

MEDIA RELEASE

**Employment falling among SMEs**

**Johannesburg, 21 February 2013 (SBP) –** The Small and Medium Enterprise (SME) community in South Africa is shedding rather than employing staff. This is despite the official expectation that SMEs – in line with international trends – will drive employment creation in South Africa. This emerges from the second round of the **SME Growth Index**™, produced by business environment specialists SBP.

The **SME Growth Index** is a multi-year research project, investigating the views and experiences of a panel of some 500 SME operators in the South African economy. These firms employ between 10 and 50 people, and are active in three sectors of the economy regarded by government as having growth potential: manufacturing, business services and tourism. The first and most comprehensive such study of its kind in the country, it allows the dynamics relating to firms’ growth, survival or decline to be tracked over an extended period of time. The first round was conducted in 2011 (published in a report in that year under the title *Priming the Soil*, available for download on SBP’s website <http://www.smegrowthindex.co.za>), and the second in 2012.

Of all the firms surveyed, some 44% report having kept their overall employment numbers constant over the preceding year. Just over a third of panellists (34%) had increased their staff numbers, while 22% had decreased theirs. This is in line with the broader trend from Statistics South Africa’s Labour Force Surveys which indicates that the share of employment in firms which employ less than 50 people has dropped substantially over the past ten years.

However, when looking at the number of staff employed by these firms as a whole, a more nuanced and worrying picture develops. Firms are increasingly choosing temporary employment options. Permanent employment was shrinking, with an overall decline of 6%. Among manufacturers, it declined by 8%, among firms in the business services sector by 7% and among firms in the tourism sector, by 1%.

Shrinking employment was most pronounced among larger firms. While those employing between 10 and 20 people saw no overall growth or decline in their permanent staff numbers, those employing more than 40 people saw a 19% decline.

This is unsettling. It suggests that firms as firms increase in size, they are faced with ever larger greater incentives to get rid of staff. In other words, their appetite for growth – particularly employment growth – is being pinched off.

All of this suggests that our SMEs are adjusting themselves to limit their exposure to the labour market. This is not the optimum growth scenario for South Africa.

Driving this in the first instance was a lack of demand – poor overall economic conditions. Some 45% of firms cited this as the top barrier to employment. This was followed by a lack of suitably skilled people (16%) and unfavourable labour regulations (15%).

A lack of demand was a universal problem. Labour regulations hit manufacturers particularly hard, while business services and tourism firms were more concerned about a lack of skills.

The proportion of respondents who identified skills as a barrier to employment in the latest **SME Growth Index** represents a sizeable proportional increase over those who identified them in the previous one. This is, in other words, a growing problem.

Firms named a wide spectrum of skills as being difficult to find. These included maths and science skills; computer abilities; and financial skillsab. There were also widespread concerns about a lack of basic “soft” skills, such as literacy and life skills, as well as a view that many young work seekers lack a productive work ethic.

Taken as a whole, South Africa’s SMEs are struggling with a tough and constraining environment, which is retarding its ability to grow and produce the employment that it so desperately needed.