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Gordon Institute of Business Science
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Public policy and barriers influencing SMEs' market expansion

Veli Sibiya

Student number: 13205413

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ABSTRACT

This study sought to determine the influence of four critical barriers (access to procurement contracts, access to funding, regulatory frameworks, and access to market information) on the market expansion of small and medium enterprises (SMEs) in a setting that includes both private and public institutions instead of only public institutions. To that end, the resource-based view of a firm (RBV) theory and institutional theory were adopted as main theories for the study on the premise that SMEs have limited internal resources, and the influence of resources on SMEs' performance is dependent on the institutional environment.

A survey research method consisting of structured questions and statements administered through a web-based questionnaire was used for collecting data. To ensure quality results, the data collected from 178 managers of formal manufacturing SMEs was reduced to 79 through a rigorous data cleaning process.

The multiple linear regression test results suggest that South African SMEs are still experiencing challenges regarding access to markets or procurement contracts, access to funding, access to market information, and an unfavourable regulatory environment. Given these facts, government must design and implement a public policy to facilitate the creation of business networks in a value chain between SMEs and large private firms with the aim of ensuring that SMEs have access to sufficient private funding, all necessary market information, and private procurement contracts. Furthermore, government together with relevant stakeholders must create a favourable regulatory environment through policies and regulations, through which large private firms would be encouraged to develop SMEs through supply chain or procurement development initiatives.

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KEYWORDS

Key words: Institutional theory, SMEs' expansion barriers, SMEs' market expansion, resource-based view of a firm theory, and public policy

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DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

SV Sibiya
07 November 2016

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CHAPTER 1: RESEARCH PROBLEM

1.1 INTRODUCTION

Many scholars argue that small and medium enterprises (SMEs) are acknowledged globally as engines for socioeconomic development (Coad, Frankish, Roberts & Storey, 2012; Halabí & Lussier, 2014; Hessels & Parker, 2013). For example, in 2012 SMEs were responsible for 66.5% employment in 27 European Union countries (European Commission, 2013), 67% employment in Latin America (Cardoza, Fornes, Farber, Gonzalez Duarte & Ruiz Gutierrez, 2015), and 55% employment in South Africa (Timm, 2012).

1.2 RESEARCH MOTIVATION

1.2.1 Theoretical problem

Given the fact that SMEs are resource constrained and some more than others (Oura, Zilber & Lopes, 2015), various authors have done substantial research on barriers affecting the development of SMEs over the years. According to Cahen, Lahiri and Borini (2015), early scholars such as Fillis (2002), Leonidou (2000), and Ojala and Tyrväinen (2007) did research to understand SMEs' expansion barriers from the context of developed economies. In contrast, few recent scholars such as Cahen et al. (2015); Cardoza et al. (2015); Uner, Kocak, Cavusgil and Cavusgil (2012) and Zhu, Wittmann and Peng (2011) have started doing similar work from the context of emerging economies.

Although the current expansion barriers are still similar to the expansion barriers found by scholars in earlier years, SMEs in different countries perceive or experience these barriers differently (Uner et al., 2012). Notwithstanding other SMEs' expansion barriers, most countries cite barriers such funding (Beck, 2013; Daskalakis, Jarvis & Schizas, 2013; Lee, Sameen & Cowling, 2014; Yaldız Hanedar, Broccardo & Bazzana, 2013), market information (Child & Hsieh, 2014; Huett, Baum, Schwens & Kabst, 2014; Naldi & Davidsson, 2013; Oura et al., 2015) and an unfavourable regulatory environment (Bruton, Ahlstrom & Li, 2010; Mogos Descotes, Walliser, Holzmüller & Guo, 2010; Williams & Horodnic, 2015) as being critical in the expansion of SMEs. All in all, it is unfortunate that

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SMEs still experience numerous barriers that hinder their ability to expand (Hessels & Parker, 2013).

Despite the reasonable amount of research that has been done on barriers hampering the SMEs' expansion in different countries, the employment and economic growth figures indicate that there are still countries such as South Africa that are still not leveraging SMEs for economic growth and employment. Arguably, the reason for failure to leverage SMEs could be attributed to the institutions tasked to develop SMEs. Notably, most public policies emphasise the role of public institutions in curbing barriers affecting the market expansion of SMEs (Cardoza et al., 2015; Dickson & Weaver, 2011; Hessels & Terjesen, 2010; Makhmadshoev, Ibeh & Crone, 2015; Oparaocha, 2015).

This focus assumes that government institutions are equally effective and capable across different countries, developed or developing countries. Cardoza et al. (2015) argue that the environment of SMEs in emerging countries is made up of complex institutions, i.e. adverse, corrupt and inconsistent, that vary in terms of effectiveness across the countries. Similarly, Cahen et al. (2015) assert that SMEs in emerging economies are facing distinct and dynamic institutional challenges such as quality of legal systems and corruption. In addition, Cardoza et al. (2015) affirm that government institutions in Latin America are ineffective and more corrupt than market-related institutions, and their interventions in the development of SMEs often produce unintended results.

Due to the fact that public institutions in different countries face different challenges such as incompetency, corruption, and lack of resources, it is therefore incorrect for most public policies to rely on public institutions to enhance the market expansion of SMEs. Hence, Cardoza et al. (2015) appeal for deeper understanding of public policies and institutional environments required to curb barriers influencing the expansion of SMEs. Similarly, Makhmadshoev et al. (2015) plead for substantial quantitative studies to gain further insight into the influence of institutional contexts on the market expansion of SMEs.

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1.2.2 Business problem

Consistent with the Latin American findings is the failure of South African government interventions in delivering intended results since the adoption of the national policy framework called “The White Paper on national strategy for the development and promotion of small business in South Africa” (Department of Trade and Industry, 1995: p. 1). Despite the implementation of numerous policy programmes aimed at creating an enabling institutional environment for SMEs as outlined in the White Paper, government acknowledges the fact that SMEs are still facing critical barriers in their quest for expansion.

Arguably, the implemented policy programmes have not really addressed the market failures (Department of Trade and Industry, 2005). Consequently, the South African SME sector regressed from 60% employment in 2010 (SBP Alert, 2014) to 56% employment in 2012 (Timm, 2012). In addition, South African unemployment reached a record high at 26.6% in the second quarter of 2016 (Statistics South Africa, 2016d), and shockingly, the economy growth rate was 3.3% in the second quarter of 2016 following the negative growth rate of 1.2% in the first quarter of 2016 (Statistics South Africa, 2016a). Recently, the economic growth forecast for 2016 was revised to 0.5% (South African Government News Agency, 2016). The unemployment and economic growth performance is indicated in figure 1.1 (Trading Economics, 2016) and figure 1.2 (Statistics South Africa, 2016b) respectively.

Figure 1.1: South African unemployment rate in percentage

Source: www.tradingeconomics.com|Statistics South Africa

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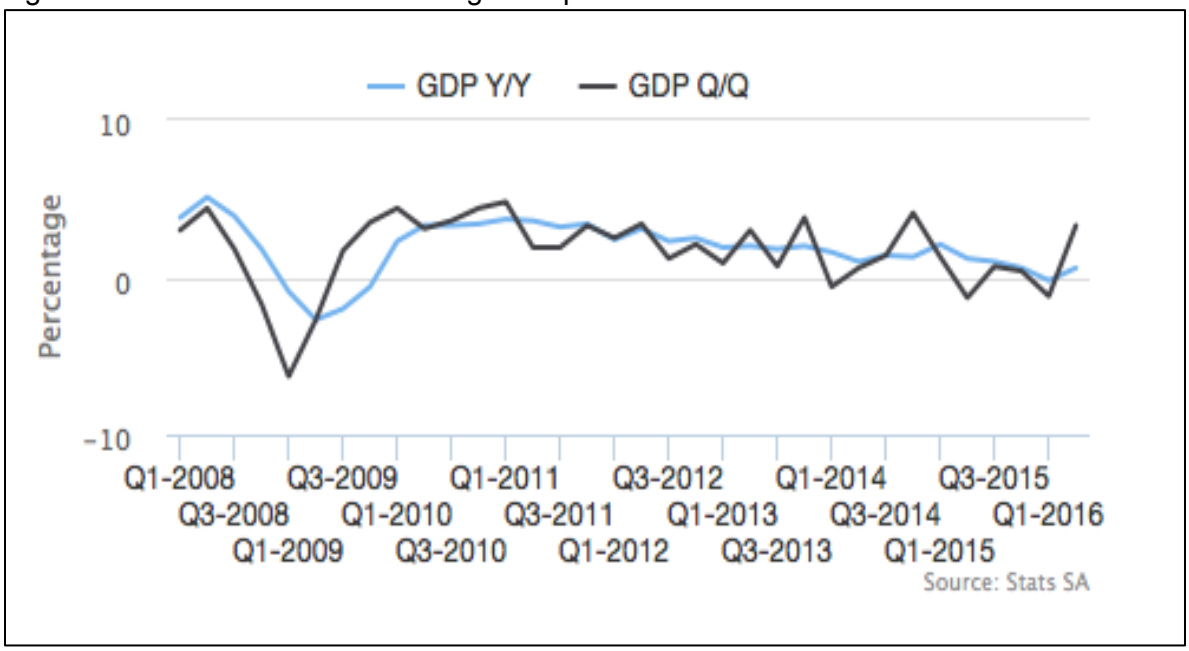
Figure 1.2: South African economic growth performance



Source: www.statssa.gov.za

As a result of these unsustainable unemployment and economic growth figures, the South African government calls for various stakeholders including the private sector to assist in developing and promoting the expansion of SMEs (National Development Plan, 2012). The country's economic blueprint, called National Development Plan (NDP) adopted in 2012, acknowledges that the growth and expansion of SMEs must be at the forefront if South Africa were to reach the economic growth target of 5.4%, and create approximately ten million new jobs by 2030 (National Development Plan, 2012).

To demonstrate the importance of addressing the barriers faced by SMEs, the South African government established the department of small business enterprise headed by Minister Lindiwe Zulu in 2014. The mandate of the department is to address barriers such as lack of access to market information, unfavourable regulatory environment, lack of access to funding and markets, as well as the effectiveness of public institutions (SBP Alert, 2014). While the intervention was a step in the right direction, particularly for regulatory constraints, corruption and lack of capability in public institutions might jeopardise the effectiveness of the institution.

In conclusion, various commentators quoted in the paragraph below are calling for a different approach in the development of SMEs in South Africa:

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"With concerns about unemployment in South Africa verging on desperation, there is a clear understanding across the board that something needs to be done differently" (Manufacturing Bulletin, 2012, p. 4). The chief executive officer of Small Business Institute suggests that the development of sustainable small business enterprises requires a "sound business model, considering both market access for products produced in the entities and sustainable job opportunities" (Mungadze, 2014, para. 16). "Leading causes inhibiting the growth and expansion of their businesses include lack of skills, burdensome regulations, local economic conditions, lack of finance and the costs of labour" (Darroll, 2014, p. 1). "Assistance in the form of training, finance or exposure to markets (local or foreign) can be greatly beneficial" (SBP Alert, 2013, p. 11). "Together the state and the private sector can help to create more focused and effective support for SMEs" (Timm, 2012, p. 15). With the South African economic growth forecast for 2016 revised to 0.5% (South African Government News Agency, 2016), "this may also be the perfect time for small businesses to expand their offerings to foreign markets in order to grow, while diversifying and minimising the risks of a weakening domestic economy" (Madhav, 2016, par. 3).

1.3 RESEARCH OBJECTIVES

The main objectives of the study are outlined as follows:

- To determine which of the expansion barriers mentioned by Leonidou (2004) are perceived or experienced as being critical by South African SMEs.
- To determine the influence of four critical barriers (access to procurement contracts, access to funding, regulatory frameworks, and access to market information) by Cardoza et al. (2015) on the market expansion of SMEs in a setting that includes both private and public institutions instead of only public institutions.
- To determine the influence of private institutions on the market expansion of SMEs when providing access to procurement contracts, access to funding and access to market information.
- To determine the role to be played by private and public institutions in curbing the four barriers affecting the market expansion of SMEs.

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1.4 RESEARCH SCOPE

The challenges of slow growth rates and high unemployment in South Africa call for the development of manufacturing SMEs by government and private businesses to boost local and export output (Manufacturing Bulletin, 2012). Similarly, the NDP regards manufacturing as labour intensive, "good for growth and good for jobs" (National Development Plan, 2012, p. 11)). Furthermore, investment in manufacturing has a multiplying outcome on the overall economy, with R1 investment resulting to the overall return of R1.13 (Manufacturing Bulletin, 2012).

In the year 2000, SMEs accounted for 98% of the US manufacturing sector and employed two third of the workforce, and they still continue to improve growth rates and create jobs (Hsu, Tan, Laosirihongthong & Leong, 2011). Furthermore, data collected in 2007 from 76 developed and developing countries indicate that 60% of employment in manufacturing comes from SMEs (Ayyagari, Beck & Demirguc-Kunt, 2007).

In contrast with the performance of manufacturing SMEs across the globe, the South African manufacturing sector has negative growth challenges as a result of regulatory barriers as well as high input costs such as electricity, fuel, labour and import costs. The performance of the South African manufacturing sector is shown in figure 1.3 below (Industrial Development Corporation, 2016). Even more concerning is the fact that 50% of manufactured goods consumed in South Africa are imported at a relatively cheaper price since foreign companies are subsidised (Manufacturing Bulletin, 2012). According to the Manufacturing Bulletin (2012), it was appalling to discover that about 35% of manufacturing SMEs would close shop in ten years' time and about fifth had no idea what the future entailed. Similarly, most of the approximately 400 000 SMEs that closed their businesses between 2006 and 2011 were involved in some form of manufacturing (Manufacturing Bulletin, 2012).

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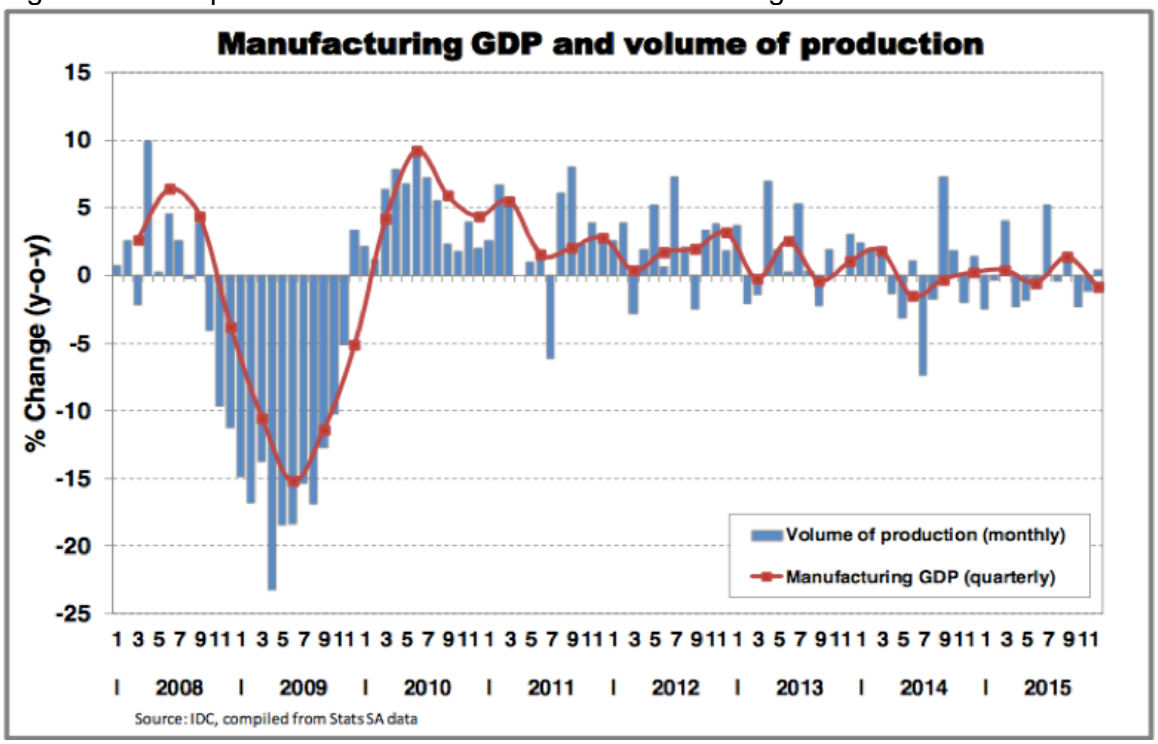
Figure 1.3: The performance of South African manufacturing sector



Source: www.idc.co.za

It was thus crucial that the research focused on SMEs in the manufacturing sector due to their potential to generate more jobs, particularly less skilled jobs (SBP Alert, 2013), and faster economic growth rates.

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CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

The main purpose of this study was to investigate the influence of four critical barriers (access to procurement contracts, access to funding, regulatory frameworks, and access to market information) on SMEs' market expansion in a setting that includes both private and public institutions instead of only public institutions. Notably, most public policies emphasise the role of public institutions, and neglect the role of private institutions, in curbing barriers affecting the market expansion of SMEs (Cardoza et al., 2015; Dickson & Weaver, 2011; Hessels & Terjesen, 2010; Makhmadshoev et al., 2015; Oparaocha, 2015). To that end, this study also sought to determine the roles to be played by both private and public institutions in curbing the four critical expansion barriers influencing the market expansion of SMEs in the context of developing countries.

The focus on public institutions to curb barriers affecting the market expansion of SMEs assumes that government institutions are equally effective and capable across different countries, developed or developing countries. This assumption is incorrect; some scholars affirm that institutional environments of developed and developing economies are different because of institutional weaknesses in developing economies (Ciravegna, Lopez & Kundu, 2013; Puffer, McCarthy & Boisot, 2010).

Given that SMEs have limited internal resources (Viljamaa, 2011), and the fact that the influence of resources on SMEs' performance is dependent on the institutional environment (Bhamra, Dani & Bhamra, 2010), both institutional theory and a resource-based view of a firm theory were adopted in explaining the market expansion performance of SMEs. In addition, resource dependency and network theories were also adopted due to the fact that SMEs rely on other actors in the institutional environment to obtain scarce resources required to enhance their market expansion strategies (Ciravegna et al., 2013; Hessels & Terjesen, 2010).

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The rest of the report is outlined as follows: chapter 2 is the literature review section, chapter 3 contains research questions and hypotheses, chapter 4 is the research methodology section, chapter 5 is the results section; the results are discussed in detail in chapter 6, and chapter 7 is the conclusion and recommendations section.

2.2 THEORIES

2.2.1 Institutional theory

Institutional theory is the key theoretical lens through which the positive and negative institutional forces that explain the success of enterprises in an environment is regarded (Bruton et al., 2010). While access to resources, as explained by the resource-based view of the firm theory, is crucial to the success of SMEs (Barney, 1991), the success of SMEs is equally influenced by the institutional environment (Bruton et al., 2010). Similarly, Williams and Horodnic (2015) support the notion that SMEs are influenced not only by their internal capability but by their institutional context as well.

In addition, institutional pressure is perceived differently by small and large enterprises, with SMEs being more vulnerable than large enterprises (Cheng & Yu, 2012). As a point of departure, the institutional theory lens is considered useful for studying SMEs since institutional context matters (Bruton et al., 2010; Mogos Descotes et al., 2010; Williams & Horodnic, 2015).

An institution is defined as a system of constraints that shapes and guides individual and organisational behaviour to reduce uncertainties, and consists of formal institutions such as written rules, policies and regulations as well as informal institutions such as unwritten rules, informal arrangements and cultural norms (North, 1990). Formal institutions include government, industries, companies, financial markets, judicial system and regulatory agencies (Oparaocha, 2015; Puffer et al., 2010). Summing up, institutions provide “rules of the game” (p. 3) that guide the behaviour of businesses, and thereafter monitor and ensure compliance (North, 1990).

Furthermore, Scott (1995) in Dickson and Weaver (2011) categorises institutions as: regulatory, normative and cognitive. The regulatory pillar is associated with government

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policies, regulations and industrial standards providing rewards and sanctions to individual and organisational behaviour in a formal manner. In contrast, both the normative and cognitive institutional pillars are concerned with socially shared rules of the game driven by social obligation (Scott, 1995 in Bruton et al., 2010; Dickson & Weaver, 2011; Puffer et al., 2010; Williams & Horodnic, 2015). In essence, the regulatory institutional pillar governs the behaviour of SMEs through government national policies; the normative institutional pillar governs the behaviour of SMEs through values and norms; and the cognitive institutional pillar governs the behaviour of SMEs through shared social knowledge (Mogos Descotes et al., 2010).

In this context, the practical implication is that the regulatory institutional pillar asserts that government must create a favourable institutional environment through public policies to promote the survival and expansion of SMEs (Cardoza et al., 2015). Arguably, both too many complicated formal rules as well as a lack of formal rules inhibit the expansion of SMEs (Bruton et al., 2010). Therefore, public policies must ensure that programmes are created to provide assistance such as funding and information necessary to enhance the expansion of SMEs (Cardoza et al., 2015). Secondly, the normative institutional perspective posits that SMEs that value and appreciate expansion would do anything possible to expand their businesses despite lack of formal institutions. Lastly, the cognitive institutional pillar suggests that as socially shared knowledge becomes institutionalised in an environment, information necessary to enhance the expansion of SMEs becomes easily obtainable (Mogos Descotes et al., 2010).

Ultimately, it is argued in different studies that institutions do matter in the development of SMEs since institutional environments in different countries can either constrain or enhance the expansion of SMEs (Ciravegna et al., 2013; Makhmadshoev et al., 2015; Nasra & Dacin, 2010; Puffer et al., 2010; Xheneti & Bartlett, 2012). Furthermore, many countries experience challenges in creating conducive institutional environments for the expansion of SMEs (Xheneti & Bartlett, 2012). Notably, the expansion of SMEs in emerging or transitioning economies is more constrained by dynamic and distinctive institutions (Makhmadshoev et al., 2015) associated with uncertainties and risks than in developed markets (Puffer et al., 2010). Similarly, it is argued in Nasra and Dacin (2010) that because of variability and differing institutional environments between developing and

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developed countries, adoption of practices between the two economies to enhance the expansion of SMEs may not yield favourable results.

Given these facts, the most cited reason for institutional differences between developed and developing countries is institutional weaknesses in emerging economies (Ciravegna et al., 2013; Puffer et al., 2010). According to Makhmadshoev et al. (2015) and Cardoza et al. (2015), the expansion or the development of SMEs in transition or developing economies is influenced by both formal and informal institutions such as inefficient and unpredictable policies, frequent changes in tax rates, market failures and corruption among others. However, other scholars argue that it is in fact a failure of formal institutions that create an institutional void, which is then filled by informal institutions (Puffer et al., 2010; Xheneti & Bartlett, 2012). Furthermore, it is proven in developed countries that well functioning formal institutions enhance the expansion of SMEs as formal institutions create a stable and conducive environment (Puffer et al., 2010). Notably, the failure of formal institutions in developing economies is caused by the lack of effective, well-designed and enforced institutions resulting in higher costs of doing business (Makhmadshoev et al., 2015).

Consequently, SMEs resort to informal personal contacts, political connections, social networks and other informal arrangements to compensate for the void created by formal institutions (Ciravegna et al., 2013; Xheneti & Bartlett, 2012; Zhou, 2012). Interestingly, Puffer et al. (2010) and Zhou (2012) found a positive correlation between the growth of SMEs and political connections or ability to bribe, in instances where formal institutions are absent. However, scholars also argue that corruption or informal institutions give rise to market imperfection and uncertainty putting the sustainability of SMEs under threat (Makhmadshoev et al., 2015; Puffer et al., 2010; Xheneti & Bartlett, 2012).

Summing up, the focus of this research was on the regulatory institutional pillar since government has a role to play in shaping institutional environment through public policies (Cardoza et al., 2015; Nasra & Dacin, 2010). In addition, the regulatory institutional pillar has been an area of concern for emerging or developing economies with emphasis on public policies (Peng, 2003). According Makhmadshoev et al. (2015), strengthening formal institutions reduces the reliance on informal arrangements, and thus the adverse impact on the sustainability of SMEs.

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2.2.2 Resource-based view of a firm

While the impact of institutional environment or external barriers on the expansion performance of SMEs has been emphasised, the resource-based view (RBV) of the firm acknowledges the impact of internal barriers on the expansion of SMEs (Barney, 1991). However, to alleviate the criticism of RBV for its focus on internal resources (Eng, 2016), RBV was adopted together with institutional theory for this study. It is argued that SMEs in emerging economies are more resource constrained when compared to their counterparts in developed economies (Oura et al., 2015), and their few resources are often used to deal with institutional voids (Lafuente, Stoian, & Rialp, 2013).

In this context, the RBV regards SMEs as a collection of resources, i.e. tangible and intangible (Brouthers, Nakos, & Dimitratos, 2015; Hessels & Parker, 2013), and the more resources they have the greater the chances of survival and expansion (Coad et al., 2012). According to Barney (1997) in Pickernell, Senyard, Jones, Packham and Ramsey (2013), resources owned or controlled by organisations consist of all assets, firm attributes, information, competencies, knowledge, capability, organisational processes, financial capital and so forth.

Furthermore, RBV theorists affirm that SMEs with access to superior resources that are valuable, rare, inimitable and non-substitutable create value through sustainable competitive advantage, and as a result enhance market expansion (Barney, 1991). Nevertheless, it is argued in Lonial and Carter (2015) that SMEs must have the capacity to effectively deploy these superior resources in their quest for expansion. Similarly, Huett et al. (2014) affirm that not all resources have the potential to create value, particularly when transferred to new markets because of differences in institutional environments. Hence, it is crucial for SMEs to be aware of the fact that resources may have risk-inflating effects or risk-reducing effects when expanding into new markets (Huett et al., 2014).

Given these facts, it is clear that several resource barriers influence the expansion performance of resource-constrained SMEs (Oura et al., 2015). Also drawing from the RBV literature, many scholars studying entrepreneurship state that entrepreneurial orientation (EO) is one of the crucial intangible resources that SMEs must possess to enhance their market expansion performance (Lafuente et al., 2013; Lonial & Carter, 2015;

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Shirokova, Bogatyreva, Beliaeva, Puffer & Matlay, 2016). Furthermore, Lafuente et al. (2013) affirm that SMEs' entrepreneurial orientation frequently act as a substitute for scarce tangible resources. Shirokova et al. (2016) followed prior entrepreneurship research and defined entrepreneurial orientation as the firm's "innovativeness, proactiveness and risk-taking" (p. 2) propensity.

Notwithstanding the influence of EO on SMEs' market expansion performance, many other scholars cite financial constraints and market information constraints as major barriers influencing the market expansion performance of SMEs (Brouthers et al., 2015; Coad et al., 2012; De Maeseneire & Claeys, 2011; Huett et al., 2014; Hutchinson, Fleck & Lloyd-Reason, 2009; Rosenbusch, Brinckmann & Bausch, 2010). Although EO promotes the expansion performance of SMEs, innovation activities require substantial funding which most SMEs do not have (Rosenbusch et al., 2010). In addition, market information serves as a risk-reducing resource, and therefore SMEs in possession of market knowledge are very likely to cope with a challenging institutional environment (Huett et al., 2014). Consequently, this study focused on the influence of market information and funding barriers, in addition to public policy, on SMEs' market expansion.

Summing up, given that SMEs have limited internal resources (Viljamaa, 2011), and the fact that the influence of resources on SMEs' performance is dependent on the institutional environment (Bhamra et al., 2010), both institutional theory and RBV were adopted in explaining the market expansion performance of SMEs.

2.2.3 Resource dependency and network theories

The resource dependency theory (RDT) and network theory are two complementary theories often used to explain how SMEs alleviate the challenges of resource constraints and institutional voids (Brouthers et al., 2015; Hessels & Parker, 2013; Hessels & Terjesen, 2010; Kim & Hemmert, 2015). Central to both theories is the notion that SMEs rely on other actors in the institutional environment to obtain scarce resources required to enhance their market expansion strategies. Consequently, SMEs leverage on alliances or networks to fill the resource gap or the institutional void (Ciravegna et al., 2013). Moreover, SMEs also depend on their home institutional environment to acquire resources necessary for expansion strategies (Hessels & Terjesen, 2010).

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It is argued in Jin, Jung and Matlay (2016) that different classifications of networks, such as business and social relationships, personal and inter-organisational networks, and formal and informal contacts can be grouped into either formal business networks or informal personal networks. Formal business networks are formed by firms doing business together and include suppliers, customers, buyers and dealers, whereas informal personal networks exist as a result of personal relationships formed predominantly through friends and family. Besides the classification adopted by Jin et al. (2016), Hessels and Parker (2013) further divide business networks into formal and informal since firms do engage in both formal and informal business networks, and the risks and benefits associated with these networks are different.

Since SMEs are resource constrained, they enter into alliances or networks to acquire critical resources that would enhance their expansion strategies. In addition, expansion and network strategies command different types of resources (Hessels & Parker, 2013). Interestingly, a significant number of scholars affirm that both personal and business networks can provide access to critical resources such as information about potential markets or business opportunities, financial resources, management skills and expertise, research and development (R&D) and distribution channels among others (Ciravegna et al., 2013; Jin et al., 2016; Kim & Hemmert, 2015). However, Hessels and Parker (2013) argue that business networks provide a wider scope of choices and access to resources when compared to personal networks. Equally important is the fact that Semrau and Werner (2014) found that increasing the relationship quality and network size yields diminishing marginal returns for some types of resources such as financial capital and market information.

Although both business and personal networks can provide SMEs with access to resources (Brouthers et al., 2015), findings by Jin et al. (2016) posit that only business networks and not personal networks provide SMEs with access to market knowledge, which in turn enhance expansion performance. Furthermore, both personal and business networks indirectly influence the expansion performance of SMEs, particularly international performance (Jin et al., 2016).

Notwithstanding the influence of personal networks, this study focused on understanding the role of public policy in facilitating business networks between SMEs and private firms

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in order to alleviate critical barriers, i.e. financial, market information and regulatory constraints, influencing the market expansion of SMEs. Important to consider is the fact that informal business networks allow SMEs to have independent and flexible strategies whereas formal business networks tend to restrict their independence and flexibility. Furthermore, informal business networks do not command full control or ownership of acquired resources (Hessels & Parker, 2013). However, since informal business networks are based on trust, privileged information might spill over to competitors putting the firm's competitive advantage at risk (Hessels & Parker, 2013).

Although formal business networks are evolving, particularly between small and large firms through value chains, there is also a risk of unintended flow of information from small firms to large firms which is difficult to safeguard because of asymmetrical power (Sawers, Pretorius, & Oerlemans, 2008). Notwithstanding the risk in a relationship between small and large firms, research findings by Kim and Hemmert (2015) affirm that the subcontracting relationships between small and large firms provide expansion opportunities for manufacturing SMEs in South Korea. Similarly, Milanov and Fernhaber (2013) found that new ventures can enhance their market expansion performance, particularly international expansion, if they partner with domestic firms that have international experience. Arguably, home market advantage does play a role in enhancing market expansion performance of SMEs (Hessels & Terjesen, 2010).

Summing up, the research looked at whether public policy could be used to assist SMEs in closing the resource gap and institutional void through the facilitation of formal business networks in a value chain between large firms and SMEs in a home country. Arráiz, Henríquez and Stucchi (2012) affirm that there were mutual benefits in terms of improved sales and employment between SMEs and large firms that were involved in the Chilean supplier development program.

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2.3 PUBLIC POLICY AND REGULATORY ENVIRONMENT

2.3.1 Global SMEs' policy context

Most governments around the world, both in developed or developing countries, have implemented various policy frameworks, initiatives and programmes designed to remedy resource gaps and an unfavourable institutional environment experienced by SMEs (Munari & Toschi, 2014). Accordingly, public policies and regulatory frameworks are tools used by government to create a favourable environment for SMEs to thrive (Halabí & Lussier, 2014; Nițescu, 2015). However, it is argued in Cardoza et al. (2015) that policies and regulations tend to produce unintended results due to corruption, poor implementation, lack of capacity, and ineffectiveness of public institutions.

The rationale for government involvement in implementing such policies is based on the notion that SMEs contribute to economic growth, reduce unemployment and poverty, and their expansion is deterred by institutional and market imperfections (Beck, 2013; Castaño, Méndez & Galindo, 2016; Castillo, Maffioli, Rojo & Stucchi, 2013; Heinonen & Hytti, 2014). In addition, market failures are reflected in asymmetric information and financial constraints bias against SMEs (Busom, Corchuelo & Martínez-Ros 2014; Doh & Kim, 2014). Interestingly, large enterprises are less affected by policy and regulatory environment when compared to SMEs (Halabí & Lussier, 2014); this could be due to the fact that major actors set the rules of the game in an environment, and thus have the ability to influence public policies.

Therefore, policy programmes are intended to address the traditional barriers, i.e. funding, market information, regulatory barriers and managerial capability, among others, faced by SMEs (Doh & Kim, 2014; Gilmore, Galbraith & Mulvenna, 2013). Consequently, the premise is that the policy programmes and strategies will in turn enhance the market expansion or competitiveness of SMEs (Cardoza et al., 2015).

While different countries implement varied SMEs' policy programmes to promote economic growth and employment because context matters, the policies are aimed at either creating new businesses or boosting the performance of existing SMEs (Lundström, Vikström, Fink, Meuleman, Głodek, Storey & Kroksgård, 2014). According to Lundström et al. (2014), the

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entrepreneurship policy is aimed at individuals interested in starting a business or having a business younger than three years whereas the SMEs' policy is aimed at boosting the performance of SMEs older than three years.

Notably, countries focus on innovation or research and development (R&D) policies (Beck, 2013; Doh & Kim, 2014; Foreman-Peck, 2012; Heinonen & Hytti, 2014; Lundström et al., 2014) and procurement or supplier development policies to enhance competitiveness or market expansion of SMEs (Arráiz et al., 2012; Cardoza et al., 2015; Cardoza, Fornes, Li, Xu & Xu, 2014). However, Arráiz et al. (2012) caution against the application of policies that might inhibit innovation, particularly procurement or supplier development policies, that give preference to SMEs in a value chain. On the other hand, Castillo et al. (2013) affirm that investment in innovation or technology does not exacerbate unemployment as claimed by some scholars, but improve productivity and demand which in turn result to higher employment.

The development and the implementation of policy programmes is either the responsibility of government (Cardoza et al., 2015, 2014; Doh & Kim, 2014; Lundström et al., 2014) or a joint responsibility between government and private institutions (Arráiz et al., 2012; Beck, 2013; Castillo et al., 2013; Heo, Sohn & Ji, 2012). According to Arráiz et al. (2012), the role to be pursued by government, i.e. active role or minimalist role, in policy programmes is debatable and cannot be generalised because context matters.

There are often two policy instruments, i.e. tax incentives or direct funding in the form of subsidies and loans, used in different countries to promote policy programmes aimed at improving competitiveness or market expansion of SMEs (Arráiz et al., 2012; Busom et al., 2014). Busom et al. (2014) found that the two instruments are complementary but not equivalent particularly when used to promote R&D or innovation policies. Arguably, direct funding might be a suitable instrument when the aim is to encourage more SMEs to invest in R&D, particularly the more financially constrained SMEs. In contrast, tax incentives might be a suitable instrument to motivate SMEs that are currently performing R&D work to continue with such work (Busom et al., 2014).

In this context, recent research on SMEs' policy programmes aimed at improving competitiveness or enhancing expansion includes but is not limited to the following:

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Table 2.1: SMEs' policy programmes

Item	Recent research on policy programmes	Author
1	The effectiveness of publicly backed venture capitalist (VC) funds in promoting the growth of SMEs in the United Kingdom	(Munari & Toschi, 2014)
2	The influence of government business development systems (BDS) aimed at enhancing SMEs' international expansion by providing funding, market information and procurement contracts	(Cardoza et al., 2015, 2014)
3	The efficiency and effectiveness of grant-based innovation schemes such as Support Firm Merit Awards for Research and Technology (SMART), R&D tax credit, and Support for Products Under Research (SPUR) aimed at promoting R&D investment	(Foreman-Peck, 2012)
4	The implementation of the matching fund program (MFP) to help Korean SMEs finance R&D	(Heo et al., 2012)
5	The analysis of the Finnish entrepreneurship policy programmes that evolved over the years	(Heinonen & Hytti, 2014)
6	The South Korean government financial support program for SMEs' innovations	(Doh & Kim, 2014)
7	The assessment of taxpayer funds used to finance entrepreneurship policy aimed at promoting the creation of new businesses, and SMEs' policy aimed at enhancing existing small businesses in Sweden, Poland, Austria and Belgium	(Lundström et al., 2014)
8	The effect of Supplier Development Program in Chile aimed at promoting commercial relationships between SME suppliers and large firm customers	(Arráiz et al., 2012)
9	The effectiveness of the Argentinean Support Program for the Organisational Change, called PRE, aimed at creating and diffusing knowledge, thus making SMEs more competitive	(Castillo et al., 2013)
10	The analysis of Italian public export incentives aimed at promoting SMEs' internationalisation	(De Falco & Simoni, 2014)
11	The role of public procurement policy in promoting the growth of SMEs	(Flynn, Davis & Matlay, 2016)

The relevance and effectiveness of these policy programmes remain debatable since research indicates mixed evidence (Cardoza et al., 2014; De Falco & Simoni, 2014). For example, the government BDS program in Latin America was able to reduce SMEs' demand uncertainty through government procurement contracts, but failed to provide information about potential markets. In addition, the government BDS program in Latin America, with an exception of Colombia, failed to create a favourable environment for international expansion (Cardoza et al., 2015). Similarly, Cardoza et al. (2014) also affirm that Chinese government support for SMEs in the form of funding and government

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procurement contracts has not proven to be a success in terms of promoting international market expansion of SMEs. In contrast, the Chilean Supplier Development Program aimed at promoting the commercial relationship between SME suppliers and large firm customers benefited both SME suppliers and large firm customers in terms of sales, employment and their ability to expand (Arráiz et al., 2012). Also, the government support programmes for SMEs' innovation aimed at enhancing their competitiveness have proven to be effective in the UK and South Korea (Cowling, 2016; Doh & Kim, 2014; Foreman-Peck, 2012).

Interestingly, Cardoza et al. (2015) assert that SMEs belonging to large private firms are very likely to expand. Similarly, Chilean SMEs suppliers that had commercial relationships with large private firm customers improved sales, sustainability and their ability to expand (Arráiz et al., 2012). Furthermore, studies found that SMEs that are backed by government venture capital funds displayed poorer performance and reduction in productivity when compared to those backed by private venture capital funds (Alperovych, Hübner, & Lobet, 2014; Munari & Toschi, 2014). Alperovych et al. (2014) and Cardoza et al. (2014) argue that, unlike government, private firms do not only provide funding to SMEs but also market information, skills and networks necessary for them to expand.

All in all, Castaño et al. (2016) affirm that policies can either promote or hinder the competitiveness or the market expansion of SMEs. As a result, the policy programmes must be designed for a specific institutional environment (Arshed, Carter & Mason, 2014). Moreover, SMEs must satisfy certain prerequisites in order to benefit from international expansion policy programmes (De Falco & Simoni, 2014).

2.3.2 South African SMEs' policy context

Since this study was conducted in South Africa, this section highlights the policy interventions undertaken by the South African government to enhance the competitiveness or market expansion of SMEs. South Africa epitomises an ideal environment to address the research objectives because of its wide range of SME policy programmes that followed the release of the national policy framework called "The White Paper on national strategy for the development and promotion of small business in South Africa" (Department of Trade and Industry, 1995, p. 1).

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In line with the rest of the world, the South African government's rationale articulated in the White Paper to promote SMEs is based on the premise that SMEs address the challenges of employment and economic growth. The government's view is that by creating a favourable institutional environment, SMEs can come up with innovative ways to penetrate new markets, expand the country's economy and create jobs. In addition, the White Paper identified several barriers such as access to funding, access to markets, regulatory environment and tax burdens among others that influence the expansion of SMEs. Moreover, the White Paper identified policy programmes to be instituted by government to address the barriers faced by SMEs, i.e. facilitating access to funding, access to market information, access to procurement contracts, access to technology, entrepreneurship and management training, partnerships between SMEs and private firms, and the introduction of tax incentives (Department of Trade and Industry, 1995).

In addition, government has since introduced a number of institutions mandated to support SMEs with these financial and non-financial policy programmes. The introduced institutions are as follows: "Small Enterprise Development Agency (SEDA), South African Micro-Finance Apex Fund (SAMAF), Khula Enterprise Finance Limited, Umsobomvu Youth Fund (UYF), National Youth Development Agency (NYDA), National Empowerment Fund (NEF), Small Enterprise Finance Agency (SEFA), Land Bank, Industrial Development Corporation (IDC) and Mafisa" (Department of Trade and Industry, 2008, p. 29).

Despite the implementation of numerous policy programmes aimed at creating an enabling institutional environment for SMEs as outlined in the White Paper, government acknowledges the fact that SMEs are still facing critical challenges in their quest for expansion. Arguably, the implemented policy programmes have not really addressed the market failures (Department of Trade and Industry, 2005). Consequently, South African unemployment reached a record high at 26.6% in the second quarter of 2016 (Statistics South Africa, 2016d), and shockingly, the economic growth rate was 3.3% in the second quarter of 2016 following a decline of 1.2% in the first quarter of 2016 (Statistics South Africa, 2016a). As a result of these unsustainable unemployment and economic growth figures, the South African government calls for various stakeholders, including the private sector, to assist in developing and promoting the expansion of SMEs (National Development Plan, 2012).

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To that end, the established department of small business enterprise's mandate is to address barriers such as lack of access to market information, unfavourable regulatory environment, lack of access to funding and markets, as well as the effectiveness of institutions (SBP Alert, 2014). While the intervention was a step in the right direction, particularly for regulatory constraints, corruption and lack of capability in public institutions might jeopardise the effectiveness of the institution.

With that in mind, this study sought to determine whether a policy program that facilitates access to private funding, access to private procurement contracts, provision of market information by private firms, and a creation of favourable regulatory environment by government could influence the market expansion of SMEs. Furthermore, very little research exists in the role that could be played by the private sector in curbing some barriers affecting SMEs market expansion.

2.4 SMALL AND MEDIUM ENTERPRISE DEFINITION

Small and medium size enterprises (SMEs) have unique definitions in different countries, and in addition, different institutions within the countries may have their own definitions. Notwithstanding the different definitions by countries and institutions, the definition of a SME has at least one, if not all, of three elements, i.e. annual turnover, number of employees and assets. Notably, SMEs are synonymous with formal enterprises whereas microenterprises are synonymous with informal enterprises (Beck, 2013).

Authors often adopt an SME definition that is appropriate for their specific research. For example, Oparaocha (2015) defined SMEs, in accordance with the European Union standard, as enterprises with fewer than 250 employees and yearly revenue of less than 250 million euros or assets of less than 243 million euros. Similarly, Cardoza et al. (2015) defined SMEs in their Latin American research as enterprises with less than 50 employees. Interestingly, Beck, Demirgüç-Kunt and Pería (2011) adopted a definition used by 70% of global banks where small enterprises are defined as firms with yearly revenues of less than 2.5 million dollars, and medium enterprises as firms with yearly revenues of between 2.5 and 10 million dollars.

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In South Africa where this research was conducted, the terms *small and medium enterprises (SMEs), and small*, *medium and micro enterprises* (SMMEs) are used interchangeably. The use of these two terms arises from the fact that the *National Small Business Act* no 102 of 1996 (Republic of South Africa, 1996), as amended by act no 26 of 2003 (Republic of South Africa, 2003) and act no 29 of 2004 (Republic of South Africa, 2004) categorises small businesses into five classifications: survivalist enterprises, microenterprises, very small enterprises, small enterprises and medium enterprises. In this context, the survivalist and microenterprises are synonymous with informal enterprises since their turnover is less than the minimum income standard and VAT registration limit respectively (Republic of South Africa, 1996). Therefore, this research adopted the term SMEs since the scope of research was on formal manufacturing SMEs.

According to the *National Small Business Act* no 102 of 1996, as amended by act no 26 of 2003 and act no 29 of 2004, a SME is defined as

> "a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy mentioned in column I of the Schedule and which can be classified as a micro, a very small, a small or a medium enterprise by satisfying the criteria mentioned in…" (Republic of South Africa, 1996, p. 2).

The definition of manufacturing SMEs in terms of the number of employees, annual turnover and gross assets excluding fixed property as outlined in the *National Small Business Act* no 102 of 1996 as amended in 2003 and 2004 is summarised in table 2.2 below (Republic of South Africa, 2003). In addition, the definition of SMEs for all sectors in terms of the number of employees, annual turnover and gross assets excluding fixed property is summarised in appendix A (Republic of South Africa, 2003).

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Table 2.2: SME definition for manufacturing sector in South Africa

Sector or subsector	Size of class	Total paid full time employees (Less than)	Total annual turnover (Less than)	Total gross asset value - fixed property excluded (Less than)
Manufacturing	Micro	5	R0.20m	R0.10m
	Very Small	20	R5m	R2m
	Small	50	R13m	R5m
	Medium	200	R51m	R19m

2.5 MARKET EXPANSION OF SMEs

According to Coad et al. (2012), growth has a positive influence on the short and long term sustainability of a firm. Naldi and Davidsson (2013) affirm that growth can be achieved by expanding into new geographic markets at home and abroad, and/or through an introduction of new products and services. Moreover, growth can be measured in terms of sales (Bianchi & Wickramasekera, 2016; Cardoza et al., 2015) or in terms of both sales and employment (Hessels & Parker, 2013). In the context of this study, growth meant expansion into new geographic markets at home and abroad, and expansion was measured using sales because sales growth is the most commonly used indicator for expansion performance (Uhlaner, van Stel, Duplat & Zhou, 2012).

In this regard, most SMEs, including domestic orientated SMEs, acknowledge that expansion into international markets is a sustainable growth strategy since the home market is limited and saturated by international firms (Bianchi & Wickramasekera, 2016; Dikova, Jaklič, Burger & Kunčič, 2015). According to Leonidou (2004), international expansion is defined as “the firm’s ability to initiate, to develop, or to sustain business operations in overseas markets” (p. 281). Usually the knowledge obtained from international markets enhances further expansion in both international and domestic markets (Naldi & Davidsson, 2013). Furthermore, international expansion ensures diversification across different markets; realisation of economies of scale; improved quality services and products; and more importantly, socioeconomic advantages for the home country (Javalgi & Todd, 2010; Uner et al., 2012).

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There are two international expansion strategies that could be used by SMEs to expand to international markets, namely direct and indirect strategies. Direct strategies consist of exporting directly to international customers as well as foreign direct investments (FDI), whereas an indirect strategy is about the use of intermediaries to export to international customers (De Maeseneire & Claeys, 2011; Dikova et al., 2015; Hessels & Parker, 2013; Hessels & Terjesen, 2010). According to Uner et al. (2012) and Dikova et al. (2015), direct exporting is the most common international entry mode since it is simple and quick, requires relatively low commitment of resources, is less risky, provides flexibility, and contributes to the socioeconomic conditions of the home country. In contrast, FDI requires relatively more commitment of resources to set up a subsidiary, is more risky, and tends to contribute mostly to the socioeconomic conditions of the host country (De Maeseneire & Claeys, 2011; Dikova et al., 2015). In addition, indirect exporting through the use of intermediaries serves as an alternative mode to direct exporting, particularly for SMEs that lack resources to engage in direct exporting (Hessels & Terjesen, 2010).

Traditionally, the market expansion strategy of SMEs could be best explained by the internationalisation process, through Uppsala Internationalisation Model or Innovation-Related Model, which asserts that SMEs go through a gradual learning stage process in their quest for expansion (Javalgi & Todd, 2010; Uner et al., 2012). Simply put, the Innovation-Related Model was adopted to explain the traditional internationalisation process. According to the Innovation-Related Model, the internationalisation process has five stages: domestic marketing – SMEs purely focus on domestic markets, they are not interested in exporting; pre-export – SMEs show interest in exporting but lack basic international market information; experimental involvement – SMEs export to one or two international markets through intermediaries; active involvement – involves direct exporting to a number of international markets; and committed involvement – SMEs commit to FDI where they establish subsidiaries in international markets (Cavusgil, 1980 in Uner et al., 2012).

However, Stoian, Rialp, Rialp and Jarvis (2014) affirm that SMEs from emerging economies tend not to follow the gradual stage process but pursue accelerated internationalisation since their entrepreneurial capability allows them to deal with associated risks, and to learn faster. Similarly, the born-global SMEs that expand to international markets at inception display higher sales growth than SMEs that follow

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traditional expansion strategies (Sleuwaegen & Onkelinx, 2013; Uner et al., 2012). However, the failure rate is higher for born-global SMEs when compared to SMEs that follow the traditional gradual expansion process. Interestingly, the risk of failure for born-global SMEs is not higher than that of domestic orientated SMEs, i.e. non-exporters (Sleuwaegen & Onkelinx, 2013).

Given these facts, the ultimate expansion strategy for domestic SMEs, exporting SMEs and ex-exporting SMEs is to expand or further expand to international markets. Nevertheless, most SMEs seem not to seize this opportunity because of resource constraints and weak market institutions (Bianchi & Wickramasekera, 2016; Dikova et al., 2015). Therefore, one of the questions that this research sought to answer was what could be done differently to promote international expansion of SMEs.

2.6 EXPANSION BARRIERS OF SMEs

The ultimate expansion strategy for SMEs is to expand to international markets, and in doing so, they face local and international barriers called export barriers (Naldi & Davidsson, 2013). According to Leonidou (2004), export barriers are defined as constraints that prevent SMEs from initiating or expanding to international markets. In addition, Pinho and Martins (2010) define export barriers that inhibit domestic orientated SMEs from initiating international expansion as perceptual, and those that are experienced by already exporting SMEs as experiential.

Leonidou (2004) categorized export barriers into internal and external barriers, where internal barriers are associated with SMEs' resources and capability, while external barriers are associated with the institutional environment of SMEs. Furthermore, Leonidou (2004) operationalised internal barriers to include "functional, informational, and marketing, while external barriers can be separated into procedural, governmental, task, and environmental" (p. 281). Notably, most classifications of export barriers by recent scholars (Bianchi & Wickramasekera, 2016; Hessels & Parker, 2013; Oparaocha, 2015; Uner et al., 2012) built on the work done by Leonidou (2004). The detailed information on operationalised internal and external barriers by Leonidou (2004) can be found in appendix B.

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According to Uner et al. (2012), export barriers perceived or experienced by SMEs during different stages of internationalisation are different. Similarly, the born-global SMEs perceive or experience different export barriers when compared to SMEs in different stages of internationalisation. Moreover, significant differences exist between SMEs in the domestic stage, pre-export stage and for born-global SMEs. However, procedural barriers such as unfamiliar exporting procedures were found to be critical for SMEs in different stages of internationalisation as well as for born-global SMEs (Uner et al., 2012). Despite the fact that perceived export barriers vary during different stages as well as for born-global SMEs, Uner et al. (2012) affirm that the current export barriers are still similar to export barriers found by scholars in earlier years.

According to Cahen et al. (2015), many early scholars such as Fillis (2002); Leonidou (2000); and Ojala and Tyrväinen (2007) have done a reasonable amount of work to understand SMEs' export barriers from the context of developed economies. In contrast, there are few recent scholars such as Cahen et al. (2015); Cardoza et al. (2015); Cardoza et al. (2014); Uner et al. (2012); Zhu et al. (2011) who started doing similar work in the context of developing economies.

Nonetheless, the export barriers perceived or experienced by SMEs vary across different countries. For example: the main export barriers perceived by Malaysian domestic SMEs include funding, lack of skills, technology and tax (Julian & Ahmed, 2012); improving tax regulations in Estonia is correlated with SMEs' performance (Gordon Dickinson, 2013); critical export barriers in Latin America include domestic regulatory environment, domestic economic conditions, foreign market information and funding (Cardoza et al., 2015); Belgium SMEs perceive financial constraints as critical for FDI (De Maeseneire & Claeys, 2011); SMEs in Tajikistan experience severe institutional constraints in their quest for foreign expansion (Dickson & Weaver, 2011); SMEs in Chile perceive foreign market information as a major export barrier (Bianchi & Wickramasekera, 2016); knowledge about foreign markets is key for enhancing expansion of SMEs in Sweden (Naldi & Davidsson, 2013); and SMEs in Albania must deal with institutional constraints such as corruption as well as lack of information about foreign markets in enhancing their expansion performance (Xheneti & Bartlett, 2012).

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To that end, this study sought to determine whether a policy program aimed at curbing recurring export barriers such as unfavourable regulatory environment, lack of market information, and lack of funding can enhance the market expansion of SMEs.

2.7 ACCESS TO PRIVATE FUNDING

Lack of access to funding, particularly in developing economies, is not only a significant barrier for SMEs when compared to large firms, but also hinder their growth (Beck, 2013; Lee & Drever, 2014; Yaldız Hanedar et al., 2013). As a result, the acknowledgement of the fact that SMEs are more financially constrained has led to numerous studies on SMEs' financial barriers before and after the 2008 financial crisis (Daskalakis et al., 2013). Furthermore, Lee et al. (2014) affirm that access to funding became an even more significant barrier to SMEs' growth after the financial crisis. Similar to previous findings by Leonidou (2004), SMEs still lack funding to invest in production capacity, working capital and other resources necessary to enhance their expansion performance.

As a result of relatively poor balance sheets, the resource-constrained SMEs are unable to fund the much needed expansion investments using internal capital, and therefore, resort to external finance to pursue the expansion investments (Lee et al., 2014). Traditionally, the main sources of SMEs external finance included equity and debt. Furthermore, equity could be raised internally from families or externally from venture capitalists and business angels, whereas debt could be raised from banks (Daskalakis et al., 2013). According to Beck (2013), countries have varied bank ownership structures which often consist of small and large domestic private banks, government banks and foreign banks.

All in all, this traditional capital market structure presents financial challenges for SMEs. Firstly, SMEs are reluctant to get involved with business angels and venture capitalists, although proven to improve productivity and efficiency (Alperovych et al., 2014), because they do not want to lose control of the business (Daskalakis et al., 2013). Secondly, SMEs have difficulties in accessing the preferred long-term debt with favourable payment conditions often offered by large banks and foreign banks (Canton, Grilo, Monteagudo, & van der Zwan, 2012; Daskalakis et al., 2013). Because large and foreign banks possess financial market power (Ryan, O'Toole, & McCann, 2014), they make it challenging for SMEs to access long-term debt by enforcing the use of transactional lending techniques

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which rely on hard information to assess the risk of lending to SMEs (Bartoli, Ferri, Murro, & Rotondi, 2013; Yaldız Hanedar et al., 2013).

Although large and foreign banks are still placing more emphasis on transactional lending techniques, Bartoli et al. (2013) affirm that these banks are starting to offer debt to SMEs using relational lending techniques that rely on soft information to complement, and not to substitute, the transactional lending techniques. SMEs are tied in relationships with small banks that mitigate the risk of SMEs' asymmetric information by relying more on relational lending techniques, and charging high interest rates and fees (Fredriksson & Moro, 2013).

According to Beck (2013), transactional lending techniques include the use of asset-based lending, fixed-asset lending, factoring, collateral and leasing. Similarly, Bartoli et al. (2013) categorise transactional lending into financial statement lending which is normally based on profitability and sales growth, and fixed asset lending where lending to SMEs is done against assets that would not be easily sold such as equipment, real estate and vehicles. Since the bank's ability to make risk-adjusted profit is dependent on correct evaluation of SMEs' financial performance (Fredriksson & Moro, 2013), banks require audited or verified information obtained from formal sources when using transactional lending techniques (Bartoli et al., 2013). On the other hand, relational lending techniques acknowledge the information asymmetry associated with lending to SMEs, and as a result, banks using these techniques rely on soft information obtained over time from informal sources such as SMEs' owners and local communities (Bartoli et al., 2013).

To that end, the most cited reasons for SMEs' lack of access to external funding include information asymmetry, complex application processes, high fees and interest rates, poor financial performance, banks' market power to insist on hard information such as high collateral requirements biased against SMEs, and in some instances credit rationing following the 2008 financial crisis (Fredriksson & Moro, 2013; Lee et al., 2014; Ryan et al., 2014; Yaldız Hanedar et al., 2013). Furthermore, Yaldız Hanedar et al. (2013) assert that the survival or disappearance of SMEs is dependent on access to external funding. Following the acknowledgement of external financing challenges faced by SMEs, governments in different countries heeded the call by implementing grant financing policies aimed at alleviating the challenges of SMEs' external financing (Daskalakis et al., 2013).

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According to Busom et al. (2014), grant financing is in the form of tax incentives or direct funding through subsidies and loans.

Summing up, to address SMEs' lack of access to external funding requires the types of lending to be diversified so that SMEs can gain access to the vast number of choices (Lee et al., 2014; Ryan et al., 2014). In so doing, the playing field between SMEs and large firms will be levelled (Beck, 2013). Notwithstanding several recent studies on government policy programmes aimed at alleviating SMEs' lack of access to finance, this study advanced the view that SMEs belonging to large firms and having access to private funding seem very likely to expand (Cardoza et al., 2015).

The premise presented strengthens the case for research in the role that can be played by both private and public institutions in promoting the market expansion of SMEs, particularly in economies facing institutional challenges such as ineffectiveness and lack of capacity. In such instances, government should play a role in providing a favourable environment through good policy and regulatory frameworks, to enable private institutions to offer financial assistance at lower interest rates, longer payback periods and lower collateral requirements (Nițescu, 2015). Alternatively, the public policy and regulatory environment must promote SMEs' access to funding through supply chain development initiatives to be offered by large private institutions (Arráiz et al., 2012). The question to be answered was whether private funding is effective in enhancing the market expansion of SMEs.

2.8 ACCESS TO MARKET INFORMATION

Child and Hsieh (2014) define "information as data that are structured and understood in a way so as to become a useful input into knowledge" (p. 599). To that end, one of the main barriers that has caught the attention of several scholars and policy makers is the influence of access to market information on the expansion of SMEs (Child & Hsieh, 2014). According to Leonidou (2004), informational barriers impacting the expansion, particularly international expansion, of SMEs include: "locating/analyzing foreign markets, finding international market data, identifying foreign business opportunities, and contacting overseas customers" (p. 285). Subsequently, Sandberg (2014) categorised knowledge into "general internationalization, market-specific, and customer-specific knowledge" (p. 21). Similar to Jin et al. (2016), this study focused on two market information or knowledge

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categories that influence the expansion of SMEs, i.e. institutional knowledge – knowledge about host country macro-economic environment, and business knowledge – knowledge about competitors, markets and customers in new geographic markets. In this context, knowledge could be obtained from management's prior experience (Love, Roper, & Zhou, 2015), and from social and business networks (Child & Hsieh, 2014).

Naldi and Davidsson (2013) assert that the knowledge obtained from international markets enhances further expansion of SMEs in both international and domestic markets. Similarly, Oura et al. (2015) found that international knowledge enhances international expansion performance. In addition, international knowledge serves as a risk-reducing resource since SMEs expanding into new geographic markets without market information or knowledge are very likely to fail (Huett et al., 2014).

However, the influence of market information on the expansion of SMEs is dependent on the quality of the sources providing the information (De Clercq, Sapienza, Yavuz, & Zhou, 2011; Mogos Descotes & Walliser, 2011). Hence, the government policies in Latin America were not successful in assisting resource-constrained SMEs to obtain market information about external markets (Cardoza et al., 2015). On the other hand, the use of networks such as formal business networks in France and informal social networks in Romania (Mogos Descotes & Walliser, 2011); domestic alliance with international experienced firms (Milanov & Fernhaber, 2013); and the use of export intermediaries (Hessels & Terjesen, 2010) has provided the much needed market information necessary to enhance SMEs' market expansion. However, Mogos Descotes and Walliser (2011) caution that the use of informal social networks to obtain information, which is as a result of an unfavourable institutional environment, can be too risky.

Alperovych et al. (2014) and Cardoza et al. (2015) argue that, unlike government, private firms do not only provide funding to SMEs, but also market information, skills and networks necessary for them to expand. Therefore, the question to be answered was whether private institutions are the better sources of market information when compared to public institutions.

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2.9 ACCESS TO PRIVATE PROCUREMENT CONTRACTS

The relevance and effectiveness of procurement or supplier development policies aimed at enhancing competitiveness or market expansion of SMEs remains debatable since research indicates mixed evidence (Cardoza et al., 2014; De Falco & Simoni, 2014). For example, the government BDS program in Latin America was able to reduce demand uncertainty of SMEs through government procurement contracts, but failed to provide information about potential markets as well to create a favourable environment for international expansion (Cardoza et al., 2015). Similarly, Cardoza et al. (2014) also affirm that the Chinese government support for SMEs in the form of funding and procurement contracts has not proven to be a success in terms of promoting SMEs' international market expansion. In contrast, the Chilean Supplier Development Program, aimed at promoting the commercial relationship between SME suppliers and large firm customers, benefited both SME suppliers and large firm customers in terms of sales, employment and their ability to expand (Arráiz et al., 2012). Similarly, Cardoza et al. (2015) assert that SMEs belonging to large private firms are very likely to expand. However, Arráiz et al. (2012) caution against the use of policies that might inhibit innovation, particularly procurement or supplier development policies that give preference to SMEs in a value chain.

The success of the Chilean Supplier Development Program supports the findings by Hsu et al. (2011), which state that institutions pursue procurement or supply chain policies on the premise of mutual benefits for the customer and the supplier. For example, the supply chain or procurement policies must achieve the following (Hsu et al., 2011): the resource-constrained SME suppliers must have access to large firm customers' resources such as finance, human-related skills and technology whereas the large firm customer must benefit from SMEs' flexibility and competencies; the expectation is that the trust relationship developed over time reduces the risk and cost of doing business between the SME suppliers and large firm customers; and the built trust relationship facilitates the process of sharing information about customers and markets.

Therefore, the question to be answered was whether SMEs' access to private procurement contracts enhances their market expansion. Consequently, government would be required to create an environment, through policies and regulations, where large private firms would be encouraged to develop SMEs through supply chain or procurement

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development initiatives. As a result, the resources acquired and capability developed through such initiatives would enhance SMEs' foreign market expansion (Kim & Hemmert, 2015).

2.10 CONCLUSION

Given that SMEs have limited internal resources (Viljamaa, 2011), and the fact that the influence of resources on SMEs' performance is dependent on the institutional environment (Bhamra et al., 2010), both RBV and institutional theory were adopted in explaining the market expansion performance of SMEs. Furthermore, the resource dependency theory and network theory were adopted to explain how public policy can be used to assist SMEs in closing the resource gaps and institutional voids.

According to Coad et al. (2012), the more resources they have, the greater the chances of survival and expansion. However, Bhamra et al. (2010) caution that the influence of resources on the SMEs' performance is dependent on the institutional regulatory environment. Similarly, Uner et al. (2012) affirm that SMEs in different countries perceive or experience expansion barriers differently.

To begin with, scholars argue that corruption or informal institutions give rise to market imperfection and uncertainty putting the sustainability of SMEs under threat (Makhmadshoev et al., 2015; Puffer et al., 2010; Xheneti & Bartlett, 2012). As a result, the focus of this research was on the regulatory institutional pillar since government has a role to play in shaping the institutional environment through public policies (Cardoza et al., 2015; Nasra & Dacin, 2010). In addition, the regulatory institutional pillar has been the area of concern for emerging or developing economies with emphasis on public policies (Peng, 2003). According Makhmadshoev et al. (2015), strengthening formal institutions reduces the reliance on informal arrangements, and thus the adverse impact on the sustainability of SMEs.

Notwithstanding the influence of other barriers on SMEs' market expansion performance, many scholars also cite financial and market information constraints as major barriers influencing the market expansion performance of SMEs (Brouthers et al., 2015; Coad et

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al., 2012; De Maeseneire & Claeys, 2011; Huett et al., 2014; Hutchinson et al., 2009; Rosenbusch et al., 2010).

Given these facts, it is clear that SMEs still experience numerous barriers that hinder their ability to expand (Hessels & Parker, 2013). Notably, most public policies emphasise the role of public institutions in curbing barriers affecting the market expansion of SMEs (Cardoza et al., 2015; Dickson & Weaver, 2011; Hessels & Terjesen, 2010; Makhmadshoev et al., 2015; Oparaocha, 2015). Such focus assumes that government institutions are equally effective and capable across different countries, developed or developing. It is argued in Cardoza et al. (2015) that the environment of SMEs in emerging countries is made up of complex institutions, which could be adverse, corrupt and inconsistent, and vary in terms of effectiveness across the countries. Similarly, Cahen et al. (2015) assert that SMEs in emerging economies are facing distinct and dynamic institutional challenges such as quality of legal systems and corruption. In addition, Cardoza et al. (2015) affirm that government institutions in Latin America are ineffective and more corrupt than market-related institutions, and their interventions on the development of SMEs often produce unintended results.

Alperovych et al. (2014) and Cardoza et al. (2015) argue that, unlike government, private firms do not only provide funding to SMEs but also market information, skills and networks necessary for them to expand. Similarly, Arráiz et al. (2012) affirm that there were mutual benefits in terms of improved sales and employment between SMEs and large firms that were involved in the Chilean supplier development program.

Nevertheless, the relevance and effectiveness of these policy programmes remain debatable since research indicates mixed evidence (Cardoza et al., 2014; De Falco & Simoni, 2014). Moreover, Castaño et al. (2016) affirm that policies can either promote or hinder the competitiveness or the market expansion of SMEs. As a result, the policy programmes must be designed for a specific institutional environment (Arshed et al., 2014). Furthermore, for SMEs to benefit from expansion policy programmes, they must satisfy certain prerequisites (De Falco & Simoni, 2014).

Summing up, this study sought to determine whether a policy program that facilitates access to private funding, access to private procurement contracts, provision of market

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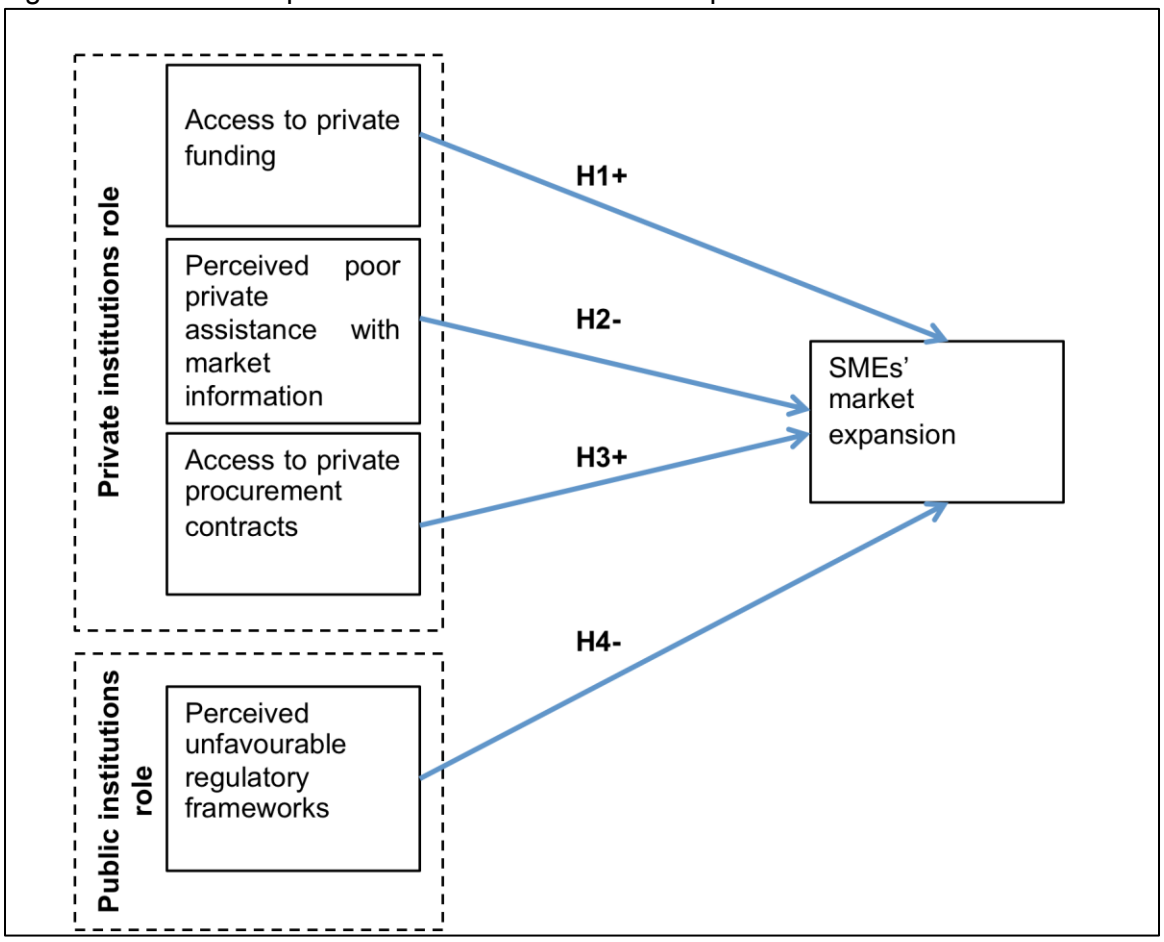
information by private firms, and a creation of favourable regulatory environment by government could influence the market expansion of SMEs. In addition, the ultimate market expansion strategy for domestic SMEs, exporting SMEs and ex-exporting SMEs is to expand or further expand to international markets since the home market is limited and saturated by international firms (Bianchi & Wickramasekera, 2016; Dikova et al., 2015). Therefore, figure 2.1 indicates the modified and tested conceptual model for market expansion of SMEs (Cardoza et al., 2015).

Figure 2.1: The conceptual model for SMEs' market expansion



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CHAPTER 3: RESEARCH QUESTIONS AND HYPOTHESES

The research questions and hypotheses in this chapter are underpinned by theory discussed in chapter 2. Moreover, the questions and hypotheses were formulated to determine the influence of four critical barriers (access to procurement contracts, access to funding, regulatory frameworks, and access to market information) on the market expansion of SMEs in a setting that includes both private and public institutions instead of only public institutions.

3.1 RESEARCH QUESTIONS

The research questions were adopted from Cardoza et al. (2015) and modified as stated below:

Research question 1:
Does access to private funding influence the market expansion of SMEs?

Research question 2:
Does access to market information provided by private institutions influence the market expansion of SMEs?

Research question 3:
Does access to private procurement contracts influence the market expansion of SMEs?

Research question 4:
What is the influence of regulatory frameworks on the market expansion of SMEs?

Research question 5:
What are the critical expansion barriers perceived or experienced by SMEs in South Africa?

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Research question 6:

What role can public and private institutions play in enhancing the market expansion of SMEs?

3.2 RESEARCH HYPOTHESES

The research hypotheses were adopted from Cardoza et al. (2015) and modified as stated below:

Research hypothesis 1:

South African SMEs benefiting from private funding are more likely to expand.

Research hypothesis 2:

South African SMEs perceiving poor private institutions assistance on market information are less likely to expand.

Research hypothesis 3:

South African SMEs having access to private procurement contracts are more likely to expand.

Research hypothesis 4:

South African SMEs perceiving unfavourable regulatory frameworks are less likely to expand.

Summing up, public interventions aimed at enhancing the expansion of SMEs tend to produce unintended results due to corruption, poor implementation, lack of capacity, and ineffectiveness of public institutions. Thus, private institutions can play a better role than public institutions in assisting with access to finance (H1), market information (H2) and procurement contracts (H3). However, public institutions still have a major role to play in creating a favourable environment for SMEs to expand through quality policy and regulatory frameworks (H4). Furthermore, private institutions are involved in setting the rules of the game and often have the ability to influence policies and regulations, and therefore, it is argued that it should be the role of public institutions, private institutions and

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other relevant stakeholders to develop policies and regulations that will promote the international expansion of SMEs.

The consistency matrix in appendix C indicates some of the literature that underpinned the research questions and hypotheses as well as the data collection method and analysis used to answer the questions.

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CHAPTER 4: RESEARCH METHODOLOGY

This research methodology chapter outlines the process followed to choose the research design, sampling process to decide on target respondents as well as the data collection method used to obtain data from the respondents. Furthermore, the chapter outlines the process followed to clean the data collected to ensure high quality results. Lastly, limitations of these processes are also discussed.

4.1 RESEARCH DESIGN

To ensure that an appropriate design for the research was chosen, the research design process described as a research onion in Saunders and Lewis (2012) was adopted. Saunders and Lewis (2012) argue that the different layers of the research design process influence the chosen research design. By following the process, the appropriate research design chosen to answer the research questions and meet the research objectives was quantitative, and the type of research was explanatory.

The premise for choosing quantitative research for this study was due to the fact that a reasonable amount of research already exists on barriers influencing the market expansion of SMEs (Leonidou, 2004). To that end, the study sought further insight or verification, for policy implication, to broaden the understanding of critical barriers that influence the expansion of SMEs in South Africa since context matters (Williams & Horodnic, 2015). In fact, this study was a continuation of the study done by Cardoza et al. (2015) on the influence of policy and barriers on market expansion of Latin American SMEs. The main difference between the two studies is that Cardoza et al. (2015) focused on the role of government in assisting SMEs to curb the barriers whereas this study focused on the role of both government and private firms.

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4.1.1 Research philosophy

The underlying thinking that underpinned the research design selection was that of the pragmatist. According to Saunders and Lewis (2012), a pragmatist considers the suitability of the design in addressing the research questions and objectives. As a result, a pragmatist is comfortable with both quantitative and qualitative research designs whereas interpretivism philosophy tends to be biased towards qualitative design, and positivism biased towards quantitative design. As argued, groundwork has already been laid in the field of SMEs' market expansion, and as a result, a pragmatist's mind-set found it unnecessary to choose a qualitative design for the research. However, there were some elements of realism thinking in a sense that the study accepted, based on existing knowledge, that SMEs are resource-constrained. A realism research philosophy affirms that "objects exist independently of our knowledge of their existence" (Saunders & Lewis, 2012, p. 105).

4.1.2 Research approach

The approach that follows the ordinary structure of defining questions and hypothesising them from general theory in order to test or modify theory was considered appropriate for the research. To that end, the deduction approach (Zikmund, Babin, Carr, & Griffin, 2013) was used to modify and test the conceptual model by Cardoza et al. (2015) which focused on the role of government in influencing the market expansion of SMEs by providing SMEs with access to funding, access to information, access to procurement contracts, and the creation of a favourable environment. Therefore, the modified conceptual model sought to test whether a public policy program that facilitates access to private funding, access to private procurement contracts, provision of market information by private firms, and a creation of a favourable regulatory environment by government could influence the market expansion of SMEs.

4.1.3 Explanatory study

According to Saunders and Lewis (2012), there are three types of studies to consider when designing research, i.e. exploratory studies, descriptive studies and explanatory studies. Exploratory studies are aimed at discovering new insights with tentative answers,

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descriptive studies build on exploratory studies by providing accurate answers, and explanatory studies are a continuation of descriptive studies and seek to explain relationships between variables (Saunders & Lewis, 2012). Notably, exploratory studies already determined that SMEs are resource constrained, and these studies were taken further by different scholars such as Leonidou (2004) to determine the barriers influencing the expansion of SMEs.

Therefore, this study was explanatory since it sought to determine the influence of access to funding, access to market information, access to procurement contracts as well as the influence of regulatory environment on the market expansion of SMEs.

4.1.4 Research strategy

Similar to the research approach and research type, the research strategy was driven by research questions, objectives as well as research philosophy (Greener, 2008). A survey conducted through a web-based questionnaire was used to collect data from managers of SMEs. Given the fact that managers were chosen as appropriate respondents to provide accurate and credible answers on research questions, a web-based questionnaire was considered appropriate since managers tend to spend much of their time on the internet. Arguably, the sample of SMEs managers was considered to be a representative sample on the assumption that managers have knowledge of SMEs' expansion strategies. Furthermore, the research instrument or questionnaire was adopted from Cardoza et al. (2015), modified and pilot-tested to ensure that it was well designed to collect information necessary to answer research questions and achieve research objectives.

4.2 SAMPLING

4.2.1 The universe

The universe or population is defined as a "complete set of group members" (Saunders & Lewis, 2012, p. 132), the group members represent the study object and include but not limited to individuals, events and organisations (Welman & Kruger, 2001). In addition, the universe defines the scope of the research. To ensure that the scope of the research was

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not too broad, the universe for the research was all formal manufacturing SMEs in South Africa that were operational during the time of the study.

Firstly, the South African formal manufacturing sector was chosen on the premise that the sector has negative growth challenges as a result of regulatory barriers as well as high input costs such as electricity, fuel, labour and import costs (Manufacturing Bulletin, 2012). Consequently, most of the approximately 400 000 SMEs that had closed their businesses in South Africa between 2006 and 2011 were involved in some form of manufacturing. At the time, it was also stated that about 35% of manufacturing SMEs would close shops in ten years' time and about a fifth had no idea what the future entailed (Manufacturing Bulletin, 2012).

Secondly, the formal manufacturing sector was chosen instead of the informal manufacturing sector because it was relatively easier to obtain a database of formal manufacturing SMEs as they are registered. Given the time constraints, it would have been almost impossible to include informal manufacturing SMEs as well as manufacturing SMEs that were no longer operational as part of the population.

4.2.2 Unit of analysis

Welman and Kruger (2001) define unit of analysis as members of the universe under study. Zikmund et al. (2013) defines sampling members or respondents as "members of a sample who supply answers" (p. 67). In this case, the research sought to determine the influence of access to funding, access to market information, access to procurement contracts as well as the influence of regulatory environment on the market expansion of SMEs. To that end, SMEs (organisation) represented the unit of analysis. However, the sampling members were SMEs' managers as it was assumed that managers are, in one way or the other, involved in making strategic decisions in the organisation. In this context, the assumption was that managers have a basic understanding of barriers influencing the market expansion of SMEs, and their views represented the views of SMEs.

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4.2.3 Sampling frame

A sampling frame is a list that contains all members of the universe under study (Saunders & Lewis, 2012; Welman & Kruger, 2001). Even though one could argue whether the database used was up to date, iFeedback, the research company that administered the web-based questionnaire claimed to have a list of all formal manufacturing SMEs in South Africa on its database. iFeedback is a reputable research company complying with strict ethics guidelines, and they offer research services to local and international research organisations including academic institutions.

4.2.4 Sampling method

It was impractical and uneconomical to collect data from all members of the population under study because the population size is too big for a research project; as a result, scholars would rather collect data from a sample (Saunders & Lewis, 2012; Welman & Kruger, 2001). A sample is a subset of the universe (Saunders & Lewis, 2012). Given these facts, a sample can be selected using probability or non-probability sampling techniques (Saunders & Lewis, 2012).

To begin with, the selection of SMEs' managers as appropriate respondents for the research followed a non-probability purposive sampling method. Saunders and Lewis (2012) define purposive sampling as the utilisation of judgement to select respondents. Notwithstanding the existence of the sampling frame, a non-probability purposive sampling technique was again used to select SMEs from the database. Given the time constraints, this technique was less complicated. However, the use of this technique meant that some SMEs in the sampling frame had no chance of being selected (Saunders & Lewis, 2012). Despite the fact that the sampling method was not random, the managers who participated in the survey provided diverse feedback necessary to answer the research questions and achieve the research objectives. Arguably, barriers experienced by SMEs in South Africa are likely to be homogeneous in nature. As a result, it is likely that the use of a probability sampling technique would have produced similar results (Saunders & Lewis, 2012).

Given all these facts, the use of a non-probability purposive sampling method had its own challenges. After a number of glitches, the survey administered through a web-based

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questionnaire was eventually emailed to 250 manufacturing SMEs with the aim of achieving the response rate of 60%. Remarkably, the response rate within a number of few days after sending out the survey was 47%. Such a response rate was impressive given that managers are often too busy to complete surveys. Upon scrutinising the collected data, it was realised that some respondents did not answer all questions and some did not complete the survey. As a result, the web-based questionnaire was adjusted to encourage respondents to answer all questions before progressing to the next page. On the other hand, uncompleted surveys were an indication that respondents were not compelled to participate in the survey. Also, the survey was designed to freeze the rest of the questionnaire if the respondents indicated on the first page that they were not in management positions. Suddenly, the response rate was 25% when considering only surveys of acceptable standard. Notably, the number of responses on Google Docs, used to monitor the response rate, varied from one to four per day during the early stages of the survey to almost nothing towards the last stages of the survey. Hence, the non-probability purposive sampling method had to be used to improve the number of responses. The final response rate, considering only high quality data, improved to 31.6% as a result of follow-up emails.

4.2.5 Sample size

In quantitative research, the quality of the data collected is determined by the sample size: as well as representativeness (Greener, 2008). Furthermore, a more diverse population requires a relatively larger sample size than a more homogeneous population (Saunders & Lewis, 2012). “Unfortunately, there is no right answer to sample size” (Greener, 2008, p. 50). In this case, it is argued that manufacturing SMEs in South Africa experience similar barriers with regards to market expansion. Given all these facts, a sample size of 79 respondents was used for the study. However, it must be stated that the sample size was reduced from 178 respondents to 79 through a rigorous data cleaning process to ensure an acceptable level of data quality. The factors that contributed to the smaller than expected sample size include but are not limited to: survey incompatible with some smart phone devices; length and structure of the research instrument; and managers selected as respondents often too busy to participate in surveys.

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The profile of SMEs that were included in the final analysis in terms of age and number of employees can be found in table 4.1 and 4.2 respectively.

Table 4.1: The profile of SMEs in terms of age

SME age (years)	Frequency	Percentage
0-5	5	6.3
6-10	4	5.1
11-20	18	22.8
20+	52	65.8
Total	79	100.0

Table 4.2: The profile of SMEs in terms of number of employees

#Employees	Frequency	Percentage
0-5	10	12.7
6-20	22	27.8
21-50	21	26.6
51-200	26	32.9
Total	79	100.0

4.3 DATA COLLECTION METHOD

A survey research method consisting of structured questions and statements administered through a web-based questionnaire was used for collecting data. The research instruments adopted from Cardoza et al. (2015) (see appendix D) and Cardoza et al. (2014) (see appendix E) were combined and modified to make a research instrument for this study (see appendix F): thereafter it was pilot-tested to ensure that the data collected was sufficient, relevant, valid and reliable to answer research questions and meet objectives. The purpose of pilot-testing the research instrument was to ensure that the questions asked were understood and interpreted accordingly. Additionally, the pilot-test sought to determine whether the 20 minutes allocated to complete the survey was appropriate (Saunders & Lewis, 2012). To that end, the research instrument was modified to accommodate the feedback provided by seven respondents (see appendix G) who had participated in the pilot-test.

Although the research instrument was modified to encourage respondents to complete all questions before proceeding to the next page, one could argue that the research instrument design contributed to some respondents not answering all questions during the

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early stages of the survey. Moreover, one could also argue that incomplete surveys were associated with the time allocated to complete the survey.

4.4 DATA CLEANING PROCESS

The step-by-step process stated below was used to clean and process the data to the acceptable level of data quality. Through this process, respondents were reduced from 178 to 79.

- Data collected within the first two weeks of the study was deleted, as this period was a pilot phase.
- Respondents with more blatantly missing information were deleted.
- Some missing data were filled with averages.
- Since the South African SME definition is more than ten years old, the original sales figure used to define SMEs in manufacturing was escalated using an average producer price index (PPI) of 5,9% (Statistics South Africa, 2016c) over a 12-year period, resulting in an acceptable sales figure of approximately R150M.
- Thus, SMEs with a bigger than R150M annual turnover and more than 200 employees were not considered as they do not fit the South African definition of SMEs in manufacturing.

4.5 LIMITATIONS

The main limitation of the study was associated with the inability to generalise the findings for various reasons, of which most had to do with the time constraints. Firstly, the study focused only on South African formal manufacturing SMEs that were operational during the time of the study. As a result, the study might not represent the views of SMEs from other industries and other countries. Similarly, the study might not represent the views of informal SMEs as well as those SMEs that were no longer operational during the time of the study.

Secondly, the use of non-probability purposive sampling to select SMEs in the sampling frame meant that some SMEs had no chance of being chosen (Saunders & Lewis, 2012). Moreover, the database from iFeedback might not have been up to date. Thirdly, the views of managers selected to participate in the survey might not represent the views of the

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respective SMEs. Fourthly, the sample size of 79 respondents was probably not large enough to provide the required precision for quantitative research.

Lastly, limitations of the study gained during data collection and data processing are as stated below.

- Figures related to sales and procurement percentages might be incorrect due to the fact that respondents often regard such information as sensitive.
- Some collected data relating to funding distribution in percentage between private, public and personal funding did not add up to 100%.
- Repeat and differently worded statements in a questionnaire might have confused the respondents.
- The fact that the survey was perceptual for domestic orientated SMEs might have skewed the results in terms of international market expansion.
- Conducting a regression test with a sample size of 79 respondents for more than three independent variables violate one of the assumptions of regression test.
- One of the main limitations of the study had to do with the fact that the definition of SMEs used in South Africa is more than ten years old (Republic of South Africa, 2003), and has not been updated since. This definition was treated with caution as discussed in section 4.4.

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CHAPTER 5: RESULTS

The data collected and processed as discussed in chapter 4 was analysed through a program called SPSS to produce the results presented in this chapter. Two types of tests, i.e. multiple linear regression test and a paired samples *t*-test, were conducted to address the research questions and research hypotheses, and ultimately to meet the research objectives. To begin with, the variables used on the results tables presented are explained to ensure easy understanding. Other than the main results, the chapter also presents evidence attesting that the research findings are of an acceptable quality. The main results are presented per research question and corresponding hypothesis. Important to note is the fact that the confidence interval of 90% was considered acceptable for the study given the relatively small sample size of 79 respondents.

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5.1 DEFINING THE VARIABLES

The variables used, mostly adopted from Cardoza et al. (2015, 2014), in this chapter are defined in table 5.1 below.

Table 5.1: Defining the variables

SPSS variable name	Description of variable	Coding instructions
Manufacturingsector	Food, textiles, petroleum, non-metal, chemicals, metals, machinery, manufacturing, furniture, other	not coded
SMEage	Age of the company in years	1=0-5, 2=6-10, 3=11-20, 4=20+
Totalsales	Company's estimated total annual turnover	in Rands
Exportsales	Company's estimated annual export turnover	in Rands
Internationalexpansion	Company's estimated annual export turnover divided by Company's estimated total annual turnover	Ratio
Employees	Estimated number of employees employed in the company	1=0-5, 2=6-20, 3=21-50, 4=51-200, 5=200+
Managementpos	Work position of the respondent	1=management
Personalfunding	Percentage of personal funding (own savings, family, second mortgage, credit card, loans from friends, inheritance, and pension) used to finance company	1=0, 2=1-10, 3=11-20, 4=21-30, 5=31-40, 6=41-50, 7=50+
Privatefunding	Percentage of private funding (venture capital, suppliers, other business, previous years' profits, private investors, supply chain or enterprise development initiatives, private bank loans, depreciation, partnerships) used to finance company	1=0, 2=1-10, 3=11-20, 4=21-30, 5=31-40, 6=41-50, 7=50+
Publicfunding	Percentage of state or public funding (subsidised loans, subsidies, leasing, loans from public banks, and fund from public entities) used to finance company	1=0, 2=1-10, 3=11-20, 4=21-30, 5=31-40, 6=41-50, 7=50+
Pvtprocurement	Percentage of sales from South African private companies	in percentage
Natgovprocurement	Percentage of sales from South African national government	in percentage
Locgovprocurement	Percentage of sales from South African local government	in percentage
Hostregulations	Different regulations in external markets make access and operations more difficult	1=strongly disagree, 5=strongly agree
Preferences	Different preferences, patterns, prices, and communication of customers in international markets make exports more difficult	1=strongly disagree, 5=strongly agree
Tariffs	Tariff and non-tariff barriers (tax and other trade restrictions) in international markets restrict export activities	1=strongly disagree, 5=strongly agree
Familiarity	Lack of familiarity with commercial practices abroad affects the company's operations	1=strongly disagree, 5=strongly agree
Paperwork	It is considered that the paperwork related to exports is complicated and costly	1=strongly disagree, 5=strongly agree
Sociocultural	The socio-cultural differences (religion, values, customs, attitudes, etc.) are considered obstacles to export activities	1=strongly disagree, 5=strongly agree
Payment	Payment collections make export activities more difficult	1=strongly disagree, 5=strongly agree
Govassistance	The government does not offer adequate assistance and incentives to carry out export activities	1=strongly disagree, 5=strongly agree
Pvtassistance	The private sector does not offer adequate assistance and incentives to carry out export activities	1=strongly disagree, 5=strongly agree
Domregulations	The policies and regulations in South Africa make it more difficult to capitalise on opportunities in international markets	1=strongly disagree, 5=strongly agree
Econenvironment	The deterioration of South Africa's economic environment is an additional barrier to exports	1=strongly disagree, 5=strongly agree
Exchrate	Exchange rate variations represent an important risk for the company's exports	1=strongly disagree, 5=strongly agree
Verbal&non-vebal language	The differences in verbal and non-verbal language affect the activities carried out in external markets	1=strongly disagree, 5=strongly agree
Contacts	The company has difficulties to identify and contact potential customers in markets oversees	1=strongly disagree, 5=strongly agree
Infosources	The company does not have access to the relevant information sources to identify markets for the company's products and services	1=strongly disagree, 5=strongly agree
Pvtinfosources	The private sector provides relevant information sources to identify markets for the company's products and services	1=strongly disagree, 5=strongly agree
Gvtinfosources	The government provides relevant information sources to identify external markets for the company's products and services	1=strongly disagree, 5=strongly agree

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5.2 RELIABILITY AND VALIDITY OF THE DATA

The research instrument used to collect data has high impact on the quality of data, and consequently impacts the quality of the research results (Pallant, 2004). In addition, the chosen dependent variables for the study must be appropriate, valid and reliable. According Pallant (2004), validity "refers to the degree to which the scale measures what is supposed to measure" whereas reliability "refers to the degree to which the items that make up the scale are all measuring the same underlying attribute" (p. 6). Two related dependent variables, i.e. total sales and ratio of export sales to total sales, were used in the study to account for sensitivity of the variables as well as for the provision of alternative justification for the results. The use of sales as a dependent variable for the study was based on the fact that several scholars have used sales to measure expansion performance (Bianchi & Wickramasekera, 2016; Cardoza et al., 2015, 2014; Uhlaner et al., 2012). Summing up, the quality of the research data is influenced by the validity and reliability of the research scale.

To that end, the validated research instrument used for the study was adopted from Cardoza et al. (2015) and (2014), and as result, there was no need to test for validity. However, Pallant (2004) affirms that a research instrument that is reliable with one group might not be reliable with other groups. As a result, the adopted research instrument was pilot-tested to ensure that the questions asked were understood and interpreted accordingly.

Furthermore, the scale's internal consistency test was conducted on the scale used to collect data to test its reliability, and the results of the test are shown in table 5.2 and 5.3. Since the scale's overall Cronbach's alpha coefficient value of 0.760 in table 5.2 is above the accepted value of 0.7 (Pallant, 2004), the scale used was reliable.

Table 5.2: Scale reliability statistics

Cronbach's Alpha	N of Items
0.760	21

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Table 5.3: Scale item-total statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Gvtinfosources	65.81779	94.103	0.077	0.766
Pvtinfosources	65.17395	93.872	0.105	0.763
Infosources	64.84519	86.166	0.465	0.741
Contacts	64.57121	86.748	0.431	0.744
Domregulation	63.95478	93.007	0.154	0.761
Verbal&non-verbal	65.17395	89.656	0.400	0.748
Exchrate	64.13286	89.667	0.344	0.750
Econenvironment	64.36574	91.303	0.180	0.761
Domregulations	64.26985	91.587	0.282	0.754
Pvtassistance	64.54382	90.384	0.310	0.752
Govassistance	64.26985	90.055	0.279	0.754
Payment	65.25615	87.579	0.407	0.746
Sociocultural	65.36574	86.150	0.530	0.739
Paperwork	64.99587	84.294	0.566	0.734
Familiarity	64.98217	83.314	0.626	0.730
Tariffs	65.00957	84.216	0.574	0.734
Preferences	64.95478	83.905	0.579	0.733
Hostregulations	64.53012	85.744	0.573	0.737
Internationalexpansion	67.93151	96.315	0.028	0.763
Privatefunding	65.10546	85.436	0.122	0.795
Pvtprocurement	63.40683	88.183	0.172	0.769

5.3 THE INFLUENCE OF FUNDING ON SMEs' MARKET EXPANSION

According to Pallant (2004), regression has the ability to explain the variation that exists in the dependent variable as explained by independent variables. As a result, a multiple linear regression test was conducted to address research question 1 and research hypothesis 1 stated below:

- **Research question 1**: does access to private funding influence the market expansion of SMEs?
- **Research hypothesis 1**: South African SMEs benefiting from private funding are more likely to expand.

5.3.1 The influence of funding on SMEs' total market expansion

The multiple linear regression model had three independent variables, i.e. public funding, local government funding and private funding, as well as one dependent variable being total sales measured on a continuous scale.

To begin with, the necessary underlying assumptions for multiple linear regression were relatively met. Firstly, the sample size of 79 respondents met the recommended sample

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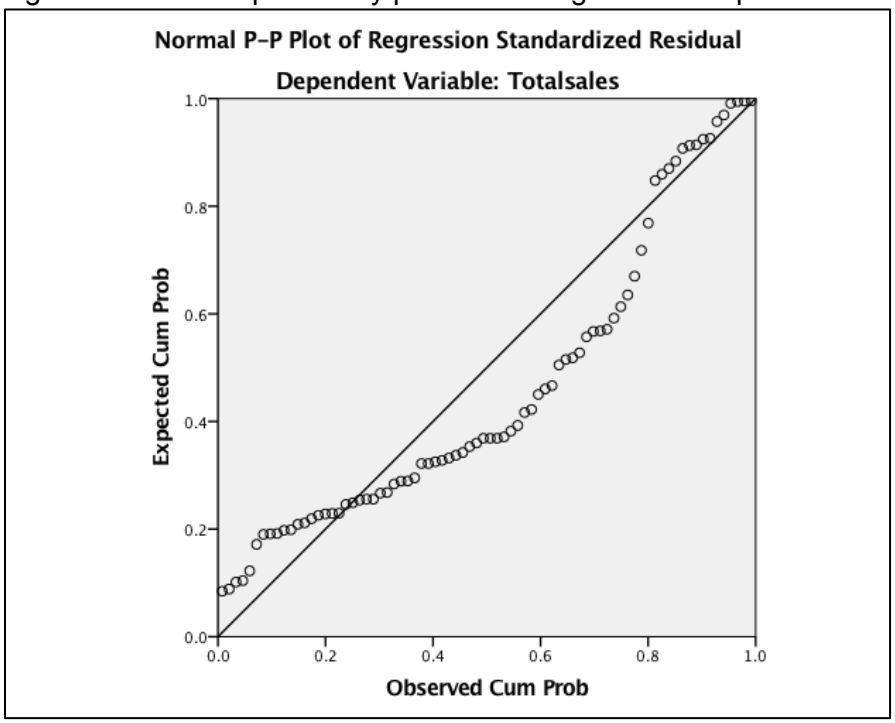
size of 74 respondents calculated using the formula "*N > 50 + 8m*, where m is the number of independent variables" (Pallant, 2004, p. 142). Secondly, outliers that were not genuine, particularly as a result of respondents that did not qualify as SMEs, were removed from the sample during the data screening process. Thirdly, the normal probability plot in figure 5.1 indicates that the data points follow, although not ideal, a straight line suggesting little deviation from normality. Lastly, the multicollinearity assumption was not violated since the variance inflation factor (VIF) of 1.04 indicated in table 5.6 is well below the maximum accepted value of ten (Pallant, 2004).

Figure 5.1: Normal probability plot for funding vs. total expansion



Although the correlation is relatively small or weak, the multiple correlation coefficient (*R*) of 0.279 in table 5.4 indicates that the variation in sales is explained by funding. In addition, funding explains approximately 4% of the variation in sales as denoted by the adjusted *R* square value of 0.041 in table 5.4.

Table 5.4: Model summary for funding vs. total expansion

Model	*R*	*R* Square	Adjusted *R* Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	*F* Change	df1	df2	Sig. *F* Change
1	0.279[a]	0.078	0.041	42349525.81	0.078	2.085	3	74	0.109

a. Predictors: (Constant), Publicfunding, Personalfunding, Privatefunding
b. Dependent Variable: Totalsales

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Given the relatively small sample size of 79 respondents and the nature of the study, the confidence interval of 90% was considered acceptable for the research. As a result, the significance value of 0.109 in table 5.5 indicates that the model is a relatively good fit for the data. In fact, by removing public funding and local government funding from the model since they are not significant improves the model: the significance value in the ANOVA table improves to 0.018 and the adjusted *R* square value in the model summary table improves to 0.058.

Table 5.5: ANOVA for funding vs. total expansion

Model		df	Mean Square	*F*	Sig.
1	Regression	3	3.739E+15	2.085	0.109[b]
	Residual	74	1.793E+15		
	Total	77			

a. Dependent Variable: Total sales
b. Predictors: (Constant), Publicfunding, Personalfunding, Privatefunding

The significance value of 0.034 in table 5.6 indicates that private funding is a significant independent variable in explaining the variation in SMEs' total sales at the confidence interval of 95%.

Table 5.6: Coefficients for funding vs. total expansion

Model	Unstandardised Coefficients		Standardised Coefficients	*t*	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	34348117.040	12741475.740		2.696	0.009	8960172.427	59736061.65		
Personalfunding	-1434510.587	1889023.582	-0.086	-0.759	0.450	-5198472.238	2329451.064	0.963	1.038
Privatefunding	4348704.626	2011466.240	0.247	2.162	0.034	340770.654	8356638.598	0.956	1.046
Publicfunding	549622.429	3148570.993	0.020	0.175	0.862	-5724042.223	6823287.081	0.989	1.011

a. Dependent Variable: Totalsales

Given the fact that the results indicate that private funding is the only significant variable in predicting SMEs' total sales, research hypothesis 1 was accepted. Indeed, private funding does influence the total market expansion of South African SMEs.

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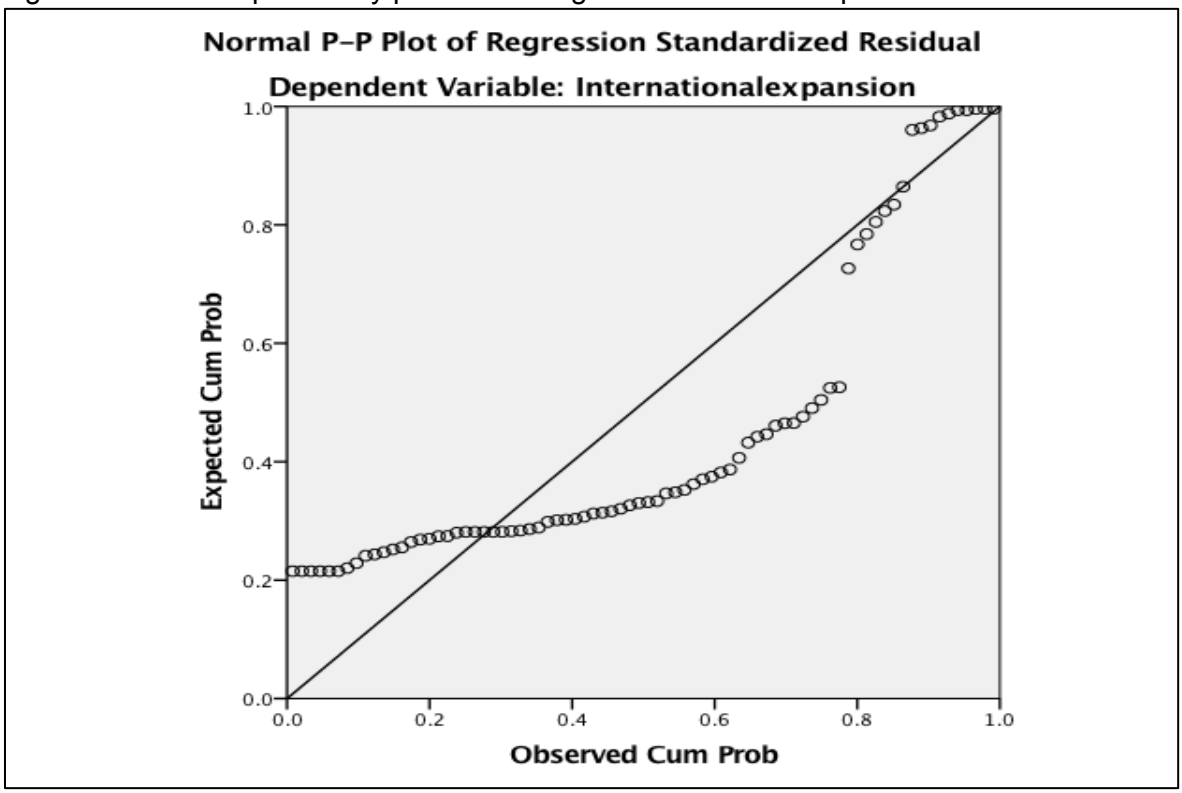
5.3.2 The influence of funding on SMEs' international market expansion

In the case of international market expansion, the multiple linear regression model also had public funding, private funding and local government funding as independent variables. However, the dependent variable termed international expansion is a ratio of export sales to total sales.

Also, the necessary underlying assumptions for multiple linear regression had to be met. Firstly, the sample size of 79 respondents met the recommended sample size of 74 respondents calculated using the formula "$N > 50 + 8m$, where m is the number of independent variables" (Pallant, 2004, p. 142). Secondly, outliers that were not genuine, particularly as a result of respondents that did not qualify as SMEs, were removed from the sample during the data screening process. Thirdly, although figure 5.2 indicates relatively major deviations from normality, normality was assumed. Lastly, the multicollinearity assumption was not violated since the variance inflation factor (VIF) of 1.04 indicated in table 5.8 is well below the maximum accepted value of ten (Pallant, 2004).

Figure 5.2: Normal probability plot for funding vs. international expansion



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Although private funding is significant for total market expansion of SMEs as shown in section 5.3.1, the significance value of 0.789 in table 5.7 indicates that funding does not explain the international expansion of South African SMEs. Furthermore, none of the independent variables in table 5.8 are significant (Sig. > 0.4) in explaining the international expansion of South African SMEs. Therefore, research hypothesis 1 is rejected for the international market expansion of SMEs.

Table 5.7: ANOVA for funding vs. international expansion

Model		df	Mean Square	*F*	Sig.
1	Regression	3	0.033	0.350	0.789[b]
	Residual	74	0.094		
	Total	77			

a. Dependent Variable: Internationalexpansion
b. Predictors: (Constant), Publicfunding, Personalfunding, Privatefunding

Table 5.8: Coefficients for funding vs. international expansion

Model	Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	0.180	0.092		1.96	0.054	-0.003	0.363		
Personalfunding	0.011	0.014	0.092	0.79	0.435	-0.016	0.038	0.963	1.04
Privatefunding	-0.004	0.015	-0.034	-0.29	0.772	-0.033	0.025	0.956	1.05
Publicfunding	-0.009	0.023	-0.048	-0.42	0.679	-0.055	0.036	0.989	1.01

a. Dependent Variable: Internationalexpansion

5.4 THE INFLUENCE OF MARKET INFORMATION ON SMEs' MARKET EXPANSION

A multiple linear regression test was conducted to address research question 2 and research hypothesis 2 stated below:

- **Research question 2**: does access to market information provided by private institutions influence the market expansion of SMEs?
- **Research hypothesis 2**: South African SMEs perceiving poor private institutions assistance on market information are less likely to expand.

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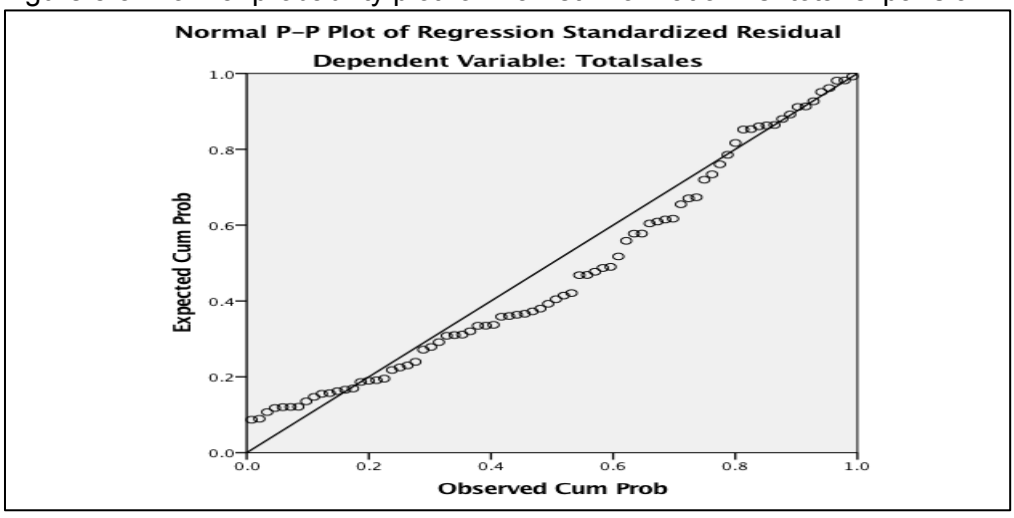
5.4.1 The influence of market information on SMEs' total market expansion

As a start, several market information barriers adopted from Cardoza et al. (Cardoza et al., 2015, 2014) were added as independent variables on the regression model. However, some barriers that influenced the ability of the model to explain the variation that exists in total sales or total market expansion of South African SMEs were removed. Therefore, the remaining market information barriers that were included in the model are host regulations or foreign markets regulations, familiarity, tariffs, sociocultural, verbal and non-verbal language, preferences, payment collections, private assistance and government assistance. In addition, total sales was the dependent variable being measured on a continuous scale.

In addition, the model had to satisfy most of the necessary underlying assumptions for multiple linear regression. Firstly, it was noted that the sample size of 79 respondents violated the recommended sample size of 122 respondents calculated using the formula "$N > 50 + 8m$, where m is the number of independent variables" (Pallant, 2004, p. 142). Secondly, outliers that were not genuine, particularly as a result of respondents that did not qualify as SMEs, were removed from the sample during the data screening process. Thirdly, the normal probability plot in figure 5.3 indicates that the data points follow, although not ideal, a straight line suggesting little deviation from normality. Lastly, the multicollinearity assumption was not violated since the variance inflation factor (VIF) of 1.6 indicated in table 5.10 is well below the maximum accepted value of ten (Pallant, 2004).

Figure 5.3: Normal probability plot for market information vs. total expansion



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The multiple correlation coefficient (*R*) of 0.457 in table 5.9 indicates a moderate correlation between market information barriers and total sales. Furthermore, the market information barriers used in the model explain approximately 9.1% of the variation in sales as denoted by the adjusted *R* square value of 0.091 in table 5.9.

Table 5.9: Model summary for market information vs. total expansion

Model	*R*	*R* Square	Adjusted *R* Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	*F* Change	df1	df2	Sig. *F* Change
1	0.457[a]	0.209	0.091	41226951.33	0.209	1.768	10	67	0.084

a. Predictors: (Constant), Preferences, Pvtassistance, Verbal&non-verbal, Contacts, Govassistance, Payment, Tariffs, Hostregulations, Sociocultural, Familiarity
b. Dependent Variable: Totalsales

Moreover, the significance value of 0.084 in table 5.9 indicates that the model is a relatively good fit for the data at the confidence interval of 90%.

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Summing up, the significance value of 0.006 for host regulations in table 5.10 indicates that South African SMEs have challenges in accessing information related to regulations in foreign markets. Therefore, research hypothesis 2 is rejected for total expansion on the premise that some South African SMEs are still able to expand their total markets despite lack of assistance on information about host regulations.

Table 5.10: Coefficients for market information vs. total market expansion

Model	Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	-9666536.469	29739197.75		-0.33	0.746	-69026223.630	49693150.690		
Verbal&non-verbal	10846979.03	6972737.322	0.202	1.56	0.125	-3070662.914	24764620.970	0.700	1.429
Govassistance	-218579.655	5434004.815	-0.005	-0.04	0.968	-11064898.660	10627739.350	0.731	1.368
Pvtassistance	2180852.761	5969968.063	0.045	0.37	0.716	-9735253.367	14096958.890	0.763	1.310
Sociocultural	-8324329.711	7020202.369	-0.183	-1.19	0.240	-22336712.290	5688052.864	0.498	2.009
Familiarity	-3226958.538	6350759.794	-0.079	-0.51	0.613	-15903128.140	9449211.066	0.486	2.058
Hostregulations	18443906.27	6469262.940	0.396	2.85	0.006	5531203.402	31356609.150	0.611	1.637
Contacts	-4157154.919	5065764.731	-0.101	-0.82	0.415	-14268463.640	5954153.804	0.777	1.288
Tariffs	-2846004.359	5501647.168	-0.070	-0.52	0.607	-13827338.070	8135329.350	0.638	1.566
Payment	7951108.251	5336628.530	0.198	1.49	0.141	-2700846.876	18603063.380	0.671	1.489
Preferences	-6035509.084	6201805.328	-0.150	-0.97	0.334	-18414364.330	6343346.162	0.495	2.021

a. Dependent Variable: Totalsales

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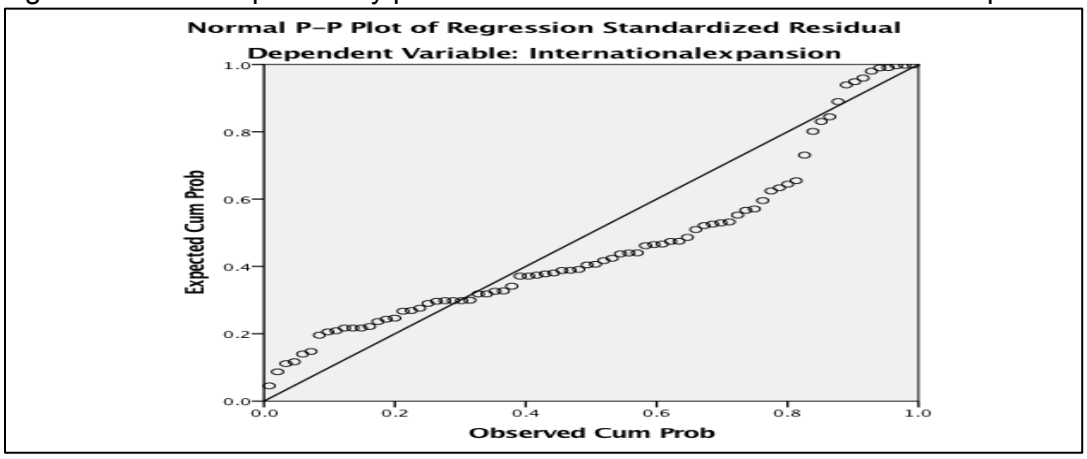
5.4.2 The influence of market information on SMEs' international market expansion

Several market information barriers adopted from Cardoza et al. (2015) and (2014) were first added as independent variables on the regression model. Subsequently, some barriers that influenced the ability of the model to explain the variation that exists in international market expansion of South African SMEs were removed. As a result, the remaining market information barriers that were included in the model are familiarity, socio-cultural, verbal and non-verbal language, private assistance and government assistance. In this case, the independent variable termed international expansion is a ratio of export sales to total sales.

Furthermore, the multiple linear regression model for the influence of market information on international expansion of SMEs did not violate most of the necessary underlying assumptions. Firstly, it was noted that the sample size of 79 respondents violated the recommended sample size of 90 respondents calculated using the formula "$N > 50 + 8m$, where m is the number of independent variables" (Pallant, 2004, p. 142). Secondly, outliers that were not genuine, particularly as a result of respondents that did not qualify as SMEs, were removed from the sample during the data screening process. Thirdly, the normal probability plot in figure 5.4 indicates that the data points, although not ideal, follow a straight line suggesting little deviation from normality. Lastly, the multicollinearity assumption was not violated since the variance inflation factor (VIF) of 1.6 indicated in table 5.13 is well below the maximum accepted value of ten (Pallant, 2004).

Figure 5.4: Normal probability plot for market information vs. international expansion



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The multiple correlation coefficient (*R*) of 0.366 in table 5.11 indicates a moderate correlation between market information barriers and international expansion. Moreover, the market information barriers used in the model explain approximately 7.4% of the variation in international expansion as denoted by the adjusted *R* square value of 0.074 in table 5.11.

Table 5.11: Model summary for market information vs. international expansion

Model	*R*	*R* Square	Adjusted *R* Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	*F* Change	df1	df2	Sig. *F* Change
1	0.366[a]	0.134	0.074	0.290679	0.134	2.232	5	72	0.060

a. Predictors: (Constant), Verbal&non-verbal, Govassistance, Familiarity, Pvtassistance, Sociocultural
b. Dependent Variable: Internationalexpansion

At the confidence interval of 90% chosen for the study, the significance value of 0.060 in table 5.12 indicates that the model is a relatively good fit for the data.

Table 5.12: ANOVA for market information vs. international expansion

Model		df	Mean Square	*F*	Sig.
1	Regression	5	0.189	2.232	0.060[b]
	Residual	72	0.084		
	Total	77			

a. Dependent Variable: Internationalexpansion
b. Predictors: (Constant), Verbal&non-verbal, Govassistance, Familiarity, Pvtassistance, Sociocultural

Surprisingly, market information about foreign market regulations does not influence the international expansion of South African SMEs as was the case with the total expansion. However, the significance value of 0.038 for familiarity in table 5.13 suggests that South African SMEs are not familiar with commercial practices in foreign markets. Furthermore, the significance value of 0.008 for government assistance in table 5.13 indicates that government does not offer assistance with regards to market information. Therefore, research hypothesis 2 is also rejected for international expansion on the premise that some South African SMEs are still able to expand internationally despite lack of assistance with regards to commercial practices in foreign markets.

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Table 5.13: Coefficients for market information vs. international market expansion

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	*t*	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-0.132	0.198		-0.67	0.508	-0.527	0.263		
	Govassistance	0.100	0.037	0.336	2.73	0.008	0.027	0.174	0.793	1.261
	Pvtassistance	-0.027	0.041	-0.080	-0.66	0.511	-0.108	0.054	0.816	1.226
	Sociocultural	0.065	0.045	0.204	1.45	0.152	-.0025	0.155	0.603	1.658
	Familiarity	-0.084	0.040	-0.294	-2.12	0.038	-0.162	-0.005	0.624	1.602
	Verbal&non-verbal	0.040	0.046	0.107	0.87	0.386	-0.052	0.132	0.796	1.257

a. Dependent Variable: Internationalexpansion

5.4.3 Public versus private institutions in providing market information

The need to determine whether private or public institutions should assume the role of providing market information is justified by the results in section 5.4.1 and 5.4.2 indicating that South African SMEs lack access to market information regarding regulations and commercial practices in foreign markets.

To that end, a paired samples *t*-test was conducted to compare the mean scores of private institutions and public institutions in providing market information necessary for SMEs' expansion. According to Pallant (2004), a paired samples *t*-test can be used to measure the same respondent that answered different questions on the Likert scale. The questions answered by respondents on the Likert scale were phrased as follows:

- **Government assistance**: the government does not offer adequate assistance and incentives to carry out export activities.
- **Private assistance:** the private sector does not offer adequate assistance and incentives to carry out export activities.

The necessary underlying assumptions for paired samples *t*-test such as normality, homogeneity of variance and sample size were not violated.

From the mean scores presented in table 5.14, i.e. 3.87 for government assistance and 3.62 for private assistance, it seems that respondents are of a view that private institutions are slightly better in providing market information when compared to public institutions. Moreover, the significance value of 0.032 in table 5.15 indicates that the mean difference

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of 0.256 (table 5.15) between private and government assistance at a confidence interval of 95% is not by chance. Therefore, based on this test it could be deduced that private institutions are better in providing market information when compared to public or government institutions.

Table 5.14: Paired samples statistics for public vs. private assistance on market information

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Govassistance	3.87	78	1.011	0.114
	Pvtassistance	3.62	78	0.901	0.102

Table 5.15: Paired samples test for public vs. private assistance on market information

		Paired Differences							
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	*t*	df	Sig. (2-tailed)
Pair 1	Govassistance - Pvtassistance	0.256	1.037	0.117	0.023	0.490	2.183	77	0.032

5.5 THE INFLUENCE OF PROCUREMENT CONTRACTS ON SMEs' MARKET EXPANSION

A multiple linear regression test was conducted to address research question 3 and research hypothesis 3 stated below:

- **Research question 3:** does access to private procurement contracts influence the market expansion of SMEs?
- **Research hypothesis 3:** South African SMEs having access to private procurement contracts are more likely to expand.

5.5.1 The influence of procurement contracts on SMEs' total market expansion

The multiple linear regression model had three independent variables, i.e. local government procurement contracts, national government procurement contracts and private procurement contracts, as well as one dependent variable being total sales measured on a continuous scale.

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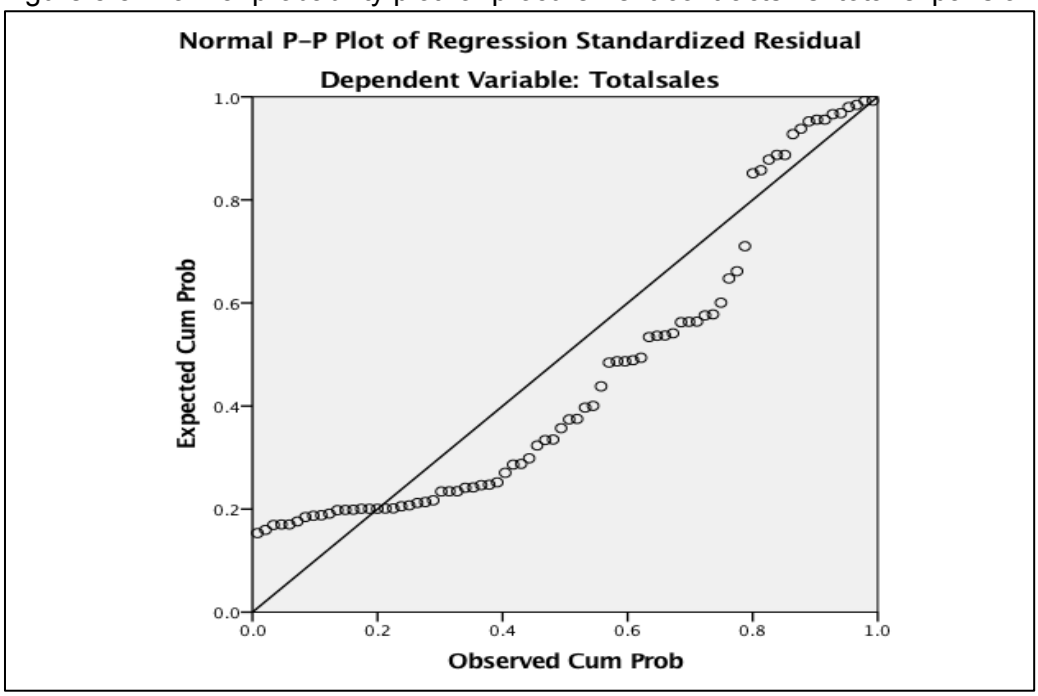
To ensure that all the necessary underlying assumptions for multiple linear regression are not violated, necessary prior checks and tests were conducted. Firstly, the sample size of 79 respondents met the recommended sample size of 74 respondents calculated using the formula "*N > 50 + 8m*, where m is the number of independent variables" (Pallant, 2004, p. 142). Secondly, outliers that were not genuine, particularly as a result of respondents that did not qualify as SMEs, were removed from the sample during the data screening process. Thirdly, the normal probability plot in figure 5.5 indicates that the data points, although not ideal, follow a straight line suggesting little deviation from normality. Lastly, the multicollinearity assumption was not violated since the variance inflation factor (VIF) of 1.1 indicated in table 5.18 is well below the maximum accepted value of ten (Pallant, 2004).

Figure 5.5: Normal probability plot for procurement contracts vs. total expansion



To begin with, it is concerning that the regression model shows a very weak correlation between procurement contracts and total expansion of South African SMEs as denoted by the *R* value of 0.101 in table 5.16. In addition, the adjusted *R* square value of -0.030 in table 5.16 suggests that procurement contracts do not explain the variation that exists on

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total sales. Similarly, the significance value of 0.857 in table 5.17 indicates that the model is not a good fit for the data at the confidence interval of 90%. Notably, table 5.18 shows that none of the procurement contract types are significant in explaining the total market expansion of South African SMEs. Consequently, research hypothesis 3 is rejected for total market expansion of South African SMEs.

Table 5.16: Model summary for procurement contracts vs. total expansion

Model	*R*	*R* Square	Adjusted *R* Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	*F* Change	df1	df2	Sig. *F* Change
1	0.101[a]	0.010	-0.030	43875487.550	0.010	0.256	3	74	0.857

a. Predictors: (Constant), Locgovprocurement, Pvtprocurement, Natgovprocurement
b. Dependent Variable: Totalsales

Table 5.17: ANOVA for procurement contracts vs. total expansion

Model		df	Mean Square	*F*	Sig.
1	Regression	3	4.933E+14	0.256	0.857[b]
	Residual	74	1.925E+15		
	Total	77			

a. Dependent Variable: Totalsales
b. Predictors: (Constant), Locgovprocurement, Pvtprocurement, Natgovprocurement

Table 5.18: Coefficients for procurement contracts vs. total expansion

Model		Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	39341005.150	11842000.570		3.322	0.001	15745303.940	62936706.36		
	Pvtprocurement	74834.507	149338.194	0.060	0.501	0.618	-222728.340	372397.355	0.943	1.061
	Natgovprocurement	-186473.810	390717.761	-0.058	-0.477	0.635	-964995.943	592048.324	0.902	1.109
	Locgovprocurement	-95836.411	388281.442	-0.029	-0.247	0.806	-869504.072	677831.251	0.955	1.047

a. Dependent Variable: Totalsales

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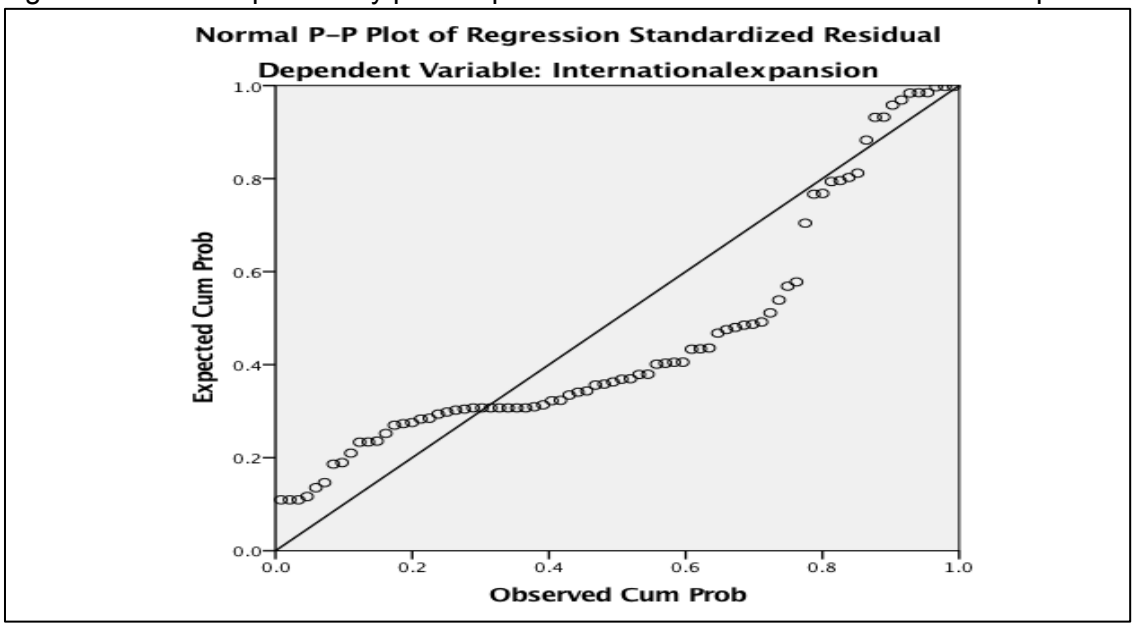
5.5.2 The influence of procurement contracts on SMEs' international market expansion

Similar to the multiple linear regression model for total expansion used in section 5.5.1, the independent variables used for international expansion are local government procurement contracts, national government procurement contracts and private procurement contracts. However, in the case of international expansion, the ratio of export sales to total sales was used as a dependent variable.

All necessary prior checks and tests were conducted to ensure that the necessary underlying assumptions for multiple linear regression were not violated. Firstly, the sample size of 79 respondents satisfied the recommended sample size of 74 respondents calculated using the formula "$N > 50 + 8m$, where m is the number of independent variables" (Pallant, 2004, p. 142). Secondly, outliers that were not genuine, particularly as a result of respondents that did not qualify as SMEs, were removed from the sample during the data screening process. Thirdly, the normal probability plot in figure 5.6 indicates that the data points, although not ideal, follow a straight line suggesting little deviation from normality. Lastly, the multicollinearity assumption was not violated since the variance inflation factor (VIF) of 1.1 indicated in table 5.21 is well below the maximum accepted value of ten (Pallant, 2004).

Figure 5.6: Normal probability plot for procurement contracts vs. international expansion



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Although the correlation is relatively small or weak, the multiple correlation coefficient (*R*) of 0.286 in table 5.19 indicates that the variation in international expansion is better explained by procurement contracts when compared to total expansion. Furthermore, the adjusted *R* square value of 0.045 in table 5.19 suggests that procurement contracts explain approximately 4.5% of the variation that exists in international expansion. Similarly, the significance value of 0.096 in table 5.20 indicates that the model is a relatively good fit for the data at the confidence interval of 90%. Notably, the significance value 0.037 in table 5.21 indicates that private procurement contracts are significant in explaining the international expansion of South African SMEs. Therefore, research hypothesis 3 is accepted for international market expansion of South African SMEs.

Table 5.19: Model summary for procurement contracts vs. international expansion

Model	*R*	*R* Square	Adjusted *R* Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	*F* Change	df1	df2	Sig. *F* Change
1	0.286[a]	0.082	0.045	0.295282	0.082	2.196	3	74	0.096

a. Predictors: (Constant), Locgovprocurement, Pvtprocurement, Natgovprocurement
b. Dependent Variable: Internationalexpansion

Table 5.20: ANOVA for procurement contracts vs. international expansion

Model		df	Mean Square	*F*	Sig.
1	Regression	3	0.191	2.196	0.096[b]
	Residual	74	0.087		
	Total	77			

a. Dependent Variable: Internationalexpansion
b. Predictors: (Constant), Locgovprocurement, Pvtprocurement, Natgovprocurement

Table 5.21: Coefficients for procurement contracts vs. international expansion

Model	Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	0.363	.080		4.55	0.000	0.204	0.522		
Pvtprocurement	-0.002	.001	-0.244	-2.13	0.037	-0.004	0.000	0.943	1.06
Natgovprocurement	-0.004	.003	-0.158	-1.34	0.183	-0.009	0.002	0.902	1.11
Locgovprocurement	-0.002	.003	-0.102	-0.9	0.372	-0.008	0.003	0.955	1.05

a. Dependent Variable: Internationalexpansion

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5.5.3 Public versus private institutions in providing access to procurement contracts

Notwithstanding the positive influence of private procurement contracts on international market expansion of SMEs, it had to be determined which institutions, private or public, could play a better role in enhancing the total market expansion of SMEs through procurement contracts. This follows the fact that the conducted regression test for the influence of procurement contracts on total market expansion of SMEs indicated that both private and public do not influence the total market expansion of SMEs. As a result, a paired samples *t*-test was conducted to determine and compare the mean scores of percentage sales generated from private and public institutions.

To begin with, it must be said that the necessary underlying assumptions for paired samples *t*-test such as normality, homogeneity of variance and sample size were not violated.

The mean scores in table 5.22 indicate that SMEs generate approximately 68% of their total sales from private institutions, and approximately 4% from local and national government. Furthermore, the significance value of 0.000 in table 5.23 indicates that the mean difference of approximately 64% (table 5.23) between private and government institutions at a confidence interval of 95% is not by chance. Therefore, based on this test it could be deduced that private institutions could play a better role in enhancing the market expansion of SMEs through procurement contracts.

Table 5.22: Paired samples statistics for public vs. private procurement contracts

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pvtprocurement	68.45	78	34.483	3.904
	Natgovprocurement	4.01	78	13.476	1.526
Pair 2	Pvtprocurement	68.45	78	34.483	3.904
	Locgovprocurement	4.22	78	13.176	1.492
Pair 3	Locgovprocurement	4.22	78	13.176	1.492
	Natgovprocurement	4.01	78	13.476	1.526

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Table 5.23: Paired samples test for public vs. private procurement contracts

		Paired Differences					*t*	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	Pvtprocurement - Natgovprocurement	64.436	39.906	4.518	55.438	73.433	14.260	77	0.000
Pair 2	Pvtprocurement - Locgovprocurement	64.231	37.321	4.226	55.816	72.645	15.200	77	0.000
Pair 3	Locgovprocurement - Natgovprocurement	0.205	16.743	1.896	-3.570	3.980	0.108	77	0.914

5.6 THE INFLUENCE OF REGULATORY FRAMEWORKS ON SMEs' MARKET EXPANSION

Again, a multiple linear regression test was conducted to address research question 4 and research hypothesis 4 stated below:

- **Research question 4:** what is the influence of regulatory frameworks on the market expansion of SMEs?
- **Research hypothesis 4:** South African SMEs perceiving unfavourable regulatory frameworks are less likely to expand.

5.6.1 The influence of regulatory frameworks on SMEs' total market expansion

For a start, five regulatory independent variables adopted from the studies by Cardoza et al. (2015, 2014) were used in the multiple linear regression model. Subsequently, the independent variables were reduced to three, i.e. domestic regulations, exchange rate and payment collection methods, to ensure that the model predicts variation in total sales. The dependent variable being total sales was measured on a continuous scale.

In addition, all the necessary underlying assumptions for multiple linear regression were checked and tested. Firstly, the sample size of 79 respondents met the recommended sample size of 74 respondents calculated using the formula "$N > 50 + 8m$, where m is the number of independent variables" (Pallant, 2004, p. 142). Secondly, outliers that were not genuine, particularly as a result of respondents that did not qualify as SMEs, were removed from the sample during the data screening process. Thirdly, the normal probability plot in figure 5.7 indicates that the data points, although not ideal, follow a

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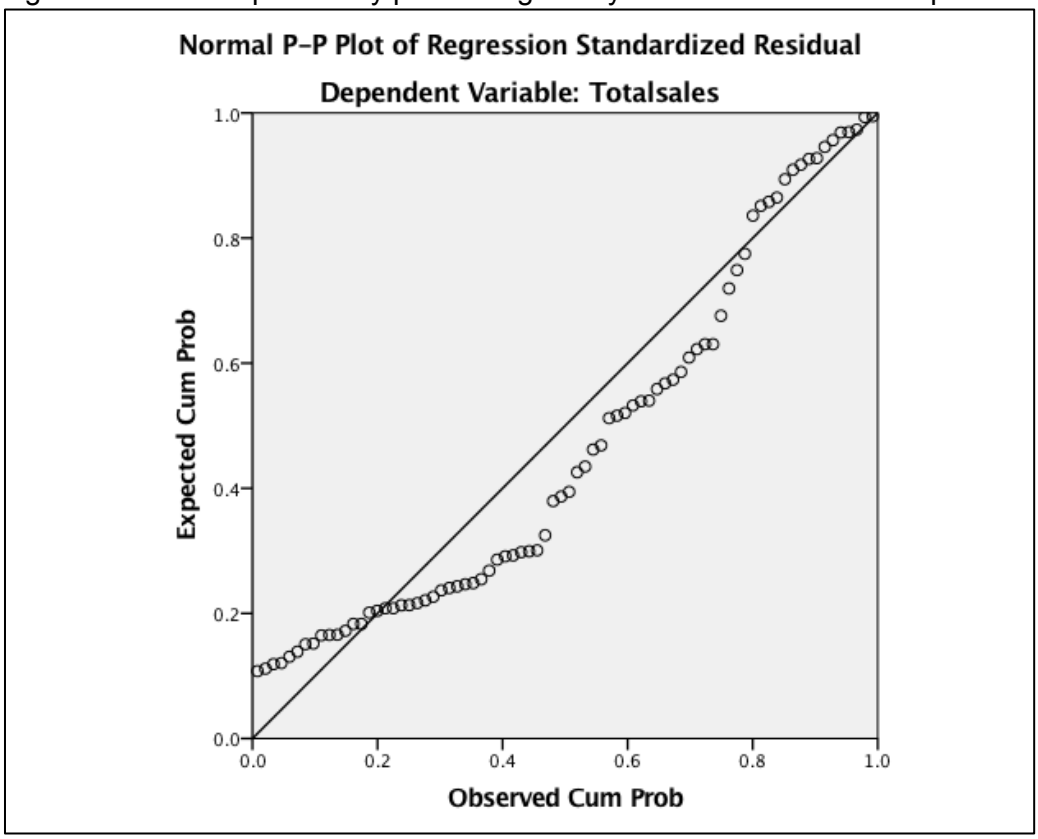
straight line suggesting little deviation from normality. Lastly, the multicollinearity assumption was not violated since the variance inflation factor (VIF) of 1.1 indicated in table 5.26 is well below the maximum accepted value of ten (Pallant, 2004).

Figure 5.7: Normal probability plot for regulatory frameworks vs. total expansion



The *R* value of 0.312 in table 5.24 indicates that there is a moderate correlation between regulatory frameworks and total expansion of South African SMEs. Moreover, the adjusted *R* square value of 0.061 in table 5.24 suggests that regulatory frameworks explain approximately 6.1% of the variation that exists on total sales. Similarly, the significance value of 0.055 in table 5.25 indicates that the model is a relatively good fit for the data at the confidence interval of 90%. The significance value of 0.025 in table 5.26 indicates that the exchange rate is a significant barrier in total market expansion of South African SMEs. Consequently, research hypothesis 4 is rejected for total market expansion on the premise that some South African SMEs are still able to expand despite the challenges in regulatory frameworks.

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Table 5.24: Model summary for regulatory frameworks vs. total expansion

Model	*R*	*R* Square	Adjusted *R* Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	*F* Change	df1	df2	Sig. *F* Change
1	0.312[a]	0.097	0.061	41903916.010	0.097	2.657	3	74	0.055

a. Predictors: (Constant), Domregulations, Payment, Exchrate
b. Dependent Variable: Totalsales

Table 5.25: ANOVA for regulatory frameworks vs. total expansion

Model		df	Mean Square	*F*	Sig.
1	Regression	3	4.655E+15	2.657	0.055[b]
	Residual	74	1.756E+15		
	Total	77			

a. Dependent Variable: Totalsales
b. Predictors: (Constant), Domregulations, Payment, Exchrate

Table 5.26: Coefficients for regulatory frameworks vs. total expansion

Model		Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-16835942.750	29963927.420		-0.562	0.576	-76540371.410	42868485.910		
	Exchrate	12243649.710	5358062.490	0.260	2.285	0.025	1567477.145	22919822.270	0.943	1.061
	Payment	6793382.051	4508390.145	0.169	1.507	0.136	-2189781.406	15776545.510	0.972	1.029
	Domregulations	-2416361.916	6216253.803	-0.045	-0.389	0.699	-14802518.000	9969794.164	0.924	1.082

a. Dependent Variable: Totalsales

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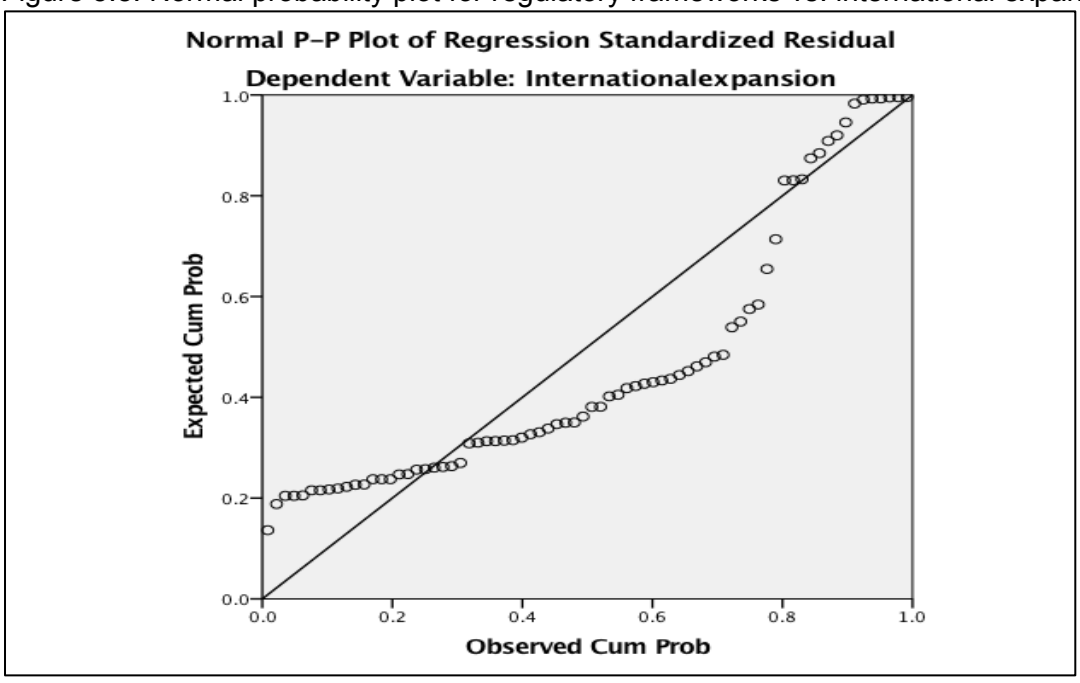
5.6.2 The influence of regulatory frameworks on SMEs' international market expansion

This multiple linear regression model included all five independent variables adopted from Cardoza et al. (2015) as shown in table 5.28. An attempt to improve the model by reducing the number independent variables in the model could not yield better results. The ratio of export sales to total sales, termed international expansion, was used as a dependent variable.

All necessary prior checks and tests were conducted to ensure that the necessary underlying assumptions for multiple linear regression are not violated. Firstly, it was noted that the sample size of 79 respondents violated the recommended sample size of 90 respondents calculated using the formula "*N > 50 + 8m*, where m is the number of independent variables" (Pallant, 2004, p. 142). Secondly, outliers that were not genuine, particularly as a result of respondents that did not qualify as SMEs, were removed from the sample during the data screening process. Thirdly, although figure 5.8 indicates relatively major deviations from normality, normality was assumed. Lastly, the multicollinearity assumption was not violated since the variance inflation factor (VIF) of 1.4 indicated in table 5.29 is well below the maximum accepted value of ten (Pallant, 2004).

Figure 5.8: Normal probability plot for regulatory frameworks vs. international expansion



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The *R* value of 0.229 in table 5.27 indicates a weak correlation between regulatory frameworks and total expansion of South African SMEs. Furthermore, the adjusted *R* square value of -0.017 in table 5.27 suggests that regulatory frameworks do not explain the variation that exists on international expansion. Similarly, the significance value of 0.586 in table 5.28 indicates that the model is not a good fit for the data at the confidence interval of 90%. Also, none of the regulatory barriers in table 5.29 are significant. Therefore, research hypothesis 4 is accepted for international expansion due to the fact that the surveyed SMEs are not experiencing significant regulatory barriers hindering their international expansion.

Table 5.27: Model summary for regulatory frameworks vs. international expansion

Model	*R*	*R* Square	Adjusted *R* Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	*F* Change	df1	df2	Sig. *F* Change
1	.229[a]	.053	-.017	.304659	.053	.754	5	68	.586

a. Predictors: (Constant), Econenvironment, Domregulation, Paperwork, Payment, Exchrate
b. Dependent Variable: Internationalexpansion

Table 5.28: ANOVA for regulatory frameworks vs. international expansion

Model		df	Mean Square	*F*	Sig.
1	Regression	5	.070	.754	.586[b]
	Residual	68	.093		
	Total	73			

a. Dependent Variable: Internationalexpansion
b. Predictors: (Constant), Econenvironment, Domregulation, Paperwork, Payment, Exchrate

Table 5.29: Coefficients for regulatory frameworks vs. international expansion

Model	Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	.094	.240		.393	.696	-.384	.573		
Paperwork	-.040	.039	-.143	-1.029	.307	-.117	.038	.722	1.385
Exchrate	.013	.048	.039	.263	.793	-.083	.109	.650	1.538
Domregulation	-.031	.041	-.093	-.758	.451	-.113	.051	.929	1.077
Payment	.052	.039	.184	1.328	.189	-.026	.129	.729	1.372
Econenvironment	.040	.037	.153	1.082	.283	-.034	.115	.693	1.442

a. Dependent Variable: Internationalexpansion

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5.7 SUMMARY OF THE HYPOTHESES TESTS

The results of the analysed hypotheses tests are presented in table 5.31 below.

Table 5.30: Summary of hypotheses tests

	Status		**Role**
Hypotheses	**Total market expansion**	**International market expansion**	
Private funding (***H1+***)	Accepted	Rejected	Private
Poor private assistance on market information (***H2-***)	Rejected	Rejected	Private
Private procurement contracts (***H3+***)	Rejected	Accepted	Private
Unfavourable regulatory frameworks (***H4-***)	Rejected	Accepted	Public

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CHAPTER 6: DISCUSSION OF RESULTS

The chapter begins by discussing the importance of choosing both total market expansion and international market expansion as dependent variables for the study. Furthermore, the results presented in chapter 5 are analysed in detail taking into account the literature that exists in this field as discussed and argued in chapter 2. The chapter is presented per research question and corresponding hypothesis.

6.1 TOTAL AND INTERNATIONAL MARKET EXPANSION

In the context of this study, market expansion was defined as expansion into new geographic markets at home and abroad (Naldi & Davidsson, 2013). As a result, the tests in chapter 5 were conducted for both total market expansion and international market expansion. Total market expansion was measured in terms of company's total annual sales whereas international market expansion was measured as a ratio of annual export sales to annual total sales. Furthermore, the use of the two dependent variables, i.e. total market expansion and international expansion, in the tests accounted for sensitivity of the variables as well as for the provision of an alternative justification for the results. Also, expansion into international markets is regarded as a sustainable growth strategy since the home market is limited and saturated by international firms (Bianchi & Wickramasekera, 2016; Dikova et al., 2015). To that end, the results in this section are discussed for both total market expansion and international expansion.

6.2 THE INFLUENCE OF FUNDING ON SMEs' MARKET EXPANSION

Following the view by Cardoza et al. (2015) stating that SMEs having access to private funding seem very likely to expand, research question 1 and research hypothesis 1 stated below sought to determine whether access to private funding influence the market expansion of South African SMEs.

- **Research question 1**: does access to private funding influence the market expansion of SMEs?
- **Research hypothesis 1**: South African SMEs benefiting from private funding are more likely to expand.

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The conducted regression test indicates that private funding (Sig. 0.034, table 5.6), not personal (Sig. 0.450, table 5.6) and public funding (Sig. 0.862, table 5.6), influences the total market expansion of South African SMEs. Interestingly, all the three types of funding (Sig. > 0.4, table 5.8) do not influence the international expansion of SMEs.

These results are supported by Huett et al. (2014) stating that not all resources have the potential to create value, particularly when transferred to new markets because of differences in institutional environment. Moreover, SMEs must have a capacity to effectively deploy superior resources in their quest for expansion (Lonial & Carter, 2015). In this case, private funds are effectively deployed to home markets, and as a result, create value in these markets. Unfortunately, the same conclusion could not be drawn for international markets.

Since SMEs in emerging economies are more resource constrained when compared to their counterparts in developed economies (Oura et al., 2015), the private funds received by South African SMEs might be insufficient to fund both home market and international market investments. These results could be supported by the premise stating that most SMEs seem not to seize the opportunity for international expansion because of resource constraints and weak market institutions (Bianchi & Wickramasekera, 2016; Dikova et al., 2015). To that end, the insufficient private funds could be attributed to information asymmetry, complex application processes, high fees and interest rates, poor financial performance, banks' market power to insist on hard information such as high collateral requirements biased against SMEs, and in some instances credit rationing following the 2008 financial crisis (Fredriksson & Moro, 2013; Lee et al., 2014; Ryan et al., 2014; Yaldız Hanedar et al., 2013). In addition, Lafuente et al. (2013) assert that SMEs often use their insufficient resources to deal with institutional voids. As a result, SMEs need even more external finance to pursue expansion investments because their balance sheets are relatively poor to fund such investments (Lee et al., 2014).

The SMEs' ability to access private funding, even though not sufficient in a country associated with institutional voids like South Africa, could be explained by resource dependency and network theories. Central to both theories is the notion that SMEs rely on alliances or networks to fill the resource gap or the institutional void (Brouthers et al., 2015; Hessels & Parker, 2013; Hessels & Terjesen, 2010; Kim & Hemmert, 2015). Hessels and

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Parker (2013) affirm that business networks are better at providing resources to SMEs when compared to personal networks. Conversely, SMEs resort to personal networks to compensate for institutional voids (Ciravegna et al., 2013; Xheneti & Bartlett, 2012; Zhou, 2012), resulting to higher costs of doing business (Makhmadshoev et al., 2015). Therefore, it could be deduced that reliance on personal networks to close the resource gap or institutional void contributes to the lack of sufficient private funding to fund international expansion.

The fact that public funding does not influence the expansion performance of South African SMEs indicate that the South African government policy programmes designed to alleviate external funding barriers are not effective. These results validate the findings by government affirming that SMEs are still facing critical challenges in their quest for expansion despite government having implemented various policy programmes as outlined in the White Paper (Department of Trade and Industry, 2005). In addition, the findings support the argument by Cardoza et al. (2015) asserting that policies and regulations tend to produce unintended results due to corruption, poor implementation, lack of capacity, and ineffectiveness of public institutions. Thus, the South African government has since called for various stakeholders including the private sector to assist in developing and promoting the expansion of SMEs (National Development Plan, 2012). Since the rationale for government involvement in developing SMEs is based on the premise that SMEs contribute to economic growth and reduce unemployment (Beck, 2013; Castaño et al., 2016; Castillo et al., 2013; Heinonen & Hytti, 2014), the research findings justify the failure of SMEs to curb the unsustainable employment and economic growth figures (Statistics South Africa, 2016a).

Unsurprisingly, the failure of government policies to provide funding necessary to enhance the international market expansion of SMEs is not unique to South Africa. Cardoza et al. (2014) affirm that Chinese government funding support has not proven to be a success in terms of promoting SMEs international market expansion. Furthermore, studies found that SMEs that are backed by government venture capital funds displayed poorer performance and reduction in productivity when compared to those backed by private venture capital funds (Alperovych et al., 2014; Munari & Toschi, 2014).

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Scholars on entrepreneurship could argue that the results indicate that any amount of funding without entrepreneurial orientation is not sufficient to survive international market competition (Lafuente et al., 2013; Lonial & Carter, 2015; Shirokova et al., 2016). Moreover, De Falco and Simoni (2014) assert that SMEs must satisfy certain prerequisites in order to benefit from international expansion policy programmes.

Based on the results, it is clear that access to private funding does influence the market expansion of SMEs. However, the results suggest that the current private funding is only sufficient to fund home market expansion. Therefore, the implication is that sufficient amount of private funding is required to enhance both home and international market expansion. Arguably, the ultimate market expansion strategy for domestic SMEs, exporting SMEs and ex-exporting SMEs is to expand or further expand to international markets since the home market is limited and saturated by international firms (Bianchi & Wickramasekera, 2016; Dikova et al., 2015). Furthermore, international expansion would ensure diversification across different markets; realisation of economies of scale; improved quality services and products; and more importantly, socioeconomic advantages for the home country (Javalgi & Todd, 2010; Uner et al., 2012).

Summing up, the results support the argument by Castaño et al. (2016) asserting that policy programmes can hinder the market expansion of SMEs. The research findings also support the premise that policy programmes must be designed for a specific institutional environment (Arshed et al., 2014). As a result, the research findings assisted in answering the call by various scholars (Lee et al., 2014; Ryan et al., 2014) for a different approach to address SMEs' lack of access to external funding. Furthermore, the facts presented indicate that the active role assumed by South African government in alleviating SMEs' lack of access to external funding is not effective.

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6.3 THE INFLUENCE OF MARKET INFORMATION ON SMEs' MARKET EXPANSION

Alperovych et al. (2014) and Cardoza et al. (2014) argue that, unlike government, private firms do not only provide funding to SMEs but also market information, skills and networks necessary for them to expand. As a result, research question 2 and research hypothesis 2 stated below sought to determine whether the provision of market information by private firms influence the market expansion of South African SMEs.

- **Research question 2**: does access to market information provided by private institutions influence the market expansion of SMEs?
- **Research hypothesis 2**: South African SMEs perceiving poor private institutions assistance on market information are less likely to expand.

The regression test results suggest that South African SMEs are able to expand both their total markets and international markets despite lack of access to market information regarding regulations (Sig. 0.006, table 5.10) and commercial practices (Sig. 0.038, table 5.13) in foreign markets. Consequently, it could be deduced that South African SMEs lack access to certain foreign market information. Even more concerning is the fact that the results indicate that SMEs do not get support from government (Sig. 0.008, table 5.13) on foreign market information. Since the government does not offer assistance on foreign market information, it could be concluded that the private sector provides the rest of foreign market information except for information regarding regulations and commercial practices. Indeed, results from paired samples *t*-test (table 5.15) confirmed that private institutions play a better role in providing market information when compared to public or government institutions.

Arguably, SMEs might be leveraging their own unregulated networks to access market information, as there are no proven policy programmes facilitating the sharing of market information between private firms and SMEs in South Africa. Jin et al. (2016) posit that only business networks and not personal networks provide SMEs with access to market knowledge, which in turn enhance expansion performance. Similarly, Mogos Descotes and Walliser (2011) caution that the use of informal social networks, which is as a result of unfavourable institutional environment, to obtain information can be too risky. Assuming

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that SMEs are leveraging business networks, Sawers et al. (2008) assert that there might be a risk of unintended flow of information from small firms to large firms because of asymmetrical power.

Again, these research findings validate the findings of 11 years ago affirming that South African SMEs are still facing barriers hindering their growth despite the implementation of numerous policy programmes designed to curb such barriers (Department of Trade and Industry, 2005). Similar to the government BDS program in Latin America (Cardoza et al., 2015), South African policy programmes are failing to provide information about potential markets for SMEs. Perhaps the reason for government failure to provide market information could be attributed to the fact that government institutions in emerging markets are ineffective and less capable (Cardoza et al., 2015). And the influence of market information on the expansion of SMEs is dependent on the quality of the sources providing the information (De Clercq et al., 2011; Mogos Descotes & Walliser, 2011) . Subsequently, the government was correct to call for the involvement of various stakeholders including the private sector to assist in the development of SMEs if South Africa were to reach the set employment and economic growth targets by 2030 (National Development Plan, 2012).

All in all, access to market information provided by private institutions influence the market expansion of SMEs even though the results indicate that South African SMEs still lack certain information about international markets. To that end, SMEs perceiving poor private institutions assistance on market information are still able to expand. However, it is concerning that SMEs are not receiving all necessary market information about international markets since the knowledge obtained from international markets enhances SMEs further expansion in both international and domestic markets (Naldi & Davidsson, 2013). Similarly, Oura et al. (2015) found that international knowledge enhances international expansion performance. In addition, international knowledge serves as a risk-reducing resource since SMEs expanding into new geographic markets without market information or knowledge are very likely to fail (Huett et al., 2014).

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6.4 THE INFLUENCE OF PROCUREMENT CONTRACTS ON SMEs' MARKET EXPANSION

Research question 3 and research hypothesis 3 stated below sought to contribute to the on-going debate on the effectiveness of procurement or supplier development policies in enhancing the market expansion of SMEs, as current research indicates mixed results (Cardoza et al., 2014; De Falco & Simoni, 2014).

- **Research question 3:** does access to private procurement contracts influence the market expansion of SMEs?
- **Research hypothesis 3:** South African SMEs having access to private procurement contracts are more likely to expand.

To begin with, the multiple regression test results indicate that none of the procurement contract types (Sig. > 0.6, table 5.18) are effective in enhancing home market expansion of SMEs. In contrast, access to private procurement contracts (Sig. 0.037, table 5.21) influences the international expansion of SMEs. Therefore, it could be deduced from the results that SMEs having access to private procurement contracts tend to move their focus away from home markets to international markets for various reasons. Ultimately, the focus on international markets might be the reason for shrinking home markets.

Interestingly, the results in section 6.2 revealed that because of insufficient access to private funding, SMEs tend to focus more on home markets. In contrast, the results in this section suggest that SMEs with access to private procurement contracts tend to focus more on international markets. These results are complementary to a certain extent. According to Hsu et al. (2011), resource-constrained SME suppliers having access to procurement or supply chain contracts must benefit from the large firm customers' resources such as finance, human related skills and technology among others. In addition, the trust relationship developed over time reduces the risk and cost of doing business between the SME suppliers and large firm customers (Hsu et al., 2011). Therefore, it could be deduced that SMEs having access to private procurement contracts are able to acquire sufficient funding to fund international investments.

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The next question to be answered is why South African SMEs with access to private procurement contracts tend to invest in international markets and not in home markets? The answer to this question boils down to three possible reasons, i.e. cost of doing business, risk of doing business, and squeezed margin as a result of competition or low economic growth.

Firstly, if the cost and the risk of doing business in home markets is very high, SMEs will be tempted to channel their investments to international markets. Notwithstanding the fact that access to private funding and private procurement contracts build internal capability, Williams and Horodnic (2015) assert that SMEs are influenced not only by their internal capability but by their institutional context as well. In support of this premise, Bruton et al. (2010) state that whilst access to resources is crucial to the success of SMEs, their success is equally influenced by their institutional environment. Moreover, institutions provide “rules of the game” (p. 3) that guide the behaviour of doing businesses (North, 1990). To that end, institutional environments in different countries can either constrain or enhance the expansion of SMEs (Ciravegna et al., 2013; Makhmadshoev et al., 2015; Nasra & Dacin, 2010; Puffer et al., 2010; Xheneti & Bartlett, 2012). Arguably, the expansion of SMEs in emerging economies is mostly associated with uncertainties and risks (Puffer et al., 2010), due to inefficient and unpredictable policies, frequent changes in tax rates, market failures and corruption among others (Cardoza et al., 2015; Makhmadshoev et al., 2015). As a result, the failure of formal institutions creates an institutional void, which is then filled by informal institutions (Puffer et al., 2010; Xheneti & Bartlett, 2012). Consequently, the cost of doing business in an environment full of institutional voids and informal institutions is very high (Makhmadshoev et al., 2015).

Lastly, the third possible reason for channelling investment to international markets instead of home markets could stem from intense competition or low economic growth. According to Manufacturing Bulletin (2012), 50% of manufactured goods consumed in South Africa are imported at a relatively cheaper price. In addition, the recently revised economic growth forecast of 0.5% for 2016 (South African Government News Agency, 2016) means the profit margins for SMEs would be under pressure as a result thereof (Madhav, 2016). Consequently, most SMEs including domestic orientated SMEs acknowledge that expansion into international geographic markets is a sustainable growth strategy since the home market is limited and saturated by international firms (Bianchi & Wickramasekera,

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2016; Dikova et al., 2015). The decision to focus investments on international markets is made easy by the fact that the knowledge obtained from international markets enhances further expansion of SMEs (Naldi & Davidsson, 2013).

The positive influence of access to private procurement contracts on the market expansion of South African SMEs could be backed up by existing research. Firstly, Kim and Hemmert (2015) affirm that the subcontracting relationships between small and large firms provide expansion opportunities for manufacturing SMEs in South Korea. Secondly, Milanov and Fernhaber (2013) found that new ventures can enhance their market expansion performance, particularly international expansion, if they partner with domestic firms having international experience. Thirdly, Arráiz et al. (2012) affirm that there were mutual benefits in terms of improved sales and employment between SMEs and large firms that were involved in the Chilean supplier development program. Lastly, Cardoza et al. (2015) assert that SMEs belonging to large private firms are very likely to expand. However, Arráiz et al. (2012) caution against the use of policies that might inhibit innovation, particularly procurement or supplier development policies that give preference to SMEs in a value chain.

On the other hand, the fact that government procurement contracts are not significant on the market expansion of South African SMEs indicates that whatever government procurement policy programmes that have been put in place so far are not effective. Similar to the failure of South African governement procurement contracts to enhance the market expansion of SMEs, is the failure of government procurement contracts in Latin America and China to enhance the market expansion of SMEs (Cardoza et al., 2015, 2014).

Summing up, the results suggest that access to private procurement contracts does influence the international expansion of SMEs. However, access to private procurement contracts fail to enhance the domestic market expansion of South African SMEs for various reasons already discussed. On the other hand, the South African government procurement contracts are not effective at all in enhancing the market expansion of SMEs. These findings were further justified by the conducted paired samples *t*-test, which indicated that private procurement contracts play a better role in enhancing the market expansion of SMEs when compared to government procurement contracts.

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6.5 THE INFLUENCE OF REGULATORY FRAMEWORKS ON SMEs' MARKET EXPANSION

Most governments around the world have implemented various policy and regulatory frameworks to remedy resource gaps and unfavourable institutional environment so that SMEs can thrive (Munari & Toschi, 2014). To that end, research question 4 and research hypothesis 4 sought to determine the state of the regulatory or macroeconomic environment for South African SMEs.

- **Research question 4:** what is the influence of regulatory frameworks on the market expansion of SMEs?
- **Research hypothesis 4:** South African SMEs perceiving unfavourable regulatory frameworks are less likely to expand.

The regression test results indicate that the exchange rate (Sig. 0.025, table 5.26) is the significant barrier for the total market expansion of South African SMEs. On the other hand, there are no significant regulatory or macroeconomic barriers (Sig. > 0.1, table 5.29) influencing the international market expansion of South African SMEs. Therefore, it could be deduced that the exchange rate influences the domestic market expansion performance, and not the international market expansion performance.

These results make perfect sense for two basic economic reasons. Firstly, exchange rate is not a significant barrier for international expansion performance because export sales are generally in US dollars and input costs are a combination of South African Rands and US dollars (import material), assuming manufacturing occurs in South Africa. Hence, the high US dollar/SA Rand exchange rate often experienced by the South African market is in favour of the international market expansion performance. In contrast, sales in domestic markets are conducted in South African Rands resulting to squeezed margins when exchange rate is high. Moreover, competition in the domestic market is high because 50% of manufactured goods consumed in South Africa are imported at a relatively cheaper price (Manufacturing Bulletin, 2012). In support of the influence of competition in home markets, research affirms that home markets are limited and saturated by international firms (Bianchi & Wickramasekera, 2016; Dikova et al., 2015). Given these facts, the high

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US dollar/SA Rand exchange rate often experienced by the South African market makes the regulatory or macroeconomic environment unfavourable for the domestic markets. Different scholars assert that institutional environments in different countries can either constrain or enhance the expansion of SMEs (Ciravegna et al., 2013; Makhmadshoev et al., 2015; Nasra & Dacin, 2010; Puffer et al., 2010; Xheneti & Bartlett, 2012). In this context, the regulatory barriers are favourable for international expansion and unfavourable for domestic expansion. Regulatory frameworks are meant to assist government in creating a favourable environment for SMEs to thrive instead of hindering their performance (Halabí & Lussier, 2014; Nițescu, 2015). Cardoza et al. (2015) attributes the negative influence of regulatory frameworks on SMEs' market expansion to corruption, lack of capacity, and ineffectiveness of public institutions among other factors. In fact, it is the failure of formal institutions that create an unfavourable environment for the expansion of SMEs (Puffer et al., 2010; Xheneti & Bartlett, 2012). Correspondingly, it has been proven in developed countries that well functioning formal institutions create a stable and conducive environment (Puffer et al., 2010).

It is unfortunate for the results to suggest that the regulatory environment is still not entirely favourable for SMEs to expand their markets following the adoption of the White Paper, 20 years ago, centred on the creation of favourable environment for SMEs (Department of Trade and Industry, 1995). Nonetheless, these results are not that unique from other findings affirming that the environment of SMEs in developing economies is not favourable for their expansion (Cahen et al., 2015; Cardoza et al., 2015). For example, policy programmes meant to create a favourable environment for Latin American SMEs failed to do so (Cardoza et al., 2015). Interestingly, SMEs in South Africa and Latin America are still able to expand their markets despite the unfavourable environment.

Summing up, the domestic market expansion of South African SMEs is negatively influenced by the exchange rate. On the other hand, regulatory barriers do not negatively influence the international market expansion of South African SMEs. To that end, South African SMEs are still able to expand their domestic markets despite the negative influence of exchange rate.

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6.6 CRITICAL MARKET EXPANSION BARRIERS INFLUENCING SOUTH AFRICAN SMEs

Although the expansion barriers of today are still similar to the expansion barriers found by scholars in earlier years, SMEs in different countries perceive or experience these barriers differently (Uner et al., 2012). Furthermore, most countries cite barriers such funding (Beck, 2013; Daskalakis et al., 2013; Lee et al., 2014; Yaldız Hanedar et al., 2013), market information (Child & Hsieh, 2014; Huett et al., 2014; Naldi & Davidsson, 2013; Oura et al., 2015), and unfavourable regulatory environment (Bruton et al., 2010; Mogos Descotes et al., 2010; Williams & Horodnic, 2015) as being critical in the expansion performance of SMEs. To that end, discussed below is a summary of expansion barriers found to be critical for the expansion performance of South African SMEs.

To begin with, the findings suggest that South African government policy programmes designed to alleviate external funding barriers are not effective, i.e. public funding does not influence the expansion performance of SMEs (Sig. 0.862, table 5.6 and Sig. 0.679, table 5.8). As a result, South African SMEs rely on private funding to fund their expansion investments. However, the private funds received are only sufficient to fund home market expansion, and not international market expansion. Therefore, funding is still a critical barrier on the expansion performance of South African SMEs. Funding is also perceived as an expansion barrier in Malaysia (Julian & Ahmed, 2012), China (Cardoza et al., 2014), Latin America (Cardoza et al., 2015) and Belgium (De Maeseneire & Claeys, 2011).

Secondly, South African SMEs still lack access to market information regarding regulations (Sig. 0.006, table 5.10) and commercial practices (Sig. 0.038, table 5.13) in foreign markets. Even more concerning is the fact that the results indicate that SMEs do not get support from government on foreign market information. Currently, it seems that SMEs might be leveraging their own unregulated networks to access market information. To support these results, market information was found to be the main expansion barrier in Chile (Bianchi & Wickramasekera, 2016), Sweden (Naldi & Davidsson, 2013), Albania (Xheneti & Bartlett, 2012) and Latin America (Cardoza et al., 2015).

Thirdly, the domestic market expansion of South African SMEs is negatively influenced by the exchange rate (Sig. 0.025, table 5.26) even though this is not the case for international

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market expansion (Sig. > 0.1, table 5.29). The high US dollar/SA Rand exchange rate often experienced by the South African market is in favour of the international market expansion performance because sales in these markets are generally in US dollars. In contrast, the sales in domestic markets are in South African Rands resulting in squeezed margins because of high import material costs. In addition, competition in the domestic market is high because 50% of manufactured goods consumed in South Africa are imported at a relatively cheaper price (Manufacturing Bulletin, 2012). Other countries negatively affected by regulatory or macroeconomic barriers include Latin American countries (Cardoza et al., 2015), Tajikistan (Dickson & Weaver, 2011) and Albania (Xheneti & Bartlett, 2012).

Finally, following the fact that the South African White Paper identified lack of access to domestic markets as a significant barrier to the growth of SMEs (Department of Trade and Industry, 1995), the effectiveness of whatever procurement policy programmes that have since been put in place were also tested. The results indicate that South African government procurement contracts are not effective at all in enhancing the market expansion of SMEs (Sig. 0.037, table 5.21; Sig. > 0.1, table 5.21). On the other hand, access to private procurement contracts influence the international market expansion of SMEs (Sig. 0.037, table 5.21) and not the domestic market expansion (Sig. > 0.6, table 5.18) for various reasons discussed in section 6.4. Similar to the failure of South African government procurement contracts to enhance the market expansion of SMEs, is the failure of government procurement contracts in Latin America and China to enhance the market expansion of SMEs (Cardoza et al., 2015, 2014).

Indeed, the export barriers perceived or experienced by SMEs vary across different countries. To that end, this study contributes to recent studies on expansion barriers influencing the expansion of SMEs from the context of developing markets (Cahen et al., 2015; Cardoza et al., 2015, 2014; Uner et al., 2012; Zhu et al., 2011).

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CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

The main purpose of this chapter is to summarise the main findings of the research in conjunction with the research questions, hypotheses and objectives. Also, recommendations on the way forward are summarised here.

7.1 RESEARCH OBJECTIVES AND MAIN FINDINGS

To begin with, all research objectives stipulated in section 1.3 were reached. Notwithstanding other objectives, the main objective of the study as adopted from Cardoza et al. (2015) and modified was to determine the influence of four critical barriers (access to procurement contracts, access to funding, regulatory frameworks, and access to market information) on SMEs' market expansion in a setting that included both private and public institutions instead of only public institutions. In addition, the roles to be played by both private and public institutions in curbing expansion barriers were also determined.

Unsurprisingly, the study revealed that South African SMEs are still experiencing challenges regarding access to markets or procurement contracts, access to funding, access to market information, and an unfavourable regulatory environment. It is unfortunate that this is still the case following the adoption of White Paper centred on curbing these barriers about 20 years ago (Department of Trade and Industry, 1995). Moreover, this study took place after a series of other interventions were put in place, as discussed in section 2.3.2. The research findings justify the appalling unemployment rate of 26.6% in the second quarter of 2016 (Statistics South Africa, 2016d), and the unsustainable economic growth rate of 3.3% in the second quarter of 2016 following the negative growth rate of 1.2% in the first quarter of 2016 (Statistics South Africa, 2016a).

Also, the study revealed that public institutions lack capacity and are ineffective in playing the main role in curbing these sets of barriers. The results suggest that the market expansion of South African SMEs is to a certain extent enhanced by access to private procurement contracts, access to private funding, and access to market information provided by the private sector. In addition, SMEs are still able to expand their markets despite the unfavourable regulatory environment.

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7.2 DOES ACCESS TO PRIVATE FUNDING INFLUENCE THE MARKET EXPANSION OF SMEs?

The research findings revealed that access to private funding does influence the market expansion of SMEs. However, the results suggest that the current private funding is only sufficient to fund expansion in home markets. Therefore, the implication is that an appropriate amount of private funding is required to enhance both home and international market expansion. Arguably, the ultimate market expansion strategy for domestic SMEs, exporting SMEs and ex-exporting SMEs is to expand or further expand to international markets since the home market is limited and saturated by international firms (Bianchi & Wickramasekera, 2016; Dikova et al., 2015). Furthermore, international expansion would ensure diversification across different markets; realisation of economies of scale; improved quality services and products; and more importantly, socioeconomic advantages for the home country (Javalgi & Todd, 2010; Uner et al., 2012).

To that end, public policy must be designed to facilitate the creation of business networks in a value chain between SMEs and large private firms with the aim of ensuring that SMEs have access to sufficient private funding. In this case, government must provide incentives to large private firms to offer funding assistance to SMEs. Notwithstanding the success of formal business relationships between large private firms and SMEs in enhancing the market expansion of SMEs in Chile (Arráiz et al., 2012), in South Korea (Kim & Hemmert, 2015) and in the United State of America (Milanov & Fernhaber, 2013), public policy must ensure that the independence and flexibility of SMEs is protected. In addition, SMEs must command full control or ownership of resources acquired during the relationship (Hessels & Parker, 2013).

7.3 DOES ACCESS TO MARKET INFORMATION PROVIDED BY PRIVATE INSTITUTIONS INFLUENCE THE MARKET EXPANSION OF SMEs?

Access to market information provided by private institutions influences the market expansion of SMEs even though the results indicate that South African SMEs still lack certain information about international markets. Despite this, SMEs perceiving poor private institutions assistance on market information are still able to expand. However, it is concerning that SMEs are not receiving all necessary market information about

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international markets since the knowledge obtained from international markets enhances SMEs' further expansion in both international and domestic markets (Naldi & Davidsson, 2013). Similarly, Oura et al. (2015) found that international knowledge enhances international expansion performance. In addition, international knowledge serves as a risk-reducing resource since SMEs expanding into new geographic markets without market information or knowledge are very likely to fail (Huett et al., 2014).

In conclusion, the research findings assist in addressing one of the main barriers, access to market information, which has caught the attention of several scholars and policy makers (Child & Hsieh, 2014). The conclusion is that public policy must be designed to facilitate the creation of business networks in a value chain between SMEs and large private firms with the aim of ensuring that SMEs have access to all market information required to enhance market expansion. According to Hsu et al. (2011), the trust relationship built between SMEs and large private firms facilitates the process of sharing information about customers and markets. However, the policy must be designed in such a way that the risk of unintended flow of information from small firms to large firms because of asymmetrical power is safeguarded.

7.4 DOES ACCESS TO PRIVATE PROCUREMENT CONTRACTS INFLUENCE THE MARKET EXPANSION OF SMEs?

The results suggest that access to private procurement contracts does influence the international expansion of SMEs. However, access to private procurement contracts fail to enhance the domestic market expansion of South African SMEs for various reasons already discussed. On the other hand, the South African government procurement contracts are not effective at all in enhancing the market expansion of SMEs. These findings were further justified by the conducted paired samples *t*-test (table 5.23), which indicated that private procurement contracts play a better role in enhancing the market expansion of SMEs when compared to government procurement contracts.

Given these facts, government must create a policy program to facilitate access to private procurement contracts. Consequently, SMEs will benefit in terms of access to large firm customers' resources such as finance, market information, human-related skills and technology among others, whereas large firm customers will benefit from SMEs' flexibility

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and competencies. In addition, the trust relationship developed over time will reduce the risk and cost of doing business between the SME suppliers and large firm customers (Hsu et al., 2011). Lastly, the policy must be designed in such a way that it does not inhibit innovation due to the fact that SMEs are given preference in a value chain.

7.5 WHAT IS THE INFLUENCE OF REGULATORY FRAMEWORKS ON THE MARKET EXPANSION OF SMEs?

The domestic market expansion of South African SMEs is negatively influenced by the exchange rate. On the other hand, regulatory barriers do not negatively influence the international market expansion of South African SMEs. To that end, South African SMEs are still able to expand their domestic markets despite the negative influence of exchange rates. Given these facts, government must create a policy program to facilitate the creation of a favourable regulatory environment. In this case, both public and private institutions must provide “rules of the game” (p. 3) that guide the behaviour of businesses, and thereafter monitor and ensure compliance (North, 1990).

7.6 WHAT ARE THE CRITICAL EXPANSION BARRIERS PERCEIVED OR EXPERIENCED BY SMEs in SOUTH AFRICA?

Since SMEs in different countries perceive or experience expansion barriers differently (Uner et al., 2012), expansion barriers found to be critical in the South African context are discussed below.

Firstly, funding is still a critical barrier on the expansion performance of South African SMEs. Secondly, South African SMEs still lack access to market information regarding regulations and commercial practices in foreign markets. Thirdly, the domestic market expansion of South African SMEs is negatively influenced by the exchange rate even though this is not the case for international market expansion. Lastly, lack of access to domestic markets is a significant barrier to the growth of SMEs.

In conclusion, a policy program must be designed and implemented to curb recurring export barriers such as unfavourable regulatory environment, lack of market information, and lack of funding that negatively influence the market expansion of SMEs.

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7.7 WHAT ROLE CAN PUBLIC AND PRIVATE INSTITUTIONS PLAY IN ENHANCING THE MARKET EXPANSION OF SMEs?

The research findings clarified the role to be played by both private and public institutions in promoting SMEs' market expansion, particularly in the South African economy facing institutional challenges such as ineffectiveness and lack of capacity. In this context, the private sector should play a role in providing access to procurement contracts, access to funding and access to market information. On the other hand, government, in conjunction with relevant stakeholders, must create a favourable regulatory environment through policies and regulations, where large private firms would be encouraged to develop SMEs through supply chain or procurement development initiatives. As a result, the development initiatives will benefit SMEs in terms of access to markets, funding and market information among other benefits.

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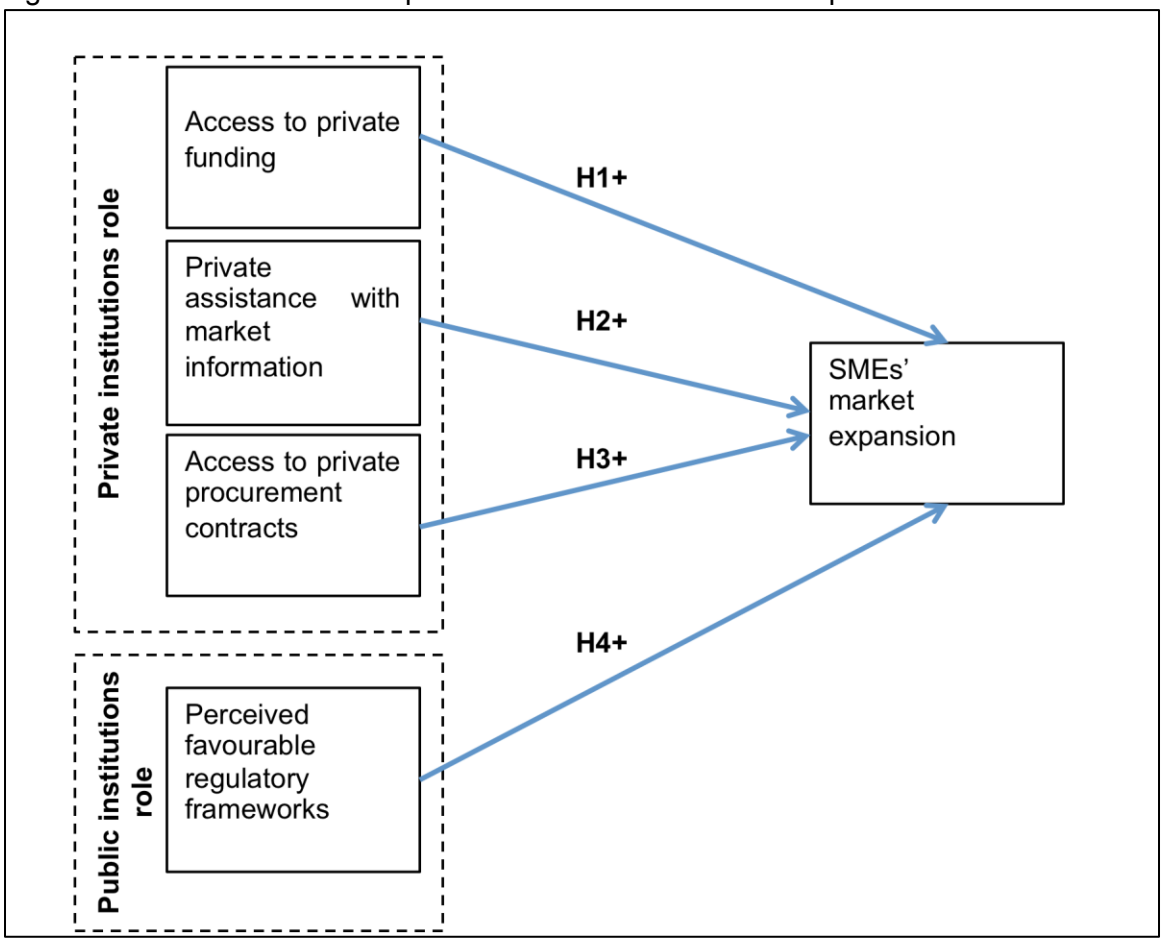
7.8 THE MODIFIED CONCEPTUAL MODEL FOR SMEs' MARKET EXPANSION

Following the research findings, the conceptual model of Cardoza et al. (2015) for the market expansion of SMEs was modified as shown in figure 7.1 to reflect the conditions necessary to enhance the market expansion of SMEs as well as the role to be played by private and public institutions.

Figure 7.1: The modified conceptual model for SMEs' market expansion



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7.9 THE VALUE OF THE RESEARCH FINDINGS

The findings contribute to the on-going debate about the socioeconomic challenges faced by the country. In this context, the National Development Plan (2012) acknowledges that SMEs should be developed to be the engine for the country's socioeconomic development without explicitly stating how SMEs should be developed. To that end, it is believed that this study provides some solutions as to how SMEs should be developed from the context of a developing market. As a result thereof, all the stakeholders involved in the development of SMEs benefit for various reasons discussed in section 7.10.1.

7.10 RECOMMENDATIONS

7.10.1 Recommendations for policy makers

Government must design and implement a public policy to facilitate the creation of business networks in a value chain between SMEs and large private firms with the aim of ensuring that SMEs have access to sufficient private funding, access to all necessary market information, and access to private procurement contracts. Furthermore, government together with relevant stakeholders must create a favourable regulatory environment, through policies and regulations, where large private firms would be encouraged to develop SMEs through supply chain or procurement development initiatives.

In this case, government must provide incentives and/or funding to large private firms for their participation in supply chain or procurement development initiatives. As a result, the country could benefit in terms of socioeconomic development. In addition, SME suppliers will benefit in terms of access to large firm customers' resources such as finance, market information, human-related skills and technology among others, whereas large firm customers will benefit from SMEs' flexibility and competence. According to Hsu et al. (2011), the trust relationship built between SMEs and large private firms facilitates the process of sharing information about customers and markets. Consequently, the trust relationship developed over time will reduce the risk and cost of doing business between the SME suppliers and large firm customers (Hsu et al., 2011). Lastly, Arráiz et al. (2012)

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affirm that there are mutual benefits for SMEs and large firms involved in the supplier development program in terms of improved sales and employment.

Given these facts, public policy must satisfy certain conditions if it were to be successful. Firstly, despite the success of formal business relationships between large private firms and SMEs in enhancing the market expansion of SMEs in Chile (Arráiz et al., 2012), in South Korea (Kim & Hemmert, 2015) and in the United State of America (Milanov & Fernhaber, 2013), public policy must ensure that the independence and flexibility of SMEs are protected. Secondly, SMEs must command full control or ownership of resources acquired during the relationship (Hessels & Parker, 2013). Thirdly, the policy must be designed in such a way that the risk of unintended flow of information from small firms to large firms because of asymmetrical power is safeguarded. Lastly, the policy must be designed in such a way that it does not inhibit innovation due to the fact that SMEs are given preference in a value chain.

7.10.2 Recommendations for private institutions

In heeding government's call for various stakeholders, including the private sector, to assist in developing and promoting the expansion of SMEs (National Development Plan, 2012), the private sector must assist SMEs with access to sufficient private funding, access to all necessary market information, and access to private procurement contracts.

7.10.3 Recommendations for SMEs

SMEs should regard expansion or further expansion into international geographic markets as a sustainable growth strategy since the home market is limited and saturated by international firms (Bianchi & Wickramasekera, 2016; Dikova et al., 2015). Arguably, the knowledge obtained from international markets enhances further expansion in both international and domestic markets (Naldi & Davidsson, 2013). In addition, international expansion would ensure diversification across different markets; realisation of economies of scale; improved quality services and products; and more importantly, socioeconomic advantages for the home country (Javalgi & Todd, 2010; Uner et al., 2012). Madhav (2016) supports this notion by stating that South African SMEs should consider expanding

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into international markets to avoid squeezed margins in local markets as a result of low economic growth.

7.11 LIMITATIONS

The limitations in this section are as discussed in section 4.5

The main limitation of the study was associated with the inability to generalise the findings for various reasons, of which most had to do with the time constraints. Firstly, the study focused only on South African formal manufacturing SMEs that were operational during the time of the study. As a result, the study might not represent the views of SMEs from other industries and other countries. Similarly, the study might not represent the views of informal SMEs as well as those SMEs that were no longer operational during the time of the study.

Secondly, the use of non-probability purposive sampling to select SMEs in the sampling frame meant that some SMEs had no chance of being chosen (Saunders & Lewis, 2012). Moreover, the database from iFeedback might not have been up to date. Thirdly, the views of managers selected to participate in the survey might not represent the views of the respective SMEs. Fourthly, the sample size of 79 respondents was probably not large enough to provide the required precision for quantitative research.

Lastly, limitations of the study gained during data collection and data processing are as stated below.

- Figures related to sales and procurement percentages might be incorrect due to the fact that respondents often regard such information as sensitive.
- Some collected data relating to funding distribution in percentage between private, public and personal funding did not add up to 100%.
- Repeat and differently worded statements in a questionnaire might have confused the respondents.
- The fact that the survey was perceptual for domestic orientated SMEs might have skewed the results in terms of international market expansion.
- Conducting a regression test with a sample size of 79 respondents for more than three independent variables violate one of the assumptions of regression test.

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- One of the main limitations of the study had to do with the fact that the definition of SMEs used in South Africa is more than ten years old (Republic of South Africa, 2003), and has not been updated since. This definition was treated with caution as discussed in section 4.4.

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APPENDICES

APPENDIX A: SME DEFINITION FOR ALL SECTORS IN SOUTH AFRICA

"SCHEDULE

(See definition of 'small business' in section 1)

Column 1	Column 2	Column 3	Column 4	Column 5
Sector or subsector in accordance with the Standard Industrial Classification	**Size of class**	**The total full-time equivalent of paid employees**	**Total turnover**	**Total gross asset value (fixed property excluded)**
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m

Source: (Republic of South Africa, 2003)

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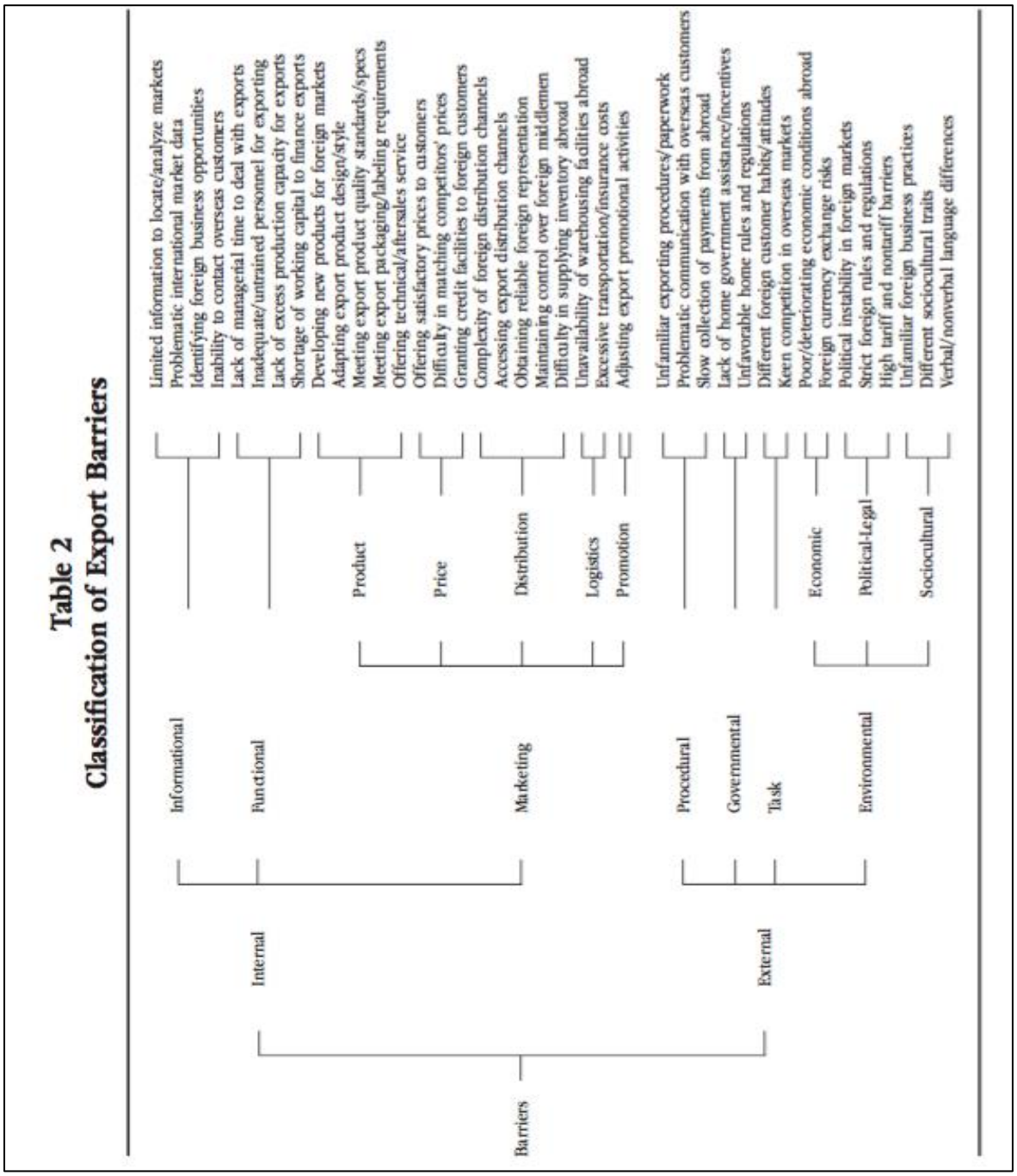
APPENDIX B: MARKET EXPANSION BARRIERS



Source: (Leonidou, 2004)

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APPENDIX C: RESEARCH CONSISTENCY MATRIX

QUESTIONS/ HYPOTHESES	LITERATURE REVIEW	DATA COLLECTION TOOL	ANALYSIS
Q1: Does access to private funding influence the market expansion of SMEs? **H1**: South African SMEs benefiting from private funding are more likely to expand	(Beck, 2013); (Lee et al., 2014); (Yaldız Hanedar et al., 2013); (Daskalakis et al., 2013); (Leonidou, 2004); (Alperovych et al., 2014); (Ryan et al., 2014); (Bartoli et al., 2013); (Fredriksson & Moro, 2013); (Cardoza et al., 2015); (Nițescu, 2015); (Oura et al., 2015); (Lonial & Carter, 2015); (Bianchi & Wickramasekera, 2016); (Dikova et al., 2015); (Shirokova et al., 2016); (Castaño et al., 2016); (Brouthers et al., 2015); (Hessels & Parker, 2013); (Hessels & Terjesen, 2010); (Kim & Hemmert, 2015); (Bartoli et al., 2013); (Lafuente et al., 2013); (Ciravegna et al., 2013); (Xheneti & Bartlett, 2012); (Zhou, 2012); (Cardoza et al., 2014); (North, 1990)	Survey, web-based questionnaire	Multiple linear regression analysis
Q2: Does access to market information provided by private institutions influence the market expansion of SMEs? **H2**: South African SMEs perceiving poor private institutions assistance on market information are less likely to expand.	(Child & Hsieh, 2014); (Leonidou, 2004); (Jin et al., 2016); (Mogos Descotes & Walliser, 2011); (Naldi & Davidsson, 2013); (Huett et al., 2014); (Oura et al., 2015); (Cardoza et al., 2015); (Alperovych et al., 2014); (De Clercq et al., 2011); (Cardoza et al., 2014); (Oura et al., 2015); (Leonidou, 2004); (North, 1990)	Survey, web-based questionnaire	Multiple linear regression analysis

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Q3: Does access to private procurement contracts influence the market expansion of SMEs? **H3**: South African SMEs having access to private procurement contracts are more likely to expand.	(Cardoza et al., 2014); (Cardoza et al., 2015); (De Falco & Simoni, 2014); (Arráiz et al., 2012); (Hsu et al., 2011); (Kim & Hemmert, 2015); (North, 1990); (Ciravegna et al., 2013); (Makhmadshoev et al., 2015); (Nasra & Dacin, 2010); (Puffer et al., 2010); (Xheneti & Bartlett, 2012); (Bianchi & Wickramasekera, 2016); (Dikova et al., 2015); (Naldi & Davidsson, 2013); (Kim & Hemmert, 2015); (Milanov & Fernhaber, 2013)	Survey, web-based questionnaire	Multiple linear regression analysis
Q4: What is the influence of regulatory frameworks on the market expansion of SMEs? **H4:** South African SMEs perceiving unfavourable regulatory frameworks are less likely to expand.	(Leonidou, 2004); (North, 1990); (Cardoza et al., 2014); (Cardoza et al., 2015); (Munari & Toschi, 2014); (Bianchi & Wickramasekera, 2016); (Dikova et al., 2015); (Ciravegna et al., 2013); (Makhmadshoev et al., 2015); (Nasra & Dacin, 2010); (Puffer et al., 2010); (Xheneti & Bartlett, 2012); (Halabí & Lussier, 2014); (Nițescu, 2015); (Cahen et al., 2015)	Survey, web-based questionnaire	Multiple linear regression analysis
Q5: What are the critical expansion barriers perceived or experienced by SMEs in South Africa?	(Cardoza et al., 2014); (Leonidou, 2004); (Cardoza et al., 2015)	Survey, web-based questionnaire	Multiple linear regression analysis

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APPENDIX D: RESEARCH INSTRUMENT (Cardoza et al., 2015)

Definition of variables.

Scale variables. 5-point Likert-type scale*			
HostRegulations	The different regulations in external markets make access and operations more difficult	*Payment*	Payment collections make export activities more difficult
Preferences	The different preferences, patterns, prices, and communication of customers in international markets make exports more difficult	*Assistance*	The government does not offer adequate assistance and incentives to carry out export activities
Tariff&NTB	The tariff and non-tariff barriers in international markets restrict export activities	*DomRegulations*	The regulations in place make it more difficult to capitalise on opportunities in international markets
Familiarity	Lack of familiarity with commercial practices abroad affects the company's operations	*EconEnvironment*	The deterioration of the countries' economic environment is an additional barrier to exports
Paperwork	It is considered that the paperwork related to exports is complicated and costly	*ExchRate*	Exchange rate variations represent an important risk for the company's exports
SocioCultural	The socio-cultural differences (religion, values, customs, attitudes, etc.) are considered obstacles to export activities	*Verbal*	The differences in verbal and non-verbal language affect the activities carried out in external markets
Ordinal variables**			
Personal	Own savings, family, second mortgage, credit card, loans from friends, inheritance, and pension	*Industry*	Manufacture, hotel/rest, retailer, wholesaler, professional SS, IT, construction, transportation, real estate, finance/insurance, health/education/social SS, others.
StateSupport	Overdrafts, subsidies, leasing, loans from banks, and subsidised loans.	*Private*	Venture capital, suppliers, other business, previous years' profits, private investors, and depreciation.
Manufacture	% of the company's sales to Manufacturing companies	*Wholesale*	% of the company's sales to Wholesalers.
LocalGov	% of the company's sales to the local government.	*NoManufacture*	% of the company's sales to non-manufacturing companies.
Retail	% of the company's sales to retailers.	*NatGov*	% of the company's sales to the national government.

* Interviewees could choose among the following options: (i) definitively yes, probably yes, neutral (affirmation), probably no, and definitively no, or (ii) total agreement, agreement, neutral (affirmation), disagreement, and complete disagreement (depending on the question) to complete the survey.

** Interviewees were asked to provide the % for each of the options given in all the questions.

Source: (Cardoza et al., 2015)

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APPENDIX E: RESEARCH INSTRUMENT (Cardoza et al., 2014)

Scale variables five-point Likert-type scale[a]			
Finance	The company does not have access to the necessary financial resources to fund an export-oriented plan	Payment	Payment collections make export activities more difficult
Contacts	The company has difficulties to identify and contact potential customers in markets overseas	Assistance	The government does not offer adequate assist and incentives to carry out export activities
InfoSources	The company does not have access to the relevant information sources to identify external markets for the company's products and services	DomRegulations	The regulations in place make it more difficult capitalize on opportunities in international mar
Familiarity	Lack of familiarity with commercial practices abroad affects the company's operations	EconEnvironment	The deterioration of the countries' economic environment is an additional barrier to exports
Paperwork	It is considered that the paperwork related to exports is complicated and costly	ExchRate	Exchange rate variations represent an important risk for the company's exports
SocioCultural	The socio-cultural differences (religion, values, customs, attitudes, etc.) are considered obstacles to export activities	Verbal	The differences in verbal and non-verbal language affect the activities carried out in external mark
Ordinal variables[b]			
Personal	Own savings, family, second mortgage, credit card, loans from friends, inheritance, and pension	Industry	Manufacture, hotel/rest, retailer, wholesaler, professional SS, IT, construction, transportation real estate, finance/insurance
StateSupport	Overdrafts, subsidies, leasing, loans from banks, and subsidized loans	Private	Venture capital, suppliers, other business, previous years' profits, private investors, and depreciation
Family	% of the company owned by the family	FinancialInstitutions	% of the company owned by financial institution
State	% of the company owned by the state	SpecialPartnerships	% of the company owned by other partners, including JVs, original equipment manufacturer, and other international partners
Manufacture	% of the company's sales to manufacturing companies	Wholesale	% of the company's sales to wholesalers
LocalGov	% of the company's sales to the local government	NoManufacture	% of the company's sales to non-manufacturing companies
Retail	% of the company's sales to retailers	NatGov	% of the company's sales to the national government
Others	% of the company's sales to Other customers		

[a] Interviewees could choose among the following options: (i) definitively yes. probably yes, neutral (affirmation), probably no, definitively no, or (ii) total agreement, agreement, neutral (affirmation), disagreement, complete disagreement (depending on the question) to complete the survey.
[b] Interviewees were asked to provide the % for each of the options given in all the questions.

Source: (Cardoza et al., 2014)

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APPENDIX F: MODIFIED RESEARCH INSTRUMENT FOR THE STUDY

Public policy and barriers influencing SMEs' market expansion

Please answer the following questions about your company

1. What manufacturing sector is your company in? (Choose the correct option)
   A. Food, beverages and tobacco
   B. Textiles, clothing and leather goods
   C. Wood and paper; publishing and printing
   D. Petroleum products, chemicals, rubber and plastic
   E. Other non-metal mineral products
   F. Metals, metal products, machinery and equipment
   G. Electrical machinery and apparatus
   H. Radio, TV, instruments, watches and clocks
   I. Transport equipment
   J. Furniture; other manufacturing
   K. Other

2. How old is your company (years)? (Choose the correct option)
   A. 0-5
   B. 6-10
   C. 11-20
   D. 20+

3. What is your company's estimated total annual turnover (R)?

4. What is your company's estimated annual export turnover (R)?

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5. What is an estimated number of employees employed in your company?
   A. 0-5
   B. 6-20
   C. 21-50
   D. 51-200
   E. 200+

6. Are you in management? (Yes/No)
   (NB: If the answer is NO freeze the rest of the questionnaire since the respondent is not a target respondent)

Please answer the following questions regarding your company funding

1. What percentage of **personal funding** (own savings, family, second mortgage, credit card, loans from friends, inheritance, and pension) is used to finance your company?
   A. 0
   B. 1-10
   C. 11-20
   D. 21-30
   E. 31-40
   F. 41-50
   G. 50+

2. What percentage of **private funding** (venture capital, suppliers, other business, previous years' profits, private investors, supply chain or enterprise development initiatives, private bank loans, depreciation, partnerships) is used to finance your company?
   A. 0
   B. 1-10
   C. 11-20
   D. 21-30
   E. 31-40
   F. 41-50
   G. 50+

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3. What percentage of **state or public funding** (subsidised loans, subsidies, leasing, loans from public banks, and fund from public entities) is used to finance your company?
   A. 0
   B. 1-10
   C. 11-20
   D. 21-30
   E. 31-40
   F. 41-50
   G. 50+

Please answer the following questions regarding your company procurement contracts

1. What percentage of sales is from South African private companies?

2. What percentage of sales is from South African national government?

3. What percentage of sales is from South African local government?

4. Is your company part of any private company's procurement initiatives (enterprise or supply chain development)? (Yes/No)

5. If the answer to question 4 is No, was your company part of any private company's procurement initiatives (enterprise or supply chain development)? (Yes/No)

6. Is your company part of any public procurement initiatives (enterprise or supply chain development)? (Yes/No)

7. If the answer to question 6 is No, was your company part of any public procurement initiatives (enterprise or supply chain development)? (Yes/No)

8. Does your company belong to a large enterprise, e.g. subsidiary of a larger corporation? (Yes/No)

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9. If the answer to question 8 is No, did your company belong to a large enterprise, e.g. subsidiary of a larger corporation? (Yes/No)

Choose the correct answer to the following statements regarding market expansion

1. The different regulations in external markets make access and operations more difficult
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

2. The different preferences, patterns, prices, and communication of customers in international markets make exports more difficult
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

3. The tariff and non-tariff barriers (tax and other trade restrictions) in international markets restrict export activities
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

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4. Lack of familiarity with commercial practices abroad affects the company's operations
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

5. It is considered that the paperwork related to exports is complicated and costly
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

6. The socio-cultural differences (religion, values, customs, attitudes, etc.) are considered obstacles to export activities
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

7. Payment collections make export activities more difficult
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

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8. The government does not offer adequate assistance and incentives to carry out export activities
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

9. The private sector does not offer adequate assistance and incentives to carry out export activities
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

10. The policies and regulations in South Africa make it more difficult to capitalise on opportunities in international markets
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

11. The deterioration of South Africa's economic environment is an additional barrier to exports
   A. Strongly disagree
   B. Disagree
   C. Neutral
   D. Agree
   E. Strongly agree

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12. Exchange rate variations represent an important risk for the company's exports
    A. Strongly disagree
    B. Disagree
    C. Neutral
    D. Agree
    E. Strongly agree

13. The differences in verbal and non-verbal language affect the activities carried out in external markets
    A. Strongly disagree
    B. Disagree
    C. Neutral
    D. Agree
    E. Strongly agree

14. The policies and regulations in South Africa make it more difficult to capitalise on opportunities in South African markets
    A. Strongly disagree
    B. Disagree
    C. Neutral
    D. Agree
    E. Strongly agree

15. The company has difficulties to identify and contact potential customers in markets oversees
    A. Strongly disagree
    B. Disagree
    C. Neutral
    D. Agree
    E. Strongly agree

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16. The company does not have access to the relevant information sources to identify markets for the company's products and services
    A. Strongly disagree
    B. Disagree
    C. Neutral
    D. Agree
    E. Strongly agree

17. The private sector provides relevant information sources to identify markets for the company's products and services
    A. Strongly disagree
    B. Disagree
    C. Neutral
    D. Agree
    E. Strongly agree

18. The government provides relevant information sources to identify external markets for the company's products and services
    A. Strongly disagree
    B. Disagree
    C. Neutral
    D. Agree
    E. Strongly agree

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APPENDIX G: PILOT TEST SURVEY FEEDBACK

Participant 1

"For the question: Does your company belong to a large enterprise? can you consider rephrasing it to probably- Is your company a subsidiary of a larger corporation?
It becomes more specific and makes it faster to comprehend what the question is asking for."

Participant 2

"Some feedback:

1. Are you going to provide that background and consent in a separate doc?
2. turnover and export amounts: Do you need the actual values or just a range. It may be easier to answer if we could pick 0-500k, 500k to 1m etc.
3. the percentage funding questions: How do you make sure that the answers add up to 100% (is it necessary?)
4. when you choose an option on question 4, it adds question 5. the numbering for the remaining questions are going to change. How does that affect your analysis? is your spreadsheet going to have gaps in the data?
5. Page 4, question 1. does your target respondents know what the terms access and operations mean?
6. Page 4, question 3. does your target respondents know what the terms tariff and non-tarrif barriers mean?
7. You talk about "the company". I assume that you are referring to my company? "

Participant 3

"Your survey is good and easy to complete. Starts of broad and gets detailed in the last section."

Participant 4

"Procurement question -

1. Questions 4 & 6 are consuming for me? do you mean like incubation or
2. I think you should label 4,5, 6...then when it pop ups it will be 4(a)

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3. Clarify the "does your company belong to a large enterprise?

4. Change "completely" to "strongly"

5. Explain tariff, non-tarrif or change it?

6. Reword - " it is considered..." to something else. work perception into the sentence?????

7. Verbal and non verbal communication confuses me?do you mean sign language

8. The difficulty sentence does not sound ok for me."

Participant 5

"The likert scale should be rewritten. That is A should be E, B should be D
Strongly disagree, disagree, neutral, agree, strongly agree"

Participant 6

"Your survey does not open properly on the smart phone. Smart phones are convenient for surveys these days"

Participant 7

"Find ways to ensure that percentage distribution for finance options add up to 100%"

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