

The Impact of the Regulatory Environment on the Growth of the Small Business Sector in Polokwane, South Africa.

By

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A Dissertation submitted for the degree of Master of Commerce in the Department of Business Management



University of Venda

School of Management Sciences

SOUTH AFRICA

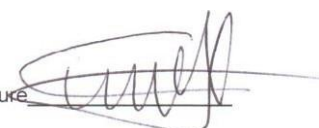
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December 2019

DECLARATION

I, Tambe Dede Kelly student number, 17015435, hereby declare that this research for Master of Commerce in Business Management at the University of Venda titled “**The Impact of the Regulatory Environment on the Growth of the Small Business Sector in Polokwane, South Africa**” has not been submitted previously for a degree at this or any other university, and that it is my own work, and that all the material contained has been duly acknowledged.

Signature  _____ Date 23rd July 2020

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DEDICATION

This work is dedicated to the two people in whose hands I was placed on this earth. My heroes, words of thanks escape me. I dedicate this to you both for your every sacrifice towards the betterment of my future – my parents, Mr and Mrs Tambe Betek Richard.

ABSTRACT

Government regulations are needed to achieve a range of economic and social objectives which are beneficial to the nation as a whole. However, many countries experience problems with their regulatory systems as they invariably impose costs on businesses. In South Africa, it comes in the form of red tape, high taxes, labour laws and corruption. This places various regulatory burdens including compliance, administrative costs and other costs that may adversely influence firms' productivity and frustrate their overall business performance and growth, particularly the small business sector. Given this sector's indisputable contribution towards the overall economic health of the nation, it is important to address its concerns regarding the issue of the regulatory environment and government policy, in order to initiate corrective action and introduce regulatory reforms. Again, it is important to point out that not all businesses within the small business sector suffer under the weight of regulation. The purpose of this study was to examine the extent to which South Africa's regulatory environment curtails the growth of the small business sector as well as determine whether the different categories of firms within the Small Business Sector (micro, very small, small or medium) bears different regulatory burdens. This study was carried out in Polokwane, Capricorn District Municipality, Limpopo Province, South Africa. To address the research problem, the positivist paradigm was used. The study used the mixed research method and the descriptive research design. The stratified sampling technique was used to determine various characteristics of the study population, while the convenience sampling technique was used due to constraints in reaching everyone in the population. The aim was therefore to find a representative sample of that population. Thus, to ensure that the population was representative, a sample size of 121 participants was derived using the Raosoft sample size calculator as well as other criteria. Questionnaires were utilised as the data collection tool and the collected data were analysed using SPSS version 25. Descriptive statistics, cluster analysis and Kruskal Wallis were also used to analyse 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, thus influencing the growth of the sector. The results also show that different categories of businesses within the small business sector bear different burdens, owing to certain characteristics they are defined by.

Keywords: *Government regulations, regulatory environment, regulatory burden, regulatory reforms, small business sector.*

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LIST OF ACRONYMS AND ABBREVIATIONS

BBBEE - Broad Based Black Economic Empowerment

BER – Bureau for Economic research

CCIQ - Chamber of Commerce & Industry Queensland

CCMA - Commission for Conciliation, Mediation and Arbitration

CGT - Capital Gains Tax

CIT - Corporate Income Tax

DTI – Department of Trade and Industry

GCB – Global Corruption Barometer

GEM – Global Entrepreneurship Monitor

ILO – International Labour Organization

JSE – Johannesburg Stock Exchange

OECD – Organization for Economic Co-operation and Development

PAYE - Pay As You Earn

PIT – Personal Income Tax

PRECCA – Prevention and Combating of Corrupt Activities

RSC – Regional Services Council

SAGE - South Africa Proprietary Ltd

SARS - South African Revenue Service

SBD – Small Business Development

SBP – Business Environment Specialists

SDL - Skills Development Levy

SEDA – Small Enterprise Development Agency

SITE – Standard Income Tax on Employees

SMMEs – Small, Micro, and Medium Enterprises

UIF - Unemployment Insurance Fund

VAT - Value Added Tax

WEF - World Economic Forum

CHAPTER 1: INTRODUCTION TO THE STUDY

1.1 Background

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 (Crampton, 2018; Mokolobate, 2016 and Verduyn, 2018). This is possible with entrepreneurship through the growth of the small business sector (Lekhanya, 2015; Dockel & Ligthelm, 2015; Li & Rama 2015, Mahadea & Kaseeram, 2018). Conversely, their actions fail to match their words as revealed by the Small Business Project's SME Growth Index 2015 (Kraft, 2015). 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 (Kraft, 2015). Eniola & Entebang (2015) 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 (Kraft, 2015).

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 (BER, 2016; Mahembe, Chiumya & Mbewe., 2011 and Mohutsiwa, 2012 as cited in Iwara, 2018). These medium firms seem to bear the regulatory burden much better than their micro, very small and small colleagues (Andrews, Sánchez & Johansson, 2011; Bouazza, Ardjouman & Abada (2015); Crain & Crain, 2010; OECD, 2015; Smulders & Stiglingh, 2008; Smulders 2012). This is contradicted by Dixon, Gates, Kapur *et al.* (2006) 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 (2010) support this assertion stating that "larger" businesses to a certain degree and as per certain regulations bear a high regulatory burden. 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.

1.2 Identification of the research gap

As explained in section 1.1 above, entrepreneurship is essential for the economic health of any country (Decker, Haltiwanger, Jarmin and Miranda, 2014; Furth, 2013; Westhead and Wright, 2013). Other studies by Beattie (2018), Ewer (2017) and Marr (2017) discuss the challenges faced by entrepreneurs associated with small businesses all over the globe. In South Africa, entrepreneurship and small businesses have similar fates and go through similar challenges (Feinstein, 2016; James, 2015; Jackson, 2016 and Thompson, 2018). Studies by Rampton (2015), Scholtz (2016), Timmis (2017), highlight government policy as a key obstacle to entrepreneurial growth and the development of the small business sector.

However, Simrie *et al.* (2011), Herrington *et al.*, 2010; Orford, Wood, Fischer, Herrington & Segal (2003) as cited in Musara and Gwaindepi (2014), fail to establish and critically examine those components within the business regulatory environment that curtail the growth of entrepreneurship and the small business sector in South Africa (Musara & Gwaindepi, 2014). Musara & Gwaindepi (2014) in their research point this out and attempt to discuss these factors. They concluded that labour restrictions, bureaucracy, corruption and policy compliance within the business regulatory environment affect the level of business and entrepreneurial activity negatively. They also recommend the need to conduct further investigations regarding the business regulatory environment and its effects on entrepreneurial activity (Musara & Gwaindepi, 2013, 2014). One of the secondary aims of this study will be to gather supporting evidence to justify the assertion that South Africa's regulatory environment is unfavourable to the growth of the entrepreneurship and consequently, the small business sector.

Equally important to note is the fact that, not all businesses classified under the small business sector face similar challenges, as some are significantly larger given certain characteristic aspects such as their sizes, employee base, income/revenue, years of existence and other factors (Organisation for Economic Co-operation and Development (OECD), 2017; Mahembe *et al.*, 2011 and Mohutsiwa, 2012 as cited in Iwara, 2018). This forms a reasonable resistance to bear the burden much lighter than the much smaller firms. Conversely, a study by Dixon, Gates, Kapur, Seabury and Talley (2006) holds that the larger firms grow, the more burden they are likely to bear when paperwork, taxes and other regulatory matters are concerned. These "larger" firms refer to those firms within the small business sector which according to certain criteria (size,

annual income, years of existence and number of employees) are larger than their smaller counterparts. With this rising controversy, the study investigates this issue with the aim to close this gap as well as contribute to the body of knowledge.

1.3 Problem Statement

Several reasons account for the challenges faced by the small business sector in South Africa. According to Herrington (2010), Makinane (2015), Scholtz (2016), Simrie *et al.* (2011) and Timmis (2017) prominent among these challenges is the regulatory environment which ranks highest as a challenge than even finance or infrastructure (Nieuwenhuizen, 2019). Consequently, small businesses invariably bear the cost of regulation (Döckel, & Ligthelm, 2015; Smulders & Stiglingh, 2008; Smulders, Sitglingh, Franzen & Fletcher, 2012). 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 (Kitching, Hart, Wilson, 2015; Panda, 2015). 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.* (2011), Makinane (2015) and Musara & Gwaindepi (2013, 2014) 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 (Mohutsiwa, 2012; Venter & De Clercq, 2007; Venter, 2014). 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.

1.4 Aim of the Study and Objectives

The aim of this study is to investigate the degree or magnitude of the regulatory burden small businesses bear in comparison to medium businesses and how they can be reduced to better promote small business growth. The secondary aim is to identify the factors within the business regulatory environment that have an adverse effect on small business growth.

The objectives of the study are:

1. To examine the regulatory factors constraining small business growth.
2. To determine how complex the regulatory environment is in relation to small business growth (by assessing the extent to which the factors within the regulatory environment curtail or are not sufficiently promoting growth in the small business sector in South Africa).
3. To compare the effects of the regulatory burden on firms within the small business sector.
4. To suggest viable solutions that improve the regulatory environment to enhance growth in the small business sector.

1.5 Research Questions

The research questions brought up by the study are:

RQ1: What factors within the regulatory environment constrain small business growth?

RQ2: To what extent does the regulatory environment affect small business growth?

RQ3: How much of the regulatory burden do firms within the small business sector comparatively bear?

RQ4: How best can the rules, regulations and policies of the regulatory environment be adjusted to better promote small business growth?

1.6 Hypotheses

The following are assumptions for the study:

H₁: Regulatory complexity has a significant impact on small business growth

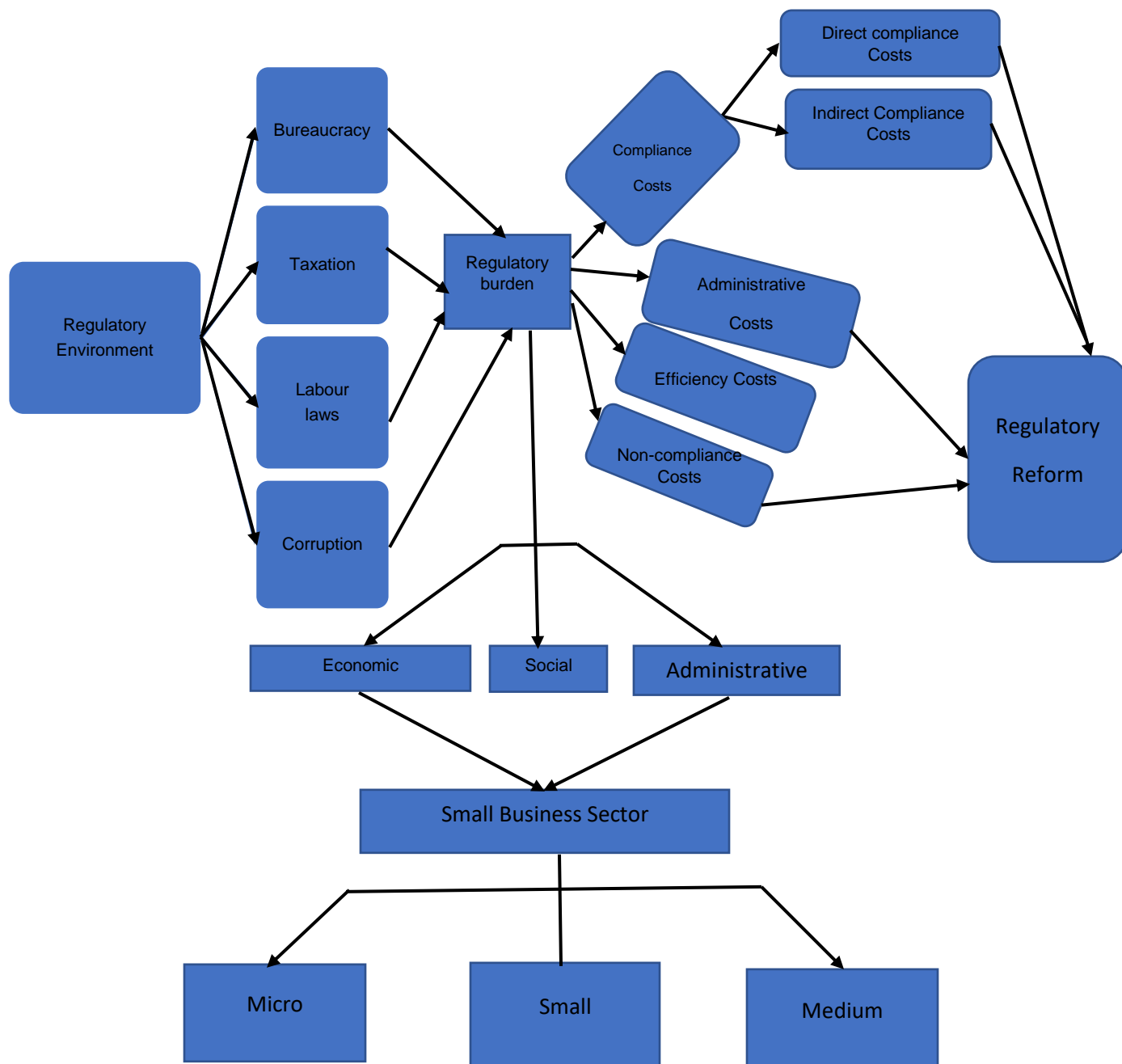
- (a) Taxation
- (b) Bureaucracy
- (c) Labour restrictions
- (d) Corruption
- (e) Policy compliance

H₂: 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

1.7 Conceptual Framework

To resolve the research problem and research question stated above, the following conceptual framework is proposed (Figure 1):



Source: Adopted for the study

Conceptual framework explained

The conceptual framework is explained below;

The dependent variable of a study is that which changes in response to the manipulation of the independent variable (Hassler, 2014). The independent variable is the one where values are deliberately changed by the researcher in order to obtain the desired outcome. This means that, the independent variable is the presumed cause of the effect observed in the dependent variable (Surbhi, 2016). Thus, the growth or not thereof of the small business sector is dependent on various influence factors within the regulatory environment broadly grouped into four bureaucracy, taxation, labour regulations and corruption (Musara and Gwaindepi, 2014). These factors usually manifest as costs which constitute a burden, negatively influencing the growth of the small business sector (Classified into micro, small and medium). This regulatory burden is broadly classified into three categories economic, social and administrative regulations (Smulders, 2006). This regulatory burden brings its own accompanying costs which are classified into compliance, administrative, efficiency and non-compliance costs which further have different types of costs under them. All these constitute a problem to the growth of the small business sector which requires regulatory reforms to be made. It will therefore be amiss to examine the regulatory environment considering just the factors within the regulatory business environment and leaving out the accompanying burdens which are the backbone of the research to be carried out. The study therefore sought to contribute to the body of knowledge by examining existing variables with respect to determining how they contribute to the small business failure rate in recent times.

1.8 Significance of the study

The study will be of impact in that:

- The study determines the extent to which the regulatory environment influences the growth of small businesses. This will prompt policy makers to examine and revise these regulations as the growth of the small business sector is essential to the nation.
- The revision of these rules and regulations through regulatory reforms will cause new and effective ones to be developed, this will reduce the long, endless and costly processes business owners will have to go through.
- The findings of this study will also ensure a steady increase in the small business start-up rate and encourage entrepreneurs who have not yet established businesses due to the fear of regulatory policies or burdens.

- Furthermore, the study will add significantly to the body of knowledge and will attempt to fill some gaps in already conducted research, whilst also creating gaps to be filled by upcoming research.

1.9 Delimitations of the study

The study will be delimited to Polokwane. As such results of the study may not necessarily be generalized to other areas in South Africa.

1.10 Definition of terms adapted for the study

- a) **Taxation:** This study will examine high taxes and taxation as a barrier to small business growth by citing those taxes deemed unnecessary or numerous especially for specific firms within the sector (Smulders, 2012)
- b) **Bureaucracy:** Mostly known as red tape, the study will look at unnecessary procedures which cost small firms in terms of time and finances (Timmis, 2017)
- c) **Labour laws:** Hiring and firing practices that prove too costly for small businesses (Worstell, 2016)
- d) **Regulatory environment:** This is broadly categorized into four aspects to minimize repetition (Taxation, bureaucracy, labour laws and corruption). It is important to note that there are resultant regulations from these aspects which are sub-divided into three. (Byrne, 2007; Cordeur, 2015; Crain and Crain, 2010; Evans, 2017; Makinane, 2015; Mokone, 2017; Smulders, 2012).
- e) **Regulations:** These are sub divided into three, economic, social and administrative which bring along with them regulatory costs which are further sub- divided into different aspects according to categories (Smulders, 2006)

1.11 Chapter Outline of the Dissertation

This research follows a five-chapter dissertation, which are structured as follows:

Chapter 1: This chapter presents a general overview of the study, the background of the study, the identification of the research gap and problem statement. It also outlines the aims and objectives of the study, research questions and hypothesis. The conceptual framework is also presented and explained. The significance, delimitation and chapter outline are presented last.

Chapter 2: This chapter presents a review of the existing literature on the regulatory environment of South Africa.

Chapter 3: This chapter presents the methodology employed in this research study. The evaluation of the research design and methodology is discussed, as well as the sampling, data gathering and analysis procedures.

Chapter 4: This chapter presents the analysis of the collected data and discuss the findings in relation to the review of literature in chapter 2.

Chapter 5: This chapter summarizes the findings according to the objectives and outlines the limitations of the study as well as the direction for future research, given the dynamic economic times and the growing need for these SMMEs with their equally flexible nature.

CHAPTER 2: LITERATURE REVIEW

2.1 Chapter overview

This section presents the ideas, perceptions, observations of other researchers in relation to the study. This comprises defining small businesses in the South African context and differentiating them according to the categories in which they fall and the criteria by which they will be measured to ascertain the degree of the regulatory burden. The growth of this sector depends on various factors within the regulatory environment. Thus, this section also examines the regulatory environment and what constitutes the regulatory environment. This was done by first classifying the regulations into different categories. Thereafter, the factors within the regulatory environment were examined. The resulting effects of these factors are burdens which bring about the matter of regulatory complexity. This was discussed by examining the accompanying costs brought about by regulations.

To further enhance understanding of the regulatory environment and complexity, the chapter discusses the effects of all the above-mentioned aspects on the growth of the small business sector as well as the comparison of the burden borne by firms within the sector. This brings up the need for regulatory reforms which will be discussed in the final section.

2.2 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”. Thus, most references to the term “small business” includes micro and medium-sized businesses and therefore “SMME” equates to the terms “small business”. It is also noteworthy that these firms are often associated with entrepreneurship because of their nature. However, there does not appear to be one consistent “small business” definition that is used in an economic sense in South Africa. For the rest of this research study, the term “small business” will be used and it will be assumed to include small, medium and micro-enterprises (Smulders, 2006).

Furthermore, SEDA states that within the definition of a small enterprise, many people also recognize a large number of very small (or micro) enterprises, with less than five employees. According to it, small enterprises are also sometimes called SMMEs (small, medium and micro-enterprises), a term which includes the larger end of the small business sector that is medium-sized businesses (which employ up to 200 people) (SEDA, 2006). The table below therefore shows how businesses within the Small Business Sector in South Africa are classified;

Table 1: Classification of Small businesses in South Africa

Category	Features
<i>Survivalist</i>	<ul style="list-style-type: none"> • Single owner • Annual income generated below the poverty line • No employees • Could be a brand-new start up or been in existence for more than 5-10years
<i>Micro</i>	<ul style="list-style-type: none"> • 1-5 employees, mostly family • Owner managed • Formal business premises • Informal business • 1-5 years of existence • Basic skills and training • Turnover below the R300,000 VAT registration level
<i>Very small</i>	<ul style="list-style-type: none"> • Less than 10 employees • Includes self-employed craftsmen • Managed by owner • Basic management structure • 5years of existence and above • Annual income below the R300, 000 VAT registration level. • Semi-skilled and unskilled employees
<i>Small</i>	<ul style="list-style-type: none"> • Less than 50 employees • Owner managed • Semi-complex management structure • More established than very small enterprises • Skilled and unskilled personnel • Semi-formal • Fixed and formal business premises • Annual income above the R300,000 VAT registration level • Spaza shops, minibus taxis and household industries • Less than 10years of existence
<i>Medium</i>	<ul style="list-style-type: none"> • Up to 100 - 200 employees • Still managed by owner • Decentralized management structure • Division of labour/skilled employees • Follows all legal/formal requirements • Fixed and formal business premises • Above R1,000,000 annual income • Above 10years of existence

Source: Small Business Development (SBD, 2005)

Note: The questionnaire was structured in line with these classifications

2.3 The regulatory environment

Overtime, various definitions have been given to the term 'regulatory'. It is defined by the Organisation for Economic Co-operation and Development (OECD) as restrictions placed in accordance with certain rules or principles (OECD, 2000). The OECD also defines it 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 (OECD, 2000). 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 (Kitching, 2006; Smulders & Stiglingh, 2008; Smulders *et al.*, 2012). According to Duhaime's Law Dictionary, laws are all the rules of conduct that have been approved by the government and which are in force over a certain territory and which must be obeyed by all persons on that territory. According to the business dictionary, rules are a set of explicit or understood principles governing conduct or procedure within a particular area of activity which clarifies, demarcates, or interprets a law or policy. Janosik (1987) defines regulations as orders having the force of law, prescribed by a superior or competent authority, relating to the actions of those under the authority's control. They are issued by various federal government departments and agencies to carry out the intent of legislation enacted by Congress. Regulations also function to ensure uniform application of the law. Howlett & Cashore (2014) define policies as principles that guide decisions and achieve rational outcomes. A policy is a statement of intent and is implemented as a procedure or protocol. Policies are generally adopted by a governance body which assists in subjective and objective decision making. Thus saying, policy and 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 (Musara & Gwaindepi, 2013). 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 (Moreno, 2014). Ardagna & Lusardi (2010); Eniola & Entebang (2015) and Klapper *et al.* (2008) confirm that a burdensome regulatory environment reduces the rate of business growth and entrepreneurial activity.

This is the case with the small business sector of South Africa (SBP 2016). First and foremost, it is important that the definition of the different types of regulation and the specific category in which

they fall. Thereafter, the factors within the regulatory environment limiting the growth of the small business sector are discussed.

2.3.1 Categorization of Regulation

Regulations can be broken down into economic, social and administrative regulations (OECD, 2003);

- **Economic Regulations**

These are regulations that deal with aspects such as market decisions by setting prices and establishing conditions under which firms may enter or exit a particular industry (OECD, 2003)

- **Social Regulations**

Through these set of regulations, the public interests of the nation are preserved. These regulations deal with laws pertaining to health, safety, the environment and social cohesion. Specifically, they ensure that the work environment is conducive for both customers and employees through the provision of safe, hygienic and sound work environments through customary surveillances and a rating scale, which must meet the required standards in order to stay in business (OECD, 2003).

- **Administrative Regulations**

These are paperwork and supervisory formalities, also called “red tape” through which governments obtain information from businesses which enables them to intervene in individual and business economic decisions. They can have substantial impacts on private sector performance. Although important, these regulations constrain entrepreneurship and small businesses (OECD, 2003).

2.3.2 Factors within the regulatory business environment

There are four main factors within the regulatory business environment that affect the growth of the small business sector. They will be examined in the sections that follow. Supporting evidence will also be given why they are considered hindrances to entrepreneurship and small business start-up, establishment and growth.

2.3.2.1 Taxation

Taxation can be defined as mandatory levies that are imposed by the government or governmental bodies on income goods and activities to obtain public revenue (Akrani, 2010;

Surbhi, 2014). Tax revenue is the main means by which public revenue is raised apart from non-tax revenue which consists of fees, fines or penalties. These mandatory or compulsory payments are to be paid by the working population of any economy which includes companies, firms and individuals earning an income (Neumark, McLure and Cox, 2016).

It is important to note that the revenue obtained is paid by this population without any expectation or guarantee of receiving direct benefits or in exchange for a specific service. However, the government channels this revenue towards the general welfare of the economy (Neumark, McLure and Cox, 2016). Evidence could be seen in the development and welfare of the political, social, economic and other sectors of a nation, so as to provide public goods and services. These include schools, universities, hospitals, clinics, roads, as well as defense and security. To fulfil its role as the governing body of a country, the government needs these large sums of funds which are termed public revenue (Akrani, 2010).

Taxation in the South African context

In South Africa, taxation entails payment to two levels of government, namely the central and the local government. The central government has as its main tax-collecting body the South African Revenue Service (SARS), while the local government obtains its revenue mainly from municipal rates and central government funds. The taxes collected by the central government come mostly from income tax, value added tax, corporate tax and fuel duty. However, these taxes fall into broad categories of direct and indirect taxes. For the purposes of the study, only taxes applicable to the Small Business Sector will be discussed. The government uses all the revenue it collects from taxes to render services to the nation such as funding of education systems, pensions for the elderly, unemployment benefits, and public transportation, energy, water and waste management systems (National Treasury, 2018). Equally important is the light in which the South African Revenue Service considers and classifies the small business sector. They are mainly sole proprietorship, partnership, close corporation and private company. Based on the differences in their form and structure, these businesses pay different types of taxes.

a) Direct taxes

Direct taxes are those which are imposed on the income or wealth of individuals, trusts, deceased estates, companies and close corporations; all of whom are otherwise known as “persons” (Huxham and Haupt, 2004). These taxes are imposed in conformity to the amount of income the taxpayer earns. Direct taxes are progressive in nature as the tax to be paid by the taxpayer increases as their income increases. This tax can be evaded by the taxpayer, but its burden

cannot be shifted (Surbhi, 2014). Direct taxes include income tax (which are sub classified into normal tax, donations tax, secondary tax on companies and withholding tax), company income tax, secondary tax on companies, estate duty and capital gains tax (South Africa Taxation and investment, 2016)

b) Indirect taxes

Indirect taxes are those which are imposed on transactions, goods and services rather than on persons but paid for by the taxpayer. They are regressive in nature meaning as the taxes on goods and services increase, the demand for these goods and services reduces (Surbhi, 2014). These taxes cannot be evaded as taxpayers pay for it indirectly, but its burden can be shifted to fall on a different person (Mesfin and Bogale, 2013). Indirect taxes include Value Added Tax (VAT), customs duties, excise duties, fuel levy, environmental taxes, real estate tax and transfer tax (South Africa Taxation and investment, 2016).

c) Municipal bylaws

Municipal bylaws are those which are passed by the Council of a municipality to regulate the affairs, activities, dealings, events and the services it provides within its area of jurisdiction. A municipality derives the powers to pass a by-law from the Constitution of the Republic of South Africa, which gives certain specified powers and competencies to local government as set out in Part B of Schedules 4 and Part B of 5 to the Constitution (Memeza, 2000). These laws are often passed or laid down by the majority vote of a municipal council and are exclusive to a specific city, group of cities or county which are otherwise or legally known as a municipality. This governmental body within those cities or counties is responsible for the enforcement of those laws (Raftis, 2014).

These governments have authority over issues such as police or law enforcement, power, zoning, education policies, property taxes, land use laws, licenses, noise levels, hygiene, transport, air pollution control, cemeteries and crematoria, culture and recreation, street trading, tariffs and taxes, water services, waste management and overall environmental laws (Memeza, 2000). These also affect businesses within the municipality. For instance, businesses need to obtain permission to run a noisy manufacturing operation or a night club in a quiet suburban street as well as renovations to accommodate handicapped individuals for businesses that did not have such features (MacLean and Tomlinson, 2008).

Municipal bylaws therefore provide information with regard to the rules or regulations laid down for businesses in their respective areas of operation. It is important to note that there are some businesses within the small business sector that do not pay taxes simply because they did not register or are simply not eligible; like the survivalists and others within the Small Business Sector. They are however subject to municipal bylaws and prey to officials who want to make a living off them.

Classification of the types of firms according to SARS

Firms are classified by the South African Revenue Service as follows;

a) Sole Proprietorship

This type of business is one which is owned, controlled and run by a single individual. Its form and structure is very basic as its formation process does not involve complex procedures or requirements for formation in contrast to other business types. This type of business conforms to the decisions and judgments made by the owner alone (SARS, 2018). The operations and general running of the business are financed from his personal income or profits which he benefits from all by himself, bears the losses and is accountable for the debts incurred as well (unlimited liability). This type of business is always limited by its amount of capital as the owner has to raise funds by himself to run the business (SARS, 2018).

This business and the owner are recognized as one by legal authorities. Thus, the sole proprietor is taxed, and the business is not taxed separately. Since the owner pays tax from the income or profit obtained from the business activities, it affects the taxable income and can lead to paying higher taxes and falling into a higher tax bracket (SARS, 2018). This is opposed to companies, that can retain profit in the company and will pay the flat company tax rate regardless of income. This causes most of them to fail as they survive under the initially low capital but cannot sustain the strain of the business environment without adequate support or strategies (Singh, 2012). Additionally, because of the lack of funds, the owner's ability to hire or employ skilled or unskilled labour is limited which can affect the growth of the business. The disadvantage is compounded by employing staff or contractors with the required skills (Singh, 2012).

b) Partnerships

This is an agreement between two people or more (limited to 20) who decide to come together to carry on a trade or business with each of them contributing funds, property, labour or skills as laid down by the rules governing their partnership (SARS, 2018). Each in turn receives a share, profits or bears losses as determined by the agreement (Murray, 2018). There are different types of partners - active or working partner, dormant or sleeping partner, nominal partner, limited partner, retired partner, quasi partner and others (Singh, 2012). Unlike the sole proprietorship, partnerships have greater financial strength as there is pooling of resources by the partners as well as managerial and other skills.

This type of business has a definite legal status (SARS, 2018). However, the way partnerships are taxed can be an advantage as the partners pay tax individually. Again, the way partnerships are taxed can also be a disadvantage as profit from a partnership is distributed to the partners and thus will be subject to the tax rate of the individual partner, which can lead to that partner paying higher taxes, putting a strain on him/her (Murray, 2018). This is opposed to a company, that can retain profit in the company and will pay the flat company tax rate regardless of income (SARS, 2018). Further, each partner may be held accountable for the debts of the business thus, not exercising sound judgment may cause loss of assets of the business and consequently, those of the other partners.

c) Close Corporation

A close corporation is a type of business whose shareholders and directors are entitled to operate more like a partnership. This business is granted corporate status which allows the business to operate less formally, but the restrictions on corporate shares may prove to be a burden. It is considered as a separate legal entity, separate from its owners or shareholders (SARS, 2018). It also has separate tax obligations. The maximum number of persons allowed to be members of this corporation is 10 and the owners of the close corporation are the members. They all have limited liability as they are not liable for business debt (SARS, 2018). The legal requirements for this business are relatively numerous as compared to the sole proprietorship. They are also subject to special taxation rates (Spadaccini, 2005).

d) Private Company

A private company is that which is treated by law as a single legal entity. It has a life separate and apart from its owners with rights and duties of its own. The owners of a private company are the shareholders (SARS, 2018). The managers of a private company may or may not be shareholders. The maximum number of shareholders is restricted to fifty. Shareholders' liability is limited and thus cannot be held accountable for the debt or actions of the private company (SARS, 2018). However, it is more costly and regulated than the other types of businesses. It is also more expensive to establish than the other forms of business. Although being subject to many legal requirements and regulations that are onerous, this situation can be an advantage as it creates certainty (SARS, 2018). Private companies end with "proprietary Limited" or "(Pty) Ltd". This type of business is also subject to special taxation rates.

Types of taxes

In South Africa, there are a various taxes paid by businesses. Some examples are Air passenger tax, Capital Gains Tax (CGT), Corporate Income Tax, Customs Duties, Diamond Export Levy, Dividends Tax, Donations Tax, Estate duty, Excise duty, Income Tax, Mineral and Petroleum royalties, Pay As You Earn (PAYE), Provisional Tax, Skills Development Levy (SDL), Stamp duty, Transfer duty, Unemployment Insurance Fund (UIF), Value Added Tax (VAT), Withholding Tax. However, only those relevant or applicable to the small business sector will be discussed. Tax is levied on taxable income, which is calculated as gross income, less exemptions and permissible deductions, plus the applicable percentage of the net capital gain, for the year (SARS, 2018).

a. Income Tax

Income tax is a tax levied on all income and profit received by a taxpayer. There are different types of tax that fall under the income tax. The Income Tax Act is the source of a number of other taxes that, although they have their own particular names, still form part of the income tax system. It is the national government's main source of income and is imposed by the Income Tax Act No. 58 of 1962 (SARS, 2018).

- **Corporate Income Tax (CIT)**

This tax is imposed on companies resident in the Republic of South Africa. A resident company is one that has been registered or incorporated under the laws of the Republic, is managed within and derives income from within or outside the country. Non-resident companies which operate through a branch or which have a permanent establishment within the Republic are subject to tax on all income from a source within the Republic (SARS, 2018). The types of companies who pay the CIT are as follows - listed and unlisted public companies, unlisted public companies, private companies, close corporations, co-operatives, collective investment schemes, Small Business Corporation (s12E), body corporates, share block companies, dormant companies, public benefit companies. CIT is applicable but not limited to these companies, and on all the income accrued or received by them within a financial year (SARS, 2018).

- **Personal income tax (PIT)**

PIT is income paid from individual's income. The main contributor to PIT is employment income from salary earners, and income generated from sole-proprietor activities. Taxable income is deducted from sources such as remuneration or income from employment involving salaries, wages, bonuses, overtime pay, taxable (fringe) benefits, allowances and certain lump sum

benefits. It is also deducted from sources such as profits or losses from a business or trade, income or profits arising from an individual being a beneficiary of a trust, director's fees, investment income, such as interest and foreign dividends, rental income or losses, income from royalties, annuities, pension income and certain capital gains. The tax rate of PIT is progressive and can range from marginal rates of 18% to 41% (SARS 2018).

- **Provisional tax**

Provisional tax is another type of income tax. It is meant for individuals who receive income that is not considered as a salary. It is also defined in paragraph 1 of the Fourth Schedule of the Income Tax Act, No.58 of 1962, as any natural person who derives income, other than remuneration or an allowance or advance as mentioned in section 8(1) or who derives remuneration from an employer who is not registered for employees' tax. Thus, any person who receives income other than a salary, is a provisional taxpayer. A provisional taxpayer could also be a company; or person who is told by the Commissioner that he or she is a provisional taxpayer (SARS, 2018).

b. Employees' Tax

Employers are obliged by law to deduct tax from the salaries or wages that they pay to their employees. There are two types of employee tax; Pay-As-You-Earn (PAYE) and Standard Income Tax on Employees (SITE).

- **Pay-As-You-Earn (PAYE)**

This is tax deducted from an employee's income or remuneration by their employer to be paid to the taxation body. This method enables employers to withhold tax due to SARS from employees and pay this over to SARS on a monthly basis, and reconciled biannually (SARS, 2018). The process of deducting or withholding tax from remuneration as it is earned by an employee is referred to as PAYE, thus the name Pay-As-You-Earn. An employer who is registered or required to register with SARS for PAYE and/or Skills Development Levy (SDL) purposes, is also required to register with SARS for the payment of Unemployment Insurance Fund (UIF) contributions to SARS (SARS, 2018).

- **Standard Income Tax on Employees (SITE)**

This is not a separate tax. It is still employee tax, but it is paid by employers for employees who earn less than a certain amount. It is meant for those employees whose annual income are less

than R120 000, do not receive a travelling allowance and do not receive any other income (SARS, 2018).

c. Value-added tax (VAT)

Value-Added tax is also known as VAT. It is an indirect tax imposed as under the VAT Act - Ad 89 of 1991. It is charged on the supply of most goods and services. It is also imposed on the importation of goods into South Africa by any person, whether or not a vendor; as it is in effect a tax on the consumption of goods or services in South Africa (SARS, 2018). The quoted or displayed price of goods and services must be VAT-inclusive.

VAT is charged at each stage of the production and distribution process and it is proportional to the price charged for the goods and services. Every vendor within the production and distribution chain is liable for VAT but claims the amount of tax paid in respect of inputs by setting it off against its output tax. Thus, the total amount of tax is collected by the Receiver of Revenue at the final stage of consumption. The end consumer is therefore actually paying on the value added hence the term Value-Added Tax. VAT increased from 14% to 15% from 1 April 2018 (SARS, 2018).

There are three types of supplies; taxable, zero-rated and exempt supplies. Zero-rated supplies are certain taxable supplies, taxed at a rate of 0%. These supplies relate mainly to the exportation of goods or services and also to certain basic foodstuffs sold locally (SARS, 2018). For instance, goods supplied under a rental agreement for use in an export country, supply of unwrought gold to registered banks, certain goods supplied for pastoral, agricultural or other farming purposes, crude petroleum oil, oils to be refined and anti-knock preparations added, goods transferred to a branch situated in an export country, gold coins issued by the Reserve Bank but excluding any form of jewelry and certain foodstuffs. Services are also involved, for example, services rendered outside the republic or nation (SARS, 2018). Exempt supplies are supplies of goods or services on which VAT is not chargeable at either the standard or zero rate, for instance, financial services.

A person who supplies goods or services is liable to register for VAT. Especially if the income earned is more than R1 million in a 12-month period, or when there is a reasonable expectation that the income will exceed this amount. The term person is not only limited to companies. Any person that carries on a business may register for VAT. Thus, it includes, amongst others, individuals, partnerships, trust funds, foreign donor funded projects and municipalities. There is, however, a limited range of goods and services which are subject to VAT at the zero rate or are exempt from VAT (SARS, 2018). It is important to note that a person can also register voluntarily for VAT, if the income earned from supplying goods or services for 12 months exceeded R50 000.

d. Excise duty

Excise duty are taxes charged on goods manufactured or produced locally. They are also imposed on imported goods of like nature. Examples of these products are tobacco and alcohol, liquor products manufactured locally. The same is imposed for cosmetics, perfumes, audio and electronic equipment as well as automobiles and automobile parts, only they are called ad valorem duty. Estate duty has been imposed at a flat rate of 20% (SARS, 2018).

e. Unemployment Insurance Fund (UIF)

The UIF came into existence in the year 2002. It is supported by the Unemployment Insurance Act, 2001 (the UI Act) and the Unemployment Insurance Contributions Act, 2002 (the UIC Act). The UIF provides employees with support when they fulfil the following; newly unemployed, on maternity leave, illness, adoption leave and even for a deceased contributor's offspring or dependents, but for a short while. This insurance is paid for by both the employer and the employee monthly (SARS, 2018). An employer is required within 14 days of commencing business, to submit to the Unemployment Insurance Fund a notification on form U.I.F which can be obtained from the fund on application. This fund is administered by the Department of manpower, and all correspondence must be addressed accordingly (SARS, 2018).

f. Dividends tax

This is a tax paid by shareholders when they receive dividends. However, the shareholders do not get paid this dividend directly as it is withheld and paid to SARS by a withholding agent. The payment to a shareholder because of the share he holds in a company is called dividend. In the event that the withholding agent fails to pay this tax, the shareholder is held responsible for the payment of the tax, regardless of the withholding agent's mistake. The rate of Dividends Tax increased from 15% to 20% for any dividend paid on or after 22 February 2017. Dividends tax is now fixed at a 20% rate and paid by resident companies and by non-resident companies in respect of shares listed on the Johannesburg Stock Exchange (JSE) (SARS, 2018).

g. Regional Services Council (R.S.C.):

These RSC's are mostly local, autonomous authorities which have been put in place to render services on a regional level. These RSCs are presently being replaced by Service Councils, Metropolitan Councils and District Councils. These councils have their respective provinces under which they fall (Peters, 2012). They have as their main objective the provision of basic necessities and betterment of much needed infrastructures. This they do by collecting funds in

the form of levies, rates or charges. One of their rules include the registration of businesses any business in operation or any owner of a business who has an employee or employees in their employ (Peters, 2012). Most often they have other arms such as local licensing authorities, health authorities, customs and excise authorities. These levies mostly affect the survivalists and micro businesses. There are mainly two types of levies imposed on employers based on remuneration of different types namely salaries, commissions, gratuities, fringe benefits, drawings and directors fees (Rustomjee, 2018).

- **The Regional Services Levy**

This is a levy on employers. It targets the gross remuneration of employees. Levies are payable to the council of the area in which the business operates. Each council may have a different rate but generally all councils use the same principles in determining the calculation for remuneration (Rustomjee, 2018).

- **Regional Establishment Levy**

This levy is to be paid based on the turnover of each business. The levy is a pure business liability and as such employees do not pay a portion of the levy. The monthly return together with the levies are due before the 20th of each month and must reflect the previous month's total remuneration bill. Both levies are subject to VAT (Rustomjee, 2018). Regional Establishment Levies are calculated on the turnover of the business and includes sale of goods, sale of fixed property, provision of services, rental income from goods and fixed property, provision of accommodation facilities and other financial transactions. In the councils, separate levies are set. The percentage for RSC levies is usually around 0.35% (Cameron, 2007).

h. Rates on property

Property-related taxes include municipal rates and charges for electricity, refuse and sewerage, which are collected by municipalities.

Problems facing Small Businesses from a taxation perspective

a. Record keeping

This is the orderly and disciplined practice of storing business records. Marron (2014) states that record keeping is an important aspect in the running of a business as the success of a business lies to some degree in the creation and maintenance of an effective record system regardless if the business is a sole proprietorship, partnership, or corporation. The completion and preparation of accurate tax returns is essential for businesses. This is mostly a challenge for small businesses as they fail to keep records that enable them to prepare complete and accurate tax returns (Marron, 2014). Another challenge they face is not separating the private and business accounts, which will cause the owners to withdraw funds that are meant for the running of the business for personal use (Marron, 2014).

b. Accurate records

It is important that accurate records of business dealings and transactions are kept as they may be needed as supporting evidence by the tax-collecting body. Instances exist where cash or property from many sources may have been received by the owner, but unless records show that evidence, the owner may be unable to prove that they are from sources that would make them non-taxable (SARS, 2018). Again, some expenses may have been omitted or forgotten during the preparation of the tax returns, unless it was recorded, the owner has no way of recalling or showing proof. It is also essential that amounts paid to employees as remuneration by the employers must be recorded as they are taxable and may be needed by the tax-officer as proof (SARS, 2018). Furthermore, the owner maybe requested to explain the items reported, in case there are discrepancies or amounts fail to balance. Adequate and complete records supported by sales slips, invoices, receipts, bank deposit slips, cancelled cheques and other documents are an ideal way of solving this problem (SARS, 2018).

c. Availability and retention of records

Owners of businesses are requested by the Receiver of Revenue to ensure that the books and records of business are available at all times for examination (SARS, 2018).

d. Appointment or hiring of auditors

A company is required by law to appoint an auditor who will audit and sign its financial statements. Similarly a close corporation is required to appoint an accounting officer. Normally the auditor or accounting officer will provide assistance in determining the taxable income and the amount of tax to be paid. This is especially expensive for the smaller firms – sole proprietorship, micro and very small businesses who need funds to keep the business running daily than hiring and paying an individual to render the service (Marron, 2014).

e. Tax Compliance

Tax compliance places a burden on small businesses (Nieuwenhuizen, 2019). These costs are much higher for small firms than for big ones taking into account their revenues or assets (Akinboade, 2015; Smulders and Stiglingh, 2008; Smulders *et al.*, 2012). Another scenario should be taken into consideration; because they are smaller and use cash in their transactions most of the time, they do not report such transactions which may cause them to understate their expenses leading to them paying lesser taxes (Marron, 2014). Some businesses intentionally remain small so that they do not pay taxes. Consequences of such behavior reduces the employment rate as they will be unlikely to employ workers to avoid taxes.

In view of the above, taxation seems to constitute a high source of regulatory burden for the small business sector. Most of the burden borne with the costs of complying with the taxes. These costs do not only involve the expenses that come with payment of taxes, but also involve understanding instructions as well as the time taken to register, especially licensing and frequency of renewal of licenses and other related costs. Compounding the burden is the remuneration to employees for those businesses who have them. Below are some costs that accompany complying with payment of taxes.

Compliance costs – a taxation perspective

Taxation as a high source of regulatory cost is an impediment for small-scale entrepreneurs (Smulders, 2006). Turner *et al.* (1998) defines compliance costs as those costs borne by taxpayers and third parties in fulfilling the requirements placed on them, in complying with a given form and level of tax. Furthermore, the OECD (2017) publication indicates that studies have shown that tax compliance absorbs a large share of the total administrative costs of businesses

and appears to account for 40% to 50% of all regulatory costs. One source of tax compliance costs comes from tax authorities passing on administrative costs to taxpayers while a second comes from the complexity of most tax regulations (Turner *et al.*, 1998). Tax compliance costs thus include not only continuing internal compliance such as correctly applying tax law, keeping required records and completing tax documentation, but also costs in the time taken to learn about new laws or law changes, as well as external costs of obtaining professional advice or assistance (Killan *et al.*, 2006). Despite the above-mentioned aspects, Evans (2008) feels that there is uncertainty about what should be included in the measurement of taxation compliance costs. Whilst this is an area in which there will always be debate, it is possible to identify “hard core” costs that are indisputably part of the costs of complying with taxation requirements. Thus, the taxpayer’s and unpaid helper’s time, tax agent fees and incidental expenses were grouped by Turner *et al.* (1998).

- The costs of labour/time consumed in completion of tax activities, for example, the time taken by a business person to acquire appropriate knowledge to deal with tax obligations such as Pay As You Earn (“PAYE”) or VAT
- The time taken in compiling receipts and recording data in order to be able to complete a tax return;
- The costs of expertise purchased to assist with completion of tax activities. That is, the fees paid to professional tax advisers, incidental expenses incurred in completion of tax activities, including computer software, postage, travel etc.

In addition to these “hard core” compliance costs, there are a number of other costs that also need to be considered – either due to their nature or due to the fact that they are intertwined with other non-tax compliance costs and there are difficulties in separating the two. Evans (2008) cited psychological, social, computational and tax planning costs, commencement and recurrent costs and accounting costs as the non-tax compliance costs.

a. Psychological costs

These are costs which are manifested in the form of stress, anxiety and frustration as a result of attempting to comply with their taxation obligations. Few studies have managed to successfully quantify these psychological costs (Evans, 2008).

b. Social costs

It is difficult to quantify social costs. But an example of social costs is where a tax change, such as the introduction of a higher rate of VAT on a particular range of goods, causes a trader to

cease to stock those goods (in order to keep tax affairs simple), thereby inconveniencing customers who have to travel further to continue to buy those goods and possibly having to pay more because of the reduction in competition (Evans, 2008).

c. Computational and tax planning costs

Compliance costs are sometimes divided into computational (unavoidable or involuntary) and tax planning (avoidable or voluntary) costs. Since it is almost impossible to explain one apart from the other, Slemrod and Sorum as cited in Evans (2008) note that both kinds of costs are real resource costs of collecting taxes (Evans, 2008).

d. Commencement and recurrent costs

Like computational and tax planning costs, commencement (or once-only) and recurrent (or regular) costs are just as difficult to distinguish from in most estimates of compliance costs. Commencement costs may arise as a result of both legislative change and changes in the taxpayer population and recurrent costs arise as a result of the continuous paying of taxes (Evans, 2008).

e. Accounting costs

There is some overlap between business or accounting costs and tax compliance costs, referred to as “joint cost problems” by Allers in Evans (2008:4). It is argued that using trained interviewers/accountants (with an awareness of core accounting functions and costs) to conduct face-to-face interviews with their selected clients enabled the participants to distinguish “incremental” compliance costs from core accounting functions. However, there is uncertainty about the extent of overlap and therefore most estimates of taxation compliance costs can only be indicative at best (Evans, 2008:4).

Thus, for small businesses, tax compliance costs, in general, includes the cost of collecting, paying and accounting for tax on products or profits of the business, and on the wages and salaries of employees together with the costs of acquiring the knowledge to enable this work to be done. Using professional tax advisors is one of the main costs contributing to the cost of complying with taxation legislation. However, various uncertainties in the quantification of compliance costs do, however, arise, when trying to analyze psychological, social, computational, tax planning, commencement and recurrent costs. Another problem with these and other costs such as accounting costs, is the overlap with tax compliance costs. It is still a challenge to distinguish a clear cut off point between these types of costs and tax compliance costs.

2.2.2.2 Bureaucracy

Red tape has numerous definitions. Bureaucracy, also called red tape can be defined as unnecessary costs imposed on individuals, businesses and the government which are nonessential or irrelevant in the realization of their policy goals. Red tape exists as a result of rules, regulations and administrative procedures and they impose unwelcome burdens on individuals, businesses, communities and organizations (Wolpe, 2016). According to the Red Tape Impact Assessment Bill: Notice 193 of 2016, bureaucracy is mostly associated with several aspects which qualify it as red tape.

- Procedures required to gain administrative approval or to comply with prescribed requirements in one or more regulatory measures.
- Submission or collection of such information or compliance with the processes and requirements are complex, time- consuming and costly and includes: completing paperwork; obtaining licenses; requiring a decision to be approved; filing requirements; certification requirements; reporting; and investigative and inspection enforcement practices and procedures
- Non-essential procedures, forms, licenses, and regulations that add to the cost of dealing with government, or anything obsolete, redundant, wasteful or confusing that diminishes the competitiveness of the business, which stands in the way of economic growth and job creation or wastes taxpayers' time and money.

Cordeur (2015) defines red tape as the inflexible or excessive regulation or rigid conformity to formal rules that is considered bureaucratic and hinders or prevents action or decision-making. Red tape can involve the following;

- Bureaucratic officials
- A lack of co-ordination between agencies and departments
- A lack of clarity about government's objectives, processes and timeframes
- Not enough transparent decision-making
- Unnecessary or inflexible regulations; inconsistent interpretation of rules
- No connection between the regulator and business
- A lack of accountability regarding decision-making.
- Overlap and duplication
- Insurmountable paperwork resulting in time delays on business

- Lengthy processes
- Inefficient systems including no, or outdated, use of information and communication technologies
- Unfair competition (through unevenly enforced regulations) or overly burdensome obligations on small business.

Bureaucracy and the Small Business Sector

Bureaucracy is among the factors in the regulatory environment hindering the growth of entrepreneurship. The current legal environment in South Africa is not designed to support entrepreneurs fairly and help them grow (Sourvas, 2014). Timmis (2017) also agrees with this argument in his study on government regulation by stating that many entrepreneurs struggle through complex legislation and compliance requirements. Small businesses suffer the most from red Tape because they have less administrative resources and time to deal with red tape (Cordeur, 2015).

Due to the complexities, costs and expenses involved, red tape makes it difficult to start new businesses and for existing businesses to survive, compete, and grow. This means that economies are constrained and do not reap the benefits of job creation, growing incomes leading to improved standard of living, thus reducing poverty and inequality (Cordeur, 2015). For businesses in the small business sector, it manifests in experiences such as waiting in long lines (only to find you were in the wrong line) as well as filling out and submitting a confusing and lengthy application form (only to have it returned 6 weeks later with a request to submit additional information).

The SME Growth Index 2013 revealed that SMEs spent an average of 75 hours a month dealing with red tape in 2013, which is an equivalent of eight working days. Especially business services firms who spend more time dealing with red tape than firms in the tourism and manufacturing sectors: 99 hours per month, with much of this additional time accounted for by requirements imposed by the Financial Services Board. These frustrating bureaucratic processes and penalties only serve to discourage new business growth (Makakane, 2014). Indeed, red tape is further highlighted where small firms can spend up to eleven days per case at the CCMA to resolve a dispute. Furthermore, studies indicate that the average SME is taken to the CCMA twice a year. This represents a huge cost in terms of lost workdays – creating direct and opportunity costs for SME owners (Makakane, 2014).

While South African economic policy places a high value on entrepreneurship and recognizes the need for more entrepreneurs to start businesses with the potential for growth – the regulatory environment offers a great deal of risk, administrative burden and opportunity cost. Small firms are expected to find time, money and expertise to manage copious quantities of bureaucracy – with very little support (SBP, 2014). However, it is important to mention that although the Department of Small Business Development has introduced the usage of technology to reduce the administrative burden small businesses have to bear, the effectiveness of this strategy is yet to be felt (Zulu, 2018).

2.2.2.3 Labour regulations

Labour regulations are laws and legislation pertaining to the right to fair labour market practices which employers and 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). Again, these regulations govern the relationships between companies and employees as well as hiring and firing practices (Epstein, 2014). The small business sector in South Africa is a significant employer. 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 (Harris, 2012).

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. Harris (2012) 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. Again, commenting on the current labour regulations, Maye (2014) asserts that they are overly restrictive especially in impeding small business growth. These firms are hardly able to put up with or withstand the financial burden that it imposes on them being considered as firms in the small business sector and so cannot be as stable as others.

In order for legislation to be considered fair, they must not lean in favour of one party but look out for the interests of both the employees and the employers. These legislations must be laid down to ensure a conducive work environment where employees can perform their duties without an irrational fear or on-going concern of job loss or unfair termination of contract (Maye, 2014).

Again, they must be reasonable in considering the demands of businesses. Businesses must be able to freely hire and fire employees when they fulfil or fail to carry out their job descriptions.

It is also important to note that the new labour regulations were implemented to protect employees from unfair employers. However, in a bid to ensure that this becomes a reality, the government has put one too many regulations that small businesses find burdensome (Maye, 2014). Some instances are described below where these regulations seem amiss or off the mark.

a. Employee and Wage Flexibility

The fact that businesses cannot hire and fire if the employee is deserving of it reduces employee and wage flexibility. Labour market regulation in South Africa reduces employment turnover and wage flexibility, which limits the ability of SMEs to expand and adjust to the more intensive competition that arises from regulatory changes and lower trade barriers (OECD 2015). In the 2014 survey 'restrictive labour laws' were cited as a major barrier to SME growth. South African small businesses rate restrictive labour regulations as the most problematic factor to doing business. South Africa ranks 143rd out of 144 countries on hiring and firing practices and 136th for pay and productivity (Mogorosi and Kriel, 2015). This is pointed out by the 2018 Index of Economic Freedom which recommends flexibility of the regulatory policies especially the labour market which it reportedly rigid; so as to acquire a more dynamic private sector.

South Africa's labour laws have been found to be a significant regulatory obstacle to business growth (OECD, 2015). The World Economic Forum (WEF) conducted a survey for 1000 of the world's largest multi-nationals and ranked South Africa 7th out of 139 countries to have restrictive labour laws. Mthombothi (2011) reports that not only do these regulations restrict job creation, but businesses find it difficult to cope with its complex nature.

In the South African Labour Guide 2018, one of these laws states that temporary layoffs can be effected only if the employee is in agreement and must be paid during suspension periods. There is no provision for the event that the employer may not have the required funds to continue paying the worker. Another law indicates that suspension as punishment to employees is considered illegitimate. This is onerous as every employer may have different methods of dishing out punishment. Yet another pronounces that even if workers are unproductive or it becomes difficult to keep on paying them, they are not to be laid off. Provision is not made for periods where there will be downturns in business (Singer, Amorós, & Moska, 2015).

b. Minimum Wages

The minimum wage of any country can be defined as the lowest amount a worker is paid for rendering a service (Mokone, 2017). The South African cabinet approved the implementation of the minimum wage employees should paid. The threshold was set for R20 per hour, making it R3, 500 for a 30-day month (40 hours weekly or R3,900 for 45hours weekly (Labour Law and Employment Manual Statistics, 2017). This means employers have the duty of paying their employees' wages based on this minimum wage as it is punishable by South African law to pay employees lower than the set minimum (Mokone, 2017). The issue with the minimum wage regulation is that it has been imposed for firms of all calibers not taking into account their size, structure or the conditions in which they operate. As far as exemptions are concerned, only farm and domestic workers are excluded (Piek and Fintel, 2017). The outcome, although unintentional is that some firms will experience more stress from the minimum wage regulation than others. This is the case with firms within the small business sector. They vary in size, structure, annual income, number of employees and years of existence which each have an influence on their ability to pay their workers or not (Ni, Wang & Yao, 2011).

Comparison within the sector

Comparatively, South Africa's minimum wages are high. This is because taking into consideration the annual minimum wages of more advanced developing countries like China (\$1,806 = R26 496), Ukraine (\$1,503 = R22 058), Russia (\$1,110 = R16 286), South Africa's annual minimum wage stands at \$3,000 = R44 013 (Worstall, 2016). This is in line with all the other expenses involved in setting up shop and the fact that they do not make too much of a profit, paying employees this amount will be relatively costly. This is because they are still small and hoping to stand on their feet, so paying this minimum amount imposed by the minimum wage policy, will be a drain on their resources. Additionally, they will be focused on loan repayment and the day-to-day running of the business. This factor adds to the hindrance of small business growth (Comola and De Mello, 2009; OECD, 2008; Andrews et al., 2011).

For the sake of comparison within the sector, Rama (2001) contends that firms of different sizes respond differently to the introduction of minimum wages. Larger firms, which could be medium firms (within the sector) may be more supportive of the minimum wage regulation than smaller firms which could be micro or very small firms (Del Carpio Nguyen and Wang, 2012).

With SMMEs being looked up to render certain benefits such as create jobs and the like, labor laws need to be revised as current regulation on minimum wages causes businesses not to

expand or even be established because of the costs and expenses owners anticipate incurring (Maye, 2014). Already established business owners will be forced to lay off workers in order to meet up with the minimum wage. Therefore, this kind of policy does not help workers either, (despite its best intentions) as it reduces the number of available employment opportunities (Maye, 2014).

Maye (2014) maintains that if the sector is to grow or if the country has to reap the accompanying benefits of a prosperous Small Business Sector, the government has to revise its labour regulations in order to lessen the restrictions placed on these businesses.

2.2.2.4 Corruption

Rampersad (2017) 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 generally any one with the power to confer favors, give support and protection, or to appoint to office or position. The Prevention and Combating of Corrupt Activities Act (PRECCA, 2004) states that corruption occurs when one party gives another party anything of value with the purpose of influencing them to abuse their power. Corruption is illegal by law as it involves one individual inducing another to do wrong or engage in unlawful acts (Byrne, 2007). Amundsen (2000) further defines corruption as wrongdoing on the part of an authority or powerful party through means that are illegitimate, immoral, or incompatible with ethical standards and is also associated with bribery, dishonest or illegal behavior or inducement to wrong by improper or unlawful means. Corruption is closely related to bribery, which is the offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages (taxes, services, donations, favours). There are certain concepts which are also associated with corruption as they explain some of the basic characteristics of corruption. They include embezzlement, fraud and extortion (Amundsen, 2000).

a. The Prevention and Combatting of Corrupt Activities Act (2004)

The Prevention and Combatting of Corrupt Activities Act (PRECCA) defines and lays down what constitutes as corruption. It is the key statute on corruption in South Africa. It provides for the general offence of corruption as well as specific offences. It also provides for investigative measures, as well as preventative measures in the fight against corruption.

The offence of corruption under the PRECCA:

In simple terms, corruption is the abuse of power for private gain. In terms of PRECCA, corruption has the following elements:

- **The Corruptor and the Corruptee:** Someone giving (offering to give) and someone receiving (or agreeing to receive); the person who offers to give or do something for someone to use their power unfairly will be guilty of the offence of corruption. If the person agrees to accept gratification to use his/her power in an unjustified manner, he/she too will also be guilty of corruption.
- **Patronage:** Someone in a position of power using their power illegally or unfairly
- **Gratification.** Gratification under PRECCA defined in the Act in section 1 includes: money; donations; fees; a reward; loans; discharge of a loans; the avoidance of loss; any status; honour; service; right or privilege, a discount amongst other things

In addition to creating the general crime of corruption; PRECCA also criminalizes specific corrupt activities under sections 4 to 16 of the Act

- Offences involving contracts: it is a crime for anyone to accept gratification to influence who gets a contract.
- Offences involving a public official: if anyone in the private sector offers a public official any gratification to give them a benefit they will be guilty of corruption.
- Offences that involve members of legislative bodies: it is an offence to offer any member of a legislative authority any gratification to act in an illegal or biased manner.

b. Definitions and Types of Corruption

i. Systemic corruption

Also called endemic corruption, systematic corruption can be defined as situations whereby major institutions and processes are repeatedly or habitually dominated, manipulated and utilized by corrupt individuals, officials, personnel or groups in order to secure benefits for themselves to the detriment of the public (Byrne, 2007; Johnston, 2007; Wallis, 2004). Consequences of such corruption is the fact that individuals have little or no option but to co-ordinate with these corrupt officials, individuals or groups (Byrne, 2007; Johnston, 2007; Wallis, 2004).

Byrne (2007) remarks that this type of corruption is not occasional but inbred into the society and is an integral or essential factor that determines how aspects within the economic, social and political system work. Conclusively, Brewer (2016) reveals that this type of corruption does not rise by accident but has been cleverly and intentionally built into the system for the purpose of hoarding wealth by a small minority to the detriment of the majority. This corruption mostly affects small and medium firms within the small business sector especially concerning taxes and other licenses.

ii. Sporadic (individual) corruption

Sporadic corruption is the flip side of systematic corruption. It is not integrated into the system and not as frequent, thus, it is termed individual corruption. It neither threatens nor cripples the economy like systematic corruption does because it occurs occasionally, singly, or in irregular or random instances. However, it weakens the system and drains or exhausts the economy of its resources (Byrne, 2007).

iii. Political (Grand) corruption

This is high-level corruption involving dealings between the private and public sector. Political, grand or high-level corruption originates mostly from making political decisions and involves individuals in positions of power illegally or illegitimately using goods or funds meant for the collective use or benefit of the nation for personal use or gain (Byrne, 2007; Amundsen, 2000). For instance, when politicians, state agents and officials charged with the power to formulate, establish and implement the laws in the name of the people, are themselves corrupt, and use the political power given them to sustain their power, status and wealth (Byrne, 2007; Amundsen, 2000). These policies are tailored to benefit politicians and legislators. Most of the time, it does not refer to the amount of money involved but to the level in which it takes place which is the top levels of the public sphere where policies and rules are formulated in the first place. Misallocation of resources and perversion of the decision-making process are few among the consequences of political corruption (Byrne, 2007; Amundsen, 2000)

iv. Petty corruption

Unlike political corruption that takes place at the formation-end of politics, petty or bureaucratic corruption is that which takes place at the implementation-end of the policy formation process. It is also called small-scale corruption as it involves everyday activity where public officials meet the public (Byrne, 2007; Steiner, 2017). It involves bribery in relation to already set or existing laws or regulation. It is also known as low-level and street level corruption as it involves confiscation,

fining or imposition of fees by officials or local licensing authorities on mostly survivalists, micro and very small firms within the small business sector in order to allow them continue operation (pardon, escape or avoid prosecution) as they mostly escape paying of taxes due to their small sizes (Byrne, 2007; Amundsen, 2000; Steiner, 2017).

c. SMMEs, Entrepreneurship and Corruption

Regulation about corruption play a vital role in nurturing or curtailing entrepreneurship as unregulated entrepreneurship may lead to unwanted social outcomes including unfair market practices and pervasive corruption which goes hand-in-hand with criminal activity (Seth, 2017). Krasniqi (2007) showed that corruption is a major source of the rise in unfair competition. He further emphasized that the cost of complying with regulations and bribes to officials increases small firms' expenses while limiting their growth.

In business, the scenario involves a person paying a bribe or kickback to be awarded a contract. In this case the item of value (which the Act calls 'gratification') is usually money, and the abuse of power is that a contract is awarded to someone who is not the best or cheapest. The person who offers the bribe (the corruptor) as well as the person who accepts a bribe (the corruptee) will be guilty of corruption (Dobie, 2009). This is most likely to happen upon establishment or start up or within the course of business dealings. Around a fourth of South Africans perceive most or all tax officials as corrupt (GCB Global Corruption Barometer, 2015).

SMEs are probably most pressurized to get involved in corruption when it comes to getting contracts. 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. 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 (Vuuren, 2004). 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 (Dobie, 2009).

A minority of small businesses do face some conventional regulatory costs from licensing, but the major costs of regulation to small businesses come from the costs of non-compliance. The survivalists and micro enterprises (informal businesses) who do not face licensing and registration regulations bear non-compliance costs incurred as a result of not being within the regulatory system (SBP, 2005). Non-compliance costs are of two types: quantifiable non-compliance costs, and the efficiency costs of informality. In the survey conducted by SBP in the small business

sector, quantifiable non-compliance costs involved officials interfering with their operations. 62% had had stock confiscated or destroyed, 19% had been prosecuted and fined, 17% had been ordered to close and 18% of them had been pressured to pay bribes in order to be allowed to continue operating or to avoid prosecution. The minimum bribe payment was R225. 7% of them sample had paid bribes of more than R1 000.

Considering the fact that the gross income of these small businesses (a little over R700 a month), the impact of these bribes given to officials and the losses they will be forced to endure is very serious (SBP, 2005). Again, the bribe given to the official will satisfy the official in question for a certain period of time. Informal sector operators will immediately resume trading in the same kind of place after confiscation, triggering the demand for more bribes. The costs of regulatory compliance by way of paying for permits, when added to the monetary costs of non-compliance, come to 4.5% of the estimated mean gross income of the informal sector sample as a whole. This percentage exceeds the costs of compliance for all but the smallest formal sector companies (SBP, 2005).

Venter, Urban and Rwigema (2011) state that regulations hinder the establishment of new businesses and hence entrepreneurship. They further maintain that more complex procedures or regulation will cause officials to abuse their power due to the length or processes involved which include corruption and other criminal practices. This is evident in the additional rules or regulation added by the regulatory agency itself apart from those to be implemented to receive benefits in the form of bribes or other benefits.

Luthans, Stajkovic and Ibrayeva (2000) agree that the political and administrative discretion not only invites corruption but also generates uncertainty, making it difficult for potential entrepreneurs to plan as well as reduces the confidence they have in the process. Such activities increase the risk associated with pursuing entrepreneurial activities and the risk factor is among the many reasons why several potential entrepreneurs are hesitant to pursue their dreams. This is a major deterrent factor to entrepreneurship.

2.4 Regulatory Complexity.

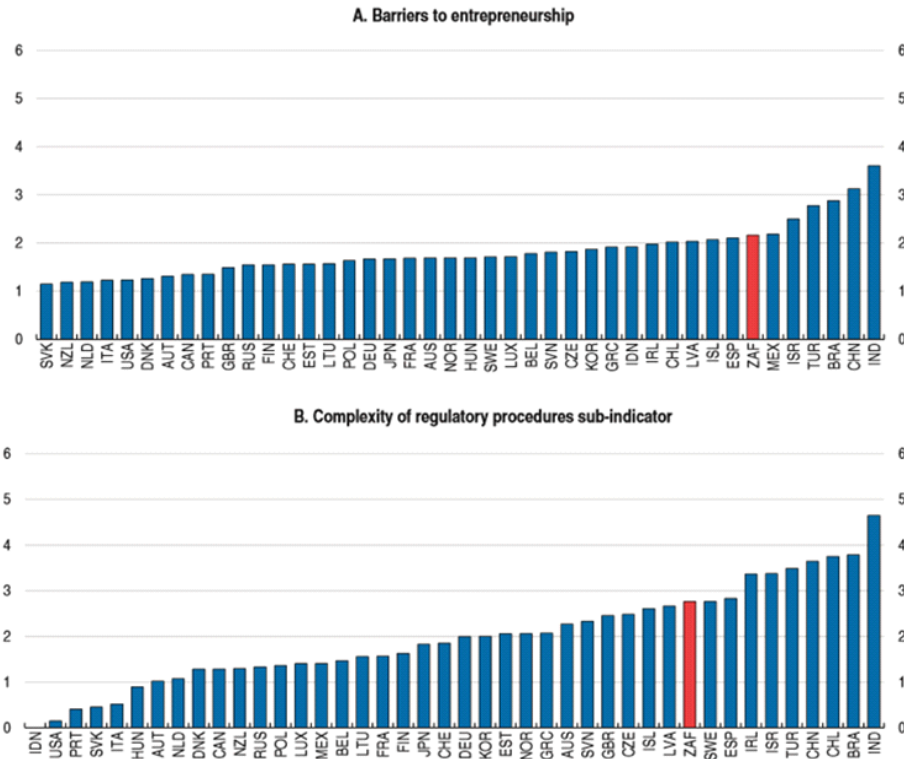
Complexity of Regulation refers to the inaccessibility and incomprehensibility of regulation (OECD, 2000). It also refers to the difficulties businesses face in complying with or understanding regulations, leading to regulatory burdens and consequently regulatory cost (Smulders, 2006). While regulations 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 (Loayza *et al.*, 2006). As a result, some individuals or firms try to evade regulations and their associated costs. A few scenarios in South Africa described below point towards the fact that indeed some of its regulations are burdensome and costly. 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 (Andrews *et al.*, 2011).

Since its inception in 2011, SBP's SME Growth Index has repeatedly identified the regulatory burden as a critical challenge facing small businesses. Frequent changes in the regulatory environment, the need to keep track of overlapping and sometimes conflicting regulatory requirements across multiple departments and levels of government, poor communication and access to information, and administrative inefficiencies in government departments and municipalities, mean that the SME owner spends a disproportionate amount of time dealing with regulatory compliance. 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 (Kraft, 2015).

Apart from the main government, local governments also add to the burden through their licensing practices by requiring multiple inspections to obtain a license. Even though the government has taken steps to make it easier to register a business, notably by automating business registration, other processes to start a business remain more time-consuming and bureaucratic than in other countries. In practice, delays in registration, often associated with value-added tax, can mean that starting a business takes six months (ILO, 2016). Registering employees for the occupational injuries compensation fund can take 30 days (World Bank, 2016).

Additionally, barriers to the establishment of businesses include aspects such as sector-specific licenses which constitute an entry barrier and adds cost to business. For instance, in the tourist sector, tourist guides must be trained, serve and operate in the geographical location in which they are registered, and which appears on the guiding certificate (OECD, 2017). Other locations do not recognize him/her in their system. These sector-specific licenses are an entry barrier and an additional cost to business, and their policy aims such as consumer protection can often be achieved in other ways



1. Scores potentially range from zero to 6 and increase with restrictiveness. 2008 data are used for Indonesia and the United States. Source: OECD (2013), "Economy-wide regulation", OECD Product Market Regulation Statistics database. [ScatLink !\[\]\(1663bb69f307a960345edb0e712f8c02_img.jpg\) http://dx.doi.org/10.1787/888933552397](http://dx.doi.org/10.1787/888933552397)

Figure 2: Regulatory Barriers to entrepreneurship in South Africa (ZAF)

Source: OECD Economic Surveys South Africa (2017)

Figure 2 shows that the regulatory environment constitutes a barrier to the growth of small businesses and entrepreneurship. However, a few scenarios point toward the fact that the government is doing quite a little to ensure that the business regulatory environment is conducive enough to promote the growth of the Small Business Sector. This is evident in the use of technology to accelerate the process of registration and all other formalities, where the government has introduced greater use of technology. Further, the government also aims at increasing the establishment and reach of one-stop shops which will ensure that businesses can access the services rendered by these institutions (OECD, 2016). This will reduce the run-arounds and additional costs it brings to small businesses as the one-stop shops should allow entrepreneurs to register and apply for local and national government permits to solve the problem of sector-specific licenses or permits. Co-locating these with local governments or other government offices and creating a virtual one-stop shop would improve access to this service (OECD, 2017).

2.4.1 Regulatory costs

Small businesses are subject to several regulations. In order to comply with these regulations, small businesses have to incur certain costs (Smulders, 2006). Regulations are broken down into various categories including compliance, administrative, efficiency and non-compliance costs.

a) Compliance costs

These costs involves understanding regulations with assistance from experts. It also proving compliance by submitting forms paid for by firms themselves, but mostly getting the revenue from their customers. This leads to expenses incurred indirectly by the customers and economy-wide negative effects (Smulders, 2006; SBP, 2005).

b) Administrative costs

These are costs incurred from assessed forms and inspections by officials. The expenses are incurred by the government themselves, tax payers as well as economy wide effects which they take on indirectly and unknowingly (Smulders, 2006; SBP, 2005).

c) Efficiency

These costs arise as a result of the purchase, installing and maintenance of equipment required by regulation and making choices about production techniques, number of people employed, what markets to compete in, all based on regulatory impacts or requirements (Smulders, 2006; SBP, 2005).

d) Non-compliance

These costs occur as a result of remaining small or informal as a means of avoiding regulatory costs or as an attempt to stay below the regulatory thresholds. However, the effect comes in the form of fines, confiscation and destruction of stock, having to pay bribes to avoid or evade regulatory compliance. The effect is usually felt by entrepreneurs or small businesses that find themselves on the wrong side of the law. The employer also brings this upon himself when he/she fails to make sure that employees meet the recommended minimum standards (Smulders, 2006; SBP, 2005).

e) Bureaucratic compliance costs

These are pure bureaucratic costs: that is, they are the incremental costs incurred by business in the course of complying with regulations. They include:

- The value of time spent by business managers and staff on understanding the rules and applying them;
- Interacting with the authorities to clarify matters arising
- Payments made for the expertise of professional advisers such as consultants, lawyers and accountants (Mail & Guardian, 2005). For example, the costs of tax paperwork are compliance costs, while the tax payments themselves are not.

The Upstart Business Strategies study (2004) broke compliance costs down into two types which were direct and indirect.

i. Direct compliance costs

These costs relate to money and time spent on formalities and paperwork (seeking permits, filling out forms and reporting to and notifying public authorities). They also include and other direct payments necessary to comply with regulations and “psychic” costs (e.g. resentment at having to act as an unpaid tax collector) (Upstart Business Strategies study, 2004).

ii. Indirect or dynamic costs

These are costs which arise when regulations reduce the productivity and innovativeness of enterprises (Upstart Business Strategies study, 2004). Direct compliance costs can again be broken down into substantive compliance costs and administrative burdens, as they are costs that businesses incur in order to comply with legislation and regulations, other than via financial transactions with the government, into two categories:

iii. Substantive compliance costs

These comprise costs that businesses incur in order to comply with the content obligations that legislation and regulations require of a production process or a product. In the case of taxation, an example of a substantive cost would be the amount paid to acquire an accounting software package (Upstart Business Strategies study, 2004:5).

iv. Administrative burdens

They are defined as “the costs to the business of complying with the information obligations resulting from government-imposed legislation and regulations” (Smulders, 2006). In the case of taxation, an example would be calculating the total value-added tax owed to the revenue authority for a specific tax period. Although other private cost categories can be identified, for example,

psychological costs, the reviewed cost components and their subcomponents form the main determinants of the total private costs of taxation (Upstart Business Strategies study, 2004:6).

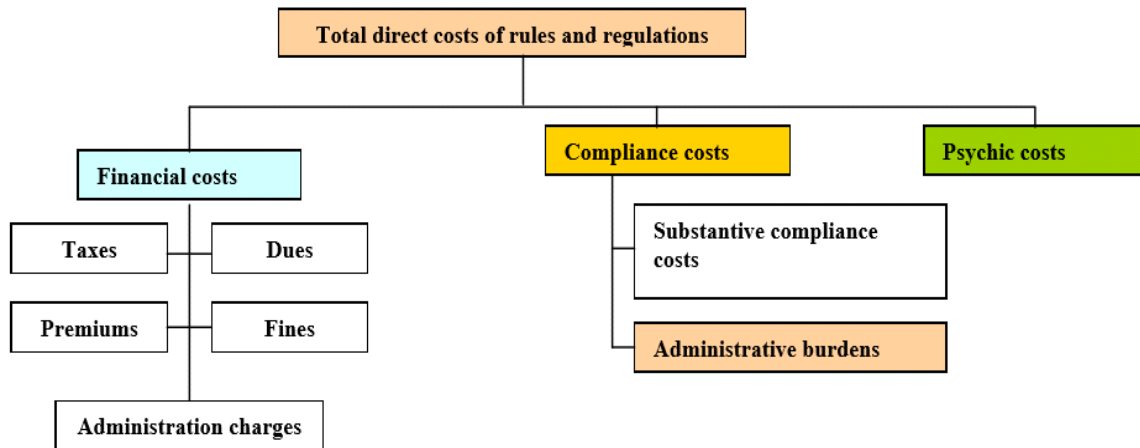


Figure 3: Schematic diagram of the total direct costs of rules and regulations

Source: Turner, Smith & Gurd (1998), SBP (2005), Chamberlain & Smith (2006) and Smulders (2006)

2.5 Effect on Growth in the Small Business Sector

According to Lumpkin and Dess, (1996) the growth of SMEs 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 (2007) 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 (Rampton, 2015). 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 (Rampton, 2015). 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 (Rampton, 2015).

The latest figures from Statistics SA's labour force survey show that of the 4.6 million unemployed South Africans, 72 percent are under the age of 35 and 600 000 have a university qualification (Stats SA, 2014). As at now, the unemployment rate stands at 38.2% (Stats SA, 2018). On the other hand, more than two thirds (13.4 million) of South Africa's current employment is created by small, medium and micro enterprises. This sector contributes 36% percent towards the national GDP (Smit, 2017). Clearly, entrepreneurship presents opportunities to create jobs and career paths for young people. The government and businesses alike have a role to play to ensure that entrepreneurial activity is promoted (Oosthuizen, 2014). Since growth in the small business sector is one of the primary objectives of the government, the discussions in this section will focus on how to contain or reduce the burden for these businesses (Bouazza, Ardjouman and Abada, 2015).

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 (Zulu, 2014). 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 (2014) remarks that small business development is one of the key ways South Africa can defeat the triple challenges of poverty, unemployment and inequality.

2.6 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.

a. 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 (Crampton, 2016).

b. 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.

c. 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 (Marron, 2014). 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 (Marron, 2014).

Size

Based on the above (a, b, c) are the businesses classified within the small business sector. The size of a business helps it to bear the burden more. This could be as a result 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” (Berisha, & Pula, 2015).

2.7 Regulatory Reforms

Regulatory reform is defined as alterations that improve regulatory quality, thus enhancing the performance, cost-effectiveness, or legal quality of regulations and related government formalities. Reform can also mean revision of a single regulation or the elimination and rebuilding of an entire regulatory regime and its institutions, or improvement of processes for making regulations and managing reform (OECD, 2000).

Deregulation is a subset of regulatory reform and refers to complete or partial elimination of regulation in a sector to improve economic performance (OECD, 2000). Again, it is focused on and aimed at promoting compliance and ensuring positive outcomes than at detecting and punishing violations. An important criterion for the success of regulatory reform is whether regulatory systems accomplish their policy objectives. When the regulatory burden becomes stiff or unbearable, there is need for deregulation and regulatory reforms (Majone and Surdej, 2006).

Numerous suggestions and recommendations have been given towards the reformation of regulation. Most prominent among them are the one-stop shops which are already underway and allow entrepreneurs to register their business and apply for local and national government permits all in one sitting. Co-locating these with local governments or other government offices and creating a virtual one-stop shop would improve access to this service. The information should be shared within the government so that firms only provide information to the government once (OECD, 2017).

Although there are thresholds that have been set for income tax and other levies, and small businesses have been exempted from paying some charges, the matter still arises that there are some years where those businesses would not have as much (Travers, 2016) . Different sole proprietorships or micro businesses belong to different sectors like agriculture, mining, manufacturing, wholesale, retail, catering and accommodation, finance, community and others, hence are not made of the similar fabric.

2.8 Summary

The purpose of this chapter was to review literature that relates to the regulatory environment and its impact on the growth or lack thereof the small business sector. The regulatory environment comprises different types of regulations; economic, social and administrative – as well as factors within the regulatory environment which were summed into taxation, bureaucracy, labour laws and corruption which negatively influence the growth of the small business sector.

This brings up the issue of regulatory complexity which manifests itself through regulatory and compliance costs to be borne by firms in this sector, thus stunting their growth. A comparison is made as not all businesses within this sector bear the burden of regulation. Here, firms within the sector are classified to assess if the burden borne by each category in the small business sector is the same. Thus, regulatory reforms are required to ensure an adequate balance.

SMMEs have proven their importance in their significant contribution to job creation, innovation and wealth creation, all culminating to the increase in the GDP of the South African Economy. Having identified the challenges SMMEs encounter within the regulatory environment, amongst other challenges, and given that their start-up and survival stages are tumultuous, with few reaching establishment, much less growth, it is important to improve their survival, establishment and growth by trying as much as possible to reduce the effects of the regulatory environment. This will ensure a reduction in the rate of failure and ensure their survival, establishment and

sustainable growth, as a key indicator of a strong or prospering economy is the presence of a well-established small business sector (Neneh & Van Zyl, 2019)

CHAPTER 3: RESEARCH METHODOLOGY

3.1 CHAPTER OVERVIEW

In the previous chapter, varied literature was reviewed and discussed in relation to the study. This chapter details the general methodical approach which was used to select the population as well as the research design, data collection techniques, data analysis and ethical considerations. It consists of an introductory section, a justification for the selected methodology which was used to answer the research questions and test the hypothesis, sampling techniques, data collection instruments and analysis tools. The chapter ends with the discussion of ethical issues and limitations.

3.2 INTRODUCTION

After reviewing the various literature as it concerns the regulatory environment, small businesses and the small business sector, a gap was discovered in the body of knowledge in the degree of burden borne by the various categories within the small business sector (micro, very small, small and medium). Thus, the purpose of the study, was to examine the factors within the business regulatory environment and how they negatively influence the growth of the small business sector as well as to investigate the magnitude or degree of the regulatory burden borne by the varied categories of firms within the small business sector in Polokwane, South Africa. In order to answer the research questions and address the research problem, the research followed the positivist paradigm. This paradigm fits the study as it is both a qualitative and quantitative study which seeks to make generalizations through the description of variables in order to discern the ensuing relationship. The purpose of this chapter, therefore, is to describe the methodology used to resolve the research problem. The study employed a descriptive design. Data collection was conducted by means of a self-completion structured questionnaire. The collected quantitative data was run via statistical analysis. While the qualitative data was run by content analysis.

3.3 RESEARCH METHODOLOGY

Research methodology are the various approaches, techniques and procedures used by researchers in conducting, presenting and predicting phenomena in a particular study (Kumar, 2019). The study is mostly descriptive and interpretive in nature as it aimed to first of all examine the factors within the regulatory environment and then to investigate the magnitude or degree of

the regulatory burden borne by the varied categories of firms within the small business sector. To this end, the qualitative and quantitative research methods were used because of the in-depth information that can be obtained on the subject being studied (Bhat, 2014) and reliability, quantifiability, generalizable to a larger population respectively (Hoy & Adams, 2016).

3.3.1 Rationale or Justification of the Research Design

The study investigated the impact of the regulatory environment on the growth of the small business sector as well as the degree of the regulation borne by the various categories of the firms within the sector, it therefore adopted both descriptive and exploratory designs. Babbie & Mouton (2010); Malhotra & Birks, (2007), define descriptive research as research whose purpose is to describe characteristics or specific phenomena of a population being studied. Such phenomena are often characterized by a prior formulation of a specific research question and hypotheses which are, in turn, tested by using large representative samples. While justification for the use of the exploratory design lies in the fact that it is an investigation into a problem or situation which provides insights to the researcher as it is conducted to have a better understanding of the existing problem (Bhat, 2014).

3.3.2 Descriptive and Exploratory Designs

Since the study concerned itself with describing or explaining phenomena, it therefore made sense to conduct a survey involving small business owners within the Polokwane setting. 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 could be accessed (Blumberg, Cooper & Schindler, 2008). Thirdly, tried and tested questionnaires could be used to collect data rapidly using a minimal research team, which is usually in line with budget constraints (Perry, 1998). Fourthly, the research objectives including hypotheses necessitated the collection and analysis of quantitative and qualitative data.

3.3.3 Survey Methods

Babbie & Mouton (2010), recommend a survey as a method of collecting data for the purpose of descriptive studies. Thus surveys, particularly 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. Furthermore, Babbie & Mouton (2010), argue that for researchers to collect original data for describing a population that is too large to observe directly, survey research is likely to be the best method available to the social scientist, and also the best method for measuring attitudes and orientation in a large population.

3.3.4 Population of Interest

The target population can further be defined “in terms of elements, sampling units, extent, and time” (Malhotra & Grover, 1998). 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.

3.3.5 Sampling Design and Techniques

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

Population criterion	Explanation
Element	The elements from which the information was sought were small business owners in Polokwane
Sampling unit	Stratified and convenience sampling were used to collect data from small business owners.
Time	The time of the sample survey was August 2019.

3.3.5.1 Sample size

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.

(a) Data analysis: 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.

(b) Previous studies: Previous studies are mostly empirical in nature, involving empirical debates (Altenburg, Hampel-Milagrosa & Loewe, 2017; Benzazoua Ardjourman & Abada, 2015; Musara & Gwaindepi, 2013, Smulders and Stiglingh, 2008). Review of literature (Kitching, 2006; Ndlovu, 2015; Smulders 2012), interviews, structured guides and content analysis (Kitching, Hart and Wilson, 2015; Smulders & Naidoo, 2013). Others used regression and multiple regression and cross-country comparisons (Smulders, Stiglingh, Franzsen, Fletcher, 2016; Rocha, 2012). Also, Fufa (2015) uses 96 structured questionnaires while Adomako & Danso (2014) collect primary data from 372 small businesses. Thus this study adopted a mixed 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.

(c) Cost: As is the case with many master's studies, costs and budgetary constraints affect studies of this nature in a number of ways. The costs and availability of study grants impact on the types of research problems and topics investigated, methodology selected and the sampling techniques applied (Perry, 1998). The limitations of time and cost also influenced this present study.

3.3.6 Data Collection

Questionnaires were used for the purpose of this study because (Taylor-Powell, 1998) they could reach a larger number of respondents in the selected Polokwane area; they were cheaper to administer, and it was easy to code and analyze the data thereafter. However, a pilot study was

conducted first (Cadette, 2017). 37 questionnaires were distributed to small business owners. The data collected from the pilot study informed the decision to make the study adopt a mixed approach where at first, it was to adopt a quantitative approach only. For the study itself, 121 questionnaires were distributed to the small business owners

3.3.7 Data Analysis

Creswell (2014) notes that a mixed research method helps to bring both quantitative and qualitative results together such that inclusive conclusions can be drawn. Thus, to analyze the various types of data;

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

3.4 Research Questions

The research questions brought up by the study are:

RQ1: What factors within the regulatory environment constrain small business growth?

RQ2: To what extent does the regulatory environment affect small business growth?

RQ3: How much of the regulatory burden do firms within the small business sector comparatively bear?

RQ4: How best can the rules, regulations and policies of the regulatory environment be adjusted to better promote small business growth?

3.5 Validity and Reliability

To improve the quality of any study, researchers often rely on validity and reliability. The literature constantly points out that validity and reliability are the two essential criteria for evaluating the strength of any study (Blumberg et al., 2008 and Healy & Perry, 2000). Validity is used to

determine if the instrument measured what it was supposed to measure, whereas reliability is used to test the questionnaire facet more than once and get the same results (Babbie & Mouton, 2010). To test the validity of the questionnaire, a correlation analysis between the variables was performed. While Cronbach's Alpha was used to determine the internal consistency (reliability) of the instrument. It is expressed as a number between 0 and 1. For high internal consistency, the value of the alpha has to exceed 0.7. For the study, the overall alpha was $\alpha = .812$, which shows the questionnaire is reliable and that the items are measuring the same characteristic.

3.5.1 Reliability

It is important to determine the reliability of the measurement items used to collect data. This is because the quality of any study relies on accurately measuring the constructs under study. (Tavakol and Dennick, 2011). 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.

Table 2. 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

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

3.5.2 Validity

Validity is the extent to which a construct measures what it is designed to measure (Hernon and Schwartz, 2009; Ferrel, 2000). To determine the validity of the instrument, a correlation analysis between the variables was performed.

Table 3. 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 4. 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.

Validity of the qualitative research instrument

Qualitative research has been criticised for its lack of scientific rigour, poor justification adopted methods and lack of transparency in the analytical procedures, especially when it concerns the findings – which are considered to be a collection of personal opinions subject to researcher bias (Rolfe, 2006). Validity refers to the integrity and application of the methods undertaken and the precision in which the findings accurately reflect the data, while reliability describes consistency within the employed analytical procedures (Long & Johnson, 2000). The nature of qualitative research is such that a statistical, clear-cut tests or measures for which its reliability and validity could be determined is hardly available. Qualitative researchers aim to design and incorporate methodological strategies to ensure the ‘trustworthiness’ of the findings. Therefore, to ensure validity and reliability in such research, researchers must establish that the study’s findings are credible, confirmable, transferable and dependable (Anney, 2014). These aspects determine the trustworthiness of a study and its findings, giving it a measure of validity and reliability (Anney, 2014 as cited by Mikioni, 2019). While Lincoln & Guba (1985) propose truth value, consistency and neutrality and applicability as measures of validity and reliability. The paragraphs that follow describe the differences in terminology and criteria used to evaluate the validity and reliability of qualitative research;

- a) Truth value: Recognises that multiple realities exist. Here, the researcher seeks to outline or do away with personal experiences and viewpoints that may have resulted in methodological bias. This clearly and accurately presents participants' perspectives (Lincoln & Guba, 1985 as cited by Noble & Smith, 2015).
- b) Neutrality: The accounting for personal and research method biases that may have influenced the findings (Noble & Smith, 2015).
- c) Consistency: In relation to 'trustworthiness' depicts the researcher's decisions being clear and transparent. Ultimately an independent researcher should be able to arrive at similar or comparable findings. It also involves transparent and clear description of the research process from initial outline, through the development of the methods and reporting of findings. In addition, mentioning or documenting challenges and issues concerning the cohesion between the study's aim, design and methods as well as emerging themes discussed (Lincoln & Guba, 1985 as cited by Noble & Smith, 2015).
- d) Confirmability is achieved when truth value, consistency and applicability have been addressed (Lincoln & Guba, 1985 as cited by Noble & Smith, 2015).
- e) Credibility in determining the trustworthiness of qualitative research, is an aspect of trustworthiness which considers the confidence the researcher has in the truth of the study's findings (Korstjens & Moser, 2018 as cited by Mikioni, 2019). To ensure that the findings were credible the researcher used triangulation which deals with the confirmation of the study's findings with the use of several strategies. This involves the hearing, observation and relevant documentation of a certain phenomenon being truthfully presented. The researcher followed this process to ensure validity and reliability (Korstjens & Moser, 2018 as cited by Mikioni, 2019).
- f) Transferability as an aspect of trustworthiness ensures that the findings of the study, if applied are relevant to other contexts (Noble & Smith, 2015 as cited by Mikioni, 2019)
- g) Confirmability and dependability deal with the extent to which the findings of the study can be accepted, supported and confirmed by other researchers and how stable the findings of the study are overtime respectively. In line with this aspect, the study was careful to refer to the findings or discoveries of other researchers (Baxter & Eyles, 1997 as cited by Mikioni, 2019).

3.6 Ethical Considerations

Ethical considerations are vital in conducting effective and meaningful research (Best & Kahn, 2006). This study complied with the ethical requirements as stipulated by the University of Venda Ethics Committee, and after due procedure and examination, an ethical clearance certificate was issued in approval. The considerations taken were as follows:

- The researcher explained to participants that the study was anonymous and voluntary, and that all information obtained would be confidential.
- Respondents could withdraw from the study at any time without prejudice. The dignity and character of all stakeholders were upheld and were not subject to embarrassment or unbecoming behaviour.
- All information gathered was treated as group data and no individual was reported on.
- This research was conducted in accordance with the rules and regulations of the University of Venda research guidelines, and the researcher did not misuse her position as researcher for personal power or gain.
- The researcher ensured that the research conducted did not harm the participants or their businesses.

3.7 LIMITATIONS OF METHODOLOGY

This dissertation, as with any research, is not free from limitations (Shiu, Hair, Bush & Ortinau, 2009). The limitations of the study are as follows:

- **Sample:** Small businesses only were used as the sample in this study, thereby excluding other enterprises. Thus, the findings therefore may not necessarily be generalizable to other enterprises.
- **Financial constraints:** Given that the researcher had a limited budget to conduct the research, several aspects of the methodology had to be tailored in line with the budget. For instance, the choice of the sample and data collection techniques was influenced by financial constraints.
- **Time constraints:** In keeping with the requirements of a master's degree, this study had to be completed within a specified timeframe. This therefore meant that certain research designs could not be used.

- **Geographic scope:** The study was restricted to Polokwane, South Africa, and results might not be generalizable to other settings.

The above limitations have been taken into consideration in discussing the findings.

3.8 CONCLUSION

In this chapter, the methodology including methods used and the research instruments were described in full. The research design, population, sampling, data collection, data analysis, validity and reliability of the study instruments were also discussed.

Chapter 4: DATA ANALYSIS AND RESULTS

4.1 CHAPTER OVERVIEW

In the chapter 3, the research methodology applied in this study was discussed. This included specific methods applied to collect and analyse empirical data for the purposes of answering the research objectives as well as testing the hypotheses. Chapter 4 presents the results of the data analysis phase of the research. Firstly, the demographic characteristics and the business profiles of the respondents are described. This is followed by the regulatory complexity section where the difficulties faced by the respondents as pertaining to the regulatory environment are discussed. The next section examines the comparison within the sector where it determines whether all categories within the sector bear the same regulatory burden. Cross-tabulation tables and testing of hypotheses are also presented.

4.2 INTRODUCTION

After an extensive review of the existing literature on the impact of the regulatory environment on firms within the small business sector, a research gap was identified. Thereafter, a research problem was formulated, which culminated in the conceptual framework (see Figure 1). The research attempted to address the factors within the South African business regulatory environment and how they influence the growth of the small business sector. The study also aims to investigate the magnitude or degree of the regulatory burden borne by the different categories of businesses within the small business sector.

As described in chapter 3, qualitative and quantitative data were collected, and various statistical analyses were conducted. SPSS V.25 was used to perform the statistical analysis (Crossman, 2018). In particular, the following analyses were performed:

- **Descriptive statistics** – to describe the sample’s demographic profile and their business profiles.
- **Chi-square tests** – to determine associations among categorical variables.
- **Reliability analysis** – using Cronbach’s alpha, to assess the measure of internal consistency (reliability) of the measurement scales.
- **Cluster analysis** - used to identify and classify the groups in the small business sector.
- **Cross-Tabulation**– used to find out the relationship between the variables.

- **Kruskal Wallis test** – used to test the hypothesis

4.3 DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

This section is going to discuss and analyse the research results under the following major headings namely: analysis pertaining to gender, age, race, marital status, highest qualification registered, and position or occupation held in the business.

4.3.1 Participants' Gender

Questionnaires were distributed to small business owners in different parts of Polokwane town. Breakdown of the information pertaining to gender in the questionnaire is presented in Figure 4.1. Overall, 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.

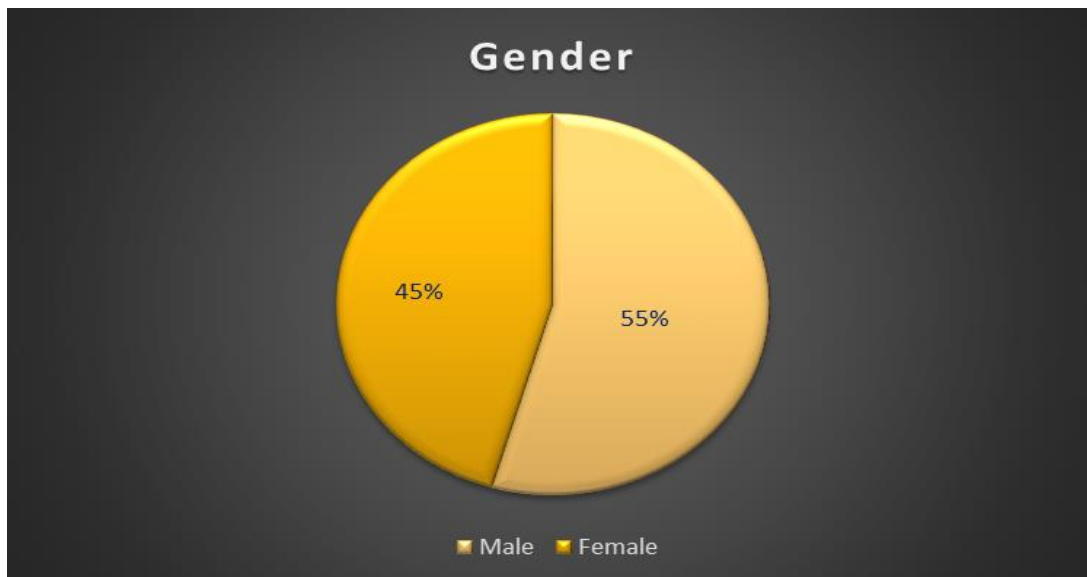


Figure 4.1 Participants Gender

Although, Figure 4.1, shows male dominance in entrepreneurship, confirming the study by Karasi (2015) which recommended that more women should be involved in entrepreneurship. However, the surveyed sample eliminated bias in terms of gender since the figures of male and female surveyed were almost even.

4.3.2 Participants' Age

Respondents were asked to indicate their age group in years. The results are shown in Figure 4.2. 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.

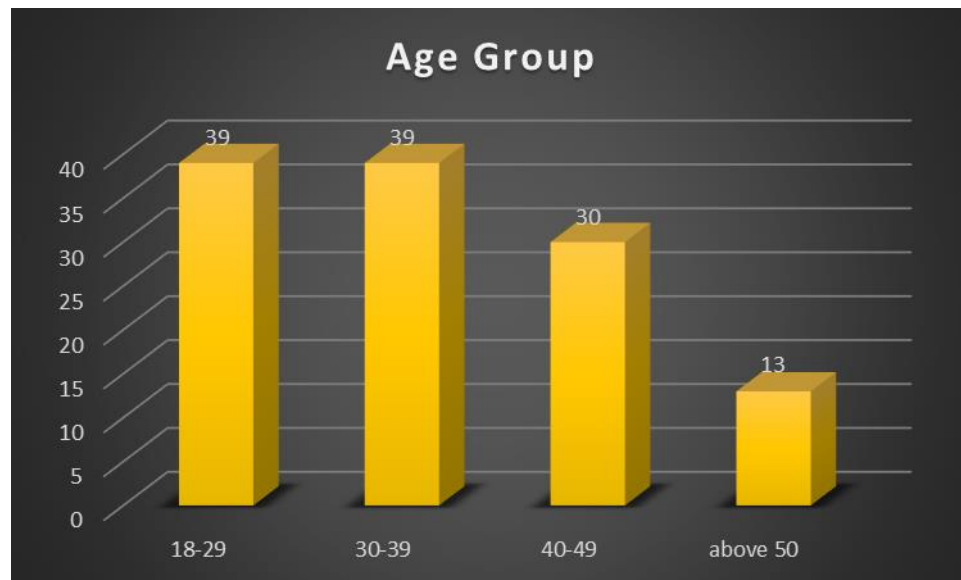


Figure 4.2. Participants Age

Figure 4.2 shows that most of the participants fell in the youthful age group, demonstrating the dominance of youth entrepreneurship. This is consistent with the findings by Ndou (2017).

4.3.3 Race

The results show that of the 121 respondents, 89.3% of those who participated in this study were blacks, 1.7% were of coloured or mixed race, 5% of them were white and 4.1% were Indians. The greater percentage of the number of blacks in business may be due to the continued support that the government establishes for the previously disadvantaged group like the B-BBEE (Broad Based Black Economic Empowerment) forum. These results are consistent with the findings by Kleynhans and Kruger (2014) who posit that the implementation of B-BBEE within companies has a positive effect on profitability, turnover and investment for the black population. Table 4.1 indicates these findings.

Table 4.1. Race of respondents

	Black	White	Coloured	Indian	Total
Percentage	89.3	5.0	1.7	4	100.0
Frequency	108	06	02	05	121

4.3.4 Marital Status

In terms of the marital status, 59.5% of the respondents indicated that they were single followed by 33.9% who were married, 3.3% were divorced or separated while 0.8% were widowed and 2.5% indicated that they were co-habiting. Co-habiting means staying together but not formally married. The summary of these findings are also indicated in figure 4.3 below

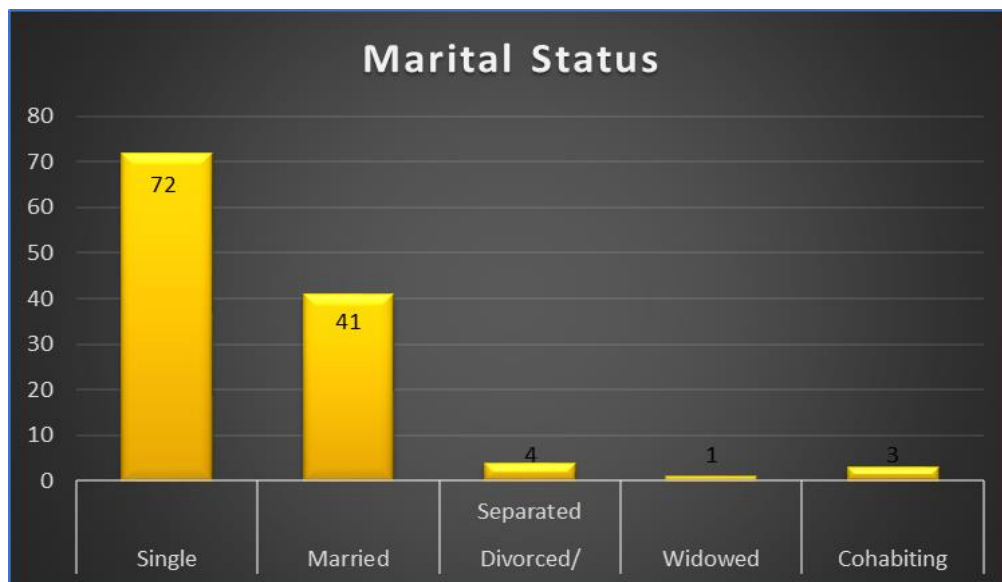


Figure 4.3. Participants Marital Status

Figure 4.3 shows that a greater percentage of the population was single. This may be due to the fact that single people can achieve more than people who are married as they can concentrate on their businesses without the strain of other responsibilities (Fairchild, 2009; Simoes, Crespo and Moreira, 2016). However, there is the possibility that these single people may have as driving factor the need to provide for children gotten out of wedlock (Stevenson and Wolfers, 2007; Teachman et al., 2013). The other higher percentage is the married population, showing that because of the need to provide, many will get into business (Dawson *et al.*, 2014).

4.3.5 Highest Qualification/ Level of education

With regard to the level of education of respondents, Figure 4.4 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.

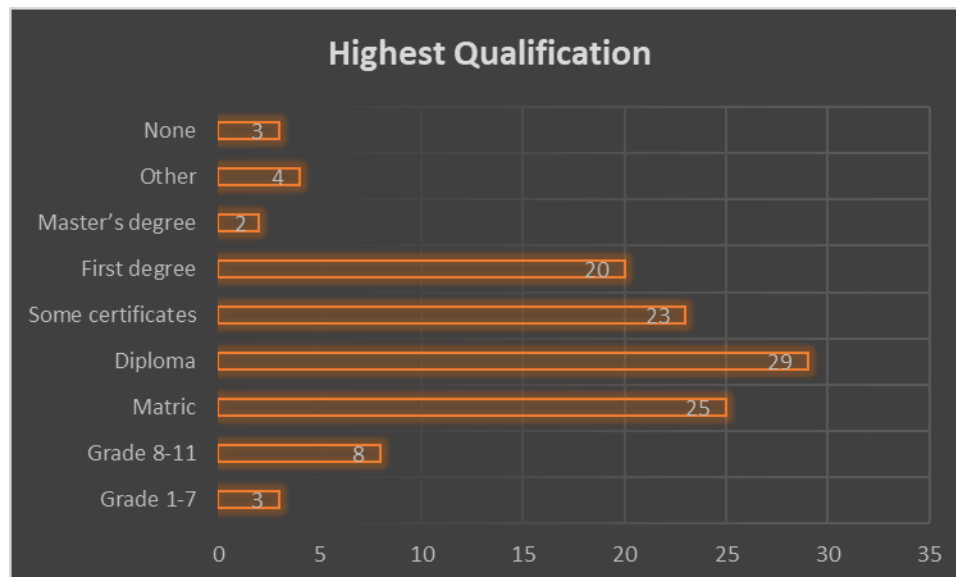


Figure 4.4. Highest Qualification

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 (Chigunta, 2017; Matlala, 2014). This is consistent with the study by Matlala (2014) and Perks (2010) 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 (Isaacs et al., 2017; Iwara, 2018). 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.

4.4 RESPONDENTS' BUSINESS PROFILE

To investigate the impact of the regulatory environment on small businesses and determine the extent to which these small business owners bear the burden of regulation, the business profiles of the respondents were studied. Business profile in this context refers to the fundamental information about the business. This section comprised information that indicated if the business was a micro, small or medium enterprise or business. Through businesses' years of existence and annual turnover as well as its number of employees, the researcher may be able to draw valid conclusions as relate to the regulatory burden borne. These aspects are briefly discussed in the sections that follow.

4.4.1 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.

Table 4.2. Position held in the business

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

One respondent or 0.8% did not fill in the information on the position held in the business.

4.4.2 Form of business

As indicated by figure 4.5 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.

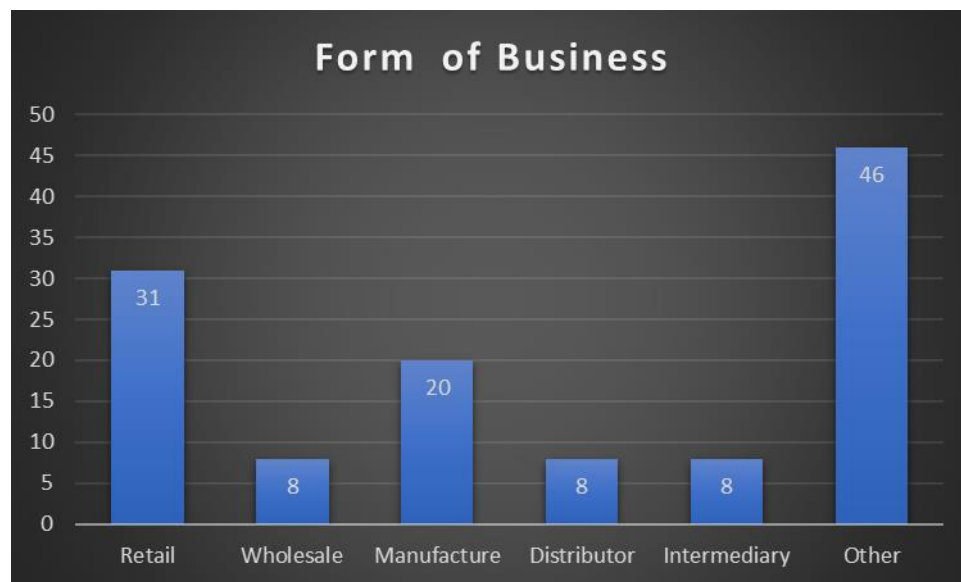


Figure 4.5. Form of business

4.4.2 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 (Miller, 2014)

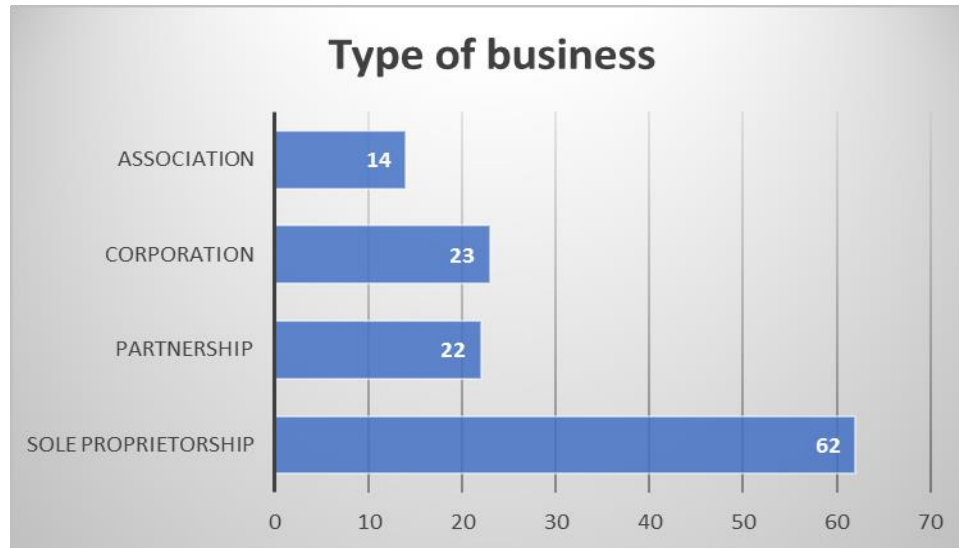


Figure 4.6. Type of business

4.4.4 Products sold

The results showed that 3.3% of the businesses that deal with clothing, while 4.1% of them sold groceries. 11.6% of them sold fast food, while another 3.3% of the respondents sold fruits and vegetables. A relatively high percentage of the respondents indicated that they operated “other” businesses which sold products such as cosmetics, electronics, stationary, meat and dairy. Others offered services like dentistry, optometry, funeral services, cybercafé services - typing, printing and internet services, catering, wedding and decoration services, shoe making, hair dressing, key cutting, sewing. Table 4.3 shows the details

Table 4.3. Products sold

Products Sold	F-values	Percentage
Clothing	4	3.3
Grocery	5	4.1
Fast food	14	11.6
Fruit and vegetables	4	3.3
Other	94	77.7

4.4.5 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

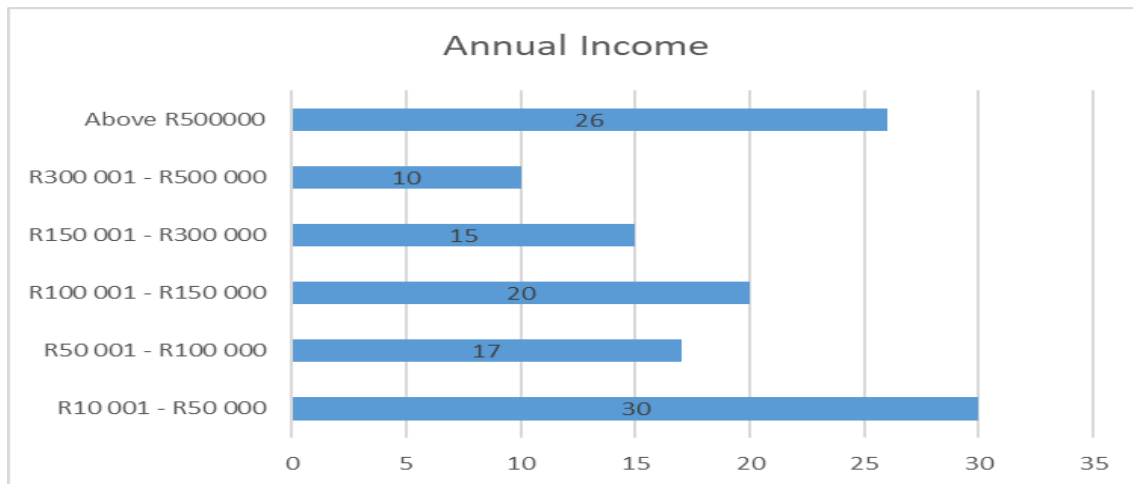


Figure 4.7 Annual income

4.4.6 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 (Zhou, 2016). 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 4.8 Years of existence

4.4.7 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 (Berisha & Pula, 2015). 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 (Worstall, 2016). 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 (Bruwer & van Den Berg, 2017).

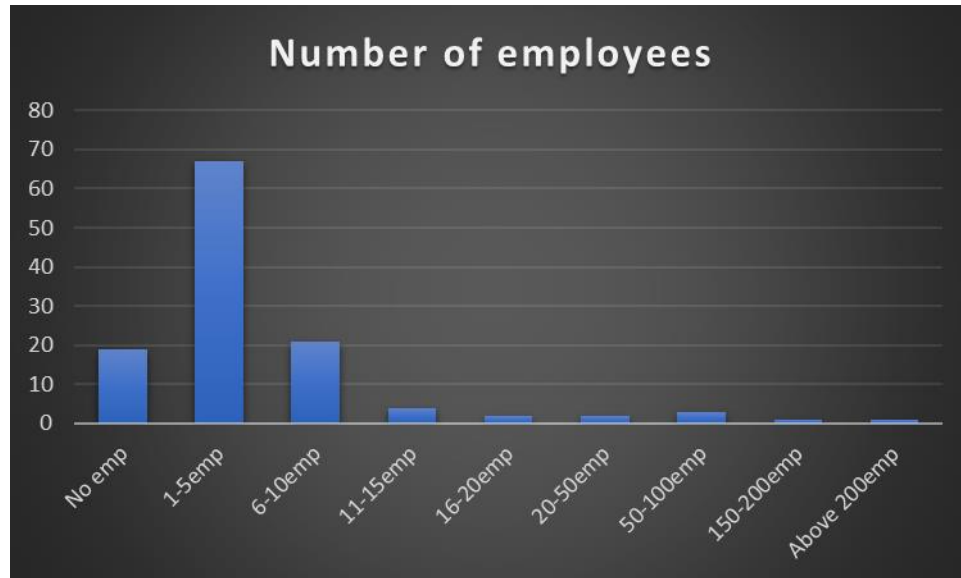


Figure 4.9. Number of employees

4.5. 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;

4.5.1. 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

(2014), Bouazza, Ardjouman, & Abada (2015) and Salamzadeh & Kawamorita (2015) who also discovered that among other factors, legal challenges constrain the growth of small businesses.

Table 4.4. Legal challenges

Legal challenges	Frequency	Percentage
Yes	76	65.5
No	40	34.5

4.5.2 Regulatory complexity

Complexity comes in several forms. It is often associated with understanding and adapting to new rules and obligations (Smallbone and Welter 2001), costs associated with taxation and costs involved to get expertise (Chittenden et al. 2003), and even less direct costs where regulatory compliance requires accompanying changes that may disrupt the way business is run (Edwards et al. 2004). Again, psychological costs such as stress (Chittenden et al. 2002). 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 (Steingold & Steingold, 2019; Lopez, 2019). Furthermore, looking at the *Ease of Doing Business* ranking, in 2019, South Africa is ranked at the 82nd 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 84th 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 28th position in the year 2006 and progressively dropping further down to 29th, 35th, 32nd, 34th, 34th, 35th, 39th, 41st, 43rd, 73rd, 74th, 82nd and as predicted 84th 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 (Darmansyah & Lisjanto, 2018; Steingold & Steingold, 2019).

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 (Mtshali Mtapuri & Shamase, 2017; Mallett, Wapshott & Vorley 2019; Nieuwenhuizen, 2019, OECD, 2015).

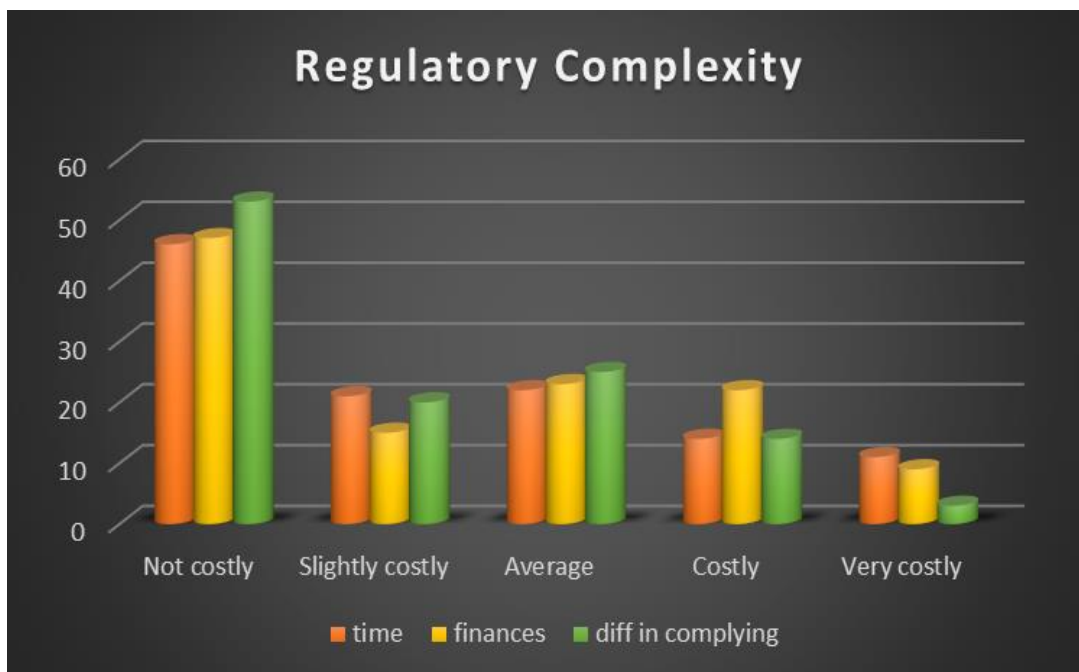


Figure 4.10. Regulatory complexity

4.5.3 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 (Musara & Gwaindepi, 2014;

Ndlovu, 2015; Evans, 2017). 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 (SARS, 2018). Although arguments exist that this type of business does not pay taxes, the SARS report (2018) 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 (SARS, 2018).

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 (SARS, 2018). 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 (SARS, 2018). 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 (Kitching, 2006; Kitchin, 2015; Ndlovu, 2015; Sars, 2018, Smulders and Stiglingh, 2008; Smulders *et al.*, 2012, Smulders *et al.*, 2016).

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 (Worstell, 2016).

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 (Akinboade, 2015; Evans, 2017).

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.

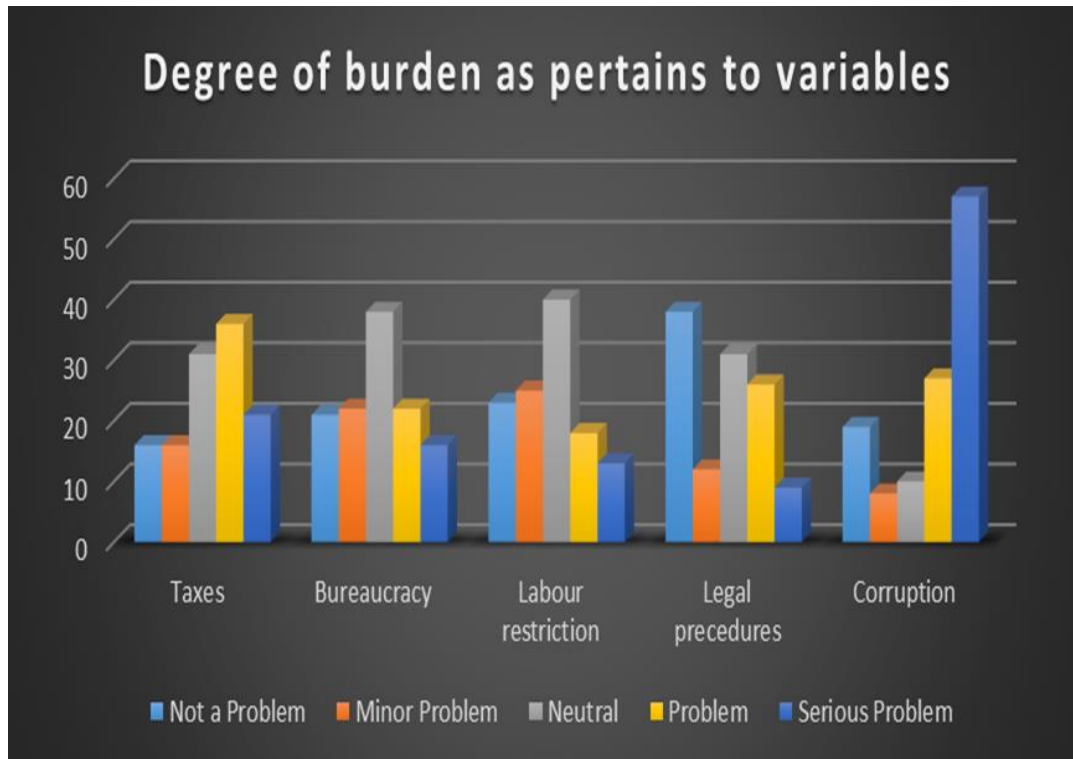


Figure 4.11. Degree of burden

4.5.4 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 (Goshu, 2015; Kitching, 2006; Panda, 2015). 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 (2015), Adomako & Danso (2014), Nieuwenhuizen (2019) while 10.9% denied this assertion again stating that it was up to the owners and entrepreneurs to make sure their businesses work (Kitching, 2006; Panda, 2015). 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.

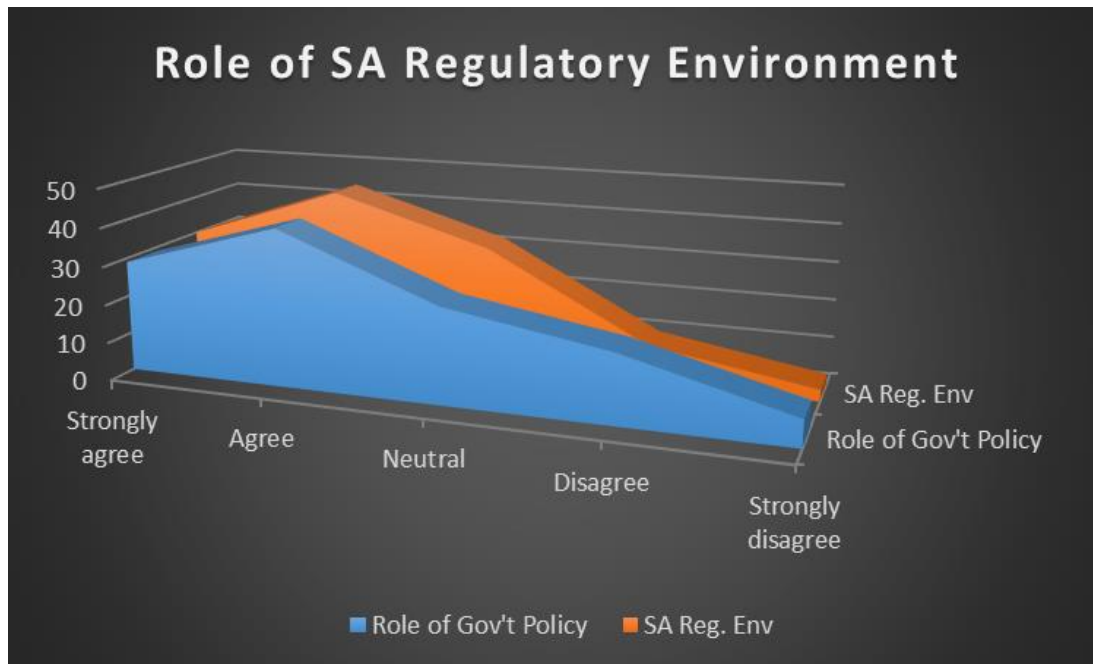


Figure 4.12. SA regulatory environment

4.5.5. 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 OECD (2015) that regulatory burdens continue to be a major obstacle to small business growth.

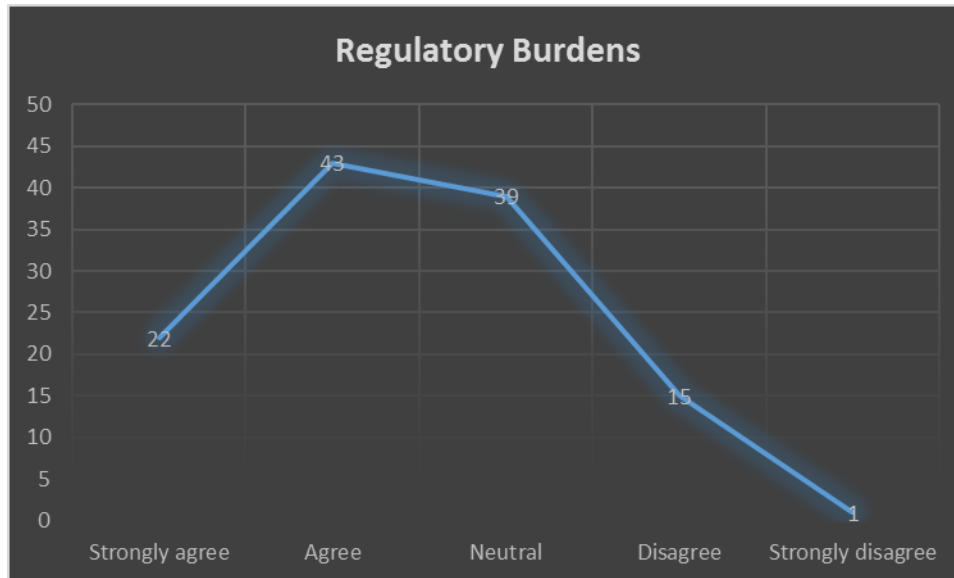


Figure 4.13. Regulatory burdens

4.6. 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 (SARS, 2018). 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 (Kitching et al., 2015; SARS, 2018). 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 Döckel & Ligthelm (2015).

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 (Smulders & Stiglingh, 2008, Smulders et al., 2012). 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 (Smulders & Stiglingh, 2008, Smulders et al., 2012).

Their responses are summarized in the figure below

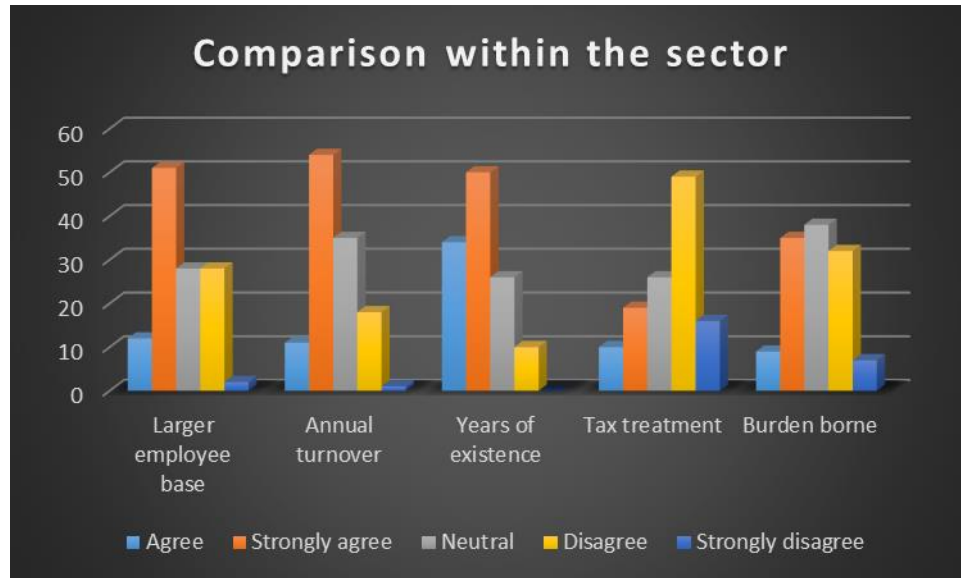


Figure 4.14. Comparison within the sector

4.7 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

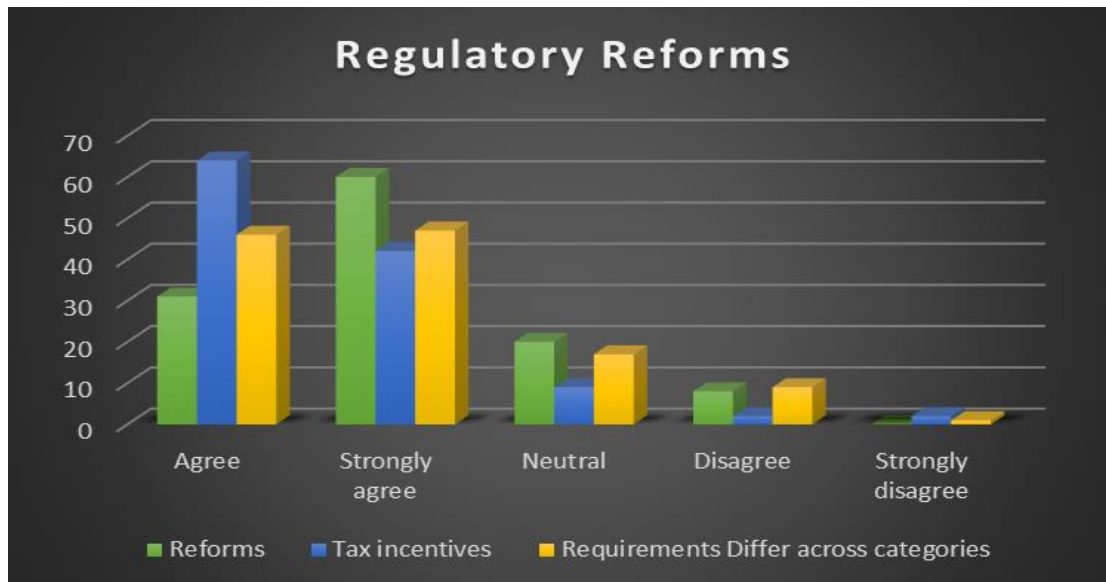


Figure 4.15. Regulatory Reforms

4.8 Hypothesis Testing

In order to test the formulated hypothesis, several methods were used - cross-tabulation, cluster analysis, Kruskal-Wallis test (Wallis, 1952), and the Chi-square values were utilised.

4.8.1 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 α 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 (Rumsey, 2015). 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-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-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 4.8.1 depicts only that for the form of business and bureaucracy).

Table 4.8.1. 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)

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

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 (Field, 2009). 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 (Akinboade, 2015). Table 4.8.1. is a sample of how Tables 4.8.2. to Table 4.8.15. should be read.

Table 4.5. is a summary of the relationships tested (the detailed tables can be found in Annexure 1 for proper presentation purposes). 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 .

Table 4.5 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
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

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 4.6 Summary of variables tested and their P-values and chi-square values showing no association between them

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

4.8.2 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 4.7 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.

4.8.3 Analysis of Variance (ANOVA) Results

Table 4.8 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
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

4.8.4 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 (Wallis, 1952; Corder & Foreman, 2009). The table below shows the list of variables for which the three clusters are different.

Variables depicting differences between clusters

Table 4.9 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;

- Taxation
- Cost – in terms time and finances
- Bureaucracy
- Labour restrictions
- Corruption
- Compliance

4.9 Validity

4.10 Content Analysis

The thematic content analysis research method was used to analyse the open-ended questions on the questionnaires. It offered the researcher the opportunity to probe further to capture rich descriptive data, coupled with the thoughts and perceptions of the respondents that could not be expressed with numerical data (Crossman, 2017). This method was chosen because of its ability to summarize, assess and discuss the perspectives of the different respondents, drawing out similar and contrasting viewpoints and revealing gaps and unexpected outcomes (Nowell et al, 2017). It best captured the experiences of the small business owners. It highlighted their narratives, perceptions and the challenges they faced in operating their businesses in South Africa's regulatory environment. The regulatory constraints brought forward were broken down into different themes; tax, labour regulation, bureaucracy, bribery and corruption – with sub-themes, showing that the conduciveness of the regulatory environment is instrumental towards small business growth and success to a certain extent.

Table 4.10 Content Analysis: Summary and classification of themes and sub-themes

Taxation	Bureaucracy	Bribery and corruption	Labour laws	Extent to which the regulatory environment influences SMMEs
High and continually increasing taxes and municipality fees	<ul style="list-style-type: none"> • Filling paperwork and other administrative requirements • Obtaining and renewal of permits and licenses 	Corrupt systems and officials	<ul style="list-style-type: none"> • Restrictive labour laws in hiring and firing (drain on turnover) • Restrictive growth 	<ul style="list-style-type: none"> • Living for “the daily”, hand-to-mouth • Failure to save and re-invest in the business • Failure to save and re-invest in the business

4.10.1 Taxation

High and continually increasing taxes and municipality fees

Respondents pointed out that high and continually increasing taxes and municipality fees constituted a difficulty. Participants indicated that this was a problem. Some respondents revealed that those who did not pay taxes, paid municipality fees. These taxes and fees continually increase as the years and months go by. They indicated that this limited their ability to grow as most times these fees were collected monthly and they felt it was too frequent. They conceded that the government through the municipality is justified in collecting these fees, but complained about the frequency and increasing amounts that accompanies this demand. Other respondents revealed that as a result of the high and continually increasing taxes, especially in their line of business, they resort to tax evasion. Remarks concerning these challenges are as follows;

“It is justified that we pay municipality fees but ask how much and how frequently. Now that is the problem”. (**Respondent 52: Quote 23**)

“It is not that they are not to collect the money, because we understand that they have to. The problem is that, there are many problems that our businesses face that make them not to be able to get that money to pay that frequently. That is the problem”. **(Respondent 31: Quote 14)**

“Many of us use the Hupla Method to avoid tax. The Hupla method involves not recording all the income in order to avoid tax” **(Respondent 68, Quote 5).**

This is consistent with a study by Marron (2014) who mentions that as a result of the nature of their transactions, small businesses may decide not to report or record these transactions so as not to be charged for it. They may also exaggerate their expenses and underreport their revenues to escape paying their taxes. This is because sometimes they cannot comply with all the requirements and know there are accompanying costs associated with compliance, but other times, it is a deliberate action on the part of the small businesses. A study by Venter and de Clera (2007) addresses taxation as a major regulatory issue that small businesses face. Additionally, Adebisi and Gbegi (2013) and Ocheni and Gemade (2015) confirm that such a tax regime can have a negative and distortive effect on the development of small businesses. Tomlin (2008) in his study argues that the resources spent by small businesses for taxes and tax compliance are resources that should have been used to re-inject into the business to ensure growth in the future.

In a nutshell, the participants requested for a conducive environment which is not plagued by too many requirements. The problem was the amount to be paid as tax and the frequency with which they were taxed. They acknowledge that taxation is the government’s way of obtaining income which will still be used toward the development of the society and their businesses. But most have little or no idea about the procedure or how taxes work exactly. In this regard, they request enlightenment and forums to discuss these issues in order that they may know how, accept and even endeavour not to run away from taxes.

“It is my suggestion that although the government encourages people to establish businesses, it is still the responsibility of the government to ensure that the same businesses are sustainable”. **(Respondent 75: Quote 3)**

4.10.2 Bureaucracy

Filling paperwork and other administrative requirements

Some respondents also expressed their worries and complained about how numerous the required documents, permits and licences were. In addition, they complained about the processes and difficulty in compilation of documents required to start the business and renewal of permits to

remain in business. In responding to this question on required documents to commence his business, one respondent said;

“It took a long time to open my business especially as I needed to submit a lot of documents like work permits, passports, visas, business premises authorization, liquor licenses, firearm licenses and just too many documents. And it was very difficult to comply with requirements and it took a lot of pleading and pleading on my part to open my business”. **(Respondent 5: Quote 4)**

Another one said, *“I faced difficulties in complying with requirements to register and commence my business. The documentation was too plenty”.* **(Respondent 27: Quote 2)**

Obtaining and renewal of permits

Participants expressed the view that it took them a long time to obtain their licences. Others said it took 6 months whilst, others said it took 2 years. Others said they had not received theirs yet because of the delays, resulting in embarrassment during routine checks. They also communicated that if their line of business requires a renewal of business permits or licences (and given their different lines of business), they all have different renewal times or required renewal time. All of the respondents expressed dissatisfaction over the frequent nature of the renewal of permits and licences. While others need to renew annually, others need to renew quarterly, bi-annually and even monthly. Though they understood that it was the government's way of ensuring or maintaining a semblance of order, transparency and scrupulousness in business, they suggested that it should be done electronically.

“Redtape too is really a problem. Long queues and you want to ensure you do the documentation right, so you cannot send employees”. **(Respondent 27: Quote 3).**

“There are delays in the time taken to process the documents and even the renewal is a major cause for concern. Sometimes I even think they are understaffed, so maybe that is the problem”. **(Respondent 65: Quote 5)**

“Yes, there was difficulty in registering the business and there was a lot of difficulty in obtaining my license” **(Respondent 115: Quote 4)**

Yet another respondent comments on the question regarding the length of time to obtain a license, *“till now, I haven't been given my license and I started in 2010”.* **(Respondent 17: Quote 1)**

South African small business owners and entrepreneurs struggle to operate in an inflexible and rigid business environment as they need to ensure that they thrive while dealing with these

challenges. Thus, the hold that regulatory burdens have on entrepreneurs and small businesses has been said to be one of the main causes of the failure of small business growth (Kruger, 2016). It is worth noting that some business procedures for renewal takes 3 days, others take months and even a year and more. In response to these challenges involving bureaucracy, respondents stated the need to reduce administrative delays in obtaining permits and licenses for start-up.

4.10.3 Bribery and Corruption

Corrupt systems and officials

The participants commented that bribery and corruption was a major cause for concern. Respondents remarked that they had, on several occasions faced one case of bribery and corruption. It was either they (respondents) initiating the bribe to get out of a situation or an occasion could arise where the official requests for a bribe as the only way of getting out of a certain predicament. They also complained on how this factor intensified bureaucracy as they had to bribe their way through certain situations and officials to get their documents processed or even touched. The researcher read the nervousness and agitation in their manner and swore confidentiality of their responses and reports, yet they gave general answers and were relieved to move on to the next aspect of the discussions. They however, implored the government to put in place policies that will ensure justice and fairness in this regard.

“There is corruption and theft during the process and in the system. Reduce corruption levels and requirements for start-ups and eradicate all corrupt systems without respect of persons or positions”. (Respondent 47: Quote 1)

“These officials know that you have to remain in business, and they will use this to get money from you especially during random checks when you will not be having a document or something”

“Reduce corruption levels and requirements for start-ups” (Respondent 29, Quote 1).

“This money satisfies them only for a while and they always come back. Something should be done”. (Respondent 81: Quote 1)

Sitharam and Hoque (2016) share the view indicated by respondents that corruption is affecting business performance. This is because firstly, delays in the establishment of the business due to requirement upon requirement lead to a situation where the morale of the entrepreneur or business owner is lowered and he or she will reach a point where they will do whatever is required just to ensure that the documents are released. Furthermore, for those battling with officials, these

are resources that are to be used to improve or develop the business. This cannot happen when funds are not used for the intended purposes

4.10.4 Labour Laws

Restrictive laws in hiring and firing (drain on turnover)

Respondents communicated that these laws were restrictive in that, in the first place, it drained their already decreasing resources. They remarked that, coupled with the hassle and strain involved with establishment, there are loans to be paid and other expenses, thus, start-ups (and even established businesses) find it difficult to pay their workers as they are more concerned with loan repayment, reinvestment and daily running of the business. This limits their resources which cannot be expended in the paying of such monthly rates to workers. This specified cut-off wage (explained below) brings not only an expectation in the mind of the employee, but also encouraged them (the employers), to engage in unfair practices such as hiring by word-of-mouth. With no contract signed, the employer could fire the employee without encountering any legal consequences as the contract was not binding.

“Minimum wage a problem. Employers don’t want to pay that minimum wage. First of all, they are small. Now grievances arise because of minimum wages and because the employer knows this, they employ by word of mouth which has no signed contract to give secure or ensure legal binding. When they want to get rid of the employee, they fire on the grounds of theft or the fact that the employee is not doing their job well. Workers are fired randomly at slightest provocation and cannot do anything because of no contract to show as proof, this is unfair firing practice. So they employ the cheap labour they can afford which is foreigners because they cannot do anything, it is not their country”. (Respondent 97, Quote 4)

Restrictive growth

Some participants complained that the law governing the compensation of employees worked to the detriment of the growth and development of their businesses as they have just enough or less to keep their business running and so will not risk employing workers to pay the set amount because they did not have it. They further asserted that even though their wish is to create jobs by employing people, they will rather do it on their terms and budget. They added that with the help of employees to take some of the tasks, running the business will be more effective. This factor therefore adds to the hindrances of small business growth. The following was captured during the interviews;

“Even though I as a small business is supposed to employ people, I can’t afford to pay them that amount. And when you tell them the amount of their salary, they will tell you about the standard wage rate. How will I pay workers such an amount when I don’t have enough to put back into the business and suffering without light?” (Respondent 17: Quote 6).

Worstall (2016) remarks that, considering their start-up expenses, South Africa’s minimum wages are too high a cost for small businesses to bear. These laws governing labour prompts entrepreneurs and small business owners to engage in shady hiring because they know what the law says and will be held accountable if there is a signed contract. This weighs not only on the employer but stretches to the employee. An employer struggling to pay such wages does so at the detriment of the business.

4.11 Extent to which the regulatory environment influences SMMEs

Respondents were asked about the extent to which South Africa’s regulatory environment restricts the growth of the small business sector. The respondents discussed the possibility of the regulatory environment not being the main cause of the small business sector’s not growing. They cited various scenarios they had witnessed over the years and recently which could be the cause of the small business sector’s failure to grow.

a) Living for “the daily”, hand-to-mouth

The respondents stated that some businesses or business owners did not get into business to compete or grow. Neither do they remain in business to take the business further, but as a way to cater for the needs of their family – what is called “hand-to-mouth”. Whatever enters their hand goes towards taking care of the family and themselves with no future plan or goal to get bigger or better. One respondent said;

“You know there are also those who are in business only to put food on the table. They are small businesses and do employ people, but don’t have that plan and drive of competition and entrepreneurship. They just take from their hand to their mouth and life for them goes on”. (Respondent 23, Quote 1).

This constitutes a gap as to whether small businesses are a means of innovation and growth or a survival strategy. This is confirmed by Ward (2018) who defined an entrepreneur as a person who starts a new business venture. In her paper, she further remarks that, that may not be all that is needed to do to be considered an entrepreneur because while every entrepreneur is a small business owner, not every small business owner is an entrepreneur. This is because entrepreneurs are people who have rare potential and take advantage of opportunities that

otherwise others would not and the abilities to develop those opportunities into profit-making businesses (Peake, 2017; Ward, 2018).

b) Failure to save and re-invest in the business

The respondents discussed another scenario where business owners engage in unnecessary spending instead of saving to reinvest into their businesses. They also point out that when small business owners get huge sums of money, they will prefer to live a life they cannot afford rather than reinvesting into the business. Their inability to keep records removes the accountability and they tend to overspend and not keep track of it.

“There are some these younger ones who will hit a jackpot and then they will buy cars and take unnecessary risks to enlarge a business which you know you have no possibility of having such huge amount of money again in your life. They have no bookkeeping habits and poor saving habits as well. How do you keep the business alive?” (Respondent 37: Quote 2).

This emphasized cash flow problems and challenges faced by small business owners caused by no one else but themselves (Chaney, 2016).

c) Inability to run a business

The respondents also cited this aspect as one of those reasons why the small business sector is still where it is. They affirm that there are some individuals that cannot run a business and although they may have all the factors and odds in their favour, they will still not be able to make the business turn a profit.

“Because frankly, there are those people that in all honesty cannot run a business. So, it does not matter the amount of money the government throws at them, they’ll still not run it.”(Respondent 83: Quote 1)

From the above response, emphasis was laid on skills and know-how and how the lack of such capabilities could be the cause of failure (Mnisi and Rankhumise, 2015).

4.12 Conclusion

This chapter discussed the results pertaining to the impact of the regulatory environment on small business growth. The data analysis using various statistical tests such as descriptive, chi-square, cross-tabulation and content analysis were conducted in order to describe the characteristics of the sample as well as to look for associations and test the hypotheses formulated. Reliability and validity tests were also performed. All these pointed towards the fact that although the regulatory

environment negatively affects the growth of the small business sector, other factors such as the owner's ability, skills and potential affect the way his/her business will grow.

Chapter 5: Conclusions

5.1 Chapter Overview

This chapter is a build up from the previous chapters. The chapter summarises and presents the concluding remarks as well as the limitations, suggestions or recommendations for further research.

5.2 Introduction

The purpose of the study was to examine the factors within the regulatory environment and how they negatively influence the growth of the small business sector. A review of the literature revealed a gap which constituted the magnitude or degree of the regulatory burden borne by the varied categories of firms within the small business sector. This study therefore attempted to address this gap in literature and contribute to the body of knowledge with several research questions and a conceptual framework developed to guide the research process. Also, hypotheses were formulated to assist in answering the research questions. This chapter, therefore, outlines the conclusions based on the results obtained related to the regulatory environment and the small business sector in Polokwane.

5.3 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.

In light of 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 (OECD, 2017). 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 (OECD, 2017).

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 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 uncondusive 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.

5.6 Limitations of the Study

- This study was subject to time and budget constraints
- The findings of the study were limited to only small business owners
- The scope of the study was restricted to Polokwane

5.7 Directions for future research

In order to address the gaps within the body of knowledge that still remain, the following areas are suggested for further research:

- Burden of regulation borne by SMMEs in the whole of South Africa but categorized as urban and rural SMMEs.
- Direct impact of regulation on profitability and sustainability of SMMEs sector.
- Comparison of the implemented recommendations on small business growth.
- The same study with different research methods.

5.8 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;

- 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.

- 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.
- 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.
- 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.
- It was discovered that variables that were purported at the beginning and from other studies to be related, had no relationship whatsoever.

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Annexure A: Cross-tabulation depicting the relationships between variables

Table 4.8.1. Cross-Tabulation of form of business and bureaucracy

Form of business and bureaucracy			Bureaucracy					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Form of business	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)

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

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 (Field, 2009). 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. Akinboade (2015) found similar results in his own research.

Table 4.8.2. Cross-Tabulation of number of employees and high and continually increasing taxes

Employee base and high and continually increasing taxes			High and continually increasing taxes					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Number of employees	None	Count	6 (2.6)	2 (2.6)	6 (4.8)	3 (5.7)	2 (3.4)	19
	1-5	Count	8 (8.9)	8 (8.9)	15 (16.6)	23 (20.0)	12 (11.6)	66
	6-10	Count	1 (2.8)	4 (2.8)	6 (5.3)	4 (6.4)	6 (3.7)	21
	10-15	Count	1 (0.5)	0 (0.5)	0 (1.0)	2 (1.2)	1 (0.7)	4
	15-20	Count	0 (0.3)	0 (0.3)	1 (0.5)	1 (0.6)	0 (0.4)	2
	20-50	Count	0 (0.3)	0 (0.3)	1 (0.5)	1 (0.6)	0 (0.4)	2
	50-100	Count	0 (0.4)	1 (0.4)	1 (0.8)	1 (0.9)	0 (0.5)	3
	150-200	Count	0 (0.1)	1 (0.1)	0 (0.3)	0 (0.3)	0 (0.2)	1
	Above 200	Count	0 (0.1)	0 (0.1)	0 (0.3)	1 (0.3)	0 (0.2)	1
Total		Count	16 (16.0)	16 (16.0)	30 (30.0)	36 (36.0)	21 (21.0)	119 (119.0)

$$X^2 = 28.759, df = 32, p < 0.05, p = 0.033$$

The test for association between the number of employees and high and continually increasing taxes revealed that the two variables are associated. This could be explained by the fact that the higher taxes a business owner has to pay the lesser he will be willing to employ people. Respondent 17: Quote 6 reveals this when he states, “Even though I as a small business is supposed to employ people, I can’t afford to pay them that amount. And when you tell them the amount of their salary, they will tell you about the standard wage rate. How will I pay workers such an amount when I don’t have enough to put back into the business and suffering without light?” (Respondent 17: Quote 6).

Table 4.8.3. Cross-Tabulation of number of employees and bureaucracy

Employee base and bureaucracy			Bureaucracy					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Employee base	None	Count	3 (3.4)	6 (3.5)	4 (6.0)	4 (3.5)	2 (2.6)	19
	1-5	Count	13 (11.6)	12 (12.1)	20 (20.4)	11 (12.1)	9 (8.8)	65
	6-10	Count	3 (3.7)	4 (3.9)	6 (6.6)	4 (3.9)	4 (2.8)	21
	10-15	Count	1 (0.7)	0 (0.7)	2 (1.3)	0 (0.7)	1 (0.5)	4
	15-20	Count	1 (0.4)	0 (0.4)	1 (0.6)	0 (0.4)	0 (0.3)	2
20-50	Count	0 (0.4)	0 (0.4)	1 (0.6)	1 (0.4)	0 (0.3)	2	
50-100	Count	0 (0.5)	0 (0.6)	2 (0.9)	1 (0.6)	0 (0.4)	3	
150-200	Count	0 (0.2)	0 (0.2)	1 (0.3)	0 (0.2)	0 (0.1)	1	
Above 200	Count	0 (0.2)	0 (0.2)	0 (0.3)	1 (0.2)	0 (0.1)	1	
Total		Count	21 (21.0)	22 (22.0)	37 (37.0)	22 (22.0)	16 (16.0)	118 (118.0)

$X^2 = 22.828$, $df = 32$, $p < 0.05$, $p = 0.028$

In finding the relationship between the number of employees the respondents had and bureaucracy, the p-value determined that there existed a relationship between the both variables. This could probably be explained by the fact that, the more employees a small business has, the more paperwork it will have to do when it comes to the payment of wages.

Table 4.8.4. Cross-Tabulation of employee base and labour restrictions

Employee base and Labour restrictions.			Labour restrictions					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Employee base	None	Count	5 (3.7)	5 (4.0)	4 (6.3)	3 (2.9)	2 (2.1)	19
	1-5	Count	12 (12.7)	14 (13.8)	24 (21.5)	9 (9.9)	6 (7.2)	65
	6-10	Count	4 (4.1)	4 (4.4)	4 (6.9)	5 (3.2)	4 (2.3)	21
	10-15	Count	1 (0.8)	2 (0.8)	0 (1.3)	1 (0.6)	0 (0.4)	4
	15-20	Count	1 (0.4)	0 (0.4)	1 (0.7)	0 (0.3)	0 (0.2)	2
20-50	Count	0 (0.4)	0 (0.4)	2 (0.7)	0 (0.3)	0 (0.2)	2	
50-100	Count	0 (0.6)	0 (0.6)	2 (1.0)	0 (0.5)	1 (0.3)	3	
150-200	Count	0 (0.2)	0 (0.2)	1 (0.3)	0 (0.2)	0 (0.1)	1	
Above 200	Count	0 (0.2)	0 (0.2)	1 (0.3)	0 (0.2)	0 (0.1)	1	
Total		Count	23 (23.0)	25 (25.0)	39 (39.0)	18 (18.0)	13 (13.0)	118 (118.0)

$X^2 = 27.095$, $df = 32$, $p < 0.05$, $p = 0.001$

In finding the relationship between the number of employees respondents had and labour restrictions, the p-value determined that there existed a relationship between the both variables. This confirms the experiences of some small business owners who find it hard to hire or employ workers as a result of the labour restrictions put in place.

Table 4.8.5. Cross-Tabulation of annual turnover and high and continually increasing taxes

Annual turnover and high and continually increasing taxes			High and continually increasing taxes					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Annual turnover	R0 – R10 000	Count	1 (1.6)	1 (1.6)	5 (3.1)	3 (3.5)	2 (2.2)	12
	R10 001 - R50 000	Count	2 (2.5)	2 (2.5)	7 (4.6)	6 (5.2)	1 (3.2)	18
	R50 001 - R100 000	Count	3 (2.3)	4 (2.3)	5 (4.4)	1 (4.9)	4 (3.1)	17
	R100 001 - R150 000	Count	3 (2.7)	6 (2.7)	5 (5.1)	5 (5.8)	1 (3.6)	20
	R150 001 - R300 000	Count	2 (2.1)	1 (2.1)	1 (3.8)	8 (4.4)	3 (2.7)	15
	R300 001 - R500 000	Count	1 (1.2)	0 (1.2)	2 (2.3)	2 (2.6)	4 (1.6)	9
	Above R500000	Count	4 (3.6)	2 (3.6)	5 (6.7)	9 (7.6)	6 (4.7)	26
	Total	Count	16 (16.0)	16 (16.0)	30 (30.0)	34 (34.0)	21 (21.0)	117 (117.0)

$$X^2 = 30.282, df = 24, p < 0.05, p = 0.011$$

The p-value revealed that there was a relationship between the annual turnover of a business and the amount of taxes paid by that business. This could be because the more a business' income increases, the more taxes it is asked to pay. Especially as taxes are progressive in nature.

Table 4.8.6. Cross-Tabulation of annual turnover and bureaucracy

Annual turnover and Bureaucracy			Bureaucracy					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Annual turnover	R0 – R10 000	Count	1 (2.2)	4 (2.1)	2 (3.8)	2 (2.3)	3 (1.7)	12
	R10 001 - R50 000	Count	6 (3.3)	3 (3.1)	5 (5.7)	3 (3.4)	1 (2.5)	18
	R50 001 - R100 000	Count	2 (3.1)	5 (2.9)	8 (5.4)	0 (3.2)	2 (2.3)	17
	R100 001 - R150 000	Count	5 (3.4)	3 (3.3)	4 (6.1)	3 (3.6)	4 (2.6)	19
R150 001 - R300 000	Count	2 (2.7)	2 (2.6)	7 (4.8)	2 (2.8)	2 (2.1)	15	
R300 001 - R500 000	Count	0 (1.6)	0 (1.6)	3 (2.9)	3 (1.7)	3 (1.2)	9	
Above R500000	Count	5 (4.7)	3 (4.5)	8 (8.3)	9 (4.9)	1 (3.6)	26	
Total		Count	21 (21.0)	20 (20.0)	37 (37.0)	22 (22.0)	16 (16.0)	116 (116.0)

$\chi^2 = 35.066$, $df = 24$, $p < 0.05$, $p = 0.018$

The above table shows that there is a significant relationship between the annual turnover of a small business and bureaucracy.

Table 4.8.7. Cross-Tabulation of annual turnover and labour restrictions

Annual turnover and labour restrictions			Labour restrictions					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Annual turnover	R0 – R10 000	Count	1 (2.4)	3 (2.5)	5 (3.9)	1 (1.9)	2 (1.3)	12
	R10 001 - R50 000	Count	5 (3.6)	4 (3.7)	4 (5.9)	5 (2.8)	0 (2.0)	18
	R50 001 - R100 000	Count	3 (3.4)	6 (3.5)	4 (5.6)	2 (2.6)	2 (1.9)	17
	R100 001 - R150 000	Count	9 (3.8)	0 (3.9)	4 (6.2)	1 (2.9)	5 (2.1)	19
R150 001 - R300 000	Count	1 (3.0)	5 (3.1)	5 (4.9)	4 (2.3)	0 (1.7)	15	
R300 001 - R500 000	Count	0 (1.8)	3 (1.9)	3 (2.9)	2 (1.4)	1 (1.0)	9	
Above R500000	Count	4 (5.2)	3 (5.4)	13 (8.5)	3 (4.0)	3 (2.9)	26	
Total		Count	23 (23.0)	24 (24.0)	38 (38.0)	18 (18.0)	13 (13.0)	116 (116.0)

$X^2 = 44.814$, $df = 24$, $p < 0.05$, $p = 0.004$

A significant relationship was found between the annual turnover of a business and labour restrictions. This was the case with the respondents with lower incomes who admitted to labour laws being a problem, especially as it relates to the issue of the minimum wage

Table 4.8.8. Cross-Tabulation of form of business and high and continually increasing taxes

Form of business and high and continually increasing taxes		High and continually increasing taxes					Total	
		Not a problem	Minor problem	Problem	Serious problem	Very serious problem		
Form of business	Retail	Count	4 (4.1)	5 (4.1)	10 (8.0)	6 (9.3)	6 (5.4)	31
	Wholesale	Count	2 (1.1)	1 (1.1)	2 (2.1)	3 (2.4)	0 (1.4)	8
	Manufacture	Count	0 (2.7)	2 (2.7)	7 (5.2)	5 (6.0)	6 (3.5)	20
	Distributor	Count	0 (1.1)	2 (1.1)	0 (2.1)	3 (2.4)	3 (1.4)	8
	Intermediary	Count	1 (1.1)	2 (1.1)	1 (2.1)	3 (2.4)	1 (1.4)	8
	Other	Count	9 (6.0)	4 (6.0)	11 (11.6)	16 (13.5)	5 (7.9)	45
	Total	Count	16 (16.0)	16 (16.0)	31 (31.0)	36 (36.0)	21 (21.0)	120 (120.0)

$\chi^2 = 27.130$, $df = 20$, $p < 0.05$, $p = 0.013$

From the table above, it can be seen that a majority in each category of the forms of business consider high and continually increasing taxes to be a problem. This is consistent with the results of the study which demonstrated that, almost 73.3% of them considered taxes and increasing taxes to be a problem.

Table 4.8.9. Cross-Tabulation of compliance and high and increasing taxes

Compliance and high and increasing taxes			High and continually increasing taxes					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Compliance	Not difficult	Count	8 (7.4)	7 (7.4)	17 (13.0)	15 (15.8)	6 (9.3)	53
	Slightly difficult	Count	1 (2.8)	4 (2.8)	6 (4.9)	5 (6.0)	4 (3.5)	20
	Neutral	Count	4 (3.4)	4 (3.4)	3 (5.9)	7 (7.2)	6 (4.2)	24
Difficult	Count	2 (2.0)	1 (2.0)	1 (3.4)	7 (4.2)	3 (2.5)	14	
Very difficult	Count	1 (0.4)	0 (0.4)	1 (0.7)	0 (0.9)	1 (0.5)	3	
Total		Count	16 (16.0)	16 (16.0)	28 (28.0)	34 (34.0)	20 (20.0)	114 (114.0)

$\chi^2 = 9.053$, $df = 20$, $p < 0.05$, $p = 0.006$

A relationship was found between the high and increasing taxes and compliance. This is because small business owners find it difficult to comply with the payment of these high and increasing taxes

Table 4.8.10. Cross-Tabulation of financial constraints and high and increasing taxes

Financial constraints and high and increasing taxes		High and continually increasing taxes					Total	
		Not a problem	Minor problem	Problem	Serious problem	Very serious problem		
Financial constrains	Affordable	Count	7 (6.5)	9 (6.5)	14 (12.3)	11 (13.9)	6 (7.8)	47
	Slightly affordable	Count	0 (2.1)	3(2.1)	4 (3.9)	6 (4.4)	2 (2.5)	15
	Average	Count	5 (3.2)	3 (3.2)	6 (6.0)	6 (6.8)	3 (3.8)	23
Expensive	Count	3 (2.9)	0 (2.9)	3 (5.5)	9 (6.2)	6 (3.5)	21	
Very expensive	Count	1 (1.3)	1 (1.3)	3 (2.3)	2 (2.7)	2 (1.5)	9	
Total		Count	16 (16.0)	16 (16.0)	30 (30.0)	34 (34.0)	19 (19.0)	115 (115.0)

$X^2 = 18.876$, $df = 16$, $p < 0.05$, $p = 0.027$

A relationship was found between high and increasing taxes and financial constraints. This is because as taxes increase, small business owners find it difficult to obtain finances to continue paying these taxes.

Table 4.8.11. Cross-Tabulation of financial constraints and bureaucracy

Financial constraints and bureaucracy			Bureaucracy					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Financial constrains	Affordable	Count	13 (8.6)	11 (9.0)	12 (14.3)	9 (9.0)	2 (6.1)	47
	Slightly affordable	Count	2 (2.7)	4 (2.9)	3 (4.6)	3 (2.9)	3 (2.0)	15
	Average	Count	5 (4.2)	3 (4.4)	8 (7.0)	3 (4.4)	4 (3.0)	23
Expensive	Count	1 (3.8)	3 (4.0)	8 (6.4)	4 (4.0)	5 (2.7)	21	
Very expensive	Count	0 (1.6)	1 (1.7)	4 (2.7)	3 (1.7)	1 (1.2)	9	
Total		Count	21 (21.0)	22 (22.0)	35 (35.0)	22 (22.0)	15 (15.0)	115 (115.0)

$X^2 = 19.938$, $df = 16$, $p < 0.05$, $p = 0.003$

Similarly, bureaucratic procedures push the financial budget of small business owners to the limit. This explains the relationship between the both variables.

Table 4.8.12. Cross-Tabulation of financial constraints and labour restrictions

Financial constraints and labour restrictions			Labour restrictions					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Financial constraints and labour restrictions	Affordable	Count	15 (9.3)	14 (10.1)	9 (14.9)	4 (6.5)	4 (5.2)	46
	Slightly affordable	Count	2 (3.0)	4 (3.3)	5 (4.9)	3 (2.1)	1 (1.7)	15
	Average	Count	4 (4.6)	4 (5.0)	9 (7.5)	3 (3.2)	3 (2.6)	23
	Expensive	Count	1 (4.2)	1 (4.6)	11 (6.8)	4 (2.9)	4 (2.4)	21
	Very expensive	Count	1 (1.8)	2 (2.0)	3 (2.9)	2 (1.3)	1 (1.0)	9
Total		Count	23 (23.0)	25 (25.0)	37 (37.0)	16 (16.0)	13 (13.0)	114 (114.0)

$\chi^2 = 22.328$, $df = 16$, $p < 0.05$, $p = 0.033$

Again, this relationship can be explained by the difficulties faced by small business owners in the costs of hiring or firing workers. This acts as a drain to their income because of the laws or rules surrounding it.

Table 4.8.13. Cross-Tabulation of years of existence and high and continually increasing taxes

Years of existence and high and continually increasing taxes		High and continually increasing taxes					Total	
		Not a problem	Minor problem	Problem	Serious problem	Very serious problem		
Years of existence	1-5	Count	8 (7.5)	7 (7.5)	15 (14.5)	14 (16.8)	12 (9.8)	56
	6-10	Count	4 (3.3)	6 (3.3)	6 (6.5)	8 (7.5)	1 (4.4)	25
	11-15	Count	2 (2.4)	1 (2.4)	5 (4.6)	6 (5.4)	4 (3.2)	18
	16-20	Count	2 (1.2)	0 (1.2)	3 (2.3)	4 (2.7)	0 (1.6)	9
	Above 20	Count	0 (1.6)	2 (1.6)	2 (3.1)	4 (3.6)	4 (2.1)	12
Total		Count	16 (16.0)	16 (16.0)	31 (31.0)	36 (36.0)	21 (21.0)	120 (120.0)

$X^2 = 20.027$, $df = 16$, $p < 0.05$, $p = 0.002$

It was determined that there existed a relationship between the both variables. This is probably because despite all the years a business has existed, it never gets used to paying taxes or increasing taxes

Table 4.8.14. Cross-Tabulation of years of existence and bureaucracy

Years of existence and bureaucracy			Bureaucracy					Total
			Not a problem	Minor problem	Problem	Serious problem	Very serious problem	
Years of existence	1-5	Count	9 (9.7)	12 (10.2)	17 (17.6)	8 (10.2)	9 (7.4)	55
	6-10	Count	6 (4.4)	5 (4.6)	5 (8.0)	5 (4.6)	4 (3.4)	25
	11-15	Count	2 (3.2)	3 (3.3)	6 (5.7)	5 (3.3)	2 (2.4)	18
16-20	Count	3 (1.6)	1 (1.7)	3 (2.9)	2 (1.7)	0 (1.2)	9	
Above 20	Count	1 (2.1)	1 (2.2)	7 (3.8)	2 (2.2)	1 (1.6)	12	
Total		Count	21 (21.0)	22 (22.0)	38 (38.0)	22 (22.0)	16 (16.0)	119 (119.0)

$\chi^2 = 12.295$, $df = 16$, $p < 0.05$, $p = 0.007$

It was determined that there existed a relationship between the both variables. This can be explained by inferring that the more the business exists, the more experience it will have as the years go by to deal with the intricacies of bureaucracy

Annexture B: Questionnaire



Research Questionnaire

Dear respondent,

Thank you for participating in this research. The questionnaire you are about to fill is part of my dissertation to obtain a Master of Commerce at the University of Venda. The title of this study reads **The Impact of the Regulatory Environment on Firms within the Small Business Sector in Limpopo Province, South Africa**. The questions below are structured in a way to establish the degree to which the regulatory environment reduces the rate at which the small business sector is supposed to grow. The main goal is to determine if the weight of regulation borne by firms in this sector is different.

General Instructions

- Please answer all questions as honestly as possible in each section.
- The answers you provide must be from your own perspective.
- Please be assured that the information you are about to provide will be confidential, for academic use and will not harm your business.
- To protect and further ensure confidentiality, your names and that of your business are not required. Further, there are no questions that will personally identify you.
- This is voluntary, you can withdraw if you feel uncomfortable or threatened. This will take only 10-15 minutes of your time.
- You are free to ask for explanations for any of the questions you do not understand.
- If you have understood and agree to take part in the study, please sign to indicate your consent.

Signature (Participant)

Date

Signature of Investigator/Interviewer

Date

Thank you,

Your co-operation is much appreciated

Tambe Dede Kelly

Section A: Demographics

Please mark an **X** against your answer in the boxes

1. Please indicate your gender

Male	<input type="checkbox"/>
Female	<input type="checkbox"/>

2. In what age bracket do you fall?

Less than 18	<input type="checkbox"/>
18-29	<input type="checkbox"/>
30-39	<input type="checkbox"/>
40-49	<input type="checkbox"/>
Above 50	<input type="checkbox"/>

3. Race

Black	<input type="checkbox"/>
White	<input type="checkbox"/>
Coloured	<input type="checkbox"/>
Indian	<input type="checkbox"/>

4. Marital status

Single	<input type="checkbox"/>
Married	<input type="checkbox"/>
Divorced/ Separated	<input type="checkbox"/>
Widowed	<input type="checkbox"/>
Cohabiting	<input type="checkbox"/>

Section B: Business Information

Please mark **X** where necessary and fill in the blank spaces where necessary

5. What form of business do you operate

Retail	
Wholesale	
Manufacture	
Distributor	
Intermediary	
Other	

If other, please specify which.....

6. What type of business do you operate?

Sole proprietorship	
Partnership	
Corporation	
Association	
Other	

If other, please specify.....

7. What products are sold by your firm?

Clothing	
Grocery	
Fast food	
Fruits/vegetables	
Other	

If other, please state which.....

8. If your firm renders services, please state which service you render.....

9. What is the annual turnover of your firm?

R10.000 - R50.000	
R50.000 - R100.000	
R100.000 - R150.000	
R150.000 - R300.000	
R300.000 - R500.000	

Above R500.000	
----------------	--

10. What is the size of your firm in terms of years of existence?

1-5	
6-10	
11-15	
16-20	
Above 20	

11. What is the size of your firm in terms of number of employees?

None	
1-5	
6-10	
10-15	
15-20	
20-50	
50-100	
100-150	
150-200	
Above 200	

Section C: Regulatory Complexity

12. Did you encounter legal challenges in terms of government regulations, council or municipal bylaws, licenses, permits when you registered your business? Yes or no

Yes	
No	

If yes, please explain how.....
.....

.....
Rank the following in terms of how much you feel each to be a problem

1) Not a problem 2) Minor problem 3) Problem 4) Serious problem 5) Very serious problem

	1	2	3	4	5
13. High and continually increasing taxes					
14. Filling paperwork and other administrative requirements					
15. Labour law restrictions are unfavourable when it comes to hiring					
16. Fining due to permit and licence issues					
17. Bribing an official					

18. Government policy, rules and regulations play a key role in the start-up, establishment and growth of SMMEs. How much do you agree with these statement?

Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

19. South Africa's regulatory environment has been said to constrain the growth of entrepreneurial activity and consequently, the small business sector. How much do you agree with this statement?

Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

20. The expenses associated with regulatory burdens sets you back you in terms of time and monetary costs

Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

Section D: Comparison within the Sector

How much do you agree with these statements?

1) Agree 2) Strongly agree 3) Neutral 4) Disagree 5) Strongly disagree

	1	2	3	4	5
21. Firms with a larger employee base have it easier than firms with a smaller employee base when it comes to legal requirements					
22. Amount of annual income affects the number of regulations you need to comply with					
23. 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					
24. Large and small firms within the sector are subject to the same tax treatment					
25. Larger firms generally bear a lighter regulatory burden as compared to smaller firms within the sector					

Section E: Regulatory Reforms

How much do you agree with these statements?

1) Agree 2) Strongly agree 3) Neutral 4) Disagree 5) Strongly disagree

	1	2	3	4	5
26. Introduction of reforms in the regulatory framework will ensure a more enabling business environment					
27. Offering tax incentives and improving tax consultancy services to small business owners and would-be entrepreneurs will encourage small business development					

28. Regulatory requirements should differ according to categories, although in the same sector					
---	--	--	--	--	--

29. What other reforms do you suggest the government should enact?.....
.....
.....

30. Any other comments as concerns the study?.....
.....

Thanks for your participation!

