A retrospective analysis of the major determinants of start-up failures in the Fezile Dabi District

MG Morebudi
24031410

Mini-dissertation submitted in partial fulfillment of the requirements for the degree Masters in Business Administration at the Potchefstroom Campus of the North-West University

Supervisor: Ms. Karolien Nell

November 2015
ACKNOWLEDGEMENTS

It is my wish to express my deepest gratitude to the kind people with whom I have come into contact in producing this research, especially the owner-managers of the small businesses who are the pillar of this research, for allowing me the time and welcoming me in their private spaces during my surveys and interviews with them.

I am deeply indebted, and gratefully thank my supervisor, Mrs Karolien Nell, for her diligent efforts and patience to offer comment and feedback throughout the writing process, without which my efforts would have been in vain, and for constantly encouraging me and made me believe I was capable of producing and delivering work at a masters level. I therefore express my sincere appreciation.

I would like to express my gratitude to Ms Marelize Pretorius of the Statistics Department at the North-West University, for assistance in processing the data of the research.

I wish to extend my gratitude and sincere appreciation to Antoinette Bisschoff for editing, correcting and formatting this research manuscript.
ABSTRACT

Small businesses remain the major economic drivers of the present day. Small business start-ups are meeting every country’s economic needs through the creation of thousands of new jobs and income each year. Nonetheless, the high failure rates among small businesses are a major deterrent to economic growth and gross domestic product (GDP) in South African regions and Fezile Dabi district in particular.

This study sought to examine the key factors influencing business failure within the Small Medium and Micro Enterprise (SMME) sector in the Fezile Dabi district. The high failure rate can mostly if not always be attributed to endogenous (internal) factors such as lack of business management competencies.

A survey instrument testing the key variables was developed and data was generated by administering 50 questionnaires to key respondents (owner-managers) from the Fezile Dabi district, in the Free State. The data collected probed failure of the respondents’ businesses across a period straddling five years between 2009 and 2014. The data analysis employed the use of qualitative and quantitative research methodologies. The findings and results identified three explanatory factors that were significant in this research: “leadership as origin of failure” (factor 1); “endogenous and exogenous causes of failure” (factor 2); and “SA business environment as a precondition of failure” (factor 3). Relevant statistical analyses embarked on, led to the rejection of one proposition of the study. Based on the finding in the study, recommendations that could contribute to reducing the incidence of high failure rates were suggested. Hence more efforts should be dedicated in developing management competencies and leadership skills for SMMEs. The key factors in the external environment such as funding constraints and burdensome regulations need to be bridged and support mechanisms improved for effectiveness.

KEY TERMS: Failure of small businesses, SMMEs, causes of failure, business acumen, start-up failures, start-up funding.
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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

1.1.1 Background to the research area

The Fezile Dabi district is located in the northern part of the Free State province and constitutes about 15 towns in the area. The district consists of four (4) municipalities which are:


The district has a diameter stretch of 250-300kms, as reported by Statistics SA and the Demarcation Board. A number of residents are unemployed in this district. Many of those who were retrenched from the neighbouring firms and mines started their own small businesses, and unfortunately many of these new ventures were riddled with failure at one point or another.

1.1.2 Literature review of the topic/research area

Failure occurs when the firm’s value falls below the opportunity cost of staying in business, as Cressy (2006:103) defines it.

Failures attract attention all the time, Marius (2008:409) posits, whether in business, entrepreneurship, strategy, risk, management, finance, accounting, organisational culture, change or environment related journals. Marius (2008:409) further stated that, if failure is indeed central to the entrepreneurial thrust of ventures, better understanding of the domain benefits the science overall.

Since the 1960s to date, the Organization for Economic Co-operation and Development (OECD,2000) established that small and medium-sized enterprises (SMEs) have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. The SMEs make up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of
living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (cited by Ihua, 2009:199).

The Global Entrepreneurship Monitor (GEM) reports that, while entrepreneurial activity is influenced by the framework conditions in the particular environment in which it takes place, this activity ultimately benefits this environment through social value and economic development. The report goes further by providing an analogy that entrepreneurs create jobs for themselves and others, which in turn creates income for families (GEM report, 2013:15).

Small businesses have a higher chance of failing than do large businesses. Research and statistics generally find this to be the case (Fitzpatrick report, 2001:3).

Understanding the causes of business owners’ success and failure is a cornerstone of entrepreneurship research according to Micheal and Combs (2008:73). How businesses are found and the intricate paths each entity undertakes to determine its future success or doom, is central to entrepreneurial thinking and research.

Whenever a business goes bankrupt, declines or fails there is always a resultant negative impact on most, if not all, of the stakeholders of the business (Ihua, 2009:200). Ihua (2009:200) further points out that entrepreneurs lose their capital investments, employees lose their jobs, the society loses a means of the production and distribution of goods and services, and the government loses revenues it would have earned from tax. It also reduces the standards of living of individuals and brings about the deprivation of goods and services. The impact of business failure is always overbearing and this is why the issue is attended to with great concern.

Researching the failure of start-ups quickly establishes the fact that various authors have different interpretations of failure and that no one universal definition exists (Pretorius, 2009:1). Most authors are more concerned with the prediction models than the full understanding of the concept of failure. A contributing factor to variation in definition is that different researchers formulate definitions to suit their specific research problems, as Pretorius (2009:11) puts it. As a consequence of this practice, the results are not easily and meaningfully comparable unless exactly similar methodologies are followed.

Pretorius defines failure as when a venture involuntarily becomes unable to attract new debt or equity funding to reverse decline, and as a consequence cannot continue to operate under the current ownership and management. Pretorius (2009:10) further asserts that failure is the endpoint at discontinuance (bankruptcy) and when it is reached, operations cease and judicial proceedings take effect. A firm or a business that has failed cannot be turned around as per definition.
As Shepherd (2003:318) remarks, learning from the failure experience is critical for it to serve as a positive feedback mechanism and improve strategy making to cope with future declines (cited by Marius, 2010:218). Thus failure should serve as reinforcement for experience, not a negative catastrophe.

Crutzen and Van Caillie (2010:4), concluded that there are five patterns which could explain small business failures which are:

1. Poor performing firms that never succeed
2. (Young) firms that fail after a rapid expansion
3. (Older) firms that fail after expansion
4. Firms that fail after an external event
5. Firms that have not adapted (adequately) to their (changing) environment

If it is true that between 50 and 90 percent of entrepreneurial ventures fail (Pretorius, 2009: 1), then almost all entrepreneurs will face failure somewhere in their endeavours. Pretorius further maintains that failure is probably the last thing on the mind of an entrepreneur starting out on the entrepreneurial process.

According to Barron et al. (cited by Pretorius, 2009:1) business start-ups follow the "survival of the fittest" phenomenon and failure is but a natural step in the life cycle of all business ventures. In environmental ecology, they assert, that the environment will naturally weed out unfit organizations and that the ability to survive over time is as a result a function of both an organisation’s suitability to the current environment and its ability to adapt appropriately if the environment evolves. Any misalignment with the environment may therefore expose the business to different liabilities associated with failure.

For countries that want to get sustained economic development for their nations, entrepreneurship is one of the best instruments (McMillan & Woodruff, 2002), as cited by Shafique et al. (2010:83). It is further asserted that “most of newly born firms lack the basic competencies and skills of management to cope with issues and challenges. Deficiencies in accounting and financial management, marketing skills and expertise, lack of good operational and production plans and processes and inadequate human resources management practices lead them towards failure” (Shafique et al., 2010:90). Thus the lack of business acumen and limited skills and financial expertise is their main argument for failure. Williams (1991) argues
that there is a significant relationship in frequency of attending training and workshops with success of SMEs (cited by Shafique et al., 2010:90).

Ligthelm (2009:3) concludes that an endogenous factor which is the human factor and the level of entrepreneurial acumen embedded in a business should be considered to be the overwhelming force that determines whether or not small businesses survive and prosper.

Mboyane (2006:6) moves on to argue that the reason regarding the failure of small businesses is that they will most likely employ poor financial information, respond badly to change and may well overtrade as well as allow their leverage to rise to levels that turn normal business hazards into constant threats.

SMEs are more vulnerable to business pressures and generally tend to take more risks than larger companies (European Federation of Accountants, 2004:6). They also are less likely to have highly developed internal organisational structures, employing qualified accountants amongst their employees and sophisticated in-house procedures to manage internal control and to monitor business performance and cash flow. SMEs are usually managed by the entrepreneur or, in the case of middle-sized structures, by management employed by the entrepreneur (FEE, 2004:6).

Probst and Raisch (2005:94) are of the opinion that large uncontrolled changes can lead to the destruction of the company. This may include fundamental changes such as radical transformation, adoption of a brand new business model and entering a different industry or merging with another firm. People end up not knowing their business identity or what is really the basis of their business.

1.1.3 Motivation of topic actuality

The value-add of the proposed research can be categorised as both theoretical and practical. The theoretical contribution is informative and offers an analytical review of the problem and critical analysis of the existing literature. The practical contribution is offering resolute actions towards reducing the incident failure rate of small business start-ups.

1.2 PROBLEM STATEMENT

Most business analysts agree that most small businesses are bound to be unsuccessful and become a complete failure within their second year of operation. High failure rate of small business start-ups has sparked controversy in recent years. The re-evaluation and resolution of the circumstances surrounding the failure of start-ups will be beneficial to entire business communities and the economy at large, as will the psychologically imposed risks of small start-
ups thoroughly be re-evaluated. The research will analyse the factors that lead to small start-ups failure and provide good compelling reasons to further investigate and analyse the causal factors. Furthermore, the aim of this study is not only to support researchers but also to be of benefit to the entrepreneurs to reduce the high failure rates experienced by the small business start-ups. The research question under this study is therefore, what has contributed to the failure of small businesses in the Fezile Dabi district?

1.3 OBJECTIVES AND PROPOSITIONS OF THE RESEARCH

1.3.1 Main Objective

The main objective of this study is to analyse the causal factors that lead to failure of small business start-ups in the Fezile Dabi district and provide good grounds for eradicating the psychological risks of small business start-ups and to also serve as a platform for future research for further investigating the factors that lead to failure. Thus the main objective of this research study has been fragmented into the following objectives, which are to:

- undertake a literature review of the small business failure theories as a framework and background to finding the explanations for failure of small businesses (Chapter 2);
- obtain empirical data from the owner-managers whose businesses have failed about the factors that led to failure of their businesses, and use the data to develop an explanatory model on the small business failures in the Fezile Dabi district (Chapter 3);
- provide recommendations based on the findings of the research (Chapter 4).

1.3.2 Secondary Objectives

The specific secondary objectives of this research are:

- To point out and identify factors that lead to small business start-up failures in the Fezile Dabi district
- To reveal the risks associated with small business start-ups
- To express the factors which are attributed to small business failures
- To disclose the factors which are accountable for high failure rate
1.3.3 Research propositions

The research propositions are:

\[ P_1 \] Leadership as origin of failure contributes to failure in small businesses.

\[ P_2 \] Endogenous and exogenous causes of failure contributes to failure in small businesses.

\[ P_3 \] SA business environment as a precondition of failure contributes to failure in small businesses.

1.4 RESEARCH DESIGN/METHOD

1.4.1 Literature review

The literature review forms a good framework on which research is based and helps develop a good understanding and insight into relevant previous research, as put by Saunders et al. (200:44). This will help to provide a good background knowledge of the research topic by providing a link with the previous research on the topic, and thus helping to justify its actuality.

The following sources will be accessed during the course of this review:

- Scientific journals
- Internet sources (Scholarly articles)
- Books
- Newspaper reports

1.4.2 Empirical research

In this study, the purpose of the empirical research is to analyse the SMMEs’ owners in the Fezile Dabi district whom many are situational (by chance) entrepreneurs and mostly operate as survivalist ventures.

The study investigates the SMMEs in the Fezile Dabi district and focuses on the population that includes survivalist, micro- and small business enterprises. The population studied will include small business owners in the Fezile Dabi district and generalizations will be made with specific reference to that community.
The data will be sourced from Seda, Fdc, Led and local business forums. Small business owners will be approached in their specific areas where they operate. Semi-structured interviews will be used to gather the data, as the method will extract the required information needed without putting any limitations on the interviewer and the interviewee, offering more scope to probe beyond the answers.

Welman and Kruger (2005:34) posit that in grounded theory the phenomenon being studied should first be observed and systematically described and attempts made gradually to unravel the relationships and patterns in order to eventually formulate a theory. Therefore the qualitative method of grounded theory will be applied, and theoretical sampling and constant analysis have been done. The researcher is of the opinion that grounded theory will best suit the research project and will provide a better means of extrapolating and interpreting the data.

1.5 OVERVIEW OF THE STUDY

1. Title

2. Abstract/Executive summary

3. Chapter 1

3.1 Introduction

3.2 Problem statement and hypotheses

4. Chapter 2

4.1. Literature review

5. Chapter 3

5.1 Research methodology

5.2 Results

5.3 Discussion

6. Chapter 4 – Conclusions, limitations and recommendations

7. List of references

8. Appendices
Overview of each chapter and summary

**Chapter 1:**

Chapter 1 reveals the background of the research topic and the problem statement in detail, as well as outlining the research objectives and purpose of the study and the rationale of its actuality.

**Chapter 2:**

Chapter 2 provides a good understanding and insight into the research topic with a critical literature search and review on previously established research on the subject under study.

**Chapter 3:**

Chapter 3 focuses on the research methodology embarked on in order to shed some light into the reason why small businesses in the Fezile Dabi district are failing. Chapter 3 also reports on the findings of the questionnaires and interviews conducted, and therefore also provides an analysis and discussion of the data.

**Chapter 4:**

Chapter 4 consists of conclusions that are drawn from the empirical research study results from chapter 3, limitations of the research, and final recommendations that are made to enable future success of small businesses in the Fezile Dabi district. Potential opportunities for further research will also be identified where possible.

**1.6 SUMMARY**

The purpose of this chapter was an introduction to the background, problem statement, research questions, objectives and propositions, and followed by the methods used to address these issues. The chapter familiarised the reader with the significant factors under study in the research.
CHAPTER 2

LITERATURE REVIEW: SMALL BUSINESS FAILURES

2.1 INTRODUCTION

This study derives its objectives in essence by seeking to unearth the determinant factors/variables that are liable as causes of small business failure in the Fezile Dabi district. Failure in small business start-ups is usually due to entrepreneurial leadership and management deficiencies and a lack of applicable knowledge in financial management. Leadership (or management) can become more experienced as the business matures.

Failure is a phenomenon that all ventures are confronted with during all stages of their life cycle, as Pretorius (2008:408) concedes, and thus requires insight into its causes before it can be reversed. Cybinski (2001:39) proclaims that there is a success-failure continuum within which business ventures are always hovering between the two extremes.

If it is true that between 50 and 90 percent of entrepreneurial ventures fail, as Pretorius (2009:1) puts it, then failure is probably the one thing that almost all entrepreneurs will face somewhere in their endeavours and which simultaneously is probably the last thing on the mind of the entrepreneur starting out on the entrepreneurial process. Barron et al. (cited by Pretorius, 2009:1) posit that business start-ups follow the “survival of the fittest” natural phenomenon and that failure is but a natural step in the life cycle of all business ventures. They opine that, in organisational ecology the environment weeds out unfit organizations and the ability to survive over time is as a result a function of both an organisation’s suitability to the current environment and its ability to adapt appropriately if the environment evolves. Any misalignment with the environment may therefore expose the business to different liabilities associated with failure.

If failure is of crucial significance to the entrepreneurial thrust of ventures, says Pretorius (2009:2), then a better understanding of the domain of failure will be of great benefit to both science and the practicing entrepreneur.

Small businesses are the backbone of many economies across the globe, says Mboyane (2006: 6). Since the 1960s to date, the Organization for Economic Co-operation and Development (OECD, 2000) established that small and medium-sized enterprises (SMEs) have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. The SMEs make up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of
living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (cited by Ihua, 2009:199).

The critical factor is overcoming the already entrenched stigma of high failure rates associated with the survival of small businesses. Small business start-ups are analogous to nurturing and rearing an infant baby who is forever facing the doom and gloom of high infancy mortality rates in their first five years of life. Infants, and small start-ups alike, have to be protected against the harsh realities of their environments until such time that they can develop their own immunities and be able to survive on their own. Small business development in the Fezile Dabi district is therefore no exception to this observation.

Mboyane (2006: 6) is of the opinion that the incident high failure rate of small businesses is attributable partially to the lack of support that small, medium and micro-enterprises experience due to the South African government only focusing support on big business in the past. However, Bowler and Dawood (1996: 2) assert that this scenario has changed over the years due to the government introducing support measures aimed at developing and promoting the small, medium and micro-enterprises.

“Small businesses often employ poor financial information and have the propensity to respond badly to change, whereas they overtrade as well to allow their gearing to rise to levels that convert normal business hazards into constant threats” (Mboyane, 2006:6). He argues, as he asserts this to be the reason regarding the failing small businesses. This remark further supports a statement made by Dickey (1994: 197) when he says that small businesses fail because more often than not cash flow is not properly managed. Most surveys conducted on small business indicate bad stock control, bad customer and personnel relations, lack of staff training and bad budgeting as the primary reasons why small businesses fail (Mboyane, 2006:7).

### 2.2 DEFINING SMALL BUSINESS FAILURE

A close examination of the failure literature quickly reveals that there is no common definition of failure across different studies. The definition varies from research to research, taking into account the different research problems and focus of the past studies.

Pretorius (2009:1) is of the opinion that enormous challenges are presented when trying to understand the concept of failure, largely because past efforts were more concerned with prediction rather than understanding. Most studies and surveys are usually founded on the basis of prediction of the failure phenomenon, instead of being intricately grounded on the understanding of the concept of failure. On the other hand Crutzen and Van Caillie (2007:2) say
that business failure has been one of the most investigated topics for the past seven decades. But nonetheless, no formidable universal scientific definition for failure has been invariably concluded upon. Most researchers have formulated definitions based on the perspectives from their respective research objectives and focus areas, and thus this area of research has therefore become a topic that is difficult to grasp and understand fully, and has duly fallen prey to different interpretations.

Pretorius (2009:1) confirms this fact when he asserts that, researching the failure arena quickly reveals the fact that various authors have different interpretations of failure and that no one universal definition exists. Shepherd’s (2005:124) statement is also confirmed by these variations in failure definition, when he makes the observation that the lack of a single definition of failure is partly responsible for the poor understanding of the phenomenon. Pretorius (2009:11) further makes an astounding observation when he proclaims that a contributing factor to variation in definition is that different researchers formulate definitions to suit their specific research problems, which as a consequence of this practice, the results are not easily and meaningfully comparable unless exactly similar methodologies are followed.

Dimitras et al. (1996) alludes to the fact that most studies on business failure use inductive reasoning as their constructive basis (against empirical or survey evidence) and making little or no reference to any theoretical framework (cited by Crutzen & Van Caillie, 2007:8). Crutzen and Van Caillie (2007:8) further elaborate that most researchers have chosen to gather empirical evidence and inductively rationalize the potential causes or processes of business failure while less contributions are based on deductive reasoning (Testing theoretical hypotheses) or have largely been neglected. The business failure literature is highly fragmented owing to this inductive methodological trend noticed in most studies (Crutzen & Van Caillie, 2007:8). Most researchers propose their own results with complete disregard to previous research. Researchers choose to study particular aspects or stages of business failure process according to their individual experiences or interests and infer their results from empirical data analyses they have gathered from specific samples (Crutzen & Van Callie, 2007:8).

As his research progressed and while exploring many different databases, Pretorius (2009:4) discovered that failure is associated with bankruptcy, liquidation, insolvency, crisis, decline in performance, decision-making, collapse, crashing, accounting practices, project failure, distress, trouble, systems failure, franchise failure, being non-successful, and more.
2.2.1 Various definitions of failure

The lack of ability to provide an inclusive universal definition of failure is mostly because past researchers had different research focus and varying key defining constructs such as performance, bankruptcy, ceased operations, deviation from goals, distress, termination, loss of money, and more. For instance, Keasy and Watson (1991:89) define failure as a severe form of financial distress such as loan default or non-repayment of creditors, with his research focus based on the prediction models. In his theoretical study, Levinthal (1991:401) states that failure occurs when the level of organisational capital reaches zero, consequently unable to meet its financial obligations to debt holders, employees, or suppliers and ultimately resorting to or being forced into bankruptcy or liquidation. Beaver (1966:73) defined failure on the basis of bankruptcy, as default on interest payments on the business’s debt overdrawning its bank account and/or declaring bankruptcy.

On the other hand Shepherd (2003:318; 2005:124) in his exploratory studies on failure, emphasizes that failure is when a fall in revenue and/or rise in expenses are of such magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding, and consequently not being able to continue its operations under the current ownership and management. His key defining construct is based on business insolvency and change in ownership and management. Whereas Cannon and Edmondson (2005:300) centred their constructs on deviation from goals when they affirmed that failure in organisations or elsewhere, is deviation from expected and desired results. Cressy (2006:103) on the other hand in his theoretical study, founded his definition on performance decline constructs when he proclaimed that failure occurs when a firm’s value falls below the opportunity cost of staying in business.

All the above definitions are tied to failure from different standpoints and defining constructs, depending on the apparent focus of the specific researcher at the time. But nonetheless, all lack an element of universality, to fit all constructs under study despite the time period, specific problems, and the perspectives any researcher might adopt. In his content analysis on failure, Pretorius (2009:11) advises that failure should not be misconstrued to be synonymous to business decline as the two are heterogeneous despite their interrelatedness, with decline usually preceding failure.

Pretorius (2009:10) therefore proposes the following definition of failure: “A venture fails when it involuntarily becomes unable to attract new debt or equity funding to reverse decline; consequently, it cannot continue to operate under the current ownership and management. Failure is the endpoint at discontinuance (bankruptcy) and when it is reached, operations cease and judicial proceedings take effect”. As can be readily observed, Pretorius’s definition of failure encompasses a multitude of key defining constructs including bankruptcy, ceased operations
and termination, performance decline, insolvency, and involuntary change in ownership and management. This definition is more inclusive and universal, and thus the present research will adopt this proposed definition of failure as its basis for discourse and guidance for research. And as per the inference of this definition, a failed firm cannot be turned around.

2.3 CAUSES OF FAILURE

The causes identified in this research study are those that have a direct impact and influence on the decline and subsequent failure in a business. Jaminon (1986:205) concludes that the causes of failure are often inventoried subjectively, and these subjective and diverse presentations may be misleading when interpreting data. Central to business failure prevention is the identification and analysis of the causes, processes and remedies that permit prevention of failure or bankruptcy (Daubie & Meskens, 2001).

Barney (1991:109) in analysing the sustained competitive advantages in his study makes the point that ventures should obtain sustained competitive advantages by putting in place strategies that exploit their internal strengths through responding appropriately to opportunities presented by their environment, while neutralizing external threats and avoiding internal weaknesses. What Barney is putting into perspective in this regard is the crucial ability for businesses to continually undertake thorough internal and external situational analysis, in order to respond to the ever changing environment with the most suitable and appropriate strategies in order to gain sustainable competitive advantages, and thus escape the conundrum of failure. Hough et al. (2011:56) confirm these remarks when they state that crafting a strategy should always be preceded by an appraisal of the company’s external and internal situation and then move towards evaluating the most promising alternative strategies and business models. SWOT analysis (an appraisal of the company’s strengths and weaknesses and its external opportunities and threats) provides a preeminent overview of the overall wellbeing of the company’s situation (Hough et al., 2011:112).

A close analysis of the relevant literature reveals that most researchers consider the business failure process to be associated with a misalignment between resources of the firm and their deployment in order to reach the company’s goals, on the one hand, AND its environment, on the other hand (Crutzen & Van Caillie, 2007:10). They state that if and when the firm’s resource base and its deployment are not adequate to respond to internal and external pressures, then it inevitably enters into the failure process. Weitzel and Jonsson (1989:99) are of the view that the internal or external pressures are merely challenges to the continuation of the firm and arise from within the firm, for instance, internal organizational crises due to expansion, OR from outside, such as, changes in customer behaviour. Resource munificence alone cannot guarantee immunity against firm failure, but those resources should be appropriately organized
and positioned in a manner that assures the realization of the firm’s strategic and financial goals. Inadequacies in the resource base and its deployment result in a misalignment between the firm and its environment. To sum it up, a firm is destined to enter the failure process when its set of resources and their deployment are inadequate and not adapted to the requirements of its environment (Crutzel & Van Caillie, 2007:10). Given this position it therefore becomes difficult for the firm to accomplish its goals and thus can never gain any loftier strategic position (Barney, 1991:110).

Virtually most researchers generally focus either on the early stages or the late stages of the failure process which then largely determines the conceptual approach they adopt pertaining to the failure stages taken into consideration in the study (Crutzen & Van Caillie, 2007:7). They propose that the early stages refer to the period before any signs of distress (that is before any symptoms appear that would otherwise be observable by outsiders), while that last stages refer to a period between the appearance of observable failure symptoms and the disappearance of a firm. Crutzen and Van Caillie (2007:5) distinguish between two approaches that are generally favoured by researchers, organizational and financial approaches, and are strongly linked to the failure stage(s) under study. They explain further that the early stages of the failure process are characterized by a deterioration of the organization and structure of the failing firm, which is not observable externally. Therefore researchers who concentrate on the early stages of failure are more inclined to adopt the organizational approach towards the failure process. Whereas on the other hand, they further elaborate that when the firm enters the last stages of the failure process, the intensification of the internal deterioration of its organization and structure results in clear failure symptoms which are mainly visible in the financial indicators. Hence researchers focusing on the last stages vie for the financial approach.

2.3.1 Leadership/Human causes related to failure

Crutzen and Van Caillie (2007:11) refer to managerial competences as the skills, knowledge or abilities to manage a business. They single out competences such as operational, commercial and strategic competencies; management’s ability to recognize pertinent information, to anticipate events and adapt the firm to the internal and external pressures (Argenti, 1976); Leadership’s ability to control and delegate; the ability to organize and coordinate elements; the ability to deal with human beings (this relates to leadership, communication skills and team management) (Liefhooghe, 1997; Ooghe & Waeyaert, 2004), and so on (cited by Crutzen & Van Caillie, 2007:11).
Most studies cite management problems as the main responsible cause of business failure (Chowdhury & Lang, 1993:15). The human causes of failure in this research are factors such as management, leadership, lead entrepreneur/owner manager, skills (leadership and entrepreneurial team). D’Aveni (1989:577) remarks that managerial and strategic problems cause business failure, while on the other hand, decline in turn causes managerial and strategic problems with the other exacerbating the other occurrence, and this culminates into a vicious cycle pattern. He terms this occurrence as the ‘strategic paralysis’, as it deters the firm from finding and pursuing new strategic directions. Chowdhury and Lang (1993:9) later confirmed D’Aveni’s (1989) statements when they postulate (threat-rigidity theory) that management usually freeze into inaction (cognitive rigidity) when faced with palpable threat/sudden crisis, resulting in impaired decision-making that propels failure. Such a turn of events tends to create a situation that serves as a precondition for severe leadership pressure, resulting in leaders making management mistakes. Leadership under pressure tends to pursue mechanistic strategies (Barker & Mone, 1998:1228).

Leadership as the origin of failure findings outlines the importance of leadership and management’s ability to recognize and react properly to change in a timely manner as it is crucial to reversing decline (Okpara & Wynn, 2007:24). Collard (2002:27) in his research regarding changing leadership styles to realize business turnaround, asks the logical question as to why would the lenders believe that the leaders who were in power while the company’s position deteriorated would be the ones instrumental in correcting the situation? Other researchers such as Barker et al. (2001:237) confirm this remarkable question posed by Collard (2002) when they assert that the replacement of the top management team remains a core element in the turnaround process. Longenecker et al. (1999:503) conclude that failure at the top is the main cause of business failure, and therefore confirms the observations made by the other researchers (Okpara & Wynn, 2007; Collard, 2002; Barker et al., 2001; Barker & Mone, 1998; Chowdhury & Lang, 1993; D’Aveni, 1989).

Sufficient evidence points to leadership’s role to be at the centre of all decline and creates preconditions, whether through leaders’ ability or inability to respond to changing environments, chosen strategies and their implementation actions or any decisions (as non-actions and non-decisions) in response to business decline (Pretorius, 2010:224).

2.3.2 Endogenous and exogenous causes related to failure

There are apparently many factors or causes of small business failure cited in the failure literature, and they are usually either internal or external in nature and also depending on whether they are administrative or strategic in origin. Pretorius (2008:413) asserts that the majority of businesses fail due to internal factors as a consequence of managerial action (or
non-action) and discipline, which appears to be contrary to conventional wisdom. In their exploratory study regarding failure when classifying the causes of failure as rated by the entrepreneurs of small and medium enterprises, Theng and Boon (1996:47) are of the view that the endogenous factors are more significantly important than exogenous factors. They report the following as the top six endogenous causes of failure: high operating expenses, lack of capital, short-sighted view of the future, lack of control over cash, lack of knowledge of the company’s product, and inappropriate marketing strategy.

In their study Boyle and Desai (1991:35), categorize endogenous and exogenous causes of small business failure provisional to whether they are strategic or administrative in origin. They discern the following factors in their report:

I. INTERNAL-ADMINISTRATIVE

A. Financial Impact
   1. Failure to carefully analyse financial statements
   2. Inadequately managed capital requirements
   3. Improper management of accounts receivable
   4. Underutilization of assets
   5. Declining margins of profit
   6. Accepting contracts below standard price, and/or granting large discounts for early payment, in order to generate cash
   7. Sudden or large increases in debt
   8. Maintaining raw materials, work in process, and overly large finished goods inventories
   9. Spending excessively as earnings begin to rise

B. Organizational Structure/Change
   1. Failure to manage success (for example, production backlogs and incomplete orders as sales grow)
   2. Unwillingness of an owner to delegate responsibility, especially as a business expands
   3. Inability to successfully transcend stress points (for example, $1 million in sales, $5 million in sales, $25 million in sales, $50 million in sales)

C. Human Resources
   1. Key employee quits
   2. Inability of an owner to perform both planning and administrative functions
II. INTERNAL-STRATEGIC
   A. Human Resources
      1. Inability of an owner to perform at both planning and administrative functions
      2. Lack of product and/or market knowledge on the part of the owner
   B. Sales/Marketing
      1. Declining market shares
      2. Sudden drop in the number of prospects or inquiries
      3. Losing the biggest account(s)
   C. Planning
      1. Excessive optimism in planning
      2. Lack of comprehensive strategic planning
      3. Lack of in-depth market information prior to start-up and/or ignoring negative market information

III. EXTERNAL-ADMINISTRATIVE
   1. Company’s product or service injures someone
   2. Owner or principal manager is injured or becomes ill

IV. EXTERNAL-STRATEGIC
   A. Sales/Marketing
      1. Declining market share
      2. Sudden drop in the number of prospects or inquiries
   B. Economic
      1. National, regional, or industrial economic downturns

All firms (big or small) face the growing reality of the ever changing external environment, and therefore are required to be more alert to the external causes of failure (Pretorius, 2008:413). As reiterated earlier in the previous sections of this text, environmental misalignment or the firm’s inability to adapt and respond to the arising challenges outside the firm is tantamount to receding in the failure process. Responding to the factors of failure necessitates either a change in the strategic direction or an administrative response depending on the nature of the problem, not omitting the fact whether the cause originate internally or externally (Boyle & Desai, 1991:37). Firms either fail because of endogenous or exogenous factors and the degree of its ability to adapt to its environment depending on its resources and their deployment, or a mixture of these factors. O’Connor (1994:19) and Stoeberl et al. (1994:546) both concur that the essential factors for the entrepreneur’s success and their firm’s survival hinges on the ability of the entrepreneur to analyse their environment, anticipate events and to adequately adapt firms to them, because they guarantee a better fit between the organization and the environment. Crutzen and Van Caillie (2010:23) assert that if entrepreneurs lose their dynamism and are not
flexible to anticipate and adapt to progressive change in their environment, the firm is bound to progressively lose touch with the external world and it will no more be able to maintain a strategic position.

2.3.3 Structural (Age, size & life cycle of venture) causes related to failure

Liability of newness, as it has come to be dubbed, has to do with a firm seeking legitimacy with its suppliers, clients, creditors and other organizations in the industry (Zacharakis et al., 1999:2; Shepherd, 2005:124). This legitimacy, they postulate, increases as the firm learning to cope with the challenges of the industry. “Liability of newness” theory advocates the claim that a company’s risk of exit is highest at the time of start-up and decreases with the age of the company (Stinchcombe, 1965:149). Pretorius (2008:413) discerns between “newness” and “smallness” as he suggests that liability of newness is dissimilar although closely related to “liability of smallness”, which refers to size limitation that may exclude a venture from competing in an industry. On the other hand Kale and Arditi (1998:459) relate liability of smallness to a firm’s inability to create processes such as learning and inventing roles, and developing trust and cooperation between members in the organization. Following this logic, Thornhill and Amit (2003:500) suggest that young firms are more than likely to suffer from resource and capability deficiencies than the older firms due to enduring the affliction of liability of newness.

As Pretorius (2008:413) infers, that newness implies lack of organization learning and legitimacy, coupled with smallness, appears to be the primary factor underlying the high probability of failure. Stanworth et al. (1998:56) confirm that young firms are more likely to fail than the older firms and that small firms are more likely to fail than large firms. Large firms seem less likely to face capital market discrimination and are more apt to survive exogenous crises or serious managerial mistakes, and have developed efficiencies to the extent that scale economies exist, and are better managed on average than small firms (Fredland & Morris, 1976:10). Thornhill and Amit (2003:505) draw the conclusion that failure while young is related to deficiencies in general management and financial management, and failure when older is more likely a function of external market forces.

Studies done by Kale and Arditi (1998:463) confirm the existence of an age-dependent pattern of failure in which the risk of business failure increases in the first few years of a company’s life, reaches a peak point, and then decreases thereafter as the company ages. Bruno et al. (1992:294) report the following reasons for failure early in the venture life cycle: product-market factors such as timing, design, distribution/selling and business definition; too great a reliance on one customer (no customer diversification); financial factors such as initial undercapitalization, assuming debt too early and venture capital relationship (for example, devoid of mentorship experiences); and managerial/key employee factors such as ineffective
team and personal problems. It therefore is apparent that the specific causes for failure vary according to the life cycle stage that the venture is in, and thus the entrepreneurial phase shows different reasons for failure than would the maturity phase (Pretorius, 2008:414).

2.3.4 Functional management practices related to failure

In their ground-breaking work regarding turnaround strategies for small firms, Boyle and Desai (1991:39) conclude that most causes of business failure seem to be internal, involving lack of control over operations. They argue that many small business operators (in their quest to build their company) pursue market opportunities; while on the other hand, they lose sight of the absolute necessity to control operations of their companies, which are the nuts and bolts of the day-to-day managing.

The most appropriate way to counter these types of failures is through routinely administered procedures, as they require an administrative response primarily consisting of policies, procedures, rules, and systems designed to improve management control (Boyle & Desai, 1991:38).

An extensive survey of the literature reveals that there is general consensus identifying the functional management practices as suspect to most venture failures. Researchers such as Shafique et al. (2010:85) agree on the role of owners of small firms and functional management practices as solely responsible for the failure and success of small firms. Berryman (1983:58) reports the following survey statistics in his research, attributing financial management and planning (28%), marketing management (16%), operational and production management (15%), human resource management (6%), and characteristics of owner (13%) as the major causes of small business failure and saying they contribute more than 70% failure of small firms.

Small firms clearly display a significant lack of the basic competencies and skills of management to respond to the internal and external challenges. The deficiencies in accounting and financial management, marketing skills and expertise, lack of operational and production plans and processes, and inadequate human resource management practices eventually lead small firms to failure (Shafique et al., 2010:90).

2.3.4.1 Financial causes associated with failure

Small businesses have a lackadaisical attitude about financial statements which usually get them into trouble, and the only way to get out of this predicament is by adopting routine, timely review and analysis of their financial statements (Boyle & Desai, 1991:34). Chittenden et al. (1998:96) propose that one of the main reasons for the failure of small firms is that they employ poor and careless financial management.
Berryman (1983:46) reported earlier that failure of the small firms is mostly accounted for by the lack of proper working capital management and long-term financing. This simply demonstrates the fact that small firms are unable to manage their working capital effectively and efficiently. This gross mismanagement of the working capital leads to scant cash flows evident with failing small firms. The current asset management by the small failing firms is usually disastrous and a predictor of failure, which constitutes working capital, account receivables, cash flow management and more. Jarvis et al. (1996:37) suggest that small firms often use cash flow management just for survival rather than focusing on growth. They further assert that the poor working capital emerges due to a lack of proper financial management practices and planning deficiencies in the cash management.

2.3.4.2 Marketing management causes associated with failure

More often than not, small firms do not prioritize on the marketing activities for their products or services mainly due to the steep costs associated with product and service promotions. The only way they can ever remain significant players in the market is by building customer equity and capturing the lifetime value of their customers. Creating customer loyalty and retention is the only guaranteed way of the firm to position itself strategically in the market and command market share. Hill (2001:191) proclaims that the purpose of marketing is to get the competitive advantage. Pursuing competitive advantages that are sustainable is the only guaranteed manner of remaining viable in the marketplace.

Small firms rely on word-of-mouth promotions and neglect other marketing or sales promotion avenues due to associated costs. The small firm’s cost-benefit-analysis is usually flawed in the sense that the weighing of the benefits against costs incurred is based on a limited understanding of the long-term benefits of marketing activities as opposed to the immediate short-term costs befalling the small firm. On the other hand, due to a weak or non-existent market analysis and the subsequent failure to segment their markets, small firms usually market their products and services randomly to the public or different customer segments, and in the process incur large amounts of costs in their endeavour to increase sales by promoting these products/services. More-over, small firms are not well versed with price-setting strategies, making the small firms price takers or more often compel them to be reactive and follow competition-based pricing, as set by their market peers.

2.3.4.3 Production and operations management causes associated with failure

Increasing operation efficiencies and managing production effectively is the cornerstone of business success. The continual improvement of efficiencies in the firm cannot be overstated. Many small ventures incur unnecessary cost which could have been eliminated earlier in the
production processes. In their endeavour to make the product or deliver the service inexpensively, small ventures usually only focus on the cost price of the raw materials or inputs as the only area whereby costs could be reduced, and turn a blind eye on the waste created through their production processes were costs could be eliminated. Small firms seldom have the capacity to cope with the changes in demand, due to lack of strategic capacity planning.

Effective inventory management plays a significant role in attaining a sustainable competitive advantage. Taymaz (2002) says most of the small firms are unable to perform well and meet the competition due to inefficient and less utilization of resources, whereas Anderson et al. (1984) confirm that the effective inventory management plays a very important role, not only in the performance of small firms but helps in developing the industry (cited by Shafique et al., 2010:89).

2.3.4.4 Human resource management causes associated with failure

The value and scarcity of human resources in small firms, is the likely cause of human resource management as origin of failure. Singh and Vohra (2005:65) share the opinion that human resource management is an effective tool for the survival and success of small ventures. Effective human resource management leads towards sustainable competitive advantage, as it improves the performance of the firm’s assets and ultimate employee performance (Schultz, 1993:126).

Dess and Lumpkin (2003:152) propose that human resource management consist of three basic activities to ensure higher performance from employees:

a. Hiring and selection: which include recruitment and selection of employees
b. Development of employees: constitutes training, employee involvement and performance appraisal
c. Retention: this constitutes compensation and creating an encouraging work environment.

Hornsby and Kurakto (2003:89) isolate the incompetence of the managers that are unable to look after the issues of human resources as the main cause of failure of the small firms. Whereas Earnshaw et al. (1998) view poor selection and recruitment in the small firms as the main reasons for poor discipline and low performance (cited by Shafique et al., 2010:87).

In business, appreciation of employees is usually linked to specific reward allocation. A mere salary or wage increment is perceived as entitlement, whereas occasional rewards are mostly perceived as appreciation of the efforts that employees demonstrate in the firm.
2.4 PREREQUISITE CONDITIONS OF FAILURE (PRECONDITIONS)

Preconditions are usually a required set of conditions that must first exist before failure can occur. Moss Kanter (2003:61) makes the point that corporate decline does not stem from a single factor, but instead results from an accumulation of decisions, actions and commitments that became entangled in self-perpetuating workplace dynamics. Pretorius (2009:6) confirms this observation as he suggests that unique preconditions depend on the rationale that decline/failure can rarely, if ever, be ascribed to one single cause or source, but are usually part of a complex mix of interrelated causes. Richardson et al. (1994:9) ascribe business failures to sets of configurations such as businesses running short of money as a result of them failing to remain competitive and continuing to attract sufficient contributions from customers and other important resource suppliers. They further assert that the consequences of business failure are financial shortfalls, which therefore threaten the venture’s survival.

Preconditions therefore determine the decline, says Pretorius (2009:225), the uniqueness of the situation, the severity of the situation and the signs that are visible to the outsider/observer, but simultaneously also depend on the origin of the cause, and responds to leadership decisions and other variables. He further adds that, preconditions are not static in nature as they will change due to many influences of the external and internal variables.

Pretorius (2008:416) thus draws the following logical conclusions regarding preconditions:

- Decline and failure cannot be ascribed to a single cause, thus preconditions must first exist, which also depends on a set of complex causal configurations making each situation unique.
- The severity of the preconditions compound as decline progresses towards failure over time.
- Preconditions determine and in return are also determined by the severity of decline and hence govern the success of the potential recovery or turnaround.

2.5 SIGNS OF FAILURE

First and foremost, the key value of signs is to predict the looming affliction of failure (Pretorius, 2008:417). Signs are purely an indication that decline or failure is currently brewing, and if corrective actions to recovery are not carried out, then business failure is imminent. Pretorius (2008:416) offers the opinion that signs cannot cause failure, but they are merely indicators that failure causes are present within a certain situation. Pretorius (2008:416) draws the following conclusions from a study that was done by Lorange and Nelson (1989), that:
Organisational performance almost always deteriorates subsequent to a period of economic success. Organisational complacency sets in if not zealously avoided. Preconditions develop as a result of complacency resulting from the good times. Signals are not clear during the early phases of the decline (in my opinion may be due to the fact that it was preceded by a period of good times). There are complex interactions between the contributing causes, which would vary from venture to venture.

Overall, the warning signs seem to be lingering between the two extremes of visibility and invisibility depending on the severity of decline. Pretorius (2010:225) says visibility of signs and causes, intensify as the decline situation deteriorates and the venture progresses from performance, underperformance and decline to distress, crisis and then eventual failure. He goes on to say that the visibility improves due to signs increasing in number, extent of deviation and measurability.

2.6 FINANCIAL AND NON-FINANCIAL PREDICTION OF FAILURE

As Pretorius (2008:417) concludes with regard to understanding failure, he resolved by saying its value lies in the ability to offer a contribution either towards failure prevention by scanning for early signs of decline and causes or to responding to potential failure through recovery interventions. It therefore follows that it would be out of a flawed premise to just research the failure phenomenon for the mere fact of understanding it without offering recourse or making a contribution to predicting failure or either the management thereof.

Failure prediction is a topic central to most studies in the failure arena, especially the financial accounting literature (Bollen et al., 2005:15). The major reason for this high number of failure prediction studies is probably mainly accounted for by the substantial value it has on the financial institutions (Banks and governments) and equity funders like the venture capital firms or individuals. Altman and Narayanan (1997:53) confirm this observation when they infer that distress prediction is of specific interest to financiers and government agencies as they would like to protect themselves against the risk of failure when funding ventures.

2.6.1 Financial prediction of failure

The purpose of using prediction models is to derive practical value for predicting business failure by utilizing financial ratio analysis. Pretorius (2008:417) is of the opinion that most prediction models use bankruptcy as their independent variable. Prediction models have been under study over many years and their usefulness interrogated and tested on numerous
occasions with countless prior research claiming their accuracy (Keasey & Watson, 1991:81). The predictive power of ratio analysis appears to be a factor the choice of analytical methods employed as well as the selection of ratios, and also interesting to note that the predictive power of ratios is cumulative (Edmister, 1972:1490). No single ratio can be a lone predictor of failure.

Pretorius (2008:417) asserts that most prediction models actually depend on a combination of ratios used in order to drive their predictive value. This statement is confirmed by Steyn-Bruwer and Hamman (2006:7) that most of these prediction models depend on accurate quantitative data (that is, financial ratios) over several year periods before failure occurs. So this questions the suitability of these prediction models for the small businesses, as small ventures are known to employ insufficient record keeping and have poor administrative proficiency. Edmister (1972:1477) proclaims that the past studies have largely ignored small businesses using financial ratio analysis because of the impending difficulty of obtaining data. Therefore, prediction models appear to be more appropriate and thus more relevant for larger and older firms, and firms from countries with strict reporting policies (Pretorius, 2008:417).

### 2.6.2 Non-financial prediction of failure

In recognition of the paucity of financial data available to analyse and predict bankruptcy of the small businesses, it therefore stands to reason that non-financial information plays a significant role in failure prediction of small ventures, due to their financials not being readily available or provided on a consistent basis.

A few studies employ non-financial information and regulatory compliance in an effort to supplement the often limited and unavailable accounting data for the small ventures or SMEs for risk assessment and ultimate prediction of failure. Pretorius (2008:418) exclaims that due to the multi-dimensional nature of failure, several variables of non-financial nature play a role as both signs and causes of failure. Keasey and Watson (1987:351) stated the use of non-financial prediction variables to improve results achieved with financial prediction specifically for small ventures where accounting data is often suspect.

In their most recent epoch-making work on adding non-financial information reflecting company characteristics and aspects of operational risk, Altmanet al. (2010:124) present information such as financial reporting compliance, internal audit and trade credit relationships as predictive variables of company distress. In their report they uncover that data relating to legal action by creditors to recover unpaid debts, company filing histories, comprehensive audit report/opinion data and firm-specific characteristics make a significant contribution to increasing the default prediction power and accuracy of risk models built specifically for SMEs by up to 13% (Altman et al., 2010:124).
Altman and co-authors’ (2010) study builds upon the findings of the previous research by Altman and Sabato (2007) which demonstrated the need for banks to separate SMEs from large corporates when setting their credit systems and strategies, and the study further confirms Lussier’s (1995) research that reported that qualitative data could provide as good predictions as the traditional financial ratios. Lussier (1995:8) suggested a model composed of 15 variables ranging from capital, record keeping, industry experience, management experience, planning, professional advisors, education, staffing, product/service timing, economic timing, age, to partners and parents, minorities, and marketing skills. Lussier and Pfeifer (2001:228) replicated the study in a new geographical area to confirm the same factors. This whole array of findings led Pretorius (2008:418) to conclude that successful firms employed a greater use of professional advice and developed specific business plans, while on the other hand failed firms had less education and more difficulty attracting quality staff.

Back (2005:843) suggests that based on his findings the model based on non-financial variables classified firms even better than the financial ratio model, implying that the non-financial variables embrace important information in attempts to explain financial difficulties, and when combined with financial ratio models the accuracy of prediction is greatly improved.

Pretorius (2008:419) concludes that the financial prediction models aim to improve quantification of signs that can serve as early warning of pending decline or failure, while non-financial prediction models aim to improve financial prediction models by adding non-quantitative variables.

2.7 SEQUENTIAL PHASES OF FAILURE

In their seminal work on failure Crutzen and Van Caillie (2007:12) approach failure as a downward spiral of decline, that they categorize in four phases. They report the following:

2.7.1 Phase 1 – Origin of the failure

a. Deficiencies in the resource base of the firm are at the origin of its failure. These deficiencies limit the firm’s ability to respond adequately to internal or external pressures.

   This follows the deductive logic of two hypotheses as was formerly suggested by Thornhill and Amit (2003).

   The firm may be engaged in a failure process since its inception. In this case, deficiencies in its resource base are present since its origin, and if no corrective action is not taken, then the firm’s situation deteriorates over time.
Alternatively, deficiencies of its resource base of the firm may occur at different stages of its life cycle. Therefore, these deficiencies may be at the origin of the increasing deterioration of its situation, if no corrective actions are taken.

Deficiencies present in the different categories of resources of a company that may be observed include but are not limited to the following: An old-fashioned or insufficiently specialized machinery, insufficient financial capital, managerial competencies restricted to an area of management such as marketing or finance for example, lack of technical competencies, lack of ability to anticipate events and the lack of flexibility, or insufficient external relationships, are examples of deficiencies presented frequently in the literature (Crutzen & Van Caillie, 2007:12).

The following remarks are thus applicable concerning this model:

Firstly, Crutzen and Van Caillie (2007:12) say that the quality and the availability of the firm’s resources are dependent on three factors, namely, intra-individual factors such as the characteristics of individuals involved with the firm like owners/managers and workers, the inter-individual factors such as the atmosphere within the firm and external factors such as pressures mounting from its macroeconomics and competitive environment. They further assert that, alluding to the model, stakeholders are regarded as members of the external environment of the firm who place a part of their own resources at the firm’s disposal in prospect of future returns, for example, money, goods, services, and more.

The deficiencies in a company’s resources can thus be linked to

- Profiles of individuals who are involved in the firm – their experiences, their business background or expertise, their personalities and motivations
- Inter-individual factors
- The company’s external environment, such as scarcity of some raw materials, regulations and interest rate changes (Crutzen & Van Caillie, 2007:12)

Secondly, business failure is not only caused by one deficiency in the firm’s resources generally, it results from a series of inadequacies in the firm’s resources and the deployment thereof (Crutzen & Van Caillie, 2007:12).

b. The set of heterogeneous resources is deployed in order to reach the firm’s goals. This is what has been termed the resource management or deployment of the firm. It parades the way the firm’s resources are organized to enable the firm to operate in its environment (Crutzen & Van Caillie, 2007:12).
This implies that a firm will thus be well managed, and its resources will consequently be well deployed, if an equilibrium exists between short and long-term concerns, financial and non-financial concerns as well as internal and external concerns. Crutzen and Van Caillie (2007:13) discern the four dimensions of the Balanced Scorecard model (BSC) where deficiencies in the resources deployment of a firm may be at the origin of its failure;

- Concerning the strategy and development policy of the firm, some of the failure factors are the absence of strategic planning, an insufficient or an excessive diversification strategy, bad management of the firm’s growth, an inadequate investment policy or corporate governance problems
- Concerning deficiencies in the commercial policy of the firm, there are factors such as excessive dependence on towards a limited number of clients, difficulties in determining an adequate sales price, the inadequacy of the product-market couple, absence or insufficient promotion or poor management of the recovery of account receivables are often cited examples.
- Concerning operational policy, deficiencies regularly presented include problematic localisation of the firm, absence or inadequacy of organizational routines, or deficient organization of the internal/external value chain of the firm.
- Concerning inadequacies in the financial policy of the firm, the often mentioned causes are a deficient accounting system, a poor administrative management or absence of provisions or budgets.

Thus the origin of failure of a firm relates to deficiencies in its resource base and its deployment, and these deficiencies limit the firm’s ability to respond to internal and external pressures which leads to a misalignment between the firm (its resources and management) and its environment (Crutzen & Van Caillie, 2007:13).

c. The resource deployment of the firm (its managerial and organizational processes), shaped by its specific resource position and by its environment determines its competitive and strategic positions.

If the firm’s resources and their deployment are inadequate to respond to the internal and external pressures, the firm cannot create or sustain a valuable strategic position (Crutzen & Van Caillie, 2007:14).

d. Then, if no corrective actions are taken to re-align the resources of the firm and their deployment with the requirements of the environment, the failing firm enters into an organizational downward spiral. According to Liefhooghe (1997:39), the firm’s resources deteriorate more and more. De Wit and Meyer (2004:185) confirm this statement as they
pronounce that, the growing inadequacies in the resources of the firm and in their deployment breed more difficulties to create or maintain a valuable strategic position.

As the deficiencies in the resource base increase, it leads to an increasing inadequate deployment. For instance, when a firm is failing, the needed strategic changes are not taken (termed strategic inertia) or conversely, a series of strategic decisions are made, which are not adapted to the situation (Sheppard, 1994:821).

In conclusion, Crutzen and Van Caillie (2007:14) report that the sequence of interrelationships as presented happens again and again, and as the company is evolving in this downward spiral, the problems and inadequacies worsen. As these events become more pronounced, the opportunities of recovery or of coming out of this downward spiral and eventual failure process, progressively whittle down (Liefhooghe, 1997:41).

2.7.2 Phase 2 – Appearance of failure symptoms

Failure symptoms begin to occur after a considerable lag of time. The increasing deterioration of the firm’s situation begins to become observable by outsiders, as might be pointed out by its financial indicators (Crutzen & Van Caillie, 2007:14). They continue to assert that the failing firm’s resources become more and more deficient, deployment is more and more inadequate, its strategic position gets weaker and weaker, and thus the firm continues to evolve in the organizational failure downward spiral until the end of the failure process.

Crutzen and Van Caillie (2007:15) explain the chronological sequence of failure as follows:

a. Poor strategic position of a firm or weakening of its position leads to insufficient sales compared to the amount of expenses it has to support (Thornhill & Amit, 2003:503).

b. This leads to lack or a decrease in firm profitability and its competitiveness; these changes can readily be observed in the poor or decreasing firm’s profitability ratios and the declining market share held by the company. Doubt looms regarding the firm within its partners (for example, banks and investors), and fear rises.

c. The decreasing profitability of the firm leads to a lack of cash flow, as also was established by Liefhooghe (1997:41).

d. The subsequent lack of cash flow eventually combined with excessive investments, leads to a lack of liquidity.
e. With the firm’s escalating cash flow problems and dire needs, the leaders are obliged to source external financing. Due to declining confidence in the firm by the partners, it becomes difficult to attract investors in order to increase the firm’s equity. The impending situation then forces the leaders of the firm to increase the level of external debt (such as banks), which in turn decreases the firm’s solvency.

f. An increase in the level of external debts of the firm consequently leads to an increase in the financial charges incurred, a fact also confirmed by Liefhooghe (1997:43).

g. The increase in financial charges coupled with the rising deterioration of the organisational situation further leads to additional decrease in the firm’s profitability and competitiveness. Subsequently, there is considerable lack of cash flow and extensive liquidity problems.

2.7.3 Phase 3 – Appearance of critical warning signals

Laitinen (1991:668) postulates that when a considerable period of time passes, the critical warning signals appear as a result of the increased deterioration of the firm’s organizational and financial situation. At this third stage of the failure process, suggests Crutzen and Van Caillie (2007:16), the firm meets the criteria of bankruptcy (critical insolvency and illiquidity) thus is considered theoretically bankrupt, although the legal and official bankruptcy has not been activated yet. Events unfold very rapidly in this stage of the failure process as the firm may go bankrupt in a few months and it is generally too late to reverse the decline (Weitzel & Jonsson, 1989:106).

2.7.4 Phase 4 – Bankruptcy of the firm

A firm is considered to be bankrupt legally on the basis of two criteria, serious insolvency and illiquidity (Crutzen & Van Caillie, 2007:16). Martinet (1988) defines a firm to be bankrupt when:

- Its resources have strongly deteriorated, that is they are insufficient and inadequate.
- The deployment of these resources is deficient
- The strategic position of the firm is weak and not adequate, resulting in the firm losing its market share and reputation (cited by Crutzen & Van Caillie, 2007:16)

Crutzen and Van Caillie’s (2007) model of failure not only depicts the different stages of the failure process, but inculcates both the organisational and financial approaches to failure. It helps the business leaders with identifying the relevant potential strategies in responding to decline based on the different levels or stages of the failure process.
2.8 THE SOUTH AFRICAN SMALL BUSINESS ENVIRONMENT

The contribution and the role of the small business sector is widely acknowledged globally, and the South African context is no exception. The government should therefore strive to create a favourable climate under which the small businesses can flourish and not succumb to failure. Starting new businesses has never become a government function, but it is imperative for known reasons that governments provide a conducive environment to kindle the entrepreneurial activity in starting new businesses and ensuring their sustainability. Small businesses are at the helm of economic growth and job creation (Levin, 1998:5; Sunter, 2000:23; Van Eeden et al., 2003:13; Nieman, 2006:12).

A number of setbacks regarding the small business development in South Africa is attributed to the discriminatory apartheid political landscape prior to 1994, for its apparent failures to recognize the significance of the small business sector and its subsequent lack of appropriate support. Many researchers allude to this fact in their studies (Quan-Baffour & Arko-Achemfuor, 2009; Branam, 2008; SBP Alert, 2009; GEM report, 2013). The apartheid legacy, as emphasized by these reports, left many South Africans ill-equipped with the necessary skills, resources and confidence to start up and run viable businesses. Generations of discriminatory legislation and practices deprived the majority of Black South Africans from pursuing business opportunities and formal business training.

It is well known that a country’s entrepreneurship sector has a positive influence on its economic prosperity, and with this development becoming increasingly reliant upon the SMME sector in many countries (GEM report, 2013). This is particularly significant in the developing economies where small businesses contribute 50% and more to the GDP of the country, thus placing SMMEs as the major contributors to economic growth, job creation, and innovations in the form of new products and services, as these contributions can have a positive impact on unemployment and poverty (GEM Report, 2013).

2.8.1 The small business development

“Small, medium and micro-enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country.”

“We [the government] believe that the real engine of sustainable and equitable growth in this country is the private sector. We are committed to doing all we can to help create an environment in which businesses can get on with their job. We believe in the principle of working together with our partners in the private sector – big and small businesses – in realizing our hopes and aspirations for this economy.”
These are direct quotes adapted from the White Paper on Small Business, published in 1995 as foreword by the then Minister of Trade and Industry, Trevor Manuel. These iterations serve as an indication demonstrating how pertinent the issue of small businesses was and has always been to the South African government. The South African government put in place a policy on Local Economic Development (LED) with the intention to encourage individuals, especially the unemployed, to start their own Small, Micro and Medium Enterprises (SMMEs), as a strategy to reduce unemployment, poverty and crime (Quan-Baffour & Arko-Achemfuor, 2009:407).

2.8.1.1 Government initiatives to drive SMME development

For the past twenty years the government has invested immensely on the initiatives aimed at supporting and growing the SMME sector, comprising support agencies that included Ntsika, replaced by SEDA (Small Enterprise Development Agency), and those offering financial support such as Khula Enterprise Finance and the Apex Fund. The government also passed the National Small Business Act in 1996 (SA, 1996), which introduced the BEE Codes of Good Practice. Furthermore government backed finance is provided to the small business sector by agencies such as the Industrial Development Corporation and the Umsombovu Fund (presently the National Youth Development Fund), tasked with promoting entrepreneurship, job creation and skills development among the youth.

As a result of these various measures by government to provide financial and non-financial support services to the SMMEs, it is reported that SMMEs contributed about 42% of South Africa’s GDP (Levin, 1998:79), and also that SMMEs create two out of every three jobs in South Africa (Seda, 2007:256). These accounts therefore demonstrate the potential of SMMEs as the key drivers of economic growth in South Africa. South Africa’s large businesses have not stepped to the plate in providing jobs on the scale needed to lower unemployment rate, and as reported in the past twenty-year period from 1985 – 2005, no more than 10% of new employment positions were created by large established firms (SBP Alert, 2009:3).

The National Development Plan (NDP) outlines several ambitious goals for the small to medium enterprise (SME) sector, which includes a target for 90% of employment opportunities to be created by this sector by 2030 (SBP Alert, 2014:1). The NDP envisions the economy growing by at least 5.4% growth yearly over the next 15 years, and identifies the SME sector to play a pivotal role in driving this envisaged growth. Despite the government’s efforts and commitment to growing and supporting the country’s SME sector, these firms continue to experience extremely hostile business environment including lack of skilled labour, burdensome regulations, tough local economic conditions, lack of finance and the high costs associated with employing staff (SBP Alert, 2014:1). The NDP’s targets for job creation in the SME sector relies on the creation of a business environment that supports the growth and sustainability of the
existing SMEs, a culture of entrepreneurship, and also enabling the new SMEs to prosper (SBP Alert, 2014:1).

Despite all these efforts, evidence suggests that government support agencies and initiatives have been less successful than intended, as pointed out in 2008 by the then director-general of the DTI Tshediso Matona when he reportedly said that SEDA was largely ineffective and that the government’s small business support efforts had delivered few results that had not made an impact (SBP Alert, 2009:2).

2.8.1.2 The small business landscape

Small businesses have the potential to propel the engine for growth in the developing countries, as it has been widely acknowledged by global institutions such as the World Bank. According to the World Bank (SBP Alert, 2014:2), micro enterprise viability is closely linked to the motivation to starting the business – successful businesses with potential for growth tend to be started by choice as entrepreneurial ventures; Survivalist micro-enterprises on the other hand, are motivated by the lack of other employment options and seldom turn into successful larger firms, in which case these business owners are most likely to give up their businesses and become employees if the opportunity arose.

According to a 2010 Abor and Quartey report (SBP Alert, 2014:2), South African SMEs account for over 60% of employment compared to a global average of 77%, and over and above that they have an exceptionally high failure rate. In May 2014, the Minister of Trade and Industry Rob Davies noted that as many as 70% SMEs fail in their first year of operation, giving South Africa one of the highest failure rates in the world (SBP Alert, 2014:2). The then Minister of trade and industry Alec Erwin (Chamber Digest, 2001:4) made a remark that, despite government efforts to establish a support structure for the small business sector in South Africa, these efforts have met with little success as verified by the estimated failure rates that are between 70% and 80%.

The SME Growth index (SME Growth Index, 2013) has established that small businesses spend on average eight working days a month dealing with red tape. There are therefore opportunity costs incurred as well as losses in income by the small businesses because of red tape and burdensome regulations. Every one of those days represent management time spent away from core business functions, with resultant loss of income (SBP Alert, 2014:2). The Davies Tax Committee Interim Report on Small Business reveals an average cost of R20 500 to comply with all tax requirements. Using the analogy of the Davies report it is estimated that the cost of regulatory compliance (that is 75 hours a month) to SMEs equates to about R18 000 a month or R216 000 a year (SBP Alert, 2014:3). It thus follows that these costs on the owner’s time and
the associated opportunity costs are disincentive for any aspiring entrepreneur endeavouring to comply with business legislation (SBP Alert, 2014:3).

Another disincentive to aspirant entrepreneurs is the red tape associated with the labour system. Although SMEs have the potential to be the biggest creators of jobs, procedural challenges inherent in the labour system hamper their willingness to hire (SBP Alert, 2014:3). This is apparent in red tape that is further highlighted as small firms spend up to eleven days per case in the CCMA in a dispute resolution. Some studies indicate that the average SME is taken to CCMA twice a year (SBP Alert, 2014:3).

SBP makes the following concluding remarks regarding the challenges facing the small business sector in South Africa (SBP Alert, 2014:4):

- Regulatory reform should become an immediate priority, as small businesses continue to suffer direct and opportunity costs as a result of unnecessary red tape and burdensome regulations.
- Labour regulations are a key concern – interventions are needed to address skill shortages, and to support and incentivise SMEs in upskilling their employees.
- The urgency of the Minister to consider the Davies Report recommendations, that SARS and the National Treasury consider implementing a separate tax incentive to encourage angel investors to support micro businesses that are too small to receive financial aid from government or commercial banks.

2.9 SUMMARY

Failure is a phenomenon that all ventures are confronted with during all stages of their life cycle; therefore it requires insight into its causes before it can be reversed (Pretorius, 2008:408).

This chapter commenced by highlighting the need to find a general consensus regarding the key constructs that comprise the failure definition and emphasized the necessity for a universal definition of failure. The purpose of this literature review was to identify and categorize the key factors associated with the failure of small business and its preconditions. We looked at the general warning signs and symptoms of the failure phenomenon, and critically analysed the value of prediction models as we reviewed the financial and non-financial prediction of failure. Attention was then turned on the chronological phases of failure as a prerequisite for effecting turnaround strategies for failing firms. Consequently it has been highlighted that the business environment, in this context the South African environment, plays a major role in determining the success or failure of small businesses.
CHAPTER 3

EMPIRICAL STUDY

3.1 INTRODUCTION

In keeping with the issues raised in the literature review (chapter 2), this chapter focuses on the empirical research methodology (procedures for data collection and analysis) by obtaining an account of what factors lead to the failure of small businesses in the Fezile Dabi district. The researcher undertook this task to enable this research to investigate and establish the causes of small business failures to address the research question, "What has contributed to the failure of small businesses in the Fezile Dabi district?". This chapter discusses the research design, methodology of data collection and analysis.

The data collection procedure entailed obtaining empirical data from the owners of failed small businesses regarding the causal factors that led to failure of their ventures, obtaining possible statistical relationships between the concerned variables, and then developing a causal model that seeks to explain the business failure phenomenon from these variables.

3.2 RESEARCH DESIGN

This research study is retrospective and exploratory, very descriptive and qualitative in nature. The design provides an insightful look into the research problem and in identifying the determinant factors that lead to the failure of small business start-ups. The research focuses on the selection of participants, gathering the data and analysing that data. Leedy and Ormrod (2005:85) postulate that research design provides the overall structure for the procedures that the researcher follows, how the data is collected, and the data analyses the researcher conducts. Similarly, Hittleman and Simon (2002:96) regard a research design simply as a plan, strategy and structure for conducting a research.

This research study employed the qualitative methods of enquiry in the form of a survey questionnaire and semi-structure interviews for data collection, from which a triangulation methodology, combining qualitative data with quantitative data, was drawn upon to ensure the quality, reliability and validity of the data. Due to the historical nature of the research data, the approach used is retrospective as the information to be obtained is about businesses which no
longer exist. Thus a retrospective design is as a consequence more suitable for the data that were collected.

3.3 RESEARCH METHODOLOGY

3.3.1 Introduction

Kerlinger and Lee (2000:450) lay emphasis on the significance of research methodology as a variable controlling mechanism as they say that research design helps the investigators to obtain answers for the research questions and to control the experimental, extraneous, and error variances of the particular research problem under study. As Leedy and Ormrod (2005:93) put it, data are like ore due to the fact that they contain pieces of the truth in a rather unrefined state. Thus, research methodology is employed to extract meaning from the data. As such Juvan et al. (2005:485) for this reason, concluded that data and methodology are inextricably interdependent. Nemaenzhe (2010:142) concludes that because of these interrelations, the methodology to be used for a particular research problem must always take into account the nature or type of data that are collected in the resolution of the problem. As a general rule, the nature of the research problem dictates the research method employed for data collection.

According to Thornhill and Amit (2003:506) a post-mortem analysis is a preferred methodology as opposed to other methodologies if the data being examined are historic in nature. In retrospective research, the researcher typically starts with the dependent variable (result or outcome) and then moves backward in time, thus locating information on variables that help explain individuals’ status on the dependent variable (Kerlinger & Lee, 2000:558; Johnson & Christensen, 2004:346). The primary data for this research study was gathered from a combination of survey questionnaires and semi-structured limited interviews of key participants. The survey questionnaires assisted with scrutinizing the impact of the individual variables or key factors that influence small business failure in the Fezile Dabi district. The use of the semi-structured interviews with key participants assisted scrutiny and exploration of the responses from the questionnaires.

The researcher chose the survey questionnaire because it paraphrased the interpretation of the research questions into specific questions for the relevant enquiry of the participants, and also serves as a record for the research. The semi-structured interview method enhanced the general insights of the respondents and flexibility, and served as a tool for triangulation for the researcher to draw on the strengths of both techniques of enquiry.
3.3.2 Data collection

Leedy and Ormrod (2005:6) define data collection as a process of identifying samples from which to collect data. A sample depicts the relationships between a population, its elements and a sample. All the businesses in Fezile Dabi district constitute the universe, in this research. All the failed businesses in Fezile Dabi district are therefore known as the population. Thus, the failed businesses in this research are the sample, and each failed small business constitute an element. Thus the relationship is as follows, Universe > Population > Sample > Element.

3.3.2.1 Sampling design

Samples should be complete representations of the population from which we want to draw generalisations and inferences. Mouton (2002:136) makes the remark that the key concept in sampling is representativeness. For candid generalisations a sample should represent the population from which it was drawn, in order to bear the same properties as those of the population.

In order to surmount the problem of sample bias, the researcher opted for the use of the systemic random sampling technique to select the failed small businesses in the research area.

This was then followed by snowball sampling technique, were a few individuals from the relevant population are approached, who then act as informants and identify other members from the same population for inclusion in the sample (Welman et al., 2005:69). The snowball gathers subjects as it rolls along (Cooper & Schindler, 2001:194; 2008:338).

A list of failed small businesses was obtained from the Local Economic Development (LED), Free State Development Corporation (FDC), Department of Economy, Small business development, Tourism and Environment Affairs (DESTEA), and Small Enterprise Development Agency (Seda). From these lists a random selection of 50 failed small businesses was made for the purpose of addressing the research objectives. These businesses had failed between the period 2009 and 2014. There are some members who did not want to be interviewed or complete the questionnaire, but finally 50 willing respondents completed the questionnaires. The final sample consisted of 50 failed small businesses in the Fezile Dabi district. The district consists of four municipalities, and in each municipality mentioned (in chapter 1), 15 owners or managers of small businesses were randomly selected and furnished with questionnaires and only a select few interviewed.
3.3.2.1.1 Sample frame and population

The sample frame is the list of elements from which the sample was drawn, and as such refers to all the closed small businesses in the research area. A sample frame is defined as being closely related to the population (Cooper & Schindler, 2001:170; 2008:383).

3.3.2.1.2 Sample size

Statistically a larger sample is better as it lowers random sampling error (Cooper & Schindler, 2001:170). The Central Limit Theorem states that as the sample size gets larger enough, the sampling distribution of the mean is approximately normally distributed (Levine et al., 2014:286). As a general rule, Levine et al. (2014:286) proclaim that for many population distributions a sample of at least 30, the sampling distribution of the mean is approximately normal. The sample size in this research therefore satisfies the Central Limit Theorem.

The final sample, as was discussed in section 3.3.2.1, consisted of 50 failed small business owners-managers. The geographical areas covered were: Ngwathe, Metsimaholo, Moqhaka and Mafube municipalities. Table 3.1 provides details of the respondents interviewed in the research area.

Table 2.1: Table of research participants

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Number of respondents (n)</th>
<th>Percentage of sample (%)</th>
<th>Number of Male respondents</th>
<th>Number of Female respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ngwathe</td>
<td>14</td>
<td>28.0</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Metsimaholo</td>
<td>13</td>
<td>26.0</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Moqhaka</td>
<td>11</td>
<td>22.0</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Mafube</td>
<td>12</td>
<td>24.0</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100.0</strong></td>
<td><strong>31</strong></td>
<td><strong>19</strong></td>
</tr>
</tbody>
</table>

3.3.2.1.3 Sample unit of study

The survey unit is the small businesses that failed in the Fezile Dabi district within five years of their start-up (that is, between 2009 and 2014). The research areas as previously discussed include the following municipalities: Ngwathe, Metsimaholo, Moqhaka and Mafube. Zikmund (1997:423, 2003:496) defines a sample unit as a single element or group of elements that are subject to selection in the sample.
3.3.2.1.4 Sample characteristics and profile of respondents

In considering the sample size as previously discussed, statisticians suggest that a minimum number of thirty (30) for statistical analyses provide a useful rule of thumb (Levine et al., 2014:286). However, the researcher chose a sample size of sixty (60) questionnaires, comprising fifteen (15) questionnaires each between the municipalities, and conducted six (6) semi-structured interviews. Nonetheless, only fifty (50) completed questionnaires were returned. The profiles of the respondents seen in table 3.1 shows that 68% are male, and 38% are female.

3.3.2.2 Measurement

Gay et al. (2006:128) assert that measurement only occurs after data has been collected. In this case measurement is a process of scoring variables that have an influence on business failure. In this empirical research, a 4-point Likert scale was used to measure differences among the demographic groups that were classified as categories. These were scored by measuring from “strongly disagree” = 1 to “strongly agree” = 4. Other categories were scored measuring from “yes” = 1 and “no” = 2. The factor analysis method was used to measure the strengths of the failure variables in the study.

3.3.2.2.1 Questionnaire

The questionnaire sought to explore and investigate the causal relationships between the variables, as implied by Gall, Borg and Gall (1996:373). The design is retrospective. Thornhill and Amit (2003:506) proclaim that a post-mortem analysis is preferred to other methodologies when investigating failure, as it deals with instances of failure.

The complete questionnaire used is provided in Appendix A and consists of 75 close-ended questions.

3.3.2.2.2 Data collection

The data was collected by conducting face-to-face interviews and administering a questionnaire to sixty (60) owner-managers of small businesses that had failed within five years of start-up in the Fezile Dabi district. The face-to-face interviews method was only limited to a few individuals in order to enhance the accuracy of data collection. The researcher adopted a five percent (5%) sampling error in this study (0.05 level of significance). Out of sixty (60) questionnaires administered in the municipal geographical areas, fifty (50) were returned. This represents a response rate of approximately 83 percent.
The interview related to “what the owner-managers thought or perceived, to be the major contributing factors that led to failure of their businesses”. The first part of the questionnaire comprised the small business demographics and other background information such as experience, which were weighted to take into account gender, age, and educational levels.

The second part of the questionnaire related to the causes of failure variables, divided into different sections A – I, such as business leadership and management skills, accounting and financial management.

3.4 RESULTS AND DISCUSSION

This section focuses on the descriptive analysis in 3.4.1 and inferential statistics in 3.4.2.

3.4.1 Descriptive analysis

This section reports the description and findings on the demographics of the chosen sample.

3.4.1.1 Response rate

Dealing with the owner-managers of the failed small businesses improved the response rate of the research. This placed the researcher in a place where the most questions regarding the research could be clarified including any misunderstandings, which assisted in eliminating any possible response bias. The response rate of 83% was attained.

3.4.1.2 Demographics

The demographic information to profile the respondents was obtained as the background framework of the research study. The factors surveyed involved gender; owner’s age; nationality; the level of formal education; business ownership and experience before the venture failed. The gender and age of the respondents is given in table 3.2 and table 3.3 respectively.

Table 2.2: Gender of owner-managers

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency (n)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>31</td>
<td>62.0</td>
</tr>
<tr>
<td>Female</td>
<td>19</td>
<td>38.0</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The above information in table 3.2 was to find out how many females and males comprised the population of the failed small businesses. It is also interesting to note that close to 40% comprise the female population, which signify a large proportion of women are entering the pool of entrepreneurs.

Table 3.3 shows the ages of the respondents that have operated the small businesses before the decline. It is remarkable to note that a large percentage of these ventures are operated by individuals between 40 years and 60 years of age. The youth is rather showing little entrepreneurial activity as opposed to respondents between 40 and 60 years, probably due to the fact that individuals in that age category may have been forced into entrepreneurship because they are usually breadwinners and have to sustain their families. Typically, what is also noteworthy is the zero or complete lack of entrepreneurial activity in the age categories, under 21 years and 61 and older.

The next subject that was probed related to the nationality/race of the respondents (table 3.4)
Table 2.4: Race/Nationality of the respondents

<table>
<thead>
<tr>
<th>Race/Nationality</th>
<th>Frequency (n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>32</td>
<td>65.3</td>
</tr>
<tr>
<td>Coloured</td>
<td>6</td>
<td>12.2</td>
</tr>
<tr>
<td>Indian</td>
<td>5</td>
<td>10.2</td>
</tr>
<tr>
<td>White</td>
<td>6</td>
<td>12.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 3.4 shows the race profiles of the respondents.

Table 2.5: Level of formal education of the respondents

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency (n)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did not complete high school (Matric)</td>
<td>6</td>
<td>12.0</td>
</tr>
<tr>
<td>Senior Certificate (Matric) or equivalent</td>
<td>11</td>
<td>22.0</td>
</tr>
<tr>
<td>No tertiary qualification</td>
<td>8</td>
<td>16.0</td>
</tr>
<tr>
<td>Some college / Bachelor’s credits or certificates</td>
<td>9</td>
<td>18.0</td>
</tr>
<tr>
<td>National Diploma</td>
<td>10</td>
<td>20.0</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>4</td>
<td>8.0</td>
</tr>
<tr>
<td>Honour’s Degree</td>
<td>2</td>
<td>4.0</td>
</tr>
<tr>
<td>Master’s Degree</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>PhD</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 3.5 shows the formal educational background of the respondents. It indicates that those with formal tertiary education represents 51% of the failed sample, and may be individuals who were forced into entrepreneurship because they struggled to get employment despite their tertiary education.
Table 2.6: Business ownership experience before failure

<table>
<thead>
<tr>
<th>Business ownership experience (years)</th>
<th>Frequency (n)</th>
<th>Individual percentage (%)</th>
<th>Cumulative percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
<td>2</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>2 to 5 years</td>
<td>19</td>
<td>38.0</td>
<td>42.0</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>21</td>
<td>42.0</td>
<td>84.0</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>6</td>
<td>12.0</td>
<td>96.0</td>
</tr>
<tr>
<td>16 to 20 years</td>
<td>2</td>
<td>4.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The extent to which the respondents had business ownership experience prior to the venture failures, was another important variable that was considered in the research (table 3.6).

Table 3.6 indicates that those respondents with less than ten (10) years business ownership experience represents 84% of the failed sample.

This section presented the demographics and a descriptive analysis of the sample of failed small businesses. The next section deals with the discussion of the inferential statistics of the researched causal factors.

3.4.2 Inferential statistics

This section focusses on drawing conclusions about the accuracy of the given sample in representing the characteristics of the population from which it was taken. The administered survey questionnaire and the limited interviews from the respondents revealed that non-adherence to variables related to the basic business management and leadership principles resulted in failure.

3.4.2.1 Factors contributing to small business failure

Three factors were identified that represent all the variables:

- Leadership as origin of failure (factor 1);
- Endogenous and exogenous causes of failure (factor 2), fragmented into
  - Experience and planning in finance (subfact 2a)
  - Experience and planning in marketing (subfactor 2b)
- Experience and planning in human resources (subfactor 2c)
- Experience and planning in operations (subfactor 2d)
- Strategy – crafting and executing (subfactor 2e)
- SA business environment as a precondition for failure (factor 3)

3.4.2.1.1 “LEADERSHIP AS ORIGIN OF FAILURE” (FACTOR 1)

The factor was named after the following factor loading, “leadership as origin of failure” variables:

- Relevant managerial competencies such as skills and knowledge to manage a business;
- Control and delegating of tasks;
- Making appropriate decisions when under duress and stress;
- Leading, communication and team management skills; and
- Displaying emotional intelligence when criticized or when others express opinion.

3.4.2.1.2 “ENDOGENOUS AND EXOGENOUS CAUSES OF FAILURE” (FACTOR 2)

The factor was named after the high factor loading, “endogenous and exogenous causes of failure” variables, and was further segmented into the following sub-factors:

“EXPERIENCE AND PLANNING IN FINANCE” (SUBFACTOR 2A)

This subfactor is named after the following high factor loading, “experience and planning in finance” variables:

- Accurate record keeping and drawing of financial statements;
- Routine monitoring, timely review and analysis of financial statements (monthly);
- Managing working capital effectively;
- Conducting monthly cashflows (outcomes against budgets);
- Establishing strategic and financial objectives would have stopped failure; and
- Long-term financial planning would have stopped failure.

“EXPERIENCE AND PLANNING IN MARKETING” (SUBFACTOR 2B)

This subfactor is named after the following factor loading, “experience and planning in marketing” variables:
Ignoring other avenues of sales promotion considerably influenced the failure of the small business;

Lack of customer relationships management systems contributed to failure;

Business experience and planning in marketing would have eliminated failure of the small business; and

Performing after-sales services to customers would have eradicated failure of the business.

“EXPERIENCE AND PLANNING IN HUMAN RESOURCES” (SUBFACTOR 2C)

The subfactor was named after the following factor loading, “experience and planning in human resources” variables:

- Having an effective human resources system would have halted failure of the venture;
- Putting an effective and efficient hiring and selection system in place would greatly reduce failure;
- Employee training and retention systems would significantly stop failure of the business;
- Instituting performance appraisals would substantially reduce failure; and
- Providing performance-linked rewards to boost employee productivity.

“EXPERIENCE AND PLANNING IN OPERATIONS” (SUBFACTOR 2D)

The subfactor was named after the following factor loading, “experience and planning in operations” variables:

- Continuous improvements of efficiencies in operations would greatly reduce the risk of failure of the venture;
- Eliminating the costs in the production processes would significantly reduce the costs of running the venture;
- Continuous improvements of the business equipment would boost productivity of the venture;
- Ignoring quality assurance in the business resulted in the business failing; and
- Not managing the inventory effectively was typical of the business before failure.
“STRATEGY – CRAFTING AND EXECUTING” (SUBFACTOR 2E)

The subfactor was named after the following factor loading, “strategy – crafting and executing” variables:

- Setting strategic objectives for the business would ensure a sustainable competitive advantage and market share; and
- Continuous appraisal of the internal and external situation of the company would ensure proper responses to the changing business environment.

3.4.2.1.3 “SA BUSINESS ENVIRONMENT AS A PRECONDITION OF FAILURE” (FACTOR 3)

The factor was named after the following factor loading, “SA business environment as a precondition of failure” variables:

- Support of the government to ensure a conducive environment for SMME development;
- Bridging the considerable debt finance gap relating to SMMEs; and
- Red tape and burdensome regulations are a disincentive to running a small business, and demotivated owner-managers before failure.

3.4.2.2 Standard deviations

The standard deviation values (0.364 to 1.990) are evidence of low variation in the sample data, and that the measuring instrument is reliable and valid.

3.4.2.3 Demographic variables influencing failure in small businesses

3.4.2.3.1 ANALYSIS FOR “LEADERSHIP AS ORIGIN OF FAILURE” (FACTOR 1) AS A CAUSE OF FAILURE IN SMALL BUSINESSES

In table 3.7 several variables are grouped together to measure factor 1. The standard deviations range from 0.485 to 0.858.
Table 2.7: Factor loadings, means and standard deviations for factor 1 “leadership as origin of failure”

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant managerial competencies such as skills, knowledge or the ability to manage a business exist in my business.</td>
<td>24.5</td>
<td>63.3</td>
<td>12.2</td>
<td>0.0</td>
<td>1.88</td>
<td>.600</td>
</tr>
<tr>
<td>I have the ability to control and delegate tasks.</td>
<td>36.0</td>
<td>56.0</td>
<td>8.0</td>
<td>0.0</td>
<td>1.72</td>
<td>.607</td>
</tr>
<tr>
<td>Skills to deal with human beings (leading, communication skills and team management) are part of capabilities.</td>
<td>34.0</td>
<td>64.0</td>
<td>2.0</td>
<td>0.0</td>
<td>1.68</td>
<td>.513</td>
</tr>
<tr>
<td>I have the ability to make appropriate decisions when faced with palpable threat/sudden crisis (under duress and stress).</td>
<td>20.0</td>
<td>72.0</td>
<td>8.0</td>
<td>0.0</td>
<td>1.88</td>
<td>.521</td>
</tr>
<tr>
<td>If people express criticism, I show my true feelings to the staff, and try to learn from it.</td>
<td>36.0</td>
<td>64.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.64</td>
<td>.485</td>
</tr>
<tr>
<td>I am able to delegate my business tasks easily.</td>
<td>18.0</td>
<td>68.0</td>
<td>12.0</td>
<td>2.0</td>
<td>1.98</td>
<td>.622</td>
</tr>
<tr>
<td>I maintain a hard attitude towards the people that have offended me at work.</td>
<td>12.0</td>
<td>62.0</td>
<td>12.0</td>
<td>14.0</td>
<td>2.28</td>
<td>.858</td>
</tr>
</tbody>
</table>

“Leadership as origin of failure”: this variable was measured with questions such as: “Relevant managerial competencies such as skills, knowledge or the ability to manage a business exist in my business” and the response showed that a cumulative total of 87 percent of the respondents disagree, and that lack of managerial and leadership competencies significantly impacts on small businesses failure in the Fezile Dabi district. However, a mere 12.2 percent of the respondents agree that they possess the relevant leadership and managerial competencies to run small businesses. Other questions such as: “I have the ability to control and delegate tasks” and “I have the ability to make appropriate decisions when faced with palpable threat/sudden crisis (under duress and stress)” showed various degrees of disagreement with cumulative totals of 92 percent each. The lack of skills to control and delegate tasks, and the inability to make appropriate decisions when under duress and stress also prove to have a major impact on failure of small businesses.

3.4.2.3.2  ANALYSIS FOR “ENDOGENOUS AND EXOGENOUS CAUSES OF FAILURE” (FACTOR 2) AS A CAUSE OF FAILURE IN SMALL BUSINESSES

An analysis of the following subfactors offers a conclusive analysis of factor 2 “endogenous and exogenous causes of failure”:

3.4.2.3.2.1  “EXPERIENCE AND PLANNING IN FINANCE (SUBFACTOR 2A)

In table 3.8 and 3.9, several variables have been grouped together to measure subfactor 2a. The standard deviation values range from 1.803 to 1.990.

Table 2.8: Factor loadings, means and standard deviations for subfactor 2a “experience and planning in finance”
Table 3.8: Factor loadings, means and standard deviations for subfactor 2a “experience and planning in finance”

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you keep your own financial statements?</td>
<td>42.0</td>
<td>58.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you make use of consultants?</td>
<td>32.0</td>
<td>68.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you undertake a routine, timely review and analysis of your financial statements?</td>
<td>32.7</td>
<td>67.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you conduct your monthly cash flow of the business?</td>
<td>20.0</td>
<td>80.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you manage your working capital effectively and efficiently, making sure you always have surplus cash on hand?</td>
<td>12.0</td>
<td>88.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How often do you draw your financial statements? Scale: 0 if Never, 1 if Once/yr, 2 if Twice/yr, 3 if Thrice/yr, 4 if Quarterly or 5 if Monthly</td>
<td>0</td>
<td>18.0</td>
<td>22.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Table 2.9: Factor loadings, means and standard deviations for subfactor 2a “experience and planning in finance” - Budgeting

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does Budgeting play any role in your company?</td>
<td>18.0</td>
<td>82.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you set any strategic or financial objectives for your business?</td>
<td>32.0</td>
<td>68.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you established any long-term planning in your business?</td>
<td>22.4</td>
<td>77.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How often do you do planning (e.g. to allocate resources) for monitoring and control in your business? Scale: 0-Never, 1-Once/yr, 2-Twice/yr, 3-Three times, 4-Quarterly, 5-Monthly.</td>
<td>0</td>
<td>16.0</td>
<td>18.0</td>
<td>14.0</td>
</tr>
</tbody>
</table>

“Experience and planning in finance”: this variable was measured with questions such as: “Do you keep your own financial statements?” The results revealed that only 42 percent of the respondents draw and keep their own financial statements. Other questions such as: “Do you undertake a routine, timely review and analysis of your financial statements?” and “Do you conduct your monthly cash flow of the business?” revealed that 67.3 and 80 percent of the respondents respectively, are either financially illiterate or do not adhere to financial reporting principles, and it significantly impacts on SMME failure in the Fezile Dabi district. Other questions to measure this variable included: “Does Budgeting play any role in your company?”, “Do you set any strategic or financial objectives for your business?” and “Do you set any strategic or financial objectives for your business?” The results revealed a bewildering 82 percent do not draw budgets for their businesses, 68 percent do not set any financial objectives (and strategic), and that 77.6 percent have not established any long-term planning in their businesses. These gross transgressions and non-adherence to the basic business management doctrines have severe influence on the failure of small businesses.
3.4.2.3.2.2  “EXPERIENCE AND PLANNING IN MARKETING” (SUBFACTOR 2B)

Table 3.10 depicts several variables that measure subfactor 2c. The standard deviation values range from 0.519 to 1.391.

Table 2.10:  Factor loadings, means and standard deviations for subfactor 2b
“experience and planning in marketing”

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>My business relies on the word-of-mouth for my products/services promotions.</td>
<td>4.0</td>
<td>12.0</td>
<td>52.0</td>
<td>32.0</td>
<td>3.12</td>
<td>.773</td>
</tr>
<tr>
<td>I have a Customer Relationships Management system in place.</td>
<td>8.0</td>
<td>50.0</td>
<td>38.0</td>
<td>4.0</td>
<td>2.38</td>
<td>.697</td>
</tr>
<tr>
<td>I perform other after-sales services for my customers.</td>
<td>10.0</td>
<td>64.0</td>
<td>24.0</td>
<td>2.0</td>
<td>2.18</td>
<td>.629</td>
</tr>
<tr>
<td>Maintaining customer relationships is very important in my business.</td>
<td>0.0</td>
<td>4.0</td>
<td>64.0</td>
<td>32.0</td>
<td>3.28</td>
<td>.536</td>
</tr>
<tr>
<td>My customers recommend me to others.</td>
<td>0.0</td>
<td>2.0</td>
<td>30.0</td>
<td>68.0</td>
<td>3.66</td>
<td>.519</td>
</tr>
<tr>
<td>Do you use any other marketing or sales promotion avenues? How often: 0-Never, 1-Once/yr, 2-Twice, 3-Three times, 4-Quarterly,5-Monthly</td>
<td>0</td>
<td>14.0</td>
<td>24.0</td>
<td>28.0</td>
<td>12.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

“Experience and planning in marketing”: this variable was measured with questions such as: “My business relies on the word-of-mouth for my products/services promotions” and the response showed that a cumulative total of 84 percent agree and rely on the word-of-mouth to promote their businesses. This implies that respondents ignore the significance of using other marketing avenues to promote their services/products and ultimately their businesses. Other questions that measure this variable such as: “I perform other after-sales services for my customers” reveal that a cumulative total of 74 percent of the respondents do not really consider the importance of performing after-sales services for their customers.

3.4.2.3.2.3  “EXPERIENCE AND PLANNING IN HUMAN RESOURCE” (SUBFACTOR 2C)

Table 3.11, indicates the variables that are grouped together to measure subfactor 2c “experience and planning in human resources”. The standard deviation values range from 0.364 to 1.681.
Table 2.11: Factor loadings, means and standard deviations for subfactor 2c “experience and planning in human resources”

<table>
<thead>
<tr>
<th>Question</th>
<th>1 Strongly</th>
<th>2 Disagree</th>
<th>3 Agree</th>
<th>4 Strongly</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have an effective Human Resources Management system in place.</td>
<td>4.0</td>
<td>60.0</td>
<td>24.0</td>
<td>12.0</td>
<td>2.44</td>
<td>.700</td>
</tr>
<tr>
<td>I have formal hiring and selection systems in place to ensure effective recruitment and selection of employees.</td>
<td>8.0</td>
<td>52.0</td>
<td>32.0</td>
<td>8.0</td>
<td>2.40</td>
<td>.756</td>
</tr>
<tr>
<td>I develop my employees by training and involving them in decision making.</td>
<td>2.0</td>
<td>70.0</td>
<td>20.0</td>
<td>8.0</td>
<td>2.34</td>
<td>.584</td>
</tr>
<tr>
<td>I have systems in place to ensure employee retention, so that I don’t lose them to competitors.</td>
<td>16.0</td>
<td>46.0</td>
<td>26.0</td>
<td>12.0</td>
<td>2.34</td>
<td>.908</td>
</tr>
<tr>
<td>I offer certain sorts of rewards to employees with outstanding performance.</td>
<td>12.0</td>
<td>48.0</td>
<td>32.0</td>
<td>8.0</td>
<td>2.36</td>
<td>.814</td>
</tr>
<tr>
<td>My staff compliment is in alignment with my business needs, i.e not under-staffed or over-staffed.</td>
<td>2.0</td>
<td>76.0</td>
<td>4.0</td>
<td>18.0</td>
<td>2.38</td>
<td>.544</td>
</tr>
<tr>
<td>My staff is trained to perform their duties in a manner required by my business needs.</td>
<td>0.0</td>
<td>86.0</td>
<td>2.0</td>
<td>12.0</td>
<td>2.26</td>
<td>.364</td>
</tr>
<tr>
<td>There are performance–linked rewards/or equivalents offered to employees for outstanding performance.</td>
<td>24.0</td>
<td>32.0</td>
<td>32.0</td>
<td>12.0</td>
<td>2.32</td>
<td>.978</td>
</tr>
<tr>
<td>How often do you do performance appraisals to evaluate employee performance? Scale: 0- Never, 1-Annually, 2-Bi-annually, 3-Quarterly, 4-Monthly.</td>
<td>0</td>
<td>36.0</td>
<td>12.0</td>
<td>2.0</td>
<td>1.90</td>
<td>1.681</td>
</tr>
<tr>
<td>Rate your human resource capability to manage and implement a change process or new strategic direction (5 very good; 1 very bad)</td>
<td>1</td>
<td>6.0</td>
<td>18.0</td>
<td>4.0</td>
<td>3.38</td>
<td>1.048</td>
</tr>
</tbody>
</table>

“Experience and planning in human resources”: this variable was measured with questions such as: “I have an effective Human Resources Management system in place” and “I have formal hiring and selection systems in place to ensure effective recruitment and selection of employees” which shows the cumulative total of 64 percent and 60 percent of the respondents do not have effective human resource systems to hire the right people and may be a significant factor influencing SMME failure in the Fezile Dabi district. Table 3.11 also indicates that a cumulative total of 72 percent of the respondents do not develop and train their employees. A whopping 86 percent of the respondents disagree that employees perform their duties as required by the business needs, which implies that the human resources system is ineffective and largely contributes to failure of the venture.

3.4.2.3.2.4 “EXPERIENCE AND PLANNING IN OPERATIONS” (SUBFACTOR 2D)

Table 3.12 indicates the variables that are grouped together to measure the subfactor “experience and planning in operations”. The standard deviation values range from 0.639 to 0.863.
Table 2.12:  Factor loadings, means and standard deviations for subfactor 2d
“experience and planning in operations”

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do continual improvements of efficiencies in my business operations.</td>
<td>4.0</td>
<td>68.0</td>
<td>22.0</td>
<td>6.0</td>
<td>2.30</td>
<td>.647</td>
</tr>
<tr>
<td>I continually seek out ways to eliminate costs in my production processes.</td>
<td>16.0</td>
<td>60.0</td>
<td>16.0</td>
<td>8.0</td>
<td>2.16</td>
<td>.792</td>
</tr>
<tr>
<td>I manage my inventory/stock effectively.</td>
<td>26.0</td>
<td>64.0</td>
<td>8.0</td>
<td>2.0</td>
<td>1.86</td>
<td>.639</td>
</tr>
<tr>
<td>I continually improve my business equipment.</td>
<td>20.0</td>
<td>36.0</td>
<td>38.0</td>
<td>6.0</td>
<td>2.30</td>
<td>.863</td>
</tr>
<tr>
<td>I have developed quality standards and systems to ensure quality control?</td>
<td>10.0</td>
<td>60.0</td>
<td>28.0</td>
<td>2.0</td>
<td>2.22</td>
<td>.648</td>
</tr>
</tbody>
</table>

“Experience and planning in operations”: this variable was measure with the questions such as: “I do continual improvements of efficiencies in my business operations” and “I manage my inventory/stock effectively” and the results revealed cumulative totals of 72 percent and 90 percent respectively. This implies that the respondents do not improve efficiencies in their operation to boost productivity and eliminate costs, and the astounding 90 percent do not carry out inventory management and best practices in their respective industries which is considered to be a significant factor influencing SMMEs failure in the Fezile Dabi district. Cumulative totals of 56 percent and 70 percent do not improve their equipment and have not developed quality assurance standards. This implies that the equipment is never replaced even when it is old and outdated, and could result in many defects and consequently low quality of services or products. The respondents show complete ignorance to quality assurance and control.

3.4.2.3.2.5  “STRATEGY – CRAFTING AND EXECUTING” (SUBFACTOR 2E)

Table 3.13 indicates the variables that are grouped together to measure the subfactor 2e “strategy – crafting and executing”. The standard deviation values range from 0.535 to 1.347.
Table 2.13: Factor loadings, means and standard deviations for subfactor 2e “strategy – crafting and executing”

<table>
<thead>
<tr>
<th>Question</th>
<th>1 (Strongly)</th>
<th>2 (Disagree)</th>
<th>3 (Agree)</th>
<th>4 (Strongly)</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting strategic objectives for my company is a practice that exists.</td>
<td>8.0</td>
<td>70.0</td>
<td>22.0</td>
<td>0.0</td>
<td>2.14</td>
<td>0.535</td>
</tr>
<tr>
<td>I have the propensity to respond adequately to change in my business environment.</td>
<td>16.0</td>
<td>66.0</td>
<td>18.0</td>
<td>0.0</td>
<td>2.02</td>
<td>0.589</td>
</tr>
<tr>
<td>My company continually undertakes thorough internal and external situational analysis in order to respond appropriately to the ever changing business environment.</td>
<td>14.0</td>
<td>64.0</td>
<td>18.0</td>
<td>4.0</td>
<td>2.12</td>
<td>0.689</td>
</tr>
<tr>
<td>How would you rate the competence of your company to conduct a SWOT analysis? (5 very good; 1 very bad)</td>
<td>18.0</td>
<td>6.0</td>
<td>20.0</td>
<td>38.0</td>
<td>18.0</td>
<td>3.32</td>
</tr>
<tr>
<td>Has your business conducted a SWOT analysis? If so, how often: Never, Once, Twice, three times or Four times a year.</td>
<td>26.0</td>
<td>1.0</td>
<td>2.0</td>
<td>3.0</td>
<td>4.0</td>
<td>1.50</td>
</tr>
<tr>
<td>Rate your business's financial capacity to implement strategies (5 very good; 1 very bad)</td>
<td>8.0</td>
<td>16.0</td>
<td>38.0</td>
<td>24.0</td>
<td>14.0</td>
<td>3.20</td>
</tr>
<tr>
<td>Rate your commitment to providing financial resources to support the implementation of strategic initiatives (5 very committed; 1 not committed at all)</td>
<td>6.0</td>
<td>14.0</td>
<td>14.0</td>
<td>36.0</td>
<td>30.0</td>
<td>3.70</td>
</tr>
<tr>
<td>Rate your motivation to maintain and support the implementation of strategic initiatives (5 very good; 1 very bad).</td>
<td>2.0</td>
<td>8.0</td>
<td>10.0</td>
<td>48.0</td>
<td>32.0</td>
<td>4.00</td>
</tr>
</tbody>
</table>

“Strategy – crafting and executing” : this variable was measured with the questions such as: “Setting strategic objectives for my company is a practice that exists” and “I have the propensity to respond adequately to change in my business environment” and “My company continually undertakes thorough internal and external situational analysis in order to respond appropriately to the ever changing business environment”. The results reveal that cumulative totals of 78 percent, 82 percent and 78 percent of respondents respectively do not set any strategic objectives, have the inability to respond adequately to change, and do not conduct internal and external situational analysis. This implies that the inability to create and execute strategies have a significant impact on the failure of small businesses in the Fezile Dabi district.

3.4.2.3.3 ANALYSIS FOR “SA BUSINESS ENVIRONMENT AS A PRECONDITION OF FAILURE” (FACTOR 3) AS A CAUSE OF FAILURE IN SMALL BUSINESSES

Table 3.14 shows the variables that are grouped together to measure factor 3 “SA business environment as a precondition of failure. The standard deviation values range from 0.639 to 0.769.
Table 2.14: Factor loadings, means and standard deviations for factor 3 “SA business environment as a precondition of failure”

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>How would you rate the support of the government towards the development of SME’s?</td>
<td>2.0</td>
<td>6.0</td>
<td>62.0</td>
<td>30.0</td>
<td>3.20</td>
<td>.639</td>
</tr>
<tr>
<td>How would you rate the lending practices of the funding institutions in South Africa?</td>
<td>26.0</td>
<td>48.0</td>
<td>24.0</td>
<td>2.0</td>
<td>2.02</td>
<td>.769</td>
</tr>
<tr>
<td>Overall, how would you rate the SA business environment, as a place for doing business?</td>
<td>6.0</td>
<td>22.0</td>
<td>66.0</td>
<td>6.0</td>
<td>2.72</td>
<td>.671</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question (1 if YES; 2 if NO)</th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you consider the red tape to be a disincentive and stumbling block to aspiring entrepreneurs in this country?</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

“SA business environment as a precondition of failure”: this variable was measured by the questions such as: “How would you rate the support of the government towards the development of SME’s?” and “How would you rate the lending practices of the funding institutions in South Africa?” and the results show a cumulative total 92 percent rate the support of government towards SMMEs as good, and 74 percent believe that the funding institutions do not help SMME development. This implies that though the owner-managers acknowledge the government’s support, lack of funding the start-ups by financiers and other funders has a significant impact on the failure of small businesses. Nonetheless, 72 percent of the respondents perceive South Africa to be a good place for doing business.

3.4.3 Confirmations of the research propositions

There are three (3) factors that were extracted and analyse d from the collected data. These factors led to the development of the research propositions that are analyse d as statistical hypotheses.

3.4.3.1 $P_1$: LEADERSHIP AS ORIGIN OF FAILURE CONTRIBUTES TO FAILURES IN SMALL BUSINESSES

3.4.3.1.1 Variable mean scores

The mean score for the variable “leadership as origin of failure” is 1.83. Scores that are less than 2.5 (agree and disagree scale) confirm that “leadership as origin of failure” (factor 1) contribute to the failure of small businesses.

3.4.3.1.2 Literature supported by “leadership as origin of failure” (factor 1)

“Leadership as origin of failure” (factor 1) as a cause contributing to small business failure is supported by D’Aveni (1989:577), Chowdhury & Lang (1993:15), Barker & Mone (1998:1228),

Drawing from the above evidence it therefore can be concluded that “Leadership as origin of failure” (factor1) contributes to failure in small businesses.

3.4.3.2 $P_2$: ENDOGENOUS AND EXOGENOUS CAUSES OF FAILURE CONTRIBUTE TO FAILURE IN SMALL BUSINESSES

3.4.3.2.1 Literature supported by “endogenous and exogenous causes of failure” (factor 2)


This evidently therefore concludes that “endogenous and exogenous causes of failure” contributes to failure of small businesses. The fragmented sub-propositions follow next as:

3.4.3.2.2 EXPERIENCE AND PLANNING IN FINANCE CONTRIBUTE TO FAILURE IN SMALL BUSINESSES

3.4.3.2.2.1 Variable mean score

The mean score for the variable “experience and planning in finance” is 1.72. Scores that are greater than 1.5 (1=Yes or 2=No scale) confirm that “experience and planning in finance” (subfactor 2a) contributes to failure in small businesses.

3.4.3.2.2.2 Literature supported by “experience and planning in finance” (subfactor 2a)

“Experience and planning in finance” (subfactor 2a) as a contributing factor towards the failure of small businesses is supported by Berryman (1983:58), Shafique et al. (2010:90), Boyle & Desai (1991:34), Chittenden et al. (1998: 96), Jarvis et al. (1996:37) and Okpara & Wynn (2007:27).

Based on the evidence provided above it can therefore be concluded that “experience and planning in finance” (subfactor 2a) contributes to the failure in small businesses.
3.4.3.2.3 EXPERIENCE AND PLANNING IN MARKETING CONTRIBUTE TO FAILURE OF SMALL BUSINESSES

3.4.3.2.3.1 Variable mean score

The mean score for the variable “experience and planning in marketing” is 2.40. Scores less than 2.5 (agree and disagree scale) confirm that “experience and planning in marketing” (subfactor 2b) contribute to the failure of small businesses.

3.4.3.2.3.2 Literature supported by “experience and planning in marketing” (sub-factor 2b)

“Experience and planning in marketing” (subfactor 2b) as a contributing factor towards the failure of small businesses is supported by Berryman (1983:58), Hill (2001:191), Okpara & Wynn (2007:27) and Shafique et al. (2010:85).

Based on the evidence above it can therefore be concluded that “experience and planning in marketing” (subfactor 2b) contributes to failure in small businesses.

3.4.3.2.4 EXPERIENCE AND PLANNING IN HUMAN RESOURCES CONTRIBUTE TO FAILURE IN SMALL BUSINESSES

3.4.3.2.4.1 Variable mean score

The mean score for the variable “experience and planning in human resources” is 2.31. Scores less than 2.5 (agree and disagree scale) confirm that “experience and planning in human resources” (subfactor 2c) contribute to the failure in small businesses.

3.4.3.2.4.2 Literature supported by “experience and planning in human resources” (sub-factor 2c)

“Experience and planning in human resources” (subfactor 2c) as a contributing factor towards the failure of small businesses is supported by Schultz (1993:126), Dess and Lumpkin (2003:152), Hornsby and Kurakto (2003:89), Singh and Vohra (2005:65) and Shafique et al. (2010:87).

Based on the evidence provided above it can therefore be concluded that “Experience and planning in human resources” (subfactor 2c) contributes to failure in small businesses.
3.4.3.2.5 EXPERIENCE AND PLANNING IN OPERATIONS CONTRIBUTE TO FAILURE IN SMALL BUSINESSES

3.4.3.2.5.1 Variable mean score

The mean score for the variable “experience and planning in human resources” is 2.17. Scores less than 2.5 (agree and disagree scale) confirm that “experience and planning in human operations” (subfactor 2d) contribute to the failure in small businesses.

3.4.3.2.5.2 Literature supported by “experience and planning in operations” (subfactor 2d)

“Experience and planning in operations” (subfactor 2d) as a contributing factor towards the failure of small businesses is supported by Berryman (1983:58), Anderson et al. (1984), Taymaz (2002) and Shafique et al. (2010:89).

3.4.3.2.6 STRATEGY – CRAFTING AND EXECUTING CONTRIBUTES TO FAILURE IN SMALL BUSINESSES

3.4.3.2.6.1 Variable mean score

The mean score for the variable “strategy – crafting and executing” is 2.09. Scores less than 2.5 (agree and disagree scale) confirm that “strategy – crafting and executing” (subfactor 2e) contributes to the failure in small businesses.

3.4.3.2.6.2 Literature supported by “strategy – crafting and executing” (subfactor 2e)


Based on the evidence provided above it can therefore be concluded that “strategy – crafting and executing” (subfactor 2e) contributes to the failure in small businesses.

3.4.3.3 $P_3$: SA BUSINESS ENVIRONMENT AS A PRECONDITION OF FAILURE CONTRIBUTES TO FAILURE IN SMALL BUSINESSES

3.4.3.3.1 Variable mean score

The mean score for the variable “strategy – crafting and executing” is 2.65. Scores greater than 2.5 (agree and disagree scale) confirm that there was no statistically significant difference
associating “SA business environment as a precondition of failure” (factor 3) as a cause of failure in small businesses.

3.4.3.3.2 Literature supported by “SA business environment as a precondition of failure” (factor 3)


However, based on the evidence from this above it can therefore be concluded that “SA business environment as a precondition of failure” (factor 3) does not contribute to failure in small businesses. Although an astounding number of respondents (98 percent) regard red tape and burdensome regulations to be a deterrent to business success, and another 74 percent view funding and lending practices in South Africa as major constraints to the small business community, their overall perceptions are that South Africa is a good place for business.

3.4.3.4 SUMMARY OF CONFIRMATION OF THE PROPOSITIONS

The summary of the confirmation of the propositions of this research study follows in table 3.15.

Table 2.15: Summary of the confirmation of propositions

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Confirmation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P_1$ Leadership as origin of failure contributes to failure in small businesses</td>
<td>Proposition supported</td>
</tr>
<tr>
<td>$P_2$ Endogenous and exogenous causes of failure contributes to failure in small businesses</td>
<td>Proposition supported</td>
</tr>
<tr>
<td>$P_3$ SA business environment as a precondition of failure contributes to failure in small businesses</td>
<td>Proposition not supported</td>
</tr>
</tbody>
</table>

However, not all the propositions are supported statistically.

3.5 SUMMARY

This chapter introduced the relevant historic data specific methods which were used in this research study to collect and analyse the data with the view of addressing the research objectives at hand. Then the findings of this research were presented in terms of the factors
which were deemed responsible for failure of the businesses. The chapter commenced with the identification of the pool of variables alleged to having caused the businesses to fail.

The next chapter discusses the conclusions and recommendations and how this situation could be resolved.
CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION

Chapter 3 reported on the methodologies of the empirical study and discussed the results of the study. This chapter’s main undertaking is to summarise and present the conclusions drawn from the main findings of this study.

As discussed previously in chapter 1, this research, “Small business failures: a retrospective analysis of the major determinants of start-up failures in the Fezile Dabi district”, sought to identify and establish the causes associated with the high failure of small businesses (“what?” causes failure). The underlying intentions of the research was to obtain a better understanding into the reasons of high failure rates in small businesses in the Fezile Dabi district. This research revealed the “why’s?” and “how’s?” the failure phenomenon occurred.

Contemplating on the previous chapters, it is imperative to reconsider what the stated objectives were and what was attained empirically towards addressing the research questions and problems. From chapter 1, it was prominently highlighted that the objective was to acquire empirical information from the respondents of failed enterprises in order to establish an explanatory model of failure regarding their failed enterprises. In chapter 2, the researcher then undertook a literature review in order to provide a theoretical framework for the study, which highlighted the prominent theories on the factors or causes of small business failures. Chapter 3 then applied the principles of research methodology to collect and analyse the data from the respondents, and reports on the findings of the empirical study in order to address the impending objectives of the research study.

The fundamental subject matter emphasized from chapter 1 through to chapter 3 is the notion that observance of the practical value of business management principles and leadership skills on the part of the owner or manager is usually the determinant factor of success or failure of their chosen venture. The subject matter in chapter 4 relates to imparting knowledge and skills to the owners/managers by recommending business mentoring and training on basic management principles.

4.2 CONCLUSIONS

It is evidently clear that most of the start-ups in the Fezile Dabi district lack basic management competencies and skills to muddle through the trials and tribulations inherent in running a
business. Shafique et al. (2010:90) identify deficiencies in accounting and financial management, marketing skills and expertise, lack of good operational and production plans and processes, and inadequate human resources management practices as the elemental factors that lead small businesses to failure.

4.2.1 Leadership as origin of failure (factor 1)

Ample evidence points to leadership’s role to be at the centre of all business declines, a fact mentioned earlier by the researcher. Most small business owners-managers do not possess the relevant managerial competencies to run a successful business. The lack of ability to deal with human beings is a major limitation on the part of owner-managers.

4.2.2 Endogenous and exogenous causes as origin of failure (factor 2)

This entails the human related causes such as the managerial incompetencies (strategic and administrative) such as lack of skills, appropriate knowledge and ability to manage a business. The endogenous and exogenous factors identified by the study include strategic and functional management causes such as financial, human resources, marketing, and operational incapabilities on the part of the owner-managers of small businesses.

Reflecting on the literature review, it is important to reiterate what was previously expressed by Boyle and Desai (1991:38), that the most appropriate way to counter small business failures is through routinely administered procedures, as they require an administrative response primarily consisting of policies, procedures, rules, and systems designed to improve management control.

4.2.2.1 Experience and planning in finance (subfactor 2a)

The only way any company’s business activity can be recorded, summarized and analysed is through its financial statements. What a company owns, how much it owes others, how it gets the cash to fund itself, and how well a company’s operations perform are all questions that can only be answered by analysing the company's financial statements. No proper financial records are kept and accounting principles are not adhered to, and as a result most of the small businesses experience difficulties operating efficiently which invariably leads to failure of these ventures.

Evidence from the data clearly shows that small businesses employ poor and careless financial management. On the contrary, small businesses do not keep financial records or statements and if they do, they do not undertake a routine timely review and analysis of their financial statements. Having expert knowledge of complex financial and accounting rules is not the
owner-manager's goal, but to become sufficiently familiar with the basics is desirable. The evidence from the findings also clearly indicates that budgeting is seldom practiced within the small business sector. This conclusively indicates that there are virtually no financial controls such as limits or targets within Fezile Dabi district small businesses.

4.2.2.2 Experience and planning in marketing (subfactor 2b)

Small businesses frequently misunderstand the benefits of marketing and therefore seldom commit their business resources towards undertaking any marketing activities. In large businesses marketing usually precedes everything else, as it integrates all the functions of a business and provides direct interface between the business and the customer through advertising, salespeople and other marketing activities. However, it has become customary or a self-professed norm that small businesses in the Fezile Dabi district only rely on the “word of mouth” as the main form of marketing strategy; in other words, if the business services the customer well enough, that customer will sing songs of praises to the whole community, and subsequently people will come flocking in. Evidence from the findings shows that there is no proper customer relationships management systems in place, in order to build on the current relations the business has with its existing customers. Owner-managers of small businesses in Fezile Dabi district are inept at managing customer relations.

4.2.2.3 Experience and planning in human resources (subfactor 2c)

As alluded to previously in section 2.3.4.4, human resource management is an effective tool for the survival of small firms (Singh & Vohra, 2005:65). Small firms adopt a rather non-existent or informal practice of selecting and hiring of employees. There is no induction and training of new staff, and no human resource systems in place. The owner-managers of the small businesses have no systems and plans in place to ensure employee retention, and there are no performance-linked rewards offered to employees for outstanding performance. Performance appraisals are seldom practiced. The key dimensions of the performance appraisal for the performance of the small firms are to increase employee motivation, commitment, skills and overall firm performance (Shafique et al., 2010:87).

As was previously mentioned in section 2.3.4.4, Hornsby and Kurakto (2003:89) identify the incompetence of the managers that are unable to look after the issues of human resource as the main cause of failure of the small firms.

4.2.2.4 Experience and planning in operations (subfactor 2d)

Small businesses seldom improve their operations equipment, which produce many defects or errors and decreases quality. Evidence shows that there are no standards of control regarding
inventory management and there is poor quality assurance within the small businesses in Fezile Dabi district. This information presupposes that there is a lack of productivity and employees are highly demotivated.

4.2.2.5 Strategy – crafting & executing (subfactor 2e)

The findings demonstrate that small businesses seldom conduct a SWOT analysis or any equivalent technique to undertake internal and external situational analysis in order to respond adequately to the ever changing environment. Small businesses hardly ever set any strategic objectives. If any type of business is inept to respond appropriately to its internal and external challenges, then failure is imminent. Strategy is a continuous process.

Thus it is evident that small business owners do not have clear-cut visions and no established competitive advantages for their ventures. They are just lingering in imperceptible darkness.

4.2.3 SA business environment as a precondition of failure (factor 3)

Small business owner-managers in the Fezile Dabi district perceive red tape and burdensome regulations to be a disincentive and outright stumbling block to their success as aspiring entrepreneurs in the country. There is also an indication of sub-optimal lending practices by the banks and other funding institutions in South Africa. The majority of small businesses in the Fezile Dabi district appreciate the supportive role of the government and thus perceive South Africa to be a good place for doing business.

4.3 RECOMMENDATIONS

There is pronounced deficiency of research literature regarding small business failures in the local South African context, as shown by the literature review. Although the calamities facing small business start-ups may evidently appear to be the same globally, provision should be made for obvious reasons regarding the different contexts and circumstances of each country.

Given that successful small businesses play a significant role to a country’s gross domestic product (GDP), creation of employment and poverty alleviation, it becomes imperative that more research has to be carried out in this area and its recommendations be utterly observed by the policy-makers.

The aim of this section is to provide the measures that are considered to address the factors that are liable for failure amongst the small businesses identified in chapter 3. The recommendations laid here look at the prospective possibilities of eradicating the current state
of affairs where the prosperous future of small businesses is bleak and imminent to failure. The recommendations are intended specifically for the three factors identified in chapter three (3).

The recommendations are entirely based on the three causal factors identified in this research as:

- Leadership as origin of failure (factor 1)
- Endogenous and exogenous causes as origin of failure (factor 2)
  - Experience and planning in finance (subfactor 2a);
  - Experience and planning in marketing (subfactor 2b);
  - Experience and planning in human resources (subfactor 2c);
  - Experience and planning in operations (subfactor 2d);
  - Strategy – crafting & executing (subfactor 2e)
- SA business environment as a precondition of failure (factor 3).

4.3.1 Recommendations based on “leadership as an origin of failure” (factor 1)

Longenecker et al. (1999:503) assert that failure at the top is the main cause of failure. The lack of leadership virtues often results in owner-managers frustratingly resorting to a dictatorial management style, desperately trying to command control and respect of the employees. Owner-managers of the small businesses need to familiarize themselves with the skills, knowledge and concepts of managing a business. They need to be competent in recognizing pertinent information, and aligning the business and its resources to the internal and external pressures. They also need to develop the abilities to control and delegate tasks, organize and coordinate resources.

4.3.2 Recommendations based on “endogenous and exogenous causes as origin of failure” (factor 2)

Here the recommendations are made on the different subfactors that compose factor 2.

4.3.2.1.1 Recommendations based on “experience and planning in finance” (subfactor 2a)

Westhead and Storey (2001:14) emphasize that the lack of training is a major handicap to the survival chances of South African small businesses. The evidence from the findings of this research clearly illustrates that lack of financial and other basic functional management skills constitute the major factors that contribute to small business failure. The small business owners should enlist with government agencies such as Seda (Small enterprise development agency). Seda provides small businesses with training in basic business management at no cost. Owner-managers of small businesses have to invest in attaining financial literacy and knowledge in
order to ensure that their businesses thrive and become sustainable. They should keep proper records and make record-keeping a routine practice.

Routine timely review and analysis of statements should be a common practice, and entails that records of any funds that come in and out of the business, are evaluated on a weekly and monthly basis to keep track of business activities. Budgets must be drawn to show the financial plan of the business to determine the extent of capital budgeting needs of the enterprise. This will help ensure financial controls such as the limits on expenditure and sales/profit targets exist in the business, and thus stringently adhered to.

4.3.2.2 Recommendations based on "experience and planning in marketing" (subfactor 2b)

4.3.2.2.1 Screening venture opportunities

It is a common practice for large firms to screen potential investments or other businesses before they acquire them or make any capital budgeting decisions. Small businesses rarely ever do any screening. Timmons (1999:38) asserts that a correct fit between the resources, opportunity and the lead entrepreneur (owner) should become part of the screening. The owners of the small businesses should conduct feasibility studies to ensure that there is a correct suitability between the venture and the owner of that small business. This should become the basic starting point before the owner ventures into any sort of an opportunity, and could significantly lower the high failure rates in small businesses.

4.3.2.2.2 Marketing of products and services

Owner-managers of small businesses need to be aware of the importance of marketing and not take it for granted. The owners of small businesses usually only commit to business activities that only bring immediate rewards, and ignore marketing activities because of delayed or no foreseeable benefits. As discussed in section 4.3.2.1, training constraints in finance, marketing and basic business management accounts for the high rates of failure. Small business owners should break the habit and refrain from relying on the “word of mouth” as their main marketing strategy, and start focusing on creating clear concise marketing plans for their products and services. They should inculcate the concept of “marketing comes first” and ensure it becomes their mantra and gets embedded in their minds.

Small businesses should prepare strategies, plans, programs and messages that put the word out regarding their products and services to prospective customers. In addition, owner-managers should become proficient in customer relationships management.
4.3.2.3 Recommendations based on “experience and planning in human resources” (subfactor 2c)

The effectiveness and success of the firms directly relate with its human resource practices (Boxall, 1996:69). Small businesses should consider putting in place effective human resource management systems to ensure effective recruitment and selection of employees, and provide the means of retaining their key employees. If losing a key employee(s) can have devastating effects on the large businesses, it surely will lead to failure if it occurred within a small business. Earnshaw et al. (1998), cited by Shafique et al. (2010:87) as was mentioned in section 2.3.4.4, proclaim that the main reasons for poor discipline and low performance in the small firms are attributed to poor selection and recruitment.

The owner-manager’s job is to help every employee of the small business retain their optimal performance levels while maintaining the financial wellbeing of the enterprise and respecting the vocational drive, desires and development of the staff. Firms like to exclaim that “people are our most valued asset”, but in reality which is unlikely the case.

4.3.2.3.1 Recruit the right staff

It really is priceless to hire the right people. Having an effective HR strategy can help minimize the cost of production, as well as the cost of staff turnover. Owner-managers should institute formal hiring and selection processes in order to recruit people with reasonable technical skills and a proven track record. In addition, globally all businesses need a person with good interpersonal skills and who suitably fits with the values of the firm. Incapacity to do so results in an enterprise with staff that lacks interpersonal skills and good values, grossly incompetent, and disloyal to the firm. There is an old adage that “you can train people in the right skills, but not into the right attitude”. So it pays to get it right the first time, by hiring the right calibre of people. Heneman et al. (2000:23) postulate that recruitment and selection are the most poorly executed human resource practices in the small firms.

4.3.2.3.2 Developing staff

It is the task of effective human resources to attract, hire, retain, and train employees. Owner-managers should take it upon themselves to attract and hire the right people in their enterprises, and then develop means to retain and train good employees. Many firms view training to be remedial, which can draw negative perceptions to the initiative. Training of employees should never be seen to be remedial, but rather a privilege to the chosen few employees. Owner-managers of small businesses should respect the career ambitions of the employees, and thus endeavour to foster training that is in alignment with the needs of the business. Bartel
proclaims that there is a direct relationship between training and the survival of the firm.

4.3.2.3.3 Performance appraisals

As previously noted, Shafique et al. (2010:87) assert that the key dimensions to performance appraisal regarding the performance of the small firms are to increase employee motivation, commitment, skills and performance. To reiterate on what was mentioned earlier in section 4.3.2.3.2, it becomes the sole priority and aim to retain and develop the key employees.

Owners of small businesses need to consider putting systems in place to ensure retention of key employees, rather than run the risk of losing their key employees to the competitors. Remedies such as performance-linked rewards should become a common practice to the small businesses. An incentive plan will only be as good as the performance measure that is used to track employee performance objectively. The use of group pay (bonus) is a more suitable form of a reward system in a small enterprise in order to drive common goals, and a means to avoid other employees feeling less worthy than their colleagues. It also becomes the responsibility of the owner-manager to know when not to use pay-for-performance.

Performance appraisals are more importantly used as review strategies for underperforming employees, who fail to meet expectations. In this case, it then makes more sense to rehabilitate the employee who is underperforming or fail to meet expectations by prescribing remedial training.

4.3.2.4 Recommendations based on “experience and planning in operations” (subfactor 2d)

Operations management actually concerns itself with the ultimate purpose of the business, which is manufacturing products or providing services. The two fundamental considerations in operations are managing for productivity and quality, which have direct relations to revenue generation and ultimate profitability of the business.

4.3.2.4.1 Inventory management

Taymaz (2002) opines that most new small firms are unable to perform well and to meet the competition due to inefficient and less utilization of resources (cited by Shafique et al., 2010:89). Maintaining optimal levels of inventory needs to be the ultimate goal of small businesses. There should be a balancing act, to avoid carrying too much inventory which leads to illiquidity and probably high carrying costs, or carrying fewer inventories which might invariably lead to the business losing key customers to the competition. Shafique et al. (2010:91) connote that
effective inventory management plays an important role not only in the performance of the small firm, but it also helps in the development of the industry.

4.3.2.4.2 Boosting productivity

Small business owners-managers need to seek continual improvements on efficiencies of their business operations. It is basic knowledge in business that in order to become more productive, you either have to improve employee skills and level of motivation, improve your equipment, or improve your production efficiencies/methods. Or improve all of them collectively.

Small businesses should invest in their employees in order to improve staff productivity. As mentioned in section 4.3.2.3, hiring and selecting employees with skills, proven track record, or training employees to become more productive. Therefore investing in their skills, experience and training that is related to their daily duties. Small business owner-managers inhibit the fear of incurring the huge costs and time associated with staff training, only to lose these employees to competitors. This usually makes the small business owners hesitant to invest in training their staff. Remedies to curb this fear would be to provide constant motivation to the employees by offering incentives in order to limit the employee turnover.

Offering productivity bonuses for individuals or a group is just another way the small businesses can improve their employee productivity. As a matter of caution, financial incentives for production should be closely monitored to ensure quantity does not override quality.

Providing employees with better equipment is known to be a cheaper and easier way to increase productivity and improve quality of products or services. Small businesses need to invest in continually improving their business equipment. New equipment simply runs better, needs fewer employees to operate, produce better quality and has more productive capacity.

Finally, small business owners need to seek out ways toward improving the processes in their operations. This is achieved by closely scrutinizing all the ways in which the work is performed and figuring out how the tasks can be redesigned for greater efficiencies. Lean production should become the focus of the small businesses, and should not only be perceived as a concept only applicable to large companies.

4.3.2.4.3 Quality control

Small businesses need to adopt policies, programs, and efforts to minimize product/service defects in order to ensure high quality in their offering. Owner-managers need to guarantee quality assurance of their products and services. Managers must ensure that quality checks are performed regularly in the business. The small businesses should develop quality standards
and ensure that these are applied in the enterprise. It becomes the sole responsibility of the owner-manager to ensure that he/she employs the best practices in their chosen industry of business operation.

4.3.2.4.4 Supply chain management

Owner-managers of small businesses should become adept at managing relationships – both upstream with the suppliers and downstream with the customers – to enjoy lasting business success.

4.3.2.5 Recommendations based on “strategy – crafting & executing” (subfactor 2e)

Strategic planning involves the following: outlining the company’s goals (financial and strategic objectives), analysing the company’s environment, examining the company’s resources, finding the actions that will move the company in the desired direction towards its goals, and then implementing these actions and monitoring progress. It is simply about “where are we?”, “where we are going”, and “how we will get there”.

Small business owner-managers need to consider setting strategic and financial objectives for their companies and finding means to set themselves apart from the rest of the flock by creating sustainable competitive advantages for their businesses. There is a strong need for the small business owner-managers to become well vested with methods and techniques (strategic toolkits) such as SWOT analysis and Porter’s five forces model.

4.3.3 Recommendations based on “SA business environment as a precondition of failure (factor 3)

Reflecting on the previous chapters, it becomes absolutely important to highlight that most researchers in the failure phenomenon concur that small businesses are at the helm of economic growth and job creation (Levine, 1998:5; Sunter, 2000:23; Van Eeden et al., 2003:13; Nieman, 2006:12). So the vital support of the government to provide a nurturing environment for the SMMEs cannot be overstated. As much as the inordinate supportive work provided by the South African government for the subsistence of the small businesses should not be overlooked, it also is imperative that the policy makers consider the red tape and burdensome regulations imposed on the SMMEs.

On the other hand, the banks and other financiers are constraining business growth and competitiveness, and thus need to reduce their quota systems in order to contribute to the development of small businesses, and therefore increase the chances of a business securing the funding it needs.
4.4 ACHIEVEMENT OF THE OBJECTIVES OF THE STUDY

The main objective of this research was to analyse the causal factors that led to failure of small business start-ups in the Fezile Dabi district and provide good grounds for eradicating the psychological risks of small business start-ups and to also serve as a platform for future research for further investigating the factors that lead to failure. The main objective of this research study has been fragmented into the following objectives, which are to:

• undertake a literature review of the small business failure theories as a framework and background to finding the explanations for failure of small businesses (Chapter 2);

• obtain empirical data from the owner-managers whose businesses have failed about the factors that led to failure of their businesses, and use the data to develop an explanatory model on the small business failures in the Fezile Dabi district (Chapter 3);

• provide recommendations based on the findings of the research (Chapter 4).

4.5 RESEARCH LIMITATIONS

Fouché (2006:116) opines that even in a carefully planned research, potential limitations are often numerous.

4.5.1 Limitations on the research methodology

Scientific research usually requires an experimental sample control, and if there is no sample control in an experiment, the research is usually deemed to have weaknesses. The research design used in this research is the retrospective method for open systems and so no need for the control sample as it is a non-experimental method measuring an event that has already occurred, which is the event of failure of small businesses. The retrospective method is a suitable method for the chosen data. By making use of the random systematic sampling procedure discussed in chapter 3, and the subsequent snowball sampling, inferences and generalizations were reliable for the rest of the Fezile Dabi district as the retrospective method managed to show that the sample was representative of the population from which it was drawn.

4.5.2 Limitations of the research instrument

The questionnaire was structured, and could not afford -managers the freedom to explain more on the reasons why their businesses failed, which acted as a restriction for further explanations. This limitation was partially overcome by semi-structured interviews, although only to a limited few individuals, to elaborate more on what they perceived to be the contributing factors to their
ventures failing. These interviews only served to supplement the questionnaires and offer insights to the researcher. Structured questionnaires can be a constraint especially if some of the respondents have scant education.

In addition, the scantiness of financial resources as well as the time constraint in submitting the mini-dissertation on the part of the researcher is another reason for limitations of this research.

4.6 RECOMMENDATIONS FOR FUTURE RESEARCH

The three failure factors identified in chapter 3 are specific to this research. Since the small business failure process is context specific and circumstantial, research in other locations may reveal factors exclusive and distinctive to the firms concerned. The circumstances differ from country to country and place to place. Future research perhaps needs to turn attention to the likelihood that small businesses that adhere to best industry practices and basic business management principles improve their odds of success and being sustainable.

CONCLUDING REMARKS

Successful businesses are not just about a great idea and working extremely hard, and then expecting success to come tumbling down easily. The reality is that entrepreneurs face a multitude of struggles before success rears its head upon them. The tenacity to overcome challenges is a real determining factor in whether the entrepreneur or the business, ultimately succeed.

Although the failure of small businesses in the Fezile Dabi district might differ in context from other localities, and certain generalisations may be drawn from this research, the failure of three factors identified remain specific to this research in section 4.5. The three failure factors need to be viewed as the challenges befalling the small business start-ups, and immediate attention is sought from the small business government agencies and those responsible for making policies.

This research has established that failure of small businesses essentially emanates from small businesses not adhering to the basic business management principles and lack of leadership integrity and competencies on the part of the owner-managers. It identified the determinant
REFERENCE LIST


ANNEXURES

ANNEXURE A: QUESTIONNAIRE

Section 1: Demographical Information

1. Gender

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1</td>
<td>Male</td>
</tr>
<tr>
<td>2</td>
<td>Female</td>
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</table>

2. Age in years

<p>| | | | |</p>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Under 21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>21 to 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>31 to 40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>41 to 50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>51 to 60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>61 and older</td>
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</table>

3. Nationality/ Race

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</thead>
<tbody>
<tr>
<td>1</td>
<td>African</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Coloured</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Indian</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>White</td>
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4. Highest level of education

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<thead>
<tr>
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<tbody>
<tr>
<td>1</td>
<td>Did not complete high school (Matric)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Senior Certificate (Matric) or equivalent</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>No tertiary qualifications</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Some college / Bachelor’s credits or certificates</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>National Diploma</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Bachelor’s Degree</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Honour’s Degree</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Master’s Degree</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Doctor’s Degree</td>
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</tbody>
</table>

5. Years you have as an entrepreneur / business person

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1</td>
<td>Less than 2 years</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>2 to 5 years</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>6 to 10 years</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>11 to 15 years</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>16 to 20 years</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>21 to 25 years</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>26 to 30 years</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>31 to 35 years</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>36 years or more</td>
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</tbody>
</table>

SECTION A: This section relates to your general views, behaviours and attitudes. Indicate the degree to which you agree with each statement by using the following scale:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly Disagree</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Disagree</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Agree</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Strongly Agree</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A1* Entrepreneurs are born, not made.
A2 Anyone can start a business, what is hardest is surviving and sustaining a venture.
A3* Money is the most important start-up ingredient, other pieces, ideas and talents don’t matter.
A4* If an entrepreneur has enough start-up capital, he or she can’t fail.
A5* Business is not for the faint hearted, you have to be ruthless in order to make it as a business person.
A6 You are tenacious and determined to reach your goals.
A7 You are decisive, able to recommit/commit quickly?
A8 You are intensely competitive in achieving goals?
A9 You are willing to undertake personal sacrifice to achieve your goals.
A10 You are not afraid of conflicts and possible struggles?
A11 You are not afraid of failure
A12 You have intimate knowledge of customer’s needs and wants?
A13 You are market driven.
A14 You are obsessed with value creation and enhancement.
A15 You take calculated risks.
A16 You restless with the status quo and not complacent. 1 2 3 4
A17 You are able to tolerate stress and conflict. 1 2 3 4
A18 You are goal and results oriented. 1 2 3 4
A19 You set high but realistic goals 1 2 3 4
A20 You are aware of your own weaknesses and strengths? 1 2 3 4

SECTION B: This section relates to your core attributes and strategic outlook on leadership. Indicate the degree to which you agree with each statement by using the following scale:

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant managerial competencies such as skills, knowledge or the ability to manage a business exist in my business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>I have the ability to control and delegate tasks.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Skills to deal with human beings (leading, communication skills and team management) are part of capabilities.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>I have the ability to make appropriate decisions when faced with palpable threat/sudden crisis (under duress and stress).</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>I value the different views and opinions of others.</td>
<td></td>
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</tr>
<tr>
<td>If people express criticism, I show my true feelings to the staff, and try to learn from it.</td>
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<tr>
<td>I am able to delegate my business tasks easily.</td>
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<tr>
<td>I maintain a hard attitude towards the people that have offended me at work.</td>
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<tr>
<td>Setting strategic objectives for my company is a practice that exists.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have the propensity to respond adequately to change in my business environment.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My company continually undertakes thorough internal and external situational analysis in order to respond appropriately to the ever changing business environment.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How would you rate the competence of your company to conduct a SWOT analysis? (5 very good; 1 very bad)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has your business conducted a SWOT analysis? If so, how often: Never, Once, Twice, three times or Four times a year.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate your business's financial capacity to implement strategies (5 very good; 1 very bad).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate your commitment to providing financial resources to support the implementation of strategic initiatives (5 very committed; 1 not committed at all).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate your motivation to maintain and support the implementation of strategic initiatives (5 very good; 1 very bad).</td>
<td></td>
<td></td>
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</tbody>
</table>

SECTION C: This section relates to the functional management practices in your failed venture as per your usual business practices. Indicate the degree to which you agree with each statement by using the following scale:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Scale</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you routinely administer policies, procedures, rules and systems designed to improve management control. (1 if YES; 2 if NO)</td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Does your business maintain a policy manual? (1 if YES; 2 if NO)</td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Are your business policies updated on a regular basis? (4 if in the last year; 3 if in the last 2 years; 2 if in the last 3 years/above; 1 if Not at all)</td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

80
SECTION D: This section relates to the handling of your failed business venture’s financial affairs. Indicate the degree to which you agree with each statement by using the following scale:

<table>
<thead>
<tr>
<th>Scale</th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate the relevance of your business’s policies to the current business activities. (4 very relevant; 1 not relevant at all)</td>
<td>1 2 3 4</td>
<td></td>
</tr>
</tbody>
</table>

D1 Do you keep your own financial statements? 1 2
D2 Do you make use of consultants? 1 2
D3 Do you undertake a routine, timely review and analysis of your financial statements? 1 2
D4 Do you conduct your monthly cash flow of the business? 1 2
D5 Do you manage your working capital effectively and efficiently, making sure you always have surplus cash on hand? 1 2
D6 How often do you draw your financial statements? Scale: 0 if Never, 1 if Once/yr, 2 if Twice/yr, 3 if Thrice/yr, 4 if Quarterly or 5 if Monthly 0 1 2 3 4 5

SECTION E: This section relates to your failed business venture’s budgeting practices. Indicate the degree to which you agree with each statement by using the following scale:

<table>
<thead>
<tr>
<th>Scale</th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does Budgeting play any role in your company?</td>
<td>1 2</td>
<td></td>
</tr>
<tr>
<td>Do you set any strategic or financial objectives for your business?</td>
<td>1 2</td>
<td></td>
</tr>
<tr>
<td>Have you established any long-term planning in your business?</td>
<td>1 2</td>
<td></td>
</tr>
<tr>
<td>How often do you do planning (e.g. to allocate resources) for monitoring and control in your business? Scale: 0-Never, 1-Once/yr, 2-Twice/yr, 3-Three times, 4-Quarterly, 5-Monthly/</td>
<td>0 1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

SECTION F: This section relates to your failed business venture’s marketing practices. Indicate the degree to which you agree with each statement by using the following scale:

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>My business relies on the word-of-mouth for my products/services promotions.</td>
<td>1 2 3 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have a Customer Relationships Management system in place.</td>
<td>1 2 3 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I perform other after-sales services for my customers.</td>
<td>1 2 3 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintaining customer relationships is very important in my business.</td>
<td>1 2 3 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>My customers recommend me to others.</td>
<td>1 2 3 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you use any other marketing or sales promotion avenues? How often: 0-Never, 1-Once/yr, 2-Twice, 3-Three times, 4-Quarterly, 5-Monthly</td>
<td>0 1 2 3 4 5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### SECTION G:
This section relates to your failed business venture’s management of operations. Indicate the degree to which you agree with each statement by using the following scale:

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>Disagree</td>
<td>Agree</td>
<td>Strongly Agree</td>
<td></td>
</tr>
<tr>
<td>G1</td>
<td>I do continual improvements of efficiencies in my business operations.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>G2</td>
<td>I continually seek out ways to eliminate costs in my production processes.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>G3</td>
<td>I manage my inventory/stock effectively.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>G4</td>
<td>I continually improve my business equipment.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>G5</td>
<td>I have developed quality standards and systems to ensure quality control?</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

### SECTION H:
This section relates to your failed business venture’s management of human resources. Indicate the degree to which you agree with each statement by using the following scale:

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>Disagree</td>
<td>Agree</td>
<td>Strongly Agree</td>
<td></td>
</tr>
<tr>
<td>H1</td>
<td>I have an effective Human Resources Management system in place.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>H2</td>
<td>I have formal hiring and selection systems in place to ensure effective recruitment and selection of employees.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>H3</td>
<td>I develop my employees by training and involving them in decision making.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>H4</td>
<td>I have systems in place to ensure employee retention, so that I don’t lose them to competitors.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>H5</td>
<td>I offer certain sorts of rewards to employees with outstanding performance.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>H6</td>
<td>My staff compliment is in alignment with my business needs, i.e not under-staffed or over-staffed.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>H7</td>
<td>My staff is trained to perform their duties in a manner required by my business needs.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>H8</td>
<td>There are performance–linked rewards/or equivalents offered to employees for outstanding performance.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>H9</td>
<td>How often do you do performance appraisals to evaluate employee performance? Scale: 0-Never, 1-Annually, 2-Bi-annually, 3-Quarterly, 4-Monthly.</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>H10</td>
<td>Rate your human resource capability to manage and implement a change process or new strategic direction (5 very good; 1 very bad)</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

### SECTION I:
This section relates to your general views regarding the South African business environment. Indicate the degree to which you agree with each statement by using the following scale:

<p>| Scale | 1 | 2 | 3 | 4 |</p>
<table>
<thead>
<tr>
<th></th>
<th>Very bad</th>
<th>bad</th>
<th>good</th>
<th>Very good</th>
</tr>
</thead>
<tbody>
<tr>
<td>I1</td>
<td>How would you rate the support of the government towards the development of SME’s?</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>I2</td>
<td>How would you rate the lending practices of the funding institutions in South Africa?</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>I3</td>
<td>Overall, how would you rate the SA business environment, as a</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Scale</td>
<td>1</td>
<td><strong>YES</strong></td>
<td>2</td>
<td><strong>NO</strong></td>
</tr>
<tr>
<td>-------</td>
<td>---</td>
<td>---------</td>
<td>---</td>
<td>-------</td>
</tr>
<tr>
<td>I4</td>
<td></td>
<td><strong>Do you consider the red tape to be a disincentive and stumbling block to aspiring entrepreneurs in this country? (1 if YES; 2 if NO)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEXURE B: EDITOR’S LETTER

12 November 2015

TO WHOM IT MAY CONCERN

Re: Letter of confirmation of language editing

The dissertation A retrospective analysis of the major determinants of start-up failures in the Fezile Dabi District by MG Morebudi (24031410) was language, technically and typographically edited. The citations, sources and referencing technique applied was also checked to comply with university guidelines. Final corrections as suggested remain the responsibility of the student.

[Signature]

Antoinette Bischoff
Officially approved language editor of the NWU since 1998
Member of SA Translators Institute (no. 100181)