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## The Influence of Government Financial Incentive Schemes (Gfiss) on Small and Micro Enterprises' (Smes') Operational Performance: Case Study

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### **Abstract:**

*The small, medium and micro enterprises (SMMEs) play a pivotal role in the South African economy through job creation and development. Hence, SMMEs should operate efficiently and run their businesses effectively in order to grow within their respective sectors. One of their challenges is access to different methods of finance in order to improve their operations. As a result, this paper examines the influence of the financial incentive schemes (GFIS) on small and micro enterprises' (SMEs') operational performance in the textile and clothing manufacturing sector in the eThekweni District Municipality.*

*Of the 94 SMEs that were identified, 80 participated in the study. The owners of SMEs were the target population. Descriptive and one-sample statistics were used to analyse the three objectives. That is, to examine SME awareness of government financial incentive schemes; to establish SME knowledge of accessing government financial incentive schemes; and to determine the influence of GFIS for SMEs' operational performance. The results indicate that the majority of SMEs are not aware of GFIS. They are less knowledgeable as to where to access government's finance assistance. However, those that have accessed the government financial schemes indicate that such schemes help achieve their operational performance objectives for growth.*

*The original value of this paper is its approach in uncovering strengths and weaknesses of government's financial incentive scheme for SMEs' operational performance in the eThekweni District Municipality. It provides the initial baseline data upon which to base future work.*

**Keywords:** Government financial incentive scheme, eThekweni District Municipality, operational performance, SMEs, SME awareness, SME knowledge, textile and clothing industry

### **1. Introduction**

In many countries around the world, governments have paid attention to enhancing the SMMEs' operational performance. However, the low rate of success amongst SMMEs in South Africa (SA) over the years indicates that there are factors hindering the efforts of the country's SMMEs from operating efficiently (Turton and Herrington 2012: 48). One of the identified factors is limitations on the access to different methods of finance (Migiro and Wallis 2006: 2). SMMEs in Africa normally rely upon their personal savings or the savings of their families, as access to capital is difficult (Okpara and Wynn 2007: 24). Moreover, challenges such as market access, skills and networks and an enabling environment threaten their growth (Dalberg Global Development Advisors 2012: 5).

SMMEs in the textile and clothing industry in SA hire thousands of people and the government spends over R9 billion on improving the industry (KZN CTC 2012). However, the disorder in the worldwide markets has left the SA clothing and textile sectors predominantly defenceless. Together with a deteriorated Rand, this has put pressure on the sectors' employment stability. Furthermore, SA manufacturers' incompetence in seizing the national market signifies an enormous opportunity lost in respect of the disastrous growth in imported clothing merchandises from China and other low-cost manufacturers (KZN CTC 2012).

However, SMMEs are often said to be the driving force in the promotion of the economy and considered as the main drivers for innovation (Subhan, Mehmood and Sattar 2013: 2). In many countries, governments have paid much attention to enhancing their operational performance. On the same note, Mathibe and Van Zyl (2011: 101) reveal that SMMEs are not aware of government financial incentives and are even less knowledgeable as to where to access finance. In countries that are developing, the lasting growth and competitiveness of SMMEs is compromised by the limitations of their access to different methods of finance in order to improve their operational performance (Migiro and Wallis 2006: 2). This could be the reason SMMEs in SA face challenges of accessing government financial assistance (Fatoki and Odeyemi 2010: 128). Hence, this paper examines the influence of GFISs for SMEs' operational performance. The Textile and Clothing sector participated in the study. The next section presents the objectives for this study. This is followed by the theoretical framework considered.

## 2. Study Objectives

- to examine the awareness of SMEs belonging to the textile and clothing sector of GFIS;
- to establish the knowledge of the textile and clothing SMEs for accessing GFIS; and
- to determine the influence of GFIS on operational performance.

## 3. Literature Review

This section discusses the overview of SMMEs' structural challenges that require government attention; operational performance measurements for SMMEs; government's financial incentive in SA; access to GFISs in SA; the influence of GFIS on SMMEs and the GFIS in SA.

### 3.1. Overview of SMMEs' Structural Challenges that Require Government Attention

The SA government introduced the Broad Based Black Economic Empowerment (BBBEE) in an attempt to address the historical economic hardship, thus widening the involvement of previously disadvantaged individuals in the economic mainstream (Kruger 2011:207). However, Rogerson (2010:772) argues that, when it comes to government financial support, few black SMME owners are assisted. This is a debatable issue and should empirically be explored. Nevertheless, Richard (2009) adds that the availability of funds is too small and has many centralised top-down programmes from the Small Enterprise Development Agency (SEDA) as well as the Department of Trade and Industry (DTI). Hence, the delivery is perceived to fall short of assurances, not to mention expectations. It is difficult to measure the success of government SMME financial programmes. The largest number of new SMME failures occurs in the formal economy (Rogerson 2010: 768). Turton and Herrington (2012: 52) insist that the government should address business failure resulting from the lack of entrepreneurial skills more than providing non-stop finance to new businesses. Nonetheless, it should track SMME failures in order to comprehend in closer detail the reasons for failure and identify proper interventions.

### 3.2. Operational Performance Measurements for SMMEs

Operational performance is the measurement of a business's performance against established indicators (Liker and Franz 2011: 2). This includes standard times, reliability, quality, labour indices, inventory control and Just-In-Time (JIT). It is crucial for SMMEs to consider performance measurement in their business at all levels in order to detect difficulties and improve the efficiency of detailed responsibilities, to measure customer satisfaction, and to arrange strategic objectives (Sousa and Aspinwall 2010: 477). This is undertaken to ensure that goods that are manufactured satisfy customers' needs and are of good quality, competitively valued and delivered alongside outstanding customer services (Urban and Naidoo 2012: 149).

Policy makers perceive SMMEs as important for the growth and development of the SA economy (Urban and Naidoo 2012: 146). Moreover, operations are the vital functions of any business.

### 3.3. Government's Financial Incentives in South Africa

In the period since the dawn of democracy, small businesses have seen an increase in government's direct financial assistance (Richard 2009: 9). At the same time, there is an exponential growth in the number of small businesses. Hence, the DTI (2013:3) explains that the majority of small businesses in 2013 have qualified for financial support. This has increased their competitiveness. The financial support has enhanced government's role of creating employment, thus generating a maintainable and reasonable economic growth (Gstraunthaler and Cramer 2012: 59).

Rogerson (2010: 772) argues that the industrial sectors are not treated the same when it comes to government financial support programmes. For instance, about 25 per cent of the clothing industry use SMME support programmes, compared with only 8 per cent in tourism and 5 per cent in information technology. Furthermore, non-exporting low-growth SMMEs have less chances of getting government financial support programmes compared to exporting high-growth SMMEs. The urban-based SMMEs have been the main recipients when it comes to access and awareness of SMME support programmes (Rogerson 2010).

Business Innovation Skills (BIS) (2012: 2) reveals that approximately half of SMEs do not utilise proper sources of outside funding. They depend on trade credit from their dealers. However, Rogerson (2010: 772) argues that there are few reliable and verified statistics concerning the influence and performance of government support programmes on the SMME economy. However, this study examines the influence of GFISs on SMEs' (belonging in the textile and clothing sector) operational performance in the eThekweni District Municipality. Hence, the next subsections discuss the awareness and access of SMEs to the GFISs.

### 3.4. Access to GFIS in SA

The International Finance Corporation (2010: 3) reveals that the absence of access to funding by SMMEs is one of the obstacles for development. This challenge results in difficulty for SMME owners to make the required investments aimed at increasing their outputs, to access new markets and employ more people. The lack of government's financial support services to SMMEs is the result of the lack of awareness by both the established and developing SMMEs (Rogerson 2010: 774).

Urban and Naidoo (2012) argue that the lack of support services is not the main issue. The uneven spread of where, how and in which fields services are offered is a constraint. Moreover, unwieldy administrative processes together with the constant variations in programmes discourage SMMEs from applying for financial assistance. This imposes high search costs when they look for such services.

Richard (2009) explains that the low use of government-supplied business support services is due to low levels of awareness by SMMEs. This lack of SMME access to finance limits their development (BIS 2012: 8). The whole process of obtaining government financial support should be simple and SMMEs should be assisted from the beginning to the end.

### *3.5. The Influence of GFISs to SMMEs*

The SMME economy is perceived as a positive factor in contributing to poverty alleviation (Rogerson 2010: 771). However, the assumption of this significant role is not a reflection of the achievement or influence of government programmes. The existence of government support programmes do not live up to the expectations. Hence, SMEs should not be discouraged from applying for government funding (BIS 2012: 11). Rogerson (2010: 771) suggests that the support environment provided by local and national governments can be used to influence the economy for poverty reduction.

The SA government has prioritised SMMEs for job and business creation (Urban and Naidoo 2012: 147). Its purpose should be to create a climate that is conducive and sustainable for SMMEs, where they can operate their businesses efficiently and effectively (Miroslava 2013: 109). Moreover, government should use the incentives as an instrument to enhance investments and encourage economic development.

### *3.6. The GFIS in SA*

Financial incentives comprise allowances, soft loans, reliability assurances, economic assistance and manufacturing rates relief offered by government to specific sectors of businesses (Miroslava 2013: 109). The aim is to improve, amongst others, the operational performance of businesses. The most common financial incentive is the allowance or grant. However, government supports businesses in many ways and the GFIS is one of them (Rogerson 2010). Providing financial support to SMMEs eradicates market inadequacies and kindles rivalry (Botes and Lundstrom 2005). The following is an overview of GFISs offered by the SA government (DTI 2013).

#### 3.6.1. The Black Business Supplier Development Programme (BBSDP)

This is a cost-sharing scheme offered to small black-owned enterprises to help improve their effectiveness and sustainability. A maximum fund of R1 000 000 is offered. This comprised a maximum of R800 000 maximum for tools, machinery and equipment as well as R200 000 for the improvement of governance, the management, marketing, productivity and use of modern technology by the business.

Black-owned businesses that qualify for this incentive comprise those that have an annual turnover of between R250 000 to R35 million and have been trading for, at least, one year.

#### 3.6.2. The Manufacturing Investment Programme (MIP)

The MIP is suitable for the expansion and upgrading of existing production facilities in the clothing and textiles sector. It is accessible by local and foreign-owned manufacturers that wish to launch a new production facility. The main objective is to encourage investment in manufacturing, increase job opportunities and sustain business growth.

#### 3.6.3. The Sector-Specific Assistance Scheme (SSAS)

The SSAS is a reimbursable cost-sharing fund providing financial assistance to export councils, joint action groups and industry associations. Two sub-programmes, namely Generic Funding and Project Funding for Emerging Exporters (PFEE) are covered under this scheme. Enterprises eligible for SSAS are non-profit organisations that are in sectors prioritised by the DTI. The aim of this programme is to develop the industry segment as a whole, grow fresh export markets, encourage creation of employment, widen the export base and stimulate the wider involvement of businesses that are owned by blacks.

#### 3.6.4. The Production Incentive (PI)

The PI was established as an upgrade fund facility or an interest subsidy facility (or a combination of both). It supports enterprises that seek to improve their processes, products and people. The scheme is accessed by the clothing and textile manufacturers; cut, make and trim (CMT) operators, footwear manufacturers; leather goods manufacturers and leather processors (particularly, those in the leather goods and footwear sectors).

#### 3.6.5. Isivande Women's Fund (IWF)

The IWF is a special women's grant established by the DTI. The grant seeks to facilitate economic empowerment by offering more affordable, usable and receptive finance. IWF targets legally registered enterprises, 60 percent of which are owned and/or managed by women. The businesses must fall within a loan range of R30 000 to R2 million and must have been in existence and functioning for two or more years.

Women's lack of access to financial resources reduces their capacity to pursue economic opportunities (Global Partnership for Financial Inclusion 2011: 6). Thus, the government and financial institutions have a part to play in enhancing access to finance for SME women owners.

The study is designed around the following questions:

- Are SME owners belonging to the textile and clothing sector aware of GFIS?

- Do SME owners belonging to the textile and clothing sector have knowledge of accessing GFIS?
- Does the GFIS influence SMEs' operational performance?

#### 4. Methodology

The method for this research will be discussed under the following headings, namely: the target population, the location of SMEs that participated in the study, data collection as well as the measurement and analysis.

##### 4.1. Target Population

The population for this study comprised 94 SME owners of the textile and clothing industry. These companies were operating in the eThekweni District Municipality. The following Figure 1 provides the breakdown percentages of SMEs that were identified for participation in this study.

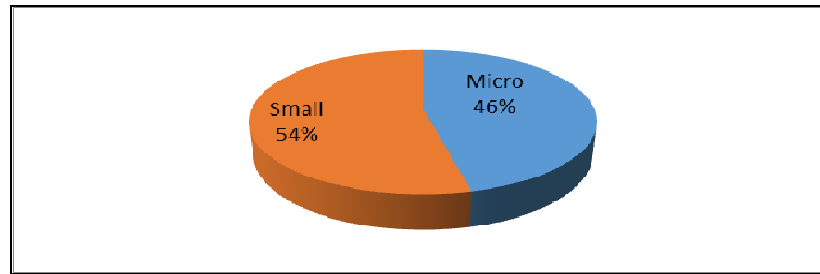


Figure 1: Percentage breakdown of SMEs identified for participation in the study

Figure 1 indicates that 54 per cent of the enterprises identified were small and 46 per cent were micro businesses.

##### 4.2. The location of SMEs that Participated in the Study

Table 1 presents the location of textile and clothing SMEs that participated in the study.

		Frequency	Percent	Cumulative Percent
Valid	Urban	70	87.5	87.5
	Rural	1	1.3	88.8
	Peri-urban	9	11.3	100.0
	<b>Total</b>	<b>80</b>	<b>100.0</b>	

Table 1: The location of SMEs that participated in the study

Table 1 shows that 87.5 per cent of the participants had their businesses in urban areas while 11.3 per cent are in peri-urban areas. Only 1.3 per cent of the businesses were located in rural areas.

##### 4.3. Sample Size

The respondents were selected based on their size of business and had to operate within eThekweni District Municipality. The study focused only on textile and clothing businesses whose number of full-time employees ranged between zero and 50, as in Antonites, de Beer, Cant and Jacobs (2008:4-5). As a result, 80 SMEs participated in the study. Recruitment of respondents was undertaken with the aim of ensuring a representative spread of SMEs in the textile and clothing sector. A simple random sampling method was used and each textile and clothing SME in the eThekweni District Municipality had an equal likelihood of being selected (Welman, Kruger and Mitchel, 2011).

##### 4.4. Data Collection

Data had to be collected from 94 textile and clothing SMEs owners. This was achieved through a team effort of two research assistants who had to distribute and retrieve the questionnaires. The distribution and retrieval of the questionnaires were done within a three-month period. On average, each participant completed the questionnaire within three days. Eighty questionnaires were collected by the research assistants representing an 85.1 per cent response rate, considered high compared with the norm for survey responses (Baruch and Holtom, 2008). The main reason for this high response rate was due to the invitation letter sent to the participants and consistently following up the questionnaires through telephone calls.

##### 4.5. Measurement and Analysis

In line with research framework, the study measured five GFISs using the questionnaire. These GFIS measurements include the BBSDP, PI, SSAS, MIP and IWF. The five GFISs were measured in two study variables, namely, the awareness of GFIS and the knowledge for accessing the GFISs. The respondents had to affirm or not affirm with the statement using yes, no or unsure. Descriptive statistics were used for both variables.

In addition, the study measured two variables relating to the influence of GFIS on SMEs' operational performance. It employed a Likert scale, ranging from 1 (strongly agree) to 5 (strongly disagree). One-sample statistics was used to test whether a sample mean of a normally distributed variable changes meaningfully from a theorised value. For each variable, the mean score was calculated and then tested against the neutral score of 3 to test the significant agreement or disagreement of the statements. If the score is greater than the mean score of 3, this implies a significant agreement of the variable.

The SPSS (16 Ed) was used for the data analysis of data.

## 5. Findings

### 5.1. Awareness of GFISs

Table 2 present results of SME awareness of GFISs.

GFIS	Category	N	Per cent responses
BBDP	Yes	48	60.0
	No	32	40.0
	<b>Total</b>	<b>80</b>	<b>100</b>
PI	Yes	41	51.3
	No	39	48.8
	<b>Total</b>	<b>80</b>	<b>100</b>
SSAS	Yes	38	47.5
	No	42	52.5
	<b>Total</b>	<b>80</b>	<b>100</b>
MIP	Yes	39	48.8
	No	41	51.3
	<b>Total</b>	<b>80</b>	<b>100</b>
IWF	Yes	43	53.8
	No	37	46.2
	<b>Total</b>	<b>80</b>	<b>100</b>

Table 2: SMEs awareness of GFISs

Owners of SMEs in the textile and clothing sector indicate that they are aware of government incentive. The responses with the highest SME awareness in Table 2 include BBDP; IWF and PI. The percentage response ranges from 51.3 to 60.0 per cent. However, the responses with the lowest SME awareness include SSAS at 47.5 per cent and MIP at 48.8 per cent.

### 5.2. SME Knowledge of how to Access Government Financial Incentive Schemes

GFIS	Category	N	Per cent responses
BBDP	Yes	44	55
	No	36	45
	<b>Total</b>	<b>80</b>	<b>100</b>
PI	Yes	37	46.3
	No	43	53.7
	<b>Total</b>	<b>80</b>	<b>100</b>
SSAS	Yes	36	45
	No	44	55
	<b>Total</b>	<b>80</b>	<b>100</b>
MIP	Yes	30	37.6
	No	50	62.4
	<b>Total</b>	<b>80</b>	<b>100</b>
IWF	Yes	54	42.6
	No	26	57.4
	<b>Total</b>	<b>80</b>	<b>100</b>

Table 3: SME knowledge of accessing the GFISs

Results on Table 3 show that the majority of SME owners in the textile and clothing sector have little knowledge of government financial incentive schemes. The highest response of SME knowledge was the BBDP at 55 per cent. The incentives with the lowest response of SME knowledge include PI; SSAS; MIP and IWF. These low knowledge percentage response ranges from 37.6 per cent to 46.3 per cent.

### 5.3. The Influence of GFISs on SMEs' Operational Performance

This section presents the results of the influence of GFISs on operational performance on SMEs.

Table 4 presents the results of the influence of GFISs on SMEs' support on operational performance.

Variables	N	Mean	Std. Deviation	Std. Error Mean
The government financial incentive support helps fulfil the operational performance objectives of the business	80	3.15	1.360	0.152
There is positive influence in using the government financial incentive support for business operational performance	80	3.66	1.232	0.138

*Table 4: results of the influence of GFIS support on operational performance*

The results in Table 4 show the mean value of greater than 3 on both variables. This implies a significant agreement that GFISs support helps SMEs to fulfil operational performance objectives of their businesses at 3.15. In addition, SMEs experienced a positive influence when using the GFIS support for business operational performance at 3.66.

### 6. Discussions

Study findings reveal that the majority of SMEs are aware of GFISs. However, they are less knowledgeable as to where to access finance (Mathibe and Van Zyl, 2011: 101). This revelation works against government's objective of encouraging SME development and sustainability. SMEs are the agents of employment promotion, redistribution and improvement in global competitiveness (Urban and Naidoo, 2012). The importance of SMEs in the economy of a country has been emphasised.

However, Rogerson (2010: 775) states that the unmanageable administrative processes alongside the constant variations in schemes discourage SMEs from applying for GFIS assistance. On a positive note, the findings indicate that the government financial incentive support does help SMEs fulfil their operational performance objectives.

### 7. Implications of Results for Policy and Practice

The lack of access of SMEs to GFISs affects their growth and development. During the course of the study, SMEs agreed that assistance from government financial schemes enhances their operational performance. Besides the achievement of study objectives, the following conclusions can be made:

- 1) The government should create a climate that is conducive and sustainable where SMEs can operate their businesses efficiently and effectively.
- 2) SME awareness of GFISs helps offset external effects and eradicates market rivalry.
- 3) The GFIS enhances SMEs' operational performance objectives.

### 8. Study Limitations

The study was limited to the SMEs belonging to the textile and clothing industry of the eThekweni District Municipality. Therefore, the results cannot be generalised to other SME sectors. In addition, the study population was SMEs and did not include survivalist and medium-sized enterprises.

### 9. Conclusion

The majority of SMEs that are not aware of GFISs jeopardises the government's goal of reducing the unemployment rate that is mounting every year. It is incumbent upon the government to ensure that the financial schemes that enhance operational performance reach as many SMEs as possible in order to fulfil the goal of job creation.

### 10. Future Research Required

Based on the findings of this research, further studies on the factors influencing the performance of textile and clothing businesses in SA should be done. Future research should review the monitoring and evaluation of the application of GFIS to enhance operational performance in SMEs.

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