

FACTORS PLAYING A ROLE IN THE FAILURE OF SMALL, MEDIUM
AND MICRO ENTERPRISES (SMMEs) IN TSHWANE

Research report

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DECLARATION

I, the undersigned, declare that this dissertation is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Leadership at the Unisa Graduate School of Business Leadership, University of South Africa. It has not been submitted before for any degree or examination in any other University.

Signature _____

On this day _____ of November 2017



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ABSTRACT

This study identifies the factors playing a role in the failure of Small, Medium and Micro Enterprises (SMMEs) in Tshwane region. The high failure rate can be partially caused by the fact that SMMEs believe that they do not get enough support from the government besides their own internal factors. Measures are recommended that will help SMMEs to be more successful.

The study was scientific, descriptive and quantitative in nature. Questionnaires were used to gather data.

Results revealed that the most common causes of SMMEs failure were lack of access to finance and employee skills development, low staff morale and most of them are in the food beverages industry.

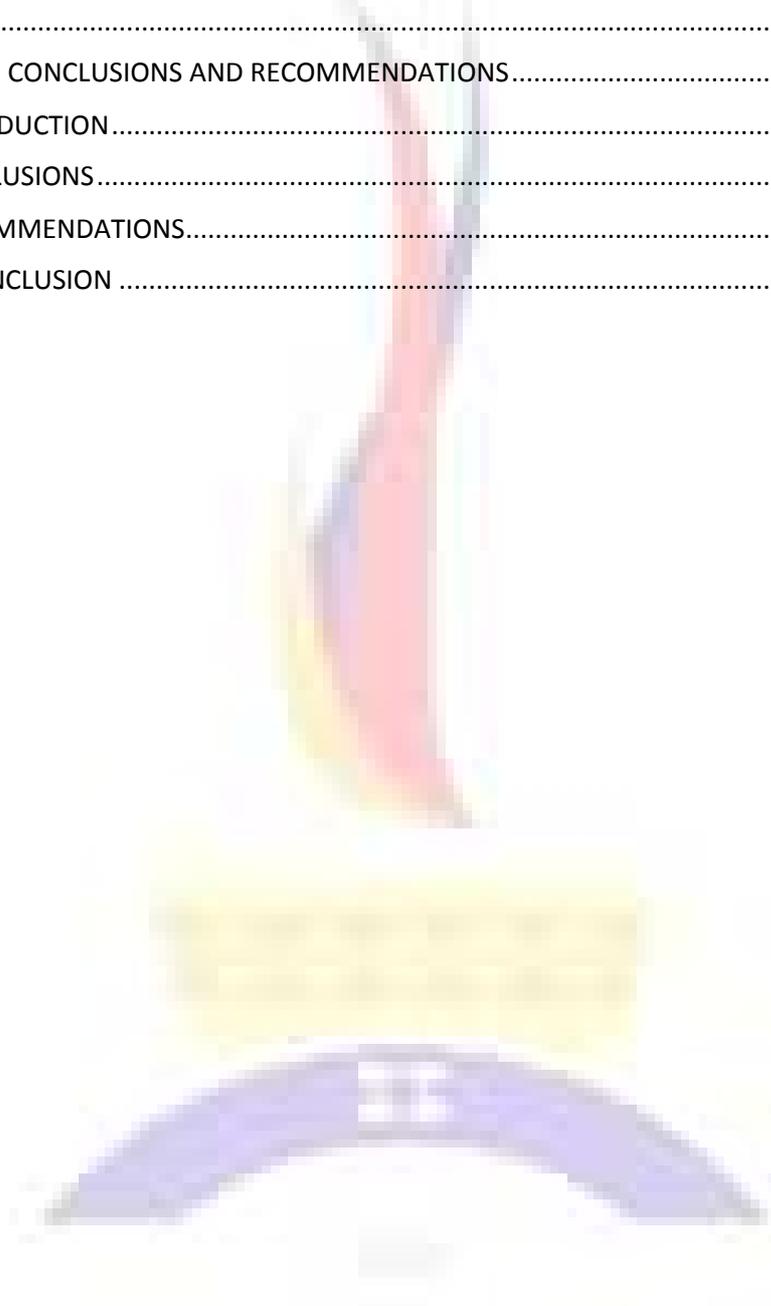
The study recommends that government should enhance its support mechanism, SMMEs attend mentorship programmes, align their strategies with customers' needs and invest in employee skills development. If these recommendations are properly applied, they will ensure success of SMMEs in Tshwane and the rest of South Africa.

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CHAPTER 1 INTRODUCTION

1.1 Introduction

This study examines the factors that appear to lead to the failure of Small, Medium and Micro Enterprises (SMMEs) in the City of Tshwane, Gauteng Province.

Chapter 1 sketches the background of the research study as, explaining the purpose and describing the rationale of the study. This chapter concludes by defining some key concepts and noting some limitations to the study.

1.2 Background to the study

According to Chimucheka (2015:149) “The Small, Micro and Medium Enterprises (SMME) sector is globally regarded as the driving force in economic growth and job creation”. Governments around the world recognise the role SMMEs play as a sector because it employs a major portion of the workforce, especially in developing countries. Countries classified as emerging economies, namely Brazil, Israel, India, Ireland and South Africa have realized that it is essential to support and promote the development of SMMEs as a means of growing the national economy and alleviating unemployment and poverty among the masses (Marivate, 2014:53). Small, Medium and Micro Enterprises (SMMEs) are regarded as drivers of the economy for various countries. In South Africa, SMMEs are recognised as a sector which has the power to create employment opportunities and grow the economy. (Maziriri & Chinomona, 2016:127).

A lot of SMMEs in South Africa are facing challenges in their businesses. However, at the heart of the difficulties facing these SMMEs, particularly in urban areas, is a complex set of factors around their continued inability to access market opportunities, lack of access to finance/credit and of delivery failings in the support environment (Masutha & Rogerson, 2014:142).

1.3 Definition of key concepts

According to Maziriri and Chinomona (2016:128) “The South African act that provides the regulatory and support framework for SMMEs is the National Small Business Act 102 of 1996, which defines an SMME as a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which including its branches or subsidiaries, if any, predominantly carried on in any sector or subsector of the economy”.

Marivate (2014:57) recorded that “According to the National Small Business Act of South Africa (the South African Department of Trade and Industry, 2013), small, micro and medium-sized enterprises are defined as follows:

- *Micro enterprises*: With growth potential that involves the owner and family members or at the most four employees and whose turnover is below 150, 000 Rand, the threshold for VAT registration;
- *Small enterprises*: With 5 to 100 employees and are owner-managed and fulfil all the trappings associated with formality.
- *Medium-sized enterprises*: With 100 to 200 employees which are still owner-managed and fulfil all the trappings associated with formality.
- *Small, Micro, Medium-scale Enterprises (SMMEs)* are also defined as enterprises with a minimum asset base of 25 million Rand excluding the cost of land and working capital by the South African Department of Trade and Industry (2013)”.

1.4 Assumptions

For the purposes of this study, small businesses refer to Small, Medium and Micro Enterprises (SMMEs) in Tshwane region.

1.5 Limitations

This study focuses only on Small, Medium and Micro Enterprises (SMMEs) in Tshwane region.

2 PROBLEM STATEMENT

Eight out of 10 Small, Medium and Micro Enterprises (SMMEs) fail during the first year of operation. In South Africa, approximately 80% of SMMEs fail within their first year (SEDA, 2016). Small businesses operating in the City of Tshwane are characterized by shortage of entrepreneurial skills (Marivate, 2014:53). Consequences of SMMEs that have failed are employees losing their jobs and loss of livelihood. In meeting global standards South Africa embraced business incubation as way of enhancing competitiveness of SMMEs and a strategic tool for helping them to survive (Masutha & Rogerson, 2014:48).

3 RESEARCH QUESTION

This study aims to provide adequate answers to the following research question:
What factors contribute to SMMEs failing?

From this the following sub-questions apply:

Sub-Question 1: Why are SMMEs failing?

Sub-Question 2: Are certain SMMEs more vulnerable (or prone) to failure?

Sub-Question 3: Which mistakes SMMEs do, contributing to failure?

4 RESEARCH AIMS AND OBJECTIVES

4.1 Aim of the research

The aim of the study is to identify factors contributing to SMMEs failure.

4.2 Objectives of the research

Objective 1: To determine why SMMEs fail.

Objective 2: To establish whether certain SMMEs are more vulnerable (or prone) to failure.

Objective 3: To investigate mistakes SMMEs do, contributing to failure.

5 ABBREVIATED LITERATURE REVIEW

It has been discovered that a lot of survivalist businesses are compelled to be in business because there's no any other alternative available as a means of getting by. They lack among other things; fundamental skills of running a business and entrepreneurship, access to markets, capabilities and resources necessary for expanding their organisations (Marivate, 2014:56). The author highlights a fundamental problem namely a lack of basic skills to run a business by most SMMEs in the survivalist category.

There are other factors contributing to failure of SMMEs; according to Mboniyane and Ladzani (2011:552) "These factors include a lack of awareness of the initiatives by government, poor financial management, overtrading, crime, poor credit records, a lack of management expertise, poor infrastructure, a lack of information and poor access to communication technology". The author has, in addition to what Marivate (2014:56) has highlighted, included troublesome aspects that contributes to failure such as crime (external factor) and poor financial management.

South African SMMEs are inhibited by factors such as poor marketing skills, lack of marketing research skills, poor analysis of the market, failure to understand and forecast future customer trends and needs and inability to prepare marketing plans. (Maziriri & Chinomona, 2016:127). Maziriri and Chinomona (2016:127) suggest that marketing and having marketing plans in place are critically important, however, they fail to recognize the fact that start up SMMEs might find it difficult to afford services of a Marketing Consultant.

Whilst King et al (2002), DTI (2008) and Amra et al. (2013) reliably cited not having managerial skills as well as training thereof as the main cause for SMMEs not contributing enough to the local economy, international economic trends raise the standards and crux of what is known as "learning-led competitiveness" even higher (Mutenyoka & Madzivhandila, 2014:68). The authors pointed out "lack of managerial skills and training" as a main cause of SMMEs failure, however, they fail to recognise that lack of education as pointed out by Chimucheka (2015) is a problem in itself before one can learn managerial skills and get training thereof.

According to Marivate (2014:58) “Lack of formal entrepreneurship training hampers their survival and growth. Entrepreneurial skills are the most important and essential Basic Business Skills requirement for steering small businesses in a manner that leads to profitable and viability of the organization”. Based on author’s assertions one can safely conclude that lack of Entrepreneurial skills and basic business skills leads to failure of SMMEs.

6 RESEARCH METHODOLOGY

6.1 Quantitative research approach

A quantitative research design will be used for the purpose of this study. A quantitative research design was used to conduct this study. A quantitative research is a research design which depends on numbers to report the results, sampling and establishment of estimated instruments, reliability and validity (McMillian and Schumacher, 2001:205). Given the fact that the aim of this research is to discover observation of active SMME owners, a survey is considered to be appropriate. A consideration will be based on the responses of the existing SMMEs as it is crucial to understand the factors that could lead to failure. Therefore in this specific study, the results will be presented using simple descriptive statistics.

6.2 Population and sample framework

For the purpose of this study, the population is SMMEs in Tshwane region. The sample size will be 50. The main reason of not considering failed SMME entrepreneurs is because of the fact that they will be nowhere to be found and the ones available might not be willing to share what they have been through with the researchers. Database of SMMEs will be acquired from a public domain and the and the researcher will obtain their permission to participate. A simple random sampling will be used to select the participants.

6.3 Data collection

Fieldworkers were involved in administering questionnaires (under the supervision of the researcher) among the existing SMME entrepreneurs. Prospective participants were informed about the purpose of the study, which is to identify factors that they perceive as contributing to the failure of SMMEs. They were further informed that the completion of the questionnaire would take 15 -20 minutes of their time.

6.4 Data analysis

Frequency tables of the results as well as Pearson's chi-square tests of association to determine significant differences were used to analyse data obtained from questionnaires.

7 ETHICAL CONSIDERATIONS

The following ethical matters were discussed and simplified to participants:

For starters, it is important to get informed consent from participants. Contact information was obtained through information in the public domain.

Secondly, the participants were informed further about their rights, namely the right to participate or not in the study.

Thirdly, participants were informed that confidentiality would be maintained as no personal identifiers were used in the research.

Fourthly, participants were assured their information would be used solely for academic purposes. None of the information will be used for commercial purposes.

8 LAYOUT OF 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

The function of literature review is to review what others have done in similar areas, although is not necessarily similar to one's own research topic (Leedy & Ormrod, 2015:70). Based on the points raised in the relevant literature, the author will be in a position to provide the reader with some background knowledge in relation to research questions and objectives. This will facilitate putting the research in context regarding previous research findings on the subject.

2.1.1 SMALL MEDIUM, MICRO ENTERPRISES DEFINITION

Although the term SME or SMME is used interchangeably worldwide, there is no common definition of these terms (Smit & Watkins, 2012:6324). Different countries use different definitions and thresholds to determine what falls in the category of Small, Medium and Micro Enterprises. From a European perspective for example, SMEs are companies with 10 to 49 employees (small) and 50 to 249 (medium) with annual turnover not exceeding 50 million euro and balance sheet total not exceeding 43 million euro (European Commission 2005). Whereas in the United States of America (USA), Small Business Association (SBA Office of Advocacy) defines small business as an independent business entity having not more than 500 employees (Celtic Bank, 2014). From the abovementioned definitions there is a huge difference when it comes to maximum number of employees from European and USA perspective (250 and 500 respectively). However, the aim of this section is to define SMMEs in South African context.

In Chapter 1 Small Medium, Micro Enterprises were defined according National Small Business Act (102 of 1996). In 2003 the definition was updated with National Small Business Act (Act 26 of 2003) adding five categories to it (as created by the original act); namely standard industrial sector and subsector classification, size of class, equivalent of paid employees, turnover and asset value – excluding property (**see Appendix B**).

When it comes to the manufacturing sector for example; an entity is small when it employs not more than 50 employees, with an annual turnover not exceeding R10 million and total gross asset value (excluding fixed property) not exceeding R5 million. Medium if not more than 200 employees are employed, with annual turnover not exceeding R51 million and total gross asset value (excluding fixed property) not exceeding R19 million. And micro, if not more than five employees are employed, with annual turnover not exceeding R0,20 million and total gross asset value (excluding fixed property) not exceeding R0,10 million (The National Small Business Amendment Act (26 of 2003) – Schedule).

South African Revenue Services (SARS) defines an entity as a Small Business Corporation during the year of assessment¹, as stipulated in Section 12E of Income Tax Act No. 58 of 1962 if it meets four key areas (1) a legal requirement, (2) shareholder requirement, (3) gross income limitation requirement and (4) business activity requirement. An entity must be a juristic person in the form of a “close corporation”, “co-operative” or “private company” as defined in section 1 of the Companies Act (legal requirement). Whereby all shares or members’ interests in the aforementioned juristic person(s) are held by natural persons except if it is a trust, provided beneficiaries of that trust hold a vested right in those shares or members interests throughout year of assessment (shareholder requirement). Gross income of the qualifying entity may not exceed R20 million for the particular year of assessment (gross income limitation requirement). As for business activity requirement, not more than 20% of the total receipts and accruals (excluding capital receipts) and capital gains consist of investment income and income from the rendering of a personal service (South African Revenue Services, 2016). As already indicated in Chapter 1 (section 1.7) small businesses (small business corporations) refer to Small, Medium and Micro Enterprises for the purposes of this study.

¹ Year of assessment refers to the year in which income tax is calculated and charged.

South African Revenue Services (2016) definition contravenes the National Small Business Act (Act 26 of 2003) definition as follows:

- South African Revenue Services (2016) maximum turnover limit is R20 million whereas National Small Business Act (Act 26 of 2003) maximum turnover limit is R64 million in case of wholesale traders for example **(see Appendix B)**.
- South African Revenue Services (2016) shareholder requirement restricts shareholders of a juristic person to natural persons only. As for National Small Business Act (Act 26 of 2003) on the other hand as long as shareholder(s) requirements for “co-operative” or “private company” as defined in section 1 of the Companies Act are met, then there won't be any problem.
- South African Revenue Services (2016) business activity requirement prescribes that not more than 20% of the total receipts and accruals (excluding capital receipts) and capital gains consist of investment income and income from the rendering of a personal service. National Small Business Act (Act 26 of 2003) has no such restricts as long as SMMEs follow industry requirements outlined in The National Small Business Amendment Act (26 of 2003) – Schedule.

Given the above conflicts in SMMEs definition, an SMME might find itself being deprived of Small Business Tax benefits or even worse, taxed the same way as big corporates. This might result in affected SMMEs spending a sizeable chunk of their disposable income paying taxes.

For the purposes of this study Small Medium, Micro Enterprises are businesses registered with Companies and Intellectual Property Commission (CIPC) in the form of a “close corporation”, “co-operative” or “private company” as defined in section 1 of the Companies Act. Such business must meet the requirements of The National Small Business Amendment Act (26 of 2003) –Schedule **(see Appendix B)**.

2.1.2 SMMES BACKGROUND

According to Beyers and Ndou (2016:32) “In African as well as in other less developed countries, SMMEs have been subject to increased attention by virtue of their capacity to absorb employees with regard to both private sector and public sector economy, and increasing number of new labour force. The encouragement and nurturing of entrepreneurship in South Africa is at the moment giving a lot of attention to wide variety of fields by virtue of being considered as a main driver for growing the economy and creating wealth, also contributing to social prosperity and lifestyle advancement as a result”. Beyers and Ndou (2016) contribution highlights the important role that SMMEs play in the economy of African continent as well in South Africa highlighting critical points such as economic development and social prosperity. Bureau of Economic Research (2016:1) made the following statistical information available regarding Small Medium, Micro Enterprises (SMMEs):

Figure 1 SMME Key indicators

KEY INDICATORS	2015 Quarter 2
Number of SMMEs	2 251 821
Number of formal SMMEs	667 433
Number of informal SMMEs	1 497 860
SMME owners as % of total employment	14%
% operating in trade & accommodation	43%
% operating in community services	14%
% operating in construction	13%
% operating in finance and business	12%
% contribution to Gross Value Added (GVA)*	21%
% black owned formal SMMEs	34%
% operated by income group < R30 000 per annum	7%

Source: BER, StatsSA *GDP before tax and subsidies

In Quarter 2 of 2015 there were 2 251 821 SMMEs, of which only 667 433 (29,64%) were formal businesses and 34% of them are black owned Bureau of Economic Research (2016:1). 29,64% (percentage of formal SMMEs) might be due to the costs of formalising businesses being too expensive for most SMMEs.

Figure 2 SMMEs by economic sector

SMMEs	Number of (2008 Q1)	Number of (2015 Q2)				Turnover(2015Q1) R million	GDP (2015Q2) R million	Turnover* / SMME R million
		Total	Formal	Informal	Other			
Total	2 182 823	2 251 821	667 433	1 497 860	86 528	2 908 020	815 636	1.29
Agriculture	87 820	230 324	0	0	56 774	na	35 213	na
Mining	2 696	197 366	0	2 199	0	35 256	69 421	16.03
Manufacturing	267 817	20 611	62 657	138 801	0	658 740	111 672	3.27
Electricity, gas & water	4 252	96 846	6 656	801	0	7 488	38 647	1.00
Construction	252 233	373 434	77 098	222 143	0	229 016	38 804	0.77
Trade & Accommodation	974 083	112 856	186 798	757 669	0	1 160 560	129 144	1.23
Transport & Communication	122 370	785 321	56 620	76 514	0	134 152	87 612	1.01
Finance & Bus. Services	236 740	185 399	172 423	99 289	0	571 384	183 430	2.10
Community	227 243	249 663	105 181	200 444	0	111 424	50 982	0.36
Other	7 569		0	0	29 754	0	70 711	0.00

Source: BER, StatsSA *annualised

Out of 2.2 million SMMEs in South Africa, most of them operate in the domestic trade (wholesale and retail) and accommodation sector (944.5 thousand), second largest sector is community, social and personal services sector. On contrary, mining sector SMMEs made an average annual turnover of R16 million during 2015 1st quarter, in contrast to R360,000 made in the community and social services sector (Bureau of Economic Research, 2016:19).

South African SMMEs are diversified and operate in different industries, including retailing, wholesaling, tourism, mining, farming, manufacturing, construction and service. Similar to SMMEs in other developing countries, SMMEs in South Africa also face challenges that affect their growth and survival (Chimucheka, 2013:783). SMMEs form the backbone of South Africa's economy, not just in terms of their contribution to the Gross Domestic Product (GDP), but also in terms of employment creation (Chimucheka, 2013:157). In the second quarter of the year 2016; unemployment rate is currently at 26.6%, GDP is 3.3% (Statistics South Africa, 2016). Chimucheka (2013) suggests that SMMEs contribute positively to GDP and reducing unemployment.

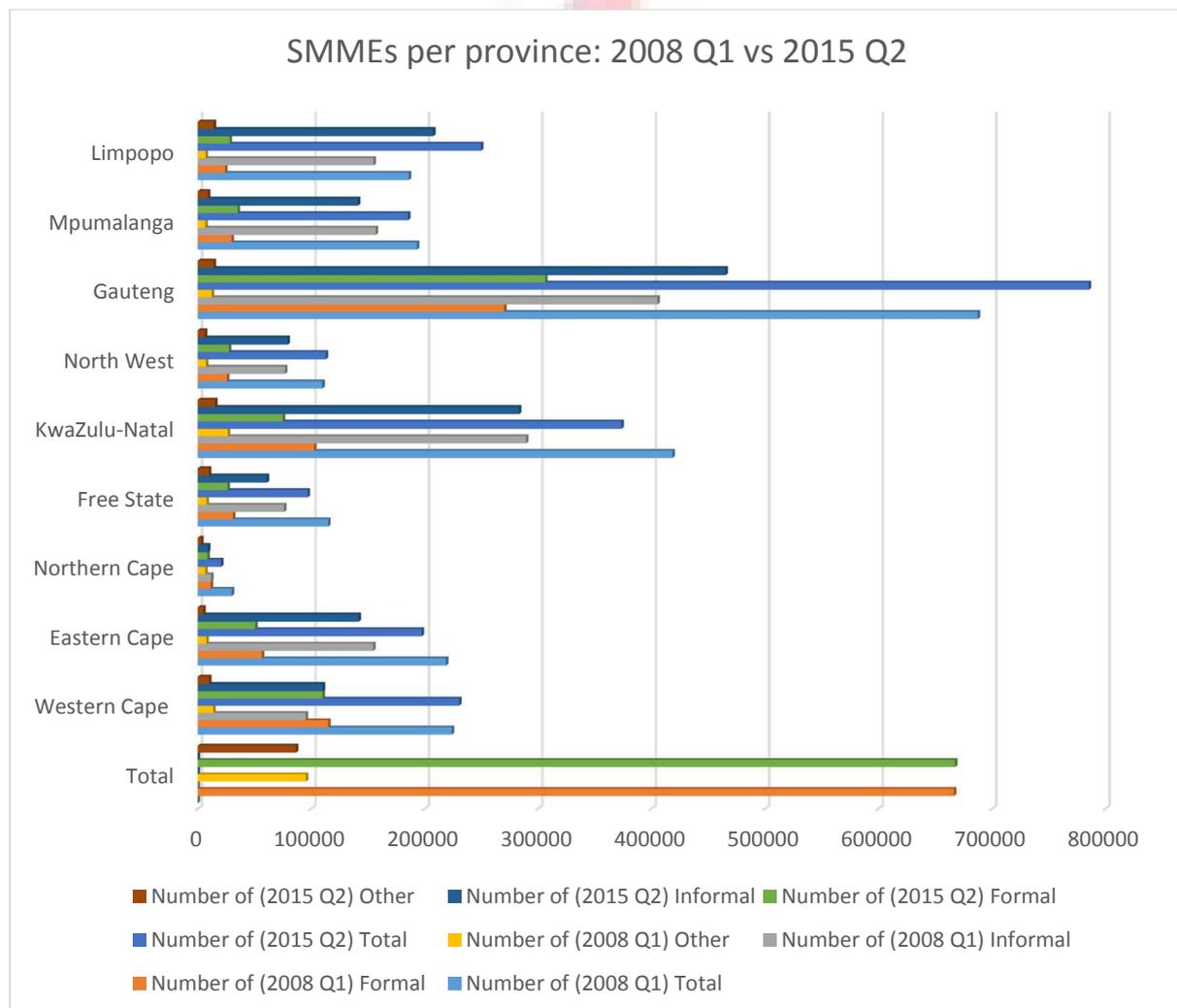
Bureau of Economic Research (2016:16) made the following statistical information available regarding Small Medium, Micro Enterprises (SMMEs) by province:

Figure 3 SMMEs by province

SMMEs	Number of (2008 Q1)				Number of (2015 Q2)			
	Total	Formal	Informal	Other	Total	Formal	Informal	Other
Total	2 182 823	666 501	1 420 933	95 389	2 251 821	667 433	1 497 860	86 528
Western Cape	223 933	114 976	95 212	13 745	230 324	110 107	110 188	10 030
Eastern Cape	218 865	56 579	154 631	7 655	197 366	50 670	141 739	4 957
Northern Cape	29 894	11 450	11 768	6 676	20 611	8 534	9 058	3 019
Free State	114 949	31 040	76 127	7 783	96 846	26 224	60 816	9 806
KwaZulu-Natal	418 406	102 591	289 347	26 468	373 434	74 976	283 165	15 293
North West	109 860	25 817	76 855	7 188	112 856	27 430	79 153	6 273
Gauteng	687 556	270 093	405 180	12 283	785 321	306 231	465 100	13 989
Mpumalanga	193 259	29 760	156 814	6 685	185 399	35 208	141 129	9 063
Limpopo	186 101	24 193	155 001	6 907	249 663	28 054	207 512	14 098

Source: StatsSA, BER

Figure 4 SMMRs per province: 2008 Q1 vs 2015 Q3



Over the last seven years, the number of SMMEs in South Africa increased by only 3%, from 2.18 million in 2008Q1 to 2.25 million in 2015Q2. This growth is significantly less than the 14% expansion in GDP over the same period. Among the provinces, Limpopo had the highest growth rate in its number of SMMEs (34%), followed by Gauteng (14%). The Northern Cape lost the largest portion (31%), followed by the Free State (16%) Bureau of Economic Research (2016:19). Out of 2 251 821 SMMEs (2 182 823 in 2008 Q1), 785 321 (34,87%) are Gauteng based SMMEs compared to 31,49% in 2008 quarter 1 (3,38% growth). Gauteng has the highest number of SMMEs in South Africa, compared to other provinces.

Pretoria: On May 19 2017 the Tshwane Metro Council will geographically be the world's third-biggest metropolitan authority. Only New York and Tokyo will be bigger (fin24, 2011). According to Louise (2016:41) "This area contributes 34% to the South African economy although it occupies only 1,4% of the land surface of the country, and is home to 22% of the South African population". Louise's contribution suggests that Tshwane is the economic hub of South Africa (considering land surface and population size versus GDP contribution) and one should therefore be motivated to conduct research in this region.

2.1.3 DIFERENT INITIATIVES IN SOUTH AFRICA TO HELP GROW SMMEs

A landmark in policy development for South Africa's economy was the production of the *White Paper on National Strategy for the Development and Promotion of Small Business in South Africa*, which launched new directions for supporting small business enterprises (Department of Trade and Industry, 1995). This policy document provided a roadmap for developing SMMEs in South Africa and reviving the economy through SMME development.

SMMEs are considered as an integral part of the economy and supporting this sector is important for the economy. The SMME sector is a vehicle for job creation considering slow growth of new employment opportunities in large formal enterprises (Masutha & Rogerson, 2014:142). Some initiatives available to SMMEs will be discussed below.

2.1.3.1 Small Enterprise Development Agency (SEDA)

Seda² is authorised to implement government's small business strategy and design; and implement a standard and common national delivery network for small enterprise development as well as integrating government-funded small enterprise support agencies across all tiers of government. Seda is mandated to develop, support and promote small enterprises in South Africa, ensuring their growth and sustainability in co-ordination and partnership with various role players, including global partners who make international best practices available to local entrepreneurs. Seda provides non-financial support services to SMMEs through national network in partnership with other role players in the small enterprise support (Seda, 2017).

2.1.3.2 The Black Business Supplier Development Programme (BBSDP)

The Black Business Supplier Development Programme (BBSDP) is a cost-sharing grant offered by the Department of Small Business Development to black-owned enterprise to enhance their competitiveness and sustainability to be in the mainstream economy and create employment. Qualifying business gets funding up to R1million; R800,000 for tools, machinery and equipment on a 50:50 cost-sharing basis, R200,000 on a 80:20 cost sharing basis (BBSDP pays 80% of the costs) is for business development and training for SMMEs to improve their corporate governance, management, marketing, productivity and use of modern technology (Small Business Development, 2017).

2.1.3.3 Gauteng Enterprise Propeller

Gep is an agency entrusted with implementing Gauteng Provincial Government's small enterprise development policy. Gep provides financial and non-financial support to Gauteng based SMMEs, including provision of short term loans for project finance, working capital and start-up businesses (Gep, 2016).

² The Small Enterprise Development Agency (Seda) is an agency of the Department of Small Business Development. Seda was established in December 2004, through the National Small Business Amendment Act, Act 29 of 2004 (Seda, 2017).

2.1.3.4 Gro-E Youth Scheme

Gro-E Youth Scheme is funding by IDC³ for start-up businesses and existing businesses with greater than 25% ownership owned by persons (South Africans and permanent residents) under the age of 36, demonstrating economic merit and prospects of acceptable profitability. Funding is from R1 million to R50 million per project at an interest rate of up to prime 3% to businesses that create jobs (Industrial Development Corporation, 2016b).

2.1.3.5 SMMEs failure due to lack of government support

Lack of information regarding available and established organisations that assists SMMEs results in SMMEs owners believing that government doesn't support them (Chimucheka, 2013:788). This is a major reason why SMMEs don't access opportunities available to them through government initiatives aimed at assisting them, as explained above.

2.1.4 SMME GROWTH MODELS

To contextualise SMME further, models for growth of Small, Medium and Micro Enterprises will be explored.

2.1.4.1 Stochastic (Random) Model is based on the assumption that there are numerous factors affecting growth of SMMEs and there is no one dominating factor that can be used to clarify growth. This model by definition assumes that growth is independent of any other factors, a notion which was contradicted by various studies (Farouk & Saleh, 2011:3). This model somehow appears to be very unrealistic especially if one tries to determine on what to focus to grow an SMME since there is no specific or dominating factor that growth can be attributable to.

³ The Industrial Development Corporation of South Africa Limited (IDC) is a national development finance institution set up to promote economic growth and industrial development. It was established in 1940 by an Act of Parliament (Industrial Development Corporation Act, No. 22 of 1940) and is fully owned by the South African government under the supervision of the Economic Development Department (Industrial Development, 2016a).

2.1.4.2 Deterministic (Static) Approach focuses on identifying a set of internal and external variables that can explain the growth of SMEs, such as by identifying some characteristics, strategies and practices that are significantly related to growth. Compared to stochastic (random) model, this model provides understanding of SMME growth patterns (Farouk & Saleh, 2011:4). This model compared to stochastic (random) model considers internal and external factors in addition of strategies (amongst other things) that are substantial to the growth of SMMEs.

2.1.4.3 Stages Models was developed to represent the complex and dynamic nature of growth phenomena. This model was adopted from biology life-cycle analogy, assuming that the business developments go through various stages, including existence, growth, take off and maturity (Farouk & Saleh, 2011:4). This model uses biology life-cycle comparison which further stretches growth factors according to different stages (life-cycles) that SMMEs goes through. Given that one can safely conclude that different growth factors apply to different life-cycle of the SMME.

2.2 FACTORS PLAYING A ROLE IN SMMEs FAILURE

The majority of survivalist businesses are said to be necessity driven entities as well as lacking the necessary basic business skills and entrepreneurship, capacity and resources needed for business growth and expansion, access to markets amongst others (Marivate, 2014:56). The author highlights a fundamental problem of lack of basic skills to run a business by most SMMEs in the survivalist category.

There are other factors contributing to failure of SMMEs; according to Mboniyane and Ladzani (2011:552) "These factors include not having information regarding government initiatives and access to information thereof, crime, overtrading, inadequate managerial skills, poor financial management skills, lack of good credit record, crime and not having access to good communication technology". The risk of business failure is huge when it comes to SMMEs. International research discovered that the main reason for business decline and failure are due to factors which SMMEs have control over them. Insufficient marketing, lack of financial management, poor planning and control, lack of sufficient management skills and high gearing levels

(Abdurahman, Addinall, Chandler, Daniels, English, Green, Shade & Bruwer, 2012). The authors have in addition to what Marivate (2014:56) has highlighted, included troublesome aspects that contribute to failure such as crime (external factor) and poor financial management.

South African SMMEs are inhibited by factors such as poor marketing skills, lack of marketing research skills, poor analysis of the market, failure to understand and forecast future customer trends and needs and inability to prepare marketing plans. (Maziriri & Chinomona, 2016:127). Maziri and Chinomona (2016:127) suggest that marketing and having marketing plans in place are critically important, however, they fail to recognize the fact that start up SMMEs might find it difficult to afford services of a Marketing Consultant.

According to Olawale and Garwe (2010: 731) “lack of education is one of the primary reasons for the low level of entrepreneurial activities and the high failure rate of SMMEs”. Olawale and Garwe (2010) assertions are specific about lack of education and leading to high failure rate of SMMEs and low level of entrepreneurship, this supported Chimucheka (2015) contribution.

According to Marivate (2014:58) “Lack of formal entrepreneurship training hampers their survival and growth. Entrepreneurial skills are the most important and essential Basic Business Skills requirement for steering small businesses in a manner that leads to profitable and viability of the organization”. Based on author’s assertions one can safely conclude that lack of Entrepreneurial skills and basic business skills play a huge role leading to failure of SMMEs.

2.3 MAIN CHALLENGES PREVENTING SUCCES OF SMMEs

2.3.1 Lack of entrepreneurship

According to Abir, Al-Harrasi, Eyad, Al-Zadjali, Zahran & Al-Salti (2014:2479) "Entrepreneurship is defined as the process of identifying opportunities in the market place; committing actions and necessary resources to exploit the opportunities for long term personal gain". This definition clearly outlines key characteristics of an entrepreneur, which is the ability to identify opportunities and exploiting such opportunities for personal gain. Alberti, Sciascia and Poli (2004) define entrepreneurship education as the formal dissemination of entrepreneurial competencies, which in turn refers to the concepts, skills and mental awareness used by individuals during the process of starting and developing their growth-oriented ventures.

Economic prosperity of a country is positively influenced by the entrepreneurship sector; the development of entrepreneurship in several countries increasingly depends on small, medium and micro enterprises (SMMEs). Entrepreneurship injects vitality and a competitive spirit into the economic landscape that is not readily available from large businesses (Visser, Chodokufa, Amadi-Echendu, & Phillips, 2016:94). SMMEs are entrusted with bringing about economic growth and reducing unemployment, in order for that to be achieved entrepreneurship needs to be enhanced. Globally, government spend enormous amounts of money on entrepreneurship education and coaching.

2.3.2 Lack of managerial skills

According to Chimucheka (2015:150) "lack of management skills by SMME owners and managers can also be attributed to lack of education and training. Education and training help develop management competencies which are necessary for the success of an enterprise". While education is not a requisite for the creation of new ventures it provides the individual with the skills and training that are crucial to the success of the business (Irene, 2016:71).

2.3.2 Access to finance

According to Making Finance Work for Africa (2016) "access to finance refers to the availability of financial services – in the form of deposits, credit, payments, or insurance – to individuals or enterprises. The availability of such services can be constrained for instance by physical access, affordability or eligibility". Constraints outlined by Making Finance Work for Africa (2016) in the definition highlights the reality of the situation faced by a lot of SMMEs in South Africa. According to Rankhumise (2010:9) "access to finance is typically a major problem for entrepreneurs without a track record or without any form of guarantee. The extent to which the financial system understands and supports the people starting and growing new businesses is therefore a critical factor influencing entrepreneurship". Rankhumise (2010) contribution to the subject further elaborates constraints of access to finance as highlighted in the definition by Making Finance Work for Africa (2016).

According to South African Government (2015) "Small Businesses continue to face problems with accessing funding from the main commercial banks, based on our people not having adequate collateral, and a lengthy track record of running formal businesses. But, this is a chicken and egg story, because without gaining access to capital, informal businesses will remain small and vulnerable, unable to develop the very track record and asset base the banks require". These are the words of Minister Lindiwe Zulu during the Small Business Development Department Budget Vote 2015/16 in parliament on the 20th May 2015. The South African Government (2015) concurred with Making Finance Work for Africa (2016) however, the government failed to recognise that a lot of SMMEs lack awareness of the initiatives by government and have poor access to communication technology as highlighted by Mboniyane and Ladzani (2011).

Lack of financial support is the second most reported contributor to low new firm creation and failure, after education and training in South Africa (Olawale & Garwe, 2010:731).

2.3.3 Access to markets

According to Tlhomola, Rankhumise & Van Niekerk (2016:7) "access to markets contributes significantly to the survival of an enterprise. It is a critical component of a competitive economy. The government has an important role to play by ensuring that a conducive regulatory environment prevails for entrepreneurs". Mutoko (2014:29) on the other hand stated that "while a lot of effort has been put by the government and other stakeholders such as banks to finance SMMEs to help them succeed; it should be noted that no matter the amount of funding, if an SMME has little or no access to markets, failure is imminent as business success comes through sale of products or services".

2.3.4 Poor financial management, cash management and record keeping skills

The smaller the business is the more limited is the financial knowledge of the owner. Financial knowledge would be something "nice to have", but entrepreneurs cannot be finance experts (Schmidt, Mason, Bruwer & Aspeling, 2016:19). Cash flow management is the most crucial task for business managers. The business becomes insolvent when it fails to pay back the money owed timeously. Such failure is the primary reason for bankruptcy among small businesses. The prospect for such an implication should compel businesses to efficiently manage their cash with caution (Mungal & Garbharran, 2014:76). According to Tlhomola, Rankhumise & Van Niekerk (2016:8) "familiarity with Generally Accepted Accounting Practice (GAAP) is a prerequisite. A well-qualified accountant should be employed to carry on this task. He or she should have proper knowledge to control cash as liquidity is the key to the success of any business".

2.4 CONCLUSION

Factors contributing to failure of SMMEs were highlighted in this chapter, namely lack of entrepreneurship, lack of managerial skills, access to finance, access to markets, poor financial management, cash management and record keeping skills. The purpose of this literature review was to identify fundamental factors that contribute to failure of SMMEs. An important point to consider is availability of information that will help SMMEs run successful businesses existing sources of information need to be revised.



CHAPTER 3 RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter focuses on the research methodology used in order to understand why Small, Medium and Micro Enterprises (SMMEs) in Tshwane are failing. The aim of this study is to investigate the factors that lead to the failure of SMMEs and to examine SMMEs owner's views about this trend.

3.2 RESEARCH DESIGN

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions (Blumberg, Cooper & Schindler, 2014:152). A quantitative research design will be used for the purpose of this study. This method was used to gain an insight into the research problem and to identify factors that lead to the failure of SMMEs. The researcher will then be able to suggest some guidelines which will help to formulate alternative strategies to ensure the success of SMMEs. According to Martins, Loubser and Van Wyk (1996:125), quantitative research "involves the collection of data from large number of individuals, frequently with the intention of projecting results to the larger number of population". Thus, in this study the researcher used quantitative research methods to evaluate the challenges and experiences faced by SMMEs owners in Tshwane and what they perceive as factors contributing to failure of SMMEs.

3.3 RESEARCH METHODOLOGY

3.3.1 Introduction

Given that the goal of this study is to discover perceptions of the existing SMME entrepreneurs, a questionnaire is considered to be appropriate. A consideration will be based on the responses of the existing SMMEs as it is crucial to understand the factors that could lead to failure. Therefore in this specific study, the results will be presented using simple descriptive statistics.

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, quantitative approach is required” (Durrheim, 1999: 43).

3.3.3 Population

The study looked at SMMEs in Tshwane and focused on a population that included survivalists, micro- and SMMEs 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. There are no official statistics of number of SMMEs in Tshwane either by Statistics South Africa (StatsSA) or The City of Tshwane Municipality. For the purposes of this study, the estimated size of the population of SMMEs in Tshwane region is 671 consisting of SMMEs form SMME City Vendors, Atteridgeville Business Community and City of Tshwane TBC members.

3.3.4 Sample

The sample size will be 50, and all 50 selected SMMEs participated in the study. SMMEs currently operating were used for this study, not failed entrepreneurs. The reason for not focusing on the failed entrepreneurs is due to the fact they may not be contactable and for those who are available may not be willing to share their bad experience regarding their misfortunes with the researchers. A list of SMMEs was obtained from public domain (SMME City Vendors, Atteridgeville Business Community and City of Tshwane TBC members) and the researcher obtained their permission to participate. Criteria for inclusion of SMMEs in the sample:

1. Owner managed businesses or at least majority of owners are involved in day to day running of the business.
2. With not more than 35 employees.
3. Turnover not exceeding R 3,2 million.
4. In the following industries and business activities: General Trading, Food and Beverages, Construction & Manufacturing, IT and Telecommunication, Cleaning, Health and Beauty, Entertainment, Accounting and Consulting, Transport and Logistics, Property Investors and Retail.

3.3.5 Sampling

A stratified sample of 50 SMMEs was selected for the study from lists available in the public domain. The selected areas for the research study were townships/surburbs in and around Tshwane.

The selected areas are shown in the following in table 3.3.5 below. The stratified areas selected were Atteridgeville, Saulsville and Lotus Gardens (West), Mamelodi and Nelmapius (East), Olivenhoutbosch and Centurion (South), Ga-Rankuwa and Mabopane (North) and the CBD including Marabastad.

Table 3.3.5 Selection of SMMEs from Tshwane

Geographical Zone	Township / Suburb	Number of SMMEs in sample
West	Atteridgeville, Saulsville and Lotus Gardens	16
East	Nelmapius and Mamelodi	8
Central	CBD	12
North	Ga-Rankuwa and Mabopane	8
South	Centurion and Olivenhoutbosch	6

3.3.6 Data Collection

Firstly, SMMEs owners were approached in their specific zones where they operate in Tshwane. Each individual SMMEs owner was given informed consent for participation in an academic research project letter (see Annexure A) to sign. This letter outlined aim of the interview, and matters with regards to confidentiality, privacy and anonymity were discussed. When it comes to gathering data, semi structured interviews were used. This method sourced out the necessary information required to explain the reason why SMMEs fail. Semi-structured interviewing relates to the way which the interviewer search for both clarification and elaboration on responses given, that provide the interviewer with leeway to investigate further than responses provided and resulting in a dialogue with the interviewee (May, 1997:111). An opportunity is created for the interviewer to get more information because neither the interviewer nor the respondents are restricted to specific questions and responses.

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 researcher personally administered questionnaires (assisted by Field Workers) among the existing SMME entrepreneurs. Potential participants were made aware of the aim of the study being identifying factors which they consider to be contributing to failure of SMMEs. Furthermore participants were informed in advance about 15 – 20 minutes estimated duration of completing the questionnaire.

3.3.7 Data analysis

Spreadsheets are useful to researchers even if they are capable only of listing data and adding up different columns and rows. But in fact, they allow the researcher to do many other things as well (Leedy and Ormrod, 2015:234). With the help of spreadsheets, graphs and tables were used to analyse data and help the researcher interpret the results. Spreadsheets were used to analyse frequencies and cross-tabulations of the data collected. In addition to spreadsheets chi-squares test were used to compare categorical variables for significant differences). Chi-square test for independence is used to determine if two categorical variables are related (Palla, 2001:256).

3.3.8 Reliability and validity of data

Reliability has to do with the accuracy and precision of a measure procedure (Blumberg, Cooper and Schindler, 2014:398). A measure is reliable to the degree that it supplies consistent results. Reliability is a necessary contributor to validity but it is not a sufficient condition for validity (Blumberg et al, 2014:405). **Validity** refers to the extent to which a test measures what we actually wish to measure (Blumberg et al, 2014:398). Validity takes two major forms: external and internal validity. The external validity of research findings refers to the data's ability to be generalized across persons, settings and times. Internal validity on the other hand, is the ability of a research instrument to measure what it is purported to measure (Blumberg et al, 2014:405).

The researcher will train the field workers personally to make sure that they conduct the interviews according to instructions, and do quality checks and back checks. These are measures to ensure good quality of data collection.

For the purpose of the reliability and validity of the data, the following measures were undertaken: The questionnaires (as per Annexure A) were based on theory and the literature review to ensure that the right concepts are addressed and the correct questions are asked. The questionnaires were submitted to the supervisor for

comments as well as being piloted to make sure that the questions are understood correctly and interpreted by all SMMEs entrepreneurs in the same way.

3.3.9 Ethical Considerations

Participants were informed by field workers that their answers will be treated as confidential, and they will not be identified in any of the research reports emanating from this research. A senior leader of field workers is someone who is very skilled and is also a freelancer for various research institutes.

Field workers also informed participants that their participation in this study is very important to the researcher. They may however choose not to participate and they may also withdraw from the study at any time without any negative consequences.

Participants were requested to answer the questions in the attached questionnaire as completely and honestly as possible. Participation did not take more than 15-20 minutes of their time.

Participants were further informed by field workers that the results of the study will be used for academic purposes only and may be published in an academic journal. The researcher will provide participants with a summary of research findings on request.

Participants were given an option to kindly contact the researcher's supervisor, if they have any questions or comments regarding the study. They were also requested to kindly sign questionnaire forms to indicate their willingness to participate in the study. Field workers also informed participants that by signing forms that will mean giving their consent to participate in the study. Field workers further explained that their signature means they have read the informed consent letter and understand their rights with regard to participating in the research.

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 data analysis was outlined. The means and method of data collection including the criteria used to select sample of SMMEs were thoroughly discussed. Reliability, Validity and Ethical considerations especially respondents' rights regarding being part of this study were also addressed in this chapter. The most important thing is the ability to achieve the desired objectives of conducting this study through the chosen methodology.



CHAPTER 4 RESULTS OF DATA ANALYSIS

4.1 INTRODUCTION

This chapter focuses on results of data analysis based on questionnaires designed in order to understand why Small, Medium and Micro Enterprises (SMMEs) in Tshwane are failing. Fifty SMMEs based in Tshwane region were given questionnaires to complete. The profile of the 50 SMMEs interviewed (respondents) is provided in section 4.2 below. The results are presented in sections 4.3 to 4.4 below. Frequency tables of the results as well as Pearson's chi-square tests of association to determine significant differences are presented.

4.2 BUSINESS DEMOGRAPHIC INFORMATION OF THE RESPONDENTS (PROFILE OF SMMEs QUIZZED)

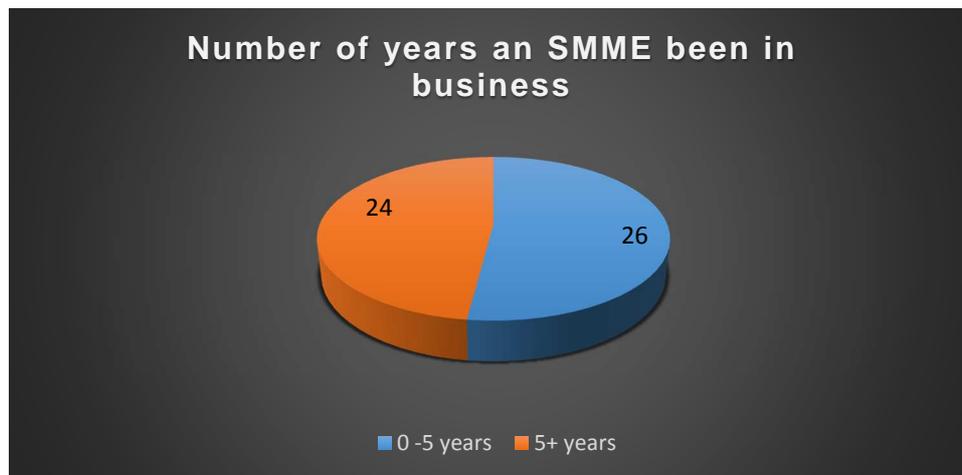
Number of years in business

The study found that slightly more businesses, i.e. 26 of the 50 businesses that took part in the study (52%) were in business for 5 years or less. Table 4.2.1 and Figure 4.2.1 below shows a tabular and graphical depiction of this finding.

Table 4.2.1 Number of years an SMME been in business

	Frequency	Percent
0 – 5 years	26	52.0
5+ years	24	48.0
Total	50	100.0

Figure 4.2.1 Number of years an SMME been in business



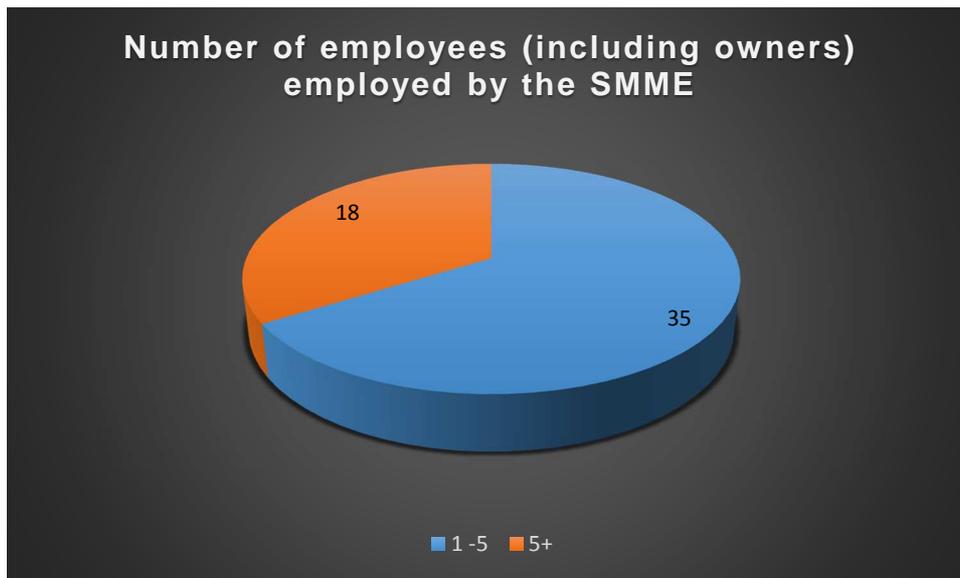
Number of employees (including owners) employed by the SMME

Most businesses, 35 of the 50 businesses (70%) have one to five employees. Table 4.2.2 below shows a tabular depiction of this finding and alternatively interpreted in Figure 4.2.2 below.

Table 4.2.2 Number of employees (including owners) employed by the SMME

	Frequency	Percent
1 - 5	35	70.0
5+	15	30.0
Total	50	100.0

Figure 4.2.2 Number of employees (including owners) employed by the SMME



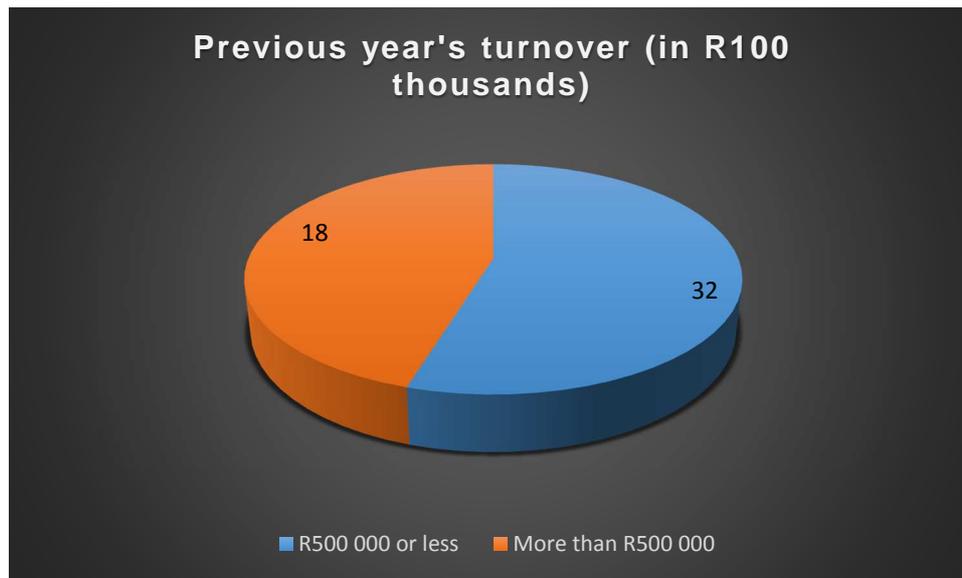
Previous year's turnover of SMME respondents

Most businesses, i.e. 32 of the 50 businesses (64%) reported a turnover of R500 000 or less last year. Table 4.2.3 below shows a tabular depiction of this finding, this aforesaid finding was also graphically presented in Table 4.2.3 below.

Table 4.2.3 Previous year's turnover (in R100 thousands)

	Frequency	Percent
R500 000 or less	32	64.0
More than R500 000	18	36.0
Total	50	100.0

Figure 4.2.3 Last year's turnover (in R100 thousands)



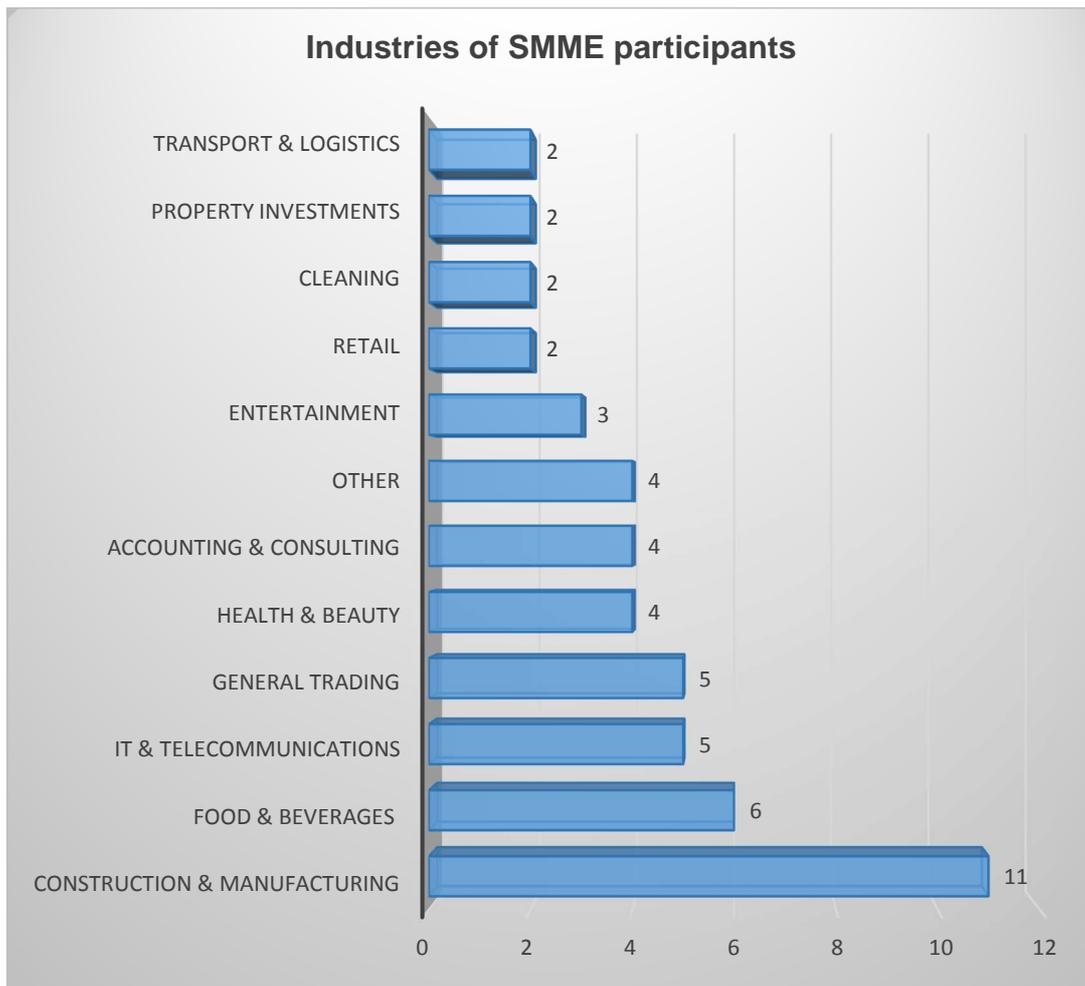
Industries of SMME respondents

The respondents were required to indicate in which industries their businesses are in, the researcher had to interpret and group the industries accordingly through identifying key words in responses given. The study found that most businesses, i.e. 11 of the 50 businesses that took part in the study (22%) were from Construction & Manufacturing industry, followed by second largest percentage of 12% (12 out of 50) which falls under food and beverages industry and there were two third largest percentage groups viz. IT (Information Technology) and Telecommunication and General Trading whereby two groups consisting of 10% (5 out of 50) for each of these categories of respondents. The abovementioned when combined the make the largest number of respondents, i.e. 54% of respondents (27 out of 50). Table 4.2.4 and Figure 4.2.4 below show a tabular and graphical depiction of this finding respectively.

Table 4.2.4 Industries of SMME respondents

	Frequency	Percent
Construction & Manufacturing	11	22.0
Food & Beverages	6	12.0
IT and Telecommunications	5	10.0
General Trading	5	10.0
Health and Beauty	4	8.0
Accounting & Consulting	4	8.0
Other	4	8.0
Entertainment	3	6.0
Retail	2	4.0
Cleaning	2	4.0
Transport and Logistics	2	4.0
Property Investments	2	4.0
Total	50	100.0

Figure 4.2.4 Industries of SMME respondents



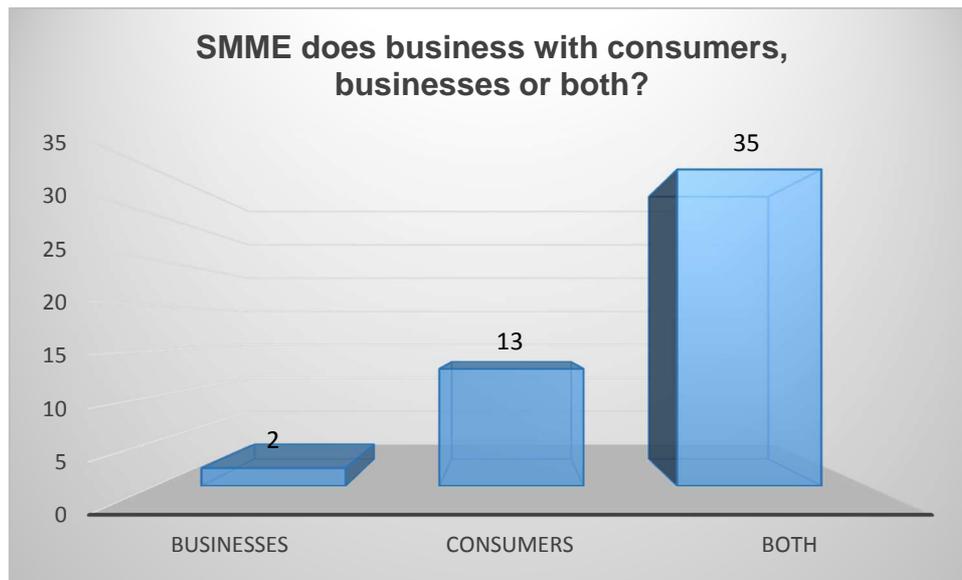
Clientele

The majority of businesses, i.e. 35 of the 50 (70%) do business with both consumers and businesses. Table 4.2.5 below shows a tabular depiction of this finding and alternative interpretation is provided in Figure 4.25.

Table 4.2.5 SMME does business with consumers, businesses or both?

	Frequency	Percent
Both	35	70.0
Consumers	13	26.0
Businesses	2	4.0
Total	50	100.0

Figure 4.2.5 SMME does business with consumers, businesses or both?



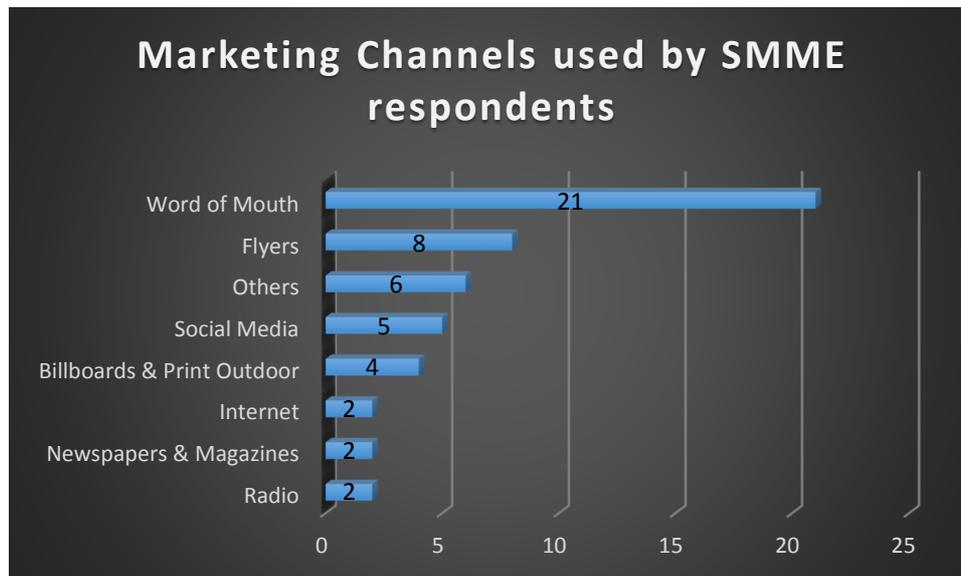
Marketing Channels used by SMME respondents

In this study SMME owners were asked to mention (select) three different marketing channels they use in their businesses. Just a disclaimer; not all SMME owners answered this questionnaire in full, only 84% (126/150) of the required answers were given in this section. The study found that most respondents, i.e. 29 of the 50 (58%) businesses that took part in the study make use of word of mouth as their marketing channel, followed by Flyers at 24%. Table 4.2.6 below shows a tabular depiction of this finding.

Table 4.2.6 Marketing channels used by SMME respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Word of mouth	29	19.3	23.0	23.0
Flyers	24	16.0	19.0	42.1
Others	23	15.3	18.3	60.3
Social Media	22	14.7	17.5	77.8
Billboards and Print Outdoor	15	10.0	11.9	89.7
Internet	9	6.0	7.1	96.8
Newspapers and Magazines	3	2.0	2.4	99.2
Radio	1	0.7	0.8	100.0
Total	126	84.0	100.0	
System	24	16.0		
	150	100.0		

Figure 4.2.6 Marketing channels used by SMME respondents



4.3 QUESTIONNAIRES IN RELATION TO RESEARCH QUESTIONS AND FINDINGS THEREOF

Research questions of this study were articulated in section 3 of chapter 1. A research questionnaire was designed and given to respondents to answer with the objective of addressing the research questions. In this section the researcher will link the results of the survey with the research questions, and report on the results of research.

4.3.1 What factors contribute to SMMEs failing?

In addressing this research question, a section in the questionnaire (see **Appendix A**) was designed in a manner whereby respondents were required to choose three factors from the following:

1. Lack of basic business and entrepreneurship skills
2. Access to finance
3. Lack of record keeping of finances (Bookkeeping), Financial Management and not having financial statements and Management accounts done regularly
4. Access to markets
5. Poor choice of location to conduct business
6. Ineffective marketing

7. Little or no knowledge of laws associated with running the business (e.g. Companies Act, Tax and Municipal by laws)
8. Any other factors not addressed above (**comment below**)
9. Lack of government financial support (grants)
10. Not having access to Business Incubation & mentorship opportunities
11. Other (**comment below**)

For more information see a section with the title "In my opinion and experience (directly or / and indirectly) SMMEs fail because of:" in **Appendix A**.

The three factors which were most often identified, were as follows:

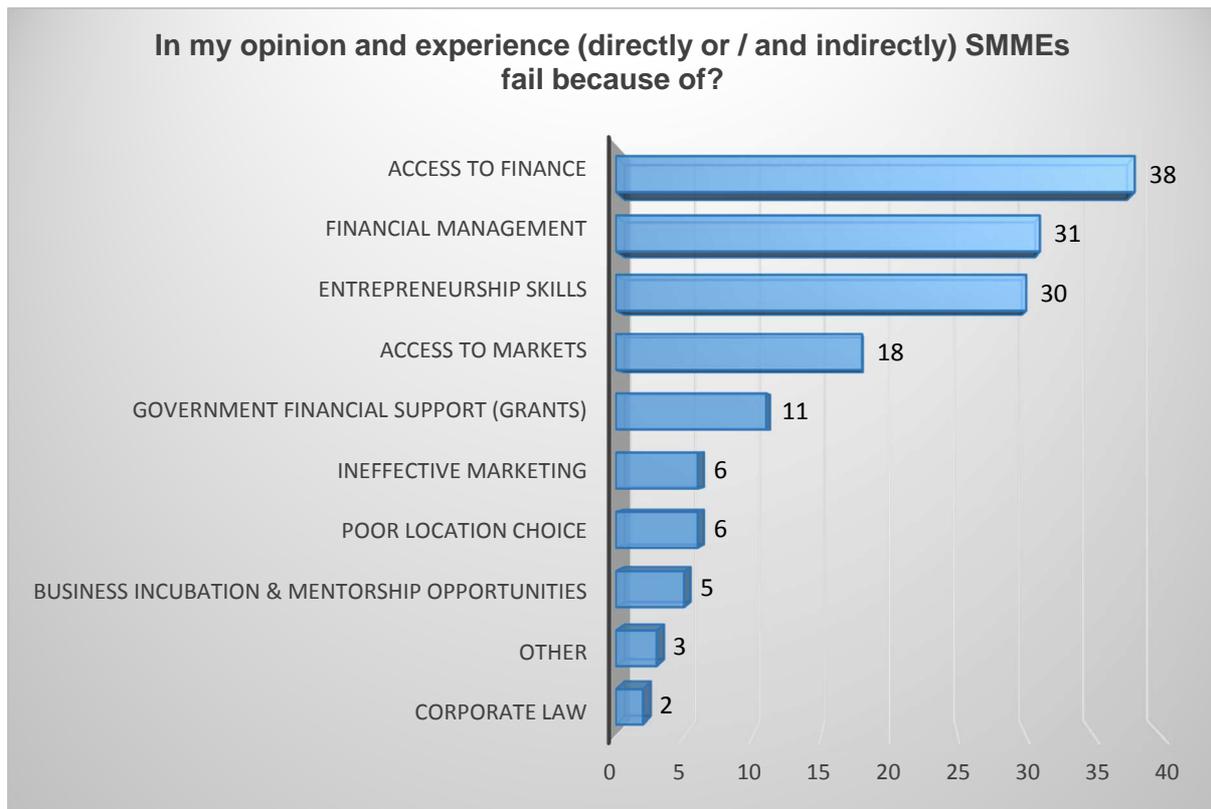
1. Access to finance 25.3% (38 out of 50 responses),
2. Financial management 20.7% (31 out of 150) and
3. Lack of entrepreneurship skills 20% (30 out 150).

As for the three possible factors expressed as a denominator of a percentage number of respondents 50×3 (required responses) = 150. 3 factors which causes failure of SMMEs chosen above combined makes 66% of all possible responses Table 4.3.1 below shows a tabular depiction of this finding and alternatively interpreted in Figure 4.3.1 below.

Table 4.3.1 SMMEs fail because of?

	Frequency	Percent
Access to finance	38	25.3
Financial Management	31	20.7
Entrepreneurship skills	30	20.0
Access to markets	18	12.0
Government financial support (grants)	11	7.3
Ineffective marketing	6	4.0
Business incubation & mentorship opportunities	5	3.3
Poor location choice	6	4.0
Corporate Law	2	1.3
Other	3	2.0
Total	150	100.0

Figure 4.3.1 SMMEs fail because of?



The literature supports the finding that SMMEs fail due to lack of access to finance. Rankhumise (2010:9) stressed the fact that access to finance is a major problem for entrepreneurs without a track record or any form of guarantee, and this is a critical factor influencing entrepreneurship. The smaller the business is the more limited is the financial knowledge of the owner (Schmidt, Mason, Bruwer & Aspeling, 2016:19), this is another finding (lack of financial management) which is supported by literature. Lack of entrepreneurial skills is also by Marivate (2014:58) who highlighted the fact that Lack of formal entrepreneurship training hampers the survival and growth SMMEs, entrepreneurship skills are essential in ensuring viability and profitability of the business.

4.3.2 Why are SMMEs failing?

"The following psychological factors can contribute to failure of SMMEs:" is the title of a section in the questionnaire (see **Appendix A**) which was given to respondents to help this study tackle the question, why are SMMEs failing? In that section the questionnaire respondents were required to select one answer from the following:

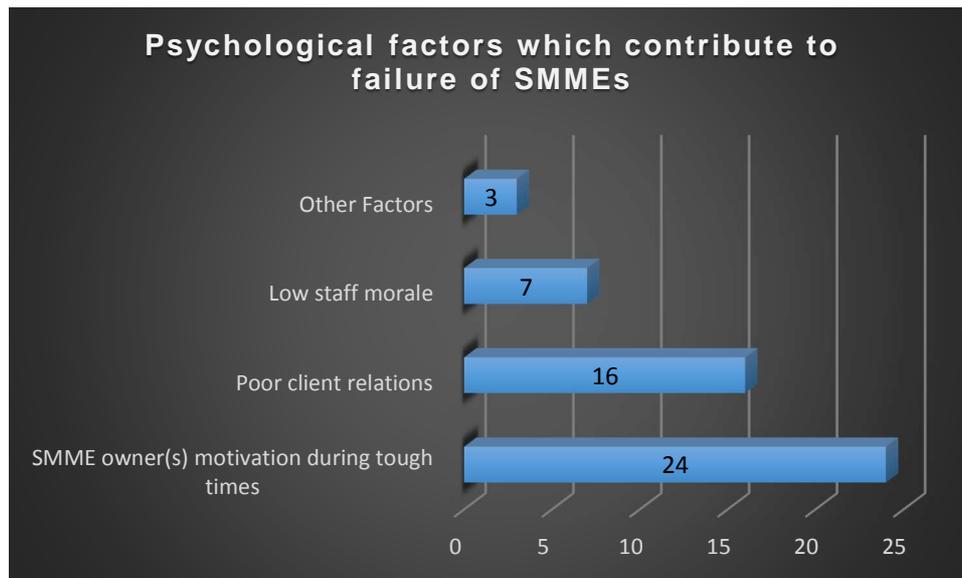
1. Low staff morale
2. Customers / clients don't feel valued and appreciated (poor relations with clients)
3. SMME owner(s) find it difficult to stay motivated when times are tough
4. Other (**comment below**)

Most respondents in the study 48% (24/50) cited failure because of the fact that SMME owners find it difficult to stay motivated during tough times. Followed by 32% (16/50) of the respondents who cited poor client relations as a contributing psychological factor that causes failure of SMMEs. And lastly 14% (7/50) of the respondents cited low staff morale as a contributing factor. The three responses above combined make 94% (47/50) of respondents in the study. Table 4.3.2 below shows a tabular depiction of this finding and Figure 4.3.2 below show an alternative interpretation of this finding.

Table 4.3.2 The following psychological factors which contribute to failure of SMMEs

	Frequency	Percent
SMME owner(s) motivation during tough times	24	48
Poor client relations	16	32
Low staff morale	7	14
Other Factors	3	6
Total	50	100

Figure 4.3.2 The following psychological factors which contribute to failure of SMMEs



Due to limited resources available in conducting this research, no literature was found in relation to these findings; failure of SMME caused by lack of SMME owner(s) motivation during tough times, poor client relations and low staff morale. The above mentioned findings will contribute to the body of knowledge in answering to the question, why are SMMEs failing?

4.3.3 Are certain SMMEs more vulnerable (or prone) to failure?

This question was answered in the questionnaire by respondents under a section entitled "SMMEs which fails (or likely to fail) are in the following industry"(see **Appendix A**).

In that section, respondents selected one industry which they feel SMMEs operating in that space are likely to fail (or keeps on failing) from the following options available in the questionnaire:

1. Transport & logistics
2. Construction (incl. Building, Civil, Electrical etc.)
3. Education
4. Information Technology (IT) and Computer related activities
5. Catering, Food sales & restaurant related activities
6. Fashion
7. Home improvements & Maintenance
8. Accounting, Office Admin services & Consulting

9. Security and Private Investigations
10. Farming
11. Other (**comment below**)
12. Don't know

To stretch this aspect further; "What type of SMME owners are more likely to succeed?" is another section in the questionnaire providing more clarity in addressing the research question under this section (see **Appendix A**). Options available for respondents to choose one answer are as follow:

1. Higher level of formal education (**e.g. Lawyers, Engineers, Doctors, etc.**)
2. Experience in business they run (**without** formal qualifications)
3. Experience in business they run (**plus** training course in business studies)
4. Entrepreneurial skills acquired through family business background (**without** formal qualifications).
5. Entrepreneurial skills acquired through family business background (**plus** training course in business studies)
6. Undergone business mentorship programmes

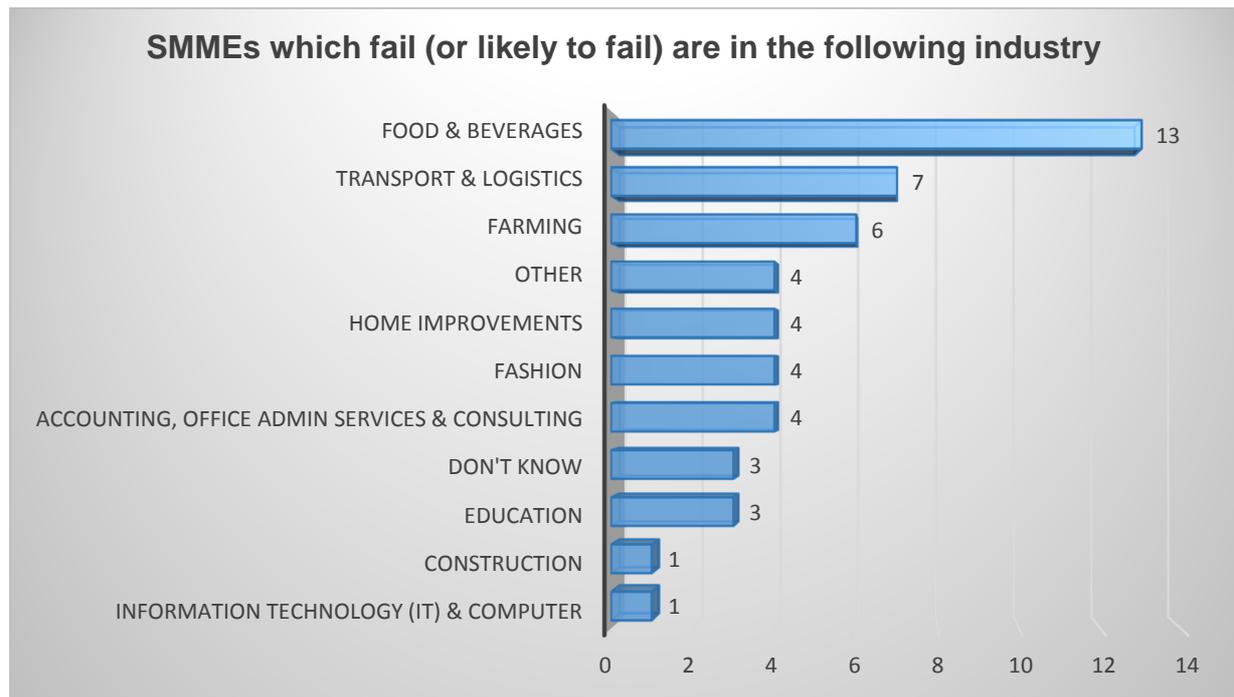
4.3.3.1. SMMEs which fail (or likely to fail) and their industry

The study has found out that 26% (13/50) say that SMMEs in the food and beverages, then 14% (7/50) say Transport and Logistics and lastly SMMEs in Farming sector of which 12% (6/50) of the respondents highlighted that all these SMMEs end up failing (or likely to fail). The aforementioned categories of answers when combined, make up 52% (26/50) of total respondents. Graphical and tabular interpretation of this finding are shown in Figure 4.3.3.1 and Table 4.3.3.1 respectively.

Table 4.3.3.1 SMMEs which fail (or likely to fail) are in the following industry

	Frequency	Percent
Information Technology (IT) and Computer	1	2.0
Construction	1	2.0
Education	3	6.0
Don't Know	3	6.0
Accounting, Office Admin services and Consulting	4	8.0
Fashion	4	8.0
Home Improvements	4	8.0
Other	4	8.0
Farming	6	12.0
Transport & Logistics	7	14.0
Food & Beverages	13	26.0
Total	50	100.0

Figure 4.3.3.1 SMMEs which fail (or likely to fail) are in the following industry



Due to limited resources available in conducting this research, no literature was found in relation to these findings; SMMEs that are likely to fail are in the following three industries: food and beverages, transport and logistics and farming. These will contribute to the body of knowledge in making entrepreneurs aware of SMME industries that fails (or likely to fail).

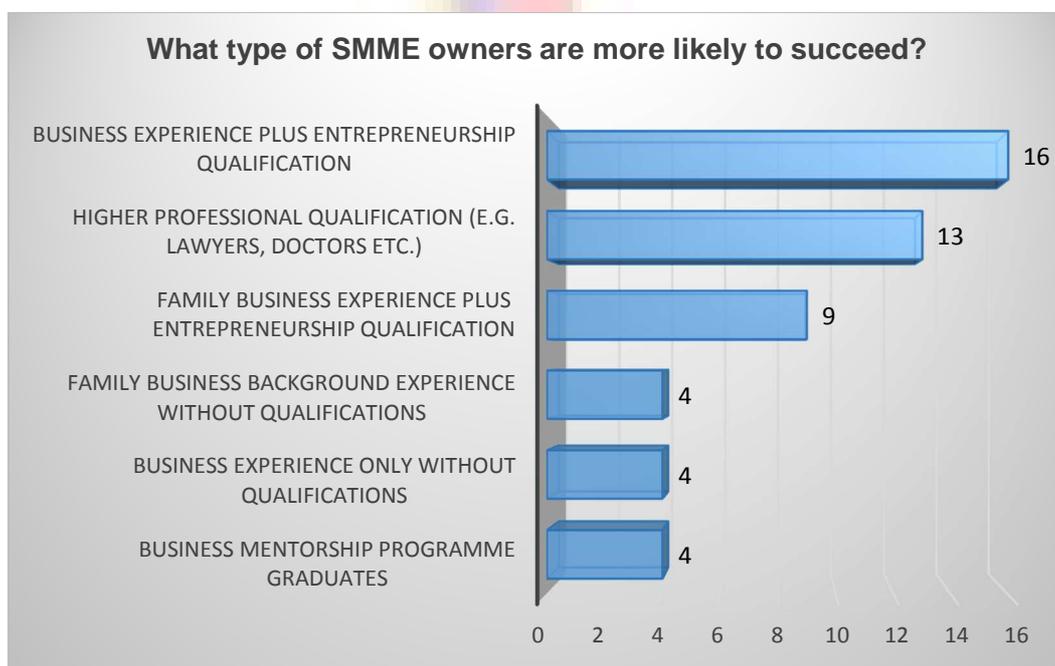
4.3.3.2. Types of SMME owners who are more likely to succeed?

It was discovered in the study that 32% (16/50) of respondents who responded that SMMEs owners who are more likely to succeed have experience in businesses they run (business experience) plus Entrepreneurship qualification, followed by 26% (13/50) respondents saying SMME owners possessing higher professional qualification (e.g. Doctors, Lawyers, etc.) are more likely to succeed in their businesses, then 18% (9/50) respondents concluded by citing Entrepreneurial skills acquired through family business background (**plus** qualification) as SMME owners who are more likely to succeed in their businesses. 76% (38/50) of respondents have chosen a combination of the above. This finding was also interpreted graphically and in a tabular in Figure 4.3.3.2 and Table 4.3.3.2 respectively.

Table 4.3.3.2 Types of SMME owners more likely to succeed

	Frequency	Percent
Business Experience plus Entrepreneurship education Qualification	16	32.0
Higher professional qualification	13	26.0
Family business background experience	4	8.0
Business Experience only	4	8.0
Family business experience plus qualification	9	18.0
Business Mentorship programme	4	8.0
Total	50	100

Figure 4.3.3.2 Type of SMME owners more likely to succeed



The fact that Entrepreneurship education possessed by SMME owners leads to success is supported by literature. Chimucheka (2015:115) states that entrepreneurship education can help improve the technical skills of SMME operators. As for business experience Marivate (2014:60) states businesses owned and managed by skilled owners are more likely to survive over longer period. However due to limited resources in conducting this research, no literature is available to support higher professional qualifications and family background business experience as success contributing factors. These two findings will contribute to the body of knowledge.

4.3.4 Which mistakes SMMEs do contributing to failure?

"The following human resources (employee) factors can contribute to failure of SMMEs"; this a title in the questionnaire which was aimed at identifying mistakes SMMEs do contributing to failure, and answering research "Which mistakes SMMEs do contributing to failure"?

The study detected that most respondents 38% (19/50) believe that lack of Skills Development of employees on a regular basis contributes to failure of SMMEs. This is followed by two groups of 24% (12/50) who each believes that underpaying employees and employee theft and other dishonest activities are major contributors to failure of SMMEs. The aforementioned findings are shown in Table 4.3.4 and Figure 4.3.4 to give a clear picture of these findings.

Table 4.3.4 Human resources (employee) factors contributing to failure of SMMEs

	Frequency	Percent
Lack of Skills Development of employees on a regular basis	19	38.0
Employees are underpaid	12	24.0
Employee theft and other dishonest activities	12	24.0
Employees are not treated well by their superiors	7	14.0
Total	50	100

Figure 4.3.4 Human resources (employee) factors contributing to failure of SMMEs



Lack of skills development of employees finding is supported by the literature; Marivate (2014:60) states that skilled labour force is more productive. As for failure which is caused by underpaying employees and employee theft, no literature was available due to limited resources associated with conducting this research. Therefore these two findings will contribute to the body of knowledge.

4.3.5 Challenges overcome by SMMEs in order to be successful

Open ended question titled "Which challenges does a business like yours have to overcome to be successful?" was designed to supplement the abovementioned questionnaires in addressing the research questions. Feedback given by respondents were summarised according to themes, identifying key words in order to group similar concepts together. This was necessary in quantify such responses, coding them accordingly and ran tables according to the codes. The responses below are based on the responses provided by 50 respondents.

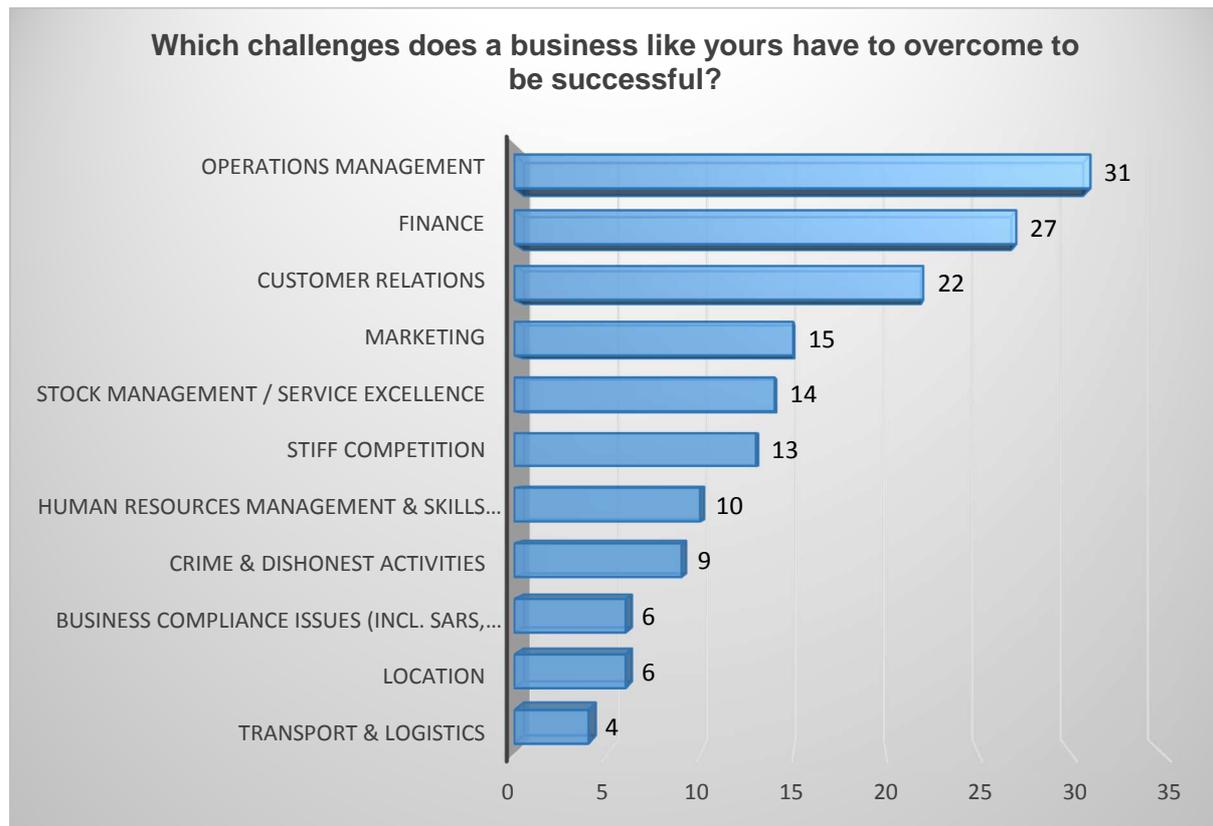
Findings of the study revealed that most responses given by respondents 12.4 % (31/250), followed by 10.8% (27/250) then 8.8% (22/250) were Operations Management, Finance and Customer Relations regarding challenges overcome by respondents in their business in order for them to be successful.

Geographical and tabular results of these findings are shown in Figure 4.3.6 and Table Figure 4.3.6 respectively (below). A sizeable percentage 37.2 % (93/250) of responses was not given, as result of the question not being answered. The combined number of first three responses of possible answers added together is 32% (80/250), taking into account questions not answered combined number should have been 51% (80/157).

Table 4.3.5 Challenges a business like yours overcame to be successful

	Frequency	Percent
Transport & Logistics	4	1.6
Location	6	2.4
Business Compliance issues (incl. SARS, Financials etc.)	6	2.4
Crime and Dishonest activities	9	3.6
Human Resources Management and Skills Development	10	4
Stiff competition	13	5.2
Stock Management / Service Excellence	14	5.6
Marketing	15	6
Customer relations	22	8.8
Finance	27	10.8
Operations management	31	12.4
Total	157	62.8
System	93	37.2
	250	100.0

Figure 4.3.5 Challenges a business like yours overcame to be successful



Finance (access to finance and financial management) is supported by the literature; as already discussed in the above sections in this chapter. As for overcoming operations management and customer relations challenges, no literature was available given limited resources associated with conducting this research. The two findings which are not available in the literature will contribute to the body of knowledge taking to account also the fact that it is a recommendation by respondents to other SMME owners.

4.3.6 Training necessary for SMME owners to be successful

"Which training do you think is necessary for owners of businesses like yours to be successful?" is another open ended question which was used in the study as a supplement in addressing research questions. Answers provided by respondents were summarised accordingly in relation to themes, similar concepts and using key words as a yardstick. This was essential to quantify the answers, coding them appropriately and ran tables according to such codes. The responses below are based on the responses provided by 50 respondents.

The study shows findings that most responses given by respondents 12.4% (31/250), followed by 12% (30/250) then 7.2% (18/250) were Business Management, Business Mentorship programme and General Management being the kind of training necessary for business owners like them need in order to be successful. These findings were presented graphically and in a tabular format as shown in Figure 4.3.7 and Table Figure 4.3.7 respectively (below). A material percentage, 47.6 % (119/250) did not answer the question. The abovementioned responses when combined they constitute 31.6% (79/250), when taking into account questions not answered it will be 66% (79/119).

Table 4.3.6 Training necessary for owners of businesses like yours to be successful

	Frequency	Percent
Communication	5	2.0
Human Resources Management	5	2.0
Stock management / Supply Chain Management	5	2.0
Marketing	8	3.2
Financial Management / Record Keeping / Accounting	14	5.6
Customer relations	15	6.0
General Management	18	7.2

Business Mentorship programme	30	12.0
Business Management	31	12.4
Total	131	52.4
System	119	47.6
	250	100.0



Figure 4.3.6 Training necessary for owners of businesses like yours to be successful



Chimucheka (2015:115) and Marivate (2014:60) provided literature to supporting the 3 main findings Business Management, Business Mentorship Programme and General Management as training necessary for SMME owners to be successful.

4.3.7 Results from Pearson's chi-square tests of association

4.3.7.1 Chi-square test for independence

Chi-square test for independence is a test used when you wish to explore the relationship between two categorical variables (Palla, 2001:257). Chi-square test for independence is used to determine if two categorical variables are related (Palla, 2001:256).

4.3.7.2 Variables used in the chi square:

Independent Variables

1. Number of years in business
2. Business experience plus Qualification
3. Higher professional qualifications
4. Family business background experience
5. Business experience

6. Family business background experience plus qualification
7. Business mentorship training

Dependent Variables

8. SMME owners difficulty to stay motivated during tough times
9. Poor client relations
10. Low staff morale
11. Other psychological factors
12. Lack Skills Development & training of employees
13. Employee theft
14. Poor employee treatment by their superiors
15. Employee underpayment (poor salary scales)
16. Finance as a challenge overcome by SMMEs to be successful
17. Marketing as a challenge overcome by SMMEs to be successful
18. Location challenge overcome by SMMEs to be successful
19. Stock management and supply chain management challenges overcome by SMMEs to be successful
20. Customer relations as a challenges
21. Stiff competition challenges
22. Human Resources Management and Skills Development challenges
23. Transport and Logistics challenges
24. Business Compliance issues (incl. SARS, Financials etc.) challenges
25. Crime & Dishonest activities challenges
26. Operations management challenges
27. Crime & Dishonest activities challenge
28. Business Management and Mentorship training
29. Communication training
30. Financial Management / Record Keeping and Accounting training
31. Marketing training
32. Customer relations training
33. Human Resources Management training
34. Stock management and Supply Chain Management training
35. Business Management training
36. Number of employees
37. Turnover

4.3.7.3 Significant differences between groups

Significant differences are very few in this study. The reason might be that because SMMEs are from the same geographical region of Tshwane, their needs are similar.

4.3.7.3.1 Number of years in business and SMME failure being caused by underpaying employees

In table 4.3.7.3.1 below two variables, number of years in business and SMME failure caused by employees being underpaid. In table 4.3.7.3 below the corrected value is 6.145, with an associated significance level of .013 (this is presented in the column labelled **Asymp. Sig.** (2 sided)). To be significant the value needs to be .05 or smaller. In this case the value of .013, is smaller than the alpha value of .05, therefore it is concluded that the result is significant. This means that there is a relationship between number of years in an SMME been in business and SMME failure being caused by employees being underpaid. The study reveals that the more number of years an SMME being in business the more the SMME will realise that underpaying employees causes failure of SMMEs, according to Chi-square test.

Table 4.3.7.3.1 Number of years in business * SMME failure is caused by employees being underpaid.

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.898 ^a	1	.005		
Continuity Correction ^b	6.145	1	.013		
Likelihood Ratio	8.405	1	.004		
Fisher's Exact Test				.007	.006
Linear-by-Linear Association	7.740	1	.005		
N of Valid Cases	50				
a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.76.					
b. Computed only for a 2x2 table					

4.3.7.3.2 Number of years in business and overcoming Marketing challenges for SMME to be successful.

Number of years in business and overcoming Marketing challenges for SMME to be successful are two variables used in table 4.3.7.3.2. To be significant the value needs to be .05 or smaller. In this case the value of .047 according to Fisher's Exact Test (**Exact Sig. (1-sided)** column), this is smaller than the alpha value of .05, therefore it is concluded that the result is significant. This means that there is a relationship between number of years in an SMME been in business and overcoming Marketing challenges for SMME to be successful. The more number of years an SMME is in business the more likely that SMME will be in a position to overcome Marketing challenges in order to be successful, according to Fisher's Exact Test (see Table 4.3.7.3.2 below).

Table 4.3.7.3.2 Number of years in business * Overcame Marketing as a challenge for the business.

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	3.907 ^a	1	.048		
Continuity Correction ^b	2.782	1	.095		
Likelihood Ratio	4.034	1	.045		
Fisher's Exact Test				.067	.047
Linear-by-Linear Association	3.829	1	.050		
N of Valid Cases	50				
a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.20.					
b. Computed only for a 2x2 table					

4.3.7.3.3 Number of years in business and communication training needed for the business to be successful

Number of years in business and communication training needed for the business to be successful are two variables used in table 4.3.7.3.3. To be significant the value needs to be .05 or smaller. In this case the value of .031 according to Fisher's Exact Test (**Exact Sig. (1-sided)** column), this is smaller than the alpha value of .05, therefore it is concluded that the result is significant. This reveals that there is a relationship between number of years an SMME has been in business and communication training as a requirement for SMME to be successful. The more number of years an SMME is in business the more likely that the SMME needs to undergo Communication training in order to be successful, according to Fisher's Exact Test (see Table 4.3.7.3.3 below).

Table 4.3.7.3.3 Number of years in business * Communication as training needed for the business to be successful

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	5.128 ^a	1	.024		
Continuity Correction ^b	3.214	1	.073		
Likelihood Ratio	7.052	1	.008		
Fisher's Exact Test				.051	.031
Linear-by-Linear Association	5.026	1	.025		
N of Valid Cases	50				
a. 2 cells (50.0%) have expected count less than 5. The minimum expected count is 2.40.					
b. Computed only for a 2x2 table					

4.4 CONCLUSION

In this chapter it can be concluded from the findings of this study that most contributing factors to failure of SMMEs in Tshwane is lack of access to finance. The major reason there's failure of SMMEs in Tshwane is due to the fact that SMME owners find it difficult to stay motivated during tough times. The biggest mistake these SMMEs make is lack of skills development of employees, which leads failure of their organisations. Tshwane SMMEs which are in food & beverages are the ones which fails (or likely to fail) mostly. Respondents recommended Business Management and Business Mentorship as two major training programmes to SMME owners in Tshwane to help them run successful businesses.

CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In Chapter 4 interpretation, discussion and feedback on results of the study was given. The purpose of this chapter is to summarize and provide conclusions with regards to major findings of this study. This chapter also summarizes recommendations for future studies.

5.2 CONCLUSIONS

In this section factors that cause failure of SMMEs, Why are SMMEs failing, Industries of SMMEs which fail (or likely to fail) and mistakes SMMEs do contributing to failure of SMMEs.

- i. Factors that cause SMMEs to fail are lack of access to finance, financial management (including financial record keeping / financial statements) and entrepreneurship skills.
 - a) Access to finance is a major challenge for most Tshwane SMMEs - in some instances banks refuse to grant these businesses working capital simply because they don't have collateral. Government agencies for SMMEs financing are not accessible to these SMMEs simply because some of these SMMEs are not even aware of their existences. Besides being able to raising expansion capital from own savings and investments, family and friends are also not being able to come to the rescue of SMME owners of Tshwane businesses.
 - b) In terms of lack of financial management most Tshwane SMMEs fail because they find themselves not prioritising this thinking that they are too small to consider this aspect on their businesses and worst case scenario, not even affording services of a Professional Accountant. The problem with not keep financial records of the business in order on a regular basis is, firstly SMMEs owners themselves don't have a clear picture of money coming in and out of the business, secondly accessing finance (as explained above) will be a challenge because no bank will

grant finance to a business without financial statements being accompanied by Professional Accountant's report and finally an SMME will be in trouble with SARS because tax returns need to be accompanied by financial statements.

- c) Lacking entrepreneurship skills is another factor contributing factor to failure of SMMEs in Tshwane, most SMME owners start businesses as a means of survival due to lack of employment opportunities however lacking entrepreneurship skills leads to failure of their businesses. Such SMME owners are not innovative and do not have the entrepreneurial drive to sustain their businesses and turn them into a success. The other problem is confusing tenders with entrepreneurship, as soon as the SMME no longer gets tenders it fails simply because from the onset tenders were the foundation not entrepreneurship.
- ii. Tshwane SMME owners find it difficult to stay motivated during tough times, they have poor relations with their clients and there's low staff morale amongst their employees. These are three major reasons why SMMEs in Tshwane fail.
- iii.
 - a) During tough times when owners of SMMEs are not coping and staying motivated towards making an SMME a success, it will be difficult for employees and clients to be enthusiastic about being part of the business. This slowly but surely kills the SMME simply because if SMME owners don't believe in their business, who will?
 - b) Poor client relations is another psychological factor contributing to failure of SMMEs in Tshwane. "Customer is king" is a proverb which is still applicable to most businesses who are very serious about being successful. The truth is no clients, no business; SMMEs are guaranteed to fail if they don't have good client relations.
 - c) Low staff morale is another factor affecting SMMEs in Tshwane and contributing to their failure as a result. If employees are not motivated they will not be inspired to do their work. Clients suffer because they are at the receiving end of low staff morale. Low productivity, poor quality

products and bad service are the fruits of low staff morale and SMME fail eventually.

iv. Most Tshwane SMME industries which fail (or likely to fail) are in food and beverages, Transport and Logistics and Farming.

- a) Food and beverages industry includes catering businesses, restaurants and pubs of Tshwane based SMMEs, these are identified as SMMEs which mostly fail or likely to fail. Clients' tastes and preferences change depending on circumstances that they find themselves in, it is very important for SMMEs in food and beverages industry to move with the times. Another contributing factor is the state of the economy, for example (among other things) electricity price hikes affecting food prices, sin taxes affecting alcohol beverages prices and during recession a lot of restaurants suffered because a lot of households were saving most of their disposable income and cutting down entertainment expenses.
- b) Tshwane SMMEs in the Transport and Logistics industry are the second largest group of SMMEs which fail (or likely to fail). Every increasing of oil prices affects this industry in a very negative way. SMMEs inability to absorb such costs make the business to suffer and lead to failure of Transport and Logistics businesses eventually. Inability to give customers the flexibility that they want, the right products, according to the right specifications at the right time are other factors contributing to failure of Logistics SMMEs.
- c) Farming is a third biggest industry of whereby most SMMEs in Tshwane fail. Climate change, drought, killing of farm owners are some of the factors contributing to SMMEs in this industry to experience failure. Lack of sufficient government support programmes exacerbates the failure rate among SMMEs in this industry.

iv. Mistakes that SMMEs in Tshwane do which contribute to failure are lack of skills development of employees on a regular basis, underpaying employees and lack of control over employee theft and other dishonest activities.

- a) Lack of skills development of employees is the biggest mistake which Tshwane SMMEs make which contributes their failure as a result. Employees who are not trained properly and / or not sent out to regular refreshment course will not be good at what they do. SMMEs' mistake due to lack of knowledge and overlooking the skills development aspect is what kills their businesses eventually.
- b) The second biggest mistake that SMMEs in Tshwane do is underpaying their employees; this contributes to failure of their businesses. Employees who are not rewarded fairly tend to be resentful towards their employers and find it difficult to be fully devoted in their work. The fact that employees do not have a choice but to just accept whatever salary they are getting at the end of the month (due to high unemployment rate), makes them to stay even if they are not happy however the end result is low staff morale (see ii (c) above) and as such Tshwane SMMEs involved fail eventually.
- c) Incidents of employee theft and dishonest activities occurring at Tshwane based SMMEs is the third largest mistake that contributes to failure of such SMMEs. Employees who are not rewarded fairly will end up stealing from their employers (SMMEs they are employed at). Tshwane SMMEs fail in dealing with this issue because of not putting measures in place to minimise that risk. Tshwane SMMEs experiencing such mistake end suffering financially (e.g. loss of revenue, stock shortages) and sooner or later they will be forced to close down.

Based on the above, Tshwane based SMMEs will not run successful organisations unless the abovementioned factors are addressed.

5.3 RECOMMENDATIONS

Given the circumstances surrounding problems identified in the study and based on conclusions outlined, some conclusions will be made in this section and how problems identified can be resolved. In terms of factors that cause SMMEs to fail are lack of access to finance, financial management (including financial record keeping / financial statements) and entrepreneurship skills.

i. In terms of the identified factors that cause SMMEs to fail there are recommendations are as follows:

a) Lack of access to finance:

Government agencies like Small Development Agency (Seda) and City of Tshwane Local Economic Development (LED) should introduce a programme for Tshwane based SMMEs whereby they enter into partnerships with banks and other financial institutions like Small Enterprise Finance Agency (Sefa) for example, to assist deserving SMMEs to get finance without a lot of red tape. First and foremost, City of Tshwane LED, Seda and Sefa should increase their marketing and outreach programmes for them to be known by SMMEs in terms of where they are and what can they do to assist SMMEs. Tshwane based SMMEs which are currently operating their business need financial literacy training, which involves banking, saving, investments and the need to have financial records kept in order on a regular basis so that it will be easy for them when applying for working capital financing with financial institutions.

b) Lack of financial management (including financial record keeping / financial statements):

Tshwane based SMMEs need basic financial management and bookkeeping training to ensure that their businesses become a success. If they cannot afford such courses, business mentorship programmes championed by Department of Trade and Industry (DTI), Seda and City of Tshwane LED can be of assistance. Tshwane SMMEs should also put fees for services of a Professional Accountant in their budget and regard this as a necessity of which success of the businesses depends

on. Having financial statements prepared regularly will provide Tshwane SMMEs with a clear picture regarding their financial affairs and decisions making process will be accompanied by measures aimed at where and how to cut costs in order to be successful.

c) Lack of entrepreneurship skills:

Tshwane based SMMEs should make an effort to network and have the opportunity to learn from other SMMEs who have an experience in the businesses that they run. This kind of networking will provide such SMMEs to enhance their entrepreneurial skills through such networking interactions. Belonging to a local chamber of commerce like Nafcoc and attending workshop and conferences will increase chances of such networking opportunities. Tshwane SMME owners can also consider enrolling for Entrepreneurship short courses at accredited universities and colleges in Tshwane, like Unisa to develop their entrepreneurship skills further. Department of Trade and Industry (DTI), Seda and City of Tshwane LED business mentorship programmes are other options available to SMMEs who cannot afford accredited colleges tuition fees.

ii. The following are recommendations for identified reasons why SMMEs fail:

- a) Tshwane SMME owners find it difficult to stay motivated during tough times: SMME owners need to attend business events especially the ones where people who against all odds made a success of their struggling SMMEs, reading biography of such individuals is another option to consider. Listening to radio and watching TV shows by motivational speakers regularly can be very useful to SMME owners in helping them to staying motivated during tough times. Some business mentorship programmes mentioned above have an option to be allocated a business advisor after such program have taken place, SMME owners should make an effort to find out about such from DTI, Seda and City of Tshwane LED offices.

b) Poor client relations:

Tshwane SMMEs need to learn to maintain healthy relations with clients and treating their clients with courtesy. Encourage clients to bring their complaints to management and being afforded an opportunity to be listened to can help too. A simple notice board with a quote "If you are not happy tell us, if you are happy tell others. Customer care courses on a continuous basis should be compulsory for staff and management, this will help SMMEs learn the skills on maintaining a healthy relations with clients.

c) Low staff morale:

Tshwane SMMEs should come up with initiatives which will boost staff morale in the workplace for example year-end functions and team building retreats. Rewarding job excellence mechanisms like employee of the month award voted for by clients, is a gesture that employees seem to appreciate and keeps them motivated to do their work.

iii. Recommendations for SMMEs in the industries which fail (or are likely to fail):

a) Food and beverages industry

Tshwane SMMEs in food and beverages industry including catering, restaurants and pubs need to keep themselves abreast to keep up with customers' tastes and preferences. SMMEs in this industry need to get into the habit of saving and have investments accounts to make for instances when times are tough. Specials, brand promotions and loyalty cards rewards programmes for patrons are some of the innovative ways SMMEs should consider if they want to increase their clientele.

b) Transport and Logistics:

Tshwane based SMMEs in this industry need to enter into contracts that will allow them to review fees regularly (say quarterly) to help them adjust their fees accordingly in situations where oil prices increase in higher rates than expected during certain periods. A logistics system which is customer friendly, which adapts to customer flexibility is to be put in place and revisited periodically; customer feedback should be implemented in the system.

c) Farming

Tshwane SMMEs who are in farming should familiarise themselves with Enterprise Development programmes that the Department of Agriculture, DTI and Seda have in assisting farmers. The aforementioned government departments and agencies should expand their advertising to other mechanisms which are accessible to farmers, like for example local newspaper in farm areas. SMME farmers should also get involved in Community Policing Forums working closely with the police to fight crime in their areas.

iv. Recommendations regarding mistakes that SMMEs in Tshwane do which contributes to failure:

a) Lack of skills development of employees:

Developing a culture of skills developing seriously by Tshwane SMMEs in addition to compliance with labour laws, it contributes positively to the success of the business as well. SMMEs must acquaint themselves with Sector Education and Training Authority (SETA) requirements of industries for them to know which suitable training mechanisms to put in place.

b) Underpaying employees:

SMMEs in Tshwane should get a labour remuneration guide from the Department of Labour, with tables showing different rates per industry. Those SMMEs will be in a much better position to familiarise themselves with such information. For startup SMMEs and SMMEs experiencing financial constraints striking a balance between affordability and prescribed rates will be a very fruitful exercise.

c) Incidents of employee theft and dishonest activities:

Tshwane SMMEs should put minimum control measure such as staff rotation, separation of duties, custody controls over important documents, security and access controls, recording controls and management supervision over such control measure. Which control measures to implement will depend on feasibility and resources SMMEs have at their disposal.

5.4 FINAL CONCLUSION

Although the study was scientific, descriptive and quantitative in nature and could not be generalised to other regions, it identified factors contributing to failure of SMMEs in Tshwane. Guidelines of running successful businesses were developed in the form of recommendations made.

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APPENDIX A

Informed consent for participation in an academic research project

Identifying Factors Playing a Role in the Failure of Small, Medium and Micro Enterprises (SMMEs) in Tshwane

Dear Respondent

You are herewith invited to participate in an academic research study conducted by Mohure Ephraim J Mamabolo, a student in the Master of Business Leadership at UNISA's Graduate School of Business Leadership (SBL).

The purpose of the study is to investigate factors contributing to SMMEs failure.

All your answers will be treated as confidential, and you will not be identified in any of the research reports emanating from this research.

Your participation in this study is very important to us. You may however choose not to participate and you may also withdraw from the study at any time without any negative consequences.

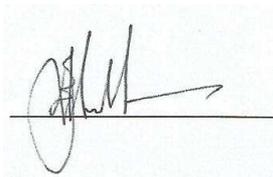
Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than 15-20 minutes of your time.

The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.

Please contact my supervisor, Dr. Elsa Thirion-Venter on elsa@markdata.co.za (email) if you have any questions or comments regarding the study. Please sign below to indicate your willingness to participate in the study.

Yours sincerely

Mohure Ephraim J Mamabolo



I, _____ [REPODENT NAME], herewith give my consent to participate in the study. I have read the letter and understand my rights with regard to participating in the research.

Respondent's signature

Date

Contact number: _____

Email address: _____

SMMES QUESTIONNAIRE

Purpose: To identify factors resulting in the failure of Small, Medium and Micro Enterprises (SMMEs) in Tshwane.

Name of participant: _____

Company Name: _____

Company Registration number: _____

1. Business demographic information of the participant

?? How long has your company been in business? _____

?? In which industry is your business? _____

?? What is your title at your company? _____

?? How long have you been in your current position? _____

?? How many people are employed at your company (**including** owners)? _____

?? What was your company's turnover last year? +/- R _____

?? Does your company have more than one location? **Yes OR No** _____

?? Does your company do business online? (**For example;** Customers buying goods or accepting orders via the internet.) **Yes OR No** _____

?? Does your company serve consumers, businesses, or both? _____

?? Which marketing channels are used in your company to promote your business?

- _____
- _____
- _____

In my opinion and experience (directly or / and indirectly) SMMEs fail because of:

NB: Please tick a maximum of 3 boxes (maximum of 3 including the ones to be listed in comment section)

- 1 Lack of basic business and entrepreneurship skills
- 2 Access to finance
- 3 Lack of record keeping of finances (Bookkeeping), Financial Management & not having financial statements and Management accounts done regularly
- 4 Access to markets
- 5 Poor choice of location to conduct business
- 6 Ineffective marketing
- 7 Little or no knowledge of laws associated with running the business (e.g. Companies Act, Tax and Municipal by laws).
- 8 Any other factors not addressed above (**comment below**)
- 9 Lack of government financial support (grants)
- 10 Not having access to Business Incubation & mentorship opportunities

Other (comment below)

SMMEs which fails (or likely to fail) are in the following industry:

NB: Please tick one (1) box or comment if no option is available

- 1 Transport & logistics

- 2 Construction (incl. Building, Civil, Electrical etc.)

- 3 Education

- 4 Information Technology (IT) & Computer related activities

- 5 Catering, Food sales & restaurant related activities

- 6 Fashion

- 7 Home improvements & Maintenance

- 8 Accounting, Office Admin services & Consulting

- 9 Security & Private Investigations

- 10 Farming

- 11 Other (**comment below**)

12 Don't know

What type of SMME owners are more likely to succeed?

NB: Please tick one (1) box.

1 Higher level of formal education (e.g. Lawyers, Engineers, Doctors, etc.)

2 Experience in business they run (**without** formal qualifications)

3 Experience in business they run (**plus** training course in business studies)

4 Entrepreneurial skills acquired through family business background (**without** formal qualifications)

5 Entrepreneurial skills acquired through family business background (**plus** training course in business studies)

6 Undergone business mentorship programmes

The following psychological factors can contribute to failure of SMMEs:

NB: Please tick one (1) box or comment if no option is available

1 Low staff morale

2 Customers / clients don't feel valued and appreciated (poor relations with clients)

3 SMME owner(s) find it difficult to stay motivated when times are tough

4 Other (**comment below**)

The following human resources (employee) factors can contribute to failure of SMMEs:

NB: Please tick one (1) box or comment in no option is available

1 Employees are underpaid

2 Employee are not treated well by their superiors

3 Lack of Skills Development of employees (Staff training / refresher courses) on a regular basis
OR Employees lack of proper training.

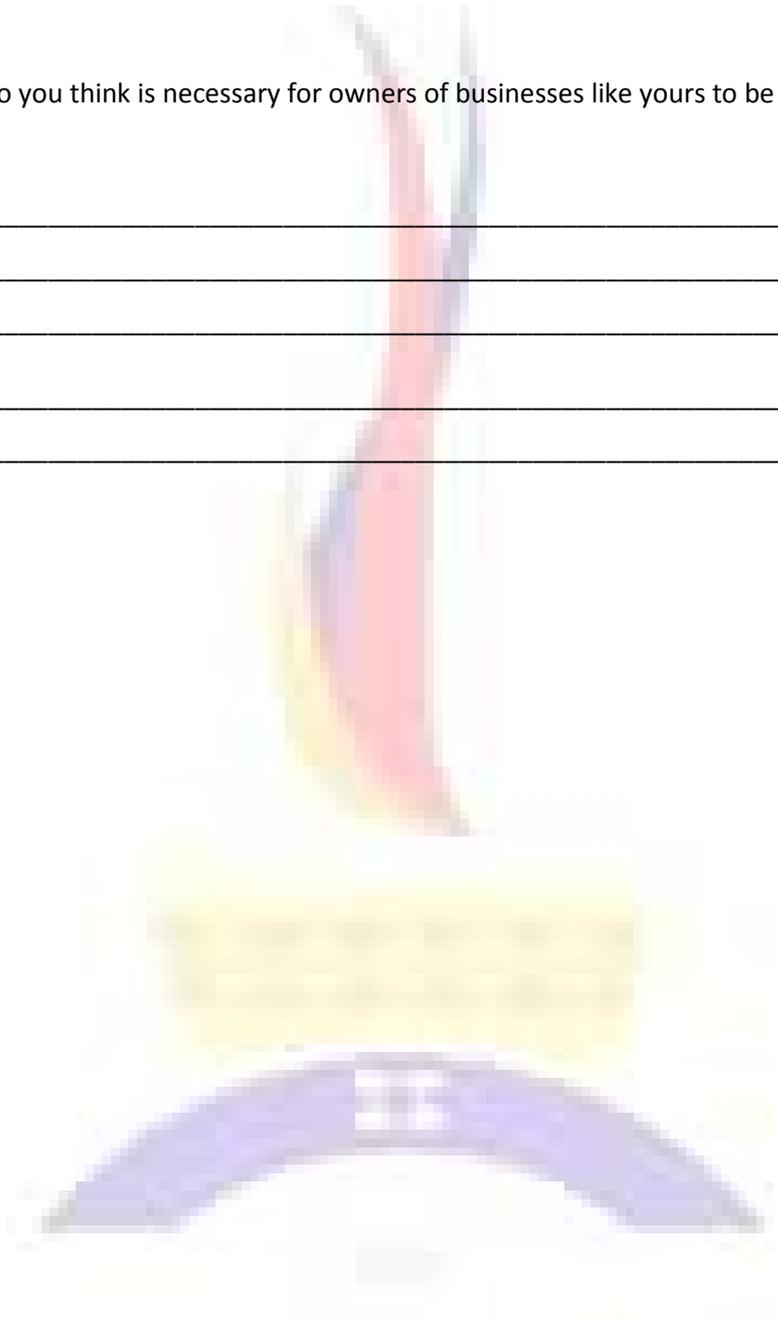
4 Employee theft and other dishonest activities

5 Other (**comment below**)

Which challenges does a business like yours have to overcome to be successful? **Mention up to 5 challenges.**

1. _____
2. _____
3. _____
4. _____
5. _____

Which training do you think is necessary for owners of businesses like yours to be successful?



**APPENDIX B: The National Small Business Amendment Act (26 of 2003) -
Schedule (Small**

Sector or subsector in accordance with the standard Industrial Classification	Size of class	The total fulltime equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m

	Small	50	R6m	R1m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Transport, Storage and communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social and Personal Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m