

## **An Insight into the Human Resource Management Practices Adopted by Entrepreneurs in South Africa**

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### **Abstract**

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Entrepreneurs play a pivotal role in contributing to economic development in many countries. As such, it is within this construct that research within the discourse of entrepreneurship should advocate for the need to explore on Human Resource Management (HRM) initiatives that positively influence entrepreneurship. Therefore, this paper adopts a conceptual analysis of the HRM practices adopted by entrepreneurs' in South Africa. The findings highlight four distinct categories of entrepreneurship in HRM. The first category reveals the extent to which HRM practices adopted by entrepreneurs in South Africa are changing. In the second category, the HRM functions are clearly delineated with areas such as training and development, recruitment and selection elaborated. In the third category, the role of government in fostering good HRM practices is highlighted. In the fourth category a diverse and multi-faceted area of HRM practice in entrepreneurship is highlighted. In conclusion and also taking into cognisance the four distinct categories an HRM centric model for entrepreneurship is presented which underscores the need for flexibility and pragmatism in the adoption of HRM policies and procedures. The results of this study will inform policy in terms of strategies, guidelines and tools for effective HRM practices by entrepreneurs.

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**Keywords:** entrepreneurship, practices, training, development, management, policies, skills

### **1. Introduction**

Due to the ever changing contextual environment developing economies continue to experience low economic growth, high levels of unemployment, low standards of living and high levels of poverty amongst other contemporary social economic issues (UN World Economic Situation and Prospect, 2014).

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As a result, Small Business Enterprises (SMEs) have been recommended as a solution to stimulating and sustaining economic development and improving standards of living in developing countries (UN, 2014; UNIDO, 2000; OECD, 2004). However, surveys by Global Entrepreneurship Monitor (GEM) reveal that SMEs in developing countries continue to experience the highest failure rate (GEM, 2013; 2008; 2006). These findings indicate the need to explore further on SME's related research. South Africa, according to (GEM, 2013) continues to be faced with a high start-up business rate of 16% and high business discontinuity of 4.9 relative to low 4% business start-up (GEM, 2013). This suggests that, more than 1 out of every 4 business started closes down or fails in less than 5 years. Similarly, a recent global economic outlook by UN, 2014-15 indicates that South Africa amongst other developing economies continues to experience a decline in economic growth since 2007 till 1<sup>st</sup> quarter of 2014. In addition, some scholars have linked the high rate of unemployment, poverty, crime and HIV /AIDs in South Africa to the high SMEs start up and failure rate (Akinwale and Ogundiran, 2014; Phillips et al, 2014). Thus, the entrepreneurial environment in Africa is coupled with challenges emanating from the internal and external environment.

Most studies have broadened our knowledge and understanding of the challenges facing SMEs mostly on the financial and support services context (Akinwale and Ogundiran, 2014; Phillips et al: 2014; Swanepoel et al., 2010; Olawale and Garwe, 2010; Abor and Quartey, 2010; Rogerson, 2004). It seems as if research focusing on understanding the human resources management practices in SMEs has not been fully explored by academics and practitioners. Yet, good human resources management (HRM) practices fosters the competitiveness of entrepreneurs by enhancing essential knowledge and skills which contributes to the sustainable development and growth of SMEs (Castrogiovanni, 2014; Fatoki, 2011; Long et al 2013). Furthermore, there is not much research on employees' perception of the HRM practices adopted by entrepreneurs in Africa. Research on HRM is essential because as the SME grows, the number of employees also grows thus, increasing complexity in HRM issues.

Managing such issues such as recruitment, staff selection, staff promotion, compensation, adhering to government regulations can severely affect the small business owner. What are required are suitable HR policies and procedures. Ideally, these policies and procedures should be flexible and not bureaucratic (Mazzarol, 2003).

Moreover, SMEs in South Africa operate under the same environment as established companies however, they lack specialist HRM and adequate capital resources which are found in established companies (Smit & Watkins, 2012). It is against this background that this paper aims to provide an insight on HRM practices adopted by SMEs in South Africa. The main focus of this study is to identify tools, variables, elements or ingredients of modern day HRM practises adopted by entrepreneurs. In this paper entrepreneur and small business owner are used interchangeably. The first section reviews the literature in relation to the HRM practices adopted by SMEs. Thereafter, the role played by government in fostering good HRM practices is discussed. Finally, conclusions and recommendations to address the issues and challenges relating to HRM in the SMEs context are outlined.

## **2. Literature View**

### **2.1 Definition of SMEs**

SMEs by nature are categorically defined by sales turnover or number of employees. The Organisation for Economic Co-operation and Development (OECD) (2004) generally defines SMEs as a firm with less than 500 employees. However, in developing countries SMEs consist of less than 5 workers, medium 20 -99 workers and large firms with 100 or more workers (UNIDO, 2000). Furthermore, the National Small Business Development Strategy (1995) of South Africa specifies that the SMEs constitutes of less than 100 employees. Most SME`s in South Africa are more established, formal, registered, have fixed business premises and are usually managed by the owner with decentralised management structures and division of labour. From this analysis it is clear to note that in South Africa SME`s have both qualitative and quantitative characteristics which are inextricably linked to the specifications as laid down by the National Small Business Act 102 of 1996 amended by Act 29 of South Africa, 2004.

### **2.2 State of SMEs in Sub Sahara & South Africa**

Despite the increased relevance of SMEs in both developing and developed economies Sub Saharan Africa has one of the highest percentages of new business start-ups and failures, for instance in 2013 15.5% of total entrepreneur activity and a discontinuity rate of 16.6 % relative to the 3.3% of developed economies and a discontinuity rate of 2.2% in developed economies (GEM, 2013).

This implies that in the Sub Saharan region although more small businesses are started they only have 0.05 changes of surviving. This empirically observed finding on the high failure rates of SMEs in developing countries has implications on economic development (UN World Economic Situation and Prospect, 2014).

Research on SMEs for the past two decades indicate that SMEs in South continue to face challenges which are a threat to their survival such as lack of access to finance, business management skills, competition amongst other problems (Swanepoel et al., 2010; Olawale and Garwe, 2010; Abor and Quartey, 2010; Rogerson, 2004). In an attempt to address the challenges facing SMEs scholars research up date has mostly focused on the financial and support aspects (Akinwale and Ogundiran, 2014; Phillips et al: 2014; Swanepoel et al., 2010; Olawale and Garwe, 2010; Abor and Quartey, 2010; Rogerson, 2004; Rogerson, 2005; Quesada, 2005), with limited focus on the soft issues. Moreover, several scholars who have attempted to write on the benefits of adopting HRM practices adopted in SMEs have highlighted several benefits in the areas such as recruitment and selection in SMEs (Ofori and Aryeetey, 2011); reducing turnover (Long et al, 2013); development of human and entrepreneurial capital (Fatoki, 2013). (Hodgetts et al., 1999), argue that firms that focus on improving HRM practices are better performers. The evidence from these global findings and development demonstrates the extent and nature of systematic impacts that SMEs have on the macroeconomic welfare of any country. Furthermore, the fundamental differences that exist between interest groups on regulating and restructuring the country economic system goes to the heart of explaining how entrepreneurs, value and perceive aspects relating to HRM practices and procedures. In South Africa entrepreneurs advocate for Anglo Saxon ideals of liberal markets which focus on competition between weak and strong firms (Jackson, Amaeshi, & Yavuz, 2008). These liberal market ideals have implications on the extent and adoption of HRM practices. But, a few questions often arise on whether entrepreneurs fully understand HRM practices? If they do not, to what extent are they prepared to change their perception?

Moreover is there a substantial difference in performance between SMEs that implement and adopt HRM practices and those that do not? Furthermore, while we know that the literature indicates that HRM in African countries is growing, this growth is predominantly based upon the views of managers and HRM professionals without the employee perspective. These questions will now be addressed in the next session which focuses on HRM practices adopted by SME`s in South Africa.

### 2.3 HRM Practices Adopted by SME`s

Human capital represents the investment people make in themselves or by their organisations that enhance their economic productivity (Fatoki, 2011). The need to explore HRM practices in SMEs may be traced back to the systems theory which provides the generic model behind any business model. According to the systems theory production of goods services which follows the inputs, processes and the outputs (Marx, Van Rooyen, Bosch and Reynder, 1998). The role of human capital in the competitive platform of South African industries is deeply embedded in the need to address the challenges of modern technology and globalisation. As such, attention is given to the competitive strengths, investment opportunities, quality and availability of human resources, work ethics, productivity, workplace regulations, as well as competitiveness indexes. Consequentially, human capital in South African industries is much higher due to the value attached to ensuring that key skills and knowledge are developed and enhanced (Kleynhans, 2006). Challenges such as absenteeism from work and proficiency towards modern technology are very insightful when it comes to entrepreneurialism (Firer & Williams, 2003). As such, human capital aspects, as well as economic dimensions are densely entwined in human capital investments. In the following subsections some of the HRM practices adopted by entrepreneurs are explored on.

#### 2.3.1 Human Resources Planning

Human resource planning refers to the process by which organisations forecast future requirements of employees in order to meet market demands and provide services to their clientele. Poor staff planning, multi-functional management, high employee turnover rate are critical aspects which affect SMEs (Smit & Watkins, 2012).

Managerial competencies and skills not only influence owner's perceptions about their business, but the extent to which they adopt human resources planning initiatives. This lack of planning complimented by a lack of supportive organisational culture is an impediment to SMEs growth and development. As such, (Smit & Watkins, 2012) argued that entrepreneurs prefer to avoid taking risks, but they fail to take into account that every risk pattern has an effect on their operations. Most of their actions are centred on avoiding risks, rather than devising human resource planning initiatives.

In addition, general management skills such as strategic planning, leadership, motivation and delegation increase performance levels for entrepreneurs (Swanepoel, Strydom, & Nieuwenhuizen, 2010). Although most progressive organizations in South Africa appear to accept this relationship, strategic HR planning is severely undermined by the lack of reliable information. The effects are that HR strategy and policy is often formulated in an ad hoc manner, internal practices are not properly evaluated and meaningful external benchmarking is not possible (Bowmaker-Falconer and Day, 1995). Furthermore, a failure to understand and implement policies related to entrepreneurial activities can yield negative results for the SME. As such, if the entrepreneur adopts a proactive business approach, novelty, positive transfer of learning, target setting and achievement focus becomes inextricably linked to SMEs success.

### 2.3.2 Recruitment and Selection

Recruitment and selection is the process by which employees are identified and placed in an organisation to ensure that goals and objectives are met. However, the process of recruiting and selecting staff is rather different for SMEs. Some of them do not have clear policies and procedures, as such recruitment and selection is often along family lines or referrals. This often hinders creativity at times as there is a probability that some skills maybe in excess supply within the SMEs. The small business sector is usually reluctant to allocate expenditure on training and development. Recruitment and selection of staff is also a major challenge as some business owners become sceptical about recruiting outsiders to join their companies (Long, Ajagbe, & Kowang, 2014). The same sentiments are echoed by (Pansiri & Temtime, 2008)and (Van Scheers, 2011)who argued that the lack of proper structure for recruiting and selecting employees hinges negatives upon building competencies for entrepreneurs. Since the ability of an organisation to perform effectively well is based upon the process upon which employees are employed, there is need for effective recruitment and selection practices to be adopted.

If there is no objective criteria used this may leave the SME`s susceptible to poor performance and eventually fail to deliver goods and services.

### 2.3.3 Compensation

Compensation refers to the various methods by which employees are rewarded for their contribution to the organisation. These various forms of rewards often include monetary such wages and non-monetary rewards such as medical aid.

Although compensation is desirable SMEs often lack the financial resources required to retain talented employees (Long et al., 2014). Majority of the South African population have not been socialised to become entrepreneurs as such they prefer to enter the job market as waged employees as such this creates challenges in terms of paying in accordance with market rates (Rogerson, 2009). Compensation has been affected by shrinking markets as, for example, 28 % of SMMEs reduced their labour force between 1998 and 2000. In addition, research findings in sub-Saharan Africa suggest that this reduction has resulted in serious motivational problems among organizational employees (Kiggundu, 1988; Blunt and Jones, 1992). This however, may be a reflection of the disconnection between the nature of the SMEs and the way they are managed, and the wider societal context of the labour market (Jackson et al., 2008). This view suggests that SMEs may better reflect the communities out of which they grow, and foster employee commitment as they better fit cultural expectations. In addition, rather than focusing on financial compensations SMEs also consider other non-conventional areas to ensure job satisfaction for the employees such as flexi time, shorter working hours and even providing child care services for the employees as part of compensation.

#### 2.3.4 Training and Development

Training and development focuses on how employees' skills, knowledge and attitudes are enhanced in order to contribute to organisational effectiveness. Employees are considered as organization's asset, therefore, effective training programs for employees have become increasingly vital to the success of any organization especially SMEs (Long et al, 2013). Training and development aims at changing attitudes and values, in the expectation that this will create better understanding and tolerance among people from different societal, cultural and economic backgrounds(Horwitz, 2013; Van Scheers, 2011).

According to (Rogerson, 2009) 90% of a sample of 1000 entrepreneurs believe that SME's failures in South Africa is caused by a lack of managerial skills and training. This high failure rate is rather appalling, as such most authors contend to the view that most entrepreneurs in South Africa need targeted training aimed at developing essential entrepreneurial skills. The reality of the matter is that entrepreneurs in South Africa are provided with such training (Bezuidenhout & Nenungwi, 2012).

Furthermore, research within the context of Entrepreneurial development has shown that most entrepreneurs focus more on training, workshops and discussions on value sharing, racism and discrimination, and understanding different cultural norms. This approach within the context of HRM is regarded as the hard approach. This hard approach follows the assumption that meaningful change occurs through challenging existing organizational or institutional policies and employment practices. Due to the ever changing environment entrepreneurs have also developed the need to understand the concept of competitive intelligence. As such, entrepreneurs are gradually realizing that there should be major changes in how they deploy their strategic resources to compete in the knowledge economy (Klapper, Lewin, & Delgado, 2009). Therefore, enhancing the appropriate knowledge and skills through training and development is essential in ensuring that SMEs enhance their competitiveness and also contribute to economic development.

### 2.3.5 Performance Management

Performance management is the process by which employee's contribution to the organisation is managed. According to (Du Toit, 2003) and (Schuler, Jackson, & Tarique, 2011) performance management should be seen as an end goal seek to improve organizational effectiveness. A failure to understand cultural and other differences can lead to misguided assumptions, poor working relations, underperformance and discrimination has disastrous consequences for the organisation. The level of contribution and personal growth are necessitated by how people fit into and are treated in the work environment. Many SMEs in South Africa have instituted multicultural values sharing workshops also known soft approaches which take into account the different aspects of harnessing individuals from different cultural values. On the same issue, (Schuler et al., 2011) posits that within the African context it is important to apply cross-cultural perspectives given the diverse nature of management practice.

Competencies are an essential aspect of any organisation or sector, as such without a full understanding of the notion of competencies it therefore becomes difficult for the entrepreneur to manage their business in a sustainable and profitable manner (Bezuidenhout & Nenungwi, 2012). As such, the integration of cultural perspectives is essential in ensuring that performance is effectively managed and competencies are fully integrated.

### **3. Role of Government in Fostering Good HR Practices in SMEs**

Government plays a pivotal role in addressing the development of human management resources practices in SMEs. In 2001 The South Africa government launched the Human Resources Development Strategy (HRD-SA) 2010-2030 whose mission was declared to be “to maximise the potential of the people of South Africa, through the acquisition of knowledge and skills, to work productively and competitively in order to achieve arising quality of life for all, and to set in place an operational plan, together with the necessary institutional arrangements, to achieve this”. Human Resources Development (HRD) – SA was developed as strategy for supporting economic development and growth in alignment with fulfilling the different sections of the constitutions which seek to improve the quality of life of all citizens and free the potential of each person (HRD-SA: 2009). HRD refers to formal and explicit activities that will enhance the ability of all individuals to reach their full potential. By enhancing the skills, knowledge and abilities of individuals, the productivity of people in in formal or informal settings is improved. A feature of macro- economic policy is to attract foreign direct investment and multinational firms, which often includes joint ventures with local empowerment companies(Hirschsohn, 2008).Such an initiative to incorporate HRD at a strategic level and it plays a pivotal role in enhancing economic development, transfer of knowledge and skills.

### **4. Recommendations**

In order for appropriate and effective recommendation to be made there is need to ensure that the best practice and best fit school of thoughts are articulated and applied by entrepreneurs. The best practice school of thought advocates for the adoption of a set of universal HRM practices which contribute to effective business performance.

The best fit concept advocates for the specific HRM policies, procedures and principles which are contextualised within a certain setting or particular environment or culture(Hirschsohn, 2008). Drawing from this experience SMEs in South Africa through an established institutional framework, should take into account the adoption and implementation of effective policies and procedures (Fedderke & Luiz, 2008).

In pursuing this best fit and best practice concept SMEs are supposed to invest in HRM initiatives so that they can sustain and improve competitiveness. Judging from the analysis above it can therefore be inferred that there is a legitimate construction of values which is essential in contributing to positive performance by SMEs.

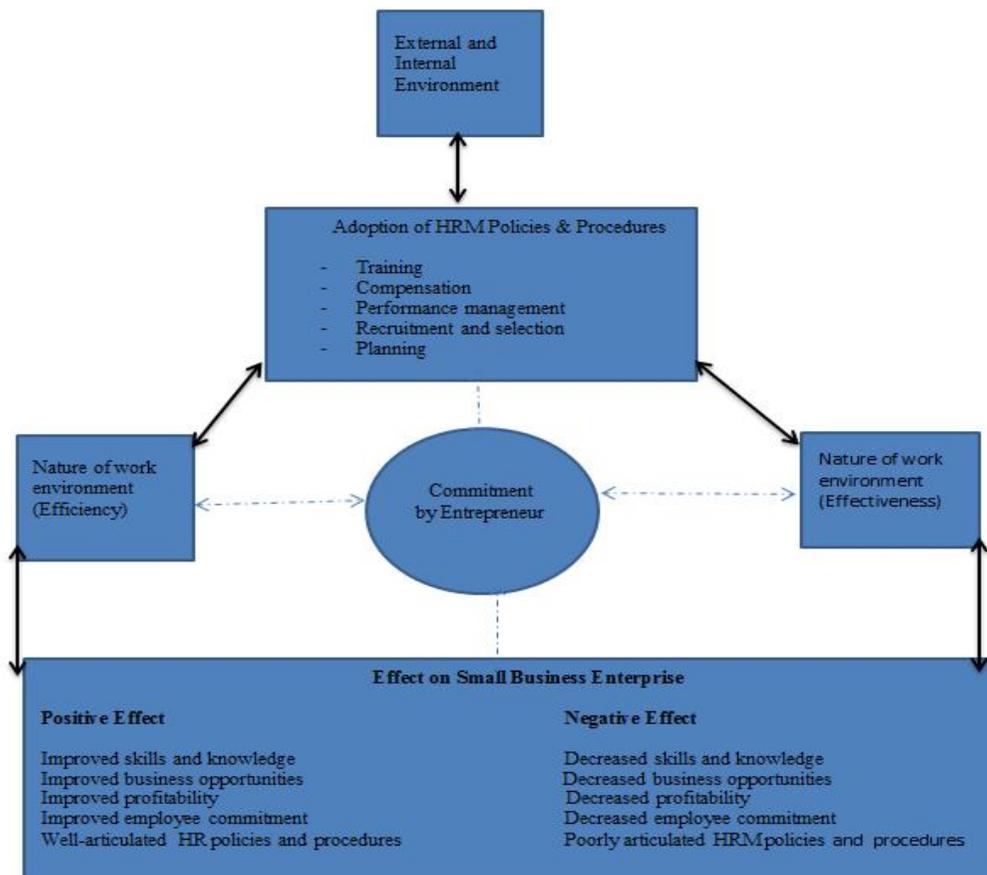
Organizational effectiveness cannot be measured, monitored and repositioned without the capacity to obtain process and communicate information relevant for decision making. As such entrepreneurs need to ensure that they operate practically and realistically in the environment in which they are operating and engaging in knowledge sharing initiatives. Furthermore, as a government initiative the National Economic Development and Labour Council (NEDLAC) plays an integrated approach to organisations, labour, individuals, formulating strategies which are important in devising critical issues critical to economic development and labour. However, there is a need for the council to also cover the skills development and employment equity issues within the context of SME`s by encouraging the development of key skills and mentoring in relation to the development of entrepreneurial activities.

As mentioned earlier, as the firm grows so does the need for formalised HR policies and procedures affects the growth cycle of firms. While the actual growth of SMEs differs from one SME`s to another, the basic fundamentals of HRM practice remain essential. Therefore, we propose an HRM centric model for SMEs in Fig 1. The model is implicitly and explicitly founded upon a strong assumption, first, driven by market demands, which emanate from the external and internal environment. The external environment includes government regulations, the level of competitiveness and so forth. The internal environment includes aspects relating to the organisation such as owners attitudes and also the type of HRM policies adopted by the entrepreneur. The continued survival and competitiveness of firms is dependent upon developing a more skilled workforce and adopting the best practice in terms of entrepreneurship. These may include the business strategy that integrates best practice from which the SMEs derive their profitability.

The company structure is essential too as it influences the work environment within the business, but is itself influenced by the work environment. An iterative process is likely to occur between the formulation and implementation of HR policies and procedures.

Learning process therefore occurs, with the owner exploring different strategies aimed at improving and achieving successful entrepreneurial outcomes. These HR policies and practices result in either negative or positive consequences in the areas of national development, employee turnover, commitment, training and development. These consequences have an effect on the SME in the areas of skills and knowledge, business opportunities, profitability, employee commitment and evaluation of HRM policies and procedures.

**Fig 4.1: HRM Centric Model for Small Business Enterprises (Nzonzo and Matashu, 2014)**



Once the HRM centric model is effectively implemented positive results will yield from this initiative as depicted by table 1 below.

**Table 4.1: A summary of Practices that encourages Positive Entrepreneurship (Nzonzo and Matashu, 2014)**

| Area                      | Practices Encourages Entrepreneurship  |
|---------------------------|--|
| Human Resources Planning  | <ul style="list-style-type: none"> <li>- Reliance on formal planning</li> <li>- Long term orientation</li> <li>- Results oriented planning</li> <li>- High employee involvement in planning</li> </ul>   |
| Recruitment and selection | <ul style="list-style-type: none"> <li>- Effective recruitment and selection procedures.</li> <li>- Focus on knowledge, skills when recruiting and selecting Employees.</li> <li>- Use of a variety of recruitment and selection methods to recruit and select staff.</li> </ul> |
| Training and Development  | <ul style="list-style-type: none"> <li>- Career planning which is linked to the objectives of the company</li> <li>- Continuous training and development.</li> <li>- training which matches the needs of the business and economy</li> </ul>                                     |
| Performance management    | <ul style="list-style-type: none"> <li>- Good employee involvement in managing performance.</li> <li>- evaluation of different ways of managing performance</li> <li>- Involvement of employees in training matters.</li> </ul>  |
| Compensation or rewards   | <ul style="list-style-type: none"> <li>- use of a variety of methods to rewards employees</li> <li>- Application of ethical principles in rewarding employees.</li> <li>- Ensuring that employees are paid fairly in relation to market demands or needs</li> </ul>              |

## 5. Conclusion

To sum up, there is need to ensure that entrepreneurs incorporate and take into cognisance effective HRM practices. If SME`s are to compete in global markets effectiveness HRM practices are a prerequisite for success Mazzarol (2003). Furthermore, there is need for a paradigm shift from compliance to a commitment model that encapsulates entrepreneurial spirit and capacity building so that effectiveness can be effectively and practically enhanced. Although many entrepreneurs find it difficult to address the HR issues associated with their business even though a lack of formalisation in this area may place the firm at risk. As such, this stifles creativity and hinders the creation and adoption of new knowledge.

Given the extent to which non- governmental organisations, foreign agencies such the Africa Project Development Foundation (APDF), African Development Fund (ADF), and United States Agency for International Development (USAID), and others that are committed to seeing the development, growth and the alleviating of poverty in Africa (Fening, Pesakovic, & Amaria, 2008), ensuring that effective HRM policies are implemented and adopted is key to foreign support in addition to government initiatives.

Whilst providing various insights that is of interest to scholars, shareholders, institutional investigations, policymakers and entrepreneurs. This article is a conceptual analysis, future research can be undertaken to determine the extent to which these findings can be tested empirically. Additional research should be conducted using data from different African countries in order to come up with multifaceted approach to entrepreneurship HRM skills development.

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