



**FACTORS AFFECTING THE START-UP AND GROWTH OF BASOTHO-OWNED  
MSMEs IN SELECTED DISTRICTS OF LESOTHO**

BY

**TEBOHO RAMONYATSI**

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**STUDY LEADER: DR. JOHAN COETZEE**

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**BLOEMFONTEIN CAMPUS**

## DECLARATION

“I declare that the Field Study on **FACTORS AFFECTING THE START-UP AND GROWTH OF BASOTHO-OWNED MSMEs IN SELECTED DISTRICTS OF LESOTHO** hereby submitted for the Magister in Business Administration qualification at the UFS Business School, University of the Free State, is my own independent work and that I have not previously submitted this work, either as a whole or in part, for a qualification at another university or at another faculty at this university.

I also hereby cede copyright of this work to the University of the Free State.”

Name: Teboho Ramonyatsi

A handwritten signature in black ink, consisting of a stylized 'T' and 'R' followed by a flourish, enclosed within an oval shape.

Date: 25<sup>th</sup> January 2021

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## ABSTRACT

This study was carried out to observe issues encountered by Basotho-owned MSMEs in their quest to start and grow their businesses and to highlight the successful business strategies adopted by foreign MSME owners who outperform their local counterparts.

In trying to achieve the objectives of this study, a questionnaire method for data collection was utilised with closed-ended questionnaires distributed to 142 Basotho-owned MSMEs operating in the Maseru district of Lesotho, chosen through a stratified sampling technique. Out of 142 questionnaires distributed, 131 were returned, representing a 92% response rate. In order to get a holistic view of the respondents' perspectives and their level of agreement with specific questions, five-point Likert Scale questionnaires with options ranging from "strongly agree" to "strongly disagree" were utilised.

Based on the responses received through these set of questionnaires, the following findings were made:

Many Basotho-owned MSMEs are survivalists and as a result their growth and expansion potential is limited. This is highlighted by the fact that 85% of the MSMEs that participated in this study employed fewer than 20 employees, with just 15% employing more than 20 people in their workforce.

A big chunk of MSMEs were retailers (68%), followed by those in the services (26%) sector, wholesalers (4%) and manufacturing (2%). Furthermore, the majority of the MSMEs were owned by men, with participation by women mostly hampered by social and economic constraints.

Only 17% of the respondents (MSME owners) were between the ages of 21-30, with the majority (45%) of the owners in the 31-40 age group. This indicates that there is an enormous gap in opportunities for the younger population to venture into entrepreneurship.

Almost 50% of the MSMEs had been in operation for less than 5 years, while 31% had been in operation for between 6-10 years, and the rest had been in business for over 10 years.

In terms of the legal status of the MSMEs, 57% were sole proprietors, while 27% were companies, followed by partnerships with 14%, and close corporations (2%) completed the total.

The most common challenges faced by Basotho-owned MSMEs at start-up were a lack of access to finance, lack of business experience, high security costs to prevent crime eroding funds, and insufficient business networks. Furthermore, crime, a lack of managerial skills, lack of business training, lack of government support and difficulties in obtaining business licences were cited as additional challenges facing Basotho-owned MSMEs at start-up.

Challenges encountered during the growth phase were a lack of access to expansion capital due to absence of security and high interest rate charges, increased competition from both locally and foreign-owned businesses, high taxes and sophisticated custom and trade regulations.

One of the main successful business strategies used by foreign-owned MSME owners was their ability to sell products to consumers at a lower price due to them purchasing stock in bulk from suppliers, resulting in them obtaining significant trade discounts which they are then able to transfer to consumers. Other strategies they adopt include their ability to use technology and the formation of strong business relationships with their suppliers.

After observing the above findings, the study concludes by offering recommendations to owners of MSMEs, the Government of Lesotho, banks and other financial institutions in order to grow and sustain Basotho-owned MSMEs and have an effective influence on the Lesotho economy.

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## **ACRONYMS AND ABBREVIATIONS**

BEDCO	Basotho Enterprise Development Corporation
COVID-19	Coronavirus Disease
GDP	Gross Domestic Product
GoL	Government of Lesotho
HSRC	Human Sciences Research Council
LNDC	Lesotho National Development Corporation
LRA	Lesotho Revenue Authority
MFI	Micro-Finance Institutions
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organisation
NUL	National University of Lesotho
PE	Public Equity
R&D	Research and Development
SARS	South African Revenue Service
SME	Small and Medium Enterprises
SMME	Small, Medium and Micro Enterprises
SPSS	Statistical Package for the Social Sciences
UFS	University of the Free State
US	United States
VAT	Value-Added Tax
VC	Venture Capital

## CHAPTER 1: INTRODUCTION

### 1.1 INTRODUCTION AND BACKGROUND TO THE STUDY

The independence attained by Lesotho in 1966 meant that its citizens gained the freedom to establish various types of businesses. These businesses would help in boosting the economic status of the business owners and their families; as well as that of their respective employees (Shillington, 2004). It was then that Basotho were given an opportunity to own Micro, Small and Medium Enterprises (MSMEs), with the Ministry of Trade and Industry establishing BEDCO to assist MSMEs<sup>1</sup> in 1975, and the LNDC, which was formed to help in developing Basotho-owned MSMEs with the mandate of developing them and enhancing entrepreneurial skills amongst Basotho. (The Lesotho Review, 2020:20). Having proactive companies in the private sector takes the pressure off the government as the number of economically active citizens increases. These citizens are now socially included as they are no longer excluded by boundaries created by poverty and no longer struggle to access various resources.

The majority of small businesses in Lesotho barely survive, and their potential to grow and expand is extremely limited (Ministry of Small Business Development, Cooperatives and Marketing, 2018). Part of the cause is that these small business owners are not cognisant of regulatory issues impacting how they run their businesses (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). When interviewed in a study by the Ministry of Trade and Industry, Cooperatives and Marketing (2008), MSMEs owners cited a lack of demand, limited supplies, and difficulties obtaining funding from the government and other financial institutions as obstacles to their growth.

The MSME sector is crucial to socio-economic development in Lesotho and therefore, research to determine factors that impact the sector's start-up and growth is crucial. The study aims to determine factors that hinder start-up and growth of Basotho-owned MSMEs in the Maseru district. It is expected that information gained from the findings of this study will assist the small business owners to find feasible solutions; resulting from a bottom-up model, rather than a model created based on political influence and without consulting the beneficiaries. The findings will also aid the government and

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<sup>1</sup> MSMEs, SMMEs and SMEs are utilised interchangeably globally as a result of a lack of one globally accepted definition (Garg & Phaahla, 2018).

other stakeholders to identify relevant factors that affect MSMEs in the Maseru district and develop relevant policies and programmes to improve their business continuity.

### 1.1.1 The Lesotho MSME Sector

There are approximately 16 000 registered businesses in Lesotho owned by Basotho, with over 11 000 of these being small and micro businesses (The Lesotho Review, 2019:20). FinMark Trust (2016) estimated that there were 85 000 MSMEs in Lesotho as of October 2016; which shows that the majority of MSMEs are not officially registered. Accounting for approximately 118 000 jobs as of October 2016 (including 55 000 employed and 63 000 individual entrepreneurs), the MSME sector is the largest single source of employment in the country (FinMark Trust, 2016). There are roughly 76 000 MSME owners, with 83% of them owned by individual entrepreneurs and 17% owned by business owners, employing approximately 55 000 people at any stage.

**Table 1.1: A profile of MSMEs**

<b>Feature</b>	<b>Detail</b>
<b>Annual turnover (75% of MSMEs reported annual turnover)</b>	M192 million
<b>Turnover share</b>	Wholesale and retail 30%, Agriculture, fishery and forestry 22%, Other services 26%, Accommodation, hospitality, food services 10% Manufacturing 9% Transportation and storage 3%
<b>Number of MSMEs</b>	85 173 (Registered 14%, Unregistered 86%)
<b>Number of owners</b>	76 068
<b>Youth empowerment</b>	MSME owners 35 years and younger: 35% Owners over the age of 35 years: 65%
<b>Poverty alleviation</b>	70% of MSME owners rely exclusively on their businesses as sources of income
<b>Ownership structure</b>	Individual entrepreneurs 83%; business owners with employees 17%
<b>Number of employees</b>	118 000 (55 000 employed and 63 000 individual business owners)
<b>Business longevity</b>	Start-up – Less than 2 years: 36%. Growth – between 3 - 5 years: 24%. Established – 6 years or above: 40%
<b>Distribution by district</b>	Maseru 49%, Bera 11%, Leribe 10%, Butha-Buthe 7%, Mafeteng 7%, Mokhotlong 4%, Mochale's Hoek 4%, Thaba-Tseka 3%, Quthing 3%, Qacha's Nek 2%

M = Maloti (Lesotho's currency)

Source: *FinMark Trust, 2016*

## **1.2 Background to the Research Problem**

In virtually all the economies of the world, and particularly in emerging economies in Africa, MSMEs are key to sustained economic and development growth. MSMEs create dynamic, market-oriented economic growth, employing unskilled labour in developing countries, reducing poverty and encouraging democratisation. However, most of these MSMEs have challenges in accessing financing for product development, marketing, and for enhancing income generation, employment and livelihood sustainability.

Studies show that the majority of MSMEs do not achieve the desired growth as would be expected. Instead, they typically remain within their initial size categories. Kibas (1995) found that in Latin America and Asia respectively, 50% and 60% of MSMEs expand from lone enterprises to large enterprises. Gudda (2003) found that in Nigeria, almost 44% of MSMEs achieved natural growth from micro to small and medium enterprises. MSMEs' growth was established to be the worst in Rwanda, with only 10.75% growing beyond their initial start-up size, and in Botswana, this figure was 20.7%.

All the above studies were based on different contextual, conceptual and demographic backgrounds with different findings and study objectives. As none of these looked specifically at the factors impeding the start-up and growth of Basotho-owned MSMEs in this district of Lesotho, the need to carry out the current study was identified.

## **1.3 Problem Statement**

In Lesotho, the MSME sector contributes approximately 40% of the country's manufacturing output. The sector also contributes close to 35% of the aggregate exports of the country. It is estimated that 98% of all businesses in the country are found in the MSME sector, employing more than 50% of new non-farm employment seekers, contributing close to 3% of the GDP and 30% of the country's total employment (Lesotho Revenue Authority, 2019). FinMark Trust (2016) reveals that MSMEs contributed 50% towards the new jobs that were created in 2016. However, as shown in Table 1.1, it appears that only 24% grow from start-up size within the first five years of establishment, and only 40% have been established for more than six years. This study sets out to identify the factors that affect the start-up and growth of

MSMEs in Lesotho. If these factors could be identified, then strategies and solutions could be put in place to address these factors constructively. This, in turn, would help the economy of Lesotho to grow and create a more prosperous nation. If the problem is not resolved, Lesotho will remain in the same position as it is now: real economic growth averaged 1.4% between 2015 to 2018, and, according to the World Bank (2019), future prospects are not positive, unless economic growth can be stimulated. It has been suggested that the MSME sector is the engine of any economy (Storey, 2016) and it seems therefore, that if MSMEs in Lesotho could become more sustainable, this would go a long way towards solving some of its economic problems.

## **1.4 Objectives of the Study**

### **1.4.1 Primary Objectives**

To determine the factors that hinder the start-up and growth of Basotho-owned MSMEs in the Maseru district in Lesotho.

### **1.4.2 Secondary Objectives**

The secondary objectives of this study are to determine:

- Challenges facing the start-up of Basotho-owned MSMEs
- Challenges faced by Basotho-owned MSMEs which adversely affect their growth
- Business strategies used by the non-Basotho in the running of their MSMEs

## **1.5 Importance of the Study**

It is hoped that the research findings of this study will be significant in the following ways:

- It will give information to MSME institutions like BEDCO and the LNDC about the obstacles faced by MSMEs, thereby empowering these institutions to apply better and more efficient programmes and frameworks to aid the growth of MSMEs in Lesotho.
- It will be able to aid Government Agencies by helping them to formulate specific management frameworks and policies that will intensify the effectiveness and growth of MSMEs in Lesotho.

- It will also be important to researchers and scholars in gaining knowledge on the level of MSMEs' development in Lesotho, as they contribute to economic growth and job creation.
- Lastly, the findings will provide more knowledge on this field of research and this will be particularly helpful in developing countries like Lesotho.

## **1.6 Preliminary Literature Review**

In this section, the preliminary literature on the challenges facing MSMEs during start-up and growth will be reviewed.

### **1.6.1 Challenges facing MSMEs**

This section discusses the preliminary literature surrounding challenges faced by small business owners when starting and growing their MSMEs. MSMEs have played a crucial role in job creation, development and economic growth.

Several studies and surveys have been done on the factors hindering the growth of MSMEs in various contexts. For instance, in 2014, Alrabeei and Kasi investigated the main constraints facing Bahraini MSMEs. Findings revealed that the main obstacles to growth for Bahraini MSMEs were the lack of skilled human resources, a lack of finance, and intense competition. Cant and Wiid (2013) investigated the challenges affecting South African MSMEs. Their findings revealed that the major problems facing MSMEs include inflation, the cost of finance, unemployment, crime, a modest demand for products, implementation of incorrect pricing strategies and a lack of a suitable location for the businesses.

Furthermore, Garg and Phaahla (2018) researched barriers to financial performance of small businesses in the Sekhukhune region of South Africa. The results of the study revealed that the five factors that were positively related to business performance included finance, entrepreneurial characteristics, business allocation, products and services, and government support.

Garg and Makukule (2015), Fatoki (2011), Willemse (2011) Chebelyon-Dalizu, Garbowitz, Hause and Thomas (2010) and Brink (2007), found that the challenges facing small businesses are a lack of funds, overtrading, high transportation costs, poor infrastructure, bad debts, social pressure on business owners from friends and

relatives, steep competition, poor stock levels, cash flow problems, corruption and crime.

### **1.6.2. Challenges faced when starting MSMEs**

This part discusses the literature surrounding the challenges faced by owners when starting MSMEs. The challenges have been discussed as follows.

- **Lack of access to finance:** Most MSMEs experience problems raising adequate start-up capital (Ayandibu & Houghton, 2017). This leads them to depend heavily on the owner's savings or family savings for their establishment because business loans and overdrafts are not accessible to MSMEs due to a lack of security and the high costs of finance (Edelman, Manolova, Shirokova & Tsukanova, 2016; Ministry of Trade and Industry, Cooperatives and Marketing, 2008; Nawi, 2017). Insufficient funding creates instability and a weak foundation for a business to perform effectively (Kirby & Watson, 2017). Chandra, Chatlod, Kumar, Toppo, Haque and Rahman (2012) concur, observing that emerging businesses require enough financial resources for growth. Khan, Quaddus, Weber and Geneste (2020) observe that savings, loans from relatives or family members, retrenchment gratuities and loans from financial institutions are the main sources of funds for establishing MSMEs in Bangladesh.
- **Lack of adequate skills or experience:** Even in situations where a small business is sufficiently funded, the owner's lack of business skills or experience in running a business makes it difficult for a business to survive beyond the start-up phase (FinMark Trust, 2016). Business owners and their employees therefore need to be equipped with information technology skills to respond swiftly to external demands and improve business performance (Chittithaworn, Islam, Keawchana & Yusuf, 2011; Fielden, Davidson, Gale & Davey, 2000). Entrepreneurial skills and experience are therefore vital for the survival and growth of MSMEs.
- **Business location:** MSMEs in remote locations of Maseru district such as Semonkong and Mokhalinyane are isolated from larger urban centres of the district (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). Research studies conducted by Rantšo (2016), Fatima and Muneer (2016), Fatoki and Garwe (2010), and Eckert and West (2008) found that the survival and growth of a

business is related to its geographical location. Choosing a suitable business location is therefore crucial to reduce distribution costs, meet customer demands and fare better than competitors. As a result, prospective business owners should thoroughly evaluate whether their proposed business location is suitable to meet their customer demands and to minimise operating costs.

- **Products or services to sell:** Innovative products or services, their quality, affordability and reliability are all essential to the success of a business (Chittithaworn *et al.*, 2011). Entities that are able to introduce new products to the market have a higher chance of survival than those that are less innovative. For small businesses to grow, they need to bring the latest products or services that are suitable for their customers to the market (Frese, Mertins, Hardt, Fischer, Flock & Schauder, 2009; Tuan & Yoshi, 2009).
- **Lack of government support:** Garg and Phaahla (2018) found that several small businesses face major obstacles to survival due to a lack of government support. This is partly due to insufficient and incapable government policies and programmes to support small businesses. Zhu, Wittmann and Peng (2012) found that in China the government has carried out initiatives to support small businesses based on R&D, but that the majority of small business owners acknowledged that they encounter difficulties in accessing and benefitting from these support initiatives implemented by the government. Furthermore, in Lesotho, opportunities for small businesses to secure government contracts are limited (Ministry of Trade and Industry, Cooperatives and Marketing, 2008).
- **Lack of relevant information:** Many MSME owners are unaware of regulatory or tax issues, where to acquire start-up capital from government support programmes and how to access training opportunities (Ministry of Trade and Industry, Cooperatives and Marketing, 2008; Van Scheers, 2010). Ladzani and Netswera (2009) found that this is to some extent linked to insufficient direction and policy relating to the development of the sector.

- **Lack of linkages between small businesses and large businesses:** MSMEs suffer from a lack of networks between them and large entities. This becomes a major obstacle to building relationships and securing partnerships for economies of scale. Limited networks restrict MSMEs' access to potential markets (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). Effective business linkages between a business and its suppliers play a part in the growth and success of an entity (Nieman & Nieuwenhuizen, 2009).

### 1.6.3 Challenges when growing MSMEs

This part discusses the literature surrounding challenges faced when growing MSMEs. The challenges are discussed as follows:

- **Financial resources:** Many MSMEs rely heavily on the owner's capital injection for expansion (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). Obtaining finance is important in the development and growth of MSMEs. Without funding, MSMEs struggle to grow and expand their footprint to more markets. Yusuf (2014) highlights that many MSME owners obtain their capital injection from family members and friends because they do not have the capacity to borrow from outside institutions due to insufficient resources for collateral. Banks and other providers of capital consider MSMEs riskier than large, more established businesses due to their lack of financial records and budgeting (Mbonyane & Ladzani, 2011; Ahmad & Seet, 2009).
- **Competition:** According to Boshoff and Terblanche (2006), competition occurs when businesses sell a similar product to a similar market. In many cases, the increased competition benefits the consumer, who buys quality goods and services at affordable prices. While there are many factors that impact the growth of Basotho-owned MSMEs, high competition from Chinese and Indian-owned businesses in Lesotho has been highlighted as one of the major factors (FinMark Trust, 2016). Foreign-owned businesses buy stock on a large scale from wholesalers and consequently obtain significantly discounted prices, the benefits of which are then transferred to the consumer.

- **Crime and theft:** MSMEs are adversely impacted by a high crime rate (Van Scheers, 2010). Cant and Wiid (2013) point out that establishing a small business is risky due to high crime rates, especially when the business is located in a township.
- **High operational costs:** Operational costs like transport, electricity, water and rental costs affect the operational effectiveness of MSMEs. Transportation costs affect the profitability of MSMEs, particularly due to rising fuel costs. Many MSMEs in Lesotho do not own motor vehicles to transport their stock and as a result have to use hired transport at great expense.
- **Lack of business skills:** Many MSMEs owners are unaware of regulatory or tax issues, where to acquire start-up capital from government support programmes and where to access training (Van Scheers, 2010; Ministry of Trade and Industry, Cooperatives and Marketing, 2008).
- **Lack of marketing of the products or services:** Digital marketing plays a significant role in MSMEs' financial performance. Access to digital platforms such as the internet and social media helps to grow brand awareness, improve stakeholder relationships and increases product awareness (Garg & Phaahla, 2018). Small businesses need to make use of these new developments because they are easier and cheaper than many other types of marketing (Garg & Phaahla, 2018).
- **Lack of government support:** If MSMEs lack government support, their survival and growth is affected (Garg & Phaahla, 2018). This is linked to insufficient and ineffective government policies and programmes to support small businesses. Furthermore, opportunities for MSMEs to secure government contracts are limited (Ministry of Trade and Industry, Cooperatives and Marketing, 2008).

## **1.7 Research Methodology**

### **1.7.1 Introduction**

Research methodology is an exploration of concepts, rules and expertise implemented in a study. This analysis requires a systematic study of methods that will be used to investigate a specific study. Section 1.7.2 explains the rationale for research methodology and section 1.7.3 explains the research design. Section 1.7.4 details the target population while sections 1.7.5 and 1.7.6 explain sampling design and sampling methods respectively. Section 1.7.7 explains data collection methods and section 1.7.8 explain methods that will be utilised to analyse the data. Validity and reliability are explained in section 1.7.9 and the section concludes by discussing ethical considerations.

### **1.7.2 The Rationale for a Research Methodology**

According to Kothari (2017), the research methodology involves the rationale used for utilising a certain procedure. In this study, a quantitative research approach was used. Bloomberg and Volpe (2018:8) observe that a quantitative approach is utilised to narrate conditions, investigate relationships and study cause-effect phenomena. Therefore, the main reason for adopting a quantitative approach is the significance the method places on collecting data which can be quantified and put through statistical treatment so that alternative knowledge claims can be either supported or refuted (Creswell, 2018:153).

Various advantages of using a quantitative research approach have been observed by researchers, including Yauch and Steudel (2003:73). These include:

- Its simplicity
- The speed with which the research can be conducted
- Ease of administration of its research instruments
- Its ability to compare numerical data easily between individual people, groups or organisations
- Its ability to allow a degree of agreement or disagreement between participants

Furthermore, Neuman (2006:14) observes that the data obtained through a quantitative research approach allows others to validate the initial discoveries of the study by carrying out an independent analysis. The data obtained can also be

assigned to a computer-readable format and accurate and reliable predictions can be produced.

However, it has been widely accepted that a quantitative empirical research approach has its own downsides, as observed by Dudwick *et al.* (2006:3). These include the need for a large sample size, which is not always practically possible due to insufficient resources available to the research study in question.

### **1.7.3 Research Design**

This research study is considered an exploratory study as it is centred on identifying factors that affect the start-up and growth of Basotho-owned MSMEs, with questionnaires utilised as the primary instrument for data collection. Questionnaires are used in a survey research study to obtain views, perspectives, preferences and perceptions of a target population (Kathuri & Pals, 1993). The use of questionnaires is preferred because of its accuracy in this type of research given the lack of sophistication of the subjects. This instrument also saves time on the part of the researcher.

### **1.7.4 Target Population**

According to Asiamah, Mensah and Oteng-Abayie (2017), a target population refers to the total individuals, elements or groups to be studied. A population describes the parameters whose characteristics the research will attempt to describe, and refers to an entire group of individuals, events or objects having a common observable characteristic (Ghauri, Grønhaug & Strange, 2020). The target population for this study were all the MSMEs operating in the Maseru district of Lesotho. Lesotho has ten districts; namely, Maseru, Mafeteng, Mohale's Hoek, Quthing, Qacha's Nek, Thaba-Tseka, Mokhotlong, Leribe, Berea and Butha-Buthe. The Maseru district was chosen by the researcher because it is the country's capital city and home to more than half of the country's urban population, and as a result, trends relating to MSMEs can be discovered and compared easily. Small businesses have been operating since many years ago, after the country obtained independence from Great Britain in 1966. However, due to the poor financial performance of small businesses operated by Basotho compared to their foreign counterparts, anger, resentment and frustration have been building up over the years. As a result, the researcher focused on factors affecting the start-up and growth of Basotho-owned MSMEs and excluded foreign-

owned MSMEs from this study. Furthermore, limited time and a lack of financial resources will prevent the researcher from studying the entire population of Basotho-owned MSMEs in Lesotho.

### **1.7.5 Sampling Design**

This section entails the sampling procedures used to derive the sample for the study, which were used to generalise the findings to the larger population. According to Cooper and Schindler (2016), sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the larger group from which they will be selected. Selecting a sample is a crucial step of any research study undertaken.

### **1.7.6 Sampling Methods**

The study used stratified sampling which is a method of sampling from a population which can be subdivided into subpopulations. A stratified sample was considered to be advantageous because it may produce superior precision compared to a simple random sample of the same size, and often requires a smaller sample, which saves money and it may guard against an “unrepresentative” sample. It may also ensure that the researcher obtains sufficient sample points to support a separate analysis of any subgroup (McEvoy, 2018).

The MSMEs in the Maseru district of Lesotho are not comparable and therefore stratified sampling was used first. The strata were the business categories from which the sample was selected. The researcher chose five categories of MSMEs. The target categories were agricultural activities, healthcare, general trade, education and training and the service industry. The total population of MSMEs in the region, as per the Ministry of Trade and Industry, Cooperatives and Marketing stood at 1 420 across the five sectors in 2011. To adequately represent a sample of the population, 10% of the accessible population was enough, according to Hsieh, Bloch and Larsen, (1998); therefore, the study surveyed 142 MSMEs with between 10 and 49 employees. The researcher then used a simple random sampling to choose 142 MSMEs from the five categories that were involved in the study. This number was considered appropriate due to the time and cost constraints. The simple random sampling procedure was preferred because it allowed unbiased sampling and provided a more scientific basis for the research work, thereby making the validity of the research findings more

concrete. The sample size in each business category were determined by the proportion of the total in each category to the total population (with slight variation allowed).

**Table 1.2: Sample size based on a 10% sample for each category**

<b>Sector</b>	<b>Target population</b>	<b>Sample</b>
<b>Agricultural activities</b>	199	<b>20</b>
<b>Health care</b>	200	<b>20</b>
<b>General trade</b>	500	<b>50</b>
<b>Education and training</b>	171	<b>17</b>
<b>General services</b>	350	<b>35</b>
<b>Total</b>	<b>1 420</b>	<b>142</b>

### **1.7.7 Data Collection Method**

Questionnaires were used to collect data in this research study, which were distributed personally by the researcher to the respondents' business premises. A questionnaire is a list of questions assembled by a researcher for a specific investigation (Quinlan, Babin, Carr & Griffin, 2019). The contents of the questionnaire must be clear so that the respondents can answer the questions easily. Furthermore, questions must be short and straightforward to motivate quick and honest responses. The survey method provides respondents with restricted responses in answering the questions asked (Flick, 2011).

For the purpose of this study, a questionnaire was chosen for its ability to gather information from a large audience, its affordability and the ease of analysis of results. Furthermore, respondents were able to maintain their anonymity, which reduced the likelihood of false information being supplied (Tourangeau, 2018). Although in some cases it can be expensive and time-consuming to distribute the questions, questionnaires are generally easy to manage.

Closed-ended questionnaires were distributed to each respondent. The research topic were introduced and explained clearly and its significance were thoroughly explained. The introduction clearly informed the respondents of their right to withdraw from further engagement with the research study at any given time. Moreover, ethical standards and conduct required of research studies were respected at all times. The instructions

in the questionnaires were straightforward, clear and brief, written in easily understandable English. In order for the researcher to obtain a holistic view of the respondents' opinions and their level of agreement with specific questions, a five-point Likert Scale questionnaire was used. To acquire more answers and relevant supplementary details from the respondents, open-ended questions were incorporated along with the questionnaires.

### **1.7.8 Data Analysis**

Data analysis involves arranging, evaluating and explaining data obtained from respondents by observing patterns, themes, categories and uniformity (Gay, 1992). In this study, data was analysed using descriptive analysis and exploratory factor analysis commensurate with the aims and objectives of the study. Factor analysis was used to rank the factors observed in order of significance. Furthermore, descriptive analysis was utilised to analyse frequency distribution and percentages. Data was analysed using the SPSS software.

### **1.7.9 Validity and reliability**

Validity and reliability in research are employed to assess the quality of a research study. Reliability measures consistency of measure while validity is about accuracy of measure. Validity is split into construct, internal and external categories. Construct validity deals with the methods used to collect data. Questionnaires were used for collection of data in this study and they were directed towards owners or managers of MSMEs, who are typically those faced with start-up and growth constraints.

Internal validity entails a link between theories and empirical research. In this study, factors that hinder start-up and growth of Basotho-owned MSMEs were discussed in light of existing theories. External validity has to do with the area to which research findings can be generalised. In this study, a fairly representative sample was chosen.

## **1.8. Ethical Considerations**

Ethics are defined differently by different scholars. Ethics are moral principles that govern the behaviour of the person in whatever they do (Resnik, 2015). Ethics may be broadly referred to as that which is deemed good or bad for a person in their society.

As is standard in the social sciences, when carrying out this research, ethical considerations were observed. Before carrying out the study, the researcher obtained ethical clearance from the Research Ethics Committee of the UFS. Thereafter, the researcher requested permission from the Ministry of Small Business Development, Cooperatives and Marketing to conduct this study. All the participants were informed of the nature and importance of the study and explained to them before they participated. The researcher was careful not to cause any harm to those who participated, as he was governed by ethical considerations. Participation in the study was on a voluntary basis. Respondents were not required to give their names on the questionnaires. Respondents were assured that the information will not be interfered with and that the information collected will only be used for academic purposes and for the purpose of this research. Furthermore, all the ethical standards regarding the conduct of research were adhered to.

## **1.9. Study Outline**

### **Chapter 1:**

Chapter 1 began by introducing the study and articulated the problem statement, the aims and objectives of the study and the importance of the research study. The chapter also provided a brief discussion of the research methodology which was utilised in carrying out the research study. The chapter ended with a discussion of the professional ethical standards that were respected at all times during the conduct of this study.

### **Chapter 2:**

This chapter discusses MSMEs and their significance to the economy. It also discusses the challenges encountered by MSMEs during the start-up and growth phases. The chapter concludes by discussing the successful business strategies used by non-Basotho in running their MSMEs.

### **Chapter 3:**

This chapter provides a detailed discussion of the research methodology used in this study for the collection of data from the target population of the study.

#### **Chapter 4:**

This chapter will analyse the research findings, which will be derived from an analysis of the data collected from owners or managers of MSMEs who took part in this study.

#### **Chapter 5:**

This chapter will offer a discussion of the conclusions that may be made from the information collected. Finally, it will end with recommendations that will be made after conclusions from the findings have been drawn.

### **1.10. Conclusion**

This research study will attempt to determine the challenges encountered by Basotho-owned MSMEs in Maseru during the start-up and growth phases. It is widely acknowledged that MSMEs are crucial in creating opportunities for employment and also in improving the standard of living in both developing and developed countries, but due to several obstacles faced by MSMEs, only a few of the Basotho-owned MSMEs in Maseru are able to achieve effective business start-ups and meaningful growth. Although there have been other recent studies relating to MSMEs, much more research needs to be done, particularly in the Maseru district, where no research studies which have the aims and objectives of this one have been conducted to date. It is hoped that by focusing attention on the challenges faced by Basotho-owned MSMEs during the start-up and growth stages, recommended solutions will be identified to assist in improving business growth and the survival of MSMEs in the Maseru district. This chapter laid the foundation for the research study. The following chapter focuses on the review of the available and relevant literature in line with the aims and objectives of this study.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

MSMEs are of great importance in providing employment and creating business opportunities, and the benefits to those who are willing to improve their standard of living through running MSMEs should not be underestimated. Despite MSMEs creating self-employment for various people who are unable to obtain employment in the other sectors, the growth of these important businesses is sometimes hindered by several obstacles and constraints. In this chapter, literature dedicated to small businesses was reviewed by the researcher, with a specific focus on the main research question. The aim hereof is to attempt to understand the worldwide concept of MSMEs and then align these insights to the Lesotho environment.

The chapter starts with a comprehensive discussion of entrepreneurship and a review of the factors which encourage the development of entrepreneurship in societies. This will be followed by a brief discussion of the MSME sector as a means of earning a living. Furthermore, theories that can be used to explain the relationship between funding and small business growth will be discussed, together with the significance of challenges associated with start-ups and the growth of MSMEs. The chapter will conclude with a broad discussion of foreign small business owners and the strategies they use in order to outperform and outshine their local counterparts.

### **2.2 WHAT IS ENTREPRENEURSHIP?**

Entrepreneurship encourages economic growth all over the world. It gives people jobs and creates great wealth for those who operate businesses, be it at micro or macro level. For any successful entrepreneur, creative and innovative ideas play a pivotal role (Anderson, 2017:32). Countries should therefore assist those who wish to operate businesses. Many scholars have attempted to describe entrepreneurship and so there are different descriptions of the term. Thus, it is not easy to arrive at an exact definition of it. According to Ombongi and Long (2018:13), the word entrepreneurship is derived from the French verb 'entrepreneur'. This could be interpreted broadly as an activity that involves starting something or undertaking it. Hence entrepreneurship refers to the ability to begin and operate a business using certain attributes like creative and

innovative ideas. It also refers to the ability to generate profit after running a business in unfavourable conditions (Sitharam & Hoque, 2016:5).

It is clear that in most cases, people who become entrepreneurs take risks. Risk-taking involves incurring losses if the business is not managed well. The performance of any business is the concern of entrepreneurship (Rwigema & Venter, 2004:5). Granted, many scholars view entrepreneurship differently, however, it is accurate to assert that it is related to the generation of profit through taking risks in order to attain economic growth. According to Haresankar, Galappaththi and Perera (2018:321), entrepreneurs bring new methodologies, new strategies and provide new products in business circles.

An entrepreneur has the ability to see an opportunity and use it profitably (Perks, 2010). The founder plays a significant role in entrepreneurship. The founder effectively becomes the inventor, motivator, problem-solver and seeker. This person should also have numerous other traits, including strategic ideas (Nkwabi & Mboya, 2019:1). If the entrepreneur is to attain his/her ultimate goal, he or she has to take risks and should be highly innovative (Kamunyu & Theuri, 2017:10).

The success of any business can be attributed to entrepreneurial dynamism. This entrepreneurial dynamism entails making use of the required business skills. These skills are physical, intellectual and financial competencies (Chowdhury & Alam, 2017:17). Most self-employed Basotho do not excel in business due to limited formal education (Chuchuen & Tulasombat, 2018). This clearly shows how the aforementioned key competencies are critical to the success of entrepreneurs.

Researchers have attempted to describe the features of entrepreneurship in different ways. Below are some of the characteristics of entrepreneurship according to Kamunyu and Theuri, (2017):

- Entrepreneurship involves the willingness to take risks
- It is seen through one's ability to spot new opportunities
- It is shown by people who have a desire to fully engage in business
- The ability to create and invent reflects entrepreneurship
- It is reflected through planning and organisation.

In this technological age, unemployment is a major challenge. Due to the closure of some of the mines and other manufacturing sectors in South Africa, many Basotho, like most Southern African communities, suffered numerous job losses (Choi and Lim, 2017:42). Thus, the Lesotho National Development Corporation (LNDC) trains Basotho to acquire business skills in order to generate jobs for the retrenched miners and those who struggle to find jobs in other sectors (Lesotho Review, 2018-2019). As a result, the emergence of new businesses is crucial in reducing unemployment and in poverty alleviation. Furthermore, entrepreneurship encourages investment opportunities (Garg & Phaahla, 2018:9). Moreover, through entrepreneurship, people become self-employed and can make their own decisions.

Entrepreneurship can be classified into three different categories:

- Informal entrepreneurship
- Unproductive entrepreneurship
- Productive entrepreneurship

The informal entrepreneur does not look for growth. However, in this form of entrepreneurship, the aim is simply to avoid being on the wrong side of poverty (Thompson, Agyapong, Mmieh & Mordi, 2018:1). The informal sector, however, is often characterised by unproductive entrepreneurship, as the majority of these entrepreneurs struggle to attain jobs in the formal sectors (Shin, Park, Choi & Choy, 2017). Businesses that are remarkably successful and have the potential to grow reflect productive entrepreneurship. Such businesses help to reduce unemployment as they offer people jobs (Shin *et al.*, 2017).

## **2.3 Entrepreneurial Theories**

### **2.3.1 Resource-Based Theory**

Alvarez and Busenitz (2001:27) suggest that entrepreneurs who have ample resources at their disposal should take advantage of entrepreneurial opportunities which stimulate the growth and sustainability of a business. Resources such as finance and skilled labour influence business growth and sustainability because the existence of these resources means that new business ventures can be attempted. An outline of the different components of resource-based theories is summarised as follows:

### **2.3.1.1 Financial capital**

Zhu (2017:45) indicates that new businesses thrive when entrepreneurs have access to financial capital, and having access to financial resources enables business owners to embark on new business opportunities that may be available to them. Ndungu (2017:20) however, disagrees with this observation because their empirical study has indicated that some businesses have flourished despite very little financial muscle.

### **2.3.1.2 Social theory**

Reynolds (1991) observes that if entrepreneurs are socially connected to providers of capital like government and financial institutions, they stand a better chance of obtaining financial resources than those who have less social standing in a society.

### **2.3.1.3 Personality trait theory**

This theory is about the role played by certain entrepreneurial attributes like the ability to embrace a visionary approach to identify and embark on new business opportunities for the growth and sustainability of a business. It also involves creating new things and aspiring to success. However, Simpeh (2011:3) observes that although this theory lacks empirical support, there is proof that certain inherent qualities are important in determining the future entrepreneurial aptitudes of individuals. Different components of personality trait theory are summarised below:

#### **(a) Locus of control**

The intrinsic locus of control which is possessed by an entrepreneur dictates the extent to which he or she is able to impact the course of events or outcomes. If the entrepreneur has an internal locus of control, he or she is able to obtain goals due to his or her ability to control events. Numerous research studies have shown that entrepreneurs possess an intrinsic locus of control are highly innovative, competitive and autonomous (Okrah & Nepp, 2018:10). All these qualities are crucial characteristics of successful entrepreneurs.

### **(b) The need for achievement**

This theory developed by McClelland (1961) observes that human beings are driven by the need to excel and achieve success in relation to the set standards. This observation resonates well with entrepreneurial drive, shown in the willingness to achieve excellence. Johnson (1990:14) found that there is a hefty relationship between entrepreneurship and motivation for achievement. Shaver and Scott (1991:16) found that motivation to achieve is the solitary compelling personal attribute which distinguishes successful entrepreneurs from others.

### **(c) Human capital**

Human capital differs from other forms of capital like financial and physical resources, and includes things such as education, technology, experience, personality characteristics and social habits (Becker, Murphy & Tamura 1990). Stuart and Abetti (1990) and Zacharakis and Mayer (2000) agree that an entrepreneur who possesses personal attributes such as education and experience has the ability to attract investors, especially venture capitalists. Anderson and Miller (2003:32) further emphasise that education and experience lay a solid foundation for achieving entrepreneurial success.

## **2.3.2 The Pecking Order Theory**

The pecking order theory was initially developed by Myers (1984). It sheds light on the incentives that influence the decisions of SMEs' capital structure. The theory suggests that businesses opt to utilise internal sources of funds first and will fall back to external sources only if internal sources are exhausted. Some MSMEs commence with internal financing before looking for external sources. However, in most cases, internal financing is not enough for start-ups, unlike in more mature firms which have had more opportunities to build up and retain earnings than small businesses and thus have more financial resources available to fund organic growth. The pecking order theory proposes that these accumulated funds should be utilised first before external capital sources are tapped. Holmes and Kent (1991) observed that small businesses are faced with a more intense version of pecking order theory in their decisions because they are unable to access external sources of funds. It has been noted that small businesses differ in their capital structure but their intense reliance on the pecking

order is only one of the variables that make small businesses' financing decisions unique.

### **2.3.3 Financial Growth Theory**

Financial Growth Theory which was suggested by Berger and Udell (1998), explains how a firm's financial needs and financing options alter as the business expands, becomes more mature and less informationally operated. They further suggest that firms lie on a size/age/information continuum where the smaller/younger/more opaque firms lie towards the left end of the continuum, indicating that they must rely on initial insider finance, trade credit and/or angel finance. The growth cycle model predicts that as the firm grows, it will obtain access to venture capital (VC) as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth paradigm, as the firm becomes older, more experienced and more informationally transparent, it will likely gain access to public equity (PE) or long-term debt.

### **2.3.4 Imperfect Information Theory**

Imperfect Information Theory refers to the disparity of information between two parties to a transaction. When a lender or a buyer has imperfect information, a borrower with weak repayment prospects or a seller of low quality cars, for example, may crowd out everyone else from their side of the market thereby hindering mutually advantageous transactions (Lofgren, Persson & Weibull, 2002). This imbalance can cause one party to enter into a dubious transaction or make costly decisions as a result of information asymmetry which is a usual feature of any market interaction. For example, the seller of a good is typically more knowledgeable about its quality than the prospective buyer, while a borrower knows more than the lender about his own creditworthiness.

Jiao and Robinson (2011) observed that this theory assumes that financial institutions cannot differentiate effectively between high-risk and low-risk loan applicants. The theory further argues that mainstream financial institutions are not able to compete successfully with informal lenders because such lenders have better access to information about credit applicants than formal institutions have. The theory suggests that it would be difficult for banks to operate profitably in developing countries' credit markets and in attaining extensive outreach. Based on this theory, it would therefore be difficult for policy makers, economists, bankers, donors, financial analysts, and

government decision-makers to advocate for commercial banks to enter into the micro credit market.

Many small businesses rely heavily on the owner's capital injection for expansion (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). Access to finance plays a crucial role in the development and growth of a small business. Without funding, small businesses are unable to grow and expand their footprint to more markets. Yusuf (2014) highlights that many small businesses owners obtain a capital injection from family members and friends because they do not have the capacity to borrow from outside institutions due to a lack of resources for collateral. Banks and other financial institutions consider small businesses riskier than larger, more established businesses due to their lack of financial records and budgeting (Rehman, Çela, Morina & Gura, 2019).

#### **2.4 Micro, Small and Medium Enterprises**

The acronyms – MSMEs, Small, Medium and Micro Enterprises (MSMEs) and SMEs – are used interchangeably due to a lack of a globally-accepted definition (Garg & Phaahla, 2018; Chittithaworn *et al.*, 2011; Leopoulos, Kirytopoulos & Malandrakis, 2006). In the US, India and most European countries, small businesses are defined on the basis of both quantitative and qualitative characteristics (Garg & Phaahla 2018). However, Agyei-Mensah (2011) and Abor and Biekpe (2006) agree that the most common characteristics defining the size of a business are staff numbers, annual turnover, the owner of a business, fixed assets value, methods of production and the legal status of a business.

The Lesotho definition of small businesses as per the MSME Policy (2015:2) is as follows:

*“....a separate distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including branches or subsidiaries if any is predominantly carried out in any sector or subsector of the economy”.*

The policy considers the total number of employees, including the owner, annual turnover, and whether the business is formal or informal. The policy further creates a classification of MSMEs into three categories, namely, micro, small and medium. A micro enterprise is characterised as having fewer than six staff members while a small

enterprise has between six and 20 staff members. The policy further describes a medium enterprise as having between 21 and 50 staff members. A summarised explanation of the different categories, as extracted from the MSME Policy (2015), is shown below.

**Table 2.1: Categories of MSMEs**

<b>Category</b>	<b>Description</b>
<b>Micro-enterprise</b>	Fewer than 6 staff members including owner
<b>Small enterprise</b>	6 to 20 staff members
<b>Medium enterprise</b>	21 to 50 staff members

*Source: MSME Policy, 2015*

Although there is no globally accepted definition of small businesses, there are some criteria used to define them, such as the number of employees, value of assets, value of sales and size of capital and turnover. The growth of an enterprise can be measured in ways such as turnover, profit, sales and number of employees. On the other hand, the growth of a firm is a measure of performance and is a function of its ability to reach and maintain a certain level within its operating environment (Moen & Rialp, 2019). The growth of an enterprise is reflected in increased sales, new and improved products and increased market share.

The substantial importance of MSMEs to the socio-economic development of a nation has been widely acknowledged by experts, and therefore growing them is clearly necessary. In many countries, MSMEs create the highest number of jobs. In 2009 the sector created 79.9% of the new jobs out of the 543 000 new jobs established in Kenya, and in the same year the sector contributed 59% of the country's total GDP (Moeuf, Pellerin, Lamouri, Tamayo-Giraldo & Barbaray, 2018). In 2013, MSMEs contributed 89.7% of the new jobs created in Africa and as a result several initiatives have been taken by the government, donors and NGOs to stimulate the growth of MSMEs around Africa (Paul, Parthasarathy & Gupta, 2017).

Growth depicts a firm's past capacity to increase in size. An increase in a firm's size may lead to an increase in the flow and generation of profits. An increase in size leads to economies of scale, increased market value and improvement of profitability in

future. One of the major constraints to the growth of MSMEs has been identified as inadequate financing. The degree to which MSMEs are able to access funds determines the degree to which the MSMEs can save more, and build retained earnings for re-investment purposes (Lemonakis, Garefalakis, Giannarakis, Tabouratzi & Zopounidis, 2017). However, MSMEs typically battle to access credit from official financial institutions such as commercial banks. The failure of the MSMEs to live up to the standards of the formal finance institutions for loan purposes offers an opportunity for informal finance providers to come in and seize the gap, typically through informal social networks. This has encouraged the development of Micro-Finance Institutions (MFIs) as a substitute source of financing for MSMEs.

Growth is regarded as the second most important goal of a firm; the most important one being firm survival. A failure to focus on growth is a key reason why most MSMEs decline and some eventually die. Many other studies have been done (Schenkel, Farmer & Maslyn, 2019) regarding factors affecting the growth of MSMEs. Most of the factors researched in other countries included the level of education, access to markets, infrastructure and government regulations, corruption, administrative and operational constraints.

## **2.5 Lesotho's Legal Framework for MSMEs**

The Lesotho Government plays a pivotal role in promoting the development and success of Basotho-owned small businesses. According to the country's 2019/20 budget speech, there are several support programmes and initiatives being carried out to support MSMEs. The government therefore promotes micro-businesses, creating an enabling environment for small businesses to develop competitiveness and encouraging their potential in developing as business enterprises (Nieman & Nieuwenhuizen, 2009). This section takes a look at some of the Acts, policies and programmes which have been developed by the government to drive the small business sector.

The government has drafted policies and programmes for MSMEs with the objective of stimulating the economy. These include the SADP, which has disbursed over 700 small grants to the agricultural sector, associations and cooperatives (Lesotho Budget, 2019/20). Furthermore, the LYEG has started, working closely with programme

funding from the AfDB and the Lesotho Government. The funding is administered by a committee and is responsible for supporting MSMEs with a proper business plan in the start-up phase (Lesotho Review, 2020).

Another initiative is the development of a strategic framework for the implementation of business incubation in Lesotho. The incubation programme's objective is to strengthen the process of developing and providing an enabling environment for Basotho-owned MSME start-ups, and oversees 100 business owners trained in entrepreneurship skills. Moreover, an institutional review of Business Development Service (BDS) providers is in the pipeline to determine key players in the industry, as well as challenges and opportunities for Basotho-owned small businesses.

The NUL Innovation Hub was established in 2018 to provide a platform for incubation of business models from their formation up to mass production. The Hub helps to promote an entrepreneurial culture and close the gap between the invention of a marketable product and its actual commercialisation, production and marketing. Following a forum for financiers, investors and small business owners, Ms Ramoseme, Director of Policy and Strategic Planning at the Ministry of Small Businesses, disclosed that over 20 projects had been identified for funding from the Innovation Hub Grant.

Another important parastatal to develop MSMEs is BEDCO. This parastatal was established in 1980 to assist in developing indigenous Basotho-owned business enterprises, with a particular emphasis on small-scale businesses and the promotion of entrepreneurial skills. The Corporation also assists MSMEs in business counselling, discovering, evaluating and formulating viable projects for financing by local financial institutions. Furthermore, it provides manufacturing and technical assistance to small-scale enterprises, training small business owners in skills to facilitate their businesses (FinMark Trust, 2016).

## **2.6 Challenges encountered by Micro, Small, and Medium Enterprises**

Alrabeei and Kasi (2014) investigated the key challenges facing Bahraini Micro, Small and Medium Enterprises. Their findings showed that the main barriers to growth for Bahraini MSMEs were the scarcity of qualified human resources, a lack of finance, and fierce competition. Small enterprises represent a large proportion of enterprises in most economies and are a driving force for economic growth. Smaller businesses

are unable to access funding from local banks at all, or face extremely unfavourable lending conditions, due to information asymmetry (lender-borrower information), high bank borrowing costs and insufficient regulatory support to lend to SMEs, thereby impeding a well-functioning market for MSME lending (Eltahir, 2018). This in turn impedes MSME development and will have a negative effect on innovation and economic growth. MSMEs' growth and development is also hampered by financial system weaknesses, such as high operating costs and high collateral demands. These factors, combined with limited personal and family savings and a lack of financial innovation, restrict opportunities for growth for otherwise promising start-ups.

Eltahir (2018) investigated the factors affecting the performance and business success of small and medium enterprises in Sudan. The study aimed to describe the history of business success in the city of Omdurman, with particular regard to small businesses. The study findings suggest that resources, finances, markets and customers significantly affect the success of MSMEs in this area. Economic and financial barriers are the principal obstacles to entrepreneurs' growth and development. These factors serve as a barrier in the following ways: firstly, the fact that capital markets tend to be more efficient for larger firms than for smaller and newer firms means that smaller firms are dependent on external sources of finance, thus forcing firms to raise adequate risk capital, especially for innovative high-tech small firms and for businesses that operate in disadvantageous areas. Secondly, the management of micro loans, while this may be considered their last resort, is very costly because the transaction costs are high and the returns are very small.

Another study by Mukherjee (2018) on the challenges to Indian micro, small-scale and medium enterprises in the era of globalisation suggested a strong focus on the implementation of new age technology, through better awareness, the adoption of best practices as well as technological collaboration with global partners. The competitive standards are increasingly changing due to the growing needs and preferences of customers, technical advances and business globalisation. Over the years, competition among small and medium-sized enterprises has increased dramatically. Sustainability and competitiveness for small and medium-sized enterprises includes factors such as evolving business dynamics, shifting technology and emerging new management and organisation. SME sustainability depends heavily on a variety of

factors including the ability of small and medium-sized enterprises to refocus some of their strategies and technologies.

Ackah and Vuvor (2011) researched the challenges faced by micro, small and medium enterprises in obtaining credit in Ghana. The study adopted the use of a quantitative approach. Questionnaires were circulated to 80 MSMEs selected through convenience sampling in the Accra and Tema metropolises. The study findings revealed that there are institutions such as banks and non-bank financial institutions that are willing to provide funds to MSMEs, but the MSMEs in Ghana cannot meet these financial institutions' requirements. Chief among these needs is the issue of funding, which most MSMEs are unable to provide. Macroeconomic-variable inflation is one of the factors that results in an increase in expenses, which in turn contributes to lower profits for MSMEs and diverts investment needed to ensure the growth and success of the business. Inflation affects not only small and medium-sized enterprises but also their customers, as it raises the cost of products and reduces their disposable income.

Koech (2011) conducted a survey specifically focused on identifying the financial constraints hindering the growth of SMMEs in Kenya, using a case study of Kamukunji District in Nairobi County. The study adopted the use of a quantitative, descriptive design whereby it studied 16 types of businesses in five locations in the Kamukunji District. Data collection from 100 businesses was done through the use of structured questionnaires. The study revealed that cost, capital market and capital access were the factors which constrained these MSMEs' growth into large business enterprises the most. The findings further suggested that the factors which were found to affect business growth included sales and profits. Most small micro enterprises operate from rented premises due to operational failure. Purchasing land on the open market is costly for these typically undercapitalised small enterprises. However, renting is problematic for most of the small enterprises because of contract compliance issues. Expulsions from these premises are common and often arbitrary.

A study by Kamunge, Njeru and Tirimba (2014) on the factors affecting the performance of small and micro enterprises in the Limuru Town Market of Kiambu County, Kenya, revealed that access to finance and the availability of management experience are the key socio-economic factors affecting the performance of businesses in the Limuru Town Market. To run small and medium-sized enterprises,

education and skills are needed. Research shows that most people in Lesotho operating small and medium-sized enterprises are not well prepared in terms of education and skills. The Ministry of Trade and Industry, Cooperatives and Marketing (2008) indicates that MSME owners with more experience and qualifications are more likely to succeed in the SME market. As such, people need to be well-informed in terms of skills and capital management for small businesses to do well in Lesotho. Small and medium-sized enterprises in the Information and Communication Technology (ICT) sector continue to do well with the sprouting of several commercial colleges offering different computer applications. Furthermore, studies show that the majority of those operating small and medium-sized enterprises in this field have obtained at least a university education.

Odinga (2012) researched the challenges facing the growth of small and medium enterprises owned by women in the Kakamega Municipality in Kenya. The sample consisted of 85 women-owned small and medium-sized enterprises drawn from a total population of 600 registered and licensed by the Kakamega Municipal Council, which is solely responsible for determining the legal status of the enterprises within its jurisdiction. It chose the respondents using simple random sampling. Questionnaires and schedules for interviews were used as tools for the study. The results of the study showed that access to finance and credit facilities significantly affected the growth of women-owned SMEs within the municipality of Kakamega. A lack of or inadequate resources for expansion has caused many companies to fail, and weak infrastructure such as bad and dilapidated road networks have had a significant negative effect on the growth of women-owned SMEs due to delays in delivery.

Mogeni and Omwenga (2016) investigated the challenges facing the growth of SMEs in the furniture subsector in Nakuru County Town, Kenya. The study adopted the use of a descriptive design using questionnaires and interviews to collect data from a sample size of 100 furniture manufacturing entrepreneurs in Nakuru Town, who were chosen using stratified random sampling. Data was analysed using descriptive statistics, such as percentages, frequencies, figures and tables. The study showed a positive relationship between technical abilities, knowledge of the level of market dynamics, ownership structure, and the availability of capital requirements. The positive relationship suggests that a link between these factors and the growth of SMEs in Nakuru Town exists. Businesses must make decisions that deal not only with

opportunities for business survival but also with business development in a changing environment under dynamic, competitive conditions in which each competitor explores new avenues in order to survive.

Garg and Phaahla (2018) conducted research aimed at identifying the factors that affect the market performance of MSMEs in the Sekhukhune area of the Limpopo Province. The research gathered data from a randomly selected group of 200 MSMEs and used the WarpPLS software for the purposes of analysing the data. The study results revealed that the five factors that were positively related to business performance included finance, entrepreneurial characteristics, business allocation, government support, as well as products and services. It is clear that small-scale enterprises in developing countries face numerous challenges and problems, making them less viable. As a result, the potential of small-scale, non-farm enterprises in creating jobs, generating revenue, and providing a means of livelihood for the poor is not a matter of priority to politicians. In order to make a living in Lesotho, many people who were retrenched from South African mines are absorbed into small, non-farm businesses.

Sitharam and Hoque (2016) conducted a study on the factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. The research was a cross-sectional study conducted online, using an anonymous questionnaire, amongst 74 SME owners / managers who were members of the Durban Chamber of Commerce. The results showed technological innovation would boost the company's performance. As for the challenges, most respondents saw competition as a major challenge. SMEs therefore need to consider competition, both domestically and regionally. Collaboration between small and medium-sized enterprises may be a way of helping them to face competition.

Lekhanya and Mason (2014) investigated selected key external factors influencing the success of rural small and medium enterprises in South Africa. The primary data was gathered from a survey of 374 business owners/managers in five rural areas of KwaZulu-Natal (KZN), with respondents completing a questionnaire. Access to finance and shortages in expertise were the factors that most clearly separated the more productive and less productive rural KZN enterprises from one another. According to the majority of the respondents, poor roads/transport and access to electricity were their major problems. There can be a number of barriers to

entrepreneurs' success depending on the market, area and form of business. These may include regulatory barriers such as administrative barriers to entry; cultural and social barriers such as fear of failure and lack of entrepreneurial expertise and skills; and financial and economic barriers, such as insufficient access to risk capital (both seed and early stage), and longer term financing.

Rantšo (2016) investigated the factors affecting the performance or success of small-scale rural non-farm enterprises in Lesotho. The research adopted the use of both qualitative and quantitative research methods for the purposes of analysing the data. This study tried to incorporate different factors that had the possibility of ensuring or hindering the success or performance of small-scale, rural non-farm enterprises. The study findings reveal that foreign competition hinders the success of non-farm enterprises in Lesotho. The study results further show that women-owned enterprises have a higher turnover compared to enterprises owned by men. Accordingly, some of the factors that lead to the success or performance of rural non-farm enterprises in Lesotho include the gender of the entrepreneur, the age of the entrepreneur, the willingness of the entrepreneur to develop broader social networks, a sufficiently large population or market, the availability of communication networks and infrastructure, the participation of enterprises in the international market, the cost of doing business, and competition.

Mokhethi and Vögel (2015) researched the export constraints facing Lesotho-based manufacturing enterprises. The study findings revealed that international constraints, distribution constraints and financial constraints were the factors faced by the enterprises. MSMEs are seen as the driving force of both developed and developing nations' economic growth. The main market for small businesses in many African countries is high demand. It may mean that the MSMEs are doing little to participate in both direct exports and indirect exports as they do not provide inputs to large-scale enterprises that export. The number of challenges small businesses face reduces their competitiveness on the international stage. Due to a lack of resources and skills, entry into foreign markets is particularly difficult for smaller enterprises, and as such, small enterprises do not exploit the full potential of internationalisation and exports, particularly in some countries.

Khoase (2015) investigated how public and private supporting institutions affect MSMEs' development, using a case study of Lesotho and South Africa. Data collection

was done through the use of both qualitative and quantitative methods. Semi-structured interviews were conducted with six supporting institutions in Maseru, Lesotho, and six from Pietermaritzburg, South Africa. The survey covered a sample size of 379 registered MSMEs' owner-managers across all sectors in Maseru, and 384 in Pietermaritzburg. These sample sizes were generated using an online sample size calculator. A non-probability sampling method known as snowball sampling was used for the interveners (implementing agencies). The MSMEs used probability sampling methods such as stratified random sampling methods and cluster sampling methods. The coded responses from the interviews and questionnaires were analysed using Vivo 10 for Windows and SPSS software for Windows, Version 22 respectively. The study findings revealed that the growth and sustainability of the MSMEs was hindered by not making full use of the supporting programmes of the institutions.

Mokhethi (2019) investigated the perceived export barriers to MSMEs using a case study of Lesotho-based manufacturing enterprises. The study adopted the use of a cross-sectional descriptive design. Collection of data was done from 162 Lesotho-based manufacturing enterprises through the use of a self-administered questionnaire. The descriptive statistics showed that Lesotho-based manufacturing MSMEs perceive a lack of financial capital resources for market research, a lack of financial capital to fund export sales, and a lack of excess export capacity, all internal to enterprise-loading under financial barriers, as export constraints. The findings propose that the Lesotho government should put frameworks in place that could reduce financial constraints so that MSMEs can grow and deliver accordingly.

Khoase and Govender (2013) conducted a study on the Lesotho government's enhancement of small, medium and micro enterprises. This research reports on the MSME owners' perceptions of government-implemented strategies to enhance their growth, as well as in identifying any shortcomings, through a survey conducted amongst 219 companies in Lesotho. The findings revealed that access to government-allocated finance remains a barrier to growth for MSMEs in Lesotho. MSMEs often consider taxes too high and are pressured to report fake sales figures in order to prevent qualifying for taxation or to pay minimum taxes. The obstacles to the growth and development of MSMEs also include the bureaucracy and uncertainty of government policies, political instability, a lack of tertiary-level entrepreneurial education and the inadequacy of entrepreneurial training. These factors appear to

endorse the thinking pattern that emphasises the business environment as a primary factor affecting entrepreneurship.

## **2.7 Challenges faced by Basotho when starting their MSMEs**

### **2.7.1 Lack of access to financial resources**

The majority of MSMEs experience problems in raising adequate start-up capital (Okrah & Nepp, 2018:6). This leads them to depend heavily on the owner's savings or family savings for their establishment, because bank loans and overdraft facilities are not accessible to small and micro businesses due to a lack of collateral and high interest rates (Ministry of Trade and Industry, Cooperatives and Marketing, 2008:8; Ndungu, 2017). Insufficient funding creates instability and a weak foundation for a business to perform effectively. Chandra *et al.* (2012) concur by observing that emerging businesses require sufficient financial resources for growth.

### **2.7.2 Lack of adequate skills or experience**

Even in situations where a small business is sufficiently funded, the owner's lack of business management and administration skills makes it difficult for a business to survive beyond the start-up phase (FinMark Trust, 2016). Business owners and their employees therefore need to be equipped with information technology skills to respond swiftly to external demands and improve business performance (Chittithaworn *et al.*, 2011).

### **2.7.3 Business location**

Small businesses in rural areas are isolated from larger urban centres (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). Research studies conducted by Rantšo (2016), Fatima and Muneer (2016), Fatoki and Garwe (2010), and Eckert and West (2008) found that the continued existence and growth of businesses are related to their geographical location.

### **2.7.4 Products or services to sell**

Innovative products or services, their quality, affordability and reliability are essential to the success of a business (Chittithaworn *et al.*, 2011). Entities that are able to introduce new products to the market have a higher chance of surviving than those

that are less innovative. For small businesses to grow, they need to bring new products or services to the market that suit the demands of their customers (Ndungu, 2017).

### **2.7.5 Lack of Government support**

A lack of government support is a major obstacle to the survival of small business enterprises (Garg & Phaahla, 2018). This is linked to insufficient and incapable government policies and programmes to support small businesses. Furthermore, opportunities for small businesses to secure government contracts are limited (Ministry of Trade and Industry, Cooperatives and Marketing, 2008).

### **2.7.6 Lack of relevant information**

Many small business owners are unaware of regulatory or tax issues, where to acquire start-up capital from government support programmes and available training opportunities (Van Scheers, 2010; Ministry of Trade and Industry, Cooperatives and Marketing, 2008).

### **2.7.7 Lack of linkages between small businesses and large businesses**

Small businesses suffer from a lack of networks between them and large entities. This becomes a major obstacle to building relationships and securing partnerships for economies of scale. Limited networks restrict SMEs' potential access to potential markets (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). Effective business linkages between a business and its suppliers play a part in the growth and success of an entity (Cardoni, Dumay, Palmaccio & Celenza, 2019).

## **2.8 Challenges faced by Basotho when growing their MSMEs**

### **2.8.1 Competition**

According to Boshoff and Terblanche (2006), competition occurs when different businesses sell a similar product to a similar market. In several cases, the increased competition benefits the consumer, who buys quality goods and services at affordable prices. While there are several factors that affect the growth of Basotho-owned small businesses, increased competition from Chinese and Indian-owned businesses has been highlighted as one of the major factors (FinMark Trust, 2016). Foreign-owned businesses buy stock on a large scale from wholesalers and consequently obtain

significantly discounted prices; the benefits of which are then transferred to the consumer.

### **2.8.2 Crime and theft**

Small businesses are adversely impacted by a high crime rate (Van Scheers, 2010). Cant and Wiid (2013) point out that establishing a small business is risky due to high crime rates, especially when the business is located in a township.

### **2.8.3 High operational costs**

Operational costs like transport, electricity, water and rental costs affect the operational effectiveness of small businesses. Transportation costs affect the profitability of small businesses, particularly due to rising fuel costs. Many small businesses in Lesotho do not own vehicles to transport their stock and as a result depend on hired transport, which incurs high prices (Khoase, 2015).

### **2.8.4 Lack of marketing of products or services**

Social media has a significant impact on small businesses' financial performance. Access to the internet and social media platforms helps to grow brand awareness, and improves stakeholder relationships and product awareness (Garg & Phaahla, 2018). Small businesses need to make use of these new developments because they are easier and cheaper to access than many other alternatives (Garg & Phaahla, 2018).

## **2.9 Other challenges facing MSMEs**

Cant and Wiid (2013) classify factors that impact the financial performance of small businesses into two main categories, namely, macro and micro environmental factors. Macro variables include unemployment, inflation, interest and exchange rates, technological advances, HIV/AIDS and a high crime rate (Gupta & Mirchandani, 2018). Inadequate management skills and a lack of expertise in financial, marketing and human resources are some of the micro environmental factors that affect growth of SMEs (Gupta & Mirchandani, 2018). Other challenges facing SMEs, as identified by Hasani, Bojei and Dehghantanha, (2017) include poor financial literacy, which causes poor financial record-keeping, which results in the downfall of small businesses.

Van Scheers (2010) further identifies marketing as the most basic yet overwhelming factor that most SMEs struggle to utilise in the business environment. Wrong pricing

strategies, poor business location, lack of product variety, lack of branding, the inability to meet customer demands, competition and low customer demand are some of the marketing factors that small businesses fail to utilise effectively. These have a direct impact on the growth of small businesses. Ligthelm (2010) concurs that small businesses place limited emphasis on marketing activities. Van Scheers (2010) identifies that a lack of funds and time make small businesses underutilise marketing activities to establish themselves in the market.

It is important that small business owners identify these internal and external environmental factors to reduce the adverse effects of these factors and in order to adapt their strategies to respond quickly to these changes in customer demands, thereby avoiding any possible adverse effects on their businesses. Several other challenges faced by small businesses, such as the inability to employ skilled and experienced employees, excessive advertising costs and the abuse of funds still receive great attention from government agencies and other stakeholders. Despite the government of Lesotho having developed and implemented policies and programmes to help small businesses grow, small businesses are still vulnerable to high failure rates. This shows inconsistency from government in the implementation of these policies and programmes.

## **2.10 Foreign entrepreneurs**

Foreign entrepreneurs in this study are non-Basotho entrepreneurs who utilise creative and innovative ideas to start and run new businesses in a host country. The attainment of independence by Lesotho in 1966 was instrumental in the survival and flourishing of non-Basotho business people's enterprises, particularly those from African and Asian countries who considered Lesotho a viable destination for political and economic refugees. These immigrants started small unlicensed businesses once they had obtained their legal residency statuses. These businesses were relatively easy to establish due to limited regulation requirements (Donckels & Miettinen, 2019:6).

There are several factors which encourage immigrants to establish businesses in a host country; a chief factor being difficulty in obtaining valuable employment in the private and public sectors (Mustafa, Ismail, Kamis, Ahmad & Hassan, 2018:24). When

people become entrepreneurs due to a lack of employment opportunities, the push factors become pronounced and this results in individuals starting small businesses. Other factors which encourage immigrants to start businesses are social networks, a lack of stringent regulation requirements and culture (Garg & Phanyane, 2014:2).

### **2.10.1 Role of Foreign Entrepreneurs**

Studies have shown that foreign entrepreneurs provide employment opportunities to the people of a host country. A World Bank study published in 2018 found that between 1996-2011, each immigrant entrepreneur generated approximately two jobs for local citizens. Furthermore, the number of self-employed South Africans who have worked with immigrants is likely to be higher than those who have worked with members of indigenous populations (Yakubu, Yalo & Halilu, 2019:30). Fatoki (2014) further observes that immigrant entrepreneurs in South Africa create employment both for themselves and for other South Africans. This stimulates the support of foreign-owned businesses as they tend to alleviate poverty in their host countries by creating employment.

### **2.10.2 Successful Business Strategies Employed by Foreigners in Running their MSMEs**

According to Liedeman, Charman, Piper and Petersen (2013), foreign-owned small businesses in South Africa utilise business strategies that provide them with a competitive advantage over their South African counterparts. These are included but not limited to bulk buying, providing credit to local consumers and strong business relationships with both suppliers and customers. Research specialist at the African Institute of the HSRC (2014), Dr Trynos Gumbo, observed the favourable positioning of foreign-owned small businesses, which are normally near street corners. This location improves their accessibility and visibility, and allows them to attract more customers, which in turn improves sales.

Buying in bulk from suppliers attracts discounts which are ultimately transferred to the consumer. Khoase (2015) observed that foreign-owned supermarkets generally sell at lower prices compared to Basotho-owned supermarkets, especially on essential items such as milk, eggs, maize-meal and bread. This attracts a significant number of

customers to foreign-owned supermarkets and also forms strong social relationships with the local communities.

Foreign business owners tend to live a simple lifestyle compared to their local counterparts and this allows them to save their profits which are re-invested in the growth of small businesses and aid expansion (Liedeman *et al.*, 2013). Immigrant entrepreneurs also support one another by providing financial capital and enhancing their networks amongst themselves as a result (HSRC, 2014). Below is a summarised list of strategies used by foreign-owned spaza shops in South Africa as observed by the Human Sciences Research Council (2014).

**Table 2.1: Strategies employed by non-South Africans**

<b>Strategy</b>	<b>Findings</b>
<b>Business location</b>	Street corners to maintain visibility
<b>Uncompromising saving</b>	Maintain a simple lifestyle to save and re-invest in a business
<b>Extended operating hours</b>	Operating hours normally range from 6am to 9pm
<b>Network</b>	Establish and maintain strong business ties, social and religious relationships
<b>Adaptation</b>	Ability to speak SA languages, adapt to customer preferences and demands
<b>Bulk stock</b>	Availability of stock to meet customer demands
<b>Pricing strategies</b>	Pricing is aimed not at maximising profits at once but aimed at making a small profit and quick returns
<b>Mentorships</b>	High reliance on mentorship by relatives and other people

*Source: HSRC, 2014:12*

## **2.11 Conclusion**

This chapter focused on a comprehensive review of the applicable literature presently available to the researcher. Theories surrounding the growth of small businesses were reviewed, together with challenges facing them at the start-up stage. The factors that affect growth of Basotho-owned small businesses were also investigated. The first part of the chapter provided a broad definition of small businesses and their contribution to the social and economic development of a country.

The second part of the chapter focused on an overview of theories surrounding the growth of small businesses as well as the methodology used in the research study to analyse the data obtained on small businesses in Lesotho. The final part of the chapter examined factors that affect the growth of Basotho-owned small businesses in the start-up and growth phases, such as a lack of access to finance, lack of skills, business location, lack of government support, competition, crime and theft. The following chapter will detail the research methodology used to conduct the study related to the dissertation.

## **CHAPTER 3: Research Methodology**

### **3.1 Introduction**

This chapter discusses the research methodology utilised to derive the findings presented in Chapter 4. The main objectives of this study were to determine the factors that affect the start-up and growth of Basotho-owned MSMEs in the Maseru district and to explore the challenges that prevent their expansion. After a broad discussion of the research methodology utilised to carry out research in the social sciences, the chapter continues to detail the research design and describe the target population. Moreover, the chapter discusses the methods used to select the research sample, the research instrument used for data collection and the analysis thereof. The chapter concludes by discussing ethics that need to be adhered to when conducting professional research in the social sciences, and which were adhered to throughout this research study.

### **3.2 The Rationale for a Research Methodology**

The research methodology involves the rationale used for utilising a certain procedure (Kothari, 2017). In this study, a quantitative research approach was adopted in this study because it allowed the researcher to narrate conditions, investigate relationships and study cause-effect phenomena. Therefore, the main reason for adopting a quantitative approach is principally the significance the method places on collecting data which can be quantified and put through statistical treatment so that alternative knowledge claims can be supported or refuted (Creswell, 2018:153).

### 3.3 Research Design

Bell, Bryman and Harley (2018) describe a research design as a comprehensive plan developed to carry out a research study and which allows a researcher to plan the conducting of a study in a manner which enhances the possibility of collecting data aligned with the event, occurrence or phenomena being studied. Research designs are split into three categories; namely descriptive, exploratory and explanatory categories (Ghauri *et al.*, 2020). Exploratory research is performed to acquire new perceptions and find new ideas to enhance the existing knowledge of the phenomena in question. This research study adopted an exploratory approach in order to explore the phenomena of MSMEs in Lesotho and to add to the existing knowledge pertaining to factors that affect the growth of Basotho-owned MSMEs in the Maseru district.

### 3.4 Target Population

Population refers to the group of individuals from which a research sample is selected, and this becomes a focal point for the scientific query (Bryman & Bell, 2011). Furthermore, Ghauri and Grønhaug (2020) emphasise that population describes the parameters whose characteristics the research will attempt to describe, and refers to an entire group of individuals, events or objects having a common observable characteristic. The target population for this study was MSMEs in the Maseru district of Lesotho. Details of the numbers and various categories of MSMEs (forming part of the target population) in the Maseru district of Lesotho were obtained from the Ministry of Trade and Industry, Cooperatives and Marketing (2017).

**Table 3.1: Summary of population and enterprise activities**

<b>Sector</b>	<b>Number</b>	<b>Enterprise Activities</b>
<b>Agricultural activities</b>	199	<b>Manufacture of animal feeds, chemicals, pesticides and insecticides and production of agricultural produce, among others</b>
<b>Health care</b>	200	<b>Private hospitals and clinics, chemists and pharmaceutical companies, among others</b>
<b>General trade</b>	500	<b>Wholesaling, distributors, warehousing and retailing of goods, among others</b>

<b>Education and Training</b>	171	<b>Private schools and colleges, beauty colleges, driving schools, among others</b>
<b>General Services</b>	350	<b>Building and construction, transport and communication, accommodation, hotels, among others</b>
<b>Total</b>	<b>1 420</b>	

Source: Ministry of Trade and Industry, Cooperatives and Marketing (2017)

### 3.5 Sampling Design

This section entails the sample procedures used to derive the sample for the study, which were then used to generalise the findings to the larger population. According to Cooper and Schindler (2016), sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the larger group from which they were selected. Choosing an appropriate sample is a key feature of any research undertaking.

#### 3.5.1 Sampling Methods

The study used stratified sampling which is a method of sampling from a population which can be partitioned into subpopulations. A stratified sample is considered advantageous because it can provide greater precision than a simple random sample of the same size; a stratified sample often requires a smaller sample, which saves money; it can guard against an “unrepresentative” sample (e.g. an all-male sample from a mixed-gender population) and it can also ensure that the researcher obtains sufficient sample points to support a separate analysis of any subgroup (McEvoy, 2018).

The MSMEs in the Maseru district of Lesotho are not homogeneous and thus stratified sampling was used first. The strata are the business categories from which the sample was selected. The researcher chose five categories of MSMEs, namely agricultural activities, healthcare, general trade, education and training and the service industry. The total population of MSMEs in the region across the five sectors, as per the Ministry of Trade and Industry, Cooperatives and Marketing as of 2017 was 1 420. To adequately represent a sample of the population, 10% of the accessible population is enough, according to Hsieh *et al.* (1998). Therefore, the study surveyed 142 MSMEs with between 10 and 49 employees. The researcher then used simple random

sampling to choose 142 MSMEs from the five categories that were involved in the study. This number was considered appropriate due to time and cost constraints. The sample size in each business category was determined by the proportion of the total in each category to the total population (with slight variation allowed).

**Table 3.2: Sample size based on a 10% sample for each category**

<b>Sector</b>	<b>Target population</b>	<b>Sample</b>
<b>Agricultural activities</b>	199	<b>20</b>
<b>Health care</b>	200	<b>20</b>
<b>General trade</b>	500	<b>50</b>
<b>Education and training</b>	171	<b>17</b>
<b>General services</b>	350	<b>35</b>
<b>Total</b>	<b>1 420</b>	<b>142</b>

### **3.6 Data Collection Method**

Questionnaires in Appendix B were used to collect data in this research study. These were personally distributed by the researcher to the respondents' business premises. A questionnaire is a list of questions assembled by a researcher for a specific investigation (Quinlan *et al.*, 2019). The contents of the questionnaire must be clear so that the respondents can answer the questions easily. Furthermore, questions must be short and straightforward to motivate quick and honest responses. The survey method provides respondents with restricted responses in answering the questions asked (Flick, 2011).

For the purposes of this study, a questionnaire method was considered suitable for its ability to gather information from a large audience, its affordability and ease of analysis of the results. Furthermore, in using questionnaires, respondents can maintain their anonymity, which reduces the likelihood of false information being supplied (Tourangeau, 2018). Although in some cases it can be expensive and time-consuming to distribute the questions, questionnaires are generally easier to manage and allow ease of analysis of results.

Closed-ended questionnaires were distributed to each respondent. The research topic was introduced and explained clearly and the significance of the research topic on small businesses was explained thoroughly. The introduction clearly informed the respondents of their right to withdraw from engaging further in the research study at any given time. Moreover, the ethical standards and conduct required in research studies were respected at all times. The instructions in the questionnaires were straightforward, clear and brief, written in understandable English. In order for the researcher to obtain a holistic view of the respondents' opinions and their level of agreement with specific questions, a five-point Likert Scale questionnaire ranging from "strongly agree" to "strongly disagree" was used.

A five-point Likert Scale is the scale most commonly recommended by researchers as it reduces the frustration level of impatient respondents and increases response rate and response quality (Sachdev & Verma, 2004). To acquire honest answers and supplementary relevant details from the respondents, open-ended questions were also incorporated in the questionnaires. The questionnaires were divided into several sections; the first section delved into biographical information of the respondents and was followed by a section on the business profiles. The rest of the sections focused on factors affecting the start-up and growth of Basotho-owned MSMEs in selected districts of Lesotho, presented as per the objectives of the study.

### **3.7 Questionnaire design**

The researcher used questionnaires that are related to the research objectives of the study. The literature review on MSMEs was used as a point of reference from which to derive questions. The questions extracted for this study were adopted from several studies on factors that affect the growth of small businesses in general and modifications were made to be relevant to the Lesotho context. The literature included studies conducted by Garg and Phaahla (2018), Fatima and Muneer (2016), FinMark Trust (2016), Garg and Makukule (2015), Fatoki (2014), Cant and Wiid (2013), Liedeman et al. (2013), Chittithaworn *et al.* (2011) and the Ministry of Trade and Industry, Cooperatives and Marketing (2008).

The questionnaires for the study were split into five sections, labelled A, B, C, D and E. Section A related to biographical information of the respondents. In this section,

respondents were requested to provide information on their gender, age, position, race, nationality, home language and level of education. Section B covered the business profile and included questions on the type of business, legal status, staff numbers and number of years the business had been in operation. Section C covered factors that affect the start-up of Basotho-owned MSMEs. It comprised 13 questions. Section D covered factors that affect the growth of Basotho-owned MSMEs and comprised 11 questions. The final section covered the successful business strategies used by foreign-owned MSMEs owners in running their businesses. This section comprised 8 questions.

**Table 3.3: Section C of Survey questionnaire**

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**Questionnaire**

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1. Start-up capital is difficult to obtain
2. Lack of collateral to borrow money from financial institutions
3. Lack of business experience in running any form of business
4. Lack of business skill in running any form of business
5. Security costs to prevent theft are too high
6. Rental costs are too high
7. Crime affects the start-up of a business
8. Lack of business network affects the start-up of a business
9. Lack of managerial skills affected the start-up of the business
10. Lack of business training affects the start-up of the business
11. Obtaining business licence to operate is difficult
12. Government does not support MSMEs
13. Finding a suitable business location to operate from is difficult to obtain

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*Source: Garg and Phaahla (2018), Fatima and Muneer (2016), FinMark Trust (2016), Garg and Makukule (2015), Fatoki (2014), Cant and Wiid (2013), Liedeman et al. (2013), Chittithaworn et. al. (2011) and Ministry of Trade and Industry, Cooperatives and Marketing (2008).*

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**Table 3.4: Section D of Survey questionnaire**

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**Questionnaire**

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1. Obtaining funds to expand the business is difficult
2. Interest rate charges are too high when borrowing money to expand the business
3. The business is faced with competition from foreign-owned businesses
4. The business is faced with competition from other businesses owned by Basotho
5. There is no available operating space to expand the business
6. Lack of roads affect the growth of the business
7. Lack of electricity affects the growth of the business
8. Lack of water affects the growth of the business
9. Lower staff productivity affects the growth of the business
10. High tax rates affect the growth of the business
11. Customs and trade regulations affect the growth of the business

---

*Source: Garg and Phaahla (2018), Fatima and Muneer (2016), FinMark Trust (2016), Garg and Makukule (2015), Fatoki (2014), Cant and Wiid (2013), Liedeman et al. (2013), Chittithaworn et al. (2011) and Ministry of Trade and Industry, Cooperatives and Marketing (2008).*

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**Table 3.5: Section E of Survey questionnaire**

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**Questionnaire**

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1. Foreign-owned MSME owners sell at lower prices
2. Foreign-owned MSME owners have adequate financial aid
3. Foreign-owned MSME owners buy goods in bulk
4. Foreign-owned MSMEs owners have adequate technology
5. Foreign-owned MSMEs owners have skilled staff at their disposal
6. Foreign-owned MSMEs owners have availability of stock to meet customer demands
7. Foreign-owned MSMEs owners build strong business relationships with suppliers
8. Foreign-owned MSMEs offer credit to local consumers

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*Source: Basardien, Parker, Bayat, Friedrich and Appoles (2014), HSRC (2014), Liedeman et al. (2013), Tengeh (2013), Charman, Petersen and Piper (2012), Bowen, Morara and Mureithi (2009).*

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The questionnaire was pre-tested with at least five businesses residing in close proximity to the researcher. This was to evaluate whether the questions would be easily understood by the respondents and to determine the average time it would take to respond to all the questions.

### **3.8 Validity and Reliability of the Instrument**

According to Somekh and Lewin (2005), validity is the degree to which the sample of test items represents the content the test is designed to measure. Kothari (2017) points out that validity measures the accuracy of the instruments in obtaining the anticipated data which could meet the objectives of the study. To establish the validity of the research instrument, the researcher sought the opinions of experts in the field of study, particularly those of his study supervisor and lecturers. This facilitated the necessary revision and modification of the research instruments, thereby enhancing validity. Any ambiguity or non-clarity in the questionnaire items was cleared before the questionnaires were taken to the field for data collection.

Kothari (2017) defines instrument reliability as the dependability, consistency or trustworthiness of a test. Cronbach's alpha-coefficient approach recommended by Cohen, Manion and Morrison (2007) was used. This was due to its ability to give average split-half correlation for all the possible ways of dividing the test into two parts, which will be used to measure the internal consistency of the research instruments. Cronbach's alpha coefficient is a scale measurement tool appropriate in measuring internal consistency in descriptive survey research. The questionnaires are accepted at reliability indices of 0.70 and above.

### **3.9 Ethical Considerations**

Ethics are moral principles that distinguish between acceptable and unacceptable behaviour. These moral principles govern the relations between people with mutual respect so that the needs of all parties concerned are met (Resnik, 2015). Adherence to ethical standards impacts how people make decisions to live their lives (Resnik, 2015). Ethics focus on what is good for both individuals and for society and their implications fall within the domain of moral philosophy.

According to Polit and Hungler (1999:132-134), the ethical principles which are relevant in all professional research studies in the social sciences require taking into consideration how human subjects may feel about the implications of the potential outcomes of any research study in question. When carrying out a research study that involves human subjects, the dignity of participants needs to be respected at all times and extreme care needs to be taken not to offend or cause any emotional, physical or psychological harm to those who participate into the research study (Dunn, 2012). To prevent the likelihood of unethical research practices which may lead to undesirable consequences for participants in research studies, it is important for researchers to be absolutely aware of their obligations and responsibilities to the participants in professional research studies (Bless, Higson-Smith & Kagee, 2013:139-140). When conducting this research study, the researcher observed all reasonable measures to adhere to ethical standards so that the rights and interests of all the participants were protected.

The researcher submitted the research proposal to the Research Ethics Committee of the UFS, whose members examined and evaluated it in detail. A letter of consent in

Appendix A was then acquired from the Ministry of Small Business Development, Cooperatives and Marketing, which gave the researcher permission to conduct the research study through its Small Businesses Division. The nature and purpose of the research study was clearly explained to the participants. This was done to ensure that their decision to participate was on the basis of prior understanding of the nature and aims of the research study. The research instrument used was approved by the Research Ethics Committee of the UFS and permission was granted to the researcher to carry out the investigation. The participants were made aware that participating in this research study would not yield any financial benefits. It was also emphasised that participation in this research study was strictly voluntary and participants were made aware that they could withdraw their participation from this research study at any time and that there would be no penalties of any sort if they did so.

### **3.10 Conclusion**

This chapter provided a comprehensive review of the research methodology utilised to carry out the research study as well as justification for utilising questionnaires for the collection of data. Furthermore, the chapter detailed methods to be used in analysing the results obtained from the 142 questionnaires administered to Basotho owners of small businesses in the Maseru district. The next chapter will present and analyse the findings of this research study.

## **CHAPTER 4: Data Analysis and Interpretation**

### **4.1 Introduction**

This chapter presents the findings of the study based on the research objectives articulated in Chapter 1. The chapter further provides an analysis of the findings obtained from owners and managers of Basotho-owned MSMEs, which allows the researcher to draw reasonable conclusions based on the findings and analysis of the data which was performed, and to formulate valuable recommendations. Tables, pie and bar charts are utilised to present the research findings regarding biographical information of the respondents, MSMEs' business profiles, challenges faced by Basotho-owned MSMEs during their start-up and growth phases and finally, the successful business strategies used by foreign-owned MSME owners in the running of their businesses.

### **4.2 Analysis of the results of the research study**

Data was primarily gathered through the use of questionnaires which were physically distributed to 142 MSMEs operating in the Maseru district. Out of the 142 questionnaires distributed, 131 were returned, representing a response rate of approximately 92%. This was deemed satisfactory, although a higher response rate would have been preferable. Several reasons for the less-than-ideal response rate achieved were:

- Reluctance by the respondents in completing questionnaires with the fear that some of the information provided might be shared with tax authorities despite assurances provided to respondents that the information would be used purely for academic purposes and the findings would be treated with the utmost confidentiality.
- The prevailing COVID-19 pandemic where some of the respondents' MSMEs provided with questionnaires to complete were closed down due to COVID-19-related infections in their workplace. This disrupted their operations and resulted in them not being able to complete the questionnaires.
- The time given to respondents to complete questionnaires. Some of the respondents deemed four weeks to be too short a time frame, resulting in them not being able to complete the questions.

Despite these problems, the 92% response rate is quite impressive for the purpose of this study.

After data was received from the respondents, the next step involved processing it through IBM SPSS Software. Data was captured descriptively from the software based on the results of 131 questionnaires received from Basotho-owned MSMEs operating in the Maseru district. The results of the study are presented below.

#### 4.2.1 Gender of the respondents

According to the results shown in Figure 4.1, male participation in the study was proportionately higher (64%) compared to female participation at 36%. Cultural, social and economic constraints restrict women's participation in entrepreneurship and business. Furthermore, family responsibilities and gender-based perceptions hamper the involvement of women in business. In a country that emphasises equality amongst its citizens, the need for women's participation in the business sector is indisputable. As a result, this finding pinpoints the necessity to bring an end to gender disparity which prevails in the MSME sector in the Maseru district.

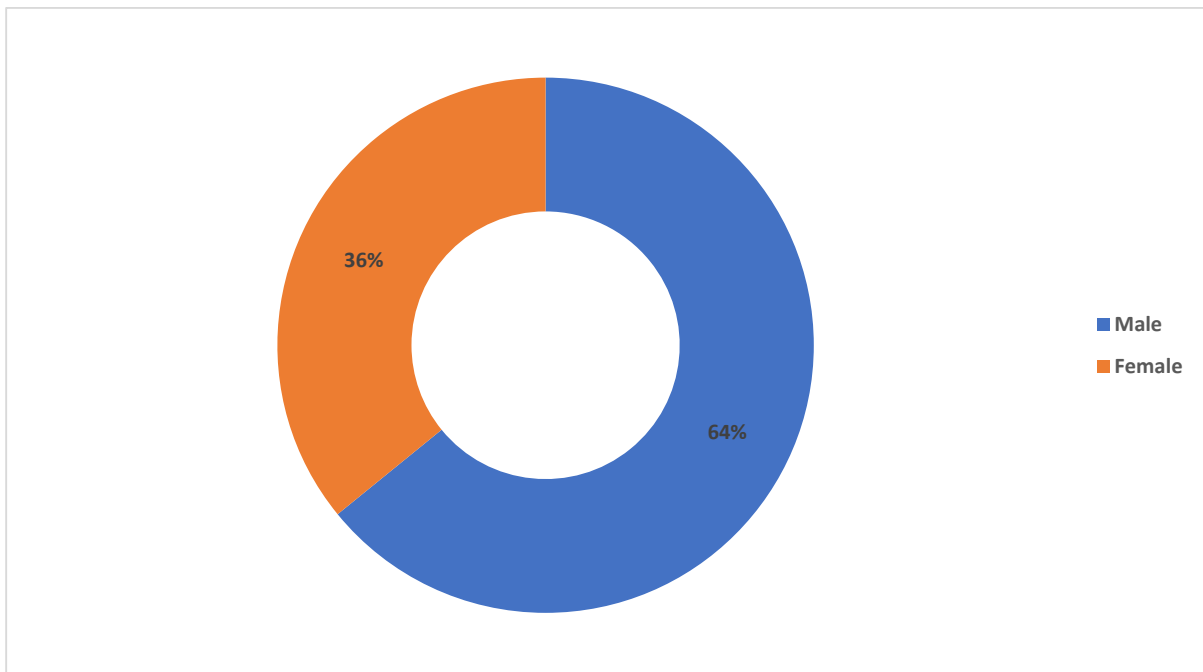


Figure 4.1 Gender of the respondents

#### 4.2.2 Age of the respondents

The results below in Figure 4.2 show that a relatively high percentage (45%) of Basotho entrepreneurs are between the ages of 31 and 40 years. This is followed by those between the ages of 41 and 50 (24%), 21 and 30 (17%) and over the age of 50 years (14%). The results of this study show a huge gap in opportunities and incentives for young people under the age of 30 to become entrepreneurs. The results show that the levels of early-stage entrepreneurship increase with age and then decline, because the majority of the entrepreneurs were found to be between the ages of 31 and 50, while a relatively smaller percentage were found between the ages of 21 and 30 and over 50 years.

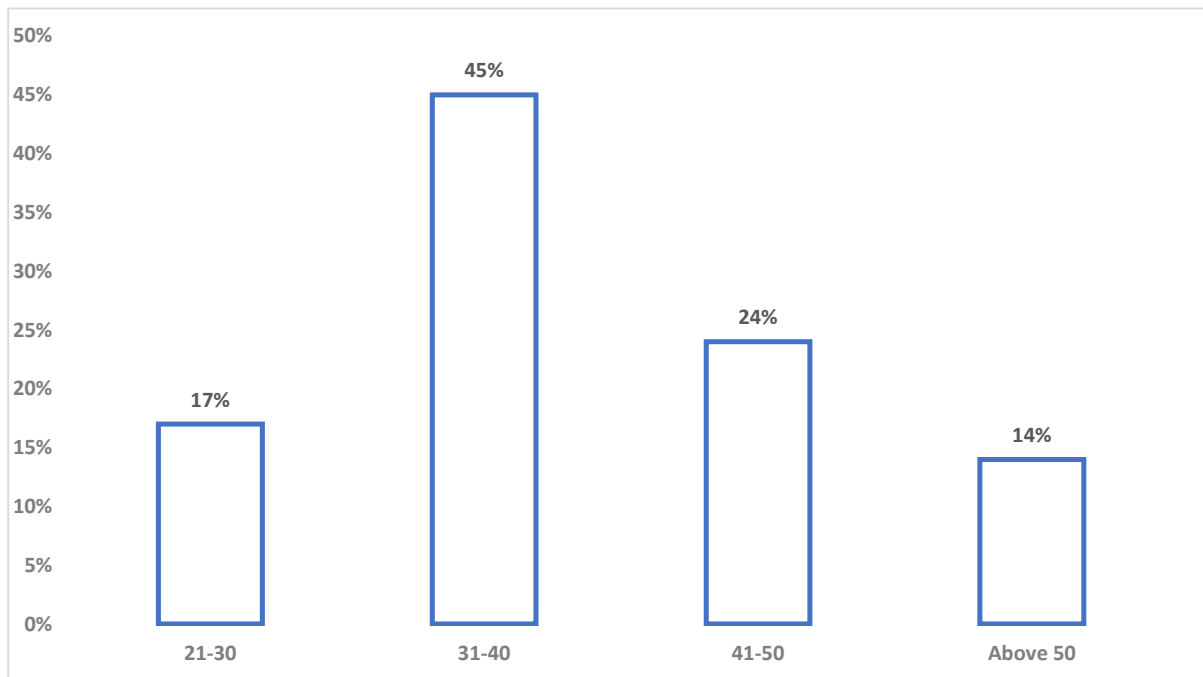
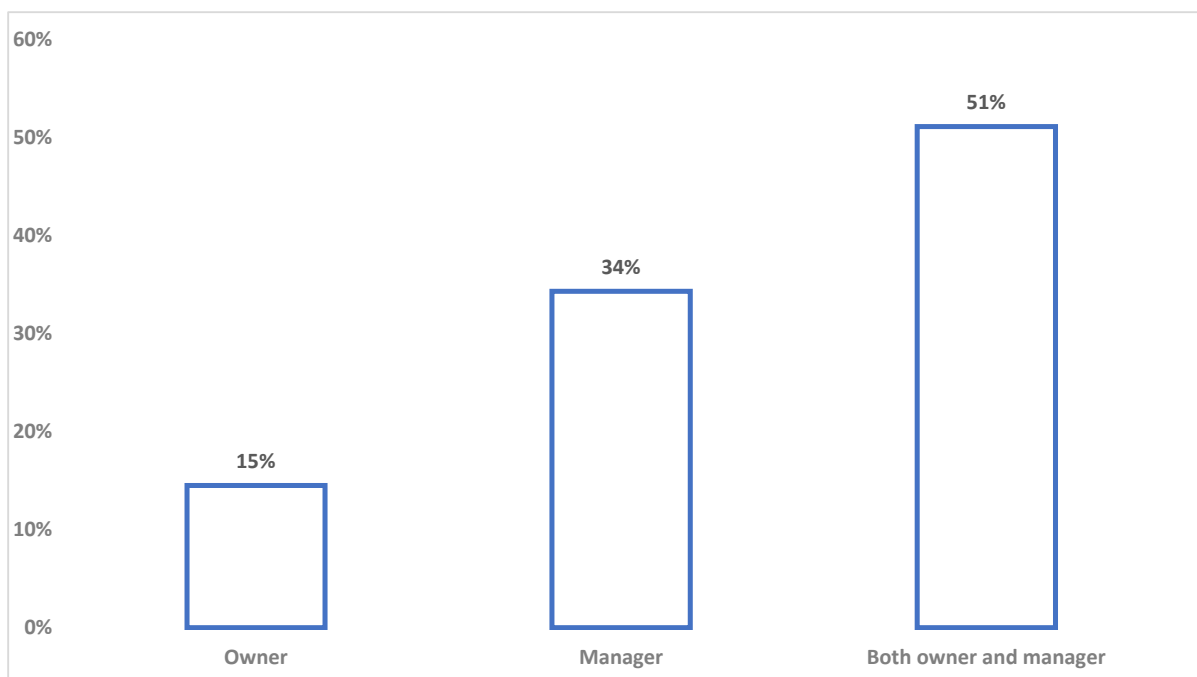


Figure 4.2: Age of the respondents

#### 4.2.3 Position of the respondents

The majority of the respondents held the responsibilities of being an owner and a manager simultaneously, with 67 out of 131 respondents being both owners and managers. This was followed by respondents who were only managers (45 out of 131) and finally respondents who were only owners, with a 19 out of 131 frequency distribution. These figures are shown in Figure 4.3 below.



**Figure 4.3: Position of the respondents**

#### 4.2.4 Race of the respondents

All the respondents classified themselves as African, as shown in Table 4.1 below.

**Table 4.1: Race of the respondents**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>African</b>	131	100	100
<b>Asian</b>	0	0	100
<b>Coloured</b>	0	0	100
<b>Indian</b>	0	0	100
<b>White</b>	0	0	100
<b>Prefer not to say</b>	0	0	100
<b>Total</b>	131	100	

#### 4.2.5 Nationality of the respondents

Table 4.2 below shows that all the respondents were Basotho, with no other nationalities taking part in the questionnaire.

**Table 4.2: Nationality of the respondents**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Mosotho</b>	131	100	100
<b>Other</b>	0	0	100
<b>Prefer not to say</b>	0	0	100
<b>Total</b>	131	100	

#### **4.2.6 Home language of the respondents**

All the respondents' home language was Sesotho, as shown in Table 4.3 below.

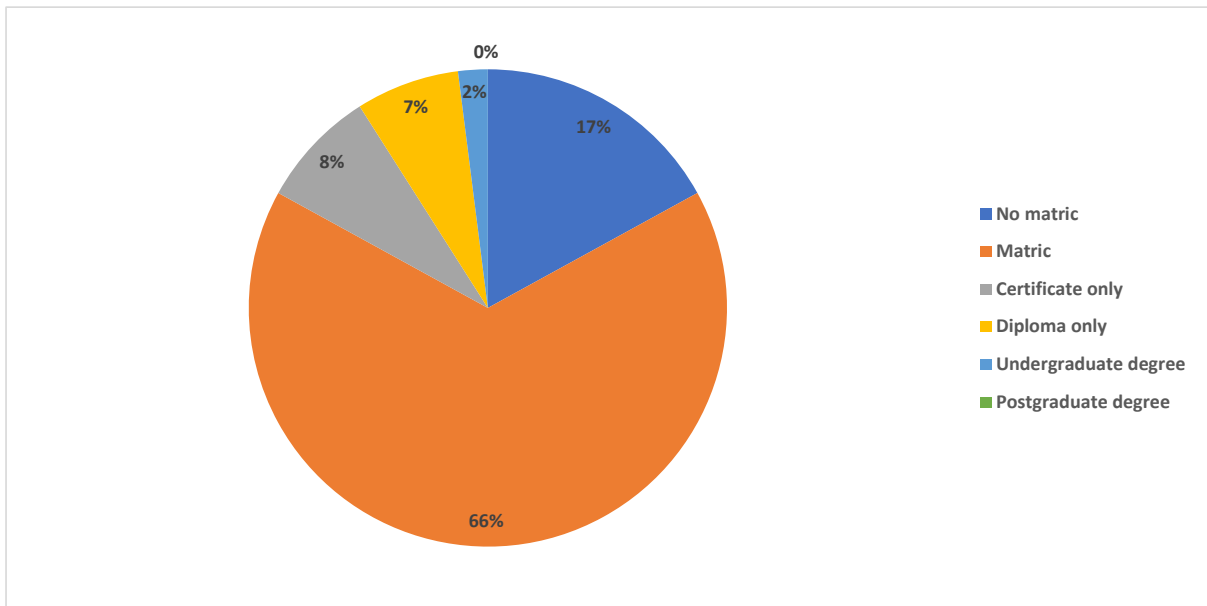
**Table 4.3: Home language of the respondents**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Sesotho</b>	131	100	100
<b>English</b>	0	0	100
<b>Other</b>	0	0	100
<b>Total</b>	131	100	

#### **4.2.7 Educational qualifications of the respondents**

Figure 4.4 below summarises the educational qualifications of the respondents in a research sample. The biggest proportion of the respondents held a matric certificate (66%), followed by respondents who possessed no matric qualification (17%). Respondents that had a certificate-level qualification were 11 out of 131, with those in possession of a diploma and undergraduate degree comprising 7% and 2% of the respondents respectively. None of the respondents had postgraduate degree qualifications.

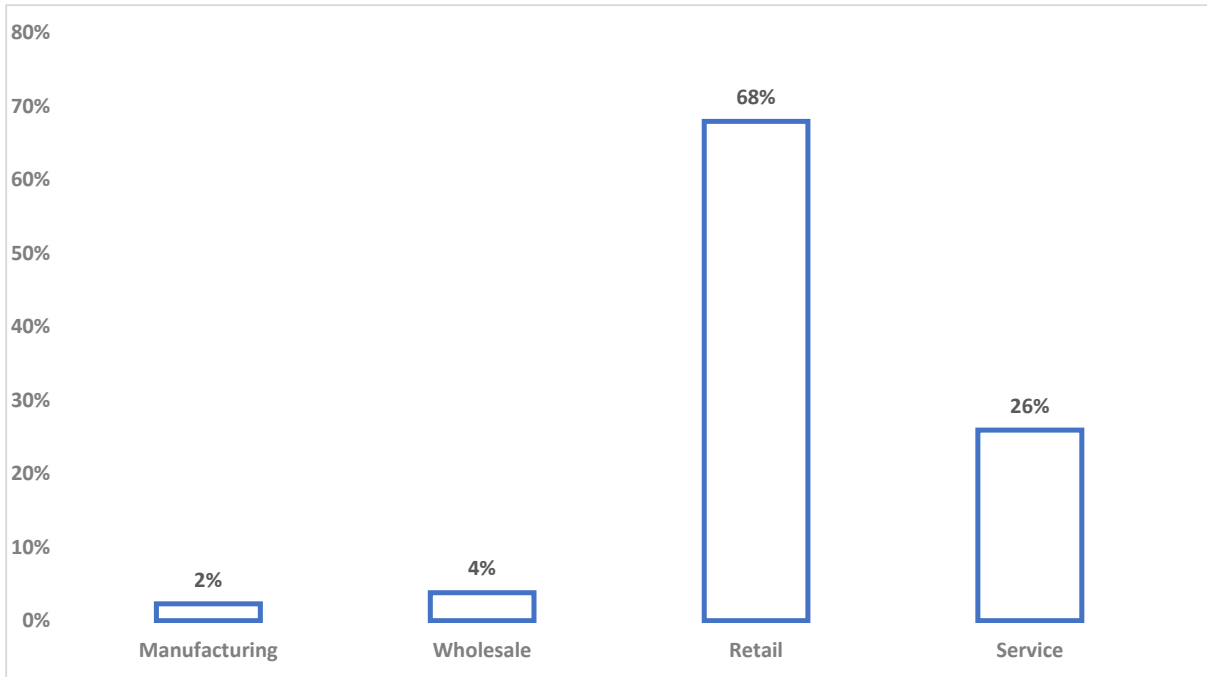
Having the necessary qualifications enables entrepreneurs to approach situations from prior business experience with formalised theories, enables them to learn new concepts and correct their attitudes towards certain business trends and gives them a chance to discover new business tools.



**Figure 4.4: Educational qualifications of the respondents**

#### 4.2.8 Type of business

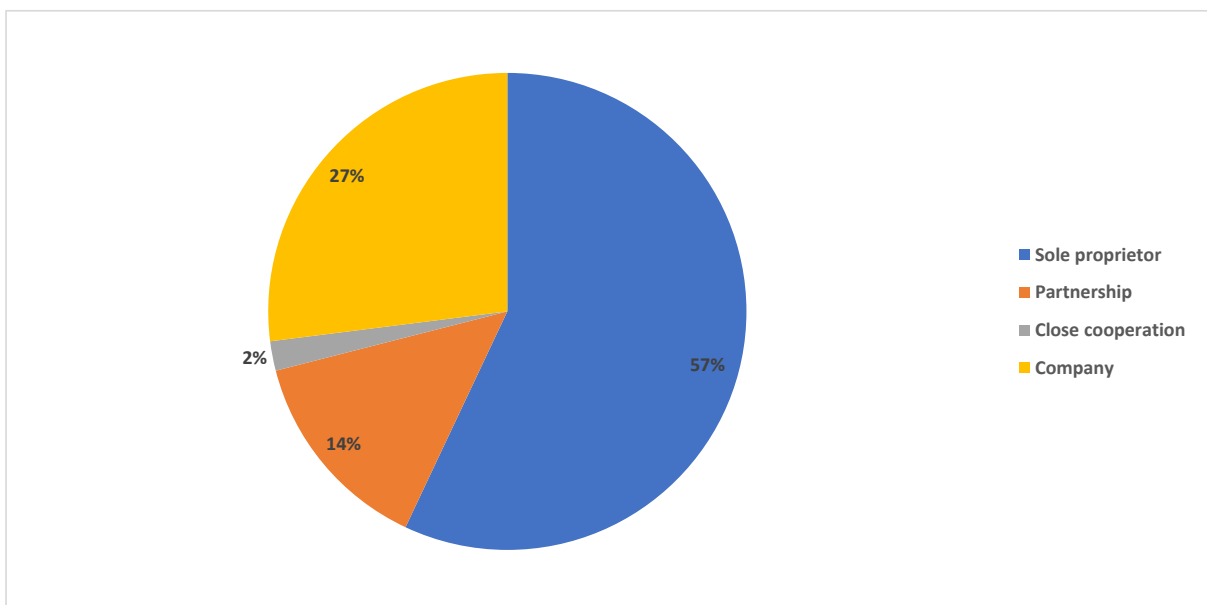
MSMEs cut across several different sectors of the economy and therefore it is not surprising that 92% of the responses received were spread across a wide range of business sectors in the Maseru district, with the majority of MSMEs concentrated in the retail sector. This sector alone comprised 89 out of 131 respondents, as shown in Figure 4.5 below. This is followed by the services sector with 34 respondents, while the wholesale and manufacturing sectors complete the business sectors with 4% and 2% of the respondents respectively.



**Figure 4.5: Type of business**

#### 4.2.9 Legal status of the business

Figure 4.6 shows that the majority of the MSMEs operating in the Maseru district are sole proprietors, who accounted for 75 out of 131 respondents, thereby representing 57% of the respondents. This was followed by companies with 38% frequency, while partnerships and close corporations complete the legal status of the MSMEs with 15% and 2% of the responses respectively.



**Figure 4.6: Legal status of the business**

#### 4.2.10 Number of years in operation

Figure 4.7 shows that the MSME businesses of 31% of the respondents have been in existence for between 6 and 10 years. This is followed by those in operation for over 10 years, with a frequency of 35 out of 131, indicating that the majority of MSMEs are either in the growth stage or are mature, established businesses. The businesses in existence for between 1 and 5 years accounted for 24% of the respondents' businesses, with business experience of less than 1 year completing the distribution with 17%. The distribution below shows that despite many challenges facing MSMEs during the start-up and growth phases, the owners and managers of MSMEs have shown enormous dedication in ensuring the survival of their businesses.

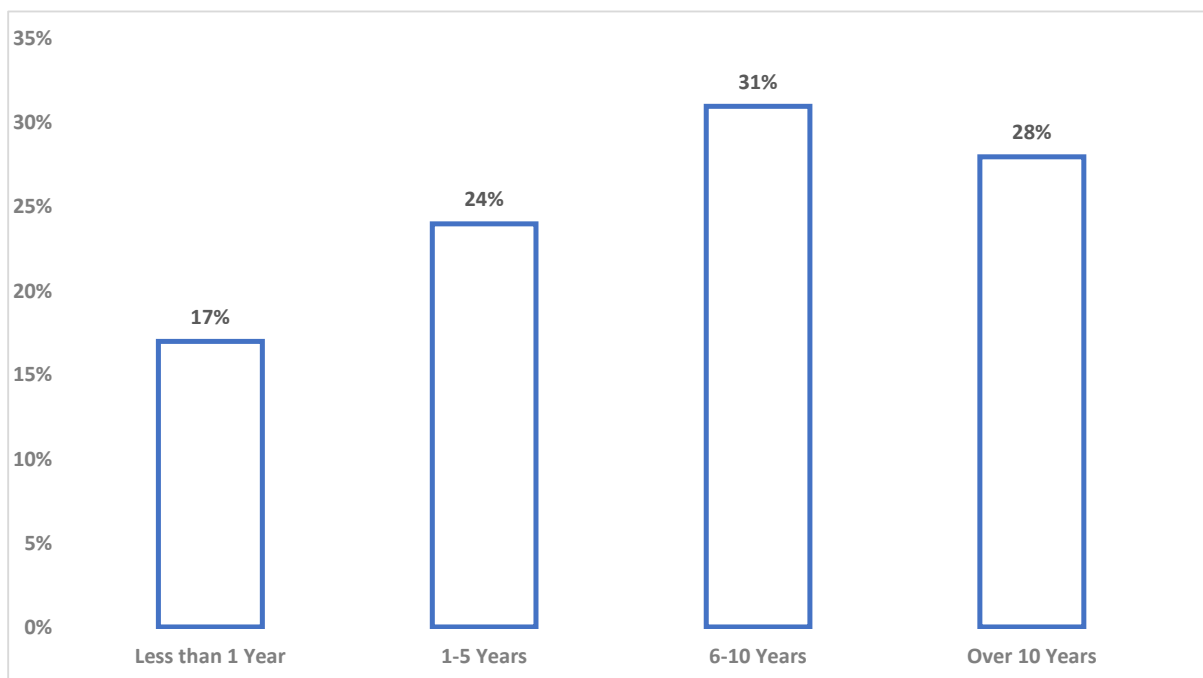
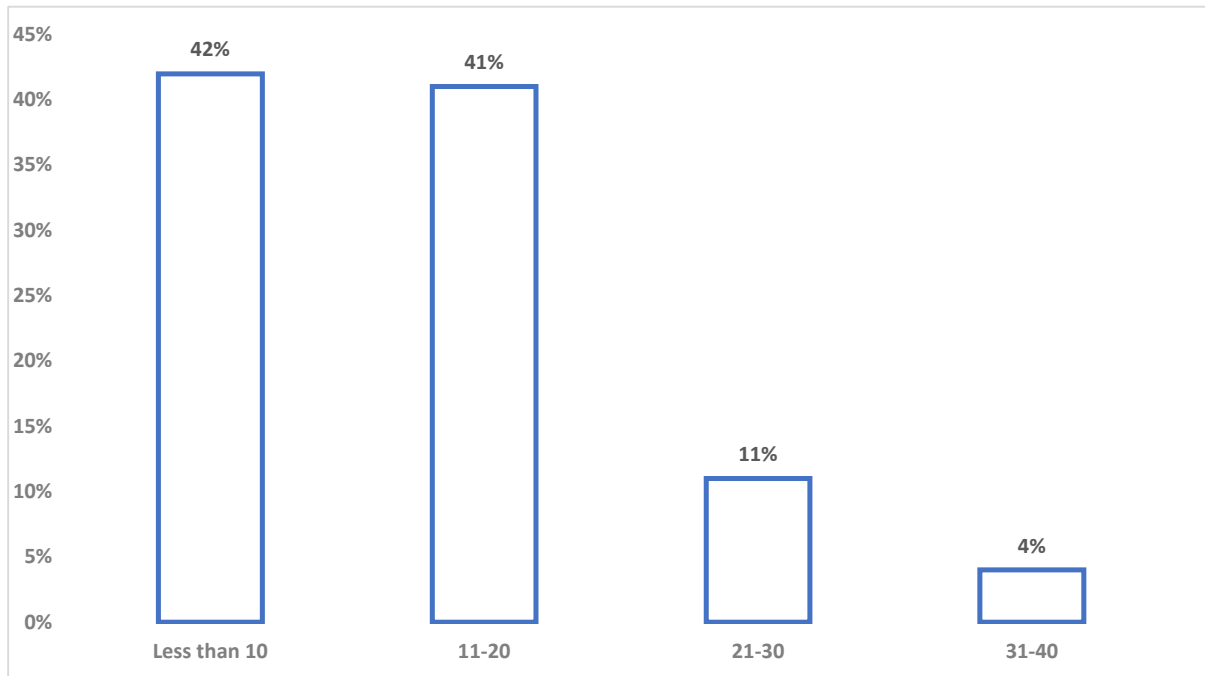


Figure 4.7: Business experience

#### 4.2.11 Number of employees

All the respondents' MSMEs businesses employ a labour force of not more than 50 employees. A total of 83% of the respondents employ fewer than 20 employees, with the rest of the respondents' businesses employing between 21 and 50 employees, accounting for 17% of the respondents. The low levels of employment amongst these MSMEs could be explained by a lack of funding which limits the MSMEs' investment and growth. The majority of the MSMEs operating in Lesotho are survivalists and have

limited potential for growth, hence the limited number of employees they are able to hire.



**Figure 4.8: Business experience**

#### **4.2.12 Challenges faced by MSMEs during start-up**

##### **4.2.12.1 Start-up capital difficult to obtain**

Table 4.4 below indicates that 57% of the respondents agreed that start-up capital is difficult to obtain while 28% strongly agreed. The combined percentage of the respondents that agreed and strongly agreed was therefore 85% of the research sample. The remaining 15% either disagreed (12%), strongly disagreed (2%) or were among the very few who were not sure (1%). The results show that a lack of start-up financial resources is one of the dominating factors that affects MSMEs at start-up level. Owners of MSMEs rely heavily on their own savings for business start-up, which in most cases is not adequate to acquire machinery and other fixed assets for business operations.

The scarcity of funds impacts the business foundation, which impacts the business in the long run due to limited investment in resources. Other sections of the business

affected by limited funding include a lack of business exposure as a result of a lack of advertising and marketing which typically requires a lot of financial muscle to execute. Many MSMEs feel it is impossible for them to have access to small loans and bank overdrafts.

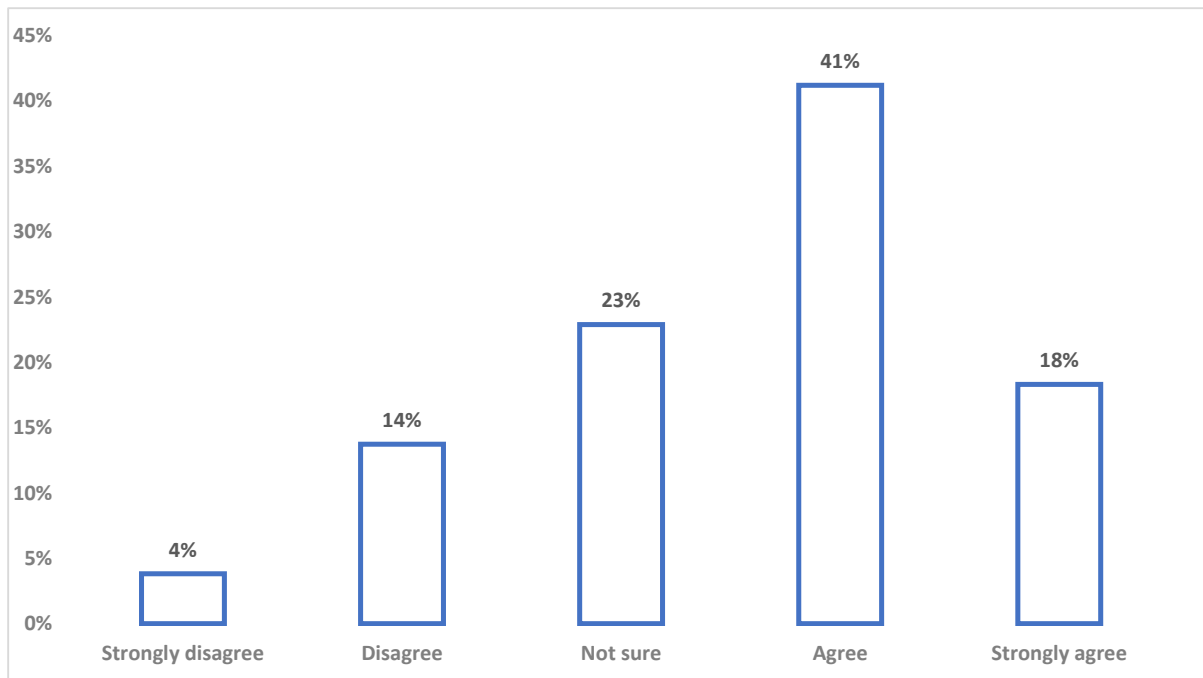
**Table 4.4: Start-up capital**

	<b>Frequency</b>	<b>Percentages (%)</b>	<b>Cumulative Percentages (%)</b>
<b>Strongly disagree</b>	2	2	2
<b>Disagree</b>	16	12	14
<b>Not sure</b>	1	1	15
<b>Agree</b>	75	57	72
<b>Strongly agree</b>	37	28	100
<b>Total</b>	131	100	

#### **4.2.12.2 Lack of collateral to borrow money from financial institutions**

Figure 4.9 summarises the respondents' responses on a lack of collateral to borrow money from financial institutions as one of the factors that affect the start-up of MSMEs in the Maseru district. The combined number of respondents that either agreed or strongly agreed comprised 59 out of the 131 responses received. The other respondents had differing views, with 14% disagreeing, 23% who were not sure and 4% who strongly disagreed.

It has been found that financial institutions such as banks are reluctant to lend money to owners of small businesses wishing to establish MSMEs due to a lack of collateral such as houses or other fixed assets.



**Figure 4.9: Lack of collateral**

#### **4.2.12.3 Lack of business experience in running any form of business**

The majority of the respondents agreed or strongly agreed that a lack of business experience is an obstacle for MSMEs' start-up, with a combined frequency of 68 out of 131 respondents. Business experience plays an important role in establishing a successful business and a lack thereof can lead to the demise of small business enterprises. Table 4.5 summarises the responses on a lack of business experience in running a business as one of the stumbling blocks to the successful start-up of MSMEs.

**Table 4.5: Lack of business experience**

	<b>Frequency</b>	<b>Percentages (%)</b>	<b>Cumulative Percentages (%)</b>
<b>Strongly disagree</b>	10	8	8
<b>Disagree</b>	37	28	36
<b>Not sure</b>	16	12	48
<b>Agree</b>	58	44	92
<b>Strongly agree</b>	10	8	100
<b>Total</b>	131	100	

#### 4.2.12.4 Lack of business skill in running a business

A total of 73 out of the 131 respondents considered a lack of business skill in running a business as one of the obstacles facing MSMEs in the start-up phase. A total of 25% of the respondents disagreed, 7% strongly disagreed and 12% were not sure. Business skills such as financial management, marketing, communication, leadership, problem-solving and networking are some of the powerful tools that small business owners need in order for their MSMEs to thrive. Figure 4.10 shows a summary of the responses to the statement regarding a lack of business skill in running a business as one of the factors that affects the start-up of MSMEs in the Maseru district.

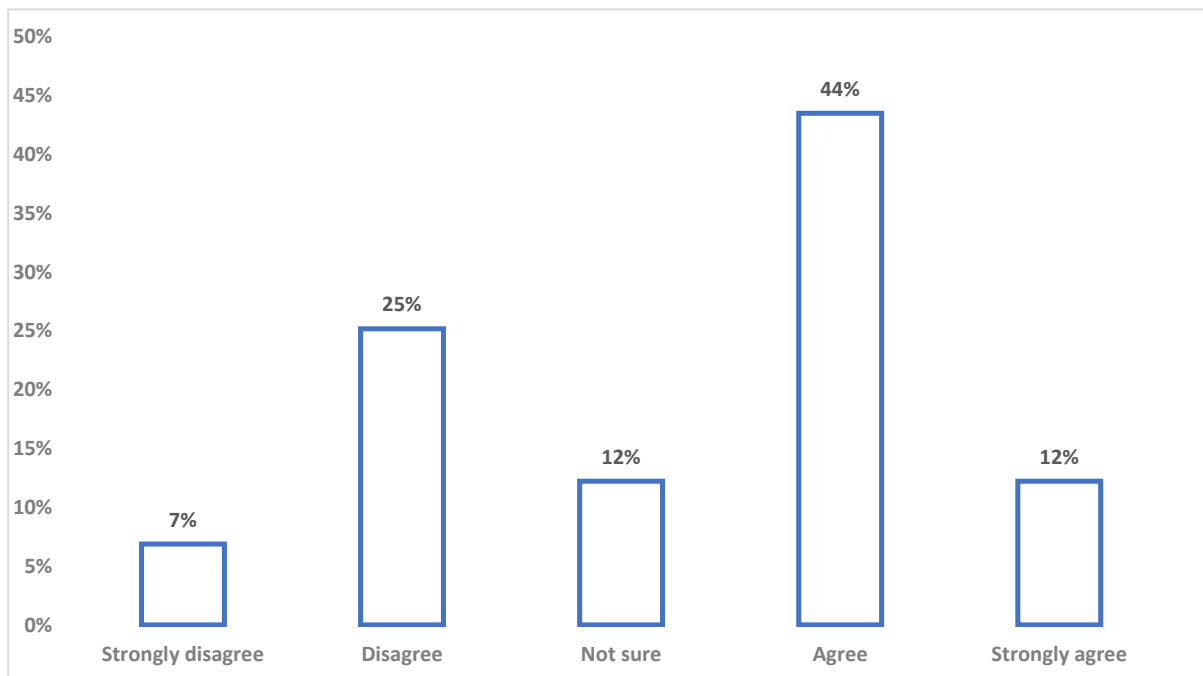


Figure 4.10: Lack of business skill

#### 4.2.12.5 High security costs to prevent theft

Generally, small businesses must have adequate security to protect their business premises from thieves. Maseru is one of the critical threat locations for crime amongst the ten districts of the country. Endemic poverty and widespread unemployment are some of the most significant factors leading to an increase in criminal activity. As a result of this, MSMEs consider the need to invest more in security measures to deter criminals around their business premises. The results in Table 4.6 show that 53% of the respondents either agree or strongly agree that high security costs incurred to

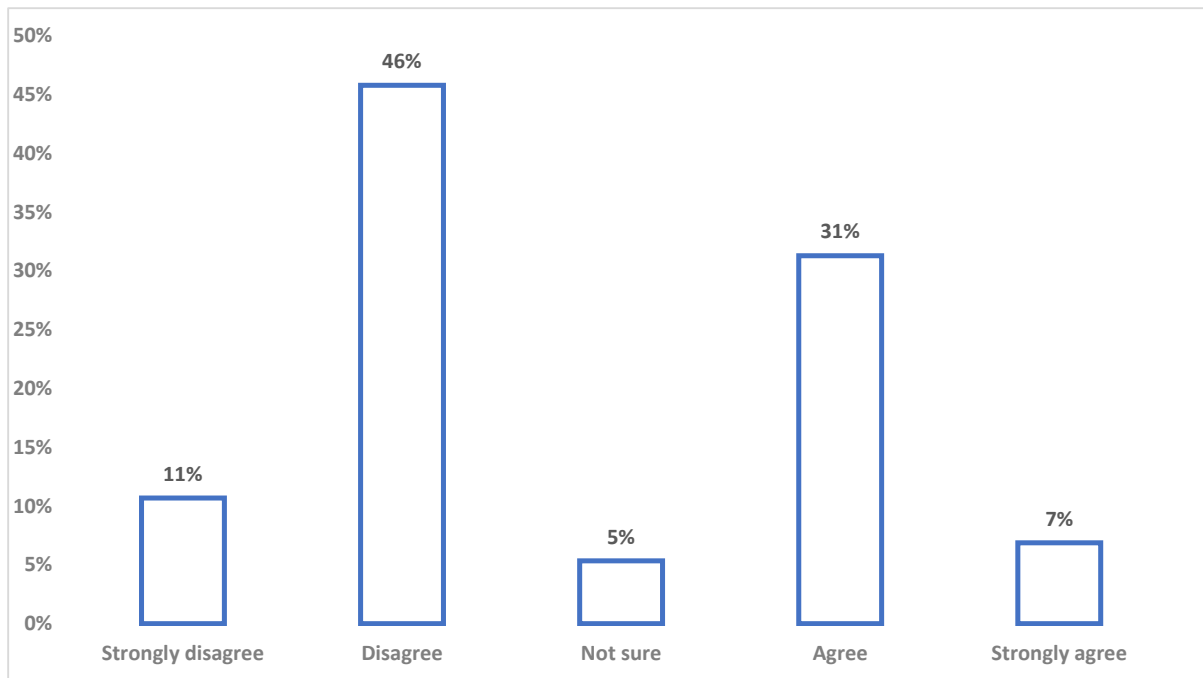
prevent crime negatively impact the start-up of their MSMEs. Costs incurred in boosting security levels could have been utilised for business expansion, like buying new inventory and investing in physical assets. A total of 30% of the respondents did not perceive security costs as having an adverse impact on the start-up of their businesses, while 17% of respondents were unsure.

**Table 4.6: High costs of security**

	<b>Frequency</b>	<b>Percentages (%)</b>	<b>Cumulative Percentages (%)</b>
<b>Strongly disagree</b>	5	4	4
<b>Disagree</b>	34	26	30
<b>Not sure</b>	22	17	47
<b>Agree</b>	54	41	88
<b>Strongly agree</b>	16	12	100
<b>Total</b>	131	100	

#### **4.2.12.6 High rental costs**

A significant portion of retailers (80%) operate from their own business premises and therefore, they do not find rental costs to be an obstacle for business start-up. Even those that rent business premises stated that rental costs are not much of a hindrance to them as they are able to negotiate rental prices with the landlords. Most of the respondents (57%) did not perceive rental costs as high or having an impact on the start-up of their MSMEs, while 38% agreed that these costs were high, and 5% of the respondents were unsure.



**Figure 4.11: High rental costs**

#### **4.2.12.7 Lack of business networks**

Table 4.7 shows that 79% of the respondents agreed that a lack of business networks has an impact on the start-up of their MSMEs. Building a solid business network can lead to new business, enhance business visibility, provide new ideas and perspectives and give a business access to industry leaders. Furthermore, in the retail sector, a strong business network with suppliers is associated with large discounts. If businesses can buy cheaply and in bulk, they can transfer the discounts received from suppliers to the ultimate consumer. This helps to improve turnover, which impacts profitability and ultimately, business expansion.

**Table 4.7: Lack of business networks**

	<b>Frequency</b>	<b>Percentages (%)</b>	<b>Cumulative Percentages (%)</b>
<b>Strongly disagree</b>	1	1	1
<b>Disagree</b>	17	13	14
<b>Not sure</b>	9	7	21
<b>Agree</b>	80	61	82
<b>Strongly agree</b>	24	18	100
<b>Total</b>	131	100	

#### 4.2.12.8 Crime

Crime is one of the constraints that threaten the sustainability of MSMEs. The findings of this research study confirmed this assessment with 48% and 19% of the respondents agreeing or strongly agreeing respectively. The other respondents were not sure (13%) while 17% of the respondents disagreed and only 3% of the respondents strongly disagreed. Figure 4.12 summarises the responses received to crime as one of the factors that affect the start-up of MSMEs in the Maseru district.

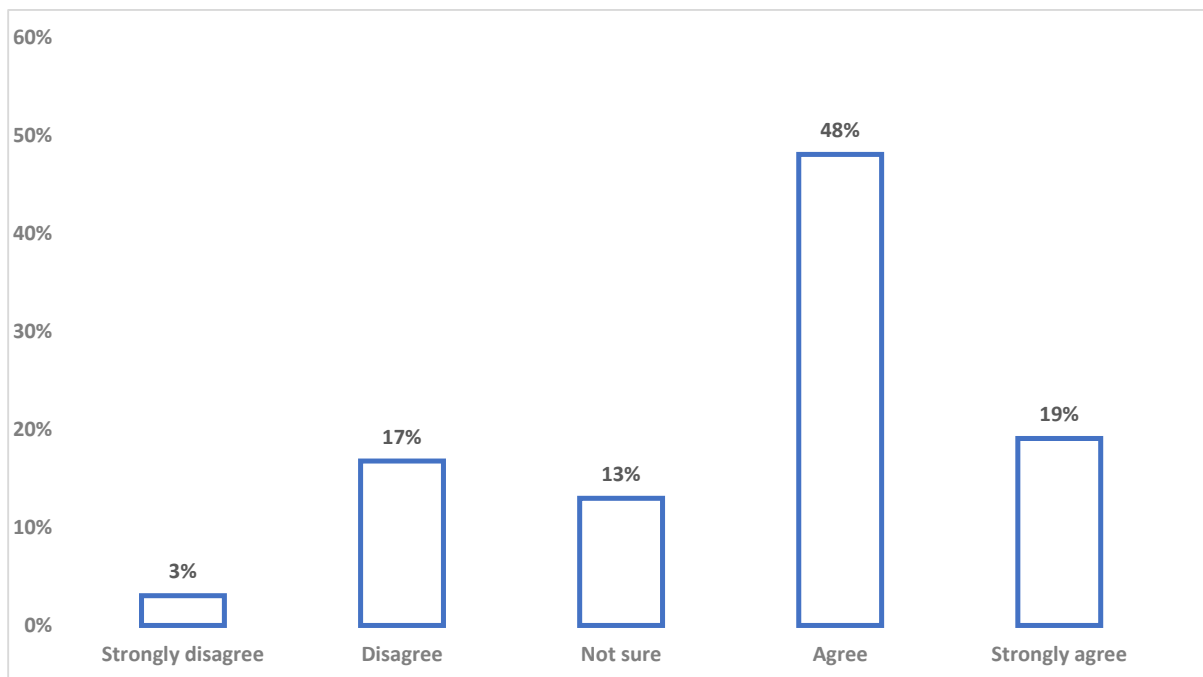


Figure 4.12: Crime

#### 4.2.12.9 Lack of managerial skills

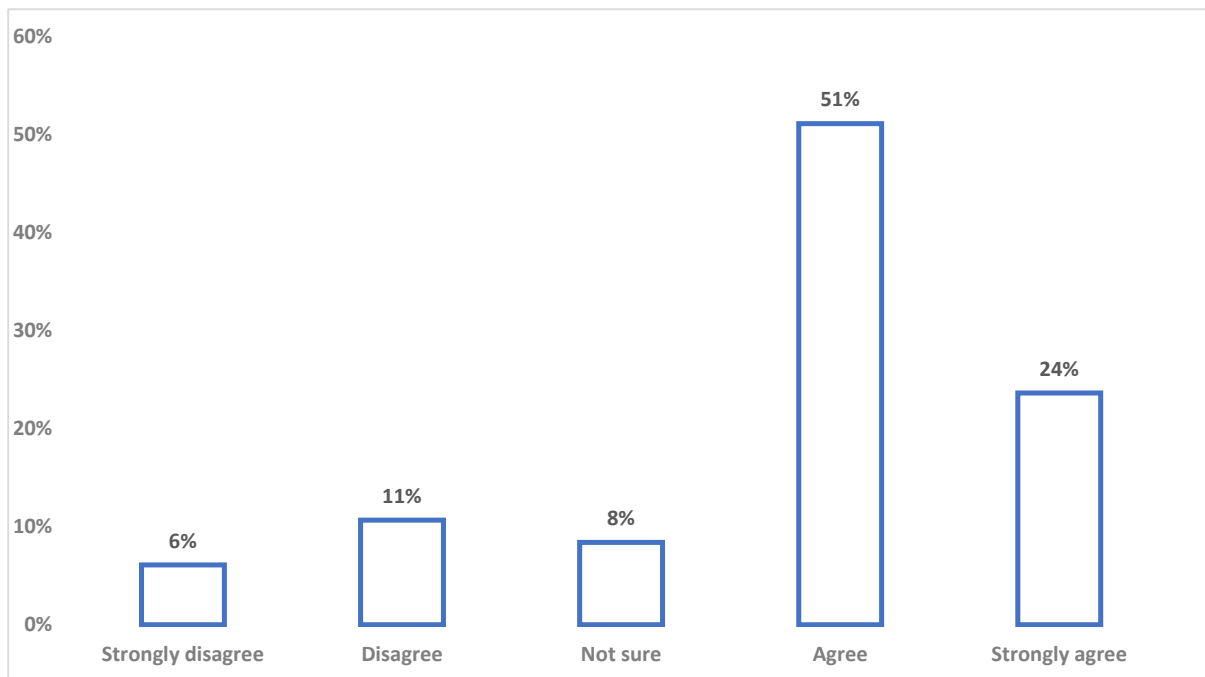
Managerial skills such as planning and organisation, communication, decision-making, delegation, problem-solving and motivation provide an important foundation for a business in both the start-up and growth stages. Table 4.8 shows that 78 out of 131 respondents either agreed or strongly agreed that a lack of managerial skills is one of the barriers to MSMEs' start-up success in the Maseru district. There are several negative consequences caused by a lack of managerial skills, resulting in other employees being overworked and becoming less productive.

**Table 4.8: Lack of managerial skills**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	9	7	7
<b>Disagree</b>	28	21	28
<b>Not sure</b>	16	12	40
<b>Agree</b>	52	40	80
<b>Strongly agree</b>	26	20	100
<b>Total</b>	131	100	

**4.2.12.10 Lack of business training**

The majority of the respondents (75%) either agreed or strongly agreed that they lacked business training. Business training involves topics such as finance, law, leadership, marketing and strategy. A lack of business training affects small businesses because it leads to poor and worsening business performance. Only 17% of the respondents either disagreed or strongly disagreed that they lacked business training. Figure 4.13 summarises the distribution of responses to a lack of business training as a constraint for MSMEs in the start-up phase in the Maseru district.



**Figure 4.13: Lack of business training**

#### 4.2.12.11 Difficulties in obtaining a business licence to operate

A total of 99 out of 131 respondents either agreed or strongly agreed that obtaining a business licence to operate was one of the main obstacles they encountered during start-up. One of the first business challenges MSMEs come upon when trying to apply for a business licence is knowing where and how to commence their search to determine what business licences they require so that they can operate. Other challenges involving business licences include application complexities, difficulties in understanding who governs the licence requirements, and the need for a physical location which is not always available to prospective entrepreneurs. Table 4.9 below shows the responses received regarding the existence of difficulties MSMEs encounter when trying to obtain an operating licence.

**Table 4.9: Business licence to operate**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	5	4	4
<b>Disagree</b>	11	8	12
<b>Not sure</b>	16	12	24
<b>Agree</b>	69	53	77
<b>Strongly agree</b>	30	23	100
<b>Total</b>	131	100	

#### 4.2.12.12 Lack of government support for MSMEs

Table 4.10 indicates that a total of 84% of the respondents either agreed or strongly agreed that a lack of government support hinders the start-up of their small businesses. A total of 13 out of 131 respondents either disagreed or strongly disagreed, and 8 respondents were not sure. It is perceived that government's incentives favour established businesses over small business start-ups. A lack of opportunities for MSMEs to access government contracts (as the government favours larger and more experienced businesses) is considered one of the main obstacles to MSMEs at start-up.

**Table 4.10: Lack of government support**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	3	2	2
<b>Disagree</b>	10	8	10
<b>Not sure</b>	8	6	16
<b>Agree</b>	79	60	76
<b>Strongly agree</b>	31	24	100
<b>Total</b>	131	100	

#### 4.2.12.13 Business locations

MSMEs located in the rural areas of the Maseru district perceived a lack of customer demand as one of the biggest challenges they encounter. Figure 4.14 shows that a total of 50% of the respondents either agreed or strongly agreed that their business location hinders their start-up. Furthermore, a total of 46% of the respondents either disagreed or strongly disagreed that their business location was unfavourable, while 4% were not sure. Most of the 46% of the respondents who disagreed with the statement are located in urban areas where their businesses are easily visible.

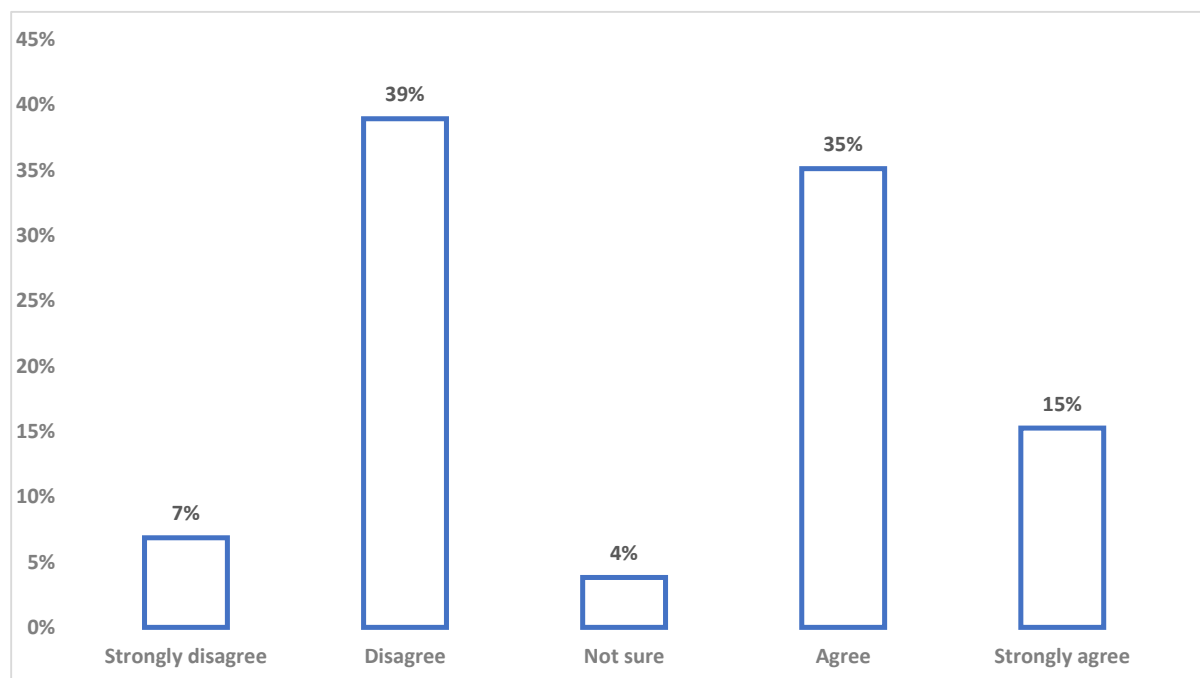


Figure 4.14: Business location

#### 4.2.13 Challenges faced by MSMEs during the growth phase

#### 4.2.13.1 Difficulty obtaining funds for business expansion

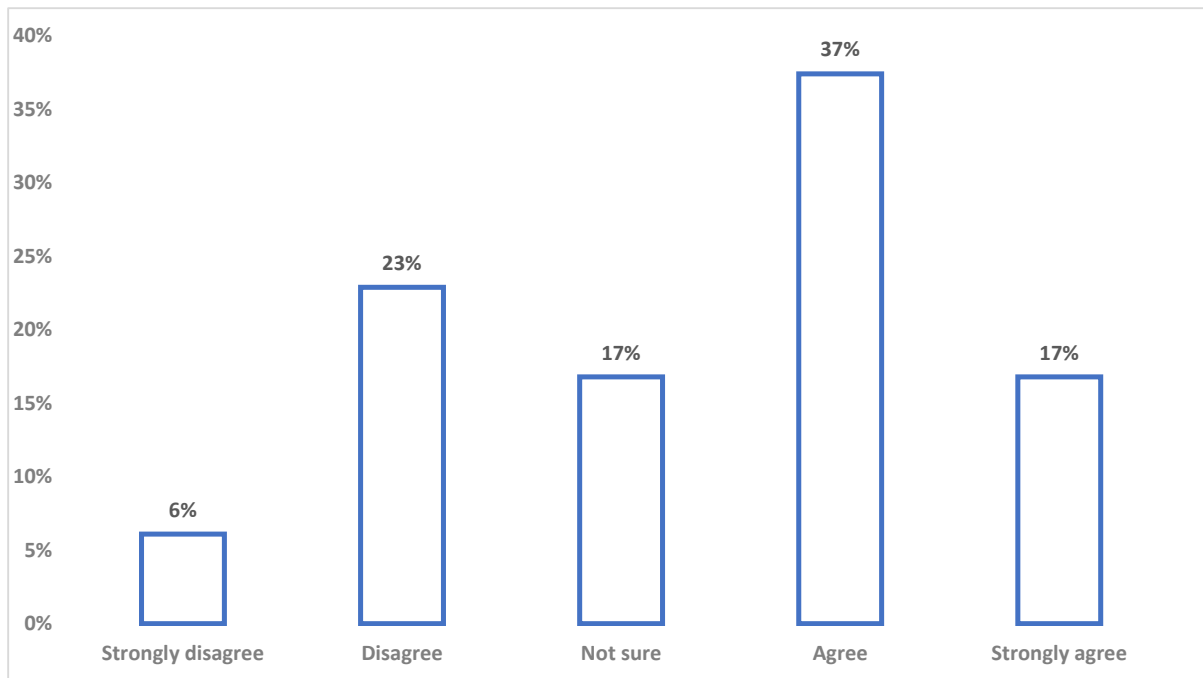
Table 4.11 shows that a significant group of respondents, who comprised 48%, agreed and a further 17% strongly agreed that the inability to obtain funds for business expansion hinders the growth of their MSMEs. The results of this study suggest that insufficient funds for business expansion are one of the main factors which affect the growth and expansion of MSMEs in the Maseru district. The availability of capital would enable MSMEs to increase their revenue and acquire more customers, buy equipment, invest in innovation and venture into new markets.

**Table 4.11: Difficulties in obtaining funds for business expansion**

	<b>Frequency</b>	<b>Percentages (%)</b>	<b>Cumulative Percentages (%)</b>
<b>Strongly disagree</b>	4	3	3
<b>Disagree</b>	22	17	20
<b>Not sure</b>	20	15	35
<b>Agree</b>	63	48	83
<b>Strongly agree</b>	22	17	100
<b>Total</b>	131	100	

#### 4.2.13.2 High interest rate charges when borrowing money to expand the business

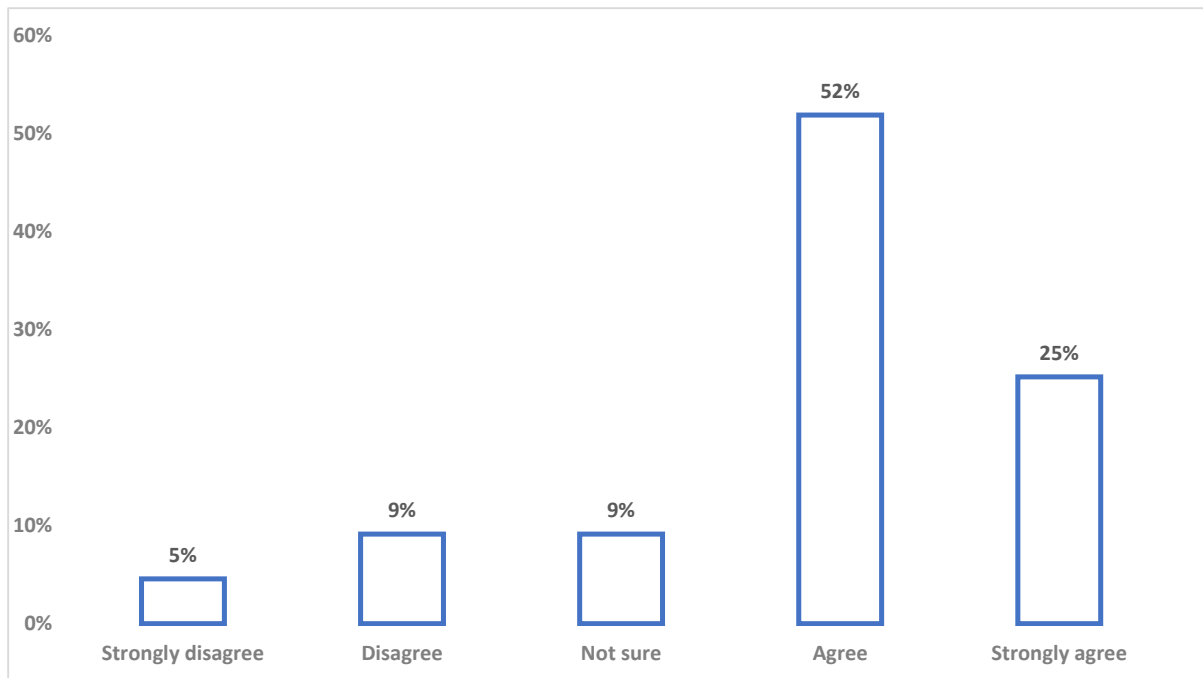
Figure 4.15 shows that a combined 54% of the respondents either agreed or strongly agreed that high interest rate charges are one of the main factors making it difficult for MSMEs to access funds from financial institutions for business growth. These high borrowing costs decrease profits, which negatively affects the ability to venture into new projects, which in turn hampers the growth of the business. The cost of borrowing becomes even more when small businesses do not have assets to provide security for the loan in the event of them defaulting on payment.



**Figure 4.15: High interest rate charges**

#### **4.2.13.3 Competition from foreign-owned businesses**

Figure 4.16 below shows that 77% of the respondents perceived that competition from foreign-owned small businesses affects the growth of their MSMEs while 14% disagreed and 9% were not sure. The findings of this study suggest that many locally-owned MSMEs are threatened by the growth of businesses owned by foreign nationals. The main reason cited for the struggles of locally-owned small businesses to compete on an equal footing with foreigners was their inability to match the pricing strategies used by some of the foreign-owned small businesses.



**Figure 4.16: Competition from foreign-owned businesses**

#### 4.2.13.4 Competition from other businesses owned by Basotho

Competition is one of the major factors hindering the growth of MSMEs in Maseru. This is largely due to a high unemployment rate amongst the youth resulting in them opening their own small businesses for survival. The responses reflected in Table 4.12 show that a significant portion of the respondents agreed or strongly agreed (with a combined frequency of 75 out of 131 respondents) that local competition thwarts the growth of their MSMEs. A smaller group comprising 27% of the respondents disagreed, while 16% were not sure.

**Table 4.12: Competition from other businesses owned by Basotho**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	6	5	5
<b>Disagree</b>	29	22	27
<b>Not sure</b>	21	16	43
<b>Agree</b>	54	41	84
<b>Strongly agree</b>	21	16	100
<b>Total</b>	131	100	

#### 4.2.13.5 Operating space to expand the business

A total of 58% of the respondents perceived operating space as a hindrance to expanding their businesses, while 35% of the respondents did not see a lack of operating space affecting the growth of their small businesses. A total of 21 respondents were not sure. Figure 4.17 below shows a summary of the responses received on a lack of operating space as an obstacle for MSMEs' growth in the Maseru district.

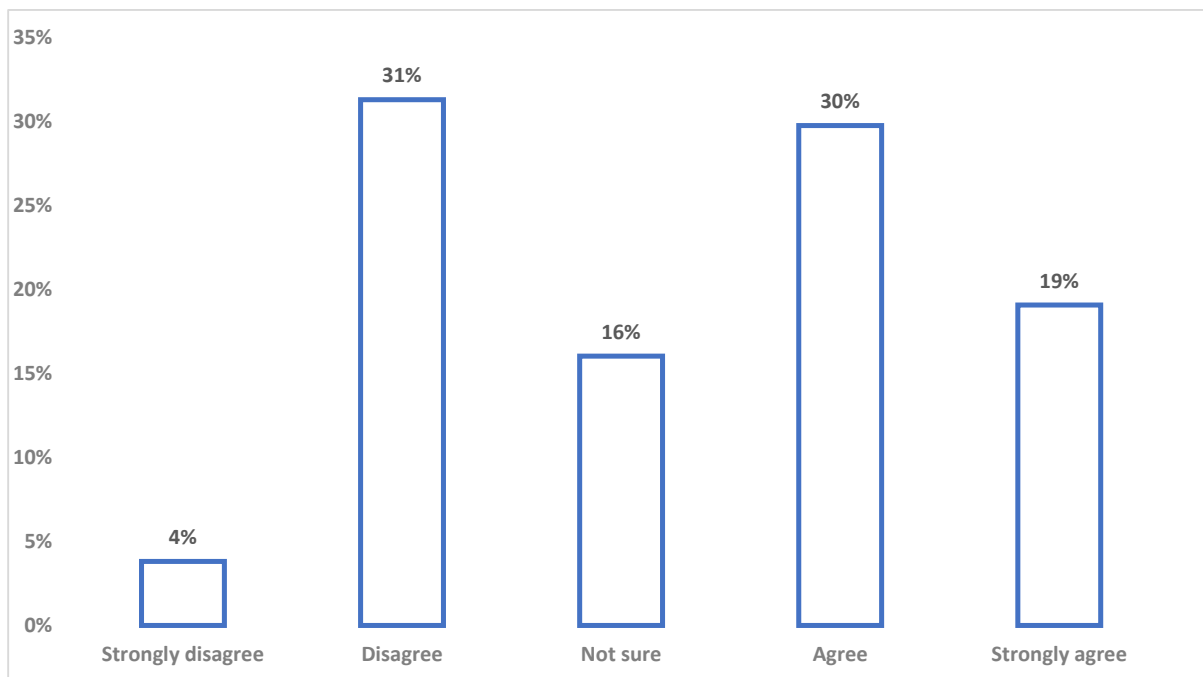


Figure 4.17: Operating space to expand the business

#### 4.2.13.6 Lack of roads

Responses quantified in Table 4.13 show that there are widely varying opinions of respondents regarding a lack of roads as one of the factors that affect the growth of their MSMEs. A total of 64 out of 131 respondents either disagreed or strongly disagreed with the statement, while a combined 59 out of 131 respondents either agreed or strongly agreed. Only 8 out of 131 respondents were not sure of the impact of this factor. Lesotho has an unequally distributed road network between its urban and rural areas as a result of its mountainous topography, which hinders the expansion and maintenance of road infrastructure. Although urban areas have adequate road infrastructure, they comprise only one quarter of the country's total area. Fewer rural

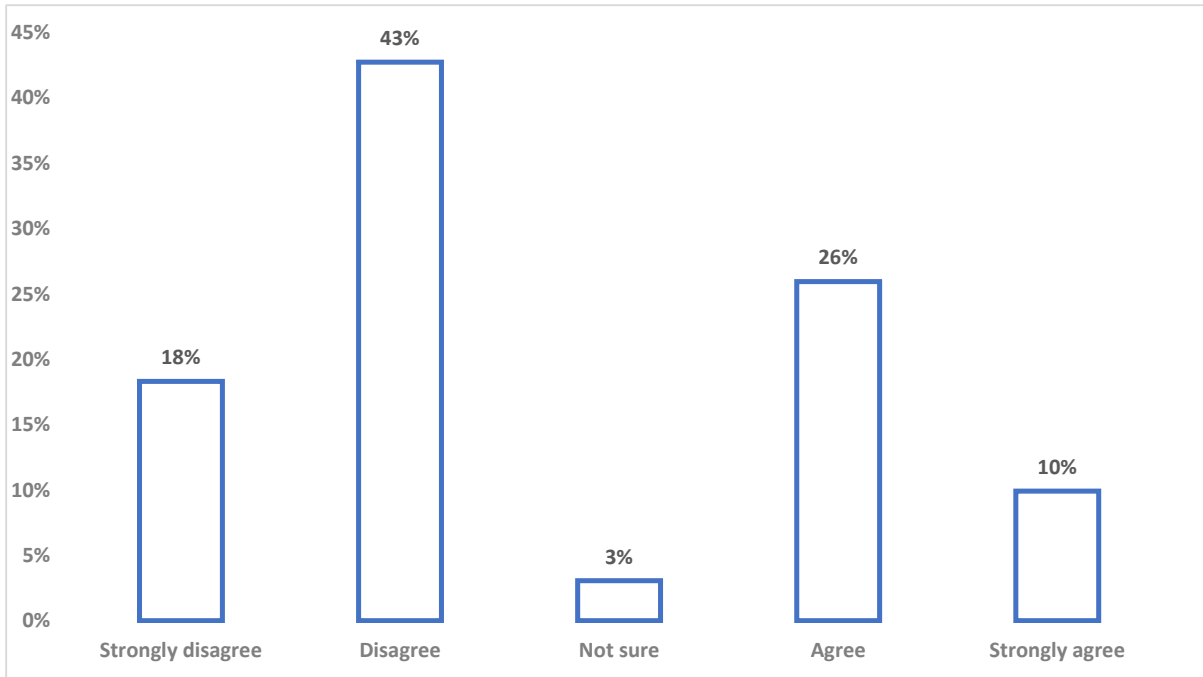
roads connect villages and towns in the rural areas of the country, which affects the growth of these MSMEs.

**Table 4.13: Lack of roads**

	<b>Frequency</b>	<b>Percentages (%)</b>	<b>Cumulative Percentages (%)</b>
<b>Strongly disagree</b>	25	19	19
<b>Disagree</b>	39	30	49
<b>Not sure</b>	8	6	55
<b>Agree</b>	42	32	87
<b>Strongly agree</b>	17	13	100
<b>Total</b>	131	100	

#### **4.2.13.7 Lack of electricity**

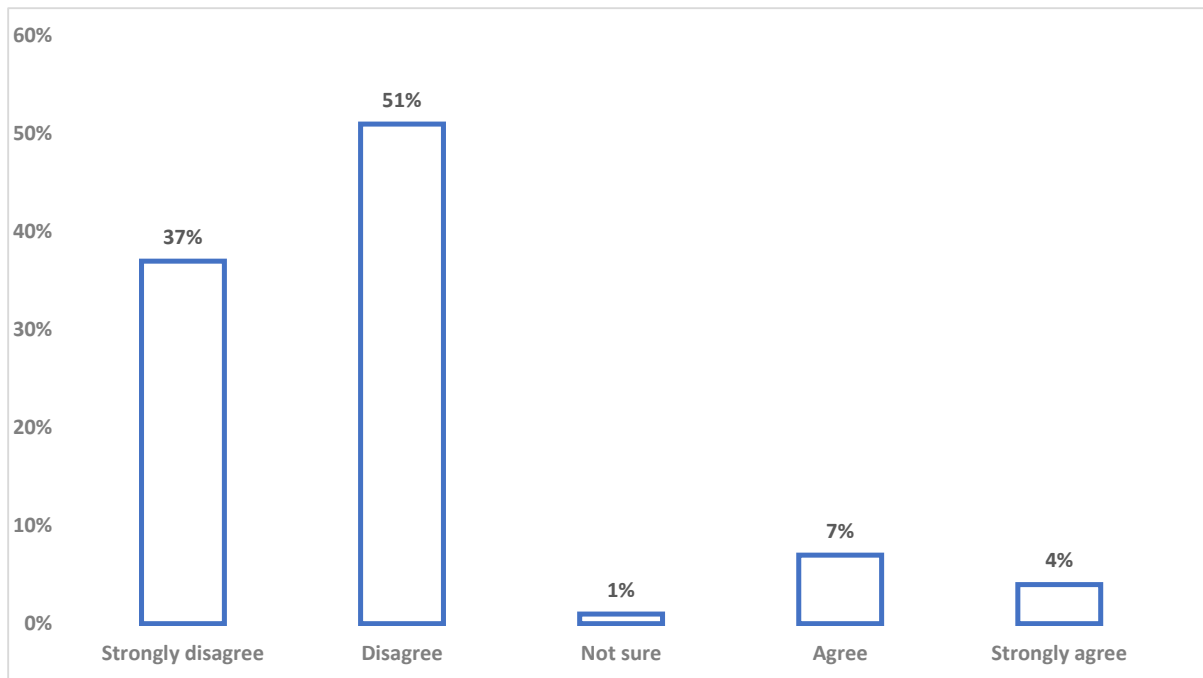
It was found that 61% of the respondents either disagreed or strongly disagreed that a lack of electricity hampers the growth of their MSMEs. A total of 26% of the respondents agreed with the statement, while 10% strongly agreed. The number of respondents who were not sure were only 4 out of 131 respondents. In Lesotho, a significant proportion of households have access to electricity and the country aims to expand its electrification rate to 50% of the population in 2021. It is therefore not surprising that a relatively high number of respondents felt that a shortage of electricity supply is not one of the factors that affect the growth of their MSMEs. Figure 4.18 below summarises the responses obtained on a lack of electricity as one of the factors affecting the growth of MSMEs in the Maseru district.



**Figure 4.18: Lack of electricity**

#### **4.2.13.8 Lack of water**

Figure 4.19 shows that a significant portion (51% of the respondents) disagreed and a further 37% strongly disagreed that a lack of water hindered the growth of their MSMEs. Lesotho has plenty of water resources as its highlands offer water in abundance, with the Senqu, Mokare and Makhaleng rivers being the country’s main sources of water supply. According to the Lesotho Bureau of Statistics (2016), more than 88% of the country’s households have access to clean water, with 97% of these in urban and 80% in rural areas respectively. A relatively low percentage of respondents agreed (7%), strongly agreed (4%) or were not sure (1%).



**Figure 4.19: Lack of water**

#### 4.2.13.9 Low staff productivity

Low staff productivity amongst MSMEs in the Maseru district was not generally regarded as a problem, with a total of 60% of the respondents either disagreeing or strongly disagreeing that this factor contributes negatively to the expansion of their MSMEs. A combined frequency of 45 out of 131 respondents took a different view, and agreed that low staff productivity affects the growth of their small businesses, while 6% of the respondents were not sure. Table 4.14 below shows summarised responses received towards the statement that low staff productivity is one of the factors affecting the growth of MSMEs in Maseru.

**Table 4.14: Low staff productivity**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	28	21	21
<b>Disagree</b>	50	39	60
<b>Not sure</b>	8	6	66
<b>Agree</b>	29	22	88
<b>Strongly agree</b>	16	12	100
<b>Total</b>	131	100	

#### 4.2.13.10 High taxes

A total of 81 out of 131 respondents either agreed or strongly agreed that high taxes hinder the growth of MSMEs in Maseru, as shown below in Figure 4.20. Other respondents disagreed (18%), 10% strongly disagreed, and 10% of the respondents were not sure. MSME owners perceive high tax rates as making a significant difference in their decision to expand or take a step back. Such business decisions can have an impact on the economy, as growing businesses are more likely to stimulate economic growth and other positive changes. Therefore, increased tax rates can have an even larger impact on economic growth than previously anticipated.

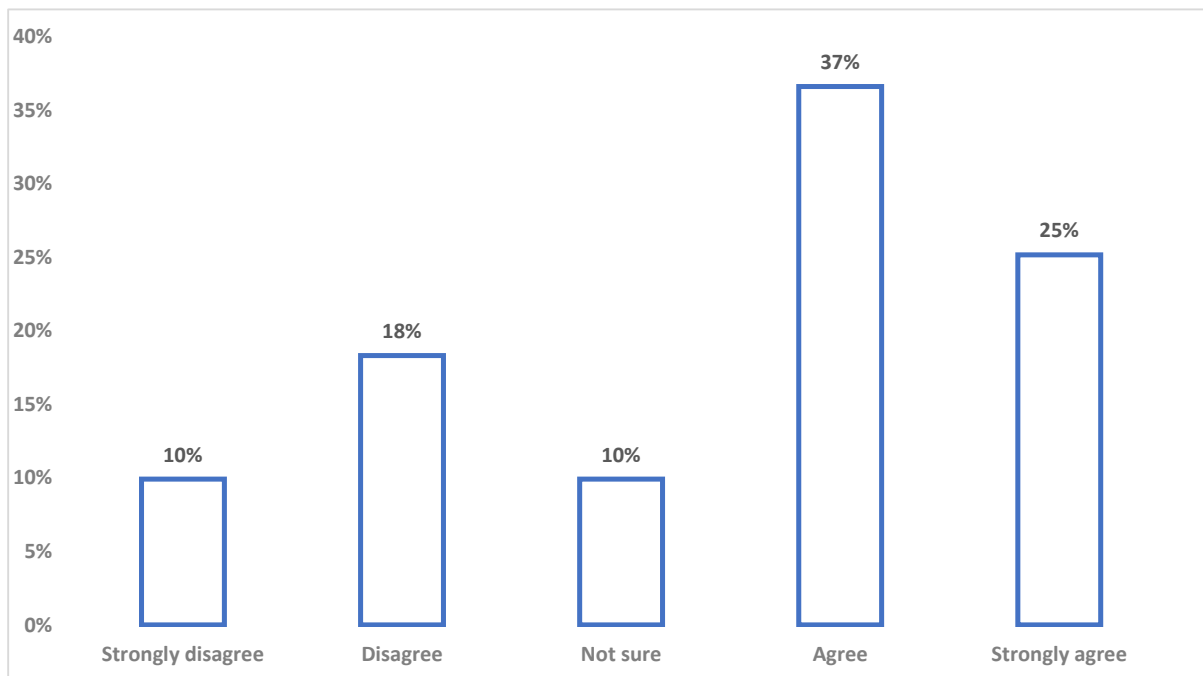


Figure 4.20: High taxes

#### 4.2.13.11 Customs and trade regulations

Table 4.15 shows that 84 out of 131 respondents either agreed or strongly agreed that customs and trade regulations pose a significant challenge to the growth of MSMEs. Custom and trade regulations include VAT refunds on imported goods and services, and obtaining different types of permits for different types of imports. The permits all have different validity periods and must all be obtained from the Lesotho Revenue Authority offices in Maseru, which sometimes poses logistical challenges for small businesses located in the rural areas of the Maseru district. Other difficulties include

accessing VAT refunds from the South African Revenue Service (SARS) on the South African side of the border, and the number of forms that must be filled in on both the South African and Lesotho sides of the border. The time taken to clear the goods bought from South Africa as a result of long queues represents a significant cost for MSMEs.

**Table 4.15: Customs and trade regulations**

	<b>Frequency</b>	<b>Percentages (%)</b>	<b>Cumulative Percentages (%)</b>
<b>Strongly disagree</b>	10	8	8
<b>Disagree</b>	21	16	24
<b>Not sure</b>	16	12	36
<b>Agree</b>	54	41	77
<b>Strongly agree</b>	30	23	100
<b>Total</b>	131	100	

#### **4.2.14 Successful business strategies used by foreign-owned MSMEs in running their businesses**

##### **4.2.14.1 Lower selling price**

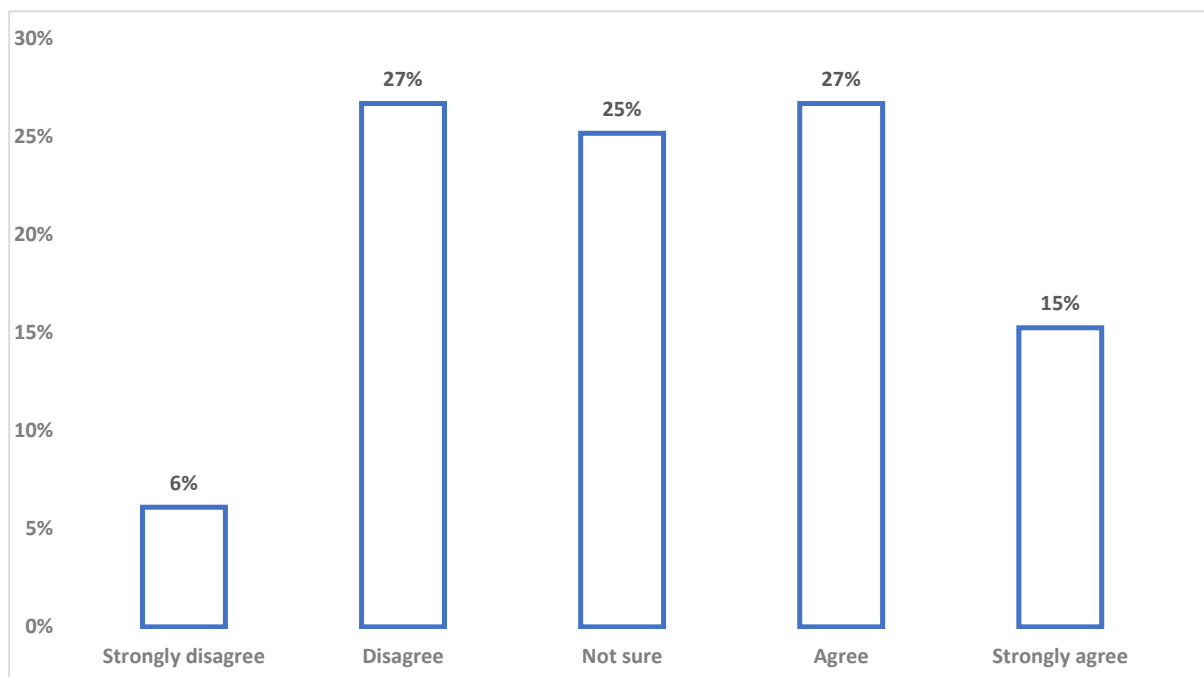
Table 4.16 below indicates that 79% of the respondents believed that foreign-owned small businesses sell their goods and services at a lower price than their local counterparts. A small portion of respondents had a different view, with 13% of the respondents either disagreeing or strongly disagreeing with this statement. A total of 10 out of 131 respondents were not sure. It is perceived that foreign-owned small businesses employ several business strategies such as buying in bulk in order to obtain significant discounts which will enable them to sell their products at a lower price compared to locally-owned MSMEs. The most popular foreign-owned businesses in Maseru are owned by Chinese and Indian nationals.

**Table 4.16: Lower selling price**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	3	2	2
<b>Disagree</b>	14	11	13
<b>Not sure</b>	10	8	21
<b>Agree</b>	54	41	62
<b>Strongly agree</b>	50	38	100
<b>Total</b>	131	100	

**4.2.14.2 Adequate financial aid**

A total of 42% of the respondents believe that foreign-owned small businesses have sufficient financial aid while 33% of the respondents either disagreed or strongly disagreed. A total of 25% of the respondents were unsure.



**Figure 4.21: Adequate financial aid**

#### 4.2.14.3 Buying goods in bulk

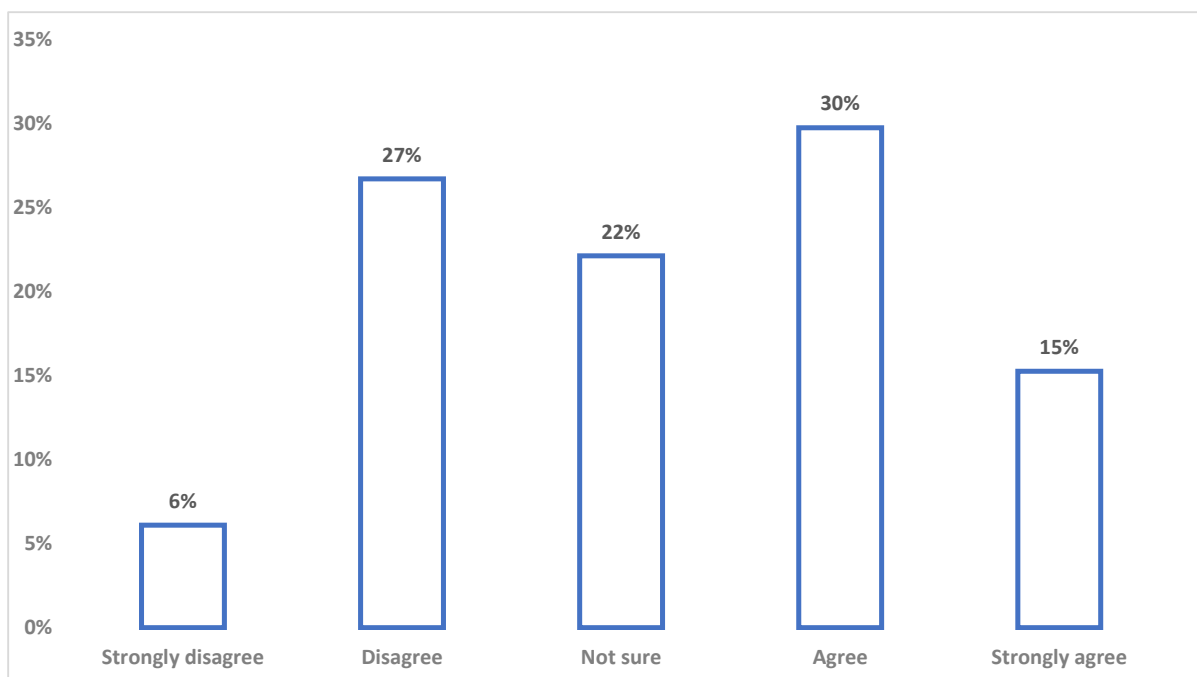
A total of 78% of the respondents either agreed or strongly agreed that foreign-owned businesses buy goods in bulk to maintain stock levels and offer a variety of goods required by the Basotho. As mentioned earlier, buying their stock in bulk enables foreign-owned small businesses to take advantage of massive discounts, which enables them to transfer these discounts to the consumers. A total of 11% of the respondents either disagreed or disagreed strongly, while a further 11% of the respondents were unsure. Table 4.17 below shows the responses received to the statement that buying goods in bulk is one of the strategies to thrive used by foreign-owned small businesses in Maseru.

**Table 4.17: Buying goods in bulk**

	<b>Frequency</b>	<b>Percentages (%)</b>	<b>Cumulative Percentages (%)</b>
<b>Strongly disagree</b>	8	6	6
<b>Disagree</b>	7	5	11
<b>Not sure</b>	14	11	22
<b>Agree</b>	72	55	77
<b>Strongly agree</b>	30	23	100
<b>Total</b>	131	100	

#### 4.2.14.4 Adequate technology

Innovation and technology in business impact its growth. Using modern technological solutions can lead to better brand exposure, enhanced communication with customers, streamlined processes, lower costs across the business and improved security. Figure 4.22 below shows that 45% of the respondents believe that foreign-owned small businesses have adequate technology, while 33% of the respondents have opposing views, and 22% of the respondents are unsure.



**Figure 4.22: Adequate technology**

#### 4.2.14.5 Skilled employees

Table 4.18 shows that 53% of the respondents either agreed or strongly agreed that foreign-owned MSMEs have more skilled employees at their disposal compared to their local counterparts. A total of 21% disagreed and 11% strongly disagreed while 15% of the respondents were not sure. The vast majority of MSME owners are mindful of the cost of appointing and training new employees.

**Table 4.18: Skilled employees**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	14	11	11
<b>Disagree</b>	28	21	32
<b>Not sure</b>	19	15	47
<b>Agree</b>	45	34	81
<b>Strongly agree</b>	25	19	100
<b>Total</b>	131	100	

#### 4.2.14.6 Availability of stock to meet customer demands

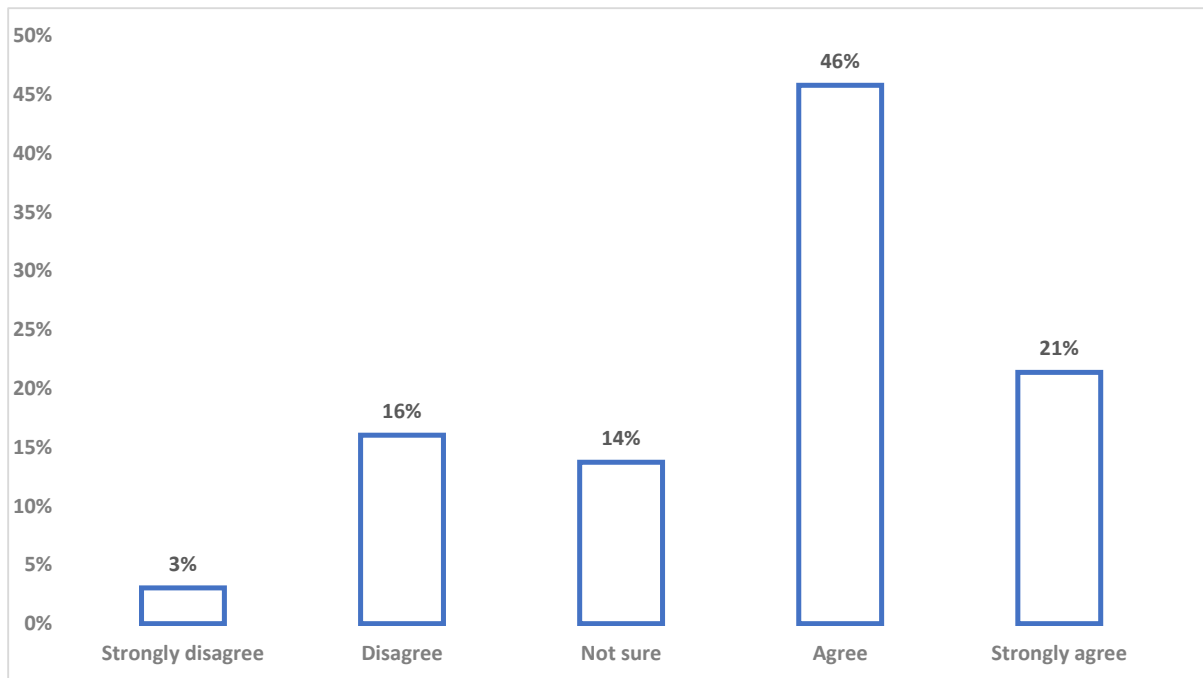
Table 4.19 shows that a total of 66% of the respondents suggested that foreign-owned small businesses have ample stock levels to meet customer demands, while 19% of the respondents did not perceive this to be the case. A total of 15% of the respondents were unsure. Foreign-owned small businesses tend to have a variety of stock items favoured locally as a result of them buying in bulk to obtain increased discounts. The availability of stock leads to customers becoming returning customers which improves potential profits as this improves sales volumes. The availability of stock also improves customer satisfaction and promotes customer confidence.

**Table 4.19: Availability of stock**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	10	8	8
<b>Disagree</b>	14	11	19
<b>Not sure</b>	20	15	34
<b>Agree</b>	59	45	79
<b>Strongly agree</b>	28	21	100
<b>Total</b>	131	100	

#### 4.2.14.7 Strong business relationships with suppliers

Figure 4.23 below shows that many respondents agree that non-Basotho small businesses build a strong business relationship with their suppliers. A total of 46% of the respondents agreed, 21% strongly agreed, while a total of 19% of the respondents either disagreed or strongly disagreed. The other 14% of the respondents were unsure.



**Figure 4.23: Strong business relationships with suppliers**

#### 4.2.14.8 Selling on credit to local consumers

Table 4.20 shows that 54% of the respondents perceive that one of the successful business strategies used by foreign-owned small businesses is their owners' ability to offer discounts to local consumers, while 47 out of 131 respondents either disagreed or strongly disagreed with this view. Although offering goods on credit can affect the company's cash flow, there are some advantages to selling on credit, which include increased turnover and customer loyalty.

**Table 4.20: Selling on credit to local customers**

	Frequency	Percentages (%)	Cumulative Percentages (%)
<b>Strongly disagree</b>	12	9	9
<b>Disagree</b>	35	27	36
<b>Not sure</b>	13	10	46
<b>Agree</b>	46	35	81
<b>Strongly agree</b>	25	19	100
<b>Total</b>	131	100	

### 4.3 Summary of the findings

Below are the summary of the findings of the study:

**Table 4.3.1: Challenges faced by MSMEs during the start-up**

Challenges	Percentages (%)				
	Strongly disagree	Disagree	Not sure	Agree	Strongly agree
Start-up capital is difficult to obtain	2	12	1	57	28
Lack of collateral to borrow money from financial institutions	4	14	23	41	18
Lack of business experience in running any form of business	8	28	12	44	8
Lack of business skill in running a business	7	25	12	44	12
Security costs to prevent theft are too high	4	26	17	41	12
Rental costs are too high	11	46	5	31	7
Lack of business network affects the start-up of a business	1	13	7	61	18
Crime affects the start-up of a business	3	17	13	48	19
Lack of managerial skills affected the start-up of the business	7	21	12	40	20
Lack of business training affects the start-up of the business	6	11	8	51	24

Obtaining a business licence to operate is difficult	4	8	12	53	23
Government does not support MSMEs	2	8	6	60	24
Finding a suitable business location from which to operate is difficult	7	39	4	35	15

**Table 4.3.2: Challenges faced by MSMEs during the growth**

<b>Challenges</b>	<b>Percentages (%)</b>				
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Not sure</b>	<b>Agree</b>	<b>Strongly agree</b>
Obtaining funds to expand the business is difficult	3	17	15	48	17
Interest rate charges are too high when borrowing money to expand the business	6	23	17	37	17
The business is faced with competition from foreign-owned businesses	5	9	9	52	25
The business is faced with competition from other businesses owned by Basotho	5	22	16	41	16
There is no available operating space to expand the business	4	31	16	30	19
Lack of roads affects the growth of the business	19	30	6	32	13

Lack of electricity affects the growth of the business	18	43	3	26	10
Lack of water affects the growth of the business	37	51	1	7	4
Lower staff productivity affects the growth of the business	21	39	6	22	12
High tax affects the growth of the business	10	18	10	37	25
Customs and trade regulations affect the growth of small business	8	16	12	41	23

**Table 4.3.3 Successful business strategies used by foreign-owned MSME owners in running their businesses**

Challenges	Percentages (%)				
	Strongly disagree	Disagree	Not sure	Agree	Strongly agree
Foreign-owned MSME owners sell at lower prices	2	11	8	41	38
Foreign-owned MSME owners have adequate financial aid	6	27	25	27	15
Foreign-owned MSME owners buy goods in bulk	6	5	11	55	23
Foreign-owned MSME owners have adequate technology	6	27	22	30	15
Foreign-owned MSME owners have skilled staff at their disposal	11	21	15	34	19

Foreign-owned MSME owners have availability of stock to meet customer demands	8	11	15	45	21
Foreign-owned MSME owners build strong business relationships with suppliers	3	16	14	46	21
Foreign-owned MSMEs offer credit to local consumers	9	27	10	35	19

#### 4.4 Conclusion

This chapter presented the results upon which the findings of the research study are based. The results were obtained from the responses to the questions on which the research instrument was based. The results obtained were analysed using the SPSS software and presented using pie charts, frequency tables and bar charts. The findings presented were followed by a discussion which tried to align each finding with appropriate literature which could provide both an appropriate context and theoretical framework. The results of this study confirmed that MSMEs are faced with many challenges at the beginning and during the growth phase. These challenges include a lack of financial resources, lack of business experience by MSME owners, lack of business skills, crime and a lack of business relationships. The conclusions and recommendations drawn from the findings of this study are provided and discussed in the final chapter.

## **CHAPTER 5: Conclusions and Recommendations**

### **5.1 Introduction**

The preceding chapter presented the findings of this study as obtained from the respondents, who were owners and managers of MSMEs operating in the Maseru district of Lesotho. The main aim of this study was to determine the factors that affect the start-up and growth of Basotho-owned MSMEs in Maseru. This chapter tries to draw conclusions and offer recommendations based on the findings discussed in the previous chapter. The chapter commences with a summary of preceding chapters as an overview of the study. Limitations of and general conclusions obtained from the study are also discussed.

### **5.2 The study overview**

Chapter 1 introduced the study and articulated the problem statement, the aims and objectives of the study and the importance of the research study. Furthermore, the chapter provided a brief discussion of the research methodology which was utilised in conducting the research. The chapter ended with a discussion of the professional ethical standards that were adhered to throughout this study.

Chapter 2 discussed MSMEs and their significance to the economy. It also discussed the challenges encountered by MSMEs during the start-up and growth phases. The chapter concluded by discussing the successful business strategies employed by non-Basotho in running their MSMEs which cause them to outperform and outlast their local counterparts.

Chapter 3 provided a detailed discussion of the research methodology which the study used in collecting data from the target population. Chapter 4 analysed the findings which were derived from the data collected from owners and managers of Basotho-owned MSMEs who took part in this study.

The final chapter provides a discussion on the conclusions that were drawn from the information collected from the respondents. The chapter ends with recommendations for the owners and managers of Basotho-owned MSMEs, the Government of Lesotho, banks and other providers of capital, in order to address and overcome the challenges facing Basotho-owned MSMEs during the start-up and growth phases.

### **5.3 Findings of the study**

The primary objective of this study was to determine the factors that hinder the start-up and growth of Basotho-owned MSMEs in the Maseru district of Lesotho. In order to achieve this main objective, the following secondary objectives were articulated:

#### **5.3.1 Secondary Objective 1:**

To determine challenges facing Basotho-owned MSMEs in the start-up phase. Based on the findings, the following challenges were identified:

- MSMEs find it difficult to raise start-up capital
- A lack of collateral to obtain funds from banks and other financial institutions is an obstacle to starting a business
- A lack of business experience in running any form of business affects the start-up of MSMEs
- High security costs to prevent theft present an obstacle to commencing a business due to a lack of available funds
- Lack of business networks are perceived by many MSMEs as a barrier to starting a business
- High crime rates affected the effective establishment of MSMEs
- A lack of managerial skills presented difficulties when starting a business
- A lack of business training for owners and managers or MSMEs affects the effective establishment of MSMEs
- MSMEs find it difficult to obtain a business licence to operate
- A lack of government support for small businesses affects the start-up of MSMEs

#### **5.3.2 Secondary Objective 2:**

To determine challenges affecting the growth of Basotho-owned MSMEs in the Maseru district. The findings were:

- Expansion capital is not easily accessible, affecting the growth of MSMEs

- High interest rate charges when borrowing money from banks and other financial institutions for business expansion was one of the barriers to business growth
- Steep competition from foreign-owned businesses was found to be an obstacle to business growth
- Steep competition from locally-owned businesses was also found to affect MSMEs' expansion
- High taxation rates absorb funds which could otherwise be utilised for business expansion
- Complicated customs and trade regulations affect the growth of small businesses

### **5.3.3 Secondary Objective 3:**

To determine successful business strategies used by non-Basotho in the running of their MSMEs to outshine and outperform their local counterparts. Based on the findings, the following strategies were found:

- Foreign-owned MSMEs are able to sell at a lower price compared to local consumers
- Foreign-owned MSMEs purchase stock in large quantities and as a result obtain bulk discounts from suppliers
- Foreign-owned MSMEs utilise technology more than locally-owned MSMEs
- The availability of stock in foreign-owned MSMEs was also identified as one of their effective strategies
- Foreign-owned MSMEs develop a strong business relationship with suppliers
- Foreign-owned MSMEs are able to sell on credit to local consumers, which increases their turnover

## **5.4 Recommendations**

The findings and analysis of this study helped the researcher to determine the recommendations and conclusions of this study. The recommendations are made to the owners and managers of MSMEs, the Government of Lesotho through the Ministry

of Small Businesses and Banks and other financial institutions. Each category has its own recommendations in order to overcome the challenges facing MSMEs during the start-up and growth phases. It is hoped that this will improve the sustainability of MSMEs and contribute significantly to the Lesotho economy.

In line with the findings made for this research study, the recommendations made are as follows:

#### **5.4.1 Recommendations for owners and managers of Basotho-owned MSMEs in Lesotho**

The following recommendations are made for owners and managers of Basotho-owned MSMEs, based on the findings of this study:

##### **5.4.1.1 Business collaboration**

A lack of business unity has been identified as one of the factors that hinders the growth of Basotho-owned MSMEs. MSMEs owners must utilise networking by forming relationships with others in similar fields and industries to ensure better collaboration. This will help business growth by finding new business partners and customers. Networking allows the business to become known and is one of the most critical aspects required for successful business expansion. By forming a successful business network, small business owners will share new ideas, provide more business opportunities, enhance business connections, increase business confidence and help raise the business profile. MSMEs operating in Maseru in different industries can utilise social media networks such as WhatsApp groups where they can share ideas such as buying in bulk from suppliers to obtain discounts, in the case of retailers. Other information that can be shared includes how to obtain funding for business expansion, buying cheaply from alternative suppliers and making use of legal methods to minimise the income tax owed by the businesses. Information sharing can also help raise awareness about available government contracts and tenders and MSMEs can collaborate to bid for large business contracts with Government whereby they can deliver in large quantities within short timeframes.

#### **5.4.1.2 Crime**

One of the main obstacles in operating a small business in Lesotho is the poor security situation in the country. Majority of the respondents cite high security costs to prevent crime as one of the barriers to starting MSMEs. The country is ranked 150 out of 190 economies in terms of the high business costs of crime and violence and the sense that police are unable to provide sufficient protection from crime (World Bank, 2019). These factors do not contribute to an environment that fosters competitiveness. MSME owners must collaborate with the community and police to identify hotspots where criminals operate, and patrol these hotspots during the night. MSME owners must also form an association where they contribute a certain portion every month towards hiring competent and armed security personnel to guard these hotspots. Other measures could include security installations such as CCTV cameras and avoiding late operating hours. Furthermore, MSME owners must also have a strong relationship with the local police and have access to police contact details so that they can react promptly to criminal activities on or near their premises.

#### **5.4.1.3 Strategies used by non-Basotho**

It has been highlighted previously that foreigners' business strategies are regarded by their local counterparts as effective and therefore threaten the survival of locally-owned MSMEs. Basotho-owned MSMEs must study these successful business strategies thoroughly and learn to adopt them as far as possible. These strategies include greater collaboration amongst MSME owners and, in the case of retailers, procuring stock in bulk to take advantage of massive wholesale discounts, allowing them to sell more cheaply to consumers. Locally-owned MSMEs can also make better use of technology and hire skilled workers to counter the threat of foreign-owned MSMEs.

#### **5.4.2 Recommendations for the Lesotho Government**

The following recommendations are made to the Government of Lesotho, based on the findings of this study:

#### **5.4.2.1 Lack of government support**

An overwhelming number of respondents cited a lack of government support as one of the main obstacles to MSMEs' growth. Government support in terms of access to finance, access to reliable information, customs and trade regulations, improved technology, transparency in issuing government contracts or tenders and training for small business owners are some of the areas where improvement is recommended. These areas require clear recognition from the government in the formulation of its policies, as MSMEs have the potential to drive economic growth and job creation. The policies must focus on enhancing MSMEs' growth and the creation of jobs in the MSME sector.

#### **5.4.2.2 Business training**

The majority of the respondents observed that a lack of business training affects the growth of their businesses. The Government of Lesotho needs to collaborate with more established businesses to invest in business training and encourage entrepreneurship amongst Basotho, with a particular focus on young people as well as MSME start-ups. It is hoped that once MSME owners have been equipped with relevant entrepreneurship skills, banks and other financial institutions may be more willing to provide funds due to the increased confidence they may have in local entrepreneurs.

#### **5.4.2.3 Access to and the cost of finance**

A lack of access to finance is one of the most common obstacles in several economies. MSMEs are not able to raise sufficient funds such as small loans and overdraft facilities for start-up and expansion. Even when they have been able to acquire those funds from banks and other financial institutions, they incur enormous amounts of interest charges due to a lack of security on those loans. The GoL has established a number of programmes such as the Rural Finance Intermediation Programme (RFIP) and the Partial Credit Guarantee Facility (PCGF) to improve access to finance for MSMEs. However, MSMEs seem to have limited knowledge about these government initiatives. It is recommended that the GoL should raise more awareness on these programmes

through advertising on local radio stations and in newspapers to improve visibility and awareness, so that MSMEs can have access to them.

#### **5.4.2.4 Business registration**

The majority of the respondents operate as sole traders and find it difficult to obtain trading licences. Lesotho scores poorly on the ease of doing business. According to the World Bank (2019), the country is ranked 122 among 190 countries in terms of its ease of doing business. The ranking decreased from 108 in 2018. One of the main obstacles to doing business in Lesotho is difficulty in obtaining a trading licence. The challenge for the government is to find the reasons why so many MSMEs are unlicensed. Many small business owners cite the size of their business which they consider to be too small to be licenced and the costs incurred in obtaining an operating licence outweighing its benefits. Furthermore, they consider the process to be too cumbersome. It is recommended that the Lesotho government should place more emphasis on addressing these perceived reasons and raising more awareness among small business owners on the benefits of licencing. The benefits of business licencing include:

- Licencing may attract more investment in the business which will boost business growth and expansion
- It will be easier for a licenced business to access funds from banks and other financial institutions

These benefits can easily be addressed through advertising via local radio stations, social media platforms and newspapers. If addressed, the number of businesses to be licensed is expected to increase enormously.

#### **5.4.2.5 Customs and trade regulations**

Complicated customs and trade regulations hinder the growth of MSMEs. Many MSMEs find it cumbersome to clear goods and services along the border and spend several hours waiting for their goods to be cleared and processed by customs officials on both the South African and Lesotho sides of the border. The government is encouraged to streamline customs and trade procedures and minimise the permit

requirements for movement of goods and services from other countries. Furthermore, the Lesotho government must liaise with their South African counterparts through the Ministries of Home Affairs and Foreign Affairs to also streamline their customs procedures to allow smoother movement of imports and exports.

#### **5.4.2.6 Infrastructure**

It is recommended that the government should continue its positive efforts to improve the provision of infrastructure such as electricity, roads, and water. Greater collaboration and planning on projects between the Ministries of Energy, Water and Roads is recommended, especially in the rural parts of the country to ensure that MSMEs' needs are recognised and addressed.

#### **5.4.3 Recommendations for banks and other financial Institutions**

The following recommendations are made for banks and other financial institutions, based on the findings of this study:

##### **5.4.3.1 Collateral**

MSMEs are unable to obtain start-up and expansion capital from banks and other financial institutions because they are required to place immovable assets such as buildings as collateral for business and overdraft loans taken. Banks and financial institutions need to be more lenient on MSMEs regarding collateral requirements. To compensate for more lenient measures regarding collateral requirements, they must increase their vetting procedures to allow only the most creditworthy MSMEs and insist on adequate training on business and financial handling by MSME owners. This will even encourage MSME owners to equip themselves with necessary entrepreneurship skills and have a positive influence on their businesses as well as enhancing economic growth.

## **5.5 Limitations of the study**

The limitations of this study are that the study was carried out in the Maseru district of Lesotho and therefore the findings and recommendations of this study may not be generalised and applied to the other nine districts, owing to the different dynamics applicable to each district. Maseru is the capital city of Lesotho and its population has increased enormously over the last decade, and as at 2016, it was home to more than half of the country's urban population. It is recommended that further research be conducted in the other nine districts, especially similar urban districts such as Leribe, Teyateyaneng, Mafeteng and Mohale's Hoek to gather a holistic view of the factors that affect the start-up and growth of MSMEs operating in different regions. This recommendation is made so that the obstacles hindering MSMEs, which are specific to each small business are addressed, and so that policies and any forms of government intervention are relevant and have a positive influence on the survival of each MSME.

## **5.6 Conclusion**

The main purpose of the study was to determine the factors that affect the start-up and growth of Basotho-owned MSMEs in the Maseru district of Lesotho. The study arose from the fact that Basotho-owned MSMEs are struggling to grow, particularly compared to their foreign-owned counterparts, and as a result, this threatens the sustainability of Basotho-owned MSMEs. These have a negative impact on the economy of Lesotho. Based on the findings of this study, it became apparent that the factors that affect the start-up and sustainability of MSMEs need to be prioritised by the Ministry of Small Businesses and robust policies and guidelines for the growth of MSMEs need to be introduced. Furthermore, the policies need to be implemented and monitoring needs to be enhanced to ensure that the implementation is comprehensive and complete. The researcher was able to achieve the aims of the study based on the objectives set out at the beginning of the of research study. The conclusions obtained from the study show that there are many challenges facing MSMEs and that these challenges need to be clearly addressed and prioritised for the benefit of the economy.

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## Appendix A: Consent letter from the Ministry of Small Business Development, Cooperatives and Marketing



LESOTHO

**Ministry of Small Business Development,  
Cooperatives and Marketing (MSCM)  
Fairways Plaza P.O. Box 1371, Maseru 100  
Tel: +26600266 58784130 /+266 22249000  
Maseru 100, Lesotho  
[mmaphika@yahoo.com](mailto:mmaphika@yahoo.com)**

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2 July, 2020

Research Ethics Committee of UFS  
Faculty of Economic and Management Sciences, University of the Free State, Business School

Dear Sir / Madam,

**RE: Consent Letter for a research project "Factors Affecting the Start-Up and Growth of Basotho-Owned MSMEs in Selected Districts of Lesotho"**

As a Director Small Business at the Ministry of Small Business Development, Cooperatives and Marketing, I fully endorse and support an initiative to execute this research for Micro, Small and Medium Enterprises (MSMEs) in Maseru District.

Furthermore, we will also appreciate if the conclusions and recommendations of the research where possible to be supplied with the final report of the research.

We wish your MBA student (Mr. Teboho Ramonyatsi) the best for the one month ahead whilst doing this research in Maseru. Please feel free to contact me if need arise.

Regards

A handwritten signature in black ink, appearing to read 'Mphophe Maphika', written over a horizontal line.

**Mphophe Maphika  
Director Small Business**

## Appendix B: Research Questionnaire

Mr Teboho Ramonyatsi  
(Researcher)

Ha Matala

Maseru, Lesotho

E-mail:

[tramonyatsi@yahoo.com](mailto:tramonyatsi@yahoo.com)

Cell: +266 58665337

13<sup>th</sup> July 2020

Dear Sir/Madam,

### **PARTICIPATION IN RESEARCH PROJECT**

I am currently enrolled for the Master of Business Administration at the UFS and part of the requirements of obtaining the degree is the completion of a research project.

The title of the research project is “Factors affecting the start-up and growth of Basotho-owned MSMEs in selected districts of Lesotho.” The primary objective of the research is to determine factors that affect start-up and growth of Basotho-owned MSMEs in the Maseru district.

In order to complete the research project, I request that you participate by completing the following questionnaire. The questionnaire will take approximately 30 to 45 minutes to complete.

Please complete the questionnaire on or before 12<sup>th</sup> August 2020.

Relevant ethical considerations are being observed by the researcher while conducting this study. Permission was obtained from Research Ethics Committee of the UFS. The data will be kept anonymous and no identification questions are included. The information will be kept confidential and in the reporting of the findings mention will only be made of the overall findings.

Participation in this research is on a voluntary basis. Please complete the additional paper at the end of this information letter to confirm that you were aware of the voluntary nature of participation. The researcher will not interfere in any way with the information given on the respondents' questionnaires.

Where clarity is required, the researcher can be contacted at:

Cell: +266 58665337

E-mail: [tramonyatsi@yahoo.com](mailto:tramonyatsi@yahoo.com)

Your time and effort taken in filling in the questionnaire are appreciated. Thank you for contributing to the success of this research.

Regards

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## SECTION A: BIOGRAPHICAL INFORMATION

Please mark the applicable block with a cross (X). Please also complete the applicable information:

<b>1.</b>	Gender of the respondent	<b>Male</b>		<b>Female</b>		<b>Prefer not to say</b>	
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<b>2.</b>	Age of the respondent			<b>Prefer not to say</b>	
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<b>3.</b>	Respondent position	<b>Owner</b>	<b>Manager</b>	<b>Both owner and manager</b>

<b>4.</b>	Race of the respondent	<b>African</b>	<b>Asian</b>	<b>Coloured</b>	<b>Indian</b>	<b>White</b>	<b>Prefer not to say</b>

<b>5.</b>	Nationality of the respondent	<b>Mosotho</b>		<b>Other</b>		<b>Prefer not to say</b>	
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<b>6.</b>	Home language of the respondent	<b>Sesotho</b>	<b>English</b>	<b>Other</b>

<b>7.</b>	Level of education of the respondent	<b>No Matric</b>	<b>Matric</b>	<b>Certificate only</b>	<b>Diploma only</b>	<b>Undergraduate degree</b>	<b>Postgraduate degree</b>

**SECTION B: BUSINESS PROFILE**

Please mark the applicable block with a cross (X). Please also complete the applicable information:

<b>8.</b>	Type of business	<b>Manufacturing</b>	<b>Wholesale</b>	<b>Retail</b>	<b>Service</b>

<b>9.</b>	Legal status of the business	<b>Sole proprietor</b>	<b>Partnership</b>	<b>Close corporation</b>	<b>Company</b>

<b>10.</b>	Number of years in operation	

<b>11.</b>	Number of employees	

**SECTION C: CHALLENGES FACED BY MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) DURING START-UP**

Below are challenges faced by Micro, Small and Medium Enterprises (MSMEs) during start-up. Please indicate the extent to which you agree with each of these statements in assessing challenges faced by Basotho-owned MSMEs during start-up. Please use a scale of 1-5 where: **1 – Strongly disagree, 2 – Disagree, 3 – Not sure, 4 – Agree, 5 – Strongly agree.** Please mark the applicable block with a cross (X).

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>12.</b>	Start-up capital is difficult to obtain					
<b>13.</b>	Lack of collateral to borrow money from financial institutions					
<b>14.</b>	Lack of business experience in running any form of business					
<b>15.</b>	Lack of business skill in running a business					
<b>16.</b>	Security costs to prevent theft are too high					
<b>17.</b>	Rental costs are too high					
<b>18.</b>	Lack of business network affects the start-up of a business					
<b>19.</b>	Crime affects the start-up of a business					
<b>20.</b>	Lack of managerial skills affected the start-up of the business					
<b>21.</b>	Lack of business training affects the start-up of the business					
<b>22.</b>	Obtaining a business licence to operate is difficult					
<b>23.</b>	Government does not support MSMEs					
<b>24.</b>	Finding a suitable business location from which to operate is difficult					

**25.** Any other challenges apart from those mentioned above? If any, please specify them:

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**SECTION D: CHALLENGES THAT AFFECT THE GROWTH OF BASOTHO-OWNED MICRO, SMALL AND MEDIUM ENTERPRISES**

Below are the challenges that affect the growth of Basotho-owned Micro, Small and Medium Enterprises (MSMEs). Please indicate the extent to which you agree with each of these statements in assessing challenges faced by the growth of Basotho-owned MSMEs. Please use a scale of 1-5 where: **1 – Strongly disagree, 2 – Disagree, 3 – Not sure, 4 – Agree, 5 – Strongly agree**. Please mark the applicable block with a cross (X).

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>26.</b>	Obtaining funds to expand the business is difficult					
<b>27.</b>	Interest rate charges are too high when borrowing money to expand the business					
<b>28.</b>	The business is faced with competition from foreign-owned businesses					
<b>29.</b>	The business is faced with competition from other businesses owned by Basotho					
<b>30.</b>	There is no available operating space to expand the business					
<b>31.</b>	Lack of roads affects the growth of the business					
<b>32.</b>	Lack of electricity affects the growth of the business					
<b>33.</b>	Lack of water affects the growth of the business					
<b>34.</b>	Lower staff productivity affects the growth of the business					
<b>35.</b>	High tax affects the growth of the business					
<b>36.</b>	Customs and trade regulations affect the growth of small business					

**37.** Any other challenges apart from those mentioned above? If any, please specify them:

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**SECTION E: SUCCESSFUL BUSINESS STRATEGIES USED BY FOREIGN-OWNED MSME OWNERS IN RUNNING THEIR BUSINESSES**

Below are statements in relation to strategies used by foreign-owned Micro, Small and Medium Enterprises. Please indicate the extent to which you agree with each of these statements in assessing successful business strategies used by foreign-owned MSME owners in running their businesses. Please use a scale of 1-5 where: **1 – Strongly disagree, 2 – Disagree, 3 – Not sure, 4 – Agree, 5 – Strongly agree.** Please mark the applicable block with a cross (X).

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>38.</b>	Foreign-owned MSME owners sell at lower prices					
<b>39.</b>	Foreign-owned MSME owners have adequate financial aid					
<b>40.</b>	Foreign-owned MSME owners buy goods in bulk					
<b>41.</b>	Foreign-owned MSME owners have adequate technology					
<b>42.</b>	Foreign-owned MSME owners have skilled staff at their disposal					
<b>43.</b>	Foreign-owned MSME owners have availability of stock to meet customer demands					
<b>44.</b>	Foreign-owned MSME owners build strong business relationships with suppliers					
<b>45.</b>	Foreign-owned MSMEs offer credit to local consumers					

**46.** Any other successful business strategies apart from those mentioned above? If any, please specify them:

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Thank you for your cooperation.

## Appendix C: Language Editor's Letter



[www.starlanguageservices.co.za](http://www.starlanguageservices.co.za)  
[naledi@starlanguageservices.co.za](mailto:naledi@starlanguageservices.co.za)  
Tel. 083 965 7945

13 October 2020

To whom it may concern

**Language editing – MBA thesis: Mr Teboho Ramonyatsi**

This serves to confirm that the MBA thesis submitted to Star Language Services in October 2020 by Mr Teboho Ramonyatsi was indeed subject to language editing, and that the accompanying feedback was sent to the client thereafter.

Star Language Services can provide further details regarding what was edited, should such information be requested.

*Please note: While every effort is made to ensure that each client is given thorough feedback, Star Language Services cannot guarantee that that which the client submits in its final form is identical to the text received for editing or the changes that were suggested.*

Please feel free to contact me should any further information be required.

Yours faithfully,

**Naledi Gouws**

Owner: Star Language Services