

## Institutional Constraints Affecting Small Businesses in South Africa

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**ABSTRACT:** *This study explores the perception of institutional constraints in South Africa. It delineates the constraints into critical socio-cultural, political, and economic dimensions that impact entrepreneurs and their micro, small, and medium enterprises (MSMEs). The paper utilises an exploratory interview approach with thirty-two entrepreneurs from Cape Town, Durban, and Johannesburg and the emergent themes generated with ATLAS.ti. The study identified fourteen constraints that might affect the enterprise development process. The paper is original, with three main contributions. It first identifies constraints along institutional dimensions of socio-cultural, political, and economic contexts. Second, deriving the constraints through qualitative methodological inquiries with inductive and deductive analytical tools according to institutional variables is a unique methodological contribution. Third, the paper proposed context-specific focused policy interventions. The findings promote an understanding that South African MSMEs require continuous, needs-based, responsive, and adaptive institutional support.*

**KEYWORDS:** constraints; enterprise development; institutions; MSMEs; qualitative, policy, South Africa

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### INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are vital to job creation and economic growth (Herrington et al., 2017). Despite this recognition, available evidence indicates that established firms in South Africa appear burdened by institutions-induced constraints resulting in high business failure rates and low high-expectation entrepreneurship even among Brazil, Russia, India, China, and South Africa (BRICS) economies according to the Global Entrepreneurship Monitor (GEM) (Singer et al., 2018). There are concerns about whether small businesses can survive in South Africa despite its pro-entrepreneurship infrastructure attracting more opportunity-seeking than necessity entrepreneurs (Xavier et al., 2012). Key stakeholders are concerned about the survival of MSMEs in South Africa because the policymakers' efforts to

address the startup and growth concerns have been unsuccessful (Bowmaker-Falconer & Herrington, 2020). In addition, scholars are interested in the role of institutions in the business startup process and the influence of entrepreneurs' personality variables on business performance in emerging economies (Harbi & Anderson, 2010; Zor et al., 2019). The prevalence of necessity entrepreneurs, the influencing role of education, and gender gaps are all reported to be driven by the level of development between emerging and developed economies (Estrin et al., 2019).

There is increasing concern among entrepreneurship scholars about the role of institutions in the entrepreneurship processes (Harbi & Anderson, 2010), especially in South Africa (Ahwireng-Obeng & Piaray, 1999). Cognizant of the numerous challenges faced by MSMEs in different countries (Naude et al., 2008), the peculiar circumstances in emerging economies (Xu & Meyer, 2013), and the general notion of institutional constraints (Khoury & Prasad, 2015; Yukhanaev et al., 2015), the paper investigates institutional constraints affecting MSMEs in South Africa. The available evidence suggests many unresolved constraints with inappropriate policy prescriptions, which the paper intends to address in precise ways. The paper identifies institution-induced constraints and suggests policy prescriptions. Because institutions shape various forms of entrepreneurship across economies (Harbi & Anderson, 2010), understanding the interactions of institutional variables that act as constraints may help resolve several enterprise-related challenges. Notably, an exploratory data-driven qualitative approach has not been considered in empirical research from developing economies.

## **THEORY AND EMPIRICAL STUDIES OF CONSTRAINTS**

### ***Institutional constraints and sources***

Scholarship has revealed different sources of institutional-induced constraints that are internal and external to the firm (Hindle, 2010; Khoury & Prasad, 2015). Constraints can result from inadequate, non-responsive, and non-adaptive institutions to businesses' challenges, especially in contexts where institutions are viewed strictly as the 'rule of the game' (North, 1990). It can be the effects of institutional voids: a deficient country-level macro condition, a lack of specialised intermediary firms, and a regulatory system where businesses may bypass the rule of law and governance structure. Constraints are challenges or operational dilemmas and can also be concurrent. Concurrent institutional constraints refer to recurring or multiple challenges to well-functioning formal and informal institutions (Khoury & Prasad, 2015). Any of these situations may apply to businesses in specific contexts. The general assumption is that externally-induced constraints will negatively impact the effective utilisation of internal capacity in business enterprises (Arend, 2012). The research question is: What institutions-induced constraints affect MSMEs' performance in South Africa?

When dysfunctional institutions induce constraints that threaten MSMEs' processes and performances, there is an obvious need for reforms. Laws and regulations can sometimes outlive their usefulness, and the opportunity cost might reduce the rate of entrepreneurship development (Legge & Hindle, 2004). Sometimes, interventions might achieve the desired objectives (Andrews, 2013). This paper argues that the government can reform deficient institutions to promote successful business practices and performance.

Alawamleh et al. (2023) identified financial and logistical challenges as the most significant constraints facing SMEs in Jordan, including distributing work, operations, information gathering, commercial relations, and networking. Women, mainly, have limited access to financing and investment opportunities. Yukhanaev et al. (2015) identified the political, economic, and regulatory barriers restricting entrepreneurship and SME growth in contemporary Russia using case study methods with 17 business owners. The regulatory constraints include corruption, administrative resources, asset expropriation risks, rules and effective court system implementation, overregulation and red tape, insufficient implementation of the rules and selective law enforcement, and bureaucratic procedures. The political constraints are negative attitudes and disrespectful treatment of businesses by government officials, adverse treatment of SMEs by government officials, and complex communication and interaction with government officials. The economic constraints include working capital and bank loans, high rent prices, high levels of taxation, constant fluctuations of the currency exchange rate, high taxes and complexity of the fiscal requirements, high interest rates on loans, economic uncertainty, and long-term planning, among other constraints. According to Ślusarczyk et al. (2023), women entrepreneurs face economic, legal, and social constraints in Malaysia and Poland. While this varies across countries, Malaysian women entrepreneurs do have issues regarding courage and being able to work with people. Similarly, Ishengoma and Kappel (2007) found limited access to productive resources such as finance and business development services, including high taxes and a lack of market access, limiting the growth potential of small enterprises in Uganda. Growth-impeding constraints, according to Clegg (2018), using United Kingdom (UK) data, include lack of people capability, lack of process competence, lack of product and service innovation, and lack of information technology (IT) automation skills.

Previous studies in South Africa identified entrepreneurial finance, entrepreneurial education, entry regulations, government policy, research and development (R&D) transfer, physical infrastructure, government entrepreneurship programs, commercial and legal infrastructure, and cultural and social norms (Xavier et al., 2012). Also, municipal charges, Broad-Based Black Economic Empowerment (BBBEE), red tape, mandatory regulations, labour Issues, and SARS (South African Revenue Service) are constraints (SBP, 2013). Similarly, overcoming the legacies of apartheid, containing crime, fostering an acceptable business ethically, dealing with diversity, and facilitating reconciliation between ethnic groups have been reported as constraints (Robinson, 2004). Policy, finance, support, culture, and human capital constraints are part of entrepreneurial ecosystem domains (Isenberg, 2011). They can be either positive or negative, especially if the critical support components like marketing, technology, finance, government support, managerial skills, and education are either lacking or non-significant (Zaidi et al., 2023).

Regarding policy prescriptions, Bruhn (2011) discovered that reform increased the number of registered businesses in Mexico's municipalities by 5%, owing primarily to new entrants, former wage earners starting their businesses, rather than previously informal businesses becoming formalised. Amin (2009), using data from India, found that carefully targeted labour reforms will increase employment by 22% and reduce informality by as much as 33%. Li and Zahra (2012) reported a positive effect of formal institutions on venture capital activity using data from 68 countries. The findings suggest that cultural setting determines to a greater extent how venture capitalists respond to the incentives provided by the formal institutions. Therefore, incentives from

both formal and (informal) cultural values have a positive influence on reducing transaction problems.

Using GEM data across 32 countries, Li et al. (2017) found that favourable attitudes of natives (indigenous entrepreneurs) toward immigrants positively moderate the relationship regarding new firms' creation, growth, and export activities through knowledge spillover between immigrant and native communities. The findings imply that business interactions and cordial relationships among entrepreneurs in a country benefit not just the economy but also the business community and among entrepreneurs. Levie and Autio (2011) reported that bureaucracy can be addressed by enforcement of regulation (by reducing regulatory burdens) because lack of regulatory enforcement discourages high-aspiration entrepreneurs. Light regulatory burdens combined with a strong rule of law spurs quality entrepreneurship development, as high-aspiration entrepreneurs are encouraged to start businesses. New firms grow faster in a lightly regulated environment (Capellaras et al., 2008), and the same is true for the economy (Djankov et al., 2006). In transition economies, instabilities regarding a market-led economy's fundamental rules limit entrepreneurship growth rate. Bureaucratic controls require fundamental changes in the institutional, legal framework to encourage private sector participation and promote entrepreneurship (Luthans et al., 2000).

Analysis of policy and institutional reform (PIR) in five African countries, Ethiopia, Ghana, Kenya, South Africa, and Uganda, indicated a weak socioeconomic foundation, proportionally weak capacity of the public sector to deliver, and scarce resources to implement reforms (Abebe, 2017). The study implication indicates the need to identify the relevant reforms and utilise a progressive incremental approach to execute them. Such a conclusion is similar to the findings by Kilishi (2017), who used data from forty-five African countries and reported that countries that pursue gradual or small reform grow faster than others, but significant reformers attract more investment. Among other findings, the results suggest a sequential approach to institutional reforms. The study suggests that economic reform is better than political reform because political reforms without a vibrant economy will not yield the expected benefits for growth and investments. Though Kilishi's study is not directly related to enterprise development reforms, the findings suggest the need to strike a reasonable balance with clear reform objectives, timeframe, and resources.

These findings indicate different approaches and possibilities. The caveat, however, is a recognition that MSMEs' contexts and circumstances differ, so the relevance and effectiveness of the reform agenda will also differ across countries and may produce different outcomes. The challenge of improving entrepreneurial practice in all economies is at the heart of institutions that enable and empower. Constraints impact business-level outcomes like performance, success, and satisfaction. MSMEs desire a well-functioning regulatory environment that is inclusive and non-suffocating for survival.

## **MATERIAL AND METHOD**

### ***Procedures and Sample***

The study utilised a purposive cross-sectional interview with Thirty-two owners operating micro and small businesses in Cape Town, Durban, and Johannesburg as part of a more extensive study. The business owners include 19 males and 13 females with at least three years of operational and ownership experience. The interviews were conducted face-to-face in the English language. The respondents were all educated to at least diploma levels across different ethnic configurations and sectors of the South African economy. All respondents participated voluntarily, with an hour or less-long interview sessions, and were audio recorded. Interviewers kept field diaries. The University of the Witwatersrand, Johannesburg, South Africa, supervised and granted the ethics protocol and approval.

### ***Data management and analysis***

The audio recordings and electronic copies of transcripts were stored in a password-protected system for confidentiality and authorised access only. The audio recording was transcribed following the designed transcription template, reviewed, and transferred to ATLAS.ti version 7 software to organise the data for analysis per the research question. The study adopted a thematic analytical strategy to derive emerging themes and categories from the data. Two support team members and the researcher read the transcripts for initial data familiarisation and codebook development. The codebook was developed with a hybrid approach (inductive and deductive approaches), drawing from the elements of the conceptual framework and the emerging themes from the transcripts. The support team coded the same transcripts to ensure that the codes were consistently applied and discrepancies were resolved through a consensus-building approach guided by the research objective. The purpose of this stage was for data reduction. The following analytical process is to review the ATLAS.ti projects and merge the codes. The support team explored the relationship between concepts, which led to categories and thematic framework development; they showed the relationship between codes and quotations (code-to-code and hypertext: quotation-to-quotation links)(Friese, 2013).

## **RESULTS AND DISCUSSIONS**

Based on the proposition that a negatively impacting institutional constraint will affect MSMEs' performance, the study seeks to identify critical institutional constraints to answer the research question: What are the institutions-induced constraints affecting MSMEs' performance in South Africa? Three institutional dimensions (socio-cultural, political, and economic) with related constraints are derived through inductive and deductive approaches and presented in Table 1.

**Table 1: Classification of institutions-induced constraints according to themes**

<b>Socio-cultural Dimension</b>	<b>Political Dimension</b>	<b>Economic Dimension</b>
o race/gender	o bureaucracy	o limited access to finance
o language	o labour and unemployment	o lack of skilled workforce
o cultural barrier	o non-tariff trade barriers/xenophobia	o macroeconomic Issues/challenges
o security and crime	o poor government support/patronage	o taxes and regulatory compliance
	o political mistrust and corruption	o high operational costs

Source: Field survey (interviews), authors elaboration

### ***Socio-cultural Dimension***

*Race/gender:* The findings indicate gender bias in South African business terrain. Female and Black-owned businesses face unique challenges in the business environment. Many female entrepreneurs could claim significant business growth/success sufficient to have their companies listed on the Johannesburg Stock Exchange (JSE).

Being a black entrepreneur is a challenge on its own... no one to look up to, and you don't get many Black young women entrepreneurs listed on JSE [Johannesburg Stock Exchange].

**Source:** excerpt from field interview

The implication is that there were not enough female entrepreneurs to look up to for inspiration, education, and mentoring. Impliedly, a lack of such opportunities may exacerbate the country's business-related gender-racial disparities.

*Language:* The language barrier is limiting for immigrant entrepreneurs during business interactions, social-cultural engagements, and business partnerships. This is peculiar to non-South Africans doing business in the country and among indigenous entrepreneurs due to several recognised indigenous languages. It is worth noting that South Africa has 11 official languages, but only three are widely spoken: English, Zulu, and Afrikaans. The following interview excerpt exemplifies this constraint:

... language is a serious barrier when it comes to having business ventures in South Africa because South Africa is a country that encourages their local languages. It's more useable than any other foreign language in interaction, in business, which helps... It will not be easy to interact with my customers, because they will like to attend to their local language for better understanding and negotiation

Someone you hardly speak the same language with to come on board in your business to identify with you and then invest, it's very, very difficult. So, if banks are not giving you money and you don't have partners to talk to, then it's a very big challenge in capital injection into your business...

**Source:** excerpts from field interviews

Communication and language are vital for cultivating partnership and trust building.

*Cultural barrier:* Cultural barriers are linked to race/gender and language issues. However, improved social intermixing and inter-racial marriages were positive for diverse business patronage across non-indigenous business owners. The findings indicate that Black entrepreneurs have little access to successful Black business owners to look up to as mentors, for learning, and for support in times of need.

... all odds are against you, so you've got really no immediate family members to look up to that you can learn from or look up to that can help you to survive in the business.

**Source:** excerpt from field interview

*Security and crime:* According to the following interview excerpts, a seemingly challenging security outlook emerged across locations for businesses.

There is a lot of risk, everybody knows. When it comes to the security aspect of this country, it's not safe. Even though you are walking, anybody can attack you. Many people have been attacked in front of my shop.

... If you have crime, okay, people will not come here in this mall, okay...most of the people [customers] that went there, they lost their phones, their bags.

**Source:** excerpts from field interviews

In such challenging circumstances, MSMEs do invest in preventive measures as suggested in these excerpts:

... you have to get your own security because we are in a high crime environment in this country, [pause]. Getting your security, your own private security, your own cameras, and all that stuff, which causes the business costs to go high and makes it difficult to do business...

... I spent a fortune on my security. I have cameras, burglary... because these are what make up my security, and I'm very, very, vigilant. So that's it about security...

... I think those are the negative side. And then, security as well is not there, security is an issue. We have to spend a lot of cost every month, you've got Tactical Reactions, you've got three break-ins [burglary] within twelve months. So, for you, it is an issue, you can't have meetings at night, you have to go to restaurants or hotels, you know it's always an issue.

... you need to install now higher security system...

**Source:** excerpts from field interviews

On the other hand, getting private security raises the cost of doing business. In other words, increased security costs, loss of productive resources due to robbery attacks regularly, the additional costs of holding meetings in more secure locations outside of the business premises, and clients and customers staying away for fear of being robbed are all limiting negative factors on ease of doing business, operational efficiency, productivity, and performance.

Socio-cultural constraints are consistent with studies that identify psychological differences (Frese, 2000), race and ethnic factors (Ramachandran & Sha, 1999), and other factors as determinants of entrepreneurial activity in Africa. The findings indicate ethnic and cultural barriers in the South African business environment are real. Therefore, It is relevant to re-examine the existing cultural nuances and structures that can be deduced from this result. Incentivised cultural values influence reducing transaction problems positively and venture capitalists' responses, according to Li and Zahra (2012). In addition, the findings by Li et al. (2017) favour targeted reforms that promote cordial relationships among indigenous and immigrant entrepreneurs. In other words, any social reform addressing issues such as xenophobia, non-tariff barriers against immigrants, and other limiting socio-cultural factors will benefit the natives and the immigrants. The results about crime and security corroborate studies that report the high cost of crime and violence and the increasing cost of doing business in South Africa (WEF, 2018).

### ***Political Dimension:***

**Bureaucracy:** This is an acknowledged constraint usually encountered when dealing with public sector officials. A lot of documentation is required when starting a business. Specific contract bidding requirements beyond small businesses' capacity were constraining. Government procedures, among other bureaucratic constraints, continue to pose some challenges for existing small businesses. Such can be linked to taxes, regulatory compliance, and lack of government patronage, among other constraints.

...if you start up a business, you need a lot of documentation [pause] you know

**Source:** excerpt from field interview

*Labour and Unemployment:* Regarding labour engagement and industrial relations, the political climate has some repercussions. According to the interview excerpt below, the abundance of unemployed labour (primarily unskilled) with high expectations poses a challenge for businesses.

... labour climate is challenging in South Africa for entrepreneurs;  
it is not completely an easy environment

It has its negative and it has the positive aspects. The negative aspect has been the fact that there is no job out there; when people come looking out for jobs, they want a bigger pay to cover those times they have not been working, which really doesn't come easy.

**Source:** excerpt from field interview

Labour and unemployment can be viewed from both the demand and supply dimensions. First, largely unskilled labour is chasing few available jobs, whereas MSMEs have limited absorptive capacity. On the supply side, those skilled are both in short supply or under regulatory restrictions to employ previously disadvantaged people to conform to BBBB requirements. The BBBB may not support MSMEs' desire to employ on merit or as required.

*Non-tariff trade barriers/xenophobia:* Non-tariff trade barriers (NTBs) aimed at migrant entrepreneurs have been compared to xenophobia. According to the findings, South African trade authorities discriminate against non-South African entrepreneurs who import food and essential items from other African countries. This interview excerpt exemplifies this point.

...the conditions are just too tough for us, West Africans. That is too bad because you cannot come from West Africa with perishable goods, then they will stop your containers for two months. They will tell you that you are in a queue, and after the wait you will also have to pay demurrage, which is more cost to the cost of your goods. So, it is a problem at the end of the day. You don't make the amount of money that you could have made, one. Two, your goods get bad. Three, it's kind of discourages you from doing business.

**Source:** excerpt from field interview

*Lack of government support/Patronage:* The government's lauded support for small businesses has been characterised as mere propaganda rather than a reality. This submission is summarised in the following excerpt.

Those small companies like ours, we do not see the help that the government always talks about in policy books, on national television, on radio, and in the news, so it's reiterating down, that they (the government) want to help SMEs, but it's not done in actual reality.

The inability of small businesses to compete for government procurements or contracts against large corporations is a critical constraint to growth. Large organisations easily meet some contract requirements, while small businesses are disadvantaged.

... you've got certain requirements which only big organisations can fulfil, they can take certain jobs from the government, and we all know that government is the biggest employer, you fail to get jobs from the government, then you fail to grow...

**Source:** excerpt from field interview

*Political Mistrust and Corruption: The business community hesitates to rely on the government because of policy inconsistency and growing mistrust.* The following interview excerpt exemplifies this position:

... There needs to be trust in the government, and the trust has been lost...

**Source:** excerpt from field interview

The need for the government to earn the trust of MSMEs in general and in the construction industry through patronage and confidence building is evident from the outcome. Corruption has social, political, and economic consequences. Such implications include general perceptions, transactional costs of doing business, and the inability of the existing government organs to deal with its adverse effects. According to this excerpt, the business community is somewhat dissatisfied with the level of corruption.

... I think corruption is becoming more- rife, I mean everywhere. At times, it is obvious, and at times it is not obvious, but I think it is something that we have to talk about. It is becoming more rife and people are becoming more open about it you know people will say that if you want to get this, I need to know what I am getting in return, so it is also affecting business

**Source:** excerpt from field interview

Overcome bureaucratic bottlenecks, rent-seeking, unfair competition, unrealistic requirements for some services/contracts, and corruption will require multi-prone economic and political solutions. Unfavourable competition, policy inconsistency, and growing mistrust encourage 'rent seekers' who manipulate the bureaucratic structure to favour themselves, according to Stiglitz (2012). Our results highlight the negative consequences of corruption on business processes, similar to the findings by Ahwireng-Obeng and Piaray (1999) in South Africa and Bowen and De Clercq (2008) across 40 countries. This earlier submission is consistent with different reports on South Africa regarding discrimination, bias, crime, and corruption (Herrington et al., 2017; WEF, 2018). Solutions to some of these constraints lie in the government's being more transparent.

Similar to our findings, previous research on the South African environment identified 'congesting factors' such as increased competition, higher entry barriers, monopolistic behaviour, and more incredible difficulty in innovating that constrained entrepreneurship (Naude et al., 2008). Turning constraints to fair opportunistic behaviour may require mixed approaches of more vital rule of law and lighter regulation.

### ***Economic Dimension***

*Access to finance:* There are different sources of finance for startups in the country, from private and public institutions. However, there are limited opportunities for growth funding in capital-intensive businesses, such as construction. Time constraints and time-consuming administrative processes are two factors that contribute to many small business owners' inability to obtain financing from financial institutions.

... but when SMEs go to those institutions to ask for financial help, there are too many requirements and documents to be filled by the entrepreneur...

**Source:** excerpt from field interview

While acknowledging the government's provision of finance, a young Black South African entrepreneur argued that businesses needed more than finance to survive South Africa's challenging business environment. This submission is captured in the following interview excerpt:

... Tough! It's tough especially for Young Black businesses to sustain themselves and grow; it's really difficult, the government is trying to inject a lot of cash but some time, it's not just about getting capital, the field must be conducive for one to operate

**Source:** excerpt from field interview

However, when the entrepreneur's citizenship/alien status is introduced, the narrative takes a different turn, as shown below. According to this story by an immigrant entrepreneur, institutional finance, when available, is not for foreigners:

...when they get your details, and notice your passport [foreign], they won't say they won't help you, but they will say sign everything, at the end of the day you will not see any call. But you already know by yourself that it's because you are not a citizen.

**Source:** excerpt from field interview

*Lack of skilled human resources:* Skilled labour is an essential economic resource. As a result, skilled labour is a critical resource for MSME's productivity, efficiency, and performance. The scarcity of skilled labour was identified as a significant challenge in this excerpt:

... the threat that we are getting is not finding the right people to hire, because of the lack of skills, and knowledge. It's quite a big threat...

**Source:** excerpt from field interview

*Macroeconomic Issues/challenges:* Despite the availability of business opportunities, the challenges of unemployment, recession, and inflation combine to reduce consumer purchasing power:

... People might like a certain product, but affordability is a problem, the economy comes back on that, there are not enough jobs in the country, and people who don't have enough money cannot buy the product.

**Source:** excerpt from field interview

Reduced purchasing power and lower disposable income can harm enterprise performance and growth. More money chases fewer goods and services during a recession or inflationary period.

... costs are increasing every time so you've to be giving up, to make sure that your costs are really kept low.

Business is not like very bad, ... it's the Dollar which is really affecting us [business owners], it is high, and it is going to be higher every day and it is really affecting us.

**Source:** excerpts from field interviews

Furthermore, the low rate of Rand to Dollar exchange significantly negatively impacted productivity, profitability, and scale of operation.

*Taxes and regulatory compliance:* According to the findings, overregulation, legislation, and government procedures are negative factors. The interviewees emphasised complicated regulations and time-consuming procedures that burden SMEs:

Negative in the sense that it is cumbersome to run a business because there are a lot of rules from legal to the tax point of view, from the regulation point of view, there are a lot of issues that you have to deal with, and most of the time is those things are not always clear cut and there is always overlap

... Because of the regulations and the requirements, the laws and regulations of the country, obviously in the business, we've got risks that you have to manage...

**Source:** excerpts from field interviews

The preceding narrative demonstrates that tax rates for MSME businesses have been

reasonable, and business registration costs have also been realistic for new businesses. However, starting a business necessitates a substantial amount of paperwork. Existing MSMEs continue to face some challenges as a result of government procedures. Generally, there is a willingness to perform the civic duty of tax payment voluntarily.

*High operational costs:* Because of recession/inflation, operational costs (including electricity and water bills) are rising. The challenges of rising costs are in these interview excerpts:

... sometimes the rents are too much because we don't own the buildings they are owned by other people.

South Africa is one of the largest countries in the world now that uses water, now there is a huge tariff proposed by the municipality on water, and Eskom is increasing their tariff now based on power too. If you plan, because it will have a direct impact on the business, you have to be very, very careful about that because, this month now you use 2000-Rand worth of power, the next month you have to reduce due to the tariff or maybe due to numbers of business you made during that month, so you should always plan for that.

**Source:** excerpts from field interviews

Further, the inability of migrant entrepreneurs to access institutional financing could constrain growth plans due to discriminatory institutional processes or structures. According to the results obtained by Kozan et al. (2006), resource-poor constrains growth plans. The findings are also consistent with GEM South Africa expert surveys, which identified financing as one of three factors limiting entrepreneurship (Herrington et al., 2017). According to Bowen and De Clercq (2008), the financial resources devoted to entrepreneurship have a strong relationship with the allocation of entrepreneurial efforts.

Together, capacity gaps among entrepreneurs and the labour market (for employees) portend adverse effects on long-term entrepreneurship in the country despite the availability of pro-entrepreneurship infrastructures. Our results corroborate previous findings about skill shortages in South Africa (Herrington et al. (2017). GEM research has consistently linked educational attainment and successful enterprises (Morris, 2011). Because human capital is required to drive entrepreneurial activity, the availability and quality of educational systems in an economy are critical for sustainable entrepreneurship (Xavier et al., 2012).

Naidoo et al. (2014) provided evidence that increased education and access can reduce the racial wage gap in South Africa. Importantly, relevant but predominant sectors will always attract individuals with requisite education and skills regardless of ethnic background. The critical policy concern is ensuring non-discriminatory access to quality education and not necessarily employment-based discrimination after college. Therefore, accessibility to quality education is a driver of employment in the skills-intensive tertiary sectors in South Africa, not ethnicity. In

other words, reforms that will address skills gaps must consider access and quality as they also impact the quality of entrepreneurs in the economy.

Similarly, the inability to handle regulatory requirements may lead to avoidable penalties from regulatory agencies. Tax complexity can be an inhibitor, time-consuming, and adds to cost (Lawless, 2013). Non-protection against macroeconomic challenges, including exchange rate instability and fiscal and monetary issues, will limit business expansion in international trade. Such constraints could be partly linked to the outcome effects of unstable political and economic conditions in transition (Luthans et al., 2000) and emerging economies (Xu & Meyer, 2013).

## **POLICY IMPLICATIONS AND RECOMMENDATIONS**

This paper portends several policy implications.

- The emerging results from the study indicate a not-so-conducive environment for entrepreneurship development. Promoting a MSMEs friendly environment requires strong collaboration among relevant Department and Agencies of government such as the Department of Trade and Industries (DTI), Small Enterprises Development Agency (SEDA), and others to reduce or remove constraints for MSMEs and empower them to achieve the government goal of private sector-led economy.
- The government must pursue specific policy prescriptions for each dimension of socio-cultural, political, and economic constraints. For political constraints, protecting the interests of minority investors and enforcing contracts can be a top policy priority. The adoption by Saudi Arabia of court performance measurement reports and information on the progress of cases through the court, as well as increased access to evidence at trial to protect minority investors (World Bank, 2020). This may likely enhance trust-building and cross-cultural partnerships.
- Burdensome regulations (including administrative corrupt practices and bureaucracy) can be addressed in two ways: high-level transparency and the use of '*executive order*' at the highest level of government. The need to be more transparent about the tendering process, remove administrative bottlenecks, and set up tender information and advice centres, among others, will be helpful. For instance, increased publicity requirement transparency in advertising and tendering leads to lower costs of the tendering process (Coviello & Mariniello, 2014). Also, findings indicate that transparent procurement laws minimise bribes (Knack et al., 2017). Further, an '*executive order*' proposal to the President of the Republic through the Departments of Small Business Development (DSBD) and Trade and Industry (DTI) may reduce or remove burdens of regulations and complicated bureaucratic processes without enacting a new law. For example, the Nigerian President issued executive orders to improve transparency and business environment (EO1) and improve local content in public procurement (EO5) between 2015 and 2020. The result shows Nigeria to be among the ten economies improving the most in 2018/2019 Doing Business (World Bank, 2020).
- In addition, an '*executive order*' directed at the Police involvement to achieve enhanced crime prevention, protection, and proactive intelligence gathering in industrial areas

and business premises can resolve many crimes. Intelligence-led and predictive policing approaches can be effective crime prevention and bursting strategies (LeCates, 2018).

- There is a need to ease regulatory compliance regarding the submission of accounts, payment of taxes, and other regulatory requirements by MSMEs. It may be relevant to ease the burdensome tax process through digital filing optimisation and capacity building in critical regulatory requirements as part of the BDS training curriculum and structures.
- Similarly, developing an assessment template for MSMEs to access foreign exchange (FX) at a concessionary rate through the South African Reserve Bank (SARB) should be introduced and sustained for carefully profiled small to medium businesses doing business across borders. A stabilised exchange rate regime will help businesses aspire for growth and develop a higher capability for risk associated with international trade. However, the SARB should implement preventive measures to guide against currency diversion, corruption, and deliberate fraud among entrepreneurs and treasury officials.
- Capacity building across the board should be prioritised. This includes training subsidies, partial payments, and the development of non-governmental organisations (NGO) or business development services providers (BDSP) to focus on specific business needs as consultants, working with different categories of MSMEs with reimbursable payment structures. Knowledge and skills-building approaches must involve training in networking, self-efficacy, negotiation, politics, regulation, and financing. It may be worth considering short-term temporary services from a skilled workforce without having to employ full-time, reduce labour costs and promote knowledge spillover and diffusion. This may require labour regulatory reforms and policies to minimise the adverse effects of the high unemployment rate among the youth (often unskilled with poor work ethics). Rwanda's reform of labour regulations governing weekly rest, working hours, severance pay, and reemployment priority can be a good source of lessons (World Bank, 2020).
- MSMEs may need to be empowered to have voices with influencing and advocacy skills. MSMEs can act as pressure groups using their business membership organisation (BMO). A team advocacy approach can attract interventions to the identified three dimensions of institutional constraints. Indeed, MSMEs utilise network alliances and work in concert to overcome certain institutional constraints (Marino et al., 2008).
- Access to finance for all categories of MSMEs, including migrant entrepreneurs, is of significant concern. The need for a reform process that will alter existing institutional financing architecture is a top priority, focusing on impact indicators such as job creation, productivity, and business expansion, with less emphasis on ethnicity/country of origin. It may be expedient because empirical evidence indicates that economic reforms spur investment and growth (Kilishi, 2017), and countries that do well in indicators of Doing business tend to have increasing entrepreneurial activity and lower levels of corruption. Improved credit access was achieved in Togo by expanding the credit bureau's coverage and introducing data accessibility from utility companies (World Bank, 2020), which can be valuable lessons to learn from.

- SEDA may initiate and institutionalise cultural integration programs to address socio-cultural-related barriers, including language within South Africa and outside of South Africa. Regular cross-cultural meetings at provincial and national levels, including trade fairs and exhibitions outside the country, must be implemented. Such social-cultural reforms have embedded economic benefits, especially for entrepreneurs.

In sum, entrepreneurship policy should be futuristic, focus on the process of change, and be sensitive to how institutions affect the decision-making process of entrepreneurs (Audretsch, 2010). Sautet (2013) suggests that constraints should ideally be turned into variables (opportunities) for local entrepreneurs to develop systemic entrepreneurship that can bring about much-desired social change and development. Similarly, Henrekson and Sanandaji (2011) research advocates for innovative political activism that alters existing unfavourable institutional structures for the better.

## **LIMITATIONS AND FUTURE RESEARCH**

Caution is advised when generalising the results regarding the constraints entrepreneurs face. The coverage was limited to a few data sources and three metros in predominantly urban settings because rural entrepreneurs might face different constraints. Given the nature of the businesses considered in the paper, there might be a need to examine the impact of capacity and feedback mechanisms on institutional reform with a much larger sample and more comprehensive spatial coverage. Since limited data is also a limitation, the constraints should be further tested in terms of their impacts over a reasonable time using a quantitative approach. This paper did not investigate that aspect. The results suggest, for now, that all the constraints are equally important and relevant. It is open to further empirical tests.

## **CONCLUSION**

Crucial to our understanding of an ideal business environment where MSMEs are relevant for job creation, and productivity is to appreciate the role of institutions in minimising or removing business process constraints. According to GEM data, South Africa loses more businesses than it creates within a calendar year (Singer et al., 2018). Therefore, the critical challenge to policymakers will be understanding the causes of such a high business failure rate. This paper attempts to answer the research question: What institutions-induced constraints affect MSMEs performance in South Africa? For policymakers, the challenge of reducing the business mortality rate and promoting entrepreneurial practice will necessitate identifying the constraints to growth and business development.

This paper makes essential contributions covering methodology, theory and policy. First, it uses exploratory research to obtain extensive qualitative data across spatial coverage and sectors in South Africa. Therefore, the constraints are rooted in entrepreneurs' opinions and categorised along three key institutional dimensions: social-cultural, political and economic. Second, it advances the application of institutional theory in small businesses in emerging economies. Through an extensive review of empirical literature, constraints and sources are classified. Third, it provides a clearer idea about key constraints affecting MSMEs with appropriate policy recommendations. This may attract support interventions to MSMEs to

promote enterprise development and reduce the alarming business failure rate, which is currently higher than the startup rates according to GEM data for South Africa. Therefore, the approach in this paper is proactive in positively altering firm-level mortality incidence in the country and promoting sustainable entrepreneurial practice through responsive and adaptive institutions.

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