

# A Methodology to Analyse the Determinants of SMEs' Biggest Obstacles in Doing Business in South Africa

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**Abstract:** This study examines the most significant challenges facing Small and Medium Enterprises (SMEs) in South Africa, drawing on firm-level data from the 2022 World Bank Enterprise Survey. Using probit regression analysis, it explores how firm size, sector, geographic location, and female ownership influence the severity of perceived business constraints—namely, access to finance, infrastructure, regulation, workforce skills, crime, and the informal sector. The results indicate that sectoral differences are the strongest predictors of obstacle severity. Due to their capital and logistics needs, sectors such as Fabricated Metal Products, Construction, and Retail face heightened financial and transport challenges. Regionally, firms outside Gauteng, KwaZulu-Natal, and the Western Cape report more severe infrastructure issues, particularly electricity, while those within these provinces face greater skills shortages. Medium-sized firms generally report fewer constraints than smaller firms. Female ownership is not a consistent determinant of obstacle severity; however, firms without female ownership perceive corruption and crime as slightly less severe. These findings underscore the need for targeted, sector- and region-specific policy responses, particularly in enhancing financial access for capital-intensive industries and addressing regional disparities in infrastructure and workforce development.

**Keywords:** SMEs, Probit Regression, Doing Business, Biggest Obstacle, South Africa

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## 1. Introduction

Economic performance is significantly influenced by small and medium-sized enterprises (SMEs), which are viewed as key sources of sales, tax revenue, and employment (Yakubu & Umar, 2023; Bruwer et al., 2017a; OECD, 2017). Several nations, including the United States, the United Kingdom, Brazil, Ghana, Zimbabwe, Malaysia, and India, have highlighted the expansion of the SMME sector in recent years (SBP, 2014; Makanyeza & Dzvuke, 2015; Grey & Jones, 2016; Boadi et al., 2017; Domeher et al., 2017).

According to the National Planning Commission (2012), SMEs are a robust sector of small and medium-sized enterprises (SMEs) that significantly contribute to the nation's economy and GDP by reducing unemployment and poverty and promoting entrepreneurship. Small and medium-sized enterprises (SMEs) play a vital role in the nation's development (Mugano & Dorasamy, 2023; Bayati & Taghavi, 2007). Notwithstanding their importance, significance, and contributions to economic progress, South Africa (SA) and worldwide SMEs face numerous obstacles that impede business expansion (Sibiya, 2023). There are many more obstacles to corporate success now than in the past. In addition to some elements, the surroundings are highly dynamic and complicated. Expansion is viewed as one way to address South Africa's high unemployment rate and slow economic growth.

The South African government has been aware of this sector's needs and importance and has introduced several initiatives to support SMEs (DTI, 2008; National Credit Regulator, 2011; National Planning Commission, 2012). However, these initiatives are often not tailored to businesses of different sizes and frequently focus only on larger SMEs (DSBD, 2019). Nieuwenhuizen (2019) found that the regulatory environment hinders small business growth, highlighting the need to explore policy development in South Africa.

Several challenging conditions continue to impact the development and expansion of the SME sector in South Africa. The Global Entrepreneurship Monitor (GEM) Reports (2001–2010) found that the survival rate of SMEs is among the lowest globally (Herrington, Kew & Kew, 2010). Small firms in South Africa have poor growth rates; on average, 50% do not expand. Numerous factors boost their impact and significantly impact SMEs' success (Cacciotti & Hayton, 2015).

This article examines whether the difficulties, obstacles, and causes of failure faced by small enterprises are influenced by the size of the SME, sectoral differences, region, and gender ownership. A deeper understanding of these problems could help the government develop more effective size-specific, sector-specific, and region-specific initiatives for SMEs.

This article is structured as follows: Section 2 provides a literature review, Section 3 highlights the methodology, Section 4 presents the results and discussion, and Section 5 provides a concluding remark and offers concluding remarks.

## 2. Literature Review

*Definition of SME.* Defining an SME can be challenging due to the various definitions of the term used worldwide. Countries and companies often define SMEs based on their criteria, such as the company's asset value, workforce size, and annual revenue. "Small business" is defined as "a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more that, including its branches or subsidiaries, if any, are primarily carried on in any sector or subsector of the economy (National Small Business Act 102 of 1996, p. 17)." SMME and SME are often used interchangeably in South Africa. Survivalist, micro, very small, small, and medium-sized businesses are further divisions of small businesses, as defined under the National Small Business Act (NCR, 2011).

*Factors Affecting SMEs.* The elements both inside and outside the organisation that influence its ability to survive and thrive are collectively referred to as the business environment. According to Delmar and Wiklund (2008) and Valaskova and Nagy (2023), the business climate is considered extremely important for the expansion of SMEs. The external environment refers to elements that exist outside the company, whereas the internal environment encompasses aspects that are within the company. SME growth relies on the expansion of both internal and external environments (Gunawan, 2024; Beck & Demircuc-Kurt, 2006). Changes in the business climate can have either a positive or negative impact on SME growth (World Bank, 2006; Zhang, van Doorn, & Leeflang, 2014).

### 2.1 Theoretical Literature Review

The study of Small and Medium Enterprises (SMEs) and their obstacles is rooted in various economic and business theories. This section examines the theoretical frameworks that offer insight into the key challenges faced by SMEs in conducting business in South Africa.

### 2.2 Institutional Theory

Institutional theory suggests that the regulatory and socio-economic environment significantly shapes business operations (Brammer et al., 2012). The complex legal framework, bureaucratic inefficiencies, and institutional corruption create barriers for SMEs in the South African context (Owoseni & Ahwireng-Obeng, 2024). Government policies and institutional structures influence the ease of doing business, with excessive regulations often discouraging entrepreneurship and innovation.

### 2.3 Resource-Based View (RBV)

The Resource-Based View (RBV) posits that firms achieve a competitive advantage through their internal resources and capabilities (Madhani, 2010). For SMEs, limited access to financial resources, inadequate human capital, and technological constraints hinder their ability to compete effectively. The theory emphasizes the importance of SMEs developing unique capabilities and leveraging available resources efficiently to overcome business challenges.

This study's theoretical framework integrates Institutional Theory with the Resource-Based View (RBV) to elucidate the primary challenges that small and medium enterprises (SMEs) encounter in South Africa. Institutional Theory emphasizes the impact of the external environment, particularly the regulatory and socio-economic landscape, on business operations. South African SMEs face numerous obstacles, including complex legal frameworks, bureaucratic delays, inconsistent government policies, and institutional corruption, which create structural impediments to growth and innovation (Brammer et al., 2012; Owoseni & Ahwireng-Obeng, 2024). These deficiencies escalate operational costs and hinder entrepreneurial endeavours, rendering them significant external variables for this study. Furthermore, the Resource-Based View (RBV) concentrates on internal firm-level attributes, positing that a company's capacity to attain a competitive advantage is contingent upon its unique resources and capabilities (Madhani, 2010). For South African SMEs, constrained financial resources, a shortage of skilled labour, and inadequate access to technology hinder their operational efficiency and competitive standing. The RBV asserts that firms that can harness valuable, rare, and difficult-to-imitate resources, such as innovative capacity or client relationships, are more favorably positioned to surmount external challenges. By amalgamating these perspectives, the study indicates that the predominant obstacles SMEs face emanate from the interplay between external institutional barriers and internal constraints. Institutional frailties pose the challenges that SMEs must confront, whereas internal capabilities determine their efficacy in adapting to and thriving within that environment. This integrated framework thus enhances the understanding of how both external and firm-specific factors hinder SME growth and performance in South Africa.

## 2.4 Empirical Literature Review

The challenges faced by Small and Medium Enterprises (SMEs) in South Africa have been extensively studied through empirical research, highlighting key obstacles such as financial constraints, regulatory burdens, infrastructure deficiencies, and limited market access. This section reviews existing empirical studies to provide a data-driven understanding of these challenges.

## 2.5 Financial Constraints and SME Growth

Empirical studies consistently show that limited access to finance is one of the most significant challenges for SMEs in South Africa. Research findings by Msomi (2023) suggest that many SMEs encounter difficulties in obtaining credit due to stringent lending criteria, high interest rates, and insufficient collateral. Furthermore, empirical evidence indicates that financial institutions often perceive SMEs as high-risk borrowers, resulting in a lack of tailored financial products that meet their specific needs.

## 2.6 Regulatory and Institutional Barriers

Numerous studies have investigated the impact of regulatory policies on the performance of small and medium-sized enterprises (SMEs). Research by Owoseni and Ahwiring-Obeng (2024) highlights that complex tax regulations and bureaucratic inefficiencies significantly increase the business costs for SMEs. Survey data from South African SMEs indicate that compliance with labor laws and licensing requirements is both time-consuming and costly, discouraging formal business registration. Additionally, studies suggest that corruption and policy inconsistencies further exacerbate the regulatory burden on SMEs.

## 3. Infrastructure Challenges

Empirical evidence also highlights the crucial role of infrastructure in the success of SMEs. Studies have shown that unreliable electricity supply, inadequate transport networks, and limited internet access negatively impact business operations. For instance, Avordeh et al. (2024) found that frequent power outages resulting from load shedding reduce the productivity of small and medium-sized enterprises (SMEs) and increase operational costs. A comparative analysis of small and medium-sized enterprises (SMEs) in urban and rural areas reveals significant disparities in infrastructure quality, which affects their market reach and overall competitiveness.

## 4. Conceptual Framework

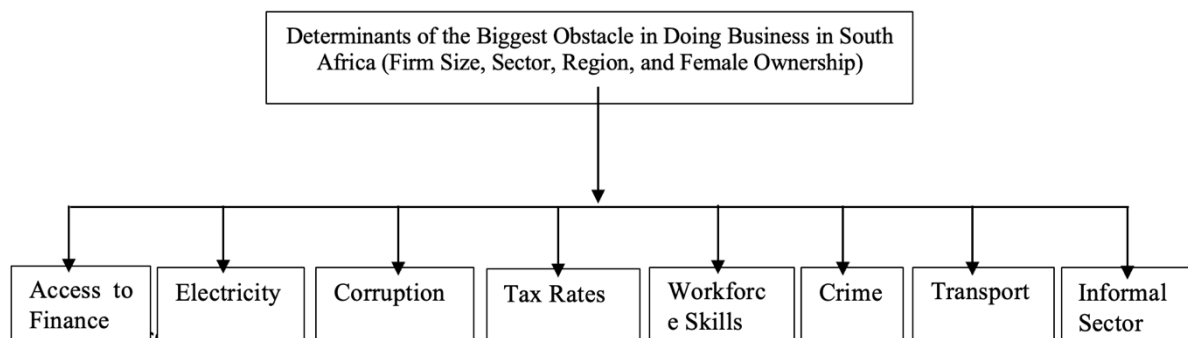


Figure 1

Source: Author

## 5. Methodology

This study employs a quantitative research design to systematically analyse the most significant obstacles faced by SMEs in conducting business in South Africa. The methodological framework is inspired by Zins & Weill (2016), where we utilise econometric analysis to assess the relationship between firm characteristics and the choice of particular business constraints as the most challenging obstacle. A cross-sectional approach utilises secondary data sources to provide robust empirical insights.

## 6. Data Collection

The study utilises a survey dataset from a reputable international source, namely the World Bank's Enterprise Surveys (World Bank Enterprise Survey (WBES) 2022) for South Africa. This dataset provides extensive information on firm characteristics and the selected constraints in the business environment.

### 6.1 Variables and Measurement

The dependent variable in this study represents the primary business obstacle reported by small and medium-sized enterprises (SMEs). Categories include access to finance, regulatory burdens (including corruption and tax rates), infrastructure deficiencies (such as electricity and transport), and workforce constraints. Independent variables comprise firm-specific characteristics, such as size, age, sector, and female ownership.

### 6.2 Econometric Model

A probit regression model estimates the probability of each obstacle being the primary constraint, conditioned on SME characteristics and external conditions. The model is specified as follows:

$$X_i = \alpha + \beta * Size_i + \sigma * Sector_i + \phi * Region_i + \rho * Ownership_i + \epsilon_i$$

Where X represents the selected obstacle variable, and i denotes a specific firm. The firm's characteristics serve as the explanatory variables. Ownership is a dummy variable that equals one if the firm has female ownership and zero otherwise.

## 7. Data Analysis

The analytical process involves two main steps: First, descriptive statistics that summarise key SME characteristics, frequency distributions of reported obstacles, and the overall business climate in South Africa. Second is Econometric Estimation: the study employs probit regression models to analyse the probability of a given obstacle being reported as the biggest challenge. The dependent variable represents the most significant obstacle reported by each firm, coded categorically to include options such as access to finance, infrastructure, and regulatory challenges. Independent variables include firm characteristics (size), ownership attributes (gender), sector, and region. We used STATA 17 to analyse the data.

## 8. Results and Discussion

The dataset comprises 1,097 entries and 365 variables, encompassing various aspects of small to medium-sized enterprises (SMEs) in South Africa. The data includes categorical variables, such as industry type, firm size, and region.

**Table 1: Descriptive statistics**

Variable	Observation	Mean	Standard Deviation	Min	Max
<b>Dependent (Obstacles)</b>					
<b>Variables</b>					
Access to Finance Severity	1097	8.430264	4.427118	1	15
Electricity	1097	8.597083	4.207648	1	15
Corruption	1097	8.513218	4.479277	1	15
Tax Rate	1097	6.365542	3.904005	1	15
Workforce Skills	1097	8.721969	3.96497	1	15
Crime	1097	8.384686	4.3737	1	15
Transport	1097	5.409298	2.874064	1	10
Informal Sector	1097	7.836828	4.435445	1	15
<b>Independent</b>					
<b>Variables</b>					
Firm size	1097	1.900638	.8117351	1	3
Region	1097	2.577028	1.029555	1	4
Sector	1097	5.220602	2.356582	1	8
Female ownership	1097	1.835005	0.3713457	1	2

Obstacles are typically rated on a scale from 1 to 15, indicating severity. The top challenges, with the highest mean scores, are workforce skills (mean = 8.72), electricity (mean = 8.60), corruption (mean = 8.51), and access to finance (mean = 8.43). The less severe challenges include transport, with a mean of 5.41, and tax rates, with a mean of 6.37. The most represented sectors are "Other Services" (21%) and "Retail" (24%). The majority of firms are small (38%), followed by medium (31%) and large (31%). Gauteng has the highest concentration (37%), and 83% of firms report no female ownership. The dependent variables were transformed into binary data to

fulfill the conditions for probit regression. The independent variable can be continuous, such as income or firm age, binary or dummy, categorical, or ordinal. Therefore, all the independent variables were treated as binary. The probit regression requires a sample size of at least 200, whereas our data has 1097 observations.

**Table 2: Determinants of obstacles to firms in Doing Business in South Africa**

	Access to Finance	Electricity	Corruption	Tax Rate	Workforce Skills	Crime	Transport	Informal Sector
<b>Firm size</b>								
Medium-sized	<b>-0.27*</b> (0.079)	0.0897 (0.440)	.0895 (0.504)	.0316 (0.806)	-.1855 (0.382)	<b>-0.55*</b> (0.083)	.1042 (0.397)	-.1268 (0.400)
<b>Region</b>								
-Gauteng	-0.3070 (0.427)	<b>-1.25***</b> (0.002)	-.1656 (0.354)	<b>-0.97**</b> (0.011)	<b>1.20***</b> (0.002)	<b>.3773*</b> (0.078)	-.0303 (0.853)	.1845 (0.382)
-KwaZulu-Natal	-0.3698 (0.222)	<b>-1.04**</b> (0.014)	.0732 (0.680)	-.0549 (0.763)	<b>0.71****</b> (0.073)	<b>.5156**</b> (0.017)	-.2233 (0.201)	.0734 (0.738)
-Western Cape	-0.1333 (0.960)	<b>-1.28***</b> (0.002)	-.0850 (0.635)	-.0855 (0.634)	<b>1.07***</b> (0.006)	.1960 (0.144)	-.0811 (0.630)	.2380 (0.256)
<b>Sector</b>								
-Fabricated Metal Products	<b>1.63**</b> (0.033)	0.5481 (0.443)	-.4484 (0.322)	-.1739 (0.576)	<b>.6479*</b> (0.095)	-.3800 (0.343)	<b>.534*</b> (0.098)	-.0487 (0.875)
-Textiles and garments	0.2021 (0.722)	.4997 (0.494)	.4050 (0.108)	-.2973 (0.277)	-.29735 (0.335)	<b>1.33**</b> (0.036)	<b>.5472**</b> (0.052)	-0.89 (0.165)
-Motor vehicles	-.1031 (0.723)	-.0758 (0.797)	-.2916 (0.298)	<b>-0.90*</b> (0.069)	<b>-1.57***</b> (0.002)	-.3985 (0.604)	<b>.8628***</b> (0.0000)	<b>-.4760*</b> (0.08)
-Other Manufacturing	<b>1.75***</b> (0.001)	-.4021 (0.192)	<b>-1.06**</b> (0.046)	-.1336 (0.515)	.1927 (0.547)	-.0960 (0.547)	<b>.4163*</b> (0.092)	-.3803 (0.104)
-Construction	<b>1.16**</b> (0.042)	.3235 (0.222)	.2968 (0.216)	-.0096 (0.965)	<b>-1.03**</b> (0.044)	-.1765 (0.819)	<b>.5460**</b> (0.034)	<b>-.5628**</b> (0.042)
-Retail	<b>1.20**</b> (0.020)	-.0193 (0.941)	<b>-1.07**</b> (0.039)	-.1521 (0.446)	<b>-0.96**</b> (0.036)	-.0263 (0.897)	<b>.5451**</b> (0.023)	-.3309 (0.140)
Other Services	0.0689 (0.711)	-.1020 (0.700)	<b>-0.91*</b> (0.074)	<b>0.79*</b> (0.073)	-1.05 (0.020)	.1285 (0.584)	<b>.5379**</b> (0.023)	-.2555 (0.234)
<b>Female ownership</b>	0.0441 (0.842)	-.1746 (0.352)	<b>-0.81**</b> (0.032)	-.1451 (0.515)	.0772 (0.584)	<b>-0.69*</b> (0.063)	-.1086 (0.438)	.0226 (0.895)
Observation	1097	1097	1097	1097	1097	1097	1097	1097
Pseudo R <sup>2</sup>	0.0239	0.019	0.0304	0.0306	0.0419	0.0291	0.0247	0.0206
Log Likelihood	-251.49	-166.34	-313.35	-317.82	-112.51	-273.17	-356.95	-238.91
F-statistic: p	0.0909	0.0678	0.141	0.0501	0.0234	0.246	0.203	0.229

\*\*\* P<.0.01 significance at the 1% level, \*\*P<.0.05 significance at the 5% level, \*P<.0.1 significance at the 10% level

## 9. Discussion

### 9.1 Access to Finance is the Biggest Obstacle

Medium-sized firms are marginally significant (-0.27\*), indicating that they are less likely to perceive finance as an obstacle than small firms. Specific sectors report significantly higher severity in accessing finance, including Fabricated Metal Products (1.63\*\*), Other Manufacturing (1.75\*\*\*), Construction (1.16\*\*), and Retail (1.20\*\*). Gauteng, KwaZulu-Natal, and Western Cape regions have insignificant coefficients, suggesting no significant regional variation in financial barriers. There is no significant impact on finance severity, indicating that the ownership gender is not strongly associated with finance constraints. This means firms in manufacturing-related sectors (e.g., Fabricated Metal Products, Other Manufacturing) report more significant financial difficulties. This

aligns with the capital-intensive needs of these industries, as demonstrated by Msomi (2023). Regional differences appear to be less critical in explaining variations in the severity of access to finance.

## **9.2 Electricity as the Biggest Obstacle**

The results suggest regional differences in the choice of electricity as an obstacle, with businesses in Gauteng (1.25\*\*\*), KwaZulu-Natal (1.04\*\*), and the Western Cape (1.28\*\*\*) provinces experiencing fewer issues or significantly lower severity of electricity obstacles compared to other regions, such as the Eastern Cape. In contrast, there is no significant relationship between medium- to large-sized firms and choosing electricity as the biggest obstacle. Along the same line, no significant differences are found in choosing electricity as the most severe obstacle across sectors and ownership structures (female vs. non-female ownership) that significantly influence the choice of electricity as the biggest obstacle. Electricity challenges appear more pronounced in regions outside Gauteng, KwaZulu-Natal, and Western Cape, which may benefit from better infrastructure. Firm size and sector-specific factors do not significantly influence perceptions of electricity-related obstacles.

## **9.3 Corruption as the Biggest Obstacle**

Medium and large firms exhibit negative coefficients, indicating a lower severity of corruption obstacles; however, the results are not statistically significant. None of the regions shows significant differences in corruption severity. Significantly lower severity in corruption obstacles for Other Manufacturing: (-1.06\*\*) and Other Services (-0.91\*), and retail (-1.07\*\*). Firms without female ownership report lower corruption severity (-0.81\*\*), suggesting gender-related differences in corruption perceptions. This means firms in the manufacturing and retail sectors perceive corruption as less severe than in other sectors. The ownership structure (e.g., lack of female involvement) may influence perceptions of corruption, although this requires further exploration.

## **9.4 Tax Rate as the Biggest Obstacle**

Large firms report marginally significant results (-0.25\*), which implies that they are less likely to view tax rates as an obstacle than small firms. Firms in other services are statistically significant (-0.61\*\*\*), which suggests that firms in this sector are less likely to view tax rates as an obstacle. Marginally significant (-0.90\*), suggesting lower tax rate severity for Motor Vehicles. Marginally significant (0.79\*), indicating slightly higher tax rate severity for other Services. Firms without female ownership report marginally higher tax rate obstacle severity, but the result is not statistically significant. This means businesses in Gauteng perceive tax rates as less burdensome than those in other regions. Sectoral differences are minimal, although the Motor Vehicles sector experiences slightly lower tax rate obstacles, while the Other Services sector reports marginally higher severity. The ownership structure does not significantly impact perceptions of tax rate obstacles.

## **9.5 Workforce Skills as the Biggest Obstacle**

Medium and large firms exhibit slightly higher severity of workforce obstacles, but the coefficients are not statistically significant. Gauteng (1.20\*\*\*), Western Cape (1.07\*\*\*), and KwaZulu-Natal (0.71\*) report significantly higher severity of workforce obstacles. Significantly lower workforce obstacle severity: Motor Vehicles (-1.57\*\*\*), Construction (-1.03\*\*), Retail (-0.96\*\*), and Other Services (-1.05\*\*). The ownership structure does not significantly impact the severity of workforce obstacles. This implies that Firms in Gauteng and Western Cape report more significant challenges with workforce skills, possibly reflecting demand-supply mismatches in these regions. Specific sectors (e.g., Motor Vehicles, Construction, Retail) report lower workforce skill obstacles, suggesting variations in workforce requirements across industries.

## **9.6 Crime as the Biggest Obstacle**

Firms in KwaZulu-Natal report significant results (0.52\*\*), indicating that they are more likely to cite crime as a significant obstacle. Likewise, the Firms in Gauteng report significant results (0.38\*), indicating a higher concern about crime, which may reflect the higher urban crime rates. Medium-sized firms report lower severity of crime obstacles (-0.55\*), but the result is marginally significant. Sector-wise, Textiles and Garments report significantly higher crime obstacle severity (1.33\*\*). Other sectors do not show substantial differences.

Regarding ownership, firms without female ownership report marginally lower crime obstacle severity (-0.69\*). This implies that crime disproportionately affects the Textiles and Garments sector, suggesting industry-specific

vulnerabilities. The ownership structure shows a weak relationship, with non-female-owned firms perceiving it slightly differently.

### 9.7 Transport as the Biggest Obstacle

The firms in the motor vehicle sector report the highest significance (0.86\*\*\*), indicating they are significantly more likely to report transport as an obstacle than the other sectors. This reflects their high dependence on efficient logistics and reliable supply chains. Retail firms report significant results (0.55\*\*), indicating that they are more likely to face transportation challenges due to logistics and delivery issues. Firms in other services report significance (0.54\*\*), suggesting that transport is a notable challenge even in non-manufacturing sectors. Firms in construction report significance (0.55\*\*), which supports the view that site access and logistics are key concerns. Firms in the textile (0.55\*), fabricated metals (0.53\*), and other manufacturing (0.42\*) sectors report marginally significant results; however, they suggest that transport is a concern. This finding implies that transport challenges are not limited to firm scale or ownership structure, but rather reflect broader operational and sectoral realities, and are more sector-driven than geographically localized.

### 9.8 The Informal Sector as the Biggest Obstacle

Firms in construction have statistically significant results (-0.56\*\*). The findings show that firms in the construction sector are less likely to view the informal sector as an obstacle, possibly because informal labour is common or complementary. Firms in the motor vehicle sector also report significant results (-0.48\*), suggesting a lower likelihood of concern. Medium and large firms report slightly lower severity of informal sector obstacles. However, the results are not statistically significant. Region-wise, Gauteng, KwaZulu-Natal, and the Western Cape show no significant differences in the severity of informal sector obstacles. This means that the informal sector does not appear to disproportionately challenge specific regions or firm sizes.

## 10. Conclusion

This study examines key business obstacles faced by Small and Medium Enterprises (SMEs) in South Africa using data from the World Bank Enterprise Survey and probit regression analysis. It examines how factors such as firm size, sector, region, and female ownership impact SMEs' perceptions of challenges, including access to finance, infrastructure, corruption, tax burdens, workforce skills, crime, transportation, and competition. Findings indicate that sectoral differences are the most reliable predictors of perceived obstacles, with sectors such as Fabricated Metal Products, Construction, and Retail being particularly affected by financial and transportation issues due to their reliance on capital and logistics. The Textiles and Garments sector faces disproportionate impacts from crime, reflecting vulnerabilities in those operating environments. Regional disparities highlight that firms in Gauteng and the Western Cape struggle more with skilled labour shortages, while those outside major cities experience electricity-related challenges. Medium-sized enterprises report fewer issues with access to finance and crime, likely due to better access to resources. The influence of female ownership on obstacle severity is primarily insignificant, though trends suggest that non-female-owned businesses perceive lower levels of corruption and crime. Lastly, transport is a challenge across many sectors, and perceptions of the informal sector as a threat are consistent. However, firms in construction and vehicle manufacturing express less concern, likely due to the sector's reliance on informal labour.

## 11. Policy Implication

The findings of this study underscore the need for crafting nuanced, data-driven policy interventions to address the diverse challenges faced by SMEs in South Africa. While certain obstacles, such as transportation and access to finance, are commonly experienced across different sectors, others, like workforce skills and electricity access, show notable regional disparities. The probit regression analysis further indicates that sectoral differences consistently influence the perceived severity of these obstacles, suggesting that uniform policy responses are unlikely to be effective. A discernible association exists between capital-intensive sectors, such as Fabricated Metal Products, Construction, and Retail, and financing challenges, underscoring the need for policies to enhance access to finance for businesses in these industries. Additionally, infrastructure investment is crucial to support logistics-dependent sectors, such as the motor vehicle, Retail, and Construction Industries. The significant workforce skills challenges reported in Gauteng and the Western Cape emphasise the urgent need for targeted skills development initiatives. Furthermore, there is a call for sector-specific regulatory reforms and strategies to integrate informal sectors more formally.

## 12. Areas for Further Study

This study lays a vital groundwork for understanding the key challenges SMEs face in South Africa. Nonetheless, it also opens several pathways for future research to build upon these findings and address existing limitations. Future investigations should employ panel data to examine how the nature and intensity of these obstacles evolve, particularly in response to macroeconomic shocks, policy changes, or shifts in the business landscape. Additionally, further research could enhance its insights by incorporating a wider range of firm-level variables, including firm age, legal status, export orientation, managerial education, and prior access to government support programs. Lastly, future studies could benefit from comparative analyses across various African countries or regional economic communities to contextualize the findings from South Africa further.

## Ethical Considerations

This research adheres to strict ethical guidelines, ensuring the confidentiality and anonymity of SMEs in the dataset. All data sources comply with the University of South Africa's (UNISA) institutional and regulatory ethical standards for economic and business research. The ethical clearance was obtained from UNISA for the study to be conducted.

## AI Declaration

We utilized my intellect to complete the paper, and where necessary (approximately 5%), we consulted AI to inquire about suitable STATA commands to use.

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