



BUSINESS DEVELOPMENT CHALLENGES IN A RURAL DISTRICT MUNICIPALITY IN SOUTH AFRICA: A CASE OF FEZILE DABI DISTRICT MUNICIPALITY

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ABSTRACT

Business development continues to be an important driver of economic growth in many rural settings. Some of the results of business development in rural areas include job creation, innovation, entrepreneurship, infrastructural development, and skills development, among others. Many developing countries have identified rural business development as a critical area in their development agenda. The purpose of this study was to explore business development challenges faced by enterprises in the Fezile Dabi District Municipality in rural South Africa. Using the survey method, a questionnaire was administered to a purposive sample composed of 143 business owners and managers located within the municipality. Data were assessed for frequencies and percentages on each item in the questionnaire. In addition, Cronbach's coefficient alpha was used to test the reliability of the scale. The findings of the study indicate that there are gaps in four areas, namely, markets and business development (1), labour supply (2), business planning (3) and the local operational environment (4). These gaps hinder business growth in the municipality. Establishment of business incubators, improvement of networking between business leaders, and the implementation of an appropriate business retention and expansion program are some of the strategies that may be implemented to eliminate the identified gaps.

Keywords: Business development, district municipality, economic growth, small to medium enterprises.

INTRODUCTION

In both developed and developing worlds, local governments are under constant pressure to promote the development of localities and to improve the quality of services they deliver. The challenges are even greater for local governments in developing countries because they face an increasing number of factors that stand in the way for improved service delivery (Reddy, Haque, & de Vries, 2008; Pemberton & Godwin, 2012). These challenges are exacerbated by the significant increase in the number and diversity of stakeholders who have particular interests in relation to the allocation of resources and service delivery (Geddes & Sullivan, 2007). However, the existence of an effective local government remains crucial in developing countries since it is responsible for facilitating development at grassroots level (Haque, 2008).

The district under examination in this study is the Fezile Dabi District Municipality (FDDM). This municipality is home to 17% of the population of the Free State Province of South Africa and also covers close to 17% of the provincial land, making it the second smallest district municipality with the second smallest population in the province (FDDM, 2008). FDDM is made up of four local municipalities, namely, Metsimaholo, Moqhaka, Ngwathe and Mafube municipalities. The combined population and growth rates between 2001 and 2007 are illustrated in Table 1.

TABLE 1: Population trends in FDDM from 2001 to 2007

Name of Municipality	Total Pop. 2001	Total Pop. 2007	Population growth per municipality 2001 -2007	% growth per municipality 2001 - 2007
FDDM	460309	474039	13780	2.9
Metsimaholo	167590	170522	2632	1.5
Moqhaka	118509	95187	-23622	-19.8
Ngwathe	115953	154658	36705	25
Mafube	57657	53722	-3935	-7.4

Source: FDDM (2008)

The relative economic contribution of the various local municipalities to the district's economy, including the main economic activity, is illustrated in Table 2. These statistics indicate that Moqhaka and Mafube local municipalities contribute the least 9% and 4% respectively to the gross geographic product of the district, while Metsimaholo and Ngwathe municipalities are the main contributors at 68% and 20% respectively.

TABLE 2: Economic contribution of municipalities in FDDM

Municipality	Pop. distribution	GDP contribution	Main source of economic activity
Metsimaholo	32.0%	68.0%	Mining, manufacturing, transport, tourism, agriculture
Moqhaka	36.0%	20.0%	Mining, agriculture, transport, construction, manufacturing
Ngwathe	20.0%	9.0%	Mining, agriculture, transport, construction, manufacturing
Mafube	12.0%	4.0%	Agriculture, construction, transport
Total	100%	100%	

Source: FDDM (2008)

According to FDDM (2008), the district's economy grew by 2.1% per annum between 1996 and 2007. This compares to the 0.7% per annum growth for the Free State Province during the same period. A comparison of the production statistics in FDDM from the years 1996 to 2007 reveals that district's relative contribution to gross provincial product increased exponentially from 12.6% to 31.8% (FDDM, 2011). The FDDM report (2008) also estimated that 60 to 80% of job opportunities in the district are created by SMEs.

A strategic plan developed by FDDM (2011) highlights that the district municipality has identified manufacturing, mining, construction, tourism, and agriculture as the key drivers of its economy. The plan further indicates that the following key development areas have been prioritised as a framework for the district's economic development in the medium to long term:

- expansion of the manufacturing sector
- diversification of agricultural development
- development of local tourism
- development and expansion of the transport and distribution industry
- development of SMEs

The growing interest in local governance in municipalities such as FDDM is understandable considering the greater roles played by the private sector and civil society in local economic development. With this realisation, there is an observable trend in the European Union and other developed countries that new forms of relationships between the public and private sectors emerge in relation to local governance (Goymen, 2008). Johannisson (2007) posits that when the local government joins forces with the local business and civil society new realities become enactable, despite the existence of obstacles which are known to be insurmountable in regional development. As noted by authors such as Swoboda, Meierer, Foscht and Morschett (2011) as well as Kirkels and Duysters (2010), effective collaboration requires effective participants that include government, private-sector and non-governmental organisations at both local and international levels. In agreement, Coats and Passmore (2008) opine that successful public service delivery depends on a continuous dialogue with citizens, who should be thought of as stakeholders on a par with government, experts, industry representatives, the media, the judiciary and service consumers.

Hjorth and Johannisson (2003) stress that sustainable local economic development can be organised from below as well as from inside and is guided by the social agenda. This demonstrates that that the potential for regional development depends more on the quality of the relationships between firms and institutions than on the internal characteristics of individual actors (Johannisson, 2007). Despite these observations, it is interesting to note

that most local governments still experience difficulties in relating to the private sector since the required trust has to be developed first, and that both the role players should recognise that they need to accept joint responsibility in local economic development (Reddy, 2008).

RURAL ENTERPRISE DEVELOPMENT

Johannison (2007) defines development as the process of creating an economic and political environment in which people can expand their capability and choices. He further suggests that when growth and progress are not connected, the unemployed and those workers in insecure and poorly paid jobs feel alienated from their national economy. Van Dijk (2000) also points out that it is important to create an enabling economic and political environment because a positive macro-economic context is more influential in promoting the development of small enterprises than very specific policies such as providing credit or training.

Enterprise development may be perceived as the strengthening of the integration of small firms with potential for growth and expansion into the economic mainstream, that is, the value chain system of modern industries (Morales-Nieto, 2008). Liu (2004) points out that economic development is interrelated to SME development in that the higher the level of economic development, the more flourishing the SMEs. Regions with more developed SMEs typically possess much higher economic development levels, as noted by Li, Jingfeng and Xuezhu (2012). Tambunan (2006) also opines that SMEs in developing countries are important socially and economically for a number of reasons, including:

- wide dispersion across rural areas and important for rural economies;
- their capacity to employ a many people in their local economies; and
- their ability to provide an opportunity for entrepreneurial and business skill development.

The results of a study conducted by the Commission for Rural Communities (2007) indicate that most rural districts in England experienced a significant growth in a number of small businesses between 1995 and 2004 and that their growth was marginally higher than in those in urban authorities. Furthermore, Bosworth (2009) observed that although the national economy in England is dominated by urban centers, nearly 28% of all small businesses are in rural areas. Small businesses in rural areas are more likely to employ more people than their urban counterparts (Nisula & Pekkola, 2012; Lean, 1998). Patterson and Anderson (2003) attribute this likelihood to two factors, namely, spatial variations and the relatively lower cost of labour. These observations demonstrate that SME growth in rural areas is a key contributor to economic development.

German Agency for Technical Cooperation (GTZ, 2003) recognises that one of the strategies to increase active participation and linkages by the private sector in rural development is to create local business networks among businesses. Organisations that are involved in networking have interconnected linkages that allow more efficient mobility towards predetermined objectives than would be the case if they had operated as single entities (Dennis, 2000; Aleke, Ojiako & Wainwright, 2011).

The development of small enterprises in emerging countries is hampered by several challenges. Grodach (2011) concluded that 6 key barriers to sustainable enterprise and economic development in rural areas namely, a conventional economic development mindset, incentive-based practice, a lack of resources, ad hoc planning, inter-regional competition, and a lack of coordinated regional planning. Authorities may therefore examine these aspects and make structural adjustments where necessary in order to enhance the economic development of their regions. Moreover, Morales-Nieto (2008) identifies three major structural problems in rural enterprise development, namely:

- the lack of reliable data and information on the small enterprise sector (This data is useful for strategy and policy design)
- the weak connection of the small enterprise sector with the formal modern economy in respect of its technological and market dynamics
- the dispersion of tools and incentives, which are mostly provided through a huge number of public and private agents with diverse business philosophies, purposes and practices.

Van Dijk (2000) argues that the second structural problem mentioned above is critical for the development of small enterprises and adds that backward and forward linkages between small, medium and large enterprises are often quite limited in most developing countries. The author further suggests that inter-linkages between firms of different sizes can be a source of capacity for small business especially in the areas of technology and innovation. Moreover, scholars such as Turner (2000) as well as Andrabi, Ghatak and Khwaja (2006) point to the practice of flexible specialisation as a possible solution to this problem, as it emphasises the establishment of networks, clusters and other forms of interaction between small and large firms. Flexible specialisation also emphasises the importance of maintaining a balance between competition and cooperation in areas such as design and innovation is emphasised (Loving, 2009), thereby enabling businesses to share information pertaining to the generation of innovative products.

Aleke *et al.* (2011) argue that successful technology diffusion has an impact on the productivity and effectiveness of SMEs operating in developing countries. This implies that the availability of state-of-the-art technology is an important driver for business expansion in rural areas. High and ever-increasing expectations are placed on ICT in terms of bringing about improvement in quality of life, empowerment and economic development for the rural communities (Hosman & Fife, 2008). Naik, Joshi and Basavaraj (2012) also draw attention to the fact that in most developing countries, the situation is complicated by a constellation of factors such as the non-availability of resources (e.g. computers) and a lack of support from governing authorities. The authors further suggest that governments may support businesses in rural settings by establishing ICT centers to in rural areas to provide information technology enabled services. Availability of such ICTs to rural settings could encourage small business establishment and growth as well as significantly improve effectiveness of government service delivery.

Turner (2000) suggests that municipal collaborative governance is another key issue that influences enterprise development in rural settings. Businesses are bound to be established and grow in areas where the municipality effectively collaborates with higher government. The findings of a recent study conducted by Taylor (2012) reveals that state threats of amalgamation; shifting national policy emphases in rural development; and, local preferences for horizontal rather than vertical forms of cooperation are influential in catalysing a brand of defensive regionalism amongst local government actors. Such oppositional response is dysfunctional and has adverse effects on local governance, which is always subservient to higher government, which may apply its controlling powers arbitrarily to influence the course of events (Coles, 2010).

Mason, Castleman and Parker (2008,) stress that social capital and coordination is fundamental for regional development and initiatives. The authors also dwell on the fact that social capital is the value accessible from networks that are held together by a sense of reciprocity based on good will, mutual support, norms and trust. Partnerships have become the language of most business and political rhetoric in seeking solutions to complex problems in rural and agricultural areas throughout the world (Taylor, 2010). For instance, in many countries, strategic partnerships have been developed between local rural communities and global mining corporations and these have benefitted both parties

significantly (Hoppe, Rickson & Burch, 2007). However, it is important that such partnerships be balanced such that neither party ends up exploiting the other (Derkzen, Franklin & Bock, 2008; Edwards, Goodwin, Pemberton & Woods, 2001)

Several authors (e.g. Carroll & Blair, 2012; Ye & Carroll, 2011; Anselin, Syabri & Kho, 2006; Fujita & Krugman, 2004) underscore that local economic growth lies at the intersection of the disciplines of geography and economics, that is, the space-time interface. This implies that local economies, regardless of location may improve the growth of their economies by incorporating the geographic aspects of economic development, e.g. through the optimal use of all available spaces in an area for economic purposes such as industrialisation (LeSage & Pace, 2009).

A low population density as well as transport constraints may impact negatively on rural economic development (Owen, Hogarth & Green, 2012). Furthermore, mounting emphasis is being placed on the role of skills in enhancing productivity and economic development (UK Commission for Employment and Skills, 2010). This suggests that there is a strong need for investment in skills development on the supply side of the labor market as well as for improved use of the available skills. Moreover, inward foreign direct investment (FDI) can also be an instrument for local economic development as it enhances the economic growth of recipient countries/ regions by bringing physical capital, advanced technology, and management expertise (Ouyang & Fu, 2012).

PROBLEM STATEMENT

Enterprise development in rural municipalities continues to have a major influence on national economic development. However, in order for them to grow, rural businesses must be able to negotiate through a number of factors that determine their effectiveness.

Businesses in rural areas face challenges such as the inaccessibility to resources, lack of capacity to innovate, and lower awareness and usage of external business advice (North & Osborne, 2000). Westhead, Ucbasaran and Martin (2004) also detected that small businesses operating in more competitive urban areas were more likely to be engaged in collaborative partnerships and networks with other organisations and stakeholders than those in rural areas.

There is currently a dearth of research on rural enterprise development particularly in the context of South Africa. Empirical evidence is therefore required that addresses this issue. The purpose of this study is straightforward: to explore business development challenges in a rural district municipality. The study is important in that, once these challenges are identified, municipal authorities in rural areas will have access to information on what strategies they may employ to stimulate business development within their constituencies.

RESEARCH METHODOLOGY

Instrumentation and Procedures for Data Collection

In the current study, the survey methodology was used to examine business development challenges in FDDM in South Africa. The survey method was selected since it is a satisfactory and relatively easy means of collecting and analysing data pertaining to a particular population (Zikmund, 2000).

A literature review focused on factors/challenges that influence business development in rural settings study using both national and international sources was conducted. A 36 item

questionnaire was then developed and administered to the sample of business owners and managers within FDDM.

The questionnaire was divided into two sections. Section A used a nominal scale with pre-coded option categories to elicit the respondent's biographical details, while Section B elicited the respondent's perspectives with regard to the areas of markets and business development, labour supply, business planning, and the local environment. These were measured using a five-point Likert scale ranging from strongly agree (1), agree (2), not sure (3), disagree (4) to strongly disagree (5). The Likert scale was used as it is relatively easy to construct, makes data easy to collect and analyse, thereby making them suitable for surveys (Kothari, 2008).

To identify and eliminate problems that might occur during the main survey (Sudman & Blair, 1998), and to ensure that the questionnaire communicated the information correctly and clearly to respondents, the questionnaire was pre-tested with a convenient sample of 20 small business owners and managers located in the Vaal area in Southern Gauteng. In addition, an experienced researcher in the area of rural economic development reviewed the instrument for content validity. Feedback from the convenient sample and the expert facilitated minor changes to the questionnaire. This was then followed by the administration of the questionnaire in the final survey.

A covering letter which highlighted the purpose of the study was attached to the questionnaire. Ethical considerations including the respondent's right to confidentiality, privacy, non-participation, anonymity, informed consent and protection from victimization were adhered to. The questionnaire was administered to respondents across the entire district municipality through the assistance of 12 field workers who were identified and trained by the researchers. The field workers were assigned to local municipalities where they reside. The high response rate from the respondents may be attributed to this factor.

Participants

In the current research, a purposive sample consisting of 160 businesses that met specific criteria was utilised. In a purposive sample, the sample elements are selected because it is expected that they can serve the research purpose (Churchill & Iacobucci, 2002). Participating businesses had to meet the following preconditions:

- The business had to be located within FDDM.
- The business must have been in operation for more than one year.
- The business was legally registered under South African law.

The questionnaire was administered to owners and managers of businesses in FDDM. The actual data analysis included a total of 143 respondents who answered the questionnaire completely, giving a return rate of 89%, which was acceptable.

RESEARCH FINDINGS

Data Analysis

After the questionnaires were returned, they were edited and coded for input into the Statistical Package for the Social Sciences (SPSS: Version 19 for Windows). The reliability of the measuring scales was tested using Cronbach's coefficient alpha. Construct validity was assessed through the factor analysis procedure whereby the cross loading of variables were examined. Four factors reflecting distinct dimensions with a high level of communalities showing cohesiveness of each factor were extracted. These factors accounted for 61% of the variance and were computed through the Principal Component Analysis (PCA) using Varimax rotation. The factors are described in Table 3.

Table 3: Factor Descriptors

Factor	Label	Cronbach Alpha	Description
1	Markets and business development	0.712	This refers to the process of strengthening ties with existing clients/customers while cultivating new ones
2	Labour Supply	0.632	This refers to the availability of suitable human resources
3	Business Planning	0.850	This refers to the determination of the goals and strategies in order to ensure growth and survival
4	Local Development	0.895	This refers to the building up of the economic capacity of a local area to improve its economic future and the quality of life for all.

Table 3 indicates that the Cronbach alpha values ranged from 0.632 to 0.895. Hair *et al.* (2010:385) argue that factor loadings greater than ± 0.3 may be considered as adequate; while loadings greater than ± 0.4 may be considered important and loadings greater than ± 0.5 are more important. Therefore, based on that prescription, all four factors extracted were retained in the study.

Demographic characteristics of Respondents

Approximately 64% (n=92) of the respondents were male and 36 % (n= 51) were female. In addition, a majority of the business owners/ managers (71%; n= 102) were aged above 30 years and the remaining 29% (n= 41) were aged below 30 years.

Profiles of Businesses

The profiles of businesses that participated in the survey are illustrated in Table 4.

Table 4: Profile of Businesses

Variable	Categories	N	n	%
Type of business	Sole proprietor	143	33	23
	Cooperatives	143	10	7
	Close corporations	143	47	33
	Private companies	143	40	28
	Partnerships	143	13	9
Nature of Business	Mining/ Quarrying	143	4	3
	Manufacturing	143	20	14
	Retail	143	59	41
	Construction	143	19	13
	Transport	143	11	8
	Tourism	143	13	9
	Community/Personal service	143	7	5
Finance/Insurance	143	10	7	

Number of people employed by the business	1-10	143	30	21
	11-20	143	52	36
	21-50	143	16	11
	51-100	143	21	15
	101-200	143	4	3
	201-500	143	6	4
	501 +	143	14	10
Number of years of business existence	1-5 years	143	44	30.8
	6-10 years	143	37	25.9
	11-15 years	143	16	11
	16-20 years	143	10	7.3
	21 years +	143	36	25
How the business was acquired	Inheritance	143	7	5.1
	Newly established	143	96	66.9
	Purchase	143	40	27.9

Table 4 indicates that a combined 84% (n=120) of the businesses were private companies, close corporations and sole proprietorships. With regard to the nature of business operations, a combined 68% (n= 97) businesses were in the retail, manufacturing and construction industries. Approximately 83% of the businesses (n=119) employed less than 100 people. In terms of the number of years of business existence, 57% (n=82) of the businesses had been operational for less than 10 years. Moreover, the majority of businesses (67%; n=96) were newly established enterprises. This trend is consistent with the Commission for Rural Communities' (2007) assertion that there is a high growth of SMEs in most rural areas.

DISCUSSION

Markets and Business Development

The responses to the *Markets and Business Development* factor are described in Table 5.

Table 5: Responses to the *Markets and Business Development* factor

Item	Item Description	Strongly agree 1		Agree 2		Not Sure 3		Disagree 4		Strongly Disagree 5	
		%	n	%	n	%	n	%	n	%	N
14	The inputs for my business are sourced within the municipality	6.3	9	53	77	0	0	16.9	23	23.8	34
19	Political leaders in the local economy are able to mobilise resources for the advantage of local business	10.5	15	13.3	19	13.3	19	42.7	61	20.3	29
20	Political leaders work together with the national and provincial leaders to position the local economy in the global context	22.4	32	9.1	13	7.0	10	25.9	37	35.7	13
27	The municipality handles the development of applications for businesses speedily	7.7	11	13.3	19	9.8	14	16.9	67	22.4	32

29	The local municipality has a good understanding of the problems facing the local economy	8.4	11	8	14	8	11	48	68	27.3	39
30	Local government has been able to package the area for marketing purposes	7.7	11	9.8	14	7.7	11	47.6	68	27.3	39
31	The municipality has inappropriate bylaws and regulations that hinder business development	35.7	51	32.9	47	3.5	5	21.0	30	7.0	10
33	Businesses in the local area have access to business support services providers	27.3	39	25.9	37	9.8	14	25.2	36	11.9	17
35	The local government encourages the establishment of small businesses	23.8	34	37.8	54	3.5	5	21.7	31	13.3	19

With regard to item 14, approximately 59% of respondents either agreed or strongly agreed with the statement that they source their inputs from suppliers based within the district. These results are consistent with Tambunan's (2011) observation that rural SMEs are exposed to marketing constraints as they do not have sufficient resources to explore their own markets but place a heavy dependence on their trading partners who do product marketing for them through either local production networks or subcontracting relationships.

With regard to item 19, approximately 62% of respondents either disagreed or strongly disagreed with the statement that political leaders in the local economy were able to mobilise resources for the advantage of local business. In item 20, approximately 66% of respondents either disagreed or strongly disagreed with the statement that political leaders work together with the national and provincial leaders to position the local economy in the global context. This denotes that the role of municipalities in opening up markets in FDDM has been compromised through unfavourable political dynamics. Notably, these key issues were also mentioned as key changes affecting local government economic development in the DTI Report on SMMEs (2004). It appears then that there is little political support for business development in FDDM.

In terms of the handling of business applications (item 27), approximately 62% of the respondents either disagreed or strongly disagreed with the statement that the municipality handles the development of applications for businesses speedily. This finding sustains the possible existence of red tape and bureaucracy within FDDM. In contrast, Indon (2007) maintains that the rapid processing of business applications is an important legal mechanism that improves small business conditions in most contexts.

With regard to items 29 and 30, approximately 75% of respondents either disagreed or strongly disagreed with the statement that the local municipality has a good understanding of the problems facing the local economy and with the statement that the municipality has been able to market the area, respectively. On the other hand, approximately 62% of respondents either agreed or strongly agreed with the statement that the municipality encouraged the establishment of SMEs (item 35) while approximately 69% of respondents either agreed or strongly agreed with the statement that the municipality has inappropriate bylaws and regulations that hinder business development (item 31). These results suggest that although the municipality demonstrates support to SMEs in some ways, its inability to understand the challenges facing SMES as well as the existence of inappropriate legislative frameworks

continue to hinder business development. The district municipality therefore has to initiate and implement programmes that affirm the fact that support for small businesses in rural areas is likely to be beneficial to the economic development of such areas (Lean, 1998). A recent study conducted by Liu, Xu, Su, and Tao (2012) also proved that fiscal reforms enacted by government helped to enhance enterprise development as well as local governance effectiveness in rural China.

Labour supply

The responses to the items in the *Labour Supply* factor are described in Table 6.

Table 6: Responses to the Items in the *Labour Supply* factor

Item	Item Description	Strongly agree 1		Agree 2		Not sure 3		Disagree 4		Strongly disagree 5	
		%	n	%	n	%	n	%	n	%	N
16	Labour costs are affordable in this municipality	52.4	75	22.4	32	9.8	14	10.5	15	4.9	7
18	The workforce in this municipality is appropriately skilled	11.9	17	16.1	23	8.4	12	41.3	59	22.4	32
21	The workforce serves as an attraction for new businesses and industries	29.4	42	42	60	7.0	10	14.7	21	7.0	10
26	Uplifting the skills and capabilities of people is a challenge	22.4	32	53.1	76	6.3	9	11.2	16	7.0	10

The labour supply dynamics in FDDM present an interesting paradox. Cheap labour is readily available in many parts of South Africa because the country has been experiencing high levels of unemployment for several years (Kingdon & Knight, 2006). It is possible that FDDM has benefited from this situation. This is supported by the fact that the majority of respondents (74%) either agreed or strongly agreed with the statement that labour costs are affordable in FDDM (item 16).

The responses with regard to item 18 indicate that approximately 69% of the respondents either disagreed or strongly disagreed with the statement that the workforce in the municipal area is appropriately skilled (item 18). This could be symptomatic of the critical skills shortage that has bedeviled the whole of South Africa for the past several years (Kingdon & Knight, 2005). The situation is further constrained by the fact that approximately 75 % of the respondents also indicated that that the uplifting of the skills and capabilities of people within the municipality is a major challenge (item 26).

The labour supply situation in FDDM is paradoxical in nature in the sense that on one hand the availability of cheap labour may be desirable for most businesses, yet on the other hand, this abundant human resource is inadequately skilled to make any meaningful contribution to business development within the municipality. The fact that the situation on the ground presents difficulties in the training of the available labour only serves to compound the problem. The uplifting of the skills and capabilities of the people in the area not only brings manifold economic benefits to the district, but individual businesses and people may also benefit. As observed by Petrescu and Simmons (2008), workers who work in firms or environments that offer both training and encouragement to develop skills are more likely to report that they are “satisfied”, or feel better, with their remuneration.

Business planning

The responses to the items in the *Business Planning* factor are illustrated in Table 7.

Table 7: Responses to the items in the *Business Planning* factor

Item	Item Description	Strongly agree 1		Agree 2		Not sure 3		Disagree 4		Strongly disagree 5	
		%	n	%	n	%	n	%	n	%	N
12	Use of information and communications technology is considered important to our business	39.9	57	41.3	59	10.5	15	6.3	9	2.1	3.0
13	Local government encourages the use of e-commerce within the municipality	42.7	61	43.4	62	6.3	9.0	5.6	8.0	2.1	3.0
26	The local government creates a platform for networking among businesses and with the municipality	7.0	10	11.2	16	6.3	9.0	53.1	76	22.4	32
33	Businesses have access to business support services	27.3	39	25.9	27	9.8	14	25.2	36	11.9	17
36	I expect my business to grow in the next three years	9.8	14	59.4	85	4.9	7.0	9.1	13	16.8	24

With regard to item 12, at least 81% of the respondents either agreed or strongly agreed that the use of information and communications technology (ICT) is considered strategic to their businesses, while approximately 86% of the respondents either agreed or strongly with the statement that the local government encourages the use of e-commerce within the municipality (item 13). These results are in harmony with the suggestion by Lee, Chu and Tseng (2011) that the adoption and use of current ICT in business is a major determinant of corporate performance.

The responses with regard to item 26 indicate that at least 75% of respondents either disagreed or strongly disagreed with the statement that the local government creates a platform for networking among businesses and with the municipality. This may imply that networking activities are either non-existent or are at a minimum in FDDM, a situation which contradicts Coats and Passmore's (2008) conclusion that networking groups are a very important tool for the development of any business enterprises.

On item 34, approximately 68% of respondents either agreed or strongly agreed with the statement that they expect their businesses to grow in the next three years. This may imply that these businesses will create more job opportunities for the FDDM community, while at the same time holding out to their owners the possibility of amassing wealth, variety, self-fulfillment, and independence (Tonge, Larsen & Roberts, 2000).

Local environment

The responses to the items in the *Local Environment* factor are described in Table 8.

Table 8: Responses to items in the *Local Environment* factor

Item	Item Description	Strongly agree 1		Agree 2		Not sure 3		Disagree 4		Strongly disagree 5	
		%	n	%	n	%	n	%	n	%	N
15	The declining market is negatively affecting our business	28.7	41	41.3	59	8.4	12	14.7	21	7.0	10
17	Markets are relatively easy to access from this municipality	23.1	33	58	83	7.7	11	9.1	13	2.1	3.0
22	The crime rate in this municipality is low	31.5	45	47.6	68	2.1	3.0	11.9	17	7.0	10
23	The municipality develops/ upgrades areas where there is growth	30.1	43	51.7	74	9.1	13	8.4	12	0.7	1.0
24	Transport and logistics costs are low in this area	3.5	5.0	15.4	22	6.3	9.0	43.4	62	31.5	45
25	The municipality charges effective rates and taxes that support business in the area	2.1	3.0	10.5	15	17.5	25	45.5	65	24.5	35
28	Local government service delivery is poor	31.5	45	30.1	43	6.3	9.0	18.9	27	13.3	19
32	Public spaces in this town are attractive	28.7	41	27.3	39	3.5	5.0	27.3	39	13.3	19
34	Land availability is a challenge in this municipality	9.8	14	59.4	85	4.9	7.0	9.1	13	16.8	24

With regard to access to markets, approximately 70% of respondents indicated that access to markets and low crime rates were among the most important reasons that encourage them to continue business within FDDM. The relatively low crime rates coupled with affordability of labour costs could be two key areas that the district municipality may use in attracting business to the area. This is supported by Ntuli (2000) who found that there is a positive correlation between low crime rates and economic and social development.

At least 78 % of respondents also pointed at rising transport and logistics costs, rising costs of rates and taxes, poor service delivery from local government, and the shrinking market as the major constraints that they face in operating their businesses within FDDM. Consistently, Arvis, Raballand and Marteau (2007) maintain that developing economies are primarily affected by high costs in essential services such as transport and logistics. In addition, Charney (2010) also throws spotlight on the fact that the nature and level of public services such as rates, taxes and general service delivery can significantly influence economic development. This presupposes then that for enterprise development to be sustained in FDDM, local government has to streamline its service delivery programmes and come up with a rates and taxes structure that promotes rather than stifles business.

While access to markets seems to be the main reason why businesses stay within their localities, there is a growing concern about the shrinking market. There are two possible reasons for this phenomenon: namely, the unpredictable global economic climate (Akyuz, 2011) and the notable decrease in the population rates of Moqhaka and Mafube local municipalities respectively.

Approximately 56% of the respondents indicated that public spaces around the towns in the FDDM are unattractive. This depicts that there is a need for infrastructural development in and around FDDM. Interestingly, the issue of utilisation of public spaces in rural spaces continues to dominate productive conversations between economists and geographers (Carroll & Blair, 2012). As advised by Smith and Lomba (2008), infrastructure cannot be developed successfully in isolation from political and governmental structures, processes and systems. This entails that there has to be effective integration of stakeholder requirements and appropriate skilling to allow for effective planning and execution.

With regard to item 34, approximately 69 % of the respondents either agreed or strongly agreed with the statement that the availability of land remains a challenge in FDDM. Mathe (2010) upholds that challenges such as these are mainly attributable to the now defunct apartheid spatial planning system which has proved very difficult to address in the democratic era of South Africa. The author further attests that the post-apartheid government in the country has been unable to direct settlement planning and land use in a way that ensures access to economic opportunities. This demonstrates that proper lobbying by all stakeholders should be carried out to seek ways in which these colonial imbalances may be addressed.

STRENGTHS, LIMITATIONS, AND IMPLICATIONS FOR FURTHER RESEARCH

The strength of this study lies in the fact that it used a purposive sample. The sample was composed of businesses that were directly involved in the phenomenon being investigated (Sooful, Surujlal & Dhurup, 2010). Furthermore, the fact that there is a paucity of research on business development in South African rural municipalities indicates that this study constitutes groundbreaking research. However, the study is limited in that its results are confined to one rural municipality. Consequently, questions may be raised on the generalisation of the research results.

The current study presents several implications for further research. Most of business activities in FDDM are localised. This presents opportunities for further research on the regional expansion and internationalisation of rural businesses. Since the upgrading of the skills of the residents is a challenge, a study can be conducted on how best the skills and competencies of people in the area may be improved. Studies can also be conducted on the concerns raised by respondents, such as the rising transport and logistics costs, the rising costs of rates and taxes, shrinking markets, infrastructural development and land use. The results of the present study could be further refined by conducting the same study using a more qualitative approach. This could provide factual value that enables one to better understand the issues under spotlight.

CONCLUSIONS

The purpose of this study was to explore business development challenges in a rural municipality in South Africa. The results of the study have revealed that there are shortcomings with regard to several areas that influence the development of business in the FDDM municipality. The municipality faces challenges in the upgrading of the skills and capabilities of the residents. There is evidence of poor service delivery and public spaces are still very unattractive. The available legislative frameworks do not support business development in the area. Furthermore, more land is still needed for business; the municipality is yet to be packaged for marketing purposes, and partnerships or networks between businesses or between businesses and other strategic constituencies, such as government and political players, are still lacking. All these factors have a bearing on business development in the area. The municipality therefore has to come up with

programmes that address these discrepancies in order to stimulate and sustain business growth and the retention of businesses within the constituency.

Despite the existence of gaps and inconsistencies highlighted in this study, the overall picture is significantly positive. For instance, approximately 69% of businesses anticipate that their production capacity will continue to increase in the years to come. Should this trajectory be maintained, it will enhance the demand for labour in the municipality. Furthermore, municipal authorities still exhibit some levels of support and interest in improving business development in the area. Such developments denote the existence of high levels of optimism in businesses within FDDM municipality. Furthermore, the fact that the majority of businesses were established within the last ten years indicates that there is a significant propensity for entrepreneurship within the municipality. Consequently, the district has begun to play a more significant role in its contribution toward the gross geographic product of the Free State province.

RECOMMENDATIONS

The findings of the study suggest that there are several challenges that need to be addressed by the FDDM municipality with regard to business development in the area. The following recommendations would be helpful in meeting the identified challenges.

Since many businesses in FDDM fall under the SME sector, as a policy intervention the district municipality may consider establishing or helping establish business incubators. Business incubators are organisations designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services that could include physical space, capital, coaching, common services, and networking connections (Grimaldi & Grandi, 2005). Atherton and Hannon (2006) assert that incubators are a positive and effective means of public intervention, particularly in rural areas, as they can provide significant resources to new ventures and are likely to attract new firms and to enhance their prospects for start-up and survival.

In order to stimulate the growth of their businesses, business leaders in the municipality should be encouraged to seek for greater business opportunities outside their municipal boundaries. In support, Chell and Baines (2000) indicate that there exists increased potential for business success if their owners are alert to business opportunities. Strategies such as horizontal and vertical integration, diversification and market development strategies may be used for these purposes (Reddy *et al.*, 2008). In addition, SMEs can source funds from appropriate financial institutions or available government lending institutions (Haque, 2008). These funds can be channeled toward the growth of SMES in the municipality.

With regard to communication, a paradigm shift should be adopted in the manner in which business and municipal authorities in FDDM operate. Channels of communication and networking platforms should be opened up between the local business community and the local government. Such actions are likely to result in the creation of institutional trust and cooperation between these stakeholders. Entrepreneurial networks can be established in rural communities as they are likely to facilitate enhanced innovation and cluster formation, both of which may be vital for the economic development of rural communities (Maniukiewicz, Williams & Keogh, 1999; Callois & Aubert, 2007; Mason *et al.* 2008). Networks may also provide a platform for public participation, which yields benefits such as higher citizen input in community development, deliberative and reflexive dialogue and collaboration between stakeholders (Moore, 1995). Networking may be improved through the creation of business associations in FDDM as well as the promotion of functions such as Corporate Golf Days where SME owners and Managers in the district can meet to interact. The municipality can also run programs such as the Businessman or Manager of the Year Functions to provide a platform where various stakeholders can meet to interact.

Overall, there is need for the municipality to come up with an effective business retention and expansion programme (BR & E). BR & E strategies assist all role players within the local economy to contribute in the economic development of their area (Mason *et al.*, 2008), and enables the municipality to anticipate and address the problems before they even occur (Try, 2008). As such, municipalities become proactive rather than reactive while reassuring and promoting the well-being of existing businesses at the same time. Silverman (2006) highlights that to achieve this, the municipality may develop and implement various programs meant to prevent businesses from failing (business retention) and efforts that show businesses the potential for expansion within the borders of the municipal area (business expansion). A 'Distressed Business Fund' created by the municipality to bail out undercapitalised businesses could be an example of a business retention strategy. To help SMEs expand, the municipality could avail more land for business purposes.

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