. From a business value model perspective, the focus is therefore on the external environment, and to some degree on the business re-novation that may be required.

You may also find the companion article "A Perspective on the Global Business Context", taking an international perspective, interesting to read.



Why the Focus on SMEs?

Movies are really interesting things to consider from a business perspective. Allow us to illustrate:

- Most, if not all of us, would be able to easily mention a number of the James Bond movies, the main actor in them, as well as some of the leading ladies; and
- Some of us (the fanatics!) would even be able to mention the particular motor car that Bond drives in our favourite movies from the franchise; but
- Very few of us would remember any of the names of the supporting cast. Without these people, there would, however, be no movie!

Smaller enterprises are, unfortunately, a little bit like this. We all know of, and even have some detail about the big companies in our country and the world, but the economy simply will not run without smaller enterprises. Full stop!

The Context and the Challenge

In this article, we will share some of the South African trends that all businesses, including Small and Medium Enterprises (SMEs), have to deal with. Given the limited space allocated to our series of articles, only some of the trends will be included here. For a copy of the full report containing all of the typical PESTLE (Political, economical, social, technology, legal, environmental) trends at a global, emerging market and South African level, please contact us.

Chronic corruption

South Africa currently scores 44 on the Transparency International's 2015 Corruption Perceptions Index. This number refers to the perceived level of public sector corruption on a scale of 0 to 100. Zero means that a country is perceived as highly corrupt, while 100 means that it is clean (Quintal, 2016). Added to this, perceptions around corruption in South Africa

shows a minimal decrease with the Transparency International's 2015 Corruption Perceptions Index ranking the country 61st among 168 countries (Transparency International, 2015) in 2015, whereas it ranked 67th among 167 countries in 2014. However, people within South Africa still rate the government's anti-corruption efforts as ineffective, with more than four in five citizens (83%) saying that they have seen corruption rise recently (Transparency International, 2015:5). The country has lost R700 billion in public money to corruption since 1994 (Africa Check, 2015), while the Transparency International (2015) shows that 79% of South Africans believe that government is doing a poor job on combating corruption.

Protection of rich biodiversity

"We are living in the Anthropocene – an era where humans are influencing the Earth's biophysical processes at a global scale" (Cole, 2015). Biodiversity is relevant in the South African context as the country is one of 17 mega-diverse countries globally and has three of the world's 25 biodiversity hotspots. The country is currently experiencing severe environmental stresses as fresh water and food supplies are under pressure, in many areas air quality is damaging health and carbon emissions are breaching safe levels, adding to the pressure of climate change (Cole, 2015). A report titled "Is South Africa Operating in a Safe and Just Space?" (BusinessTech, 2015b) states that South Africa has crossed its safe environmental boundaries for climate change, freshwater use, biodiversity loss and marine harvesting and is nearing the 10% of crossing the boundaries for arable land use, phosphorous loading and air pollution. The good news is that 816 000 "green" jobs could be created in the country by 2025 across the areas of natural resource management (biodiversity, water and land), energy generation, energy efficiency and pollution management (BusinessTech, 2015b).

Unemployment and graduate surplus

The South African economy may be defined in terms of a hybrid economy, i.e. consisting both of a formal and informal economy where the citizens of the country can find formal and informal occupations. IRMSA Risk Report (2015:22), suggests the current unemployment rate is around 25%, translating into about 5.2 million South African citizens without formal employment. The highest figures for unemployment in South Africa are in the manufacturing and agricultural sectors. The South African Networking Practitioners Developing Local Economies (2013) suggests that if it were not for the informal economy, the unemployment rate would be around 47.5% in comparison to the current 25% as indicated by the IRMSA Risk Report (2015:20). Coupled with high levels of unemployment, the South African economy is faced with another problem, i.e. the mismatch between the skills that young people offer and the skills that employers need. The IRMSA Risk Report (2015:20) suggests that the contributing factor to the mismatch is caused by bad basic education and although the South African Government has established policies and procedures in order to boost graduates from universities, it is not the amount of years spend in education but the content of the education that will ensure a reduction in the unemployment rate. In essence, the educational sector lags behind in terms of up-to-date educational content, exacerbated by red-tape and non-adherence to time frames for changes in the current curriculum.

Poor performance on human development indicators

South Africa is performing poorly as regards some of the social parameters, as is evident from the fact that the country is ranked in the second-last category of the 2015 Human Development Index. The index grades countries into a four category ranking scale, ranging from very high human development; high human development; medium development to low human development (Mashego, 2016). This low rating is mainly due to the fact that life

expectancy in South Africa has dropped to 57.4 years; the country is also one of the two lowest-ranking members of the five emerging economies, which are referred to as BRICS countries (Brazil, Russia, India, China and South Africa) (Mashego, 2016).

Unemployed youth

South Africa has one of the highest unemployment rates in the world (25.5%), hence addressing it is one of the main challenges and a strategic priority of the country. Broad unemployment (which includes discouraged job seekers) is 35%, with 5.2 million of the labour force out of work (African Economic Outlook, 2015). Similarly, youth unemployment (age 15-24) is over 50%, which indicates one of the lowest labour force absorption rates in the world (42.7%) (African Economic Outlook, 2015). In addition, female unemployment is 4% higher than male unemployment in South Africa (African Economic Outlook, 2015). All net job creation post-2009 has been in the public sector, while by mid-2014 the private sector had only recovered 36% of the 449 100 private sector jobs lost during the recession. Factors that continue to hinder job creation in the private sector are weak economic growth, low business and investor confidence and electricity supply constraints (African Economic Outlook, 2015).

Summary remarks on context

A full review of all external trends, using a typical PESTLE framework, for example, would literally turn this article into a very substantial report. Out of the research we did (that in fact is contained in such a report), we selected some of the themes that may be of most practical concern to SMEs in the South African context.

In conversations with clients of ours that own and run SMEs, it would seem to us that the major concerns centre on the following:

- A negative economic growth rate, because of shocks caused by political reshuffling;
- The exchange rate remaining under pressure;

- Unemployment remaining high;
- Negative industrial action adversely affecting the economy;
- Skills gaps widening, resulting in a graduate surplus;
- Human development remaining problematic;
- Income disparity with more than 10% of South Africans living in extreme poverty;
- Unemployed youth;
- A poor public education system; and
- Continuous pressure on the SA health care system.

How could SMEs respond?

From the above, it would seem to us that at a very practical level, SMEs can contribute to the raising of employment levels, skills development, and income disparity, amongst other matters.

SMEs play a critically important role in economies across the world. A number of studies demonstrate that they are, above all, the key propellers of job creation. There is evidence that the contribution made by SMEs is more pronounced in developing than in developed countries. Under the right conditions, a robust SME community has the capacity to be a dynamic, transformational force since, in the words of the World Bank, "relative to larger firms, SMEs enhance competition, entrepreneurship, job growth and spur economy-wide efficiency, innovation, growth and poverty alleviation" (SBP Alert, 2013).

Job creation

Small businesses have a key role to play in providing opportunities and creating new jobs in emerging economies, the Minister of Trade and Industry Rob Davies said recently when speaking at the International Small Business Congress held at the Sandton Convention Centre. Small businesses have good potential when it comes to job creation, as the cost to create one job in a small firm is less than it is to create a job at a big firm.

A central theme of the 2016 World Bank summit (Nguru; 2016) was the critical role played by start-ups and small businesses in creating jobs and spurring economic growth. Small and medium enterprises (SMEs) represent the vast majority of the business population in low-income countries (excluding micro firms and the self-employed). According to a recent study from the International Finance Corporation (IFC), SMEs account for more than half of all formal jobs worldwide, and their share of aggregate employment is comparable to that of large firms.

Economic growth

Small, Medium and Micro Enterprises (SMMEs) can be the backbone of any economy and the main driver of economic growth. Research by Global Entrepreneurship Monitor shows that small businesses are significant contributors to job creation, creating more than 50 percent of all employment opportunities in South Africa. Currently, the SMME sector contributes more than 45 percent of the country's gross domestic product. SMMEs have the potential to create and expand employment opportunities, develop entrepreneurial skills and enhance market opportunities. Compared to the rest of Africa and the world, South Africa is said to have the lowest entrepreneurship activity. This means our country is yet to see the true value and benefits of SMMEs.

Development and sustainability

SMEs have been identified as productive drivers of inclusive economic growth and development in South Africa and around the world. Some researchers have estimated that, in South Africa, small and medium-sized enterprises make up 91% of formalised businesses, provide employment to about 60% of the labour force and total economic output accounts for roughly 34% of GDP. While contributing significantly to the economy, SMEs foster diversification through their development of new and unsaturated sectors of the economy. In addition, innovative and technology-based small and medium enterprises can provide a platform for local, regional and international growth, especially in

the BRICS economies. SMEs are considered an important contributor to the economy as drivers for reducing unemployment, particularly since the formal sector continues to shed jobs.

Moreover, looking ahead, the National Development Plan projects that by 2030, no less than 90 per cent of new jobs will be created in small and expanding firms. Small business, furthermore, forms part of the backbone of a thriving society. In order to survive, it has little choice but to be versatile, innovative and entrepreneurial as SMMEs seldom have a monopoly (Groepe, 2015).

Summary remarks on response

As can be seen from the above, SMEs are of critical importance in the South African emerging market, and indeed, the global economy.

At the most fundamental level, we are of the opinion that this all begins with the MINDSET of the SME business leader. Over and above the fact that your business should (and must) fund your lifestyle, it must also contribute to the larger cause of creating a society able to leave a positive legacy. We must all learn to think, and then act, beyond ourselves.

With the right mindset, the next step is to be ambitious, and manage your business as if it were a really big business:

- Put into place all the principles and practices of good business governance;
- Manage your financials accurately and conservatively;
- Understand your market and your customers;
- Know that all of your efforts will come to naught if you do not employ the right people and develop their skills.

The BVM applies to all businesses, regardless of size. How you THINK, and then ACT around each element of the BVM, is in the final analysis the key determinant of the success of your business, as well as the contribution it will make to the broader South African context.

Conclusion

The Brutal Facts:

- 50% of all new businesses fail within 5 years; and
- The failure rate of start-ups is even higher – some estimates are as high as 90%.

How do you, as a business leader of an SME, prevent yourself from becoming part of this statistic?

- Your PRODUCT or service is a perfect fit to the market;
- You do not ignore ANYTHING;
- You need to grow FAST;
- You need to manage CASH;
- You know how to RECOVER, because of a versatile team.

As always, we welcome your comments and input. Please feel free to engage us in conversation.

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About the Author(s)

Dr Anton Verwey is the Executive Chairman of the inavitiQ group of companies. He has experience in a wide range of industries in the fields of Business Strategy, Organisation and Work Architecture, Leadership Talent Development and Human Capital processes and systems. For the past two decades his focus has been primarily on leadership capacity building strategies. In this context, he has worked with organisations ranging from SMEs to listed companies, as well as some state-owned enterprises. He is the author and co-author of numerous books and articles and has supervised a number of masters and doctoral level studies.

Mr Richard du Toit is the Chief Operating Officer of inavitiQ HR based in Gauteng. Richard, who is a SABPP registered HR professional, with in excess of 30 years' experience in the field, recently joined our Group following a successful career as an HR executive in the Construction and Engineering sector. During this time, he acquired in-depth knowledge and experience in the both the strategic and operational aspects of the full spectrum of HR services. In addition to holding numerous industry leadership roles, he also successfully lead his previous employer's BBBEE-Enterprise Development initiative – successfully ensuring the structured growth of these SME partner enterprises, while ensuring the maximisation of the mutual business benefits realised (and in numerous cases, their successful transition from CIDB level 3 to CIDB 9.)

About inavitiQ

inavitiQ (Pty) Ltd is a South African based international business consulting professional services firm. We have a formal presence in Gauteng, Western Cape, Mauritius and Europe.

We work in a range of industries and with companies of varying sizes and in various phases of their own growth cycle. Our collaboration with clients focuses on:

- Developing insight into their external context and competitive landscape;
- Strategy formulation and alignment;
- Leadership excellence and leadership-led business transformation;
- Organisation capacity including business and operating models, organisation, work, data and systems architecture;
- People performance, engagement and commitment;
- Customer delight and brand reputation; and
- Decision-making dashboards and intelligence.