An Analysis of the factors that lead to SMME failure

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DECLARATION

I, Xoliswa Nodada, declare that this research report is my own unaided work. It is being submitted in partial fulfillment of the requirements for the degree of Masters in Business Administration at the Graduate School of Business, University of KwaZulu Natal. It has not been submitted for any degree or examination at any other university before. All references and sources of information have, to our knowledge, been accurately reported.

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I would like to express my heartfelt gratitude to the following people:

An Analysis of the factors that lead to SMME failure.

ABSTRACT

The purpose of this research was to investigate and analyse the factors that lead to the failure of SMMEs, especially the businesses owned by previously disadvantaged individuals in Durban. The study was motivated by the fact that SMMEs are not growing but instead there seems to be an increase in the failure rate of SMMEs.

A range of literature was reviewed that included past research papers and journals on the subject of SMMEs, government papers and acts, information from NGOs, financial institutions and government agencies to help understand the role players in the SMME sector. Primary data was collected in the form of a questionnaire which was given to SMME owners to complete in order to get their views on the sector.

The findings show that SMMEs owned by previously disadvantaged individuals are dealing with issues such as lack of finance, insufficient government support and lack of information on services available to them from government and NGOs, which if left unattended, can cause their businesses to fail. Among other things, it was recommended that business owners be mentored and trained in both financial and business management in order to be able to take advantage of the services available to them. It was also recommended that government assess its position on SMME policies in order to be readily available to the SMME sector.

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LIST OF ACRONYMS

- BUSA – Business Unity South Africa
- DTI – Department of Trade and Industry
- GEM- Global Entrepreneurship Monitor
- KZN – KwaZulu Natal
- LBCs – Local Business Centres
- NGOs – Non Governmental Organizations
- NSBA – National Small Business Act
- PDIs – Previously Disadvantaged Individuals
- RFIs- Retail Financial Intermediaries
- TIPS – Trade and Industrial Policy Strategies
- SBDC- Small Business Development Corporation
- SBDS – Small Business Development Services
- SEDA – Small Enterprise Development Agency
- SMME – Small, Micro, Medium Enterprises
- TACs – Tender Advice Centres

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CHAPTER 1

BACKGROUND TO THE PROBLEM

1.1 INTRODUCTION

Over the last couple of years, the South African small, micro and medium enterprise (SMME) environment has changed from being mainly dominated by white males into an all-encompassing part of the South African economy. This is a direct result of changing from an apartheid government into a new government of national unity that sees every person as having equal opportunities. The change has by no means reached its full potential, as many SMMEs are still operating as survivalist enterprises in order to live through the next day.

These survivalist enterprises are operating in what the National Small Business Act (1996) calls the informal sector of the South African economy. The NSBA aimed to empower previously disadvantaged individuals who wanted to be part of the South African economy, but did not have opportunities open to them; to create jobs for the ordinary South African; and to promote economic growth. The South African government has also tasked the Department of Trade and Industry with facilitating the promotion of SMMEs in general. The DTI has in turn developed agencies and organizations that will ensure the success of the SMME sector in South Africa. According to Dlokweni (2006), in 1996 around 19% of the South African workforce was employed by the informal sector, and by 1999 this figure had increased to 26%.

As much as government has put in place measures to ensure that the previously disadvantaged individual PDI owned SMME has all the support needed to grow into a thriving business, this has not always become a reality. According to Olawale and Garwe (2010), most South African SMMEs do not grow: their failure rate of 75% is one of the highest in the world, and even the best SMMEs often do not survive beyond the first two years of business.

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This study aimed to find out the reasons for the failure of SMMEs, especially the PDI owned businesses, andto analyse these reasons so as to make recommendations that could better prepare potential owners of SMMEs before they decide to embark on SMME ownership.

1.2 MOTIVATION FOR THE RESEARCH

According to Altman (1983, pp.81) business failure can be described as "the inability of a company to meet its obligations, especially in the short term, which signifies a lack of liquidity". Altman (1983, pp.81) states that failure implies "that the realized rate of return on invested capital with allowances for risk considerations, significantly and continually lowers the prevailing rates on similar investments".

When any company fails, its stakeholders stand to lose financially as investors lose the money they put into the business, plus unpaid creditors stand to have their debts written off (FEE, 2004).

The current research study is important in light of the fact that business failures, in general, are very prevalent, and even more so with regard to small-medium and micro enterprises (SMMEs). Even the best SMMEs can be expected not to survive beyond the first two years of business. The South African SMME sector has a contribution of over 40% to the gross domestic product; however, this sector has a failure rate of 80%, mostly due to a lack of management skills (Van Niekerk and Labuschagne, 2006). This is a cause for great concern, not only to SMME business owners and employees and the community these SMMEs serve, but to governments, bankers, policy makers. Most World Bank institutions also agree that the SMME sector is a catalyst for growing any economy in the world. However, without a blue print of how to assist this sector of the economy, the chances of greater success in this vital sector are insignificant, at best.

This is not to say that government has not put in place structures and schemes to assist SMMEs. Structures such as the Department of Trade and Industry (DTI), the Land Bank, and the Development Bank of South Africa (DBSA), Khula and Ntsika Enterprise Promotion Agency do exist. However, there appears to be a lack of information about their

existence, as well as miscommunication around applications to such schemes and structures, and perceptions of a large amount of red tape.

There is a host of reasons why businesses fail in general, such as a lack of experience and knowledge in many areas of operating a business. Whilst accumulating experience in any business context won't guarantee the success of the business, not having that experience can significantly increase the chances of failure. Other reasons associated with failure include, but are not limited to, insufficient capital and access to finance, inability to cope with competition, inability to deal with rapid growth, fraud or mismanagement of funds, improper planning, inappropriate location and timing, and a lack of business support.

1.3 PROBLEM STATEMENT

In order for South Africa to have sound economic growth, there is a need to develop and sustain businesses. This is a national challenge facing not only the SMMEs, but government, policy makers, banks and each and every man on the street.

One in eighteen South Africans can be considered to be a small business entrepreneur, according to the Department of Trade and Industry (DTI, 1995). These SMMEs contribute about 40% of the country's GDP, and most of these SMMEs are micro businesses that employ over half the workforce in the private sector. Success of these small businesses should then be of utmost importance to the stakeholders, governments and communities in which these small businesses operate. The Global Entrepreneurship Monitor (GEM) Report (Global Enterprise Monitor, 2006) outlines the major obstacles to entrepreneurship that cause SMME failure and groups them into four categories:

- Culture – entrepreneurship is not encouraged as a career: the emphasis is on seeking employment rather than creating own employment.
- Skills – lack of knowledge, experience, business and entrepreneurial skills, deficiency of schooling and tertiary education.
- Support – lack of government and private sector support for new enterprises and high administrative costs.
- Access to finance – Even though finance is available, it is difficult to access.

While the failure of a single SMME will not attract the same attention that follows the collapse of a huge company, like Enron, the results of the collective failure of smaller businesses are a matter concern for the people directly involved.

According to Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam and Van Seventer (2002), the collective consequences of SMME failure is a matter of serious concern for the South African economy as evidenced by the following:

- SMME contribution to the economy was in the region of 4.5% in 2004 and 5.1% in 2006
- 60% of SMMEs are not satisfied with their current access to finance and cite this as a major hurdle in their business
- Of the SMMEs started in a year, up to 70% fail in the first two years.

1.4 OBJECTIVES OF THE STUDY

This study aimed to explore in-depth the reasons why SMMEs in South Africa fail, the impact of these failures, and how to ensure that SMMEs develop beyond the critical two-year mark. This study may help to ascertain SMME's continued contribution to the South African economy.

This study aimed to gain insight into the perceived reasons for failure in the SMME sector by:

- Identifying factors that lead to the failure of SMMEs in Durban
- Finding out the reasons why respondents elect to be business owners/ entrepreneurs
- Identifying the opinions of the respondents on the perceived growth of their firms
- Trying to understand the role the entrepreneur, government and the financial services sector play in the SMME business and its growth
- Identifying the opinions of the respondents on the current government policy interventions
- Investigating the effect that SMME failure has on the SMME environment and its stakeholders.

Research on the above may provide answers as to why so many businesses fail in South Africa's SMME sector.

1.5 LIMITATIONS OF THE STUDY

A lot has been written by government on the strategies and guidelines governing SMMEs, but very few studies have been conducted on the failure of SMMEs in South Africa. As a result there was very little published literature to guide this study.

A major challenge to this study was that information on micro enterprises, which are believed to be the largest contributor to the SMME sector, is not well documented, as most of these SMMEs are not registered due to their size and income (Toomey, 1998).

A further limitation was the time constraint faced by the researcher and the fact that the SMME sector is so broad; it was, therefore, not possible to delve as deep into the topic as one would have liked.

A final limitation to the study was the possibility that small-scale business people might not be willing to share their financial information fully or to participate in the study, as they might be uncertain what the information collected would be used for.

1.6 RESEARCH DESIGN

The study began start with a review of literature relating to government's national and provincial SMME strategies. This was be followed by an analysis of the effectiveness of these strategies. Questionnaires were then sent out to a sample of sixty (60) black SMME owners, regardless of the type of business they are involved in, around the KZN region.

1.7 TYPE OF STUDY

The current study employed a qualitative research design. Qualitative research allows the researcher to explore and understand the participant's point of view (Leedy and Ormrod, 2005). This study did not seek to understand cause and effect relationships with regard to SMMEs, or to generalise the results to all SMMEs, but rather sought to come up with recommendations based on the perceptions that already exist about small businesses in South Africa.

The population for the study was black owners of SMMEs, which are service providers in Durban and the surrounding areas. This study used questionnaires as the research instrument, and the questions were developed by the researcher based on information gained from the literature study. The research findings werethen analysed using SPSS.

1.8 STRUCTURE OF THE REPORT

The first chapter outlines the research question and the motivation for the study of SMME failure, with a focus on Durban, KZN. The next chapter will review the literature relating to reasons for failure of SMMEs in South Africa and the status of this sector. The study will also review other countries' perspectives on the failures of the SMME sector. The perspectives of government, the SMMEs and the development and promotion of the sector will be reviewed in this chapter as well. The third chapter will discuss in detail the research approach and strategy. Chapter four presents the research findings and analysis, and Chapter 5 discusses the findings. The last chapter presents recommendations and conclusions.

1.9 CONCLUSION

This chapter introduced the problem that this study focused. The study aimed to contribute to the body of knowledge on South African SMMEs by describing and analyzing the factors that could lead SMMEs to fail. Chapter two focuses on reviewing the relevant literature on the SMME sector and on problems facing this business sector.

CHAPTER 2
LITERATURE REVIEW

2.1 Introduction

This chapter reviews the small business environment, the successes and failures of this sector, access to financing for this sector, and the contributions this sector has made to South Africa's economic growth. A number of factors appear to be challenges to the SMME sector's ability to access finance. This chapter will look at the challenges faced by SMMEs, and recent contributions to the general understanding of the growth and the failures of the SMME sector will be presented.

The chapter concludes that, despite the strides made by the SMME sector, the sector is still crippled by failures.

2.2 Description of Small, Micro and Medium Enterprise

Barrow (1998) argued that small businesses defy easy definition because, typically, the term "small business" is applied to the so-called one-man bands, such as the township 'spaza' shops and restaurants, and "big business" is applied to big multinational companies. Rigwema and Venter (2004) define "a small business as a distinct business whose size lies below specified thresholds". Bowler, *et al.* (1998) defines a small business as an independent profit oriented business unit that is personally managed by the owners.

According to the DTI (1995), SMMEs can be divided into the following four categories:

Survivalist enterprises – The main driver of this category is a necessity to survive, rather than the identification of an opportunity or gap in the market for that particular service. The survivalist entrepreneurs are usually unemployed and, in order to survive, have to get into the economic sector with virtually no skills training in the running of a business. The income they make usually falls far short of the minimum income standard, and there are limited opportunities for growth into a viable business.

Micro-enterprises – These are very small businesses, often involving only the owner, some family member(s) and, at most, one to five employees. This sector is usually informal and not registered in terms of business licenses. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. This sector falls below the VAT registration limit of R150 000.00 per annum. However, many of these micro-enterprises advance into viable small to medium enterprises.

Small enterprises - constitute the bulk of the established businesses, with the employment ranging from between five to about fifty employees. These enterprises will usually be managed by the owner or directly controlled by the community that owns it. Small enterprises are likely to operate from a business site and are formally registered in terms of formal business registration requirements. Classifying the sector in terms of assets and turnover is difficult, given the wide and vast differences in business sectors.

Medium enterprises – These enterprises constitute a category difficult to demarcate between the small and big business categories. They are still viewed as basically owner/manager controlled, although the shareholding or control base is usually more complex. The employment of two hundred employees and capital assets of about five million rands, excluding property, are often seen as the upper limit.

For the purpose of this study, the definition of SMMEs developed by Bowler, *et al.* (1998) is used, which excludes the medium sized business. An SMME is, therefore, defined as "an independent profit oriented business unit that is personally managed by the owners".

2.3 Small Medium Micro Enterprise Policy

Prior to 1994, the apartheid government was characterized by segregated and unequal access to resources, with the dominant white male subgroup using its exclusive access to both political and economic power to promote their own interests at the expense of females and other population groups. According to Toomey (1998), there are circumstances in which a state "may need to intervene in economic activity to achieve or direct resource allocation that concurs with the long term political and social vision of national economic

development or to achieve equitable distribution of resources after years of legislated benefits directed to a segment of society".

That was the case in South Africa in 1994, after the democratic election of a new government. This intervention resulted in the adoption of the 1995 White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa, a policy framework targeting the entire spectrum of the small enterprise. The White Paper (DTI, 1995) represents the government's thinking on its hopes to contribute to the process of stimulating the SMME sector, with the main objective being to address basic inequalities by creating an enabling environment for SMME growth. The strategy for the support of SMMEs as it appears in the 1995 White Paper became constitutional through the National Small Business Act of 1996 (NSBA).

2.4 The Envisaged Role and Contribution of the SMME Policy

The government is committed, within given financial and organizational constraints, to structure its SMME support in such a way that special attention is given to the problems faced by the disadvantaged enterprises that make up the SMME sector.

According to the White Paper (DTI, 1995), the role and contribution of the SMME policy to the SMME sector was to:
- Create an enabling environment for small enterprises by formulating policies that are in tune with national and regional, as well as sector specific developments, while taking into account the differences between the SMME categories.
- Facilitating greater equalisation of income, wealth and economic opportunities though the strengthening of the labour-absorptive process of the micro-enterprise and survivalist segments, redressing the discrimination against blacks and women in accessing economic opportunities, and facilitating the growth in black and small enterprise in rural areas.
- Creating long-term jobs by employing proven strategies' to upgrade the skills level of SMME operators, strengthening the use of appropriate modern technologies and boosting the capacity to create long-term employment opportunities.

- Stimulating economic growth with sector focused and growth-oriented small business support strategies in order to address obstacles that prevents small business enterprises from contributing to overall growth.
- Strengthening the cohesion between small enterprises by creating an effective network of small enterprises that can take on the responsibility of jointly addressing developmental obstacles, take up opportunities and improve their own capabilities.
- Level the playing fields between bigger and small business by creating support strategies that aim to encourage co-operation and create synergy between larger and smaller segments of the economy.

This would be done to in order to promote the objectives of economic growth through competitiveness on the one hand, and employment generation and income redistribution as a result of growth through SMMEs (Berry *et al.*, 2002) on the other.

The White Paper (DTI, 1995) then created the following logical seven step sequence in the establishment of a support framework, which would apply in particular to the early part of the process:
- Awareness building – Building awareness and commitment to goals should include politicians, labour leaders and public sector officials in all spheres of government and NGO sector decision makers, organised business, heads of research and training bodies and all small business support agencies to reinforce understanding for SMME support and its importance for the overall development of the country.

- Needs identification and implementation planning – Once the goals and broad strategy have been accepted, the evaluation and prioritization of specific needs within the overall framework and resource constraints would be a critical step. This should also include the linking of needs, action plans and efficient delivery systems, the establishment of monitoring and feedback systems, the commitment of key actors to specific support areas and the strengthening of co-ordination and networking systems.

- Resource identification – This phase can start concurrently with the former and is likely to extend over a lengthy period. It includes surveys of resources available for SMME support in each of the nine provinces, the establishment of a national data bank for SMME-related statistics, an evaluation of the physical infrastructure

presently available for SMMEs, and an assessment of the capacity of existing SMME support agencies.

- Strengthening the business and entrepreneurial culture – This phase involves concerted efforts to facilitate the implementation of the national strategy. This should include country-wide educational and sensitising efforts, increased co-operation between business and tertiary education institutions, and the further expansion of ownership participation of formerly disempowered people.

- Training of support agency staff – The capacity-building process for the success of the entire implementation process would be of critical importance, therefore all support agencies would have to be included in the training to be effective.

- Setting goals for the national strategy – The National Small Business Council (NSBC) would set up these goals, and they would be facilitated by the DTI and the Small Business Development Agency (SBDA).

- Stating fundaments principles of SMME development and support – 'State a number of general principles which underlie all these strategy elements and which will, in general, guide government involvement in this sphere. These principles should also help orientate the private sector, parastatals, NGOs and other stakeholders as to the role of government in relation to the other players'.

According to the White Paper (DTI, 1995), small business-support policies would be in place for a considerable time in order to focus on the particular needs of black enterprises and ways to overcome the remnant consequences of the apartheid legacy. The White paper (DTI, 1995) continues to state that this does not imply that policies and the support structures "should only focus on black owned/ controlled enterprises or business-infrastructure facilities in formerly black-reserved towns, but that policy differentiation will have to include affirmative elements".

2.5 The South African SMME Support Network

Given the background of exclusion of most non-white South Africans from the basic elements of economic productivity (land, education, job reservation, and business ownership), the new government of National Unity of 1994 had great tasks in hand. Primary among these tasks was to redistribute South Africa's economic wealth and, according to Toomey (1998), to rapidly increase productive employment and to do so with the intention of increasing integration into the global economy. This is the reason the South African government has committed itself to finding ways to improve and support the SMME sector.

The GEM study 2008 (GEM, 2008) is of the opinion that the poor sustainability of start-ups in South Africa, relative to other countries in the GEM study, highlights the need for policy interventions aimed at supporting and mentoring entrepreneurs through the difficult period of firm births, rather than the provision of generic business plans.

2.6 SMME Policy Interventions

According to Toomey (1998), interest in promotion of SMMEs is rooted in the widespread belief that the SMME sector has the ability to generate a majority of new jobs in a country and these new jobs will directly benefit previously disadvantaged persons, thus contributing to equity in economic and social development.

In 1995, the South African government showed its commitment to the development of the SMME sector by establishing the National Small Business Development Act of 1995, which outlined the framework for the SMME support strategies. These strategies are part of the Department of Trade and Industry's vision to create between 300 000 and 500 000 new non-agricultural jobs per annum, which would see a significant increase in exports of manufactured goods to increase net domestic and foreign investment in the manufacturing sector (DTI, 1995).

The following agencies are tasked by the DTI, together with SBDA, with mandates relating to promotion of SMMEs (DTI, 1995).

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Ntsika Enterprise Promotion Agency (Ntsika) – This agency is intended to implement non-financial SMME support strategies and to work as an intermediary between government, the private sector, and NGOs to support SMMEs. Ntsika, among other things is responsible for the following tasks:

- Facilitating increased demand-side interventions based on the identified needs of the targeted group;
- Coaching and mentoring SMMEs to ensure sustainability;
- Being a funding channel to SMME service providers who are sub contracted to SMMEs on behalf of Ntsika; and
- Promoting capacity building among SMME support institutions and NGOs to service SMMEs.

Business Development Services' (BDS) main aim is to provide SMMEs with access to high quality generic support services. These include, among other things, financial and business management training and access to funding for business expansion. BDS has launched four programs to enable it to fulfill its goals:

- Local Business Services Centres (LBSCs) which are BDS accredited NGOs that provide assistance in business training and aftercare and networking with other available business centres;
- Manufacturing Technology Centres (MTCs) which are industry oriented in cooperation with the specific industry. There are four MTCs that assist manufacturing SMMEs from disadvantaged communities to develop better production drawing from 'best practice' management and technology expertise;
- Tender Advice Centres (TACs) that specifically assist SMMEs in completing the requirements for tendering for government and government agency procurement; and
- BDS Information and Networking Programme that seeks to directly facilitate information networking among the clients of the LBSCs and MTCs and other NGOs, other business support agencies, academic and provincial business support centres.

The Small Business Development Council which provides policy support and a representative of SMMEs within both national and provincial government. The role of the

SBDC is to play a proactive role within government in the development of policies that enable a growing SMME sector.

Khula Enterprise Finance Ltd that renders loan services to SMMEs through retail financial intermediaries (RFIs) that are financially sound and committed to serving the needs of the SMME sector. These RFIs include banks, provincial development corporations and NGOs.

Based on the above, it is evident that government does have intervention strategies in place for SMMEs, which were developed to assist the development of the SMME sector, with a particular interest in enterprises operated by those from previously disadvantaged backgrounds.

2.7 Factors Limiting SMME Success

In South Africa, entrepreneurship is limited by a poor skills base, as well as environmental limitations, including poverty, inactive markets and limited access to resources (GEM, 2008). It, therefore, stands to reason that many South Africans do not see entrepreneurship as a career path, but would rather seek alternative employment. According to Cichello (2005), self-employment is a risky business to get into and the poor and unemployed, who are already extremely financially vulnerable, often find it a heavy burden to contemplate taking on additional risk associated with self employment.

Table 2.1 Factors constraining entrepreneurship

Factors Constraining Entrepreneurship	
Category	**% Cited by experts on this factor**
Financial support	65
Education and training	62
Government policies	40

Adapted from GEM (2008)

The table above depicts results of a study by the GEM (2008) using close-ended questionnaires to experts on what they consider the three most important factors constraining entrepreneurship in South Africa.

2.8 Small Business Growth Factor

Gibb and Davies (1990) reviewed the literature of small business growth and argued that, at the time, the body of research was inadequate as a basis for developing policies. Regardless, policy makers and researchers around the world continue research to identify and support SMMEs who are productive and innovative and that will continue to generate and promote economic growth (Hill and McGowan, 1999; Robson and Bennett, 2000; Hill, 2001). Dobbs and Hamilton (2007) believe that it is the sustained growth of SMME businesses that create the new jobs and other benefits that communities are seeking while, at the same time, promising their owners the possibility of wealth, variety, self-fulfillment and independence.

Because larger businesses tend to focus on products that have steady and predictable demand, this seems to leave the more risky items to the small business sector. Therefore, small businesses have been identified as being responsible for 55% of innovations and 95% of all "radical innovations" (Robbins, 2003). However, research done in this field shows that South African SMME's are less innovative than other developed countries (Maas, De Coning and Smit, 1999).

Table 2.2SMME Growth Phases and Funding Cycles

SMME Growth Phases and Funding Cycle in South Africa				
Type of SMME	Start-Up Phase	Growth Phase	Steady state and exit	Remarks
MINORITY Traditional SMME (e.g. PDIs and white-owned	Family, friends, savings, residential property,	Asset backed finance, factoring, bank debt, trade credit	Often none, but bank debt if required	These enterprises form the majority of white owned

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family business	equity			SMMEs in SA, also a number of better-off PDI backgrounds e.g. Indian businesses and a small fraction of black owned enterprises
HIGH NUMBER Emerging enterprise from previously disadvantaged community	Few resources available – dependence on external funding			Currently these enterprises have not moved beyond the start-up phase
MINORITY High growth enterprises (high tech, life sciences or any other sector	Angel finance, venture capital, corporate	Venture capital, asset backed finance , corporate	Corporate, bank debt	Presumably a significant share (30%) of very small and small enterprises belong to this category
Source: SME's Access to Finance – A Supply Side Regulatory Review (p51) Adapted from Falkena et al (2007).				

Throughout the world, SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. It is this labour intensive capacity of the small business sector that is of prime interest, especially in the South African context. The average capital cost in creating a job in the small business sector is lower than creating a job in the big business sector (DTI, 1995).

The South African government believes that, with the appropriate enabling environment, SMMEs in this country can make an indelible mark on this economy. The White Paper (DTI, 1995) states that "the stimulation of SMMEs must be seen as part of an integrated strategy to take this economy onto a higher road – one in which our economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes".

The obvious benefits of growth for SMMEs are that of an increased rate on their investment (Dobb and Hamilton, 2007) and the contribution to the country's GDP. It is estimated that South African SMMEs contribute between 35 and 40 per cent to the country's GDP.

Growth is typically equated with high performance and, therefore, owners stand to gain better monetary return on their investment from such cash injections. Furthermore, while growth offers the opportunity for return on investment, the greater opportunity for business survival that growth represents should not be overlooked (Antonites, 2003). Another study by Phillips and Kirchoff (1989) found that 'young, growing firms were twice as likely to survive compared to those who were not growing'. Therefore, it stands to reason that growth is seen as a way to both improve and protect the income of SMMEs.

The Finscope Survey (2006) of small businesses found that more than 50% of entrepreneurs surveyed started their businesses out of opportunity, compared to the 34% that did so because of necessity resulting from being unemployed. The motivation of starting a business out of necessity is most prevalent among lower income segments and smaller businesses. The survey also found that 56% of businesses launched owing to opportunity were more likely to survive while only 45% of those started out of necessity managed to survive more than three years.

2.9 Skills Training

The South African government believes that, with the appropriate enabling environment, SMMEs in this country can make an indelible mark on this economy. The South African

government recognises the importance of SMME growth to the economy and aims to achieve this growth in a short period of time, something that many governments have failed to achieve in more than 300 years (Nieman, 2001). In order for SMME growth and development to be achieved, there is training needs that have to be addressed, especially considering that in South Africa the SMME sector had been neglected by the previous government.

Kroon (1997) states that entrepreneurship education should be directed at individuals who can be change agents for the next decade and simultaneously entrepreneurship that is much required in South Africa for SMME's to flourish. The main areas of concentration as identified by Nieman (2001) are business skills training, technical skills training and entrepreneurial skills training.

Entrepreneurial skills are defined by Wickham (1998) as "skills which enhance entrepreneurial performance". A skill is simply knowledge which is demonstrated by action (Wickham, 1998). Entrepreneurial skills training involves the birth and growth of a business enterprise and includes, among other entrepreneurial qualities, creativity and innovation, risk propensity and the need for self improvement and achievement (Nieman, 2001).

Business skills cover all the conventional management training areas in the business. Wickham (1998) identifies general management skills (strategy, planning, financial, project management and time management) and skills for dealing with people (leadership, motivation, delegation, communication and negotiation) as skills required for any type of business to succeed. Nieman (2001) emphasises that to be able to achieve economic growth in South Africa, the country needs entrepreneurs who perform and achieve growth. It is only then that SMME, and in turn economic growth, can be achieved.

The NSBA (1996) in addressing SMME development training needs in South Africa, among others, recommended the following:

- Training courses should be modular and relevant to the needs of sectors and target groups;
- Local Business Service Centres (LBSCs) should be used as training networks;

- More attention needs to be given to training of trainers to improve the co-ordination of training services to avoid duplication, and research and training methods; and

- Provision of training must be demand driven and relevant.

The government, through the Centre for Small Business Promotion is responsible for SMME support programmes directly and indirectly assisted by government. Ntsika Enterprise Promotion is tasked to develop and implement support services, which include business training, financial management and guidance for credit application for business expansion. Ntsika achieves this with the help of accredited LBSCs in the country to give support to SMMEs.

The task of LBSCs is to facilitate the delivery of efficient and high quality non-financial support services to SMMEs throughout South Africa with the help of private sector, NGOs and foreign donor agencies like USAID.

According to Nieman (2001) the following are findings, conclusions and recommendations from research papers on training of SMMEs and must be read in the context of the diverse nature of the South African culture:

- The training emphasis in most service providers seems to be more on conventional management training rather than entrepreneurial training (Ladzani, 1999);

- Any training programme that addresses the daily running of a business should be adapted to the different cultural groups (Mazibuko, Smith and Struwig, 1991);

- The training needs of the informal sector (mostly micro enterprises) are very different to those of the formal sector (Hirschowitz, Acutt and Koch, 1991);

- Small business training must be closely related to the small business environment and not based on the management of large enterprises (Govender, 1991); and

- For training of small business enterprises to be effective, it must be kept simple and allow trainees to participate and discuss business matters of mutual concern (De Waal, 1997).

2.10 Employment Creation

The most cited public benefit of small business growth in any research is the contribution made by these businesses to employment. SMMEs are reported to resolve the persistent problems of insufficient employment growth. However, only a few, more dynamic SMMEs show the potential to contribute to rapid employment creation. Survivalist activities are still the hallmark of the vast majority of South African SMMEs, which grow in numbers but not in size (Kesper, 2001). Chalera (2007) believes that in Africa, as well as in other countries, SMMEs have received mounting attention because of their labour absorption tendencies in order to revive and stimulate the economy. Mutezo (2005) points out that about 300,000 new jobs must be created annually in South Africa if the country is to retain or better its present unemployment status, and must also take into account the high volume of new entrants into the labour market. With the number of SMME that fail, the South African economy is likely to stagnate and decline economically.

Below is a table depicting retrospective percentage growth of early stage SMMEs reporting jobs creation in 5 years.

Table 2.3

Job-creation aspirations	2004	2005	2006	2008
Yes	4.6%	4.3%	4.8%	7.2%
No	95.4%	95.7%	95.2%	92.8%

Adapted from GEM (2008)

The majority of start-up firms do not have job creation aspirations, with their efforts concentrated on self-sustenance due to necessity rather than opportunity often being the motivation for starting the business.

In 2008, South Africa's unemployment rate was 21.9%, in other words, 3.873 million people out of a possible active economic population of 17.718 million were unemployed (Statistics SA, 2009). The GEM Report 2004 (GEM, 2004) estimates, and official government statistics suggest, that approximately 5.0 to 7.5% South Africans aged between 15 and 65 are self-employed. Based on the GEM 2004 report data, it is estimated that owner-managed enterprises employ about 2.1 million people. The report states that, in

South Africa, the average employment per enterprise increases with the stage of the firm, rising from less than one person per start-up enterprise, to 2.5 persons per new enterprise, up to 4.3 per established enterprise.

The GEM 2004 report findings suggest that owner-managed enterprises make a significant contribution to the employment rate in South Africa, and that this contribution is most likely to be increased by increasing the survival rate of new start-up and new enterprises. The importance of developing strong financial management capacity for the enterprise owners cannot be stressed enough as it is the key to increasing SMME survival rates.

With the current economic situation, Storper (1991), Schmitz (1995) and McCormick (1999) believe that virtually all SMMEs operate in conditions of an excess supply of relatively unskilled and unorganised labour. This is due to the global economic downturn and, therefore, people that are not able to or don't have the capacity to start their own businesses are looking for employment, which the formal business market cannot currently provide. Storper (1991), Schmitz (1995) and McCormick (1991) argue that this situation of excess supply in unskilled labour allows the SMMEs to transmit the burden of unstable markets on to their employees and to base competition on squeezing labour costs rather than innovation and technological upgrading, which are perceived to create employment. Kesper (2001), concurs and states that 'while the importance of large industrial and other enterprises for economic growth cannot be denied, there is ample evidence that the labour absorptive capacity of the small business sector is high, the average cost per job created is usually lower than in big business, and its role in technical and other innovation is vital for many of the challenges facing the South African economy'.

Dockel (2005) states the persisting unemployment rates have been made worse by the globalisation phenomenon and the forces of international competitiveness that are putting pressure on all sectors of the economy to increase productivity. Kesper (2001) agrees and states that growth and transformation due to competitiveness and globalisation has resulted in the machine intensive way of production, thereby reducing the demand for unskilled labour. This has, in turn, resulted in a lot of skilled and unskilled labour being available to the SMMEs.

Kirby and Watson (2003) state that small businesses create jobs at a faster rate than large businesses, and that they are more consistent in that they are less influenced by the changes in the macro economy. However, because of their short life span, employment created by this sector is almost always on a temporary basis and, therefore, this result is not encouraging. Dockel (2005) believes that this doesn't mean that the small business development strategy has failed, but it might be an indication that it is more of a complex challenge than originally thought.

Chalera (2007) believes that, when taking into account the very large micro segment of the small business sector, it should be clear that the SMME sector plays an important role in people's efforts to meet the basic needs and help marginalized groups, like female heads of households, disabled people and rural families, to survive during the current fundamental structural changes where the informal economy is unable to cater to the increasing labour and social support systems are grossly inadequate.

2.11 The Problem of SMME Financing

Raising finance for a new business is one of the biggest obstacles that a start-up business will come across, be it SMME or a bigger business. Berry *et al* (2002) state that the common factor in all the findings of most SMME surveys in South Africa is that access to finance is the major constraint. Atieno (2009) observes that access to external funding is crucial for new SMMEs to start and expand operations, get into new product development and investment in staff capital and production facilities.

According to Jones and Tiley (2003), new businesses encounter a number of barriers to growth throughout their start-up period, and during the first few years of operation. Orford, Wood, Fischer, Herrington and Segal (2003) agree with this observation and state that lack of financial support is the second most reported stumbling block to start-up business failure, after education and training.

Small businesses, and in particular micro businesses, often do not fulfill the criteria to obtain the required amount of debt finance for longer term growth. The 2003 GEM report states that South African SMEs do not experience any greater difficulty than other emerging countries surveyed in access to funding. The 2003 GEM report instead argues

that in South Africa the second biggest problem with entrepreneurial activity is the inadequacy of the support to financial management.

2.12 Types and Sources of Finance

The issue of SMME finance is critically important, specifically for firms that show entrepreneurial talent and skills to grow (Berry *et al*, 2002).

The following are some of the types of finance that SMMEs can take advantage of (Falkena *et al*, 2007)

- Government programs
- Financial institutions (external finance)
- Own/ family funds (internal finance)
- Venture financing / angel finance.

2.12.1 Government Programmes

When the South African government drafted the White Paper on SMMEs, the aim was to redress the wrongs of the previous government by offering PDIs a chance of owning a piece of South Africa through opportunity creation. Therefore, government programmes were developed to assist with business management, skills training and acquiring finance, among other things. These programs include the Department of Trade and Industry (DTI), the Land Bank, the Development Bank of South Africa (DBSA), and the Khula and Ntsika Enterprise Promotion Agency which aim to foster the growth of SMMEs through financial and non-financial support Berry *et al.* (2002).

Access to funds is critical in any business especially access to credit and financing as it is crucial to the sustainability and growth; and ultimately to a country's economic growth. Therefore, access to credit has become an issue of concern not only for South Africa, but the international agencies, governments and policy makers.

This is specifically true with regard to businesses owned by previously disadvantaged individuals (PDI's). These individuals face three key constraints. According to the World Bank report of 2003, these are:

- the perceived risks on dealing with clients that have little financial history, along with the relatively high costs associated with SMME finance;
- over-regulation of the industry and interest rate ceilings imposed on financial institutions by government detract from the attractiveness of servicing the small sector; and
- The ability of NGOs and specialised micro-lenders to tap into this sector.

While the government firmly believes that "the primary source of finance and related financial services for the small-enterprise sector should be the established and newly evolving banking and financial-services sector, and that taxpayers' funds cannot be used to fill any major gap in the supply of funds required by the small-business sector", it is still obvious that some assistance seems necessary to attend to some funding needs that still exist within the SMME sector (DTI, 2005).

Due to the restrictions introduced by way of the National Credit Act of 2005, it has become more difficult for an ordinary SMME to have access to funds. There are programs instituted by government that were established to give access to finance to people who wish to start or expand small to medium sized businesses. Among others, these programs are:

- Khula Enterprise Finance Corporation – Khula provides finance with schemes such as the Khula Credit Indemnity Scheme to owner managed businesses within South Africa who do not have sufficient collateral / security. The schemes are accessed through retail financial intermediaries (mostly commercial banks) and they cover loan amounts from R10 000 to R3 million, which mainly caters to the micro to small business. Because these schemes are run through commercial banks, applications must adhere to the bank's criteria. According to the GEM 2001 report(2001), their panel of experts felt that the Khula scheme of the government acting as a guarantor for SMME loans through their agencies is a good idea in principle, but it has been poorly implemented and ineffectively marketed.

- Umsobomvu Youth Fund – This programme helps fund youth (18-35 year old people) business projects and youth development projects (Gumede, 2008). UYF funds aspiring and existing businesses with a viable business plan and the ability to repay the loan. Their loan amounts range between R60 000 and R1000 000South African Micro Finance Apex Fund (SAMAF) – SAMAF is a wholesale fund that distributes its funds through Retail Financial Intermediaries that provide small scale financial services to enterprising and working poor households. According to Toomey (1998) these RFIs are a wide range of financial institutions that include non-governmental organizations (NGOs), Savings and Credit Cooperatives (SACCOs), Financial Services Co-operatives (FSCs), Co-operative Banks, private commercial banks, and non-bank financial institutions (MFIs).

The problem with these programmes is that the financial institution manages the financing and collects payments for the duration of the term; basically all the conditions of the bank apply to this transaction as a bank loan. The scheme acts as a collateral or security to a business that does not have enough.

2.12.2 Financial/ Banking Institutions

The South African government, in the 1995 White Paper (DTI, 1995) recognises that the country's commercial banking sector has been reluctant to provide comprehensive services for the fragmented, risk-prone, and geographically dispersed SMME sector, in particular black emergent enterprises. The government also realised that there was a shift in the lending strategy of the banks, with more attention being given to the needs of SMMEs through the introduction of innovative financing schemes to assist SMMEs. The government planned to exploit this strategy by establishing a proactive contact with commercial banks to create a catalytic support or a greater urge towards affirmative action, with a Small Business Act as one of the options.

According to research conducted by PERC in 2001, levels of lending in South Africa are difficult to measure because many small business loans are sourced as consumer or personal loans, in particular by micro/ survivalist enterprises. It has been previously said that most survivalist/micro enterprises are mainly owned by PDIs, and emerged due to

necessity rather than choice. There is usually a lack of formality in terms of business licences, accounting procedures and operating permits in this sector (Zondi, 2003).

Most of the participants in this sector have limited or no capital base and, therefore, the only available alternative is to seek financing from the banking sector. But according to a Centre for Competitive Credit (2008) study, it has been found that banks are hesitant to lend to small businesses owing to uncertainty over whether the businesses collateral had already been committed. Research by the GEM (2003) confirms this and suggests that many townships based SMMSE owners are not is a position to raise finance as many key personal assets in South African townships are entirely disregarded by banks in calculating an individual's net asset position, including property. The reasons include the high incidence of criminal damage to property, potential property rights disputes, and potential difficulties in selling properties in townships, former homelands and inner cities (GEM, 2003).

According to Berry et al. (2002), not only can the needs for capital vary from one segment to another, but also the firm's creditworthiness, i.e. the way expressed needs are distributed between 'qualified' and 'unqualified' demand for credit. Another study by Zondi (2003) cited in Gumede (2008) states that most black small business owners are intimidated by applications of any sort, due to the forms being complicated, therefore prohibiting successful applications.

2.12.3 Own/ Family Funds/ Friends

A survey by FinScope (2006) suggests that the most plausible reasons for SMMEs lack of access to commercial credit include incomplete documentation, lack of fixed income, customer uncertainty, no proper financial records or measurement, and forecasting limitations. An article in the Entrepreneur Magazine Small Business Advisor (1999) agrees with the World Bank, and states that starting a business has the following hurdles:

- Lack of track record in business;
- Costly trial and error;
- Limited access to funds;

- Business start–up can be time consuming and frustrating; and
- Red tape in risk assessments.

According to a GEM (2008) study, many entrepreneurs raise their start-up capital through their own or family savings and personal networks, rather that approaching formal institution or agencies. This is mainly because financial institutions generally require collateral or formal business records as criteria for considering a loan. In the case of PDIs, none of these are available.

A study by Liedholm and McPherson (1991) in two South African townships found that working capital is the most prized and unavailable type of finance for start-ups. According to Gumede (2008), this leads to an inability to extend a business and engage more personnel. Because SMMEs are often established out of necessity, every cent that comes in goes towards the household, and the business owner does not see the benefit of keeping financial records.

2.12.4 Venture Financing

Venture capital is characterized as "a long discipline, usually over a five year period, in the creation of early stage companies, the expansion and revitalization of existing businesses, and the financing of leveraged buyouts of existing divisions of major corporations or privately owned businesses" (Hisrich and Peters, 2002). Joint ventures are defined by Toomey (1998) as a form of structured economic relationship and transactions between two individual firms in the marketplace, in which the larger enterprise owns a les percentage than the total of the smaller enterprise.

In South Africa, joint ventures were envisaged to encourage and develop the black ownership of new and existing businesses and this would be made possible by SMME-focused finance institutions. According to the White Paper (DTI,1995), the creation of equity funds to address the equity needs of SMMEs should be driven by the private sector with the public sector assisting in capitalising some of the funds targeted at previously disadvantaged entrepreneurs with viable business propositions.

Corporate joint ventures can come in a number of forms according to Du Toit (2010) of the South African Venture Capital Association (SAVCA):

- Angel Investors which are usually high net worth private individuals, often with extensive entrepreneurial experience that invest some of their own money and experience in small entrepreneurial ventures.
- Corporate Venturing is when large listed or unlisted companies invest in smaller businesses to promote growth, development and thus empowering the SMMEs.
- A joint venture may occur among a small number of co-operative partners in order to share experience and skills with each other, enter new markets and meet market competition (DTI, 2005).

According to a survey conducted by Du Toit (2010), the following contributions were made my venture/ private capital finance in South Africa:

- It allowed the business to grow faster
- The funds received were responsible for the existence and survival of the business
- It allowed for the introduction of BEE in some cases
- It allowed for more business opportunities to be exploited
- It allowed for the purchase of new machinery/ technology
- It allowed for business expansion.

2.12.4.1 Characteristics/ Advantages of Venture Financing

Venture capital groups are willing to take more risks than the conventional banking sector; therefore, they tend to be the preferred finance vehicle for SMMEs. Below are some of the perceived advantages of venture capital (Du Toit, 2010):

- The contribution of venture financiers goes beyond the financial aspect of the business; they are also interested in mentoring and growing the business as they have vested interests.
- Access to venture capital funds is more accessible than a conventional bank as they do not have to comply with the stringent banking laws.
- The terms of payment are almost always flexible.
- There is freedom of management.

2.13 The SMME Sector and Ethics

According to Rossouw and van Vuuren (2007) business ethics is the identification and implementation of specific standards of conduct that ensure that, at a minimum level, business does not have a negative impact on the interests of it stakeholders and, at a maximum level, it is about standards of behavior that will enhance and better the interests of those who are affected by the business.

Lokotfwako (2011) states that "when running a small business, some of the challenges involve handling confidential information, controlling behaviour with both internal and external customers, and abiding by the law and legislation". On a daily basis, people are faced with making ethical decisions for their businesses. But making these decisions should be easy if one considers the argument of Schwartz and Gibb (1999) that good reputations are built up over years, but can be destroyed overnight.

According to Lokotfwako (2011) companies, both large and small, and sole-traders are being asked, and encouraged, to improve their business practices to emphasise legal and ethical behaviour, as they are held increasingly accountable for their actions and as demand for higher standards of social responsibility in business increases. SMMEs should be aware of these ethical requirements, as unethical behaviour could be detrimental to success and growth of a small business.

Due to the high rate of unethical behaviour and corruption in SMMEs, Business Unity South Africa (BUSA) has developed a guide to assist SMMEs in making sense of corruption and to understand how they can contribute in promoting ethical behaviour in South Africa (BUSA, 2009). This guide outlines the benefits of promoting ethical business practices as follows:

- Attracting more ethical business partners and customers.
- Being a preferred service provider for larger companies or government departments that have stringent anti-corruption rules.
- Contributing to building a more stable business environment that benefits all businesses in the long term.

2.13.1 Ethical Dilemmas

Most times people tend to be unsure of what constitutes unethical or corrupt behaviour in a business environment. BUSA (2009) states that SMMEs are probably most pressured to get involved in corruption when it comes to getting contracts, as they often feel they have to give 'gifts' and do 'favours' for people who have influence over who gets the job.

Below are some examples of unethical and corrupt behaviour that SMMEs are faced with, as adapted from BUSA (2009):

- Bribing - giving money, buying lunch, or expensive tickets for someone who might make the process 'faster';
- Price fixing - Agreeing with competitors to keep prices at a specific level;
- Fraud – deliberately deceiving or misleading someone to cause them some financial loss or other harm; and
- Extortion – Trying to take advantage of someone by intimidation or threats;

Gross violations such as fraud and theft can easily be judged and dealt with, but more subtle issues, such as misleading consumers, are far more complicated and require a great deal of discretion on the part of the business owner (Lokotfwako, 2011). Therefore, when unsure about whether something is corrupt, it is best that the SMME seek independent or legal opinion before committing to anything.

By developing a code of business ethics and conduct does not mean that unethical behaviour will no longer occur, instead it will give people something to measure and assess their own behaviour against. The following guidelines from Business Unity South Africa can assist SMMEs in building an ethical culture that builds a great reputation (Busa, 2009):

- Commit to ethical business practices;
- Talk to your employees;
- Make rules and communicate them;
- Make ethical culture part of everyday practice;
- Have an open door policy;

- Apply discipline;
- Recognise ethical behaviour;
- Report corruption; and
- Consider collective action with other SMMEs in the same situation.

Developing a code of business ethics to improve the ethical culture creates a reputation and track record for ethical behaviour and integrity that are vital for establishing trust, responsibility and accountability, which are all crucial ingredients for all successful relationships – with customers, employees and the community.

2.14 Conclusion

This chapter reviewed literature on issues that are perceived to affect the black owned SMME in the Durban area of KwaZulu Natal. What emerges from the review is that access to finance is one of the major problems facing an emerging SMME owner. Other problems include skills training, or the lack thereof, and perceived problems with government support of the SMMEs across the country. Issues with SMME education, ethics and corruption also seem to be factors that cause the failure of SMMEs in South Africa. It is also apparent that main aim of owning a business is growth of the business and providing employment.

The next chapter deals with the research design and how the research was conducted.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this chapter is to describe, in detail, the research methodology used to investigate the reasons for failure in the SMME sector in the Durban area. This chapter will discuss different research methods and strategies and will then justify why the chosen method was used.

3.2 Types of Research

Collis and Hussey (2003) classify types of research according to the table below:

Table 3.1 Classification of types of research

Types of Research	Basis of Classification
Quantitative or qualitative research	Purpose of the research
Exploratory, descriptive, explanatory research	Process of research
Deductive or inductive research approach	Logic of the research
Applied or basic research	Outcomes of the research

Adapted from Collis and Hussey (2003)

3.2.1 Qualitative and Quantitative Research

Researchers generally distinguish between two main types of research approach, namely the quantitative and the qualitative approach (Leedy and Ormrod, 2005). The main features of qualitative and quantitative are summarised below.

3.2.1.1 Quantitative Research

- Quantitative research is the systematic scientific investigation of quantitative properties in social phenomena and is undertaken to answer questions about relationships between variables in the purpose of explaining, predicting and controlling phenomena (Leedy and Ormrod, 2005).

- Collis and Hussey (2003) deem the quantitative research approach to be objective in nature as it focuses on seeking the facts or causes of social phenomena.

- Quantitative research is based on positivistic methodologies used for developing knowledge (Collis and Hussey, 2003).

- A quantitative research approach employs strategies for inquiry such as experiments and surveys, and collects data using research instruments that yield statistical data (Leedy and Ormrod, 2005).

- Quantitative research approaches, therefore, involve collecting and analysing data that can be mathematically and/ or statistically interpreted and analysed (Collis and Hussey, 2003).

3.2.1.2 Qualitative Research

- Leedy and Ormrod (2005) describe qualitative research as a type of research that is used to answer questions about the complex nature of phenomena, with the purpose of describing and understanding such phenomena from the participant's point of view.

- A qualitative research approach is mainly used when the researcher needs to gather and analyse detailed data that cannot be mathematically or statistically interpreted and analysed, such as ideas, attitudes or feelings (Collis and Hussey, 2003).

- Creswell (2003) states that qualitative data is interpretive, as the researcher interprets data, and then draws conclusions based on how the data is interpreted.

The approach used for the current study was qualitative. This approach was chosen because the researcher sought to understand the participants' point of view (Leedy and Ormrod, 2005). This current study did not seek to research causal and effect relationships for SMMEs, rather it aimed to come up with recommendations based on the perceptions that already exist about small businesses in South Africa.

Qualitative research is most appropriate for the objectives of study, namely:
- To define and analyse SMMEs in different sectors in Durban, KwaZulu Natal;
- To learn lessons from other successful SMMEs;
- To determine training needs of SMMEs;
- To develop strategies to ensure the success of black owned SMMEs; and
- To address the need for government intervention.

3.3 Exploratory, Descriptive and Explanatory Studies

Research studies can be classified in terms of their purpose, as well as by the research strategy used (Robson, 2002). Robson (2002) states that the classification used most often used is threefold, namely: exploratory, descriptive and explanatory. Robson (2002) points out that the purpose of an enquiry may change over time. This argument is supported by Saunders, Lewis and Thornhill (2003) who state that a researcher may employ more than one strategy in a research project, and a research project may also have more than one purpose.

Exploratory research is undertaken to reveal issues related to the problem definition (Jankowicz, 2005). Terre Blanche and Durrheim (1999), state that exploratory studies are used for preliminary investigations into relatively unknown areas of research. According to Collis and Hussey, (2003) the most outstanding characteristic of exploratory research is that it is ideally undertaken when few or no earlier studies have been conducted on a research problem, that may serve to verify findings. Another feature of exploratory research, as stated by Collis and Hussey (2003) is that it gives insight into and a better understanding of the research problem, thereby, ensuring more rigorous investigation.

Exploratory research looks for patterns, ideas and/ or hypotheses. It does not seek to verify findings, but rather to enhance findings that already exist and come up with further recommendations to assist the research problem to be enhanced.

Descriptive research characteristically describes phenomena as they exist. It is used to identify and obtain information on the characteristics of a specific problem. According to Robson (2002), the aim of descriptive research is describe or define a problem by creating a profile of a group of problems, people or events.

Descriptive research examines problems more intensely than exploratory research because it ascertains and describes the characteristics of the pertinent issues (Collis and Hussey, 2003). This type of research was deemed more suitable to the current study because the current study aimed to describe, in detail, the challenges facing SMMEs.

Explanatory/Analytical research goes beyond merely describing the characteristics of a phenomenon, it also analyses and explains the why and how of the events. The aim of this type of research is to understand phenomena by discovering and measuring cause and effect relationships (Collis and Hussey, 2003). According to Saunders *et al.* (2003), the emphasis here is on assessing the problem in order to explain the relationships between variables.

In analytical research, theories or hypotheses need to be constructed and formulated in order to account for the forces that cause a certain phenomenon. The most important element of analytical research is to identify and possibly control variables in the research activities, since it allows for a better explanation of the critical variables or the causal links between the characteristics.

3.4 Deductive Research

A deductive approach to research is a process which begins with theory and proceeds through hypothesis, data collection and testing of the hypothesis to deduce explanations of the behaviour of particular phenomena (Riley, Wood, Clark, Wilkie and Szivas, 1991). This phenomenon could be a model, a theory, a typology or a set of explicit hypotheses.

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This type of strategy is typically used in hypothesis testing and in explanatory studies (Mouton and Marais, 1991).

Blumberg, Cooper and Schindler (2006) define deduction as a form of inference that purports to be conclusive – the conclusion must necessarily follow the reasons given. These reasons are said to imply the conclusion and represent a proof. Misselhorn (2005, p. 21) summarises the main elements of the deductive process as follows:

- Hypothesis (If this happens then it is likely that I will have evidence that…)
- Principle (If I take this course of action, I will solve the problem of…)
- Verification (I found that what did/didn't work was…)
- Adjustment of theory, principle or hypothesis (I will modify my thinking next time by…).

It should be noted that in the deductive method, the testing and confirmation of hypothesis effectively constitutes a contribution to theory and possibly to the evolution of that theory, and that theory must come from somewhere (Riley *et al.*, 2000, p.13).

3.5 Inductive Research

Riley *et al* (2000, p.13) describe inductive research as a process whereby the exploration of and analysis of related observations lead to the construction of a theory that systematically links such observations in a meaningful way. Mouton and Marais (1991) describe the inductive approach to research as a process where a researcher would embark upon a project without an explicit conceptual framework, and merely uses general and vague hypothesis or guesses (insights) to guide the research. Once the data have been generated, the researcher attempts to discover relationships or patterns by means of close scrutiny of the data. The data is analysed and interpreted by means of inductive abstraction and generalisation. Saunders *et al.* (2003) argue that the purpose of an inductive approach is to get the feel of what is going on, so as to better understand the nature of the problem. Misselhorn (2005, p. 21) summarises the main elements of the inductive process as follows:

- Observation (This is what happens when….)

- Generalisations (This seems to be the pattern emerging...)
- Theory (This seems to be why it is happening...).

The inductive approach was suited to the current study. General inferences are induced from particular instances to gain understanding of the reasons why the small businesses fail to succeed.

3.6 Basic and Applied Research

According to Collis and Hussey (2003), it is possible to distinguish between two methods of research, namely, basic and applied research.

3.6.1 Basic Research

Collis and Hussey (2003) describe basic research as research conducted primarily to improve the understanding of general issues, on research problems of a less specific nature, without emphasis on immediate application. Basic research is often referred to as fundamental and pure in nature, and is based on problem solving (Blumberg, Cooper and Schindler, 2006). According to Saunders *et al.* (2003), basic research is mainly undertaken by university communities with a choice of topics and objectives determined by the researcher, with flexible timescales.

Saunders *et al.* (2003) state that the purposes of basic research are as follows:
- To expand knowledge of processes of business and management;
- To expand on the universal principles relating to the process and its relationship processes; and
- Finding from this type of research add significance and value to society.

3.6.2 Applied Research

Applied research is mainly characterised by research findings to solve a specific existing problem (Collis and Hussey, 2003). Collis and Hussey (2003) state that this type of research is practical and has its emphasis on problem solving, meaning it is conducted to find answers to specific business related questions. According to Terre Blanche and Durrheim (1999) findings derived from applied research have practical application and their aim is to contribute towards practical issues of problem solving, decision making and policy analysis.

Applied research is undertaken by people in a variety of settings with objectives determined by the originator, based on tight and limited time scales. According to Saunders *et al.* (2003), the purpose of applied research is as follows:

- To improve understanding of a particular business or management problem;
- To result in problem solving; and
- Findings from applied research are of practical relevance to managers in organisations.

3.7 Research Strategies

Research strategies are strategies employed when undertaking a research project. Each of these clearly belongs to the deductive approach or to the inductive approach, but it would be quite simplistic to allocate these techniques to any one approach (Saunders *et al.*, 2003). Saunders *et al.* (2003) state that the importance of these strategies is in their ability to enable you to answer your research question/s and meet your objectives. It is important to note that these strategies are not to be thought of as being mutually exclusive. The following are some research strategies that will be discussed in this chapter:

- Case study
- Action research
- Survey
- Longitudinal.

3.7.1 Case Study

A case study is a strategy for solving research problems that involves empirical investigation of particular contemporary phenomena within its real life context using multiple sources of evidence (Robson, 2003). The boundaries of what's being studied and the context within which it is being studied are not always evident; therefore, making support or rejection of case studies more difficult.

A case study may or may not involve observation; it could be confined to written words or other forms of recorded information (Riley *et al*, 2000). According to Cooper and Schindler (2006), case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. Even though researchers are often suspicious of case studies because of their unscientific feel, Saunders *et al.* (2003) argue that case studies can be a very worthwhile way of exploring existing theory.

A case study strategy has the ability to generate answers to the questions why, what and how – although the 'what and how' tend to be more the concern of the survey strategy. This implies that the case study strategy is often used in explanatory and exploratory research (Saunders, 2003).

According to Yin (2003) there are four kinds of case study strategies:
- A single case study can be one way of testing an already well formulated theory, or investigating an extreme or unique case, and provides an opportunity to observe and analyse a phenomenon which was previously not accessible for study.
- Multiple case studies use more than one case at a time and the usual rationale behind this is that multiple cases focus on the need to establish whether the findings of one case hold true for other similar cases
- A holistic case study refers to analysis of a single entity or organisation as a whole.
- An embedded case study refers to analysis of a single entity or organisation, but would include departments or work groups that are related and could enhance the results.

3.7.2 Action Research

Action research is a research approach that seeks change and understanding at the same time. It is participative research in the sense that those that experience issues directly are involved in the research in order to find a resolution (Saunders, Lewis and Thornhill, 2003). According to Saunders, Lewis and Thornhill (2003) action research has evolved a lot from when Lewis coined the term in 1946, but there are four common themes within the literature.

- Theme one focuses on and emphasises the purpose and idea of the research.
- The second theme relates to collaborative partnership between practitioners (e.g. employees) and researchers (e.g. internal or external consultants). Coghlan and Brannick (2005) argue that the researcher is part of the organisation within which the research and the change process are taking place, rather than the typical research where employees are subjects and objects of the study.
- The third theme emphasises the repetitive nature of the process of diagnosing, planning, taking action, and evaluating. The action research spiral commences with a specific context and a clear purpose, which may be expressed as an objective (Robson, 2002). Diagnosis is usually referred to as fact finding and analysis and is undertaken to enable action planning and decision making about actions to be taken. Actions are taken and then evaluated, all on the first cycle. The final theme suggests that the results could inform other contexts and will, therefore, be used beyond the immediate project.

3.7.2.1 Advantages and disadvantages of Action Research

Action research is participative and therefore results are likely to be easier to implement as people are likely to readily implement changes that they helped create. According to Saunders *et al.* (2003), the main strengths of action research are the focus on·change, monitoring and evaluation, and the involvement of practitioners throughout the process.

The main disadvantage of action research is that it aims to fulfil the agenda of those undertaking the research rather than the organisation, even though the organisation benefits by the research process in some way (Saunders *et al.,* 2003).

3.7.3 Surveys

Survey is a popular strategy in business and management research that critically inspects phenomena in detail by posing 'who, what, where, and how' types of questions. Surveys are used to collect large amounts of data from a sizeable population in an economical way. According to Cooper and Schindler (2003), the great strength of a survey as a data collection method is its versatility. Cooper and Schindler (2003) state that this type of data is usually collected by way of structured observation in the form of a questionnaire, which could be:

- Mailed, faxed, self-delivered;
- E-mailed, internet, intranet; and
- People intercepted, newspapers, magazines.

3.7.3.1 Advantages of Surveys

Cooper and Schindler (2003) mention the following as advantages of surveys:

- Often the low cost option that allows contact with otherwise inaccessible respondents.
- Mailed, faxed or self-administered surveys allow for an expanded geographic coverage without an increase in cost.
- They allow respondents time to think through their responses.
- There is fast access to the computer literate.
- Respondents inaccessible personally are accessible otherwise.
- Rapid data collection.

3.7.3.2 Disadvantages of Surveys

Below are the disadvantages of surveys according to Cooper and Schindler (2003):

- There tends to be a low response rate in some modes
- There is no interviewer intervention available for probing or explanations; therefore, surveys can't be long or complex.

- There is often a skewed response.
- Respondents may be distracted; therefore, there has to be a low-distraction environment for survey completion.

3.7.4 Longitudinal Studies

While cross-sectional studies are conducted once, longitudinal studies are repeated over an extended period and according to Blumberg *et al.* (2005), can track changes over time. Saunders, Lewis and Thornhill (2003) point out that in observing people or events over time, the researcher is able to exercise a measure of control over variables being studied, provided that they are not affected by the research process itself.

While longitudinal studies are important, time and budget constraints often impose the need for many researchers to conduct cross-sectional studies instead.

3.7.5 Cross-sectional Studies

A cross-sectional study is a study of a particular phenomenon carried out once, and represents a snap shot of one point in time (Blumberg *et al.*, 2006). Saunders, Lewis and Thornhill (2003) describe a cross-sectional study as a study of a particular phenomenon at a specific time. They state that this is a popular option because most academic research projects have time constraints.

According to Easterby-Smith, Thorpe and Lowe (2002), cross-sectional studies are most suitable to surveys as they may be seeking to describe the incidence of a particular phenomenon, for example to compare factors in different organisations. Saunders, Lewis and Thornhill (2003) argue that cross-sectional studies are not entirely limited to quantitative research, they may also be qualitative and many of these studies are based on interviews conducted over a short period of time. The current study was a cross sectional study, as it provides a 'snapshot' of the reasons why SMMEs fail, from the perspective of the subjects.

3.8 Data Collection Method

According to Saunders *et al.* (2003), using secondary data can provide a useful source from which to answer or to partially answer a research question. For the purpose of this study, literature on SMMEs was reviewed.

According to Cooper and Schindler (2006), primary data is data collected by the researcher to address a research question. This data can be collected using different methods, such as questionnaires, observations, and interviews. The current study collected primary data from participants regarding the reasons for the failure of SMMEs, using a questionnaire. The respondents were required to answer a combination of open and close-ended questions. Questionnaires were distributed personally to participants and the plan was to collect them again after two weeks. However, due to unavailability of the participants and time constraints, it took about a month to get the questionnaires returned.

The current study was a mixed method approach, which combines both quantitative and qualitative methods of research. In this case, the questionnaire generated data in the form of figures and graphs but the data will be converted into a narrative when it is being analysed. According to Saunders *et al.* (2003), one of the advantages of the mixed method approach to research is that it allows for triangulation to take place. This enables the researcher to better evaluate the extent to which the research findings can be trusted.

3.9 Data Analysis

This study will analyse the qualitative data into a narrative in order to better evaluate and understand the research findings. According to Chalera (2007), the nature of qualitative data allows for, among other things, understanding and managing data, merging data and drawing and verifying conclusions.

3.10 Target Population

The population for a study is defined as the full set of cases from which a sample can be drawn (Saunders *et al.*, 2003). Welman and Kruger (1999) define a population as the study of objects, which may be individuals, items, groups, events or products and the conditions to which they are exposed. In this study, the population was SMMEs in KwaZulu-Natal, specifically Durban and the surrounding areas.

3.11 Sampling

Sampling is the selection of suitable elements in a population (Cooper and Schindler, 2006). Members of a sample can be selected using one the following procedures:
- Probability sampling
- Non-probability sampling

The sample for this study was sourced from the database of Tabeisa Enterprise Centre, an NGO based at the Durban University of Technology.

3.11.1 Probability sampling

Cooper and Schindler (2006) define probability sampling as a concept of random selection, which is a controlled procedure that gives each population element an equal chance of selection. Saunders *et al.* (2003) state that this type of sampling makes it possible to answer research questions and to achieve objectives that require you to estimate statistically the characteristics of the population from the sample. Probability sampling is often associated with surveys and experimental research. According to Saunders *et al.* (2003), the five main techniques of probability sampling are:

- **Simple random sampling** – this involves selecting the sample at random from the sampling frame using either random number tables or a computer.
- **Systematic sampling** - involves selection of a sample at regular intervals from the sampling frames.

- **Stratified random sampling** – is a modification of random sampling which involves dividing the population into two or more relevant strata based on one or a number of attributes.

- **Cluster sampling** – also employs dividing the population into discrete groups prior to the sampling. In this case the sampling frame is clusters instead of individual cases.

- **Multi stage sampling** – is a development of cluster sampling which is normally used to overcome problems associated with a geographically dispersed population.

3.11.2 Non-Probability Sampling

Saunders *et al.* (2003), state that non-probability sampling provides a range of alternative techniques to select a sample based on subjective judgement and involves the following techniques:

- **Quota sampling** – is non-random and usually used in interview surveys to improve representativeness. The logic is that the sample will represent the population as the variability in the sample for various variability quotas is the same as the population.

- **Purposive/judgemental sampling** – occurs when a researcher selects sample members to conform to some predetermined criterion. It enables the researcher to use his/her judgement to select cases that will best answer the research questions and meet the research objectives.

- **Snowball sampling** – is commonly used in cases where it is difficult to identify respondents for a desired population and participants are found through referral networks.

- **Self-selection sampling** – occurs when a researcher allows a case, mostly individuals, to identify its desire to take part in the research.

- **Convenience sample** – involves a haphazard selection of cases that are easiest to obtain for a specific sample.

The sampling technique used in this study was purposive sampling, as participants had to conform to certain criteria, namely black SMME owners in the Durban region of KZN.

According to Saunders *et al.* (2003) purposive sampling allows the researcher to study the group in greater depth to better answer the research questions.

3.12 Credibility of Research Findings

Raimond (1993) states that the issue of the credibility of research findings addresses the question that every researcher has to ask themselves: 'Will the evidence of my conclusions stand up the closest scrutiny?' Testing credibility involves reliability and validity testing of data.

3.12.1 Reliability

Data reliability is the extent to which data collection techniques will yield consistent findings, i.e. similar observations would be made or conclusions reached by other researchers (Easterby-Smith *et al.*, 2002).

3.12.2 Validity

Validity is the extent to which data collection methods accurately measure what it is that they were intended to measure (Saunders *et al.*, 2003).

3.12.3 Ethics

Ethical dilemmas may occur at different stages of the research process, such as informed consent, and the recruitment of participants. According to Saunders *et al.* (2003), the participants in your research should be notified beforehand of the nature of the study and must participate of their own free will. The participants must be assured of confidentiality and anonymity.

In this study, the participants were given an ethical undertaking signed by the researcher explaining the nature of the study with each questionnaire. This also stated the

confidentiality and anonymity of the study and stressed that the participants were not forced to be part of the study.

3.13 Conclusion

This chapter discussed the research methodology, data collection method and analysis. This study employed the qualitative approach to research as the researcher's aim was not to seek the causal and effect relationships for SMMEs but to come up with recommendations based on the perceptions that already exist about the SMME sector.

The data was collected by means of questionnaires which were self delivered to the intended respondents. The questionnaire was selected because of its versatility and also because it allows respondents time to think through their responses. The disadvantage of this data collection method was that fifteen (15) out of the intended fifty five (55) respondents did not return their questionnaires.

The data generated from the questionnaires was in the form of figures and graphs, which was then analaysed into a narrative, which allowed for better reliability of the research findings.

The following chapter presents the results of the study.

CHAPTER 4
RESULTS

4.1 Introduction

In the previous chapter the research methodology was outlined and discussed. This chapter presents the results. The main aims were to identify factors that lead to the failure of SMMEs and the effect the failure has on the SMME environment and its stakeholders. The study was conducted in Durban, KwaZulu-Natal province. Fifty five questionnaires were handed out to respondents. Fifteen of the intended respondents were unable to return their questionnaires, so only forty were returned.

4.2 Demographics

Questions were posed to establish the demographic profile of the sample. The following variables were included:

- Gender
- Age
- Business owner's race group
- Educational qualifications of the business owner

Table 4.1 Gender of respondents

gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	24	60.0	60.0	60.0
	female	16	40.0	40.0	100.0
	Total	40	100.0	100.0	

Of the forty (40) respondents, twenty four (24) were male and sixteen were (16) females. All respondents were black, except for one white male. The fact that there were more men

respondents than female could be associated with the fact that of the initial 55 respondents, 30 were male and 25 were female.

4.3 Age of Respondents

The majority of the respondents fell into the 20 to 35 year age category, which classified as youth. Youth are eligible to access funds from a number of government agencies, such as Umsobomvu Youth Fund that caters only to the business people under the age of 35 (National Youth Development Agency Bill, 2008).

The fact that were more respondents under the age of 35 than any other age group could mean that the youth are more willing to enter into businesses and to take the risks that come with being in business. Four respondents were below the age of 25, which could indicate that the younger generation is more opportunity driven than necessity driven in the business adventures. It could also indicate that younger people prefer to acquire business skills before venturing into business.

4.4 Reasons for Starting Own Business

An open ended question was posed to the respondents to determine their reasons for starting their own businesses. The following is a summary, in descending order, of the reasons given by the respondents:

- To earn a living
- To create employment
- Provide a service to the community
- Self-employment and financial independence
- Exploiting an opportunity

Self-employment and exploitation of an available opportunity were the least cited reasons for starting a business, supporting the theory of starting a business out of necessity.

Table 4.2 Age of respondents

age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-25	4	10.0	10.3	10.3
	26-30	9	22.5	23.1	33.3
	31-35	8	20.0	20.5	53.8
	36-40	5	12.5	12.8	66.7
	41-45	5	12.5	12.8	79.5
	46-50	8	20.0	20.5	100.0
	Total	39	97.5	100.0	
Missing	System	1	2.5		
Total		40	100.0		

4.5 Financing the Business

Of the forty (40) respondents, thirty three (33) of the businesses were initially financed by own or family savings; the balance of the businesses were financed by banks and government agencies. It should be noted that the respondents were mostly PDIs. This seems to concur with previous research (Toomey, 1996; Buckley, 1997) that most start up enterprises are financed by own or family savings. It is difficult to establish the general population statistics on these start-up loans as they are recorded as personal loans not business loans.

Table 4.3 Financing the business

How is your business currently financed

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	own savings/family	33	82.5	89.2	89.2
	bank	2	5.0	5.4	94.6
	government agency	2	5.0	5.4	100.0
	Total	37	92.5	100.0	
Missing	System	3	7.5		
Total		40	100.0		

Note that even after the start-up stage these businesses are still financed by their own savings and that of their families. This could be caused by the fact that these businesses are informal and the profits from the business are used to make ends meet.

Almost all respondents who were financed by own/ family savings first started at the banks and were turned down. The major reasons for being declined by the banks were:

- No detailed business plan/business plans not feasible
- Insufficient or no collateral available and no initial outlay
- No business track record or valid contracts
- Business plan not viable or too risky.

This is also evidenced by the fact that out of 40 respondents, only 26 employ the services of an accountant (see table 4.4 below). An accountant would help these businesses manage their finances.

Table 4.4 Employing an accountant

Do you employ the srvices of an accountant

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	14	35.0	35.0	35.0
	no	26	65.0	65.0	100.0
	Total	40	100.0	100.0	

4.6 Start-up Capital

The question of start-up finance was posed in order to determine the size of the business at the start-up phase. The capital amount a business employs determines how small or big it intends to be at the start-up phase. This is also influenced by whether the capital funds are readily available or not. Most of the respondents used capital funds to the value of R50,= 000. Due to the fact that most these businesses were started by own/ family savings, it would have been harder to come up with any more funds from own/ family savings.

Table 4.5 raising start-up capital

How did you raise your start capital

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	own savings/family	33	82.5	89.2	89.2
	bank	2	5.0	5.4	94.6
	government agency	2	5.0	5.4	100.0
	Total	37	92.5	100.0	
Missing	System	3	7.5		
Total		40	100.0		

The respondents were asked how many financial institutions they approached before starting the business, in order to establish how many were turned away by the banks. Twenty one respondents approached between one and three banks, four respondents approached between four and six, while fourteen did not respond to the question. The non-response to the question could indicate that the respondents did not approach any financial institutions: they simply had enough savings to be able to start a business.

4.7 Formal Educational Qualifications

The aim of the question was to find out if the business owners had any formal qualification in the business or industry they are operating in. This was done in order to find out if educational qualifications have any impact on the perceived success of the business.

Out of the 40 participants, sixteen had qualifications in the industry they were in, twenty two did not have qualifications, and two did not respond to the question. There was an indication that respondents with qualifications relevant to the business they are in believed that their business have more chance of survival than those without such skills and qualifications. Most of the respondents indicated that the reasons for starting a business were propelled by their educational qualifications.

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Table 4.6 Formal education in industry

Do you have a formal qualification in the business industry that you are
Operating in

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	16	40.0	42.1	42.1
	No	22	55.0	57.9	100.0
	Total	38	95.0	100.0	
Missing	System	2	5.0		
Total		40	100.0		

4.8 Financial and Business Management Skills Development

Questions related to financial and business management skills training were asked in order to ascertain if the respondents were aware of their training needs. All respondents were asked to name training programmes they knew about. Out of forty respondents, twenty three respondents knew about training programs in their area, whereas seventeen didn't know of any.

Table 4.7 Awareness of Skills training and development

Are you aware of any financial and business management skills
training and development in your geographic area

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	23	57.5	57.5	57.5
	no	17	42.5	42.5	100.0
	Total	40	100.0	100.0	

Twenty five respondents indicated that they would like to attend such skills development sessions, three were not interested, while twelve did not comment. The number of respondents that would like to attend indicates that these are business people that are aware of their training needs and would like to address them in order to give their businesses an advantage. It is not easy to ascertain whether the respondents that did not comment are not aware of their training needs, or whether they are not interested in attending as they do not see their benefit.

Table 4.8 Willingness to attend skills training and development programmes

If not would you be willing to attend one of these programmes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	25	62.5	89.3	89.3
	no	3	7.5	10.7	100.0
	Total	28	70.0	100.0	
Missing	System	12	30.0		
Total		40	100.0		

4.9 Business Support Structures

Respondents were asked if they knew of any business support structures in the area, in order to ascertain the availability of local assistance for these SMMEs. Thirty two respondents responded in the affirmative to the question, while seven did not know of any support structures in their area, and one did not comment.

Table 4.9 Awareness of business support structures

Do you know of any business support structures in your area

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	32	80.0	82.1	82.1
	no	7	17.5	17.9	100.0
	Total	39	97.5	100.0	
Missing	System	1	2.5		
Total		40	100.0		

Respondents who were aware of support structures were asked to name the business support structures in their area. The following are the structures that were mentioned most frequently:

- SEDA
- Tabeisa Enterprise Center
- Umsobomvu Youth Fund
- Ethekwini Municipality
- Ithala Bank.

4.10 Government Support to SMMEs

Questions were posed to the respondents to establish their views on of the government's support of the SMME sector. Of the forty respondents, twenty six respondents felt that government is not doing enough to assist SMMEs, while thirteen felt that government was doing enough for SMMEs, and one respondent declined to comment.

Table 4.10 Perceived government support of SMMEs

Do you think government is doing enough to assist SMMEs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	13	32.5	33.3	33.3
	no	26	65.0	66.7	100.0
	Total	39	97.5	100.0	
Missing	System	1	2.5		
Total		40	100.0		

When respondents were asked an open ended question on what they thought government should do to assist the development of SMMEs, there was a mixed bag of suggestions. The most frequently mentioned suggestions were:

- Provide financial assistance and collateral
- Provide business and financial management training and mentorship programmes
- Government programmes should be accessible to the informal sector
- Provide SMMEs with assistance in the government tendering processes
- Better visibility of Government assistance programmes in the form of site visits/ field agents.

From the responses above, it is seems that the programmes introduced by government either do not filter down to all members of the SMME sector, or they are perceived as not being accessible to the SMMEs that need them the most.

4.11 Number of Employees

The number of employees the business has translates into the size of the business and the also the growth factor of the business. Eighteen (18) respondents employed less than five people, fifteen employed between six to ten people, three respondents employed more than ten people, and four did not comment.

Based on the number of employees that the respondents' businesses have, their businesses fall into the category of survivalist/ micro and very small enterprises. These are businesses that, among other things, are characterized by the fact that they employ less than 100 people.

Table 4.11 Number of employees

How many people does your business employ

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	18	45.0	50.0	50.0
	6-10	15	37.5	41.7	91.7
	11-15	2	5.0	5.6	97.2
	16-20	1	2.5	2.8	100.0
	Total	36	90.0	100.0	
Missing	System	4	10.0		
Total		40	100.0		

4.12 Success and Sustainability of the Business

Respondents were asked to respond to questions pertaining to the success and sustainability of their businesses in order to establish if they thought they were successful or not. Twenty six respondents thought their companies were successful, while thirteen thought they were unsuccessful, and one did not respond.

Table 4.12 Perceived success of business

Do you consider your business successful

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	26	65.0	66.7	66.7
	no	13	32.5	33.3	100.0
	Total	39	97.5	100.0	
Missing	System	1	2.5		
Total		40	100.0		

On the issue of sustainability, thirty one respondents thought their businesses were sustainable even in the current economic situation of the whole country, and nine felt their businesses were not sustainable.

Table 4.13 Perceived business sustainability

Considering the present economic circumstances do you think your business is sustainable

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	31	77.5	77.5	77.5
	No	9	22.5	22.5	100.0
	Total	40	100.0	100.0	

For those respondents who felt their business is sustainable, the following reasons were given as evidence of that sustainability:

- The business has a solid client base
- Solid financially stable business
- Strong partnerships with clients and suppliers
- Better financial and business management skills.

4.13 Factors Affecting the Businesses' Potential for Growth

The respondents were asked to rate the factors that affect growth potential for their business. Respondents rated factors as having either a minor, moderate or major impact.

The majority of the respondents perceive access to finance as the biggest hindrance to growth (26 respondents), followed by the lack of government support (19 respondents). Location is the next factor that is seen by ten respondents to affect the growth of the business, followed by lack of finance skills and business skills respectively.

Table 4.14 Factors affecting business growth

Factors	Number of Respondents			
	Minor Impact	*Moderate Impact*	*Major Impact*	*No Comment*
Lack of government support	6	13	19	2
Access to finance	4	8	26	2
Lack of business management skills	15	15	8	2
Lack of finance management skills	10	19	9	2
Location of your business	17	11	10	2
Issues with personnel (staff members)	26	8	3	3
Legal issues (e.g. formalising business contracts, registration of the business)	23	9	5	3

Factors affecting business growth

The factor that respondents felt had a minor impact on the growth of SMMEs is issues with personnel (26 respondents), followed by legal issues (23 respondents).

4.14 Reasons for Being in Business

The last question asked respondents to select the reason that best described why they decided to have their own businesses. Below is a table with the number of respondents per statement.

Twenty of the respondents said that they are in business to grow and expand; eleven believed that they are in business to be the best in their line of business. Eight of the respondents cited making money as their main reason for being in business, with one being in business to survive and stay the same size.

Table 4.15 which statement best describes the reason you are in business?

Statement	No. of Respondents
To survive and stay the same size	1
To make money	8
To be the best in your line of business	11
To grow substantially and open other businesses	20

4.15 Conclusion

This chapter presented the findings from primary data that was collected by means of questionnaires. The results of this study reveal that there is a lot of dissatisfaction in the SMME sector regarding the problems this sector encounters regarding a range of issues. Chief among these issues is lack access to finance and government programs intended as intervention measures.

The next chapter discusses the finding of this study further.

CHAPTER 5
DISCUSSION

5.1 Introduction

This chapter is a discussion of the results of this study in relation to other studies conducted. The objectives of the study were to identify the reasons why SMMEs in Durban, KwaZulu-Natal, fail. It is important to draw lessons from other similar studies, in order to identify differences, similarities and trends.

5.2 Gender of Respondents

Of the forty respondents, twenty five were men and sixteen female. A similar study conducted by Dlokweni (2006) had more male participants than females. Dlokweni states that one of the reasons there are more male SMME owners than females is the belief that man are perceived as providers and are more likely to be successful in business than women. Another study by the GEM (2004) seems to support that there are more men than women in business; it states that the total entrepreneurial activity rates (TEA) in South Africa are 1.6 times higher in men (13.3%) than female TEA rates (8.5%).

Almost every policy document and item of legislation in South Africa on SMME development has the supporting and developing of women as high on the list of priorities (DTI, 1995). But, despite all the legislation, it is evident that there are still fewer women in business than there are men. According to a study by Toomey (1998), the targeted government SMME support focuses on increasing the volume of business rather than developing the skills of women entrepreneurs in order to increase business.

5.3 Financing the Business

According to Bonnett (2003), a frequently cited complaint in South Africa's economic development is the lack of seed capital and development finance for Small, Medium, and

Micro Enterprises (SMMEs). In this study, 82,5% of the respondents stated that their businesses were financed by own savings after exhausting other avenues, such as banks.

This is similar to the findings of a World Bank report on African SMME finance options (2003) which identified three key constraints within the formal banking sector in dealing with the small business sector. These are:

- The perceived risk in dealing with clients that have little financial history, along with the relatively high costs associated with SMME finance;
- Over-regulation of the industry and interest rate ceilings imposed on financial institutions by government detract from the attractiveness of servicing the small sector; and
- The ability of NGOs and specialised micro-lenders to tap into this sector.

According to Bowman (1986) it is widely believed that lack of credit is a major obstacle to overcome if the SMME sector is to grow significantly in developing economies. However, Buckley (1997) states that it is unclear whether easier access to finance actually encourages growth and development of the SMME sector. A study conducted by GEM (2003) identified financial support, in particular the availability and accessibility of debt capital, as one of the factors that are limiting entrepreneurial activity in the South African SMME sector.

5.4 Startup Capital

With regard to startup capital, most of the respondents started their businesses through their own or family savings. The majorities of these respondents had initially approached the commercial banks, and were unsuccessful in obtaining loans. The current study confirms the findings of a previous study by Toomey (1998) where he states that traditional bankers seldom grant loans to enterprises without significant assets to act as collateral, thus eliminating many SMMEs. He suggests that if access to finance for SMMEs is one problem, the repayment history of loans made to SMMEs is equally problematic.

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According to Buckley's 1997 study on SMMEs in Kenya, the most successful SMMEs began informally with funding from family, own savings or savings of close friends, with additional finance being sought after significant business growth.

5.5 Educational Qualifications

The question of educational qualifications was posed to respondents to ascertain if the respondents had qualifications in their particular business sector. The majority of the respondents (55%) did not have qualifications in the industry that they are working in. According to Toomey (1998) education is among the factors that inhibit technological acquisition in developing countries, but in South Africa this is compounded by the legacy of apartheid that has put most black owners of SMMEs at a disadvantage. The current study concurs with a 2003 GEM study that cites education and training, especially the encouragement of entrepreneurial skills, as a limiting factor to the growth of the SMME sector.

5.6 Financial and Business Management Skills Development

The findings of this study suggest that suggest that, while not all the respondents were aware of NGOs that provide skills training in their area, they would be willing to attend these sessions. Only 57.5% were aware of skills training service providers, while 62.5% of all respondents felt that they could benefit from these sessions and, therefore, were interested in attending in order to improve their financial and business management skills.

According to Toomey (1996) long term SMME development requires significant investment in human capital and skills development. One of the cornerstones of the NSBA is to provide training in entrepreneurship, skills and management to the targeted groups, but according to Chalera (2007) much of the training provided is just for training's sake and is not targeted to the specific needs of the SMME owner. A GEM (2003) study identified lack of skills as one of the factors limiting entrepreneurship activities in South Africa and suggested the introduction of education and training to raise entrepreneurial awareness and create a good grounding in basic financial and business skills and effective financial administration skills.

5.7 Government Support to SMMEs

The respondents in the current study were asked if they felt that government was doing enough to support SMMEs, and 65% believed that government is not giving enough support to the SMME sector. The respondents felt that, even though there is government programmes designed to assist the emerging SMME owner, these programs are either not accessible or not visible to the ordinary SMME entrepreneur.

A study by Dlokweni (2006) agrees with these results, and he suggests that government should run awareness campaigns to promote existing programmes to SMMEs in the form of advertorials or workshops. The respondents also felt that the government should provide collateral over and above the financial assistance, which the SMME owner is unable to provide. It seems that even though the White Paper (DTI, 1995) mandates providing access to information and advice, the respondents do not seem to be able to access the information and advice centres. This finding is confirmed in the study by Dlokweni (2006) where the respondents suggest that government must employ competent personnel to drive its programmes.

5.8 Reasons for Starting Own Business

The findings of this study reveal that 50% of the respondents are in business for growth purposes and to hopefully expand their businesses, followed by 27.5% whose intention is to be the best in their line of business, and 20% who are in business to make money and earn a better living for their families. This suggests that they went into business because of necessity and survival more than anything else.

The primary reason for many black SMMEs owners to be in business is to survive, but as they grow, so their reasons for staying in business change.

5.9 Conclusion

This chapter discussed the results of the study in relation to other similar studies. Even though the study was conducted in Durban, it is evident that the majority of SMMEs have the same concerns when it comes to their businesses. The issues of lack of access to

finance, lack of government support and intervention, lack of business management skills promotion appear to be common threats to the growth of their businesses.

CHAPTER 6
RECOMMENDATIONS AND CONCLUSIONS

6.1 Introduction

This chapter sets out the conclusions and recommendations from the study. The study was an investigation of the reasons for failure of SMMEs for businesses in Durban.

This study focused on SMMEs owned by previously disadvantaged individuals to find out what they perceive as the major challenges in the sector and what they would like to see improve.

6.2 Conclusions from the Findings

The major problems encountered by a previously disadvantaged SMME owner, based on this study, are associated with lack of funding and capital, insufficient support from government, and a lack of business and financial management skills. According to the findings of this study, the major reason for participants to start their own business was to earn a living, which suggests necessity rather than opportunity, confirming previous studies that cite that necessity is a major reason for PDIs to start a business.

This study revealed that there is more youth between the ages of 20 and 35 involved in SMME business sector than any other age group. Most of the respondents had education qualifications related to the business they were involved inland this educational qualification was one of the reasons they went into business. This is why they believed that they are more sustainable and have more chances of survival than a business owner without qualifications.

Most of the participants in this study were initially, and still are, financed by their own or family savings. Most of the respondents were declined finance by financial institutions and only a few of the respondents had enough savings to start up without applying for finance in the first place. It is evident from the findings that people lack the necessary skills and experience to acquire the required finance and the initial outlay and collateral for the

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business. Another dimension that could factor in finance being declined is the Financial Intelligence Centre Act 38 of 2001 (FICA) laws, which are perceived to have made access to finance more difficult.

Even though there are organizations and government agencies that have, as one of their objectives, to assist the SMMEs with business plans, and financial and business management skills; it is evident that the respondents had no idea how and where to obtain this kind of assistance. Even though government has set up a number of programmes, it seems these do not find a way to trickle down to the ordinary person looking to go into business. Most of the participants were not aware of training that is available, and on offer, to them by government agencies or NGOs.

The study indicates that most participants do not have skills in business and financial management and this is affecting the businesses chances of survival and growth potential. The participants in the study also revealed that they do not attend any formal skills training to enhance their business skills. In order for anyone to have an understanding of the technicalities of business and how to react effectively; they need to have some training on the business.

6.3 Recommendations

The following are recommendations based on the findings of the study presented in the previous chapters.

6.3.1 Government and NGO Support Structures

It cannot be denied that the government has put a lot of resources behind the South African SMME sector to ensure its sustainability in the long-term, but it also cannot be denied that a lot of SMMEs do not reap the benefits of the these resources. It is recommended that the government should ensure continuous monitoring and evaluation of the processes that are currently in place for SMMEs.

Because it seems that a major problem is awareness of the government and NGO programmes, it is recommended that government, through the DTI, spends more resources

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on marketing and advertising all programmes and training that are on offer. This is could go a long way to improve the growth potential of the SME sector. Utilizing places like universities to inform the youth and give them knowledge before they even embark on the business route will also be advantageous to the future of the SMME sector.

6.3.2 Access to Finance

Access to finance is the most cited reason for SMME failure. It is recommended that the business owners go out of their way to educate themselves on how the financial institutions work, and on what is on offer to SMMEs by government, and that they use this information to their advantage. It is recommended that, over and above the required collateral that is required by the banks, there should be some lenient requirements for SMMEs that can prove that their businesses are stable. It is recommended that SMMEs that intend to grow and be sustainable should keep financial records as this impact on their future access to credit.

The main problem with financing the SMME business sector is that most of these businesses are in business for survival; therefore part of their profits goes toward maintaining the family and lifestyles, instead of being invested back into the business for growth purposes.

6.3.3 Financial and Business Skills

The level of financial skills and business knowledge are the cornerstone of any thriving business; without these, it is very difficult to deal with the daily running of the business and to steer the business in the right direction. It is recommended that SMME owners attend training and mentorship programmes offered by government agencies and NGOs for free. These training sessions will empower the business owners to have more confidence in the daily business dealings, enable them to do their own business plans, and make them better entrepreneurs.

6.4 Limitations of the Study

In completing this study, there have been several shortcomings. These limitations are:
- Unavailability of research participants
- Reluctance of participants to provide information they felt was confidential
- Inadequate responses from participants
- The study was unable to study the SMME sector in depth due to limited time.

6.5 Areas of Future Study

A number of areas of possible future research were identified during this study. These include the following:
- An in-depth study of mentorship and support programs available to SMMEs
- A study into the long-term sustainability of the government's plan regarding SMMEs
- A further study into the growth patterns of the SMME sector.

6.6 Conclusion

This study highlighted a few of the reasons that cause failure of the SMME sector. Recommendations were made that covered the training needs, government intervention, and how to better handle the financial shortcomings in the sector.

The SMME sector is a dynamic part of the South African economy and if the relationship between the SMME owners, government and the financial institutions can be attended to, this sector has the potential to grow much more than it is currently. Also renewed government commitment to SMMEs can add a much needed boost to the SMME sector.

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<div align="center">QUESTIONNAIRE</div>

Survey Title: WHY DO SMMES FAIL: ANALYSIS OF THE FACTORS THAT LEAD TO SMME FAILURE

Name: Ms X Nodada
Student No.: 204519868
University of KwaZulu Natal

INTRODUCTION: The following questionnaire is a tool of obtaining information for a Masters in Business Administration programme at the University of KwaZulu Natal. The information collected will strictly be used for the purpose of this study. The information given will be treated with confidentiality and no names of persons or organisations will be referred to or published for any reason. Should any person wish to withdraw their participation from this research, they may do so willingly at any time

Respondent Organisation: ....
Interviewer's Name: ....
Date of Interview: ....

I hereby certify that this is a true interview and that it is an accurate reflection of the respondent's comments.

Interviewer's Signature:..................................

i) Please indicate your gender

Male	
Female	

ii) What is your age?

....

iii) What is your race?

....

iv) Please give your reason for starting your own business

....

....

v) How many people does your business employ?

....

vi) How many employees of each gender do you employ?

Male	
Female	

vii) How did you raise your start up capital

Own Savings/ Family	Bank	Government Agency	Other Sources (State the source)

viii) How is your business currently being financed?

Own Savings/ Family	Bank	Government Agency	Other Sources (State source)

ix) How many financial institutions did you approach before starting your business?

....

x) What reasons did these financial institutions that declined you provide?

....
....
....

xi) How much funding did you use to start up your business?

R0 to R50 000.00	R51000 to R100 000	R101 000 to R250 000	R251 000 to R500 000	Over R500 000

xii) Do you employ the services of an accountant

Yes	No

xiii) Do you have a formal qualification in the business/ industry that you are operating in?

Yes	No

xiv) Are you aware of any financial and business management skills training and development in your geographical area?

Yes	No

xv) If yes, what kind of training and development?

....

....

xvi) If not, would you be willing to attend one of these programmes?

Yes	No

xvii) Do you know of any business support structures in your area?

Yes	No

xviii) If yes, which ones

....

....

xix) Do you think government is doing enough to assist SMMEs?

Yes	No

xx) In what ways do you think government should intervene and assist the development of SMMEs in South Africa?

....

....

....

xxi) Do you consider your business successful?

Yes	No

xxii) Considering the present economic circumstances, do you think your business is sustainable?

Yes	No

xxiii) How so?

....

....

....

....

xxiv) Could you rate how the following factors are affecting your business's growth potential?

Factors	Minor	Moderate	Major
Lack of government support			
Access to finance			
Lack of business management skills			
Lack of finance management skills			
Location of your business			
Issues with personnel (staff members)			
Legal (e.g. formalising business contracts, registration of the business)			

xxv) Which of the following statements best describe why you are in business (please tick the appropriate box)

Statement	Answer
To survive and stay the same size	
To make money	
To be the best in your line of business	
To grow substantially and open other businesses	

UNIVERSITY OF
KWAZULU-NATAL

12 September 2009

Miss X Nodada
Faculty of Management Studies
31 Carody
50; 7th Avenue
4001 MORNINGSIDE

Dear Miss Nodada

PROTOCOL: An Analysis of the factors that lead to SMME failure
ETHICAL APPROVAL NUMBER: HSS/0507/2009

In response to your application dated 11 September 2009, Student Number: **204519868** the Humanities & Social Sciences Ethics Committee has considered the abovementioned application and the protocol has been given **FULL APPROVAL.**

PLEASE NOTE: Research data should be securely stored in the school/department for a period of **5 years.**

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Professor Steve Collings (Chair)
HUMANITIES & SOCIAL SCIENCES ETHICS COMMITTEE

cc: Dr N Jumna / Mr M Challenor
cc: Mrs C Haddon

UNIVERSITY OF
KWAZULU-NATAL

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Research Office
Govan Mbeki Centre
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University Road
Chiltern Hills
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E-mail :naidoos4@ukzn.ac.za

12 September 2009

Miss X Nodada
Faculty of Management Studies
31 Carody
50; 7th Avenue
4001 MORNINGSIDE

Dear Miss Nodada

PROTOCOL: An Analysis of the factors that lead to SMME failure
ETHICAL APPROVAL NUMBER: HSS/0507/2009

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Yours faithfully

Professor Steve Collings (Chair)
HUMANITIES & SOCIAL SCIENCES ETHICS COMMITTEE

cc: Dr N Jumna / Mr M Challenor
cc: Mrs C Haddon

UNIVERSITY OF KWAZULU-NATAL

ETHICAL CLEARANCE APPLICATION FORM
(SOCIAL SCIENCES AND HUMANITIES)
Inquiries:
Ms Phumelele Ximba
Tel: (031) 260 3587
Email: ximbap@ukzn.ac.za

PLEASE NOTE THAT THE FORM MUST BE COMPLETED IN TYPED SCRIPT; HANDWRITTEN APPLICATIONS WILL NOT BE CONSIDERED

SECTION 1: PERSONAL DETAILS

1.1 **Full Name & Surname of Applicant:** Xoliswa Nodada
1.2 **Title:** (Ms/ Mr/ Mrs/ Dr/ Professor Etc): Miss
1.3 **Student Number:** 204519868
1.4 **Discipline:** Business Management
1.5 **School:** Graduate School of Business
1.6 **Faculty:** Faculty of Management Studies
1.7 **Campus:** Westville Campus
1.8 **Existing Qualifications:** B Tech Cost & Management Accounting
1.9 **Proposed Qualification for Project:** Masters in Business Management

2. **Contact Details**
   Tel. No.   : (031) 373 5168
   Cell. No.   : 074 363 2921
   E-mail   : Xoliswa@dut.ac.za

3. **SUPERVISOR/ PROJECT LEADER DETAILS**

NAME	TEL. & FAX	EMAIL	DEPARTMENT / INSTITUTION	QUALIFICATIONS
3.1 Dr Jumna	0828716296	jumna@icon.co.za	GSB, UKZN	DBS, MBA, Dip Project Management
3.2 Mr. M Challenor	(031) 260 8104	Challenorm@ukzn.ac.za	GSB, UKZN	BSoc Sci (Hons), MBA
3.3				

1

SECTION 2: PROJECT DESCRIPTION

Please do *not* provide your full research proposal here: what is required is a short project description of not more than two pages that gives, under the following headings, a brief overview spelling out the background to the study, the key questions to be addressed, the participants (or subjects) and research site, including a full description of the sample, and the research approach/ methods

2.1 Project title
Why do SMMEs fail: An Analysis of the factors that lead to SMME failure

2.2 Location of the study
Durban, KwaZulu Natal

2.3 Objectives of and need for the study

- Identify factors that lead to the failure of SMMEs in Durban
- Understand the role the entrepreneur, government and the financial services sector play in the SMME sector
- Investigate the effects the failure has on the SMME environment and its stakeholders

2.4 Questions to be answered in the research

- What are the main factors that cause the failure of SMMEs
- What are the key challenges that are facing the Durban SMME sector
- How accessible is government support and assistance the SMME sector, financial and otherwise

2.5 Research approach/ methods

This study is envisaged to be a qualitative study. Secondary data will be collected for the literature review to gain insight into the reasons why small businesses fail and what other researchers have found out on the topic. Data will also be sought out from the institutions that service these SMMEs in order to gain more understanding on the statistics of the SMME sector. This will assist in drawing up relevant questions for the questionnaire.

The population of the research study will comprise 60 SMME owners in the Durban area of KZN. Questionnaires will be drawn out and sent to respondents to fill out at their own time. These will be collected in a maximum of twenty days. (A copy of the provisional questionnaire is attached.)

2.6 Proposed work plan

Set out your intended plan of work for the research, indicating important target dates necessary to meet your proposed deadline.

STEPS	DATES
Chapter One	30 May 2009
Ethical Clearance	30 June 2009
Chapter Two	15 July 2009
Send out questionnaires	20 July 2009
Collect questionnaires	10 August 2009
Chapter Three	20 August 2009
Analyze and Review questionnaires	01 September 2009
First draft sent to supervisor	10 September 2009

SECTION 3: ETHICAL ISSUES

The UKZN Research Ethics Policy applies to all members of staff, graduate and undergraduate students who are involved in research on or off the campuses of University of KwaZulu-Natal. In addition, any person not affiliated with UKZN who wishes to conduct research with UKZN students and / or staff is bound by the same ethics framework. Each member of the University community is responsible for implementing this Policy in relation to scholarly work with which she or he is associated and to avoid any activity that might be considered to be in violation of this Policy.

All students and members of staff must familiarize themselves with AND sign an undertaking to comply with the University's "Code of Conduct for Research".

QUESTION 1.

Does your study cover research involving:	YES	NO
Children		X
Persons who are intellectually or mentally impaired		X
Persons who have experienced traumatic or stressful life circumstances		X
Persons who are HIV positive		X
Persons highly dependent on medical care		X
Persons in dependent or unequal relationships		X
Persons in captivity		X
Persons living in particularly vulnerable life circumstances		X

If "Yes", indicate what measures you will take to protect the autonomy of respondents and (where indicated) to prevent social stigmatisation and/or secondary victimisation of respondents. If you are unsure about any of these concepts, please consult your supervisor/ project leader.

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QUESTION 2.

Will data collection involve any of the following:	YES	NO
Access to confidential information without prior consent of participants		X
Participants being required to commit an act which might diminish self-respect or cause them to experience shame, embarrassment, or regret		X
Participants being exposed to questions which may be experienced as stressful or upsetting, or to procedures which may have unpleasant or harmful side effects		X
The use of stimuli, tasks or procedures which may be experienced as stressful, noxious, or unpleasant		X
Any form of deception		X

If "Yes", explain and justify. Explain, too, what steps you will take to minimise the potential stress/harm.

QUESTION 3.

Will any of the following instruments be used for purposes of data collection:	YES	NO
Questionnaire	X	
Survey schedule		X
Interview schedule		X
Psychometric test		X
Other/ equivalent assessment instrument		X

If "Yes", attach copy of research instrument. If data collection involves the use of a psychometric test or equivalent assessment instrument, you are required to provide evidence here that the measure is likely to provide a valid, reliable, and unbiased estimate of the construct being measured. If data collection involves interviews and/or focus groups, please provide a list of the topics to be covered/ kinds of questions to be asked.

Will the autonomy of participants be protected through the use of an informed consent form, which specifies (in language that respondents will understand):	YES	NO
The nature and purpose/s of the research	X	
The identity and institutional association of the researcher and supervisor/project leader and their contact details	X	
The fact that participation is voluntary	X	
That responses will be treated in a confidential manner	X	
Any limits on confidentiality which may apply	X	
That anonymity will be ensured where appropriate (e.g. coded/ disguised names of participants/ respondents/ institutions)	X	
The fact that participants are free to withdraw from the research at any time without any negative or undesirable consequences to themselves	X	
The nature and limits of any benefits participants may receive as a result of their participation in the research	X	
Is a copy of the informed consent form attached?	X	

If not, this needs to be explained and justified, also the measures to be adopted to ensure that the respondents fully understand the nature of the research and the consent that they are giving.

QUESTION 5.

	YES	NO
Have efforts been made to obtain informed permission for the research from appropriate authorities and gate-keepers (including caretakers or legal guardians in the case of minor children)?	X	

If not, this needs to be explained and justified.

QUESTION 6.

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How will the research data be secured, stored and/or disposed of?

Research data will be securely stored in the GSB of the UKZN for the period deemed necessary to store such documentation, after which period it will be destroyed as per the policy governing such issues.

QUESTION 7.

In the subsequent dissemination of your research findings – in the form of the finished thesis, oral presentations, publication etc. – how will anonymity/ confidentiality be protected?

The anonymity and confidentiality of the participants will be kept strictly confidential. The questionnaire will have a confidentiality statement that is binding to the researcher. Respondents who are comfortable with putting their names in the questionnaire should do so in the complete confidence that no names will be published for any reasons whatsoever.

SECTION 4: FORMALISATION OF THE APPLICATION

I have familiarised myself with the University's Code of Conduct for Research and undertake to comply with it. The information supplied above is correct to the best of my knowledge.

23/06/09

SIGNATURE OF APPLICANT   DATE

DATE: 23/06/2009

SIGNATURE OF SUPERVISOR/ PROJECT LEADER:

RECOMMENDATION OF FACULTY RESEARCH COMMITTEE

FULL NAME: _____(CHAIRPERSON)_____

DATE : ....

SIGNATURE: _____

RECOMMENDATION OF UNIVERSITY RESEARCH ETHICS SUB-COMMITTEE (HUMANITIES AND SOCIAL SCIENCES)

FULL NAME: _____(CHAIRPERSON)_____

DATE : ....

SIGNATURE: _____

Survey Title: WHY DO SMMES FAIL: ANALYSIS OF THE FACTORS THAT LEAD TO SMME FAILURE

Name: Ms X Nodada
Student No.: 204519868
University of KwaZulu Natal

INTRODUCTION: The following questionnaire is a tool of obtaining information for a Masters in Business Administration programme at the University of KwaZulu Natal. The information collected will strictly be used for the purpose of this study. The information given will be treated with confidentiality and no names of persons or organisations will be referred to or published for any reason. Should any person wish to withdraw their participation from this research, they may do so willingly at any time

Respondent Organisation: ....
Interviewer's Name: ....
Date of Interview: ....

I hereby certify that this is a true interview and that it is an accurate reflection of the respondent's comments.

Interviewer's Signature:....................................

i) Please indicate your gender

Male	
Female	

ii) What is your age?

....

iii) What is your race?

....

iv) Please give your reason for starting your own business

....

....

v) How many people does your business employ?

....

vi) How many employees of each gender do you employ?

Male	
Female	

vii) How did you raise your start up capital

Own Savings/ Family	Bank	Government Agency	Other Sources (State the source)

viii) How is your business currently being financed?

Own Savings/ Family	Bank	Government Agency	Other Sources (State source)

ix) How many financial institutions did you approach before starting your business?

....

x) What reasons did these financial institutions that declined you provide?

....

....

....

xi) How much funding did you use to start up your business?

R0 to R50 000.00	R51000 to R100 000	R101 000 to R250 000	R251 000 to R500 000	Over R500 000

xii) Do you employ the services of an accountant

Yes	No

xiii) Do you have a formal qualification in the business/ industry that you are operating in?

Yes	No

xiv) Are you aware of any financial and business management skills training and development in your geographical area?

Yes	No

xv) If yes, what kind of training and development?

....

....

xvi) If not, would you be willing to attend one of these programmes?

Yes	No

xvii) Do you know of any business support structures in your area?

Yes	No

xviii) If yes, which ones

....

....

xix) Do you think government is doing enough to assist SMMEs?

Yes	No

xx) In what ways do you think government should intervene and assist the development of SMMEs in South Africa?

....

....

....

xxi) Do you consider your business successful?

Yes	No

xxii) Considering the present economic circumstances, do you think your business is sustainable?

Yes	No

xxiii) How so?

....

....

....

....

xxiv) Could you rate how the following factors are affecting your business's growth potential?

Factors	Minor	Moderate	Major
Lack of government support			
Access to finance			
Lack of business management skills			
Lack of finance management skills			
Location of your business			
Issues with personnel (staff members)			
Legal (e.g. formalising business contracts, registration of the business)			

xxv) Which of the following statements best describe why you are in business (please tick the appropriate box)

Statement	Answer
To survive and stay the same size	
To make money	
To be the best in your line of business	
To grow substantially and open other businesses	

UNIVERSITY OF KWAZULU-NATAL
SCHOOL

Dear Respondent,

MBA Research Project
Researcher: Ms X Nodada 074 363 2921
Supervisor: Dr N Jumna 082 871 6296
Research Office: Ms P Ximba 031-2603587

I am Xoliswa Nodada, an MBA student, at the Graduate School of Business, of the University of Kwazulu Natal. You are invited to participate in a research project entitled **why do SMMEs fail: An Analysis of the factors that lead to SMME failure.** The aim of this study is to: ascertain the reasons why the SMME fail.

Through your participation I hope to understand the reasons that lead to the failure of SMMEs in Durban. The results of the survey are intended to contribute **to the body of literature on small business management in South Africa.**

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business, UKZN.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

The survey should take you about twenty minutes to complete. I hope you will take the time to complete this survey.

Sincerely

X. Nodada (Ms)

Investigator's signature_____ Date_____

MBA Research Project
Researcher: Xoliswa Nodada (074 363 2921)
Supervisor: Dr N Jumna (082 871 6296)
Research Office: Ms P Ximba 031-2603587

CONSENT

I.. (Full names of
participant) hereby confirm that I understand the contents of this document and the nature
of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so
desire.

SIGNATURE OF PARTICIPANT   DATE

....