

**AN INVESTIGATION INTO SMALL BUSINESS FAILURES WITH SPECIFIC
REFERENCE TO RETRENCHED TELKOM EMPLOYEES IN THE FAR
WEST RAND (MOGALE CITY, RANDFONTEIN AND SOWETO)**

by

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submitted in fulfilment of the requirements for
the degree of

MAGISTER TECHNOLOGIAE

In the subject

BUSINESS ADMINISTRATION

at the

UNIVERSITY OF SOUTH AFRICA

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MARCH 2008

Declaration

I declare that an investigation into small business failure with reference to retrenched Telkom employees in the far West Rand (Mogale City, Randfontein and Soweto) is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references

(Signature)
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Date

Acknowledgements

First and foremost I would like to thank my creator for granting me the health, strength and opportunity to complete this task.

I would like to thank my supervisor, Dr SJ le Roux for the support, guidance and encouragement that he gave me throughout the project. Without your assistance and encouragement, I do not think that I would have come this far.

To my wife Mathipe, I appreciate the understanding and patience you shown during the times when you really needed me and I was not there for you.

To my children Sifiso and Mbali, I know you missed me a lot during the time I was busy with this project. Thank you so much for your understanding and patience.

My deepest appreciation goes to two very special families, the Thaga and Totolo families. Mokwadi Thaga and your dear wife Dipuo, you were also there for me during the challenging times and you encouraged me to go on.

Prof Otlogetswe Totolo and your wife Dr Angelina Totolo, thank you very much for being part of my life, and for the guidance and encouragement you gave to me during this project.

I also want to thank the Unisa library staff, especially Maggie Makwela for her willingness to assist whenever requested to do so, even at short notice.

ABSTRACT

This study examines the factors that contributed to the failure of retrenched Telkom workers to start and run successful businesses after the company had provided them with start-up capital and also funds for training. Many of the factors contributing to the majority of Telkom retrenched employees not establishing businesses will be identified and recommendations that companies could implement in the future to limit the failure of businesses of retrenched employees will be made.

The study was descriptive, exploratory and qualitative in nature. Semi-structured interviews and a survey questionnaire specifically developed for this study were used to gather data. The study was conducted on ex-employees of Telkom residing in and around the townships and suburbs situated on the western side of Johannesburg (Mogale City, Randfontein and Soweto).

Telkom provided retrenched employees with funds to attend external training so that they could be equipped to start and run their own businesses. Subsequently, Telkom also provided start-up capital so that these employees could start small businesses after they had left the company. Although the funds were provided, most employees did not utilise them to start their businesses and the few that did access the funds and start businesses experienced the failure of their businesses within a very short period of time.

Three major issues of concern were identified: many of these ex-employees did not utilise the funds that were allocated for training; many did not make use of the start-up capital and the majority did not start businesses. The study investigated the following issues:

- a) Why the retrenched employees did not make use of the funds allocated for training
- b) Why the ex-employees did not make use of the start-up capital
- c) Why the ex-employees did not start businesses
- d) Of those that did start businesses, why did they fail within such a short period of time?

The findings of the study confirm that most of the retrenched employees did not access either the training or the start-up funds. Detailed reasons for why the funds were not made use of are given and recommendations are also made for what the company should do in future if deciding to embark on a similar exercise.

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CHAPTER 1

INTRODUCTION

In 1998 Telkom embarked on a process of rightsizing and in the process some departments became redundant. Some of the staff members of those departments were redeployed and others took voluntary retrenchment. Some of those who were retrenched are back in Telkom as contract workers . Some are still without jobs.

The study was conducted because many of the retrenched Telkom workers had worked for Telkom SA for a number of years and they possessed skills and knowledge to work on telecommunication network. Telkom had provided funds for them to acquire new skills and start their own businesses. The study was conducted to determine the reasons for them not accessing the funding provided by the company and also to investigate why they did not establish their own businesses.

This study proposes to investigate the factors that lead to small business failures with particular attention to retrenched Telkom SA employees. The study will be limited to the West Rand geographical area, specifically Mogale City, Randfontein and Soweto. The main thrust will be to investigate the reasons that led to retrenched Telkom employees not establishing businesses although the company provided them with funds for training and with start-up capital. Although the study will be ethnographic as opposed to experimental, it is by no means a study of psychosocial factors.

1.1 Background to the study

Telkom is a company that provides fixed line telecommunication services in South Africa. It was founded in 1990 after the partial deregulation of the industry. Before 1990 Telkom formed part of the Department of Post and Telecommunication. The two separated from each other and the Post Office became independent from the Telecommunication department. After the separation of the two entities, the Telecommunication department was converted to a semi-private company and was given the name Telkom.

When Telkom was established in 1990, it had a staff complement of 68 000. Today, its staff complement has been reduced to 26 678, as a result of the process of rightsizing and downsizing which started immediately after its founding. During this transformation process, a number of employees took voluntary retrenchment. At the same time a consortium consisting of Malaysian Telecommunication and the South Bell Company (SBC) from America formed partnerships with Telkom and bought a 30 per cent share of Telkom. The consortium of Telkom Malaysia and SBC was known as Thintana Communications.

Thintana introduced technology that automated most of the functions that were previously done manually. This led to some of the job functions becoming redundant. Hence the company started with a retrenchments process. As a result of a number of jobs within Telkom becoming redundant the company decided to establish an agency within the company. This was called the Agency of Career Opportunities. The function of this agency was the following

- Re-skill people whose jobs had been declared redundant. These reskilled employees were then to be reabsorbed back into the company. The employees who were not interested in returning to the company would be given training in whatever skills they required in order to start their own businesses.
- If the employee wanted to start his/her own business, the company would pay for their training as well as their equipment.

Despite this company assistance, most of the retrenched employees failed to start and run successful businesses.

The failure of small, medium and micro enterprises (SMEs) is estimated to be between 70 and 80 per cent (Brink, Cant & Ligthelm, 2003:1). Brink, et al. (2003:1) goes further to state that often the ideas are good and the people behind them are capable, but that they have no idea about how to run a business, and have no underlying respect for business fundamentals.

According to Monk (2000:1), there are many reasons that have led to the increase in failure rate of start-up businesses, including lack of sufficient working capital, poor market selection and swiftly changing market conditions. However, Headd (2005:7) states that an

often reiterated “fact” – that eight out of every ten start-ups in South Africa fail – may be overstated, if one of the latest studies of small business administration (SBA) in the United States is anything to go by.

1.2 Problem statement

To date, Telkom has retrenched about 38 000 people. All of these people have left the company. Some of them obtained employment elsewhere, others are unemployed and are sitting at home, whilst others started their own businesses.

The question is why did these businesses fail despite the company providing start-up capital and its efforts to equip the individuals involved with entrepreneurial skills by making funds available for external training, thereby trying to ensure that the retrenched employees succeeded after they left the company?

1.3 The purpose of the study

The purpose of this study is to determine the factors that contributed to the failure of most of the businesses belonging to Telkom retrenched workers in the West Rand (Mogale City, Randfontein and Soweto). Knowing these factors and their dynamics could help Telkom to strategise and re-examine the issues and hence increase the success rate in the businesses of retrenched workers.

1.4 Research questions

- a) Did people attend training and workshops provided by Telkom?
- b) Did they access the capital fund provided by Telkom?
- c) What factors led most of them to fail to establish businesses?
- d) What factors led to the failure of small businesses owned by retrenched Telkom employees?
- e) What measures could be put in place to improve the success rate of businesses owned by retrenched Telkom workers?

1.5 The objectives of the study

The following objectives were identified for this study:

- To investigate the factors that led to the failure of the businesses of most of the retrenched Telkom workers.
- To investigate the reasons for the non-utilisation of the training funds and the start-up capital that was made available by Telkom
- To come up with guidelines that Telkom can use to ensure that the success rate of this type of venture is increased, thereby realising the social objective of broad-based empowerment

1.6 Rationale of the research

The rationale for undertaking this study is to provide answers to and probe the issues further so that the study may shed some light on the problems experienced by retrenched Telkom employees in terms of accessing funding for training and start-up capital that was made available for them to start and run their own business. The results will help Telkom establish a process that will ensure that the company achieves the goal of empowering employees to start and run successful businesses. It will also assist the company in terms of increasing the potential for ex-employees to succeed in this endeavour.

1.7 Definition of key concepts

1.7.1 Retrenchments

Miles (2002:3) defines retrenchment as the termination of an employee's contract of employment due to the economic or financial viability of the business. In other words, as a result of a downturn in the economy, a recession or a fall-off in business.

1.7.2 Small business

According to Schaper and Voller (2004:89) there is no single definition of what constitutes a small business, and a variety of both qualitative and quantitative factors

may be used to separate small firms from other businesses. From a qualitative perspective, the business has to be independently owned and operated, closely controlled and funded by the owner, and the principal decision-making function must rest with the owner-manager. In addition, the small business can be defined using a variety of quantitative indicators, such as the number of employees, value of assets, turnover, and share of ownership retained by the owner-manager.

Bridge, O'Neil and Cromie (2003:181), define a small business using the following criteria:

- A turnover of not more than £2.8 million
- A balance sheet total of not more than £1.4 million
- Not more than 50 employees

1.7.3 Training

Training is an active endeavour to transfer specific skills, knowledge or attitudes to complete a task in a satisfactory manner (Buckley & Caple, 1991:21). Training creates more opportunities and stimulates a mindset for attempting and handling a specific activity in a different way (Hirschowitz, 1992:3)

1.8 Limitations of the study.

The study will be limited to the following: Ex-Telkom employees who

- went through the agency
- are in the West Rand region (the Mogale City, Soweto and Randfontein area)
- received training when they were leaving the company
- received the funding for tools and equipment after training
- could not start or failed to establish businesses

1.9 Layout of chapters

This study consists of the following five chapters:

- Chapter 1: Introduction
- Chapter 2: Literature review
- Chapter 3: Research methodology
- Chapter 4: Results and discussion
- Chapter 5: Conclusion and recommendations

Chapter 1 introduces the reader to what Telkom went through during the time of transformation. Initially Telkom was wholly owned by the state, which subsequently decided to sell some of its shares to private organisations. Chapter 1 provides the finer details of what led to the retrenchment of staff and also looks at the social responsibility demonstrated by the company in attempting to minimise the impact of retrenchments.

Chapter 2 looks at previous research done on the following topics:

- The factors that lead to an organisation retrenching staff
- Small business failure

Chapter 3 looks at the methodology used in this study. It focuses on the following topics: research design, the population of the study, sampling in the study, data collection, analysis and measurement, reliability and validity issues, and ethical issues.

Chapter 4 reports on the findings of the interviews conducted and provides an analysis of the data. Once the data were collected from the respondents and coded, descriptive statistics used to analyse the data.

Chapter 5. The intention of this chapter is to summarise and draw conclusions regarding the main findings of the study. Certain recommendations identified from the study are also made and recommendations for future studies are highlighted.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

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

The discussion in this section of the chapter is divided into four sections. The first section of this study looks at the reasons for the retrenchment of workers as follows:

- Retrenchments in declining organisations
- Retrenchment caused by economic crises in a country
- Turnaround strategies in general
- Turnaround strategies used by companies in the United States of America

The second section of the chapter explores the factors that contribute to small business failure. Some retrenched employees established small businesses, most of which failed within a short period of time. The main focus of this chapter is to establish reasons for small business failure. In this part of the chapter, the following topics are discussed:

- Failure of small businesses
- Why businesses fail
- Challenges faced by small businesses
- Planning, in terms of small business failure
- Survival of small businesses
- Training required for survival

The third section of this chapter looks at the responsibilities of the companies involved in carrying out the retrenchments:

- Company's social responsibilities
- Employment creation programme

The final part of this chapter discusses the conclusions drawn from the discussion in this chapter.

Section 1: Reasons for retrenchment of workers

2.2 Retrenchment in declining organisations

Francis and Pett (2004:40) state that during an economic downturn firms implement layoffs and other forms of retrenchment, clearly believing that these measures will help them perform better in the long run. These go further (Francis & Pett, 2004) to indicate that many top managers argue that layoffs, combined with careful revamping, can set the stage for growth.

Xaba (2006:92) states that the combined effects of economic sanctions and the collapse of the Soviet Union in the late 1980s led to a serious decline in markets both locally and internationally, as well as declining profits and high production costs. Shortly after South Africa entered the global economy many companies were forced to consider either downsizing or closing down.

2.3 Retrenchments caused by economic crisis

Maskay and Kusakabe (2005:4) state that retrenchments often occur due to economical crises, for example the economic crisis that gripped Thailand in 1997, which led to many companies either retrenching staff or closing down. Maskay and Kusakabe (2005) continue by saying that many factories in Thailand closed down, relocated to other countries or to more remote areas inside Thailand, or restructured their labour to cut costs. According to Maskay and Kusakabe (2005:9), when the crisis hit the country the Thai government responded in four ways on the labour policy front.

- Firstly, it extended the severance payment requirements from six to ten months and set up a fund to pay the legislated severance payment to those workers whose firms had gone bankrupt.
- Secondly, it launched a major job creation and employment generation programme in rural areas to absorb returning migrants.
- Thirdly, social security benefits were extended from 6 to 12 months for laid-off subscribers.
- Fourthly during the crisis the government launched training programmes to enhance the skills of retrenched workers and offered short-term free vocational and technical training with job placement after training.

In response to this crisis, the government formed the Center for Assistance to Laid-Off Workers (CALOW) with branches in provincial capitals. It registered laid-off workers and provided a “one-stop” service for training referral, training, counselling and placement support (Maskay & Kusakabe, 2005:10). CALOW ensured that laid-off female workers were provided with places of training and that non-formal education programmes under the Ministry of Education were developed in support of laid-off workers (Mackay & Kusakabe, 2005). However, a study by the Committee for Asian Women (CAW) (2002) found that two-thirds of the retrenched female workers were not aware of the government support. The government paid part of the severance pay of retrenched workers, but it was not easy for them to access the pay owing to a lack of information.

Mackay and Kusakabe (2005:20) state that, around 2002, the Thai economy started to pick up, macroeconomic indicators started to improve and the unemployment rate was reduced. However, the old workers were not reinstated in factories because of their age, education level and, in some cases, their labour activism. The only choice that these older female retrenched workers had was to go into informal employment, such as working as home-based subcontract workers or as petty vendors.

2.4 Turnaround strategy

With the recent increase of business failures, the study of organisational decline and turnaround response has taken on renewed importance. Most firms experience some type of downturn, whether due to external business factors or poor internal performance (Francis & Pett, 2004:39). Francis and Pett go on to state that the growing intensity of global competition and the complexity of organisational environments have resulted in this pattern becoming increasingly familiar. One typical organisational response to decline is retrenchment. This tactic incorporates the basic reduction of assets and expenses within the firm and necessitates many turbulent actions such as layoffs and divestments. While research has been undertaken on the impact of retrenchment within a turnaround attempt, little empirical analysis has been centred on developing an understanding of the retrenchment process itself (Francis & Pett, 2004).

According to Boyne (2004:98) retrenchment as a strategic response to organisational failure consists of a reduction in the scope or size of an organisation. Boyne goes further to state that, in the private sector, the emphasis is on making cuts in parts of the business that are unproductive and unprofitable, and this in turn can release resources for investment in areas that seem likely to deliver higher performance. According to Robbins and Pearce (1992:290) “most practitioners contend that it is rarely possible to achieve turnaround without an initial period of planned retrenchment”.

2.5 Turnaround strategies used by companies in the United States of American

According to Hagevik (2001:48) the difficulty and the complex decisions involved in asking someone to go or to stay were the subject of an internal report at Lee Hecht Harrison (LHH) an international outplacement firm. “Please go, please stay, the new rules of downsizing and retention” is based on research conducted by Global Strategy Group (GSG) on behalf of LHH. GSG surveyed 450 senior human resources professionals throughout the United States of America (USA) whose organisations had eliminated a significant portion of their workforce in the previous three years (1996–1999). In addition, GSG conducted 20 in-depth interviews with senior executives from around the world whose organisations had invested time, energy and creativity in their retention efforts.

These companies had emerged from prior job eliminations with insight on realignment and retention. Most had used downsizing as a management tool to help them adjust to changes in technology, globalisation or business direction. Some organisations talked about workforce realignment, job eliminations or “rightsizing” to conform to new business initiatives (Hagevik, 2001). Others acknowledged an ongoing need to recruit new talent that would enhance their ability to compete in a worldwide arena. Job eliminations and downsizing will continue alongside a strong need to retain valued employees (Hagevik, 2001).

According to Hagevik (2001), in response to the question “What drove your most recent downsizing?” human resources professionals answered as follows:

- 34 per cent said their organisation was in reasonably sound financial health but was trimming its workforce to strengthen its future position.
- 21 per cent was seeking staff realignment rather than reduction in head count
- 21 per cent acknowledged that their company was in difficult financial straits
- 17 per cent cited mergers and acquisitions

Seven per cent gave other reasons. Middle management functions were most likely to be severely affected by downsizing:

- 53 per cent in operations
- 20 per cent in business line management
- 20 per cent in professional specialists
- 20 per cent in sales and marketing staff

Hagevik (2001) states that the largest organisations anticipated more downsizing in the three years to follow (2001-2003):

- 62 per cent of organisations with over 10 000 employees.
- 37 per cent with 1 001 to 10 000 employees.
- 45 per cent with 501 to 1 000 employees

- 26 per cent with fewer than 500 employees

According to Hagevik (2001) the respondents expected the following factors to drive downsizing over the next few years:

- 84 per cent – changes in technology
- 77 per cent – mergers and acquisitions
- 77 per cent – global competition
- 54 per cent – shift in business direction
- 38 per cent – desire to cut headcount to strengthen future position
- 23 per cent – difficult financial circumstances

The bottom line is that downsizing is widely used as a management tool to keep organizations responsive, competitive and resilient.

Section 2: Factors that contribute to small business failure

2.6 Small businesses

Beaver (2003:117) asserts that all businesses, irrespective of whether they are large or small, can fail and produce disastrous consequences for all the stakeholders concerned. He goes further to indicate that there are many reasons for business failure but in the case of small firms, especially those under three years old, finance, demand forecasting, management, marketing, capitalisation at start-up, strategy and planning are just some of the issues that suggest themselves.

If business start-ups are a desperate response to unemployment, rather than based on sound principles and the committed fashioning and management of competitive advantage, it is inevitable that many will fail. Explanations such as these all seem to suggest that ultimately the key players did not have the talent and abilities necessary to succeed.

Beaver (2003) states that it should be remembered that all successful economies, and sometimes whole industries, shed jobs. However, what these economies manage to do is to create the conditions and opportunities for new jobs and businesses in line with market demand.

According to Beaver (2003:118) the term “failure” is pejorative, implying that the firm should not have been started in the first place, or that the key actors lacked the required managerial competencies or that debt remains unpaid. He goes on to say that when reviewing the literature, it becomes apparent that the terminology of business failure such as “death”, “discontinuance”, “bankruptcy”, “insolvency”, “closure” and “failure” is often seen as synonymous, and that the clarity of these terms is further confused by the emotive and frequently negative nature of perceptions on the subject.

Beaver (2003) also suggests that there is a tendency to associate business “closure” with business “failure” and to assume that the majority of owners that close a business have in some way failed. However, there is persuasive research evidence to suggest that the majority of owners return to start the process again and learn from the closure process so that they are better equipped to manage a business in the future (Stokes & Blackburn, 2002:17). Beaver continues by stating that a major preoccupation with many researchers is the ability to use a definition of “failure” that is both practical and quantifiable.

According to Beaver (2003), this helps to explain the widespread popularity and use of accounting definitions, such as that used by Altman (1983), a prominent financial academic. Failure, he suggests, occurs when the realised return on investment capital is significantly and continually below prevailing rates on similar investments. In other words this is an opportunity cost explanation of business failure.

The problem with this interpretation of business failure and its applicability to the small firm context according to Beaver (2003) is that it has been consistently reported by several researchers that many small firms may continue to function for a considerable time while exhibiting this condition. Furthermore, it is well known that many small firms are reluctant to disclose their financial profiles, have limited and often unsophisticated accounting procedures and often make legitimate attempts to dilute their profitability through inward investment and other expenditure in order to maximise tax avoidance.

The attribution of success and/or failure to small firms is, as mentioned above, complex and problematic (Beaver, 2003:119). There is instead a need to think imaginatively about the construction and application of success and failure criteria recognising the pluralistic nature of business by adopting a stakeholder's perspective. The ways in which success and failure will be defined and measured are then dependent on the stakeholder's orientation towards the enterprise and can be expected to change over time. Furthermore the relative positions of stakeholders will invariably reflect a wide variety of objectives and aspirations with respect to the firm, some of which undoubtedly is mutually exclusive (Beaver, 2003). Therefore the small firm cannot possibly fulfil all the success criteria and may indeed be simultaneously judged to be both a success and a failure by differing stakeholders groups.

According to Beaver (2003), it is immediately apparent that success is no longer regarded as synonymous with optimal performance since this represents an extremely elusive concept. Similarly, failure can no longer be regarded in terms of the traditional, inflexible paradigm of the cessation of trading. Rather, success can be viewed as the attainment of certain predefined objectives that can satisfy stakeholder aspirations and which may culminate in performance that falls substantially below the optimal level attainable.

It should be noted, however, that when many small business emerge, a considerable number of them fail (Ladzani & Van Vuuren, 2002). Some fail in their infancy stage and some fail within a few years after start-up. There seems to be little difference in small business failure rate between developed and developing economies.

Extensive research has been done on the topic of small business failure. According to Schaper and Volery (2004:89) small firms share a number of typical characteristics that separate them from other types of business organisation. Some of these differences include a smaller market share, a small ownership base, a limited life span and limited net profit. Compared with larger firms, small businesses are likely to be operated from home, to be run by a family and to have a female manager. There are few formal planning procedures, less access to outside capital, less government support and a greater likelihood of failure.

According to Nieman and Pretorius (2004:71) research on venture failure varies. However, it is estimated that between 30 and 80 per cent of all new ventures fail within the first two years of establishment, depending on how failure is defined. It is not only start-up ventures that face the prospects of failure, but also more mature ventures.

2.7 Reasons why small businesses fail

According to Schaefer (2006), the main reasons that contribute to business failure are the following:

2.7.1 Insufficient capital

It is imperative to ascertain how much money your business will require; not only the costs of starting, but also the costs of staying in business. He further states that it is important to take into consideration that many businesses take a year or two to get going. This means that one will need enough funds to cover all costs until sales can eventually pay for these costs.

2.7.2 Location

Location is critical for the success of the business. Whereas a good location may enable a struggling business to ultimately survive and thrive, a bad location could spell disaster to even the best managed enterprise. Schaefer (2006) suggests that other factors that should be considered under location are the following:

- a) Where one's customers are
- b) Location of competitors
- c) Condition and safety of the building
- d) Local incentive programmes for business start-ups in specific targeted areas.
- d) The history, community flavour and receptiveness to a new business at a prospective site.

2.7.3 Lack of planning

It is critical for businesses to have a business plan. Many small businesses fail because of fundamental shortcomings in their business planning. This should be realistic and plans should be based on accurate, current information and educated projections for the future.

2.7.4 Over expansion

According to Schaefer (2006), over-expansion is a leading cause of business failure. This often happens when business owners confuse success with how fast they can expand their business. Many a bankruptcy has been caused by rapidly expanding companies.

2.7.5 No website

Schaefer (2006) asserts that, at the very least, every business should have a professional-looking and well-designed website that enables users to find out easily about their business and how to avail themselves of their products and services.

Wright (as quoted by Van Aard, Van Aard & Bezuidenhout, 2000:250) identifies eight reasons why many small businesses fail:

- Poor management skills
- Poor record keeping
- Poor money management
- Too little effort made to market the business
- Poor planning
- Poor pricing practices
- Poor human resource management
- The entrepreneur's inability to adapt to the changing demands of a business

Monk (2000:1) states reasons for the failure rate of start-up businesses include lack of adequate working capital, poor market selection and rapidly changing external market conditions. However, the most significant reason for the high failure rate is the inability of SMEs to make adequate use of essential business and management practices. Many small firms fail to develop an initial plan, and often those that do establish a plan fail to make it a working tool. If an SME is adept enough to survive start-up and early business life, it will grow, provided it displays competence and applies a particular mix of skills.

2.8 Lack of planning

In a study conducted by Perry (2002:201), he found a statistically significant inverse relationship between planning and business failure. However, his explanation for the relationship was weak – he states that a possible reason for the failure of businesses with fewer than five employees to succeed lies in the fact that they rarely undertake formal (written) planning. Perry goes on to state that gender does not appear to be related to the failure of small business in the US.

What the above demonstrates is that there are a whole host of factors that lead to the failure of small businesses and that there is no one-size-fits-all formula guaranteeing success that may be given to all entrepreneurs.

Dickler (2007) states that only two-thirds of new small businesses survive at least two years, and just 44 per cent survive at least five years according to a study conducted by the United States of America small business association.

2.9 Challenges faced by small businesses

Schaper and Volery (2004:89) state that most small businesses face a series of generic problems in the first year of operations. These difficulties fall into four main functional areas – finance, marketing, production and personnel – plus difficulties that are caused by running the business. These problems may eventually lead to the failure of the business.

Radipere and Van Scheer (2005:402–411) agree with Nieman and Pretorius (2004) when they say that 40 per cent of new business ventures fail in their first year, 60 per cent in their second year, and 90 per cent in their first ten years of existence. Radipere and Van Scheer state further that it is evident that small business owners lack certain managerial skills, including financial, marketing and human resources management skills, needed to operate their businesses successfully.

Small businesses are constrained not only by financial factors but also specifically by non-financial factors such as lack of education, inadequate managerial skills, poor access to markets, lack of information and unreliable infrastructure.

Van Eeden, Viviers and Venter (2003:13–23) estimate the failure rate of small, medium and micro enterprises (SMMEs) in South Africa as between 70 and 80 per cent. Van Eeden et al (2003) go further by indicating that millions of rand are being lost on business ventures because of avoidable mistakes and problems. Difficulties encountered by small businesses may be described as environmental, marketing, financial or managerial in nature.

Schaefer (2006:3) supports what Radipere and Van Scheer (2005) have asserted when he states that many a report on business failure cites poor management as the number one reason for failure. Schaefer (2006) go on to state that new business owners frequently lack relevant business and management expertise in areas such as finance, purchasing, selling, production, and hiring and managing employees. Unless they recognise that they have not done well and seek help, they could face disaster.

2.10 Survival of small businesses

According to Knaup (2005:51) one may also look at survival rates by asking how many establishments were in operation in the second, third and fourth year after their birth, conditional on being operational in the previous year. In other words, how many of the establishments that survived the first year were still in business at the end of the second year; how many that made it to the second year still existed in the third year; and so forth. One might expect that survival to the previous year is a good indicator of the odds of surviving to the next, but at the national level, these conditional survival rates are fairly

stable, increasing somewhat in the third year, but declining again in the fourth. Only three sectors showed a slight tendency towards increasing survival: natural resources and mining, education and health services, and other services. The information sector showed a somewhat stronger trend in the opposite direction, but most of the sectors showed no tendencies at all.

2.11 Training required for survival

Marais and Israelstam (1997) indicate that rapidly changing circumstances require ongoing training at all levels of the organisation. Private and public organisations, as well as SMEs, should receive regular training. Kroon and Moolman (1992) note that training can help owners/managers learn how to approach certain problems, in order to save time and money and to be aware of certain rules and procedures that could help them to work with fewer difficulties. Useful categories of training might include motivational, business and entrepreneurial training (Ladzani & Van Vuuren, 2002). Despite this broad range of possibilities, many training institutions conduct training in only one area. Institutions that mainly focus on business skills (management training) or on motivational skills and offer very little on entrepreneurial skills do a disservice to the SME sector they serve. Training for SME owners/managers should be understood as a three-legged pot, which will not stand if any leg is missing.

Van Eeden et al. (2003) concur with Marais and Israelstam (1997) when they state that entrepreneurial training forms part of the cornerstone of a supportive environment, as it equips small business owners/managers with the skills necessary to drive successful new venture creation, and contributes towards the survival and growth of small businesses. One training perspective is that failure can be avoided by exploring the circumstances from which failure arises. An awareness of possible problems facing entrepreneurs in the future will enable them to be forewarned and proactive in their decision making. Starting a business is a risk at best, but the chances of success are enhanced if the problems anticipated are understood and addressed prior to the business starting or the problem arising.

Many studies have proved that entrepreneurs can be trained (Ladzani & Van Vuuren, 2002). Ladzani and Van Vuuren (2002) state that for an institution to claim that it provides

entrepreneurship training is not enough. The content of what is provided, the analysis of potential entrepreneurs and the expertise of trainers should also play an important role. High quality training interventions are characterised by reduced failure rates, increased profits and growth of SMEs.

Section 3: Responsibilities of companies involved in carrying out retrenchment

2.12 Corporate responsibility

According to International Finance Corporation (IFC) companies may take a range of steps that go beyond severance payment and compliance with basic legal requirements to demonstrate corporate social responsibility in relation to retrenchments. IFC goes further to indicate that whenever a worker is dismissed, enhancing his or her ability to find new sustainable routes to livelihood is essential to cushion the effects of retrenchment on both the individual and the community. Companies are often in a good position to use some resources to seek to improve the work, life and opportunities of those workers that they have placed in precarious situations as a result of the retrenchment process.

IFC goes further to indicate that these may include one or a combination of the following:

- Training
- Career and financial counselling
- Promotion of local economic development opportunities
- Outsourcing
- Assistance with finding new employment

Kinds of training that may be considered include:

- Training in new skills that fit available job opportunities
- Training in small business development

Basic literacy and numeracy training (IFC)

Most commonly, the person who receives retraining or counselling on establishing micro enterprises or other ventures is the worker who has been let go. In some instances, however, it may be appropriate to offer this training option to a proxy who will receive the training or advice as a way to reduce the impact on communities and families. The IFC cites an example of a care project operating in Southern Africa aimed at mitigating the impact of mine closures, in which retraining and business development were also made available to the partners of mine workers. This practice takes into account the fact that in the communities where the mine workers' families live there may be greater opportunities available to women than to the male mine workers.

The loss of income and livelihood, coupled perhaps with a relatively large severance payment, can amount to a real shock to many retrenched workers. They may be receiving more money than they have ever had at one time, yet their long-term financial outlook may be bleak. Therefore, it is important to find ways to counsel workers on how to manage their finances. The IFC indicates the examples of actions as follows:

- Employing an independent advisor or NGO to work with employees to explain financial matters
- Supporting a local advice centre
- Supporting trade union financial advice projects
- Working with local banks and community-based financial projects

2.13 Reskilling, training and small business establishment

The code also indicates that a significant part of any retrenchment plan is a strategy to help workers find new employment. Generally, it is easier to find employment while still employed, so ideally the help should be available before the worker's contract has ended. In situations where alternative employment is not readily available, it is often appropriate to help retrenched workers to establish new small businesses, or co-operatives as a means of livelihood. To do this, the companies may consider putting money into a fund to support new businesses or working with local governmental and non-governmental organisations to help provide start-up capital and technical assistance (IFC).

Big businesses have for years enjoyed much support from governments, financiers and other stakeholders (Ladzani & Van Vuuren, 2002:154). This situation is however changing quickly in all the economies of the world (Scarborough & Zimmerer, 1996). The focus is shifting towards small business development. Big businesses are trying to survive and become more competitive by downsizing and merging, which results in many retrenched and unemployed people establishing their own small business enterprises, not only for survival, but also to generate wealth in their respective communities. The proliferation of small business is welcome since the development of small and medium-size enterprises contributes significantly to job creation, social stability and economic welfare across the globe.

2.14 Conclusion

There are a number of reasons that compel companies to consider retrenching employees. Some of the reasons are external pressures, for example competition or government legislation. In some instances the reasons for retrenchments are internal. Examples of internal reasons could be the realignment of the organisation, driving efficiencies or reducing fixed costs. In view of the above discussion, it becomes obvious that many companies, when under pressure to restructure, use retrenchment as one of the tools to resolve problems.

The literature review indicates why a large percentage of small businesses fail within the first year or two of establishment. The last part of this section indicates what could be done to minimise or reduce the risk of small business failure. The literature review contributed to the study by highlighting studies that other scholars have done and the conclusions that they have reached regarding the reasons that compel organisations to use retrenchment as one of the tools of resolving the problem. It has also highlighted the causes of small business failure. Some of the key steps that could be taken to reduce the risk of business failure are also highlighted.

In the next chapter the methodology used in the study will be discussed. Also covered in the next chapter are the following topics:

The research design in terms of population, sampling, data collection, data analysis, data measurement, reliability and validity, and ethical issues

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The purpose of the previous chapter was, firstly, to provide background information on issues relating to the reasons that lead organisations to use retrenchment as a tool when rightsizing the organisation; and secondly to highlight the issues that contribute to small business failure. In this chapter, the questionnaire that was used is discussed in detail and the methodology applied in conducting the study is discussed.

3.2 Questionnaire

The questionnaire used in the study was developed by the researcher. The questionnaire was divided into two sections: the first section contained demographic questions where respondents were requested to choose and answer from the alternatives provided. The second section of the questionnaire asked a number of open-ended questions which required the respondent to elaborate and state their own opinion.

Section A

Section A looked at the demographic questions. Question 2, for example, asked the respondents to indicate their age according to the age groups provided. The aim of this question was to determine the age of the employees that were retrenched and also to determine what age bracket was most affected.

Question 3 was included in order to determine the gender of the retrenched employees.

Question 4 was included in order to determine the race of retrenched employees and also to determine the race group that was most affected.

Questions 6, 7 and 8 were included in order to determine the educational level of the retrenched employees. Question 6 looked at the highest level of school education. The

respondent had to choose the level of education from the categories provided. If he/she indicated that he/she had tertiary education, question 7 requested him/her to specify the type of qualification. Question 8 requested the respondent to specify further whether the qualification he/she had was a certificate, diploma, degree or other. The aim of the questions was to try to determine whether employees with a higher educational qualification level were affected in the same way as employees with a lower level of education, or whether there was a difference between the two groups.

Question 10 asked about the number of years that the employee had spent at Telkom before being retrenched. The respondent had to indicate the number of years at Telkom using one of the boxes provided. Question 10 asked the question and the respondent had to make a tick on the blocks provided in 11.

Question 12 asked respondents to indicate the department in which he/she was working during the retrenchment process. The answers to this question were provided in number 13. Question 14 requested the employee to elaborate if he/she had indicated “other” in number 13.

Section B

Section B looked at issues that were communicated to staff by the company. These issues were issues pertaining to what the company offered to retrenched staff in terms of assisting them:

- Workshop that would assist them by giving them information that would help them to invest their hard-earned money wisely.
- Provide them with information on how to access the training funds
- Provide them with information on how to access the start-up capital.

Question 1 under section B asked whether the respondents were aware of the existence of the career agency that was established by the company to oversee the issues relating to retrenched employees. The respondents were requested to indicate on the responses provided whether they were aware or not.

Question 2 asked whether they had attended any of the presentations that were presented by the agency. The respondents had to mark on the boxes provided whether they had attended or not.

Question 3 asked whether they attended training that was provided by the agency. “Yes” and “No” response boxes were provided and the respondent was requested to tick the appropriate box.

In question 4 the respondents were asked whether they had attended the financial workshop that was provided by the agency. The respondents were requested to tick one of the boxes provided.

Question 5 was intended to be answered by the respondents who had attended the workshop. It asked whether the information provided by the workshop was sufficient. The respondents had to choose one of the two answers provided.

Question 6: If the answer was “No” to question 5, then the respondent was requested to elaborate.

The intention of question 7 was to determine whether the respondents who attended the training provided by the company’s agency utilised the funds allocated for external training. Again the respondents had to indicate their answers in one of the two boxes provided.

Question 8 requested respondents who did not utilise the training funds to indicate the reasons for not doing so. This was an open-ended question.

Question 9 asked the respondents to indicate whether they had accessed the start-up capital. Two boxes were provided and the respondents had to tick one of the two.

Question 10 requested respondents that had ticked “No” for question 9 to give reasons for not utilising the capital.

The reason for asking these questions was to establish whether the respondents were aware of the funds that the company was offering, and secondly whether they had accessed them. If not, what was the reason for this?

Questions 11 to 18 were business-related questions. The aim of these questions was to establish whether the respondent had established a small business. Those that had not established businesses were asked to elaborate on the reasons for not doing so. Those that had started small businesses and their businesses had failed were asked to indicate for how long their businesses had existed. Secondly, if they had failed after some time, what had led to the failure. The aim of these questions was, firstly, to determine how many employees had established businesses after being retrenched; secondly, to find out how long did their business exist; and thirdly, what had led to the demise of their business. The questionnaire assisted the researcher in collecting valuable data for the study.

3.3 Research design

What kind of study is being planned and what kind of result is aimed at? The nature of this study was exploratory in order to establish the “facts” and to gather new data. It attempted to determine whether any interesting patterns existed (Mouton 2002:56). In addition, further insights and a familiarity with the subject area were obtained.

The study was descriptive in nature. According to Collis and Hussey (2003:11), descriptive research is research that describes phenomena as they exist. The descriptive nature of the study is also intended to identify and obtain information on the characteristics of a particular problem or issue. Since the causal variables were unknown, an explanatory or analytical research could not be undertaken; in addition, predictive research could also not be undertaken, neither could the current events leading to small business failure be linked to a specific causal event (Collis & Hussey, 2003:10).

Given that the research problem relates to small business failure, the design chosen, being both exploratory and descriptive, was derived from the qualitative paradigm which is based on an empirical analysis and primary data collection. The design thus included survey questionnaire. The data collected were primarily textual (Mouton, 2002:148). The typical application was field studies in natural settings (op cit). The mode or sources of

data were derived from semi-structured interviewing (focus group or individual). When analysing data, the grounded theory approach (Glaser & Strauss, 1967) was used.

3.4 Population of the research

The unit of analysis was the retrenched Telkom employees who reside on the western side of Johannesburg (Mogale City, Soweto and the Randfontein area). The focus was on those ex-employees who went through the re-skilling process but failed to set up their own businesses.

3.5 Sampling

According to Creswell (2002:167) it is not always possible to utilise probability sampling in research. In some instance one may be required to involve participants who volunteer and agree to be studied (Creswell, 2002). Convenience sampling was used in this study. According to Creswell (2002), in convenience sampling the researcher selects participants because they are keen to be studied and are accessible. Because these participants have not been systematically selected, the researcher cannot say with confidence that they are representative of the population; however the sample may provide useful information for answering questions and hypothesising (Creswell, 2002).

3.6 Data collection

Semi-structured interviews were used to gather data on the issue under scrutiny. According to Welman and Kruger (2001:161) semi-structured interviews offer a versatile way of collecting data. They may be used with all age groups, for example with young workers participating in ABET who are still unable to read, as well as with elderly people with poor eyesight. Unlike structured interviews, unstructured and semi-structured interviews allow the interviewer to use probes with a view to clearing up vague responses, or to ask for elaboration of incomplete answers.

A new questionnaire was compiled containing two categories of questions to be asked. The first category of questions contained demographic questions and the second consisted of open-ended questions. The demographic questions elicited information such

as gender, race, highest educational qualification, number of years at Telkom before retrenchments, and so on. The second category of questions focused on training, funding and the start-up capital provided by Telkom.

3.7 Data analysis

A qualitative data analysis method was applied to provide evidence on grounded theory using theoretical sampling and content analysis.

According to Welman and Kruger (2001:29), when using grounded theory the researcher should first observe and systematically describe the phenomenon being studied and attempt gradually to unravel relationships and patterns in order to eventually formulate a theory. With content analysis, the proposal has been made that one has to continually shift and compare elements for as long as the research project continues to exist. Whereas, with theoretical sampling, the proposal is that active analysis of new cases should continue as long these (i.e. new cases) emerge as the project continues.

According to Collis and Hussey (2003), sampling theory is the study of relationships that exist between a population and the samples drawn from it. Bar charts and pie charts will be used when processing and analysing the data obtained from the units of analysis.

3.8 Data measurement

Interval and **nominal** measures were used on the survey questionnaire. According to Creswell (2002), **interval** scales provide “continuous” response options to questions with assumed equal distances between options. These scales may have three, four or more options (Creswell, 2002). Creswell (2002) states further that **nominal** scales provide response options where participants check one or more categories that describe their traits, attributes or characteristics. An example of a nominal scale would be gender, divided into the two categories of male and female (Creswell, 2002). Another form of a nominal scale would be a checklist of “yes” or “no” responses (Creswell, 2002).

3.9 Reliability and validity of data

According to Welman and Kruger (2001:139), reliability refers to the extent to which the scores obtained may be generalised to different occasions of measurement.

According to Collins and Hussey (2003:58) reliability is concerned with the findings of the research. If research can be replicated, then it is reliable.

According to Collis and Hussey (2003:58) validity is the extent to which the research findings accurately represent what is really happening in the situation. When doing the study, measures will be taken to ensure that validity and reliability are attained as far as possible.

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

- A pilot study preceded the actual interviews. Four retrenched Telkom employees were interviewed.
- The rest of the retrenched Telkom employees were invited to a central place so that the rationale for the study could be explained to them and also to address the concerns and questions that they had.
- Convenience sampling was used. According to Creswell (2002), in convenience sampling the researcher selects participants because they are keen to be studied and are accessible. The respondents were keen on participating in the study and were also readily available hence they were invited to take part.

3.10 Ethical issues

According to Welman and Kruger (2001:171), ethical considerations come into play at three stages of a research project, namely

- when participants are recruited
- during the intervention and/or the measurement procedure they are subjected to

- when the results obtained are released

Ex-Telkom employees were informed upfront about the reason for this study and also what they stood to benefit if they participated in it.

3.11 Conclusion

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

The main challenge encountered when gathering data was that most of the respondents were not able to converse in English, therefore they used their own languages and had to be assisted to complete the questionnaire. In the next chapter the findings of the study will be discussed in detail.

CHAPTER 4

FINDINGS OF THE STUDY

4.1 Introduction

The previous chapter explained the method of data collection. The aim of this study was to determine factors contributing to the failure of small businesses established by retrenched Telkom workers. This chapter reports on the findings of the interviews conducted and provides analysis of the data. Once the data were collected from the respondents and coded, descriptive statistics were used to analyse the data.

4.2 Race distribution

Table 4.1

		Frequency	%	Cumulative %
Valid	African	25	75.8	75.8
	White	1	3.0	78.8
	Asian	1	3.0	81.8
	Coloured	6	18.2	100.0
	Total	33	100.0	

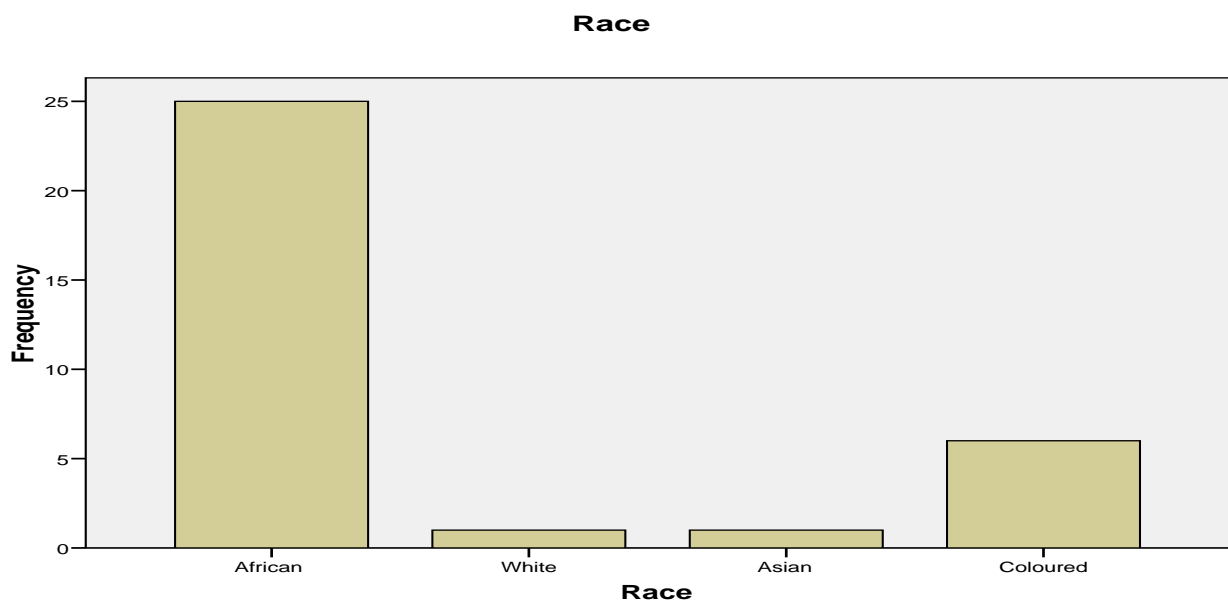


Figure4.1

The questionnaires were administered to a total of 33 retrenched Telkom workers. Of the 33, 75.8 per cent were African, three per cent white, three per cent Asian and 18.2 per cent coloured. The reason for this distribution could be that most of the people who took the package were African.

4.3 Educational qualification

Table 4.2

		Frequency	%	Cumulative %
Valid	Grade 5–8	12	36.4	36.4
	Grade 9–12	16	48.5	84.8
	Tertiary qualification	4	12.1	97.0
	Unknown	1	3.0	100.0
	Total	33	100.0	

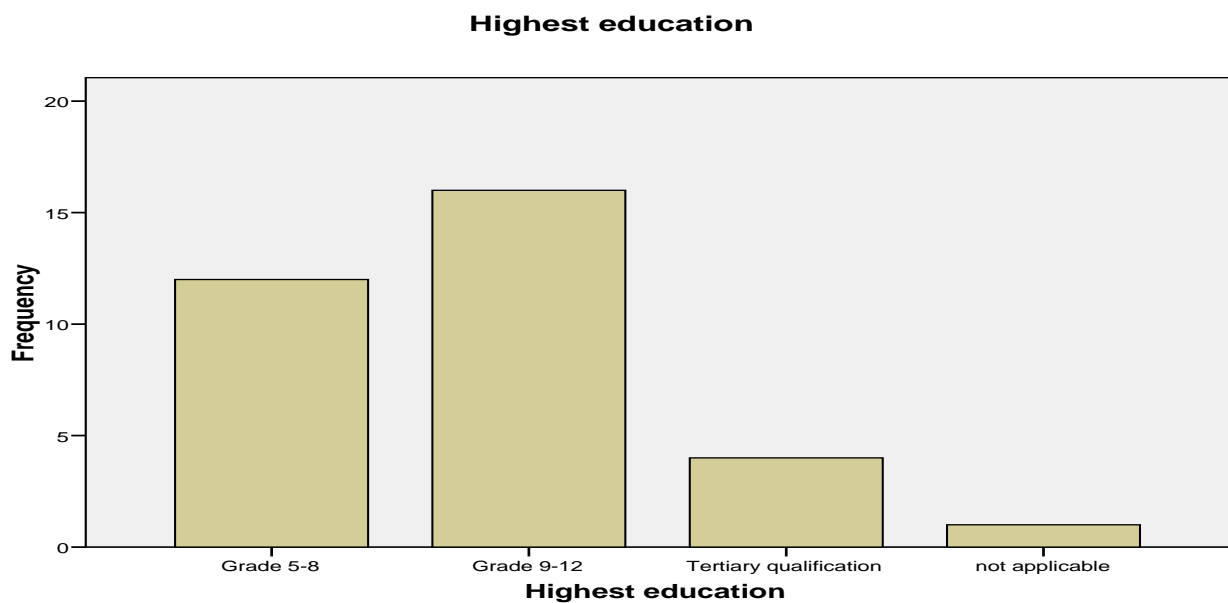


Figure 4.2

36.4 per cent of the respondents had completed Grade 5–8, 48.5 per cent had completed Grade 9–12 and only 12 per cent had a tertiary qualification. One did not indicate the level of education completed.

4.4 Tertiary education

Table 4.3

		Frequency	%	Cumulative %
Valid	Certificate	6	18.2	18.2
	Other	1	3.0	21.2
	No tertiary education	24	72.7	93.9
	Unknown	2	6.1	100.0
	Total	33	100.0	

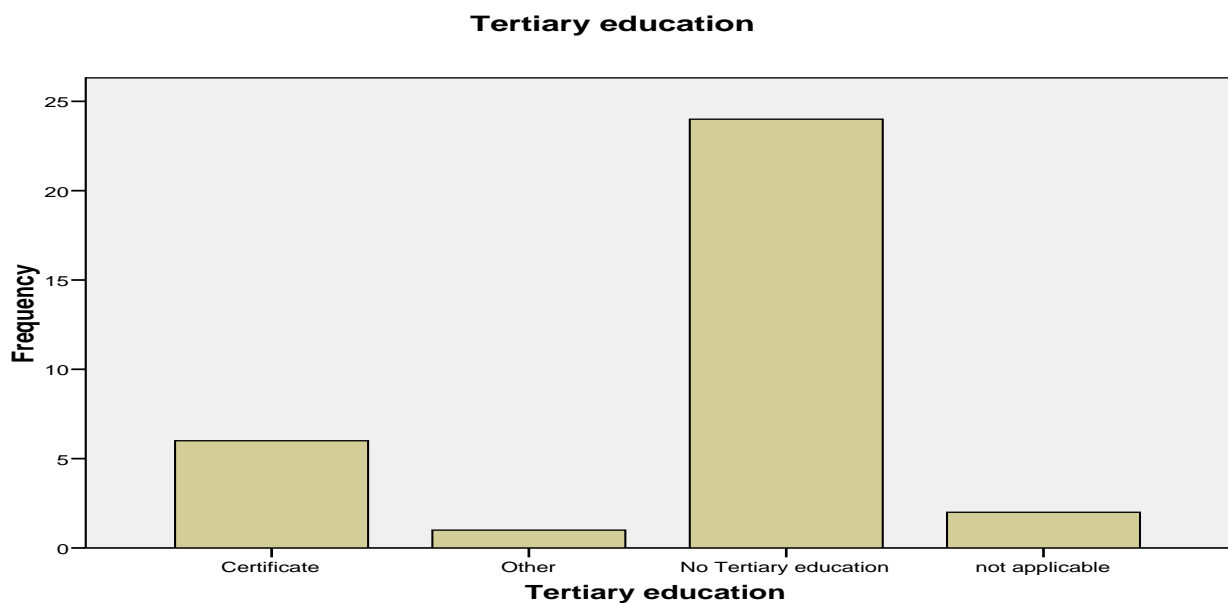


Figure 4.3

Eighteen per cent of respondents indicated that they had either completed a degree/diploma or a trade certificate. Three per cent had completed certificates in other trades, for example a certificate in welding (week course). 72.7 per cent of respondents had not completed any tertiary studies. 6.1 per cent of the respondents did not respond to the question.

4.5 Number of years in service before retrenchment

Table 4.4

		Frequency	%	Cumulative %
Valid	6–10	3	9.1	9.1
	11–15	18	54.5	63.6
	20 and more	12	36.4	100.0
	Total	33	100.0	

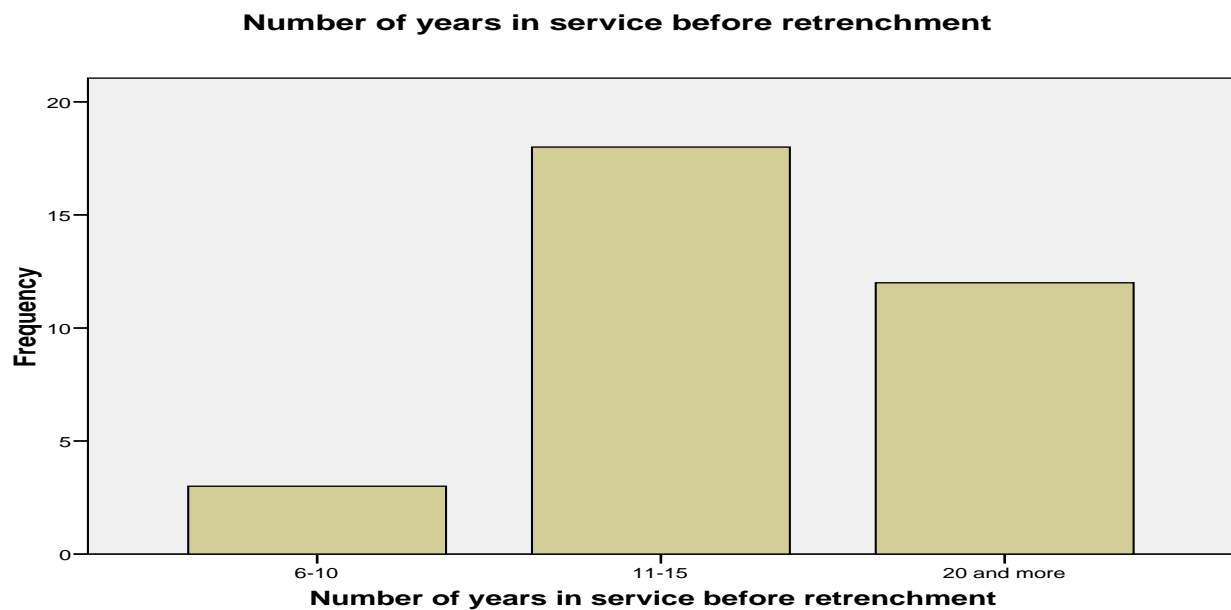


Figure 4.4

Of the 33 respondents, nine per cent had worked for 6–10 years before being retrenched, 54.5 per cent had worked for 11–15 years and 36.4 per cent had worked for 20 years or more. The majority of the respondents that had left Telkom as a result of retrenchment had worked for the company for 11–15 years

4.6 Department in which you worked

Table 4.5

		Frequency	%	Cumulative %
Valid	Technical	30	90.9	90.9
	Other	2	6.1	97.0
	Unknown	1	3.0	100.0
	Total	33	100.0	

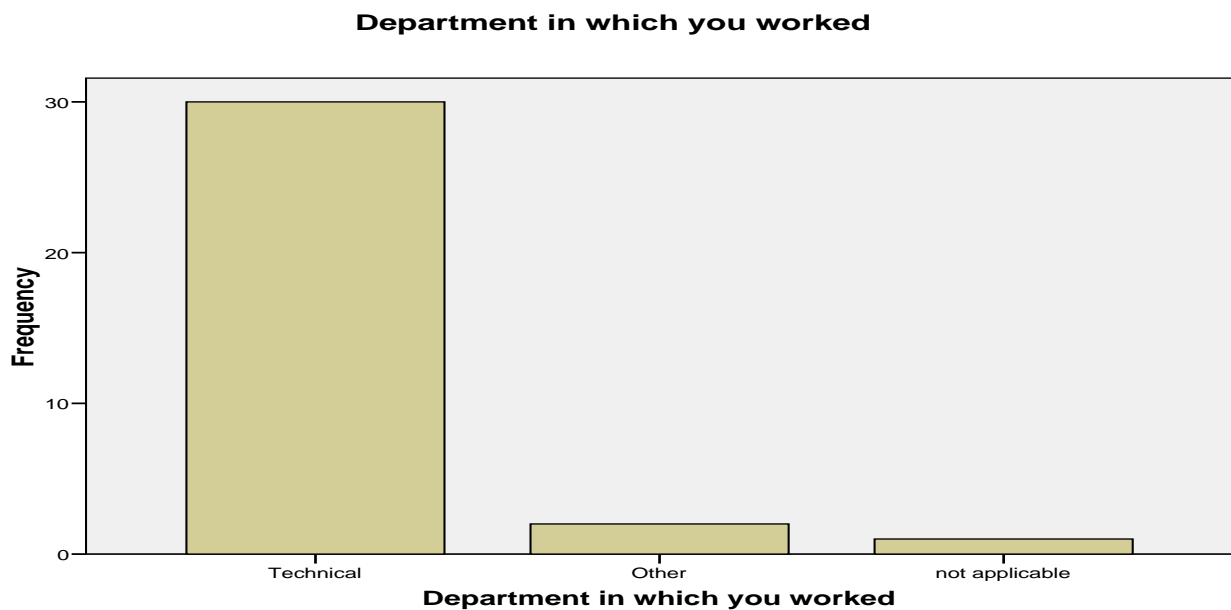


Figure 4.5

90.9 per cent of respondents worked in the technical department, 6 per cent worked in other departments within the company and 3 per cent respondent did not indicate the department in which they worked. Telkom is the only company that provided fixed lines and the skills of these employees are aligned to the technology that is in use in Telkom. Most of the employees from other departments, for example the finance department and human resources department were able to find employment elsewhere because of their skills. The majority of employees from the technical department are still unemployed.

4.7 Awareness of agency for career opportunities

Table 4.6

		Frequency	%	Cumulative %
Valid	Yes	19	57.6	57.6
	No	13	39.4	97.0
	Unknown	1	3.0	100.0
	Total	33	100.0	

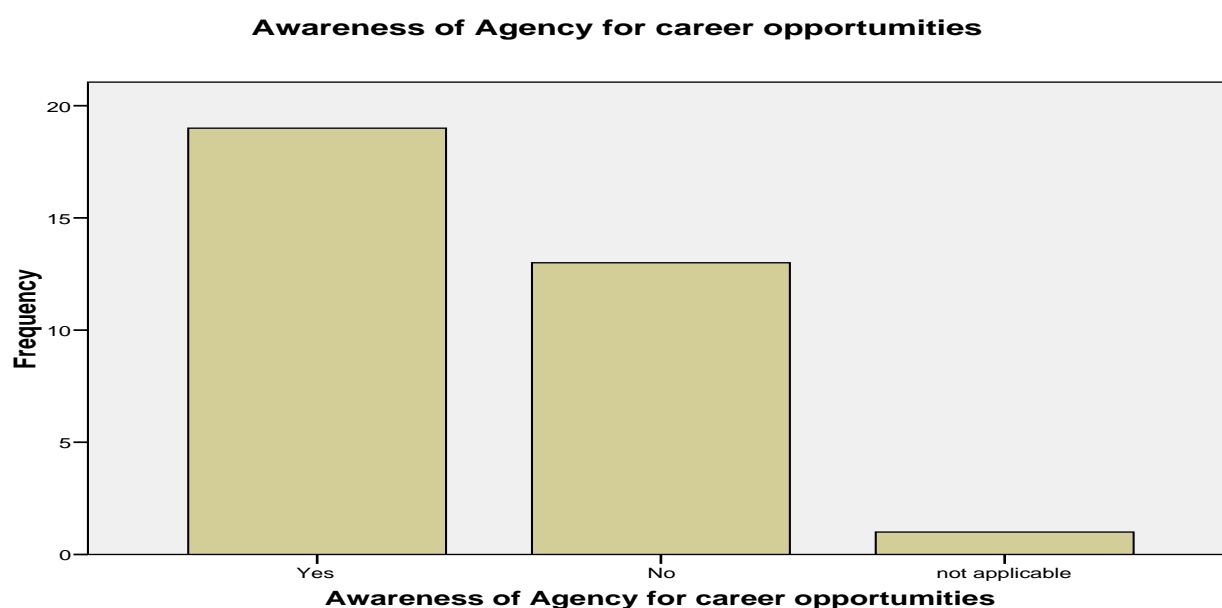


Figure 4.6

57.6 per cent of respondents were aware of the existence of the career opportunity agency and only 39.4 per cent indicated that they were not aware. Three per cent did not respond to the question. It is possible that not all the employees were briefed about the existence and function of the agency for career opportunities. It is also possible that the language of the briefing document created a barrier. When one looks at the educational qualification of the respondents, one gets the sense that the language could have been an issue hence the “No” response.

4.8 Attendance of career agency for career opportunities presentations

Table 4.7

		Frequency	Percent	Cumulative Percent
Valid	Yes	13	39.4	39.4
	No	19	57.6	97.0
	Unknown	1	3.0	100.0
	Total	33	100.0	

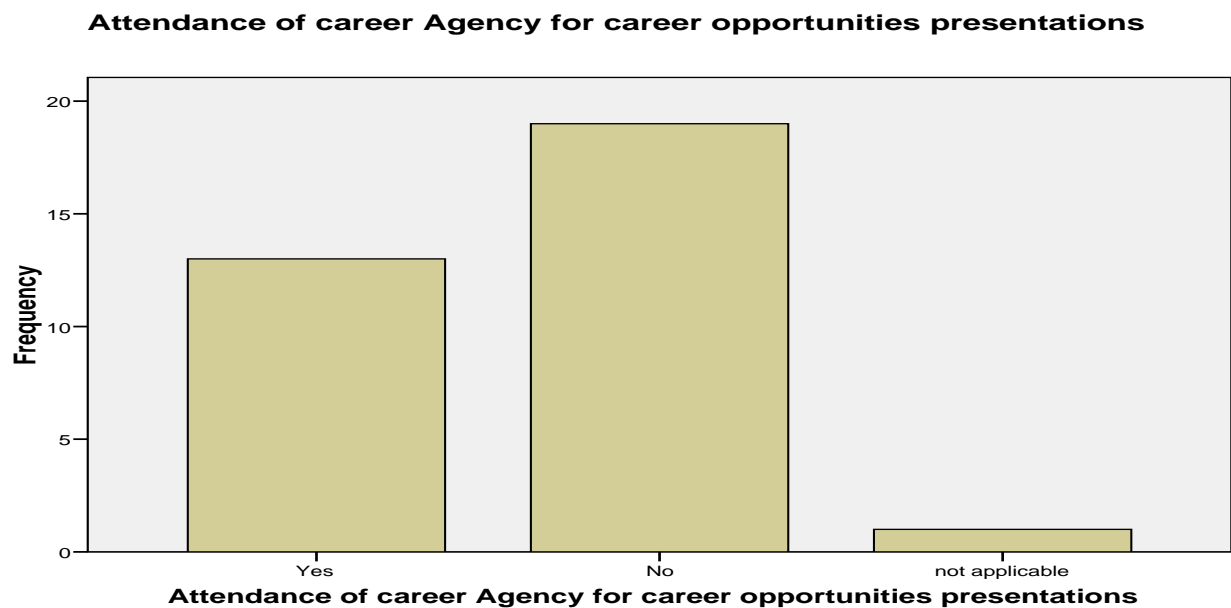


Figure 4.7

39.4 per cent of the respondents attended the presentations, 57.6 per cent of the respondent did not attend the workshop and 3 per cent did not respond to the question. Although the majority of respondents were aware of the workshops being presented, only 39.4 attended. The reason could be that they were not given an opportunity by their operations managers to attend. Possibly, others could not attend because of lack of transport to Booyens Centre for the presentations. Another possibility could be that they were not sure of the dates and times of these presentations.

4.9 Attendance of skills training offered through the agency

Table 4.8

	Frequency	%	Cumulative %
Valid Yes	10	30.3	30.3
No	22	66.7	97.0
Unknown	1	3.0	100.0
Total	33	100.0	

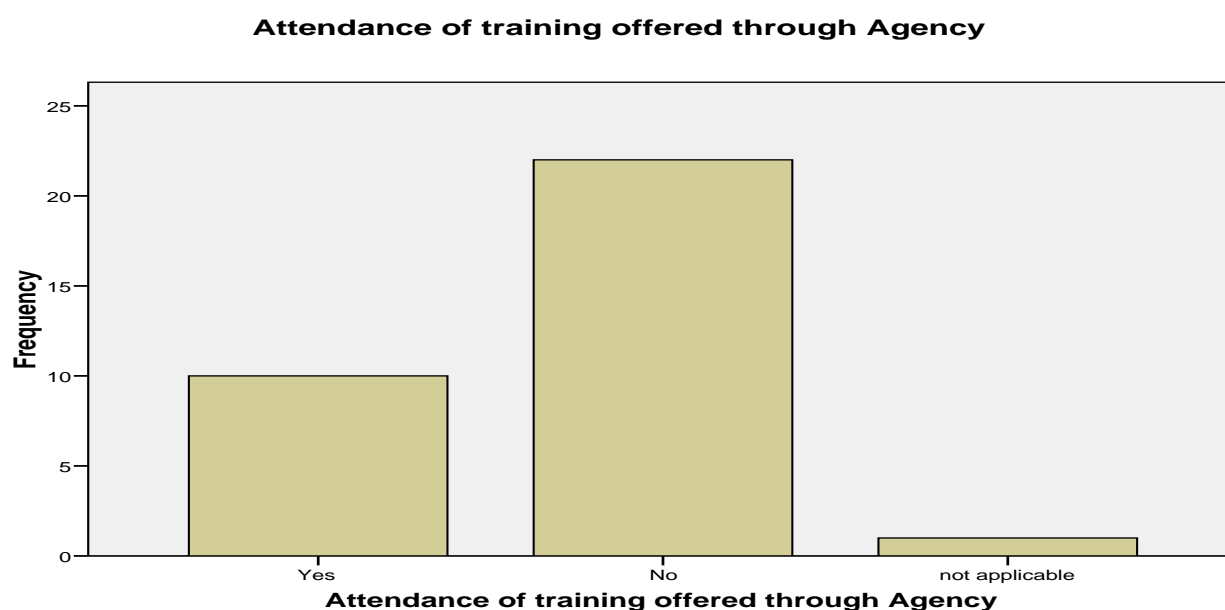


Figure 4.8

Out of a total of 33 respondents, 30.3 per cent attended the skills training offered by the company, 66.7 per cent of respondents did not attend training and 3 per cent did not respond to the question. The reason for not attending given by some of the respondents was that they did not know what to do and they were not sure what they wanted to do after retrenchment. Others were still in a state of shock hence they did not attend any training.

4.10 Attendance of financial workshop by agency

Table 4.9

		Frequency	%	Cumulative %
Valid	Yes	7	21.2	21.2
	No	23	69.7	90.9
	Unknown	3	9.1	100.0
	Total	33	100.0	

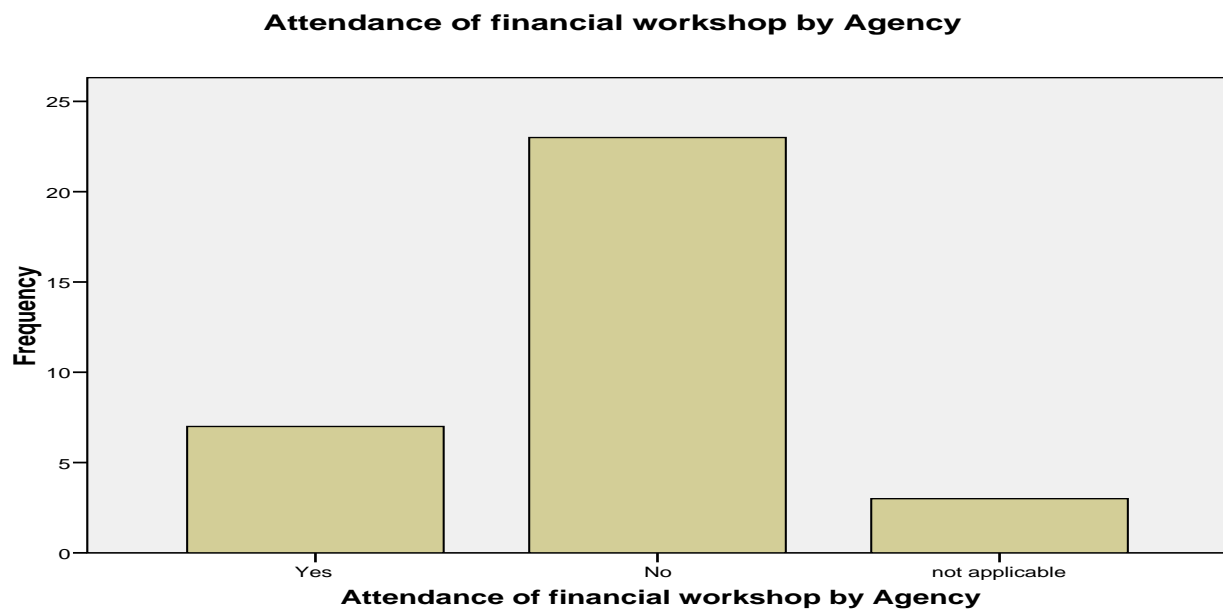


Figure 4.9

The aim of presenting a financial workshop was to equip the retrenched workers with skills to invest their hard-earned money wisely. Twenty-one per cent of respondents attended the financial workshop and a whopping 69.7 per cent did not attend at all, while 9 per cent did not respond to the question. The reason for non-attendance could have been lack of interest seeing that they were exiting the company. It could also have been that the holding of financial workshop was not communicated properly to staff who were about to exit the company. It is also possible that the financial workshop was set at too high a level especially for those with a low standard of education.

4.11 Did you utilise the funds allocated to you for attending external training?

Table 4.10

		Frequency	%	Cumulative %
Valid	Yes	12	36.4	36.4
	No	19	57.6	93.9
	Unknown	2	6.1	100.0
	Total	33	100.0	

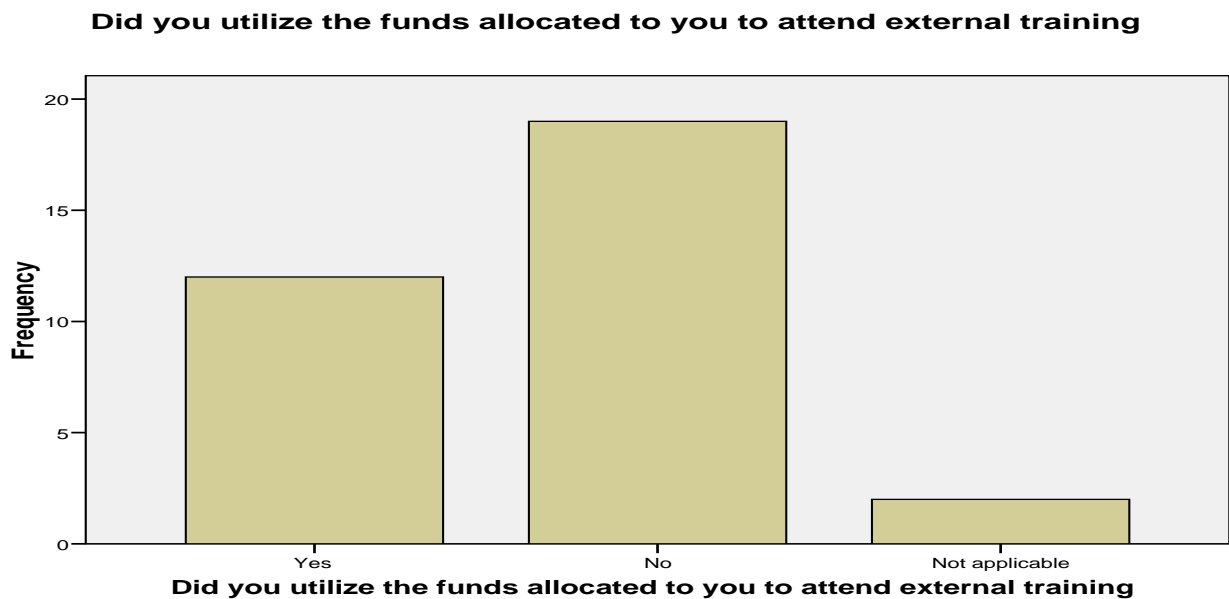


Figure 4.10

Although the company provided funds for retrenched workers to attend external training if they so wished, only 36.4 per cent utilised these funds, 57.6 per cent did not utilise the funds and 6.1 per cent did not respond to the question. Most of the respondents indicated that they did not understand the process they had to follow to access these funds, and that they did not know that there were time lines attached to the process. Others went to ask for funds only to find that they were too late.

4.12 Did you use the start-up capital from Telkom?

Table 4.11

		Frequency	Percent	Cumulative Percent
Valid	Yes	11	33.3	33.3
	No	19	57.6	90.9
	Unknown	3	9.1	100.0
	Total	33	100.0	

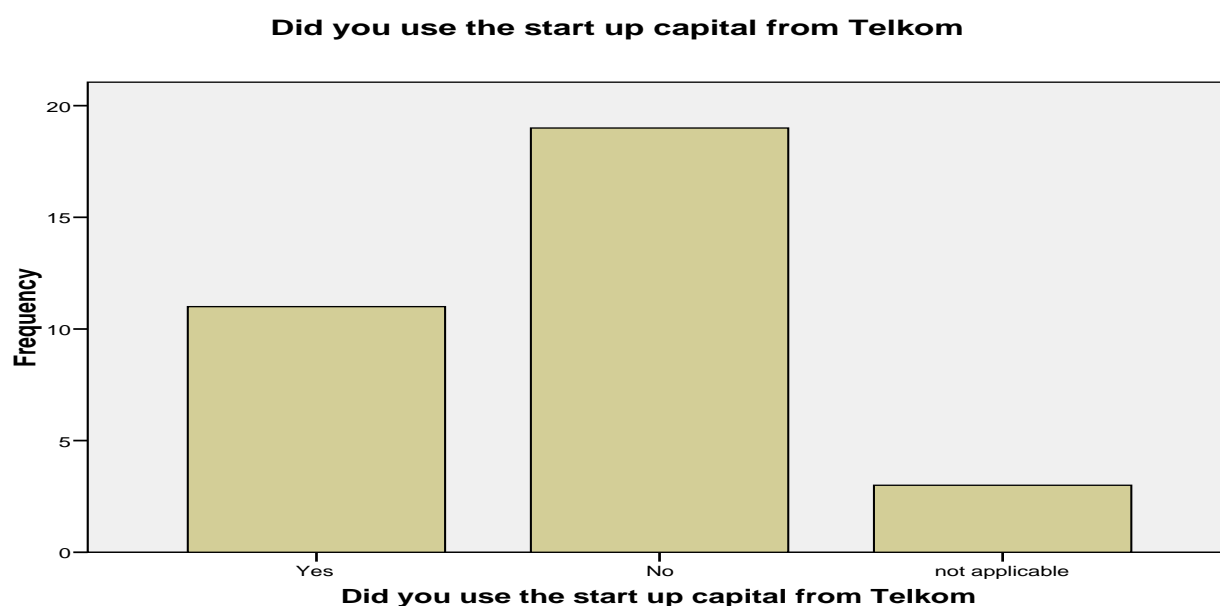


Figure 4.11

Telkom provided start-up capital so that the retrenched employees could buy equipment for the businesses they were about to establish, that is, after receiving training. 33.3 per cent of the respondents utilised the start-up capital, 57.6 per cent of the respondents did not use the start-up capital provided by the company and 9.1 per cent did not respond to the question. The majority of the respondents did not utilise the start-up capital. Amongst the reasons they indicated for not using the funds are the following: “lack of information”, “did not attend training”, “informed late about the availability of funds”, “did not know where to find the money”, and “did not know which steps to follow”. From the discussion above, one can see that communication of the process for accessing the funds played a role.

4.13 Did you establish a business?

Table 4.12

		Frequency	Percent	Cumulative Percent
Valid	Yes	12	36.4	36.4
	No	20	60.6	97.0
	Unknown	1	3.0	100.0
	Total	33	100.0	

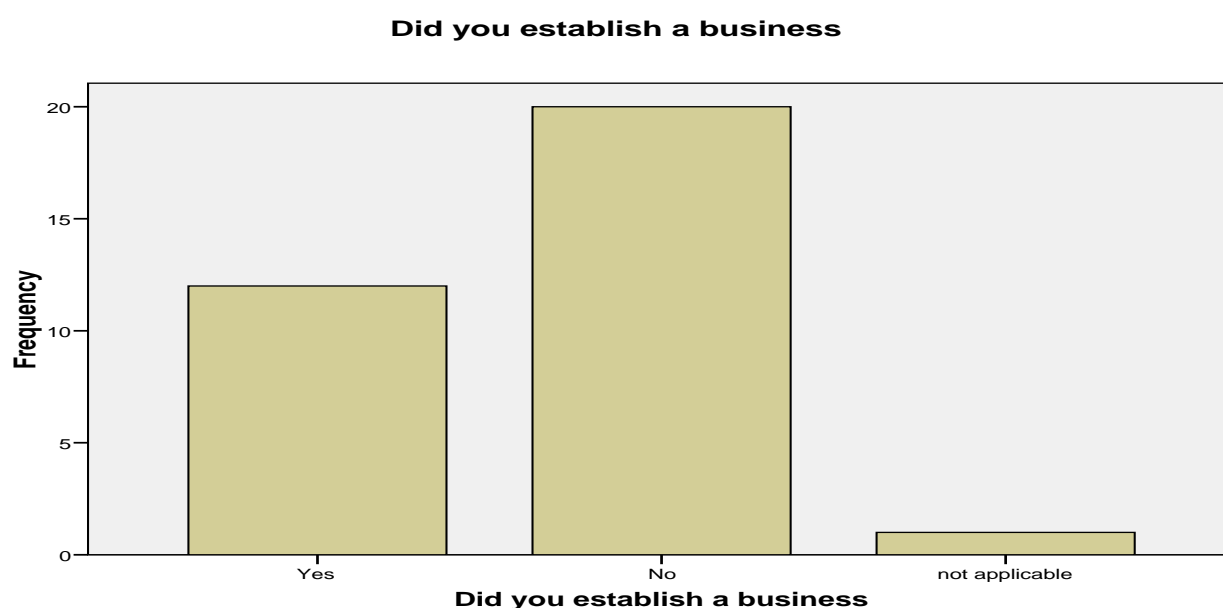


Figure 4.12

36.4 per cent of the respondents established businesses, 60.6 per cent did not establish businesses and 3 per cent did not respond to the question. Some of reasons indicated by respondents for not establishing business are “lack of capital”, “never heard of business money” (sic), “was young, still at working age”, “not enough money to start a business”, and “lack of information”. According to Jones and Tiley (2003:4), starting a business can present serious problems owing to the difficulties involved in obtaining a loan from financial institutions.

4.14 Is the business still existing?

Table 4.13

		Frequency	Percent	Cumulative Percent
Valid	Yes	2	16.6	16.6
	No	10	83.4	83.4
Total		12	100.	100

Is the business still existing

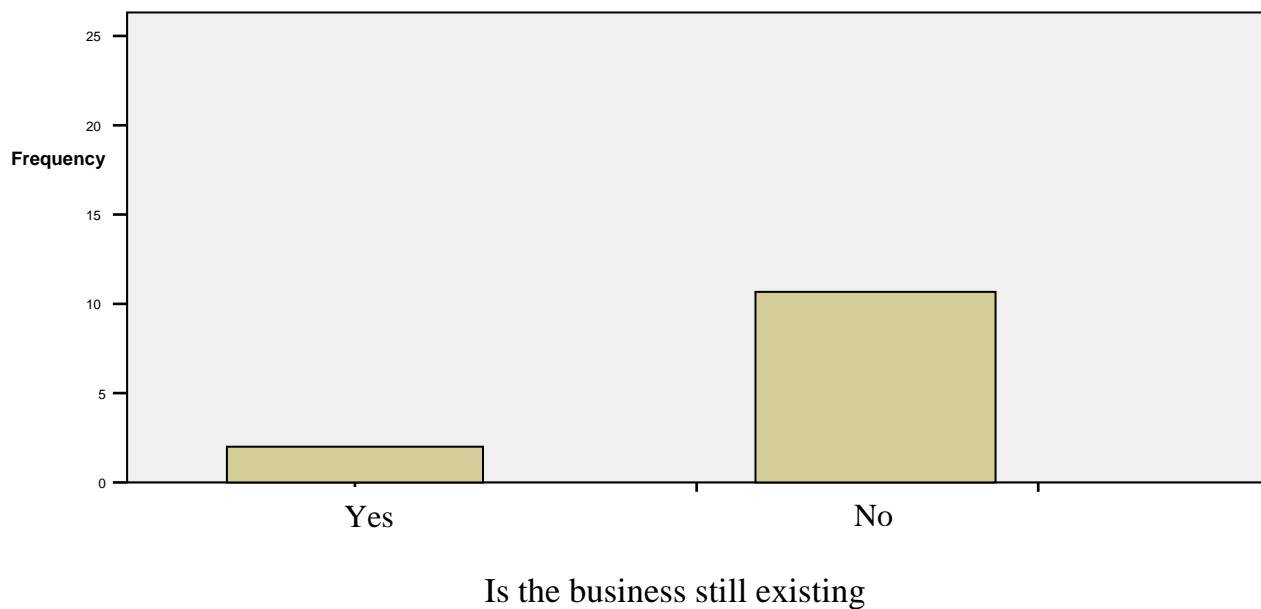


Figure 4.13

Out of 33 ex Telkom Employees that were interviewed, only 12 started businesses., Of the 12, only 16.6 percent of the businesses that were established still exist; 83.4 percent of the businesses that were established no longer exist. and 21 ex Telkom employees pondents stated that they did not establish a business. The findings support those of Nieman and Pretorius (2004:71) who state that venture failure varies. However, it is estimated that between 30 and 80 per cent of all new ventures fail within the first two years of being established, depending on how failure is defined and that it is not only start-up

ventures that face the prospects of failure, but also mature ventures. The reasons that led to the failure of the small businesses owned by the retrenched Telkom workers are the following:

- Lack of adequate training
- Insufficient funds to sustain the business
- Theft of stock as well as other crime
- Lack of experience and lack of confidence in running the business
- Advertising costs were not affordable
- Competition was very intense
- Difficulties with getting tenders because of lack of training
- Lack of skill in recruiting the right people to work with
- Lack of financial management skills
- Lack of skills to run the business

4.15 Conclusion

It may be concluded from the results outlined in this chapter that most retrenched Telkom employees did not attend the presentations that were offered by the agency for career opportunities. Although a considerable number of them were aware of the agency, many of them did not attend for various reasons ranging from the availability of transport to not having enough information about the dates and times on which the sessions were presented.

The process to be followed in accessing both the funds for external training and the start-up capital for businesses was a big challenge for the majority of the retrenched employees and this resulted in most of them not establishing businesses

Other factors that were evident in the results are that most retrenched Telkom employees failed to establish businesses and, of the few that managed to establish a business, most

of them failed for a number of reasons. Some of the reasons for failure were the following: inadequate or lack of funding, lack of proper training, lack of experience, lack of confidence in running a business, crime, lack of business skills, not knowing how to manage finances, advertising costs, and so on.

In my opinion, educational qualification and age played a major role in the failure of the small businesses owned by retrenched Telkom employees. Firstly, the majority of the retrenched Telkom employees' qualifications were very low and, secondly, very few of them had tertiary qualifications.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The previous chapter reported on and discussed the results of the study. The intention of this chapter is to summarise and draw conclusions regarding the main findings of the study. Recommendations of future studies are also highlighted in this chapter.

5.2 Conclusions

In this section, the issues of race distribution, age of the respondent, educational qualifications, number of years in service before retrenchments, department in which the majority of ex-employees worked, awareness of agency for career opportunities, attendance of opportunities for careers presentations, attendance of skills training offered through the agency, awareness of financial workshop presented by the agency, utilisation of funds allocated to attend external training, usage of start-up capital, establishment of businesses by retrenched employees and the existence of businesses will be discussed.

The majority of the respondent's were black and most of them were over the age of 40. Most of them have limited skills and exposure to things like running businesses, hence they found it very difficult to establish and run their own businesses. The major skill that the majority of them possess is that of working on Telkom's fixed network. Apart from that, most of them do not have any other skills that they can use either to find employment elsewhere or to establish a small business.

The educational qualifications of the majority of the respondents was below Grade 12. Telkom uses English as a medium of communication because of the diversity of staff that work within the company. The majority of retrenched employees did not fully understand the briefing documents that were presented hence they battled to understand the processes they had to follow to access the funds allocated for external training and the start-up funds.

- The majority of respondents did not attend the presentations by the agency for career opportunities because they felt that it would be a waste of time since they were not fully conversant with the language used or the content of the presentations.
- The majority of the retrenched Telkom workers did not access training because they did not know the correct process to follow in order to obtain the funds; hence they did not attend the training to equip themselves with entrepreneurial skills. Communication in the form of briefings was not understood therefore many of them ended up not knowing what to do.
- The majority of retrenched Telkom workers did not establish their own businesses because they did not have sufficient funds to do so. Although funds for establishing businesses were made available by Telkom, the employees did not access them for the reasons mentioned above. Most of the employees had worked for Telkom for a period 11–15 years and most of them had bonds and some had children who were still at school, therefore the bulk of the package money went into the repayment of bonds. And very little was left to put into establishing a business.
- The conclusion on this issue is that the majority of retrenched Telkom workers did not establish businesses because of lack of funds. Lack of skills and the lack of ability to run a business also contributed significantly to the failure to establish businesses. Another contributing factor to failure to establish businesses was the fact that most of the retrenched employees did not have sufficient entrepreneurial training.
- Most of the business established by those who were eager to do so did not last for long and most failed within a very short period of time. The reason for failure once more was insufficient funds. In my opinion, the major contributors to the failure of the small businesses of retrenched Telkom employees were the following: lack of proper funding, lack of skills in running a business and lack of knowledge on how to handle the finances involved in running a business.

5.3 Recommendations

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

- To ensure that the briefing documents on retrenchments are understood by all the people affected, the briefing must be done in English as well as two or three African languages. Human resources consultants could be used for this purpose.
- Each person briefed should be given an opportunity to access the Telkom intranet to confirm that s/he has been briefed and that s/he understands the contents of the briefing.
- The process for accessing the funds both for training and start-up capital should be simplified.
- During the retrenchment process, Telkom should appoint business consultants who can guide retrenched employees on how to establish a business and also make recommendations for courses the employee should attend in order to increase the chances of success. The consultants must be in a position to converse in the African languages as well.
- After the employees have established their businesses, Telkom can then hand over the process to these consultants to continue mentoring the businesses of the retrenched Telkom employees at the expense of the employees.

5.4 Final conclusion

Although the study was exploratory, descriptive and qualitative in nature, it cannot be generalised to all retrenched Telkom employees. It identified factors that generally contributed to the failure of small businesses of retrenched Telkom employees in a certain area of Gauteng.

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