

**An Exploration of Factors that Lead to  
Failure of Small Businesses in the Kagiso  
Township**

by

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## DECLARATION

I, the undersigned, declare that this dissertation is my own unaided work. It is submitted for the degree of Magister Technologiae in Business Administration at the University of South Africa. It has not been submitted before for any other degree or examination in any other university.

Signature.....

On this \_\_\_\_\_ day of November 2006.

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## ABSTRACT

This study examines the factors appear to lead to the failure of small businesses in the Kagiso Township. The high failure rate can be partially attributed to the lack of support that the small, medium and micro-enterprises (SMMEs) receive from support institutions as well as to their own internal weaknesses. Strategies are recommended that will help small businesses be more successful.

The study was exploratory, descriptive and qualitative in nature. Semi-structured interviews were used to gather data.

Results indicated that the most common causes of business failure were lack of knowledge regarding legal matters, lack of funding and a general lack of business acumen.

The study recommends that government should improve the effectiveness of its support mechanisms and that record keeping and cash flow management training is critical for SMEs. These recommendations, if applied properly, will ensure small businesses' success in Kagiso and the rest of South Africa.

### List of key words

- High failure rate of small business
- Lack of government support
- Lack of small business knowledge
- Lack of small business commitment
- General lack of business acumen/ and or funding
- Small business training programme
- Small businesses commitment
- Government involvement
- Involvement of financial institutions
- Improvement of support mechanism

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## **CHAPTER 1: INTRODUCTION**

### **1.1 INTRODUCTION**

This study examines the factors that appear to lead to the failure of small businesses in the Kagiso Township. Chapter 1 sketches the background of the research study as well as detailing its problem statement, explaining the purpose and objectives of the study and describing the rationale of the study. The chapter concludes by defining some key concepts, noting some limitations to the study and giving an outline of the research report.

### **1.2 BACKGROUND TO THE STUDY**

Small businesses are the backbone of many economies across the globe. The major challenge is, however, to overcome the high failure rate among these small businesses (Buckley 1998:87; Kinunda-Rutashobya & Olomi 1999:7). In South Africa, where small businesses constitute more than 80% of the business sector, the failure rate is high (Bowler & Dawood 1996:2; Badenhorst, de Cronje, du Toit, Gerber, Kruger, Marais, Strydom, van der Walt & van Reenen 1997:3). On average, 50% of small businesses that are started eventually fail. This failure rate goes up to 80% in some regions (Macleod, as quoted by Ladzani & van Vuuren, 2002:155 and SDBC 1996:22).

Small business development in Kagiso is no exception. Some of the businesses that were started in the early 1990s are no longer in existence. There are also those businesses that are not growing beyond the survivalist stage. The high failure rate can be partially attributed to the lack of support that the small, medium and micro-enterprises (SMMEs) experience. In the past, the South African government did not give enough support to the small business sector. Big business typically received more support than SMMEs. However, this scenario has changed since 1990. The government has since initiated small business

support measures aimed at developing and promoting the SMMEs (Bowler & Dawood 1996: 2). The National Strategy for the Development and Promotion of Small Business in South Africa White Paper was published in 1995. This initiative was followed by the National Small Business Act of 1996.

### **1.3 PROBLEM STATEMENT**

Kagiso is located about 30 km west of Johannesburg in Gauteng. The township has a population of 81 853 people based on an average growth rate of 2.1% from 1996 till 2003. There are a number of residents that are unemployed in this township. Some of the unemployed residents and those who were retrenched mainly from the neighbouring mining industries and firms started their own small businesses in the hope of earning some kind of income. However, these businesses are not flourishing. Too many such small businesses have failed to get off the ground. The question addressed in this study is therefore, "What makes small businesses in Kagiso Township fail?"

### **1.4 PURPOSE AND OBJECTIVES OF THE STUDY**

The purpose of this study is to explore the factors that seem to be responsible for the high failure rate of small businesses in Kagiso. By identifying these factors and understanding their dynamics it is envisaged that strategies can be developed which will help to reduce this failure rate.

The objectives of the study are the following:

- To identify factors that lead to the failure of small businesses in Kagiso
- To develop guidelines for small business owners in order to promote successful business enterprises

## 1.5 RATIONALE OF THE RESEARCH

The rationale for undertaking this study is to provide answers to and probe further so that the study may shed some light regarding the problems experienced by small businesses. The results will help prospective and current SMME practitioners not to commit the same mistakes that have led to failure in the past. It is hoped that this approach will reduce the high failure rate of SMMEs and will lead to their success.

## 1.6 DEFINITION OF KEY CONCEPTS

The key concepts that are used in this study are briefly defined below.

### 1.6.1 Small Business

Different authors define small business differently based on where they are and the requirements of that country. For example, the definition of a small business in the United States is not necessarily the same as in South Africa, especially in terms of size. This study will follow the definition of small business as defined by the National Small Business Act of 1996 of South Africa. This is as follows:

...a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a very small, a small, a micro or a medium enterprise (SMME)...

The White Paper (1995:10) sub-divides small business as follows:

- **Survivalist enterprises** - These are defined as enterprises that engage in activities carried out by people who are unable to find a paid job or get into an economic sector of their choice. These activities

generate income that falls far short of even minimum standards. Little capital is invested and there is virtually no skills training available in the particular field. Only limited opportunities are available for growth into a viable business.

- **Micro-enterprises** - These refer to a very small business, often involving only the owner, some family member(s) and at the most one or two paid employees. These enterprises usually lack “formality” in terms of business licences, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of these enterprises have a limited capital base. The operators of micro-enterprises only have rudimentary technical or business skills. However, many micro-enterprise advance into a viable small business.
- **Small enterprises** – These are regarded as the bulk of the established businesses, with employment ranging between five and 50. The enterprises are usually owned by a manager or are directly controlled by the owner-community. These enterprises are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements.
- **Medium enterprises** – These are still viewed as basically owner/manager controlled, though the shareholding or community control base could be made more complex. They employ a maximum of 200 employees and have about R5 million worth of capital assets (excluding property). These medium-size enterprises face obstacles and constraints that cannot be solved through normal market forces and private-sector action.

### **1.6.2 Spaza Shops**

Sediba – Private Game Lodge (2003) defines a spaza shop as “a traditional name given to a general dealer usually situated in a rural area, which sells a variety of merchandise and curios”. Triple Trust Organisation (2003) regards the spaza market as the domain of the poor (both as owners and as customers) and thus any interventions that improve this market will benefit the business owners as well as the customers who are (by definition) members of disadvantaged communities.

### **1.7 LIMITATIONS**

This study focuses only on the micro-, very small and small sectors of the SMMEs. Medium enterprises are not included in the study.

### **1.8 LAYOUT OF THE CHAPTERS**

This study consists of the following five chapters:

Chapter 1: Introduction

Chapter 2: Literature review

Chapter 3: Methodology

Chapter 4: Results and discussion

Chapter 5: Conclusions and recommendations

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

According to Saunders, Lewis and Thornhill (2000: 44) the literature review forms the framework on which research is based as it helps to develop a good understanding and insight into relevant previous research and emerging trends. Based on the key points drawn out in the literature review, the author will provide the reader with some background knowledge of the research questions and objectives. This will enable the reader to place the research in this paper into context with regard to previously established research on the subject.

### **2.2 FACTORS THAT LEAD BUSINESS TO FAILURE**

There has been some research into the matter of why small businesses fail. Dickey (1994: 197) reports that small businesses fail because more often than not cash flow is not properly managed. The point is made that when a business starts or expands; more money needs to be invested for a while and gives the business owner very little in return. According to Hall (1995: 19), the most well-known set of reasons for failure are the following: one man dominates rather than leading employees and who makes decisions despite their hostility; a non-participating board exists, which reinforces a one-man rule; the top team, with respect to its skills base, is unbalanced; a weak finance function occurs; lack of management depth and no-one above in the combination of chairman and chief executive roles awakes or directs or warns one about any caution. The argument regarding the failing of small businesses is that small businesses will most likely employ poor financial information, respond badly to change and may well overtrade as well as allow their gearing to rise to levels that convert normal business hazards into constant threats.

Buckley (1998: 36-38) reports that in the last quarter of the twentieth century many new businesses were started and still more are failing year by year. Furthermore, business owners may have displayed a good deal of confidence and enthusiasm in opening their business, but they still also experience high mortality rate. Kinunda-Rutashobya and Olomi (1999: 1) state that small and medium-sized enterprises are starting to play an important role in striving to develop businesses throughout most of African countries. The article by the Small Business Advisor (1999: 15-16) also indicates that thousands of businesses fail every year, ranging from small, medium-sized, and big. Most surveys conducted on small business indicate that the primary reasons why businesses fail include bad stock control, bad customer relations, bad personnel relations, lack of staff training and bad budgeting. According to Kuratko, Hornsby, Naffziger and Hodgetts (2000: 2), the US Department of Commerce reported in 1995 that crime and its effects are a major issue for small business owners. The United Chamber of Commerce stated in 1995 that 30% of all small business failures resulted from the cost of employee dishonesty within the business. In addition to this, small businesses are more likely to suffer from business crime than large businesses.

Mambula (2002: 58-61) reports that most small businesses from the 32 small firms studied in Nigeria failed because of lack of training and lack of acquired foreign capital to purchase machinery and small parts. The Nigerian government officials also frequently harassed firms by extorting money from the businesses. Other additional obstacles comprise poor infrastructure, including bad roads, inadequate water shortage, erratic electric supply, and poor telecommunications systems. Lack of these facilities cost most firms higher overheads because they are responsible for obtaining such facilities at their own expense. Mambula further refers to the fact that most government officials in Nigeria expressed the view that policies that were successful in other countries on SMMEs are of little use in Nigeria because of the unique and highly diverse experiences and cultural backgrounds in various parts of Nigeria. Drame, as quoted by Mambula

(2002:61) further adds that implementation of any existing policy can be difficult because of the constant changes in emphasis following government take-over and intergovernmental conflicts. Some of these problems need to be addressed in the future. van Aardt, van Aardt and Bezuidenhoud (2002: 250) identified eight major reasons for the failure of small businesses. These reasons are poor management skills, poor record-keeping, poor money management, and too little effort to market the business, poor planning, poor pricing practices, poor human resource management and the business owner's inability to adapt to the changing demands of a business.

Macleod, as quoted by Ladzani and van Vuuren (2002: 155) believes that a considerable number of small businesses fail just before many of them start to operate. This is caused by lack of preparedness and failing to accurately estimate the cost of starting and running one's own business. Ladzani and van Vuuren (2002: 157-158) emphasise that training alone may not be the only solution that can help small businesses succeed, but that constraints such as the lack of financial resources, lack of access to markets, lack of support services, and low literacy levels should also be addressed.

Drodskie (2002: 19-20) points out that small enterprises, particularly those located in townships and former black areas, face obstacles very different to those located in white areas. Many small business owners around townships have poor credit records. One of the reasons for this is that they don't have easy access to cheque books, which in turn means that in many cases the small business owners are not able to pay their premiums by debit order. This places a heavy burden on the business as it impacts negatively on the cash flow for the particular month in which the premium falls. Instead, they are required to pay the annual premium up front. Furthermore, Drodskie (2002) adds that small business in township and former black areas face difficulties because of lack of title deeds to property. Drodskie points out that ownership of property will be one

of the most effective ways to boost the business owner's capability in a specific small business organization.

### **2.2.1 Small business environment in South Africa**

In South Africa everyone has the opportunity of going into business. Bekker and Staude (1996: 17) emphasise that the worst that can happen is that one fails through one's mistakes. Thus, learning in small business is the essential fuel for the small business owners as leaders, the source of high-octane energy that keeps up the momentum by continually sparking understanding. Research into the small business sector in South Africa has still recently been insufficient and inadequate, and this has hampered the development of the sector. According to Business Connexion (2004), during the Apartheid years South Africa's small business economy was either neglected by policy-makers or, in the case of black-owned enterprises, actively discouraged by repressive measures. Small enterprises were wiped off the research agenda of most business schools. The Trade and Industrial Policy Strategies (Tips) research study on the economics of small, medium and micro-enterprises in South Africa concluded that research in the area was sorely lacking.

Business Connexion (2004) further reports that the volume of research that has been conducted over the past ten years on small business has neglected two important points: policy implementation and an understanding of the economics of the sector. The Tips report states that any policy decision concerning small business requires accurate information about numbers, size, structure, the state of the economy and contribution to the economy. The potential of small businesses for economic empowerment can only be estimated with a sense of the share of the previously disadvantaged individuals in the ownership of the enterprises. Since there appears to be a huge information gap regarding information on small businesses in South Africa and the question of why they are failing, the researcher felt that this lacuna in the field presented an ideal

opportunity to initiate some research into this field and hence the current study. The information required was gathered in the Kagiso chamber of commerce.

### **2.2.2 Understanding small business**

When understanding a small business one needs to know what the customer needs are. Resnik (1988: 48) emphasises that what all customers want from small businesses can be classified into categories, namely goods and services that work, benefits for customers that are either better than those of the competitors or different, and better services. Resnik (1988: 183) states that the purpose of understanding small businesses is to find the management direction and control of the business as well as improving the business and realizing hidden profit potential. The business owner is often out of touch with the needs of the business and therefore thoroughly unable to attend to those needs, unless they really know what is happening in all areas of the business. Pickle and Abrahamson (1990: 20-21) note that profit is regarded as an essential product of the business. Profit is the measure of the success of business organizations: it provides owners with the funds that they need to provide for the standard of living they desire for their families, it serves as the salary of the owner-manager, and it provides at least a part of the resources necessary for the stability and growth of the business. Business owners of a small business earning a profit are kept motivated, and this type of motivation is only one reward of many that small business owners may receive from running a successful small business.

Bekker and Staude (1996: 16) believe that everyone should be reminded that no business starts on its own or runs by itself. It always requires initiatives on the part of someone, and if the idea is not saleable and if the profit does not benefit the consumer and the owner, then it is a waste of time. They labour the point that ideas need to be put into practice. According to Longenecker, Moore and Petty, (2003: 372) the concept of consumer behaviour can help a small business owner better understand customers who must be seen first and foremost as human beings. Thus, a small business owner should attend consumer behaviour courses offered at many

local educational institutions. This course is based on three interrelated aspects: the decision-making process, psychological influences, and sociological influences. This model of consumer behaviour views consumers as problem-solvers.

## **2.3 PROBLEMS THAT HINDER SMALL BUSINESS DEVELOPMENT**

Siropolis (1990) states that small businesses fail because they are not prepared to handle increased managerial demands. Small businesses with ten employees generally have virtual control over everyone and everything under them. But small businesses must rely on more sophisticated ways to plan and control their business once they grow. Murphy (1996) believes that service organizations often find themselves locked in a problematic dialogue with their environment. Sometimes this centres around the issues of the outcomes, sometimes on the question of resourcing and funding.

In the article "Theory and Practice" (2004), it is said that corruption and bureaucracy are the biggest problems that hinder the development of small businesses and inflow of foreign investments in Georgia. According to the surveys conducted by various international organizations, Georgia ranks high among the countries with serious problems in corruption. Corruption rears its head everywhere, at every level of government. This can lead to both local and foreign investors wasting their resources. Several factors seem to favour the development of corruption in Georgia: there is an excessively overstuffed bureaucracy, which creates serious barriers for businessmen; government officials earn very low salaries; there is a corrupt mentality inherited from Soviet times; and corrupt court and judicial systems. It is thus evident that these factors play a major role in Georgia in hindering small businesses from developing.

### **2.3.1 Poor planning**

According to Bekker and Staude (1996: 126), one needs to begin with a clear understanding of a manager's tasks and responsibilities if professional competence is

to be developed. These managerial tasks are planning, organizing, leading and control. Managers fail to plan because of their ignorance and lack of vision (i.e. not knowing what to plan for and believing that careful thought about the business's future will reveal new problems to be faced); lack of specific objectives and ideals; lack of information on which to make assumptions about the future as well as lack of self-discipline and the inability to stay close to the goals they have set. Burns and Dewhurst (1996: 49) state that most small businesses fail because their plans are sales-oriented and they need a transition in outlook in order to meet customer needs. Since small business owners do not have management training, they end up planning poorly or have no plan at all.

### **2.3.2 Lack of small business management education (training)**

Much has been written about the lack of small business management skills. As pointed out by Pickle and Abrahamson (1990: 116), most small business owners are not informed about the legal aspects concerning business and failure to do so can result in financial losses or even the failure of business. Keasey and Watson (1993: 139) provide evidence that one of the major characteristics of small businesses is that the owners have a large stake in the business and a relatively undiversified wealth portfolio. As a result, any business risks are likely to be translated into personal risks for the owner. Moreover, the small business management team often lacks experience and expertise, and these businesses frequently have to depend on a few individuals, often without the support of a formal management or career structure.

Murphy (1996: 13-14) believes that the reason could be mismanagement of human resources, weak pressure of or no trade unions in small business management, which might deprive disputants of the opportunity for reconciliation and the airing of grievances outside the courts. Other primary issues faced by small business would be the attitude of many managers that the business is rooted in their own personality and is therefore personality-driven, i.e. "I am the business; the business is me syndrome". In this case, small business owners are displaying limited ability to

manage financial resources, and have too much informal, fragmented and subjective managerial control. In addition, they tend to be too task-, product- and sales-oriented, to the detriment of their staff, customers and business in general. Longenecker et al. (2003: 447) found that between the extremes of very unskilled and highly professional business owners there was a continuum. At the less professional end of this continuum are business owners and other managers who rely largely on past experiences, rules of thumb and personal whims in giving direction to their businesses. Other business owners and managers display much more professionalism. They emphasise getting the facts and working out logical solutions, which is a more scientific approach. Therefore the challenge for small businesses is to develop as much professionalism as possible.

### **2.3.3 Lack of employee satisfaction**

According to Hubbard and Hailes (1988: 64), a serious problem facing small businesses is working with or hiring family members into the business. A business may not show a profit for the first period of operation. And yet, the funds may be used to cover family obligations such as food, clothing, shelter, education, medical expenses and emergencies. On the other hand, Pickle and Abrahamson (1990: 34) report that some families have no clear specifications of who is in charge of daily operations, and as a result potential for conflict is created. At other times, relatives may be hired, but they may not have the necessary job skills. Chapman (1994: 120-1) points out that it is not ethical for owners to take employees for granted. For example, small business owners become sensitive, positive, helpful, team leaders but do not become so much a part of the team showing leadership. On the other hand, many small business owners wrongfully assume that loyal, dependable employees will continue to produce without receiving credit. This assumption arises from the attitude that owners believe that they are doing their employees a favour. Longenecker et al. (2003: 390) argue that if small business owners do not create an environment that encourages personal interaction, employees will never do their best in helping the business prosper. Another point regarding employees is that if there is no openness

of owners towards employees, the employees will not fully trust the owners and will not show full responsibility on their job. Longenecker et al. (2003: 415) warn that employees in small businesses often learn by trial and error (which frequently wastes time, material and money) if the owner of the business fails to provide training.

#### **2.3.4 Lack of customer relations**

According to the article by The Small Business Advisor (1999: 58), most small businesses fail because of lack of daily contact with customers, lack of special promotions, price changes, and lack of new product features. That is why the customers may be the first to hear about significant changes in the competitors' distribution network.

One of the most important groups of stakeholders that a business must satisfy is its customers. However, building and maintaining a base of loyal customers is no easy task. It requires more than just selling buyers a product or a service; the key is to build relationships with customers. According to Scarborough and Zimmerer (2003: 374-6), the following factors influence customer relations: right to safety, right to know, right to be heard, right to education, and right to choice. In terms of right to safety, there will be no trust in small business owners if they do not provide customers with safe, quality products and services.

With regard to the right to know, i.e. information, small businesses that rely on corrupt pricing tactics and provide a poor quality product and/or service may profit in the short term, but will not last long if they do not inform customers properly and do not involving them in decision-making. Another factor that plays a role is the ability and willingness to solve customer complaints. If there is no mechanism in place to resolve the complaints of the customers there will be a breakdown in communication between the small business owner and the customer. In addition, if there are no education programmes in place regarding the proper use of products, customers will become dissatisfied. Lastly, few

customers will be retained if they do not have the right to choose among competing products and services.

### **2.3.5 Lack of budget management**

Keasey and Watson (1993: 230) argue that small businesses face problems in terms of using a discounted cash-flow approach to capital budgeting. Based on this, there is little doubt that most small businesses have access to limited sources of capital. Dickey (1994: 14) points out that the challenges facing a start-up business are in terms of expanding the customer base, becoming a survivor and learning the business. New business owners have to have enough finance available to make this happen. Most start-ups, especially those without experience, have no historical base according to which they can make financial projections. However, in some cases this forces them to go and conduct some research by going to libraries, doing informal research, and looking at how other competitors run their businesses.

### **2.3.6 Lack of technology**

As mentioned by Keasey and Watson (1993: 229), small businesses that are contemplating purchasing new technology have great difficulties since they don't have enough knowledge and the high opportunity cost of scarce management time, in isolating the cash flows pertaining to the project. Jones and Tilley (2003:8) explain that many small firms lack time, resources, technology or expertise to research and develop new business ideas and innovations. This weakness can become a critical factor limiting growth and expansion in small businesses.

### **2.3.7 Poor location (infrastructure)**

Pickle and Abrahamson (1990:167) argue that it is not unusual for a small business owner to select a location based primarily on convenience or cost. A location may be chosen because of the availability of a vacant building, proximity to the owner's

residence or low rent. One of the reasons why small businesses fail is because they select a site for their business without first making a thorough analysis of the overall location's potential for the business's survival and growth. According to Siropolis (1990: 228), the importance of location is determined by the type of the business, proximity of the business to its customers, i.e. must customers travel to the business or must the business owner travel to the customers. Other factors to be considered are whether the business offers a special product or service with little direct competition, and whether convenience is the key selling point in what the business offers to customers. Siropolis (1990: 229) notes that poor location may be caused by a supermarket or any other competing small business enterprise being located close to the new small business.

According to Longenecker et al. (2003: 271), the importance of the location decision is underscored by the costs and impracticality of pulling up stakes and moving an established business if the decision on the location proves to be wrong. Based on this, if the choice of location is particularly poor, the business may never be able to get off the ground, even with adequate financing and superior managerial ability. In the article by All Business: Champions of Small Business (2004), the above view is corroborated and mention is made of the fact that even the best restaurant or retail store will fail if it is in the wrong place. It is important to consider factors such as traffic (how many potential customers pass the business during the course of an afternoon or evening) and convenience (how hard is it for the regular customers to get to the location on a regular basis) when scouting for a location for a business.

### **2.3.8 Lack of inventory management**

The larger the size of the inventory, the larger the storage facilities must be to accommodate the merchandise. Some inventories are perishable, and larger inventories of these items usually result in some losses due to spoilage. Pickle and Abrahamson (1990: 446) believe that an organization will significantly increase its costs if it does not carry out good inventory control. They mention the case of one

small retail appliance store that discovered that it had several dollars' worth of appliances that were covered with other merchandise in a crowded storeroom for several years. The appliances were out of style by the time they were discovered and had to be sold at a loss. In addition, poor control of inventory encourages employee theft and prevents business from recognizing shoplifting problems or even knowing how much is being lost due to theft. Murphy (1996: 194) believes that the size of a firm's inventory affects the cash flow, which in turn can have an effect upon a chain of related functions and processes. This means that cash that is tied up in inventory cannot be recovered if the inventory is spoiled. According to Longenecker et al. (2003: 515), carrying costs include storage costs, insurance premiums, the cost of money tied up in inventory, and loss due to spoilage or obsolescence. However, maintaining inventory at an optimum level - the level that minimises stockouts and eliminates excess inventory - saves money and contributes to operating profits.

### **2.3.9 Financial challenges in starting up**

According to the article by The Small Business Advisor (1999: 18), starting a business can have the following disadvantages:

- Costly trial and error
- Lack of proven record regarding other businesses
- Recruitment of employees
- Time-consuming and frustrating

According to Jones and Tilley (2003: 4), new businesses encounter a number of barriers to success throughout the start-up period and during their first year of operation. Firstly, there might be a lack of motivation, government controls as well as a lack of skilled labour. Secondly, poor financial management can be a serious obstacle when starting a business. Finally, a poor understanding of tax, VAT, national insurance and bookkeeping, as well as difficulties in obtaining capital and the absence of guaranteed income also present serious problems in start-up businesses.

### **2.3.10 Lack of financial support**

Keasey and Watson (1993:15) believe that in terms of small business financing, a number of issues need to be considered if progress is to be made in understanding how financing issues affect the success/failure of these businesses. First, there is a need to understand how finance is provided and used in situations of low information concerning future business value. The problem is that the typical small business operates in a low information and highly uncertain environment. More specifically, there is a need to understand how banks or financial institutions offer finance and how investors decide to invest in new ventures when the information they have is highly imperfect and incomplete. According to Murphy (1996:16), there is the question of whether the allegation is true that government has done little to support small business in South Africa. The nature of government support has been the subject of much small business discourse. The accusation, which the government has been anxious to address, is that support has been piecemeal and has lacked coherence. It has also been argued that there has been limited financial support, a lack of coherence regarding policies and procedures and that multi-agency provisions have done little to help small businesses.

According to one article (Baltic Sea Region, 2004), most small businesses suffer from a shortage of capital that mainly reflects defects in the supply of finance available to them through the market and in the methods of financing used. There are a number of reasons why financial markets do not work perfectly as far as small firms are concerned. For example, the main obstacles being faced currently in Russia are a lack of development of finance and credit services, reflecting poorly developed financial markets and a lack of knowledge on the part of small business managers of some of the contemporary methods of financing. Small firms face an underdeveloped commercial market for loan finance, combined with a lack of effective participation by government in supplying finance to small firms, either directly or indirectly by offering guarantees.

### **2.3.11 Lack of managing cash flow**

van Aardt et al. (2002: 252-3) argue that making and receiving payments is at the heart of a business, so it is essential to have a system that is optimised to maximise cash flow and manage information accurately. There are various reasons why businesses experience cash-flow problems. The above authors mention four factors that affect small businesses: slow-moving or excessive stock (which gives rise to poor stock or inventory management); too generous credit terms; cash wasted on unprofitable products and services; and unnecessary expenditure (money spent on buildings, houses, machines, luxury cars or their salaries). According to Longenecker et al. (2003: 298), cash-flow problems are a frequently expressed concern of small business owners. They believe that if a small business owner does not understand how decisions impact cash flow they are almost surely destined to fail.

McGregor (2004) discovered that many owners of businesses cannot genuinely tell where their hard-earned cash has gone, let alone predict where it will be going in the future. In terms of cash flow, you need to know how to track the money coming into and out of your business - even a profitable venture will flounder if it runs short of cash. In addition, you must learn to make cash-flow projections that will help you decide how much money you can afford to spend and warn you of impending trouble. If small business owners do not take cash flow into consideration their businesses will not flourish (All Business: Champions of Small Business, 2004).

### **2.3.12 Poor crime management**

According to Resnik (1988: 156), the American Management Association (AMA) estimates that up 20% of businesses fail each year because of fatal crime losses. This serious problem of theft can befall a business from any source, be it from a professional criminal, a customer, a supplier, or an employee. The pressure

points and vulnerabilities to theft vary with the kind and size of the business. On the other hand, Hodgetts and Kuratko (1998: 581) focus more on the internal crime in small business. According to their study, this is caused by the following factors:

- Hiring personnel without a careful background check or employment references
- Failure to enforce strict, uniform rules for even minor infractions
- Failure to establish a climate of trust, confidence, and respect for employees as well as incentives for outstanding and honest performance
- Failure to apply techniques that will thwart opportunities for employee theft
- Cost-cutting measures

## **2.4 CONCLUSION**

This chapter has highlighted some of the factors that contribute to the failure of small business, namely poor planning, lack of small business management education (training), lack of employee satisfaction, lack of customer relations, failure to manage a budget, lack of using technology, poor location (infrastructure), lack of inventory management, lack of financial support, lack of managing cash flow and poor crime management. The purpose of this literature review was to identify key factors that play a role in the failure of small businesses. An important point that should be kept in mind throughout this discussion is that information about the running of businesses should be made more readily available and that the existing structures of business information need to be revisited.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 INTRODUCTION**

This chapter focuses on the research methodology used in order to understand why small businesses in Kagiso are failing. The aim of this study is to investigate the factors that lead to the failure of small businesses and to examine how small business owners feel about this phenomenon.

### **3.2 RESEARCH DESIGN**

The study is exploratory, descriptive and qualitative in nature. This method was used to gain an insight into the research problem and to identify factors that lead to the failure of small businesses. The researcher will then be able to suggest some guidelines which will help to formulate alternative strategies to ensure the success of small businesses. According to Strauss and Corbin (1998: 11), qualitative research “is the research about persons’ lives, lived experiences, behaviors, emotions, and feelings as well as about organizational functioning, social movements, cultural phenomena, and interactions between nations. This method is used to explore substantive areas about which little is known or about which much is known to gain novel understandings”. Marshall and Rossman (1999: 2) define qualitative research as “intrigued with the complexity of social interactions as expressed in daily life and with the meanings the participants themselves attribute to these interactions. This interest takes qualitative researchers into natural settings rather than laboratories and fosters pragmatism in using multiple methods”. Thus, in this study the researcher used qualitative research methods to evaluate the experiences faced by small business owners in Kagiso.

### **3.3 RESEARCH METHODOLOGY**

#### **3.3.1 Introduction**

Research methodology covers type of research, population, sampling, data collection, data analysis, reliability and validity of the study. The research format employed in this study is inductive, in other words data, is collected and a theory is developed as a result of the data analysis.

#### **3.3.2 Methodology**

According to Durrheim (1999: 43), an inductive method proposes “an immersion in the details and specifics of the data to discover important categories, dimensions and interrelationships and begins by exploring genuinely open questions rather than testing theoretically derived (deductive) hypotheses.” Elaborating further on this he says, “The researchers’ purpose is to study phenomena as they unfold in real-world situations, without manipulation, to study phenomena as interrelated wholes rather than split up into discreet predetermined variables, then an inductive, qualitative approach is required.” Moreover, Durrheim (1999) argues that in common usage, qualitative research serves to inductively explore phenomena and at the same time provide a detailed description of phenomena.

According to Tuchman (1994: 306), this assumes a way of looking at phenomena that specifies how a method “captures an object of study.” On the other hand, an inductive format seems appropriate since the main purpose of this study is to develop a model and/or theory that explains how small business owners experience failure in their businesses and how this phenomenon shapes their behaviour and feelings towards the success of their business.

### **3.3.3 Population**

The study looked at SMMEs in Kagiso and focused on a population that included survivalists, micro- and small business enterprises. Melville and Goddard (1996:29) refer “to a population as any group that is the subject of research interest”. According to Welman and Kruger (2002: 46), a “population is the study object, which may be individuals, groups, organizations, human products and events, or the conditions to which they are exposed”. The size of the population usually makes it impractical and uneconomical to involve all members of the population in a research project and thus a sample of the population is usually taken. In this case the research conducted focused on the data obtained from a sample of the population. In this research study, the population studied included small businesses in Kagiso and generalizations were made with specific reference to that community.

### **3.3.4 Sampling**

The method of cluster sampling was used in this study. In accordance with this sampling technique, the small business sector was subdivided into survivalists, micro- and small businesses. Melville and Goddard (1996: 32) define cluster sampling as “a sampling that subdivides the population into subgroups called clusters”. Purposive sampling was used to choose units of analysis in all clusters. Ten units were used in an interview in each of the three clusters. According to Kidder and Jud (1987: 154), a common strategy of purposive sampling is to pick cases that are judged to be typical of the population in which one is interested. For example, this study concentrated on spaza shops, restaurants and supermarkets and thus excluded other small businesses such as doctors’ surgeries, car washes, garages and other professional services.

### **3.3.5 Data Collection**

Firstly, small business owners were approached in their specific zones where they operate in Kagiso. Each individual small business owner was given a letter of permission to sign. This letter stated the purpose of the interview, and issues relating to confidentiality, privacy and anonymity were explained. Semi-structured interviews were used to gather data. This method extracted the required information needed in order to explain why small businesses are failing. May (1997: 111) states that “semi-structured interviewing refers to “a manner in which the interviewer can seek both clarification and elaboration on responses given, and this gives the interviewer to have more latitude to probe beyond the answers and thus enter into a dialogue with the interviewee.” Thus, by using semi-structured interviews the researcher can probe further in order to get more information from the interviewees, because neither the interviewer nor the respondents are confined to any specific questions and responses.

The interviews were audio-taped and observations were made during the interviews which were noted down. Each individual business owner was interviewed based on the cluster where he or she belonged. In some instances the interviews were conducted in their local languages because some of them were not comfortable expressing themselves in English. Each interview took about 10 to 20 minutes. Data collection took six weeks.

### **3.3.6 Data analysis**

The qualitative method of grounded theory was applied, and theoretical sampling and constant analysis was done. According to Strauss and Corbin (1998: 12), grounded theory “is theory that was derived from data, systematically gathered and analysed through the research process.” In this method, data collection, analysis, and eventual theory stand in close relationship to one another. As Welman and Kruger (2002: 29) mention, in grounded theory the phenomenon

being studied should first be observed and systematically described, and by so doing this will help unravel relationships and patterns in order to eventually formulate a theory.

Pidgeon (1996: 78) elaborates more on this theory and says that, grounded theory uses two fundamental analytical methods which differentiate it from other methods of content analysis. These methods are referred to as constant comparison and theoretical sampling. With regard to constant comparison, one has to continually shift and compare elements (e.g. basic data, cases, emergent categories and theoretical propositions) for as long as the research project continues to exist. Whereas, with theoretical sampling as an analytical tool in grounded theory, the active analysis of the new cases should continue, as long as these (i.e. new cases) emerge as the project continues. Neuman (1994: 357) defines theoretical sampling as “taking a smaller, selective set of observations from all possible observations”.

The research data was analysed in a tabular form and a coding system was applied to those categories (survivalists, micro- and small businesses) and themes contained in the questionnaire. According to Marshall and Rossman (1999: 155), coding data refers to “the formal representation of analytical thinking”. It was felt that grounded theory suited this research project best and would provide a good means of extrapolating and interpreting the data. Also, given the nature and complexity of the subject being studied, grounded theory would yield the most information. In this research paper, data collected was classified into ten interview questions supported by sub-questions.

### **3.3.7 Reliability and validity of data**

Mellville and Goddard (1996:37) define reliability as “consistency of measurements whereas validity as an instrument that measures what they are supposed to measure which is correct.” Hussey and Hussey (1997: 57) regard

reliability as “the instrument which measures the repetition of the research findings”, whereas validity as the extent to which research findings accurately represent what is really happening in the situation.

For the purpose of the reliability and validity of the data, the following measures were undertaken:

- A pilot study preceded the actual interviews. Two survivalists, two micro- and two small businesses were interviewed for this pilot study.
- The business owners were each given a cover letter explaining the nature of the research project.
- They also were given a follow-up letter in which the business owners were assured of the privacy and confidentiality of the information they provided as well as guaranteeing their anonymity.
- A cluster sample was used because in the population there are survivalists, micro- and small businesses. When one has a group of heterogeneous respondents or elements with common characteristics they can be treated as separate clusters.

### **3.4 CONCLUSION**

In this chapter the methodology and design used for the study were discussed. The reasons for choosing these designs were given and the importance of exploration was outlined. The means and method of data collection including the development of the tool used were thoroughly discussed.

The problems encountered in gathering data included the type of language respondents use, other small businesses responding negatively to the study and

delays with regard to appointments with respondents. In addition to this, of the 14 small businesses which were selected, six of them refused to be interviewed. This affected the results. The refusal to provide the researcher with any information by these small businesses was caused by lack of trust as well a reluctance to disclose the manner in which they run their businesses for fear of competition. Even though the researcher explained that the information provided would remain confidential and anonymous, this did nothing to allay their fears and shed their distrust of the project. One of the small business owners interviewed did not want to be audio-taped. Because of the unknown response from small businesses, the sample drawn is not large enough to make a generalization to the entire small businesses as compared to the other two sub-sectors (i.e. survivalists and micro-enterprises).

The next chapter will give detailed results and discussions according to each cluster.

## **CHAPTER 4: RESULTS AND DISCUSSION**

### **4.1 INTRODUCTION**

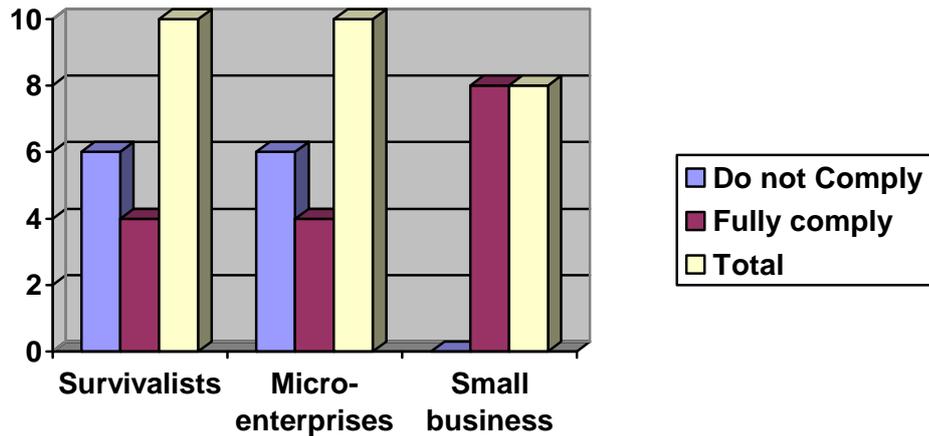
The goal of this study was to determine factors contributing to the failure of small businesses around Kagiso Township. This chapter reports on the findings of the interviews conducted and provides an analysis of the data. The following points are covered: lack of legal requirements, failure to manage finance, poor stock control, failure to manage crime, failure to grant credit to customers, poor staff relations and lack of infrastructure.

### **4.2 LACK OF LEGAL REQUIREMENTS**

The three clusters of small businesses that were introduced revealed the following results: only 40% of the survivalists responded that they were given a letter of permission to run their business. 40% of the micro-enterprise as well as 100% of the small businesses indicated that they were licensed. These results are shown in figure 4.1. Based on the findings, the researcher noted that the literature supports these findings, i.e. how small businesses very often do not comply with legal requirements. Pickle and Abrahamson (1990: 116) state that small businesses such as survivalists and micro-enterprises experience difficulties in running their businesses properly. However, failing to register can be attributed to the lack of information in this regard from the government. As identified by Drodskie (2002: 19), survivalists and micro-enterprises also lack title deeds to property, and only small businesses such as supermarkets run their businesses properly because most use title deeds for their business properties which enable them to know more about the licence needed in running the business. Therefore, based on the results of the study with regard to the legal requirements, the researcher concludes that one of the reasons most survivalists and micro-enterprises fail is because there are not enough support mechanisms

in place from the government that provide business owners (survivalists and micro-enterprises) with information about registration and licencing.

**Figure 4.1: Lack of Legal requirements**



### 4.3 FAILURE TO MANAGE FINANCE

In this section record-keeping, start-up financing and budgeting of small businesses are covered.

#### 4.3.1 Records

Table 4.1 indicated that 20% of the survivalists, 40% of the micro-enterprises, and 100% of the small businesses keep records. The results support the literature that most of the survivalists and micro-enterprise do not keep records. As van Aardt et al. point out (2002: 250), poor record-keeping is evident in small businesses. However, in this study the researcher has come to the conclusion that most of the survivalists and micro-enterprises fail because they are not well informed or do not have any training in record-keeping. Only small businesses such as supermarkets keep records since most of them use bookkeepers.

**Table 4.1: Finance – keeping of records**

<b>Description</b>	<b>Survivalists</b>	<b>Micro- enterprises</b>	<b>Small businesses</b>
<b>Finance</b>			
Keep records	2	4	8
Do not keep records	8	6	0
<b>Total</b>	<b>10</b>	<b>10</b>	<b>8</b>

#### 4.3.2 Start-up finance

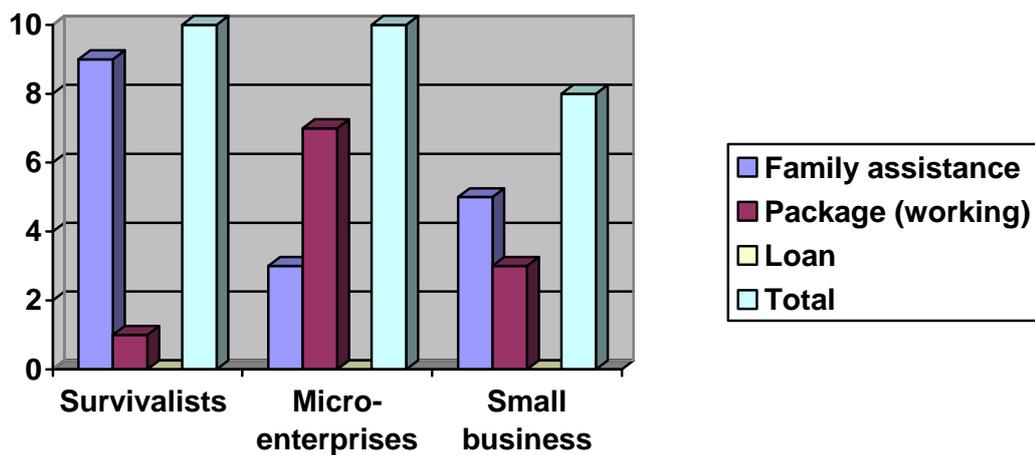
Figure 4.2 indicates that 90% of survivalists, 30% of the micro-enterprises and 62.5% of small businesses interviewed reported that they use money they have obtained from their families. The family includes parents, husbands, brothers or sisters who are working or worked before and had money in their savings. The rest of the results indicate that 10% of the survivalists, 70% of micro-enterprises and 37.5% of the small businesses use cash from their package (earnings on retrenchment). All small business owners reported that they did not have savings or a loan from a financial institution that they use. The findings support the literature that the small business starters experienced problems obtaining loans to start up their businesses.

According to Jones and Tilley (2003: 4) and Dickey (1994: 14), most start-ups, especially those without experience, have no historical base for financial projections. Thus in order to find the information they need to run their business, they are forced to visit libraries, conduct some informal research, and look at how other competitors run their businesses.

According to the article by The Small Business Advisor (1999: 18) and Jones and Tilley (2003: 4), starting a business can present serious problems due to the

difficulties of obtaining a loan from financial institutions. Macleod cited in Ladzani and van Vuuren (2002: 155) also underlined the fact that a considerable number of small businesses fail because of a lack of preparedness. They also fail to accurately estimate the cost of starting and running the business. Based on the results of the study, the researcher has come to the conclusion that most small business owners starting their business do not obtain loans due to lack of trust from the financial institutions, lack of good track record as well as a lack of business skills. This lack of financial support contributes to the failure rate of small businesses.

**Figure 4.2: Start-up finance**



### 4.3.3 Budgeting

Table 4.2 indicates the following results reported by various small business owners in each cluster on how budgeting on sales, expenses, staff and stock is carried out.

#### \* Daily budget

According to the results, 10% of the survivalists and 30% of the micro-enterprises plan their budget daily whereas none of the small businesses do their budget on a daily basis.

#### \* Weekly budget

A weekly budget is only carried out by 20% of the survivalists and by 62.5% of small businesses. None of the micro-enterprises conduct a weekly budget.

#### \* Monthly budget

According to the results, 50% of the survivalists and 60% of the micro-enterprises stated that they prepare their budget on a monthly basis and 25% of the small businesses reported that they draw up a monthly budget.

#### \* Annual budget

The results show that only 12.5% of the small businesses draw up an annual budget and none of the survivalists and micro-enterprises plan their budgets on an annual basis. The literature shows agreement on the fact that there is no clear vision on when small business should draw up a budget for their businesses. According to Bekker and Staude (1996:126), small business owners or managers fail to plan because of their ignorance and lack of vision. In other words, they do not know what to plan for and believe that careful thought about the business's future will reveal new problems which they would rather not face. Bekker and Staude (1996) also show that there is a lack of specific objectives and ideals; lack of information on which to make assumptions about the future as well as a

lack of self-discipline and the inability to 'stay close' to the goals they have set. Burns and Dewhurst (1996: 49) conclude that most small businesses fail because their plans are not oriented towards sales.

According to the results of the study, most small business owners in all clusters fail to understand the use and importance of correct budgeting plans in their business because they lack training and knowledge on how to prepare a budget for their small business.

**Table 4.2 Budgeting**

<b>Description</b>	<b>Survivalists</b>	<b>Micro- enterprises</b>	<b>Small businesses</b>
<b>Budgeting:</b>			
Daily	1	3	0
Weekly	2	0	5
Monthly	5	6	2
Annually	0	0	1
Do not budget	2	1	0
<b>Total</b>	<b>10</b>	<b>10</b>	<b>8</b>

#### **4.4 POOR STOCK CONTROL**

This section examines the ordering of stock, theft control measures and overtrading.

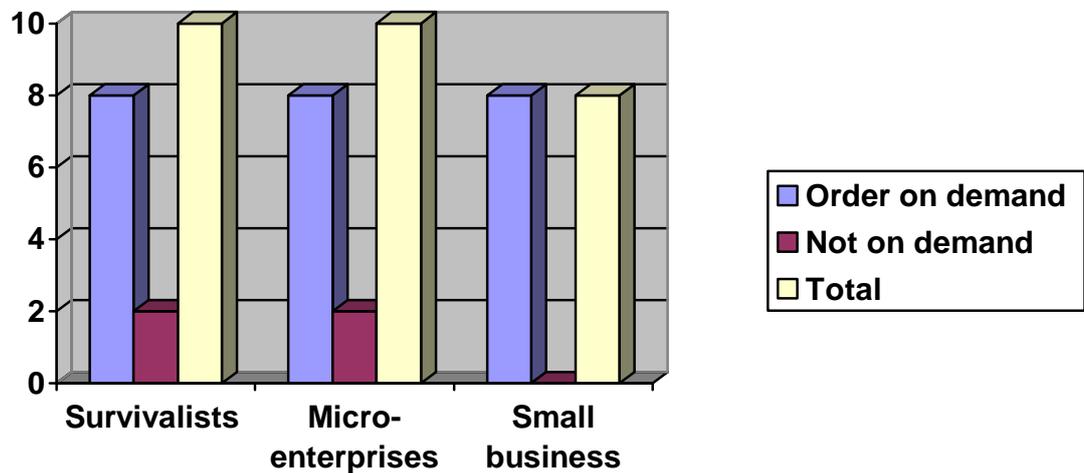
##### **4.4.1 Ordering stock**

Most respondents indicated that they check stock in their businesses before buying new stock. Figure 4.3 below indicates that 80% of survivalists and micro-enterprises and 100% of small business check stock available in their business first before buying any new stock. Respondents explained that when their stock is nearly finished, they

buy the stock that seems to be in demand. The results support the literature that buying stock which is not in demand for customers, affects inventory control in the small businesses. Pickle and Abrahamson (1990: 446) argue that the organization will significantly increase its costs if it does not perform good inventory control.

On the other hand, Murphy (1996: 194) states that the size of a firm's inventory affects the cash flow, which in turn can have an effect upon a chain of related functions and processes. This means that cash that is tied up in inventory cannot be recovered if the inventory is spoiled. According to Longenecker et al. (2003: 514), carrying costs include storage costs, insurance premiums, the cost of money tied up in inventory, and loss due to spoilage or obsolescence. However, maintaining inventory at an optimum level - the level that minimises stock-outs and eliminates excess inventory - saves money and contributes to operating profits. Most small businesses have control over their stock since most of them do not buy stock that is not in demand.

**Figure 4.3: Stock Ordering**



#### 4.4.2 Transporting stock

All respondents in all clusters interviewed indicated that transport seems to be important in running their small businesses properly (see table 4.3.) All respondents in all the clusters reported that they use transport to deliver their stock. The literature does not mention anything about transport being either a negative or positive factor in proper control of stock in the small business. It was found in this study that most small business owners do not have transport problems in delivering their stock.

**Table 4.3: Stock Control (Transport of Stock)**

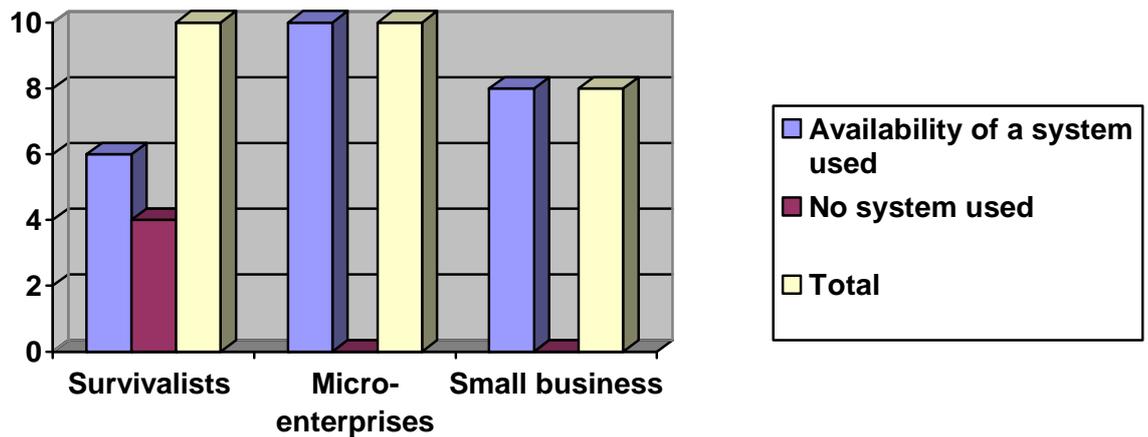
<b>Description</b>	<b>Survivalists</b>	<b>Micro- enterprises</b>	<b>Small business</b>
Transport	10	10	8
No transport	0	0	0
<b>Total</b>	<b>10</b>	<b>10</b>	<b>8</b>

#### 4.4.3 Stock theft control measures

Figure 4.4 indicates that 60% of survivalists, 100% of both micro-enterprises and small businesses report that there are systems that they use to control stock theft. They use different types of systems that involve checking of staff after work, checking of customers using cameras and security guards, and checking receipts on the tills. There is agreement in the literature that small businesses that do not have a security system to control stock face serious problems. Pickle and Abrahamson (1990:446) state poor control of inventory will encourage stock theft and prevent businesses from recognizing shoplifting problems or even knowing how much is being lost or stolen. According to Hodgetts and Kuratko (1998: 581), failure to apply techniques that will thwart opportunities for employee theft (alarm systems, security, etc.) can lead to crime in small businesses. The results of the study show that theft appears to be mainly a problem with the

survivalists since they do not have enough cash to buy security systems or hire security to look after their stock.

**Figure 4.4: Use of theft control measures**



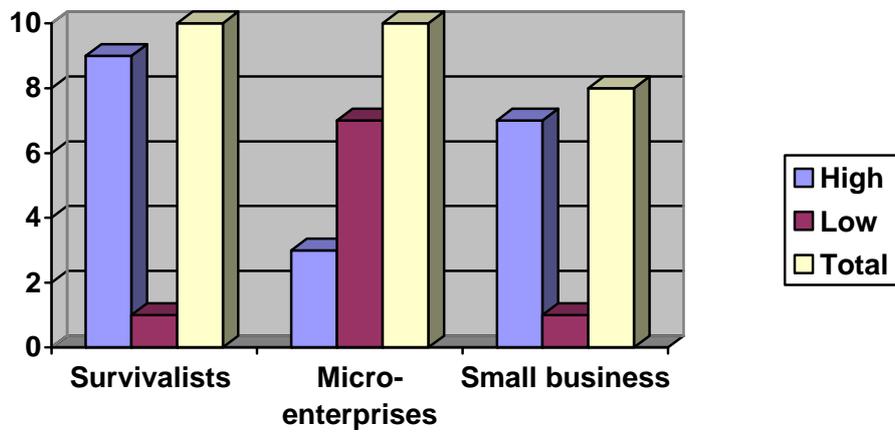
#### 4.4.4 Overtrading

Overtrading is a serious problem for the majority of the respondents in the survivalist and small business categories; less so in the micro-enterprises. Most sell the same products and thus competing in terms of price becomes difficult. Customer flow reduces when prices are not competitive. 90% of the survivalists, 30% of the micro-enterprises and 70% of small businesses experience or encounter problems due to the prices they can charge their customers (see Figure 4.5).

The results support the literature that pricing presents a serious problem to all clusters on how to attract customers. The Small Business Advisor (1999:58) maintains that most small businesses fail because of lack of daily contact with customers, lack of special promotions, price changes, and lack of new product features. As pointed out by van Aardt et al. (2002: 250), poor pricing practices and the business owner's inability to adapt to the changing demands of a business on items sold can lead to the failure of small businesses. On the other

hand, Scarborough and Zimmerer (2003: 674-6) believe that customers have the right to safety, right to know, right to be heard, right to education, and right to choice based on the quality of the product and price. The results of this study seem to indicate that most small businesses fail to stick to the correct mark-ups in trying to respond to overtrading.

**Figure 4.5: Overtrading**



#### 4.5 FAILURE TO MANAGE CRIME

Table 4.4 indicates that survivalists reported 10% of crime occurs in cases of break-ins and another 10% in the case of armed robbery; micro-enterprises reported that 30% of crime occurs in cases of break-ins and 50% in cases of armed robbery; and finally, small businesses reported 30% of crime occurs in cases of break-ins and armed robbery. The results (see Figure 4.6) show that 20% of survivalists, 80% of micro-enterprises and 87.5% of small businesses experience crime. The literature indicates that crime is a serious problem in most of the micro-enterprises and small businesses. Resnik (1988: 156) states that crime can arise from any source, be it from professional criminals, customers, suppliers, or employees. Hodgetts and Kuratko (1998: 581) also indicate that crime can be caused by hiring personnel, failure to establish a climate of trust, confidence and respect for employees as well as incentives for outstanding and honest performance, and failure to apply techniques that will thwart opportunities for employee theft (e.g. alarm systems, security).

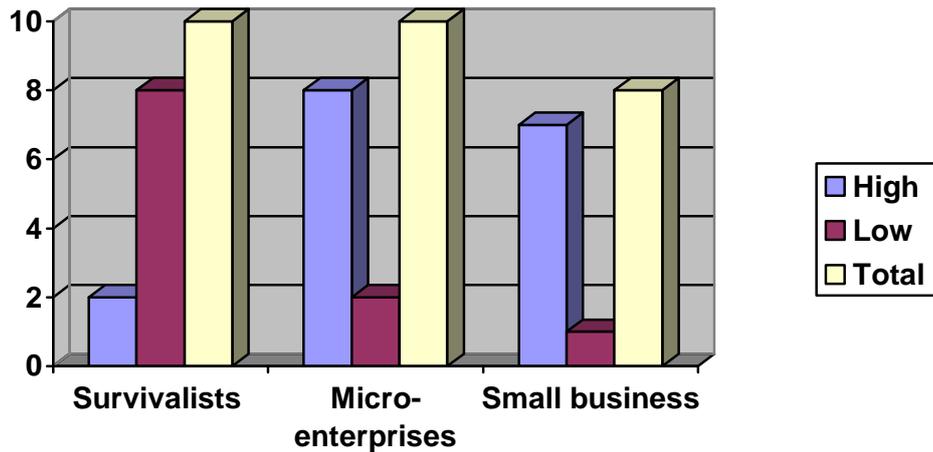
It can be thus concluded that in most cases crime occurs more often in micro-enterprises and small businesses due to the large size of the structure that needs more security. Crime can also be caused by an inside job because staff members might feel that they are not paid a sufficient wage. Since many small businesses are generally not insured against crime, some of the businesses (especially micro-enterprises and small businesses) are vulnerable, and as victims of crime may never recover financially and end up failing.

**Table 4.4: Nature of Crime**

<b>Description</b>	<b>Survivalists</b>	<b>Micro-enterprises</b>	<b>Small businesses</b>
<b>Nature of crime</b>			
Break-ins	1	3	3
Armed robbery	1	5	3
Break-ins and	0	0	1

armed robbery			
No crime	8	2	1
<b>Total</b>	<b>10</b>	<b>10</b>	<b>8</b>

**Figure 4.6: Frequency of Crime**



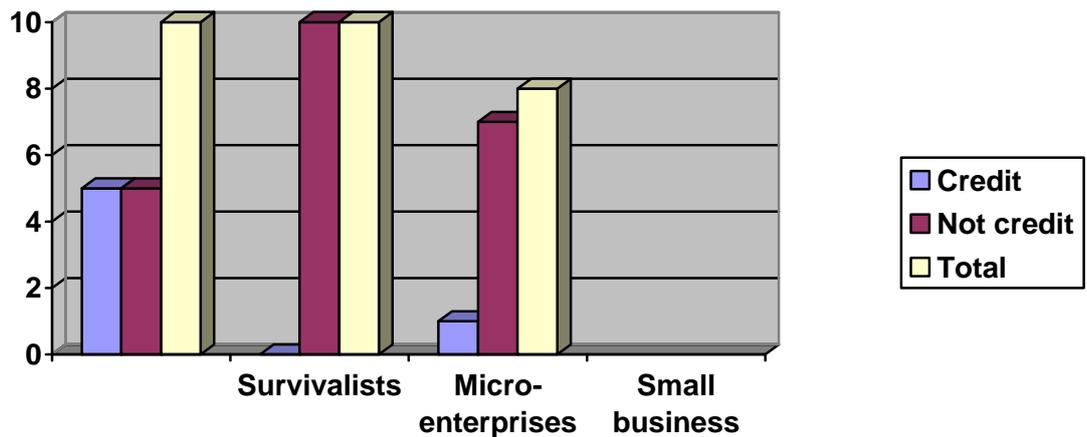
#### 4.6 FAILURE TO GRANT CREDIT

Figure 4.7 indicates that 50% of survivalists, 100% of the micro-enterprises and 87.5% of small businesses do not grant credit to customers. The respondents reported that they can not trust their customers to pay their debts, especially as no expected date is agreed upon by when the customers need to pay back their debts. As a result, survivalists end up not having the money to pay back the credit that was extended to them by their suppliers. These results support the findings in the literature that survivalists have a serious problem regarding the granting of credit. According to Drodskie (2002: 19-20), small enterprises, particularly those located in townships and former black areas, face obstacles that are very different to those faced by businesses in the suburbs and former white areas.

It appears that in the businesses examined in this research project, most customers take goods on account and do not pay by the due date. As a result

many small business owners around townships themselves have poor credit records as they rely on their customer’s “good faith” to pay their debts. Another factor that plays a role in the demise of most survivalists and micro-enterprises is that they fear that they will work for losses if they grant their customers credit.

**Figure 4.7: Granting of Credits**



## 4.7 POOR STAFF RELATIONS

In this section the hiring and training of staff of is discussed.

### 4.7.1 Hiring of staff

Table 4.5 shows that 40% of survivalists, 70% of micro-enterprises and 100% of small businesses hire employees rather than family members and often do the job themselves. The respondents reported that hiring family members resulted in losses, particularly when the business was new – it seems that more money is spent on their priorities rather than on building the business itself. In addition, most family members need to be trained in business skills, which is expensive. Another reason for hiring outside people is that the businesses need the assistance of people who can carry out those duties that small businesses cannot do for themselves such as merchandising, transport and security. It thus

appears that, irrespective of the different sub-sectors, only outside employees can be effectively utilized in a business rather than families. Hubbard and Hailes (1988: 64) as well as Pickle and Abrahamson (1990: 34) showed that hiring family members in the business may be one of the factors why the small business may not to make a profit in the first period of operation. Thus it may be concluded that most micro-enterprises and small businesses prefer not to hire family members because it becomes difficult to discipline their family members, and the prioritisation of family needs rather than business needs may lead to the ultimate failure of their business.

**Table 4.5 Staff Relations – staff hired**

<b>Description</b>	<b>Survivalists</b>	<b>Micro- enterprises</b>	<b>Small businesses</b>
<b>Staff hired</b>			
Self	4	1	0
Family	2	2	0
Other staff	4	7	8
<b>Total</b>	<b>10</b>	<b>10</b>	<b>8</b>

#### 4.7.2 Training

Table 4.6 indicates that only 60% of the survivalists, 40% of micro-enterprises and 100% of the small businesses provide training to their staff. The literature supports these findings and reports that more than 50% of micro-enterprises lack training with regard to how to run their businesses. According to Keasey and Watson (1993: 139), small business owners often lack experience and expertise in running their businesses. In addition to this, Ladzani and van Vuuren (2002: 157-158) emphasised that training alone may not be the only solution to ensure that small businesses will flourish. Constraints such as a lack of financial resources, lack of access to markets, lack of support services, and low literacy

levels should also be examined. The findings support the above view and the researcher feels that in addition to proper business training, making available finance and other business facilities would assist small businesses in ensuring that they have a better chance of succeeding. Based on the findings of the research project, the researcher believes that the government has not implemented enough support mechanisms to ensure that training is provided to new business owners in how to run a business successfully.

**Table 4.6: Staff Relations - Training**

<b>Description</b>	<b>Survivalists</b>	<b>Micro- enterprises</b>	<b>Small businesses</b>
<b>Benefits:</b>			
Training	6	4	8
No training	4	6	0
<b>Total</b>	<b>10</b>	<b>10</b>	<b>8</b>

## **4.8 INFRASTRUCTURE**

The next section will cover aspects such as roads and driveways, electricity, water supply and technology.

### **4.8.1 Infrastructure – roads and driveways**

According to the data contained in Table 4.7, 20% of both survivalists and micro-enterprises as well as 62.5% of small businesses experience problems on roads and driveways. These problems include potholes, dust, and sewerage next to their businesses. The results concur with the findings found in the literature in terms of small businesses not choosing suitable areas to run their business properly. Pickle and Abrahamson (1990: 167) point out that small businesses fail because they select a site without first making a thorough analysis of the overall location's potential for the business's survival and growth. On the other hand,

Siropolis (1990: 228) states that poor location can be caused by the supermarket or any small business enterprise being located close to other supermarkets or small businesses.

According to Longenecker et al. (2003: 271), the location decision is influenced by the costs and impracticality of pulling up stakes and moving an established business. All Business: Champions of Small Business (2004) further underlines the need for the right location by saying that even the best restaurant or retail store will fail if it is in the wrong place. It appears from the research data that most of the survivalists and micro-enterprises are failing due to a lack of space which is provided by the government and sometimes due to a lack of perseverance from the small business owners to look for the right place for their business.

**Table 4.7: Infrastructure – Roads and Driveways**

<b>Infrastructure</b>	<b>Survivalists</b>	<b>Micro-enterprises</b>	<b>Small businesses</b>
<b>Driveways:</b>			
Suitable	8	8	3
Not suitable	2	2	5
<b>Total</b>	<b>10</b>	<b>10</b>	<b>8</b>

#### 4.8.2 Electricity

Table 4.8 indicates that 40% of survivalists, 80% of micro-enterprises and 75% of small businesses experience problems with electricity. The respondents complained that they are never given any notice regarding the shut-down of electricity, and to make matters worse, Eskom gives no indication of when they are going to address and deal with the problem (maintenance). Nowhere in the literature is the impact of electricity on small businesses covered. Based on the results, the researcher concludes that most micro-enterprises and small

businesses have electricity problems because of the area in which they chose to operate their businesses. In addition, municipalities and government do not appear to take the problems with electricity seriously since they do not keep small business owners informed about the status of electricity operations.

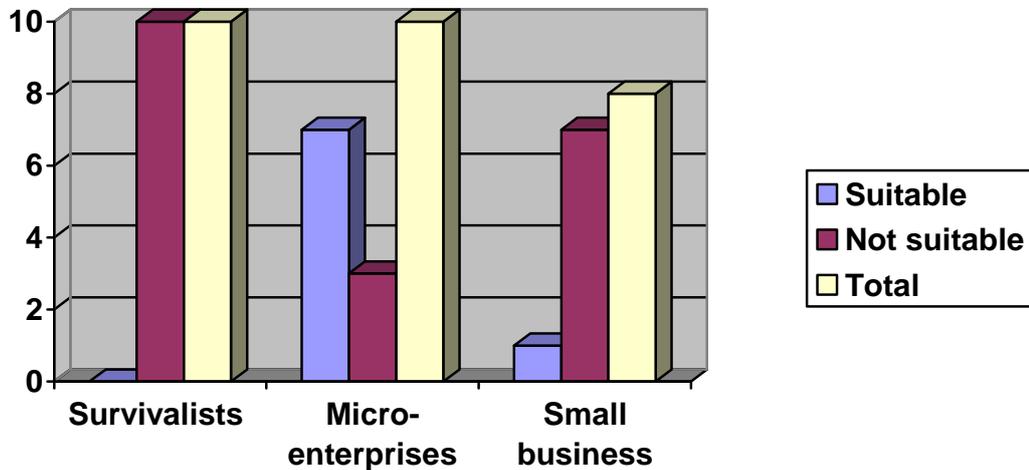
**Table 4.8: Infrastructure – electricity problem**

<b>Infrastructure: Electricity problem</b>	<b>Survivalists</b>	<b>Micro- enterprises</b>	<b>Small businesses</b>
Suitable	6	2	2
Not suitable	4	8	6
<b>Total</b>	<b>10</b>	<b>10</b>	<b>8</b>

#### 4.8.3 Water supply

Figure 4.8 indicates that all survivalists (100%), 30% of micro-enterprises and 75% of small businesses report that they are not informed by the municipality when the water is going to be turned off for maintenance or repairs. The literature does not mention the impact that water supply has on the proper functioning of small businesses in the location chosen. This study indicates that the irregular supply of water does affect small businesses adversely. Again, as mentioned above in 4.8.2, the municipality appears to show no concern regarding how the irregular water supply affects business by not informing business when they are going to turn off the water.

**Figure 4.8: Infrastructure – water supply**

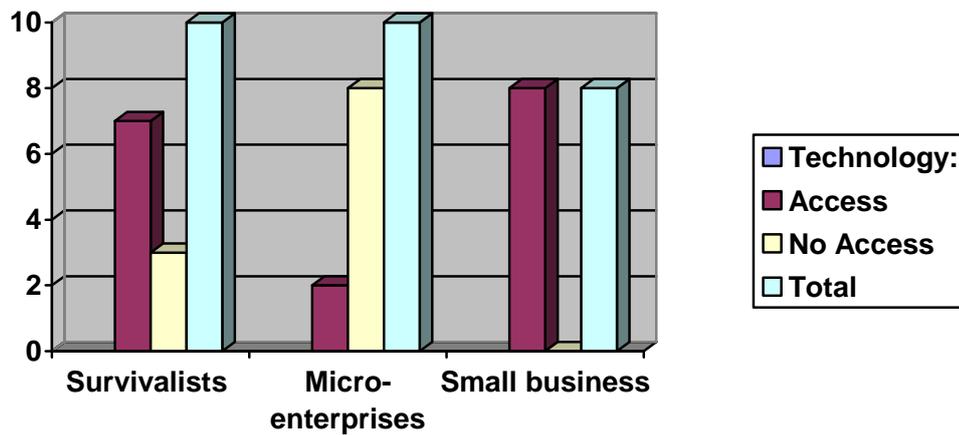


#### 4.8.4 Technology

The results indicated that 70% of survivalists and 80% of micro-enterprises and 100% of small businesses use technology (see Figure 4.9.) Technology used includes telephones, cell phones, faxes, cash tills, computers and calculators. The literature supports the findings that business is managed better when at least some technology is used. Without any technology, it is difficult to reach suppliers and customers. As pointed out by Keasey and Watson (1993: 229), small businesses that do not use new technology are affected adversely by their lack of knowledge and the high opportunity cost of scarce management time in isolating the cash flows pertaining to their projects. Jones and Tilley (2003: 8) explain that many small firms lack time, resources, technology or expertise to research and develop new business ideas and innovations. In this case, non-availability of technology can become a critical factor limiting growth and expansion in small businesses. It appears in this study that the lack of technology in the survivalists, micro-enterprises and small enterprises is caused by a lack of training, not having enough financial resources to invest in technology, lack of interest and lack of resources to attend exhibitions about the

latest information technology. This lack of knowledge in the field of technology may set back the proper running of a business.

**Figure 4.9: Technology**



#### **4.9 CONCLUSION**

It can be concluded from the results outlined in this chapter that most problems in small businesses in Kagiso are experienced due to a lack of knowledge regarding legal matters (e.g. registering their business) and not maintaining proper records. Other aspects that small businesses struggle with can be found in the financial realm, for example, not using financial consultants, not being granted loans from financial institutions and not being able to grant their customers credit. Furthermore, there appears to be a lack of proper pricing strategies, insufficient or no training, high levels of crime that are not being managed properly and an inadequate infrastructure. All of these points are affecting small businesses to such an extent that they do not allow them to grow and prosper.

## **CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

Chapter 4 reported on and discussed the results of the study. The purpose of this chapter is to summarise and draw conclusions regarding the main findings of this study. Recommendations for future studies are also summarised in this chapter.

### **5.2 CONCLUSIONS**

In this section the legal issues, financial aspects, stock control, granting of credit, staff relations and related issues of small businesses are commented on.

- (i) Legal issues present a stumbling block for the small business and are not conducive for the success of small businesses in Kagiso. Most of the survivalists and micro-enterprises experience difficulties because they lack information regarding the registration of their businesses.
- (ii) Businesses face serious problems regarding financial aspects in starting and running a business, for example start-up capital, record-keeping, budgeting, and family interest and interference all present their own difficulties. In terms of start-up capital, starting a business in Kagiso is fraught with difficulties, one of them being that financial institutions do not readily grant these businesses loans to help start up their business. It appears that this is due to a lack of trust on the part of the financial institutions.

Secondly, no proper records are kept and as a result most of the survivalists and micro-enterprises experience difficulties in running their business more efficiently and this may lead to the failure of their

businesses. Survivalists and micro-enterprise see no need for records since they believe that their operations are so small that they can easily oversee and control their operations without keeping records. Relying on one's memory is not a reliable way of recording business transactions.

Thirdly, budgetary expertise is needed as each and every cluster of small businesses has its own method of budgeting in order to target their customers. There seems to be no clear policy on the preparation of the budget for clusters.

Finally, families are seen as the cause of the demise of the small business. Money is often spent on the family's wants and desires first, and in the process the needs of the business are neglected. In other words, family and business are not kept as separate entities which may lead to the failure of the business since not enough money is ploughed back into the business for it to grow and develop into a more sustainable entity.

- (iii) In terms of stock control, the study examined issues such as stock on demand, transport, stock theft control measures and overtrading. In terms of stock in demand, all clusters seem to inspect their stock first before buying any new stock. In this study, businesses buy when stock is in demand. Based on the results of this study, transport does not present any serious problems to any of the businesses interviewed. With regard to stock theft control measures, there seem to be minimal problems with most of the businesses examined since most of them have security systems in place which they use to control stock theft. In terms of overtrading, this presents a serious problem to the majority of survivalists and small business but not so much to micro-enterprises. This is because only a limited selection of products is sold which tends to lead to hardly any competition between the businesses regarding product range, and

thus the price of the products tends to be the same regardless of where the customers do their shopping.

- (iv) Regarding the granting of credit to customers, this is not a viable way of doing business for small businesses since they feel that they can not trust their customers to pay their debts. The problem is that survivalists are too small to be able to absorb any bad debts. Bad debts will inevitably lead to the financial ruin of small businesses.
- (v) Staff training presents a problem, since no formal training is given to those hired because there are not enough funds to train the staff.
- (vi) This study also investigated other problem areas such as crime, infrastructure, poor planning and technology. Crime seems to be extremely high in most of the micro-enterprises and small businesses because of their size. In terms of the infrastructure, small businesses appear to hardly plan at all with regard to choosing the right location for their business. They conduct hardly any research at all and don't analyse the area they intend to move into to determine whether the area is suitable for trading. They are too much in a hurry to set up their business in order to make money. On the other hand, they are making use of technology which impacts favorably on their business. The technology used is predominantlyly telephones, cell phones, faxes, etc.

Based on the above, small business organisations will not succeed in running their business properly in Kagiso, unless the factors mentioned above are addressed.

### 5.3 RECOMMENDATIONS

Given the problems identified in the study and based on the conclusions drawn, this will section make some recommendations on how some of the problems mentioned above can be addressed.

- (i) In terms of managing the legal environment, there has been some success in the registration of small businesses, however most of the survivalists and micro-enterprises are still failing to register their businesses. It is thus suggested that the South African government introduce a more intense information campaign and provide wide-reaching support mechanisms to help potential small businesses get licensed. Information campaigns can easily be done over the radio which most people have access to. At the moment it appears that the government regards small businesses merely as helping to improve the economy of the country, but is not actively providing support mechanisms to ensure their success.
  
- (ii) Finances present a serious problem for new businesses. Often there is total unawareness of the importance of having enough financial “literacy” and knowledge in order to ensure that the business becomes a success. Starting a business for the first time or expanding their business (whether survivalists, micro-enterprises or small businesses), business owners don’t often know where they can get help, or just how much some sound financial knowledge can help them. They need to look at how much money they have in order to be able to control expenditure and keep record of this. It is precisely the act of keeping record of their capital (cash) which will help them access bank loans. Financial institutions need evidence that a person can run a business properly. In addition, proper record-keeping makes good business practice because the records will help survivalists and micro-enterprises to keep track of how their business

is doing and thus act as an aid to managing the finances of their businesses. However, without any records most survivalists and micro-enterprises are not in a position to know whether they are making a profit or a loss.

Records of any funds must be evaluated on a weekly or monthly basis to show the success of the business. In terms of the budget, a financial plan for the future must be drawn up to determine the extent of the capital needs of the enterprise. In other words, such a budget plan shows in financial terms what the goals and forecasts for the business are within a specific time period, e.g. one year. It is thus imperative that small business owners are given training in all the financial aspects of running a business. This will help them in determining the direction of their business and how to manage their businesses properly. Early training for family members is essential to make them aware that “milking” the business is only going result in the failure of the business, and thus job losses. The only way to make families understand the importance of the business is to distinguish between family and the business.

- (iii) With regard to overtrading, survivalists and small businesses must reach consensus on the type of the products they are going to sell. This will help them be more diverse in their product/service offerings and thus have more say in how much they are going to charge for their product/service. This will help survivalists and small businesses succeed.
- (iv) Consumer credit plays an important role in most survivalist businesses. This will encourage the customers to keep on buying stock from the survivalists. The one thing that survivalists can do to control credit is to establish a credit system that will limit a customer to a certain amount of money and period in order to ensure that they do not work at a loss.

- (v) In terms of good staff relations, there are various ways that can guide micro-enterprises to attract and keep good employees. For example, micro-enterprises can purchase affordable books on how to run a small business in a particular field and this might increase employees' knowledge. Also, small businesses can send their employees to free and inexpensive seminars run by company vendors.
- (vi) With regard to crime, it is recommended that micro-enterprises and small businesses have insurance for the business since crime is inevitable and will always present a problem.
- (vii) Small business owners have to seriously consider the ideal location for their small business. The following factors have to be considered when seeking a location for their business: their target market, transportation access, neighbouring mix, competition, neighbourhood security/safety, labour pool, services, access and municipal business regulations.

The researcher believes that the high failure rate of small businesses can be reduced in Kagiso if the above recommendations are implemented.

#### **5.4 FINAL CONCLUSION**

Although the study was exploratory, descriptive and qualitative in nature and could not be generalised to other townships, it identified factors that generally seem to lead to the demise and failure of small businesses in Kagiso. Guidelines to promote successful business enterprises were also developed in the form of recommendations made.

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## APPENDIX I

<b>INTERVIEW GUIDE</b>	
<b>An exploration of factors leading to the failure of small Businesses in the Kagiso Township</b>	
<b>1.</b>	<b>How do you handle your business financial statements?</b>
1.1	Do you keep your own financial statements or make use of consultants?
1.2	How do you conduct your monthly cash-flow of the business (i.e. water, rent, lights/electricity and sales)?
1.3	How often do you draw your financial statements?
<b>2.</b>	<b>How do you control your stock in the business in terms of ordering, delivering, stock-taking, theft and damaged products?</b>
<b>3.</b>	<b>How do you handle customer relation issues in the business?</b>
<b>4.</b>	<b>What is your staff complement? How do you treat your staff?</b> (Benefits, type of training, etc.)
<b>5.</b>	<b>How often do you budget for your business?</b>
<b>6.</b>	<b>Could you explain how you started your business and the huddles you came across?</b>
6.1	Started up business
6.2	Huddles encountered
<b>7.</b>	<b>How does the crime rate in this area affect your business?</b>
<b>8.</b>	<b>What do you think of the infrastructure in relation to your business in</b>

**this area** (i.e. roads, driveways, water supply, electricity, telecommunication systems, etc.)?

**9. How do the legal requirements affect your business?**

**10. Do you make use of technology in your business? If so, what type?**

# SELF CONFIDENCE AND A POSITIVE ATTITUDE

NOTES TO BE HANDED OUT

# SELF CONFIDENCE IN PERSPECTIVE

- Intrapreneurship requires leadership
- Effective leadership requires confidence
- Therefore:
- Intrapreneurship = leadership = confidence
- Confidence results in a positive attitude
- A positive attitude is required to achieve results

# Perspectives from “The Odyssey”

- The journey to self-awareness and self development is a deep intense psychological journey
- In the modern day business world, business leaders are expected to continuously embark on journeys into the unknown
- Odysseus returns to Ithaca
- It was supposed to be a simple journey but he encounters unexpected delays
- His journey of weeks turns into a journey of years
- His son, Telemachus, sets out to find his father, and so also sets on a journey into the unknown, discovering himself

# Perspectives from “The Odyssey” (2)

- Bennis:
  - Management of attention through vision
  - Management of meaning through communication
  - Management of trust through reliability
  - Management of self through knowing one’s skills and deploying them effectively

# Perspectives from “The Odyssey”

## (3)

- Management of yourself = most important
- Based on SELF REGARD
- Leaders know their worth, they trust themselves without letting their ego getting in the way
- Nurture their own skills
- Capacity to discern between perceived skills and what the job requires - realism

# Perspectives from “The Odyssey”

## (4)

- Odysseus reaches a state of self-awareness that is key to leadership
- Moss:
  - Leaders must expand their own and other’s thinking
- Homer teaches us that a person should grow and develop
- A person should learn from experience
- Each one of us should take our own journeys into self-awareness and self-understanding
- This leads to confidence, and help you as an intrapreneur to think in new ways

# Leadership traits that is inherent to confidence and positiveness

- Drive
- Leadership motivation
- Honesty and integrity
- Self-confidence
- Cognitive ability
- Knowledge

# Drive

- Achievement
- Ambition
- Energy
- Tenacity
- Initiative

# Leadership motivation

- Motivation starts with self motivation
- Am I self-confident enough to motivate myself and others
- Power motives
  - Personalised power motive
  - Socialised power motive

# Honesty and integrity

- Without these qualities, leadership is undermined
- Leaders are rated more trustworthy and reliable in carrying out responsibilities
- They are open with their followers, but also discreet
- See quote from Kouzes & Posner

# Self-confidence

- Leadership = Self-confidence
- Important in decision-making
- Also other's perception of self-confidence
- Emotional stability
  - Keeps leaders even-tempered
  - Essential in resolving inter-personal conflicts
  - Leaders derail if they lack emotional stability
  - The manner in which stressful events are handled

# Cognitive ability

- Core word = cognition = to recognise or to know
- Cognitive = to be able to receive great amounts of information and through a sound mental process dissect this information
- Reasoning powers

# Knowledge

- Knowledge of general issues
- Specific knowledge