

**A STUDY OF CHALLENGES THAT SMALL BLACK ELECTRICAL
CONTRACTORS IN DURBAN AND PIETERMARITZBURG AREAS ARE
FACED WITH THAT COULD LEAD TO THEIR FAILURE**

by

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EXECUTIVE SUMMARY

The South African government is faced with tremendous pressure to address the high unemployment and poverty rate in the country. One of the strategies that have been adopted by the government for job creation is promoting start-up of new small businesses and supporting the existing small businesses to ensure their sustainability. Small businesses are perceived as an instrument for job creation and will contribute to the economic growth and development of the country.

Due to a high failure rate of small businesses in the business sector it was necessary to carryout this study, to explore and understand all the key factors that affect the growth of small businesses with the objective of analysing findings and providing possible recommendations.

This research study used data extracted from eThekweni electricity and PMB municipality electrical contractors' databases. A survey was conducted on a sample of small black electrical contractors in the vicinity of Durban and Pietermaritzburg areas, with the use of questionnaires. The quantitative data was captured and analyzed using the statistical Package for Social Science (SPSS).

The study was able to identify problems or challenges encountered by small black electrical contractors. According to the survey the root cause of failure to acquire finance by small businesses was that they lack skills drafting and providing financial plans, financial statements, financial projections and the required collaterals and securities. The results received from the questionnaire survey were presented and analyzed. The analysis included an examination of the overall profile of the sample and a determination of whether or not there was any significant lack of transparency. It looked at participation aspects of small black electrical contractors, which account for differences in responses to the questionnaires.

The study recommended that Government should provide a legal framework with a specified focus on regulating the extent South African Revenues Services (SARS) practises its powers on small businesses. Instead of closing down the small business that fails to pay tax in time, SARS should provide assistance to ensure the sustainability of those small businesses. SARS' penalties and interest on tax owed should be reduced and there should be a limit on accumulating interests and penalties, or small business may fail to ever settle debt.

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DECLARATION

I, the undersigned, hereby declare that the entire thesis is my own original work and has not been submitted to any other university for similar or any other degree.

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Date: *25/01/2007*

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conducive environment that will encourage the development of the SMMEs with both direct and indirect assistance measures, such as tax incentive schemes (Small Business Week, 1992:02).

In Accenture (2005:08) it is stated that the promotion of small, medium and micro enterprises (SMMEs) is an essential element in the Government's strategy for employment creation and income generation. Due to obstacles of the past, the SMME sector is severely under-developed. A major effort will be made to operationalize and implement the policies outlined in the White Paper on small business promotion (White Paper on National Strategy for the Development and Promotion of Small Business, 1995:07).

The need for SMMEs to play a stronger role in job and asset creation is amplified by the slow growth in employment and the restructuring of the South African economy currently under way. Integration into the world economy and the need for rapid technological advances mean that SMMEs will be more critical than in previous epochs (Accenture, 2005:02).

1.2 Small, medium and micro enterprises and job creation

All over the world small, medium and micro-enterprises are viewed as important contributors to the job creation process. The success of this process depends on many factors, one of which is the ability of the small enterprises to get contracts from larger firms or to compete successfully with the larger enterprises for procurement contracts from public sector departments or parastatals (Accenture, 2005:02).

Smaller enterprises supply goods and services. They are more labour intensive, more flexible in the adaptation of market needs or more competitive in terms of price or product quality (Accenture, 2005:03). In the South African context the small business sector is also an important channel through which formerly disadvantaged entrepreneurs can enter the business sphere and can become economically empowered. Thus steps to strengthen business opportunities for smaller enterprises can help in the process of black

economic empowerment, which is one of the central goals of the country's reconstruction and development process (Accenture, 2005:03).

1.3 Challenges faced by small black electrical contractors in South Africa

During the past few years' business leaders all over the country (corporate sector, public sector and the SMME community) have explored the scope for proactive support to small enterprises to facilitate successful business linkages (Accenture, 2005:03). These challenges have usually been addressed at local or regional level, since business conditions and support structures differ widely between regions (Visser, 1999: 7).

Huckle & Visser (1993:22) highlighted that emerging small enterprises require more business from the established business and public sector community. In turn, from the established business and public sector they also want to give more of their business to emerging small enterprises. Despite this seemingly common desire, each faces significant impediments to doing business with the other.

Locating emerging small enterprises: One of the problems facing from the established business and public sector community is the relatively small number of emerging small enterprises that exist in many product and service areas (Huckle & Visser, 1993:22). In order for supplier diversity program memes from the established business and public sector community to be successful, they must be effective in locating potential small enterprise suppliers (Huckle & Visser, 1993:25).

Although printed sourcing directories have traditionally been used by the established business and public sector community, the very process of producing such directories causes them to suffer from an intrinsic flaw: much of the information contained within will have changed by the time the established business and public sector community actually use them (Huckle & Visser, 1993: 29).

** Help at the corporate and public sector levels:* Small enterprises face related problems in approaching the established business and public sector community. Although they may

- The inability of SMMEs to deliver products in time or maintain promised standards; and
- Lack of funding for SMMEs to cover working capital needs during the production process.

(Eisemon & Holm-Nielsen, 1995: 22; *World Bank*, 1991:05; Fischer, Ziderman & Van Adams, 1998:11).

Many other problem areas can be mentioned, with a rich literature on subcontracting and procurement from small enterprises documenting these obstacles and alternative methods of engaging them. In fact, these issues are as topical in South Africa as they seem to be in most other developing, as well as highly developed countries (Eisemon & Holm-Nielsen, 1995:23; *World Bank*, 1991: 05; Fischer, Ziderman & Van Adams, 1998:15).

1.4 Motivation

The motivation for this study stemmed from the writer's own experience of having owned an electrical business which was exposed to similar challenges as other small black electrical contractors in the same industry. This necessitated the study to be done to get the views of different small black electrical contractors as to what they perceive to be the challenges that influence their firms' survival.

The first phase involved a verbal discussion with a group of small black electrical contractors, to verify if there was a need to do this report. This group was attending training on Small Business Management Training at Pinedene Hotel in Pinetown. This training was organised by ESKOM for all small black electrical contractors in ESKOM database, it was realised that managers of these emerging firms lacked managerial skills.

1.5 Research Question

The intent of this dissertation is to answer the following research question.

- a) What challenges are small black electrical contractors in the Durban and Pietermaritzburg areas faced with that could lead to their failure?

1.6 Research Objectives

- a) To identify key challenges that are experienced by small black electrical contractors in the electrical construction industry;
- b) To determine the similarity of challenges faced by black electrical contractors from various ethnic groups, e.g. black, Coloured and Indians

1.7 Problem Statement

The small firms continue to fail, irrespective of the initiatives taken to address causes (Business Failure – Financial Control, 2006:4). There is very little, if any, documentation or studies focused on emerging small black electrical contractors, in particular. The question still remains; why do SMMEs fail? There is a need to identify challenges faced by these small black electrical contractors that influence their survival.

1.8 Contribution of the Research

- The study aims to identify the key challenges that are faced by small black electrical contractors in the Durban and Pietermaritzburg areas.
- These are then analysed and compared to those challenges that were identified in previous studies, to verify if there are any relationships or deviations.
- It aims to identify the key causes of these firms' failures and verify similarity of challenges faced by different ethnic groups in the context of black electrical contractors e.g. black, Coloured and Indian.
- Recommendations are given to assist small black electrical contractors to deal with the challenges that they are faced with, thus minimising their rate of failure.

1.9 Hypothesis

According to Martins *et al.* (1996:322) the null hypothesis is defined as a sceptical, negative statement, which has to be proved wrong by the researcher. A hypothesis can be directional or non directional. A directional hypothesis is a statement that one quantity is greater or less than another. The non-directional hypothesis would be a statement that one quantity is equal to another. This section presents the hypothesis to be tested in this study and findings in the challenges that are faced by the small black electrical contractors that could result in their failure or influence their survival.

Hypothesis

Directional

- 1) Failure to secure contracts or construction projects is the bigger challenge faced by small black electrical contractors than failure to acquire funds.

1.10 Chapter overview of this study

The chapters are organized as follows:

Chapter 2 reviews some of the studies and research conducted on the small business sector in view of Hodgetts *et al.* (1998:493) which is more focused on ventures' life cycles which provides information on start-ups and decline of small businesses, with the important considerations of ensuring that proposed businesses succeed and give rise to the formation of SMMEs in South Africa.

Chapter 3 reviews some of the literature on the causes of small firm failures. Most empirical studies related to firm failures have been surveys that report descriptive statistics. The sample size has generally been quite small, because of the inability to effectively identify firms that fail, though the rate of new firm formation could be quantified (Macleod, 1988:182).

Chapter 4 reviews financial aspects of the business, as many businesses lapse or grow through finances.

Chapter 5 examines technology and training of the small business sector and different strategies that have been introduced to build the SMMEs.

Chapter 6 provides information on policies and government legal aspects that are the requirements on starting up a business, such economic growth and BEE.

Chapter 7 provides information on the small black electrical contractors in the Pietermaritzburg and Durban areas. It covers the trends of the industry and why these municipalities opted for subcontractors.

Chapter 8 focuses on the research methodology, which the study uses. The population of the study, sample size, data collection instrument, self-administered questionnaire, pre-testing, data collection procedure, data analysis and evaluation and the validity of the methods are described.

Chapter 9 presents and discusses the findings of this research, whether or not the hypothesis of the study is being met and whether or not the study has been able to answer the research questions.

Chapter 10 presents recommendations based on the study. It also suggests areas related to the study which could be the subject of further investigation. It examines conclusions in relation to the research hypothesis of this study.

1.11 Conclusion

This chapter has presented the overview, motivation, research questions and objectives, research problem and the hypothesis of this study. The following chapters discuss different issues that have been raised to be challenges faced by the SMMEs.

CHAPTER 2: Exploring the Small Business Sector

2.1 Introduction

In the book of Hendry *et al.* (1995:2) it is concluded that small firms play a very important role in every local economy where they serve predominantly local needs. They are equally important as a source of innovation and are the seedbed from which new large firms can grow. They can be an important vehicle for generating income and so contributing to employment and so contribute to GDP, economic growth and reduction in unemployment. The SMMEs can decrease wage inequality by increasing economic participation among those in the lower half of the income distribution. Dr Alistair Ruiters, Director-General of DTI (MYBusiness, 2004:3) alludes to the fact that the SMMEs are the major job creators in the economy. When big corporations and multinationals “downsize” their staff, it is at the small business level that jobs are created.

Due to their size they can often readily adapt to changing demand patterns, trade patterns and macroeconomic conditions. According to Fisher and Reuber (2000:3) small firms have reasonable propensity to acquire technological capabilities and develop new products and processes and can thus contribute to national technological development and competitiveness.

Chapter 2 will examine the small business sector in view of the ventures life cycle of Hodgetts *et al.* (1998:493) as they provide information on start-ups and decline of small businesses, the important considerations that ensure the proposed business will succeed and forms of businesses in South Africa.

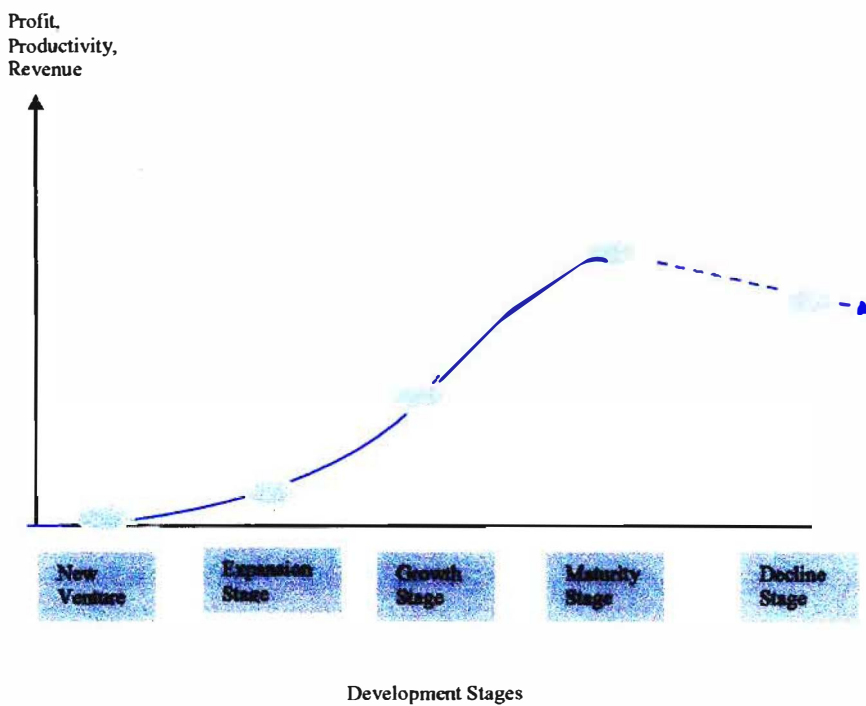
A Venture’s Life Cycle

Figure 1 shows the life cycle of a typical SMME, from start-up to decline. At each stage of the life cycle the SMME faces different challenges, as Table 1 depicts. They sometimes encounter difficulties at the various stages of their life cycle that can cause them to fail and vanish. Most of these firms die before stage 3 (growth phase) when they

fail to cope with difficulties. Two common failure points in the lifecycle are at business start-up and at business decline (Hodgetts *et al.*, 1998: 493).

In his book Merson (2004:31) stated that as an organization passes through each growth stage, it carries with it cultural, organizational and administrative vestiges of its former self. These traces of earlier phases in the development may prove beneficial, neutral or harmful to a small business.

Figure 1: Venture's Typical Life Cycle



Source: Hodgetts *et al.* (1998:493)

Venture's Life Cycle

All businesses go through five different growth stages:

- Stage 1: New Venture Development
- Stage 2: Venture Expansion
- Stage 3: Venture Growth
- Stage 4: Maturity Stage
- Stage 5: Decline Stage

Stage 1

- According to Birley and Muzyka (2000:251) at this stage the firm is still somewhat conceptual. An entrepreneur at this stage has a vision and starts formulating ideas of what type of business to start.
- Hodgetts *et al.* (1998:493) are of the view that the enterprise's general philosophy, mission, scope and direction are determined at this stage.

Stage 2

- This stage encompasses the strategic and planning steps designed to identify the firm's competitive advantage and uncover funding sources Hodgetts *et al.* (1998:494)

Stage 3

- The firm has a sufficient size and product market penetration to ensure economic success and make profits (Birley and Muzyka, 2000:253).
- According to Hodgetts *et al.* (1998:494) the growth stage is a transition from an entrepreneurial, one-person leadership to managerial team-oriented leadership.

Stage 4

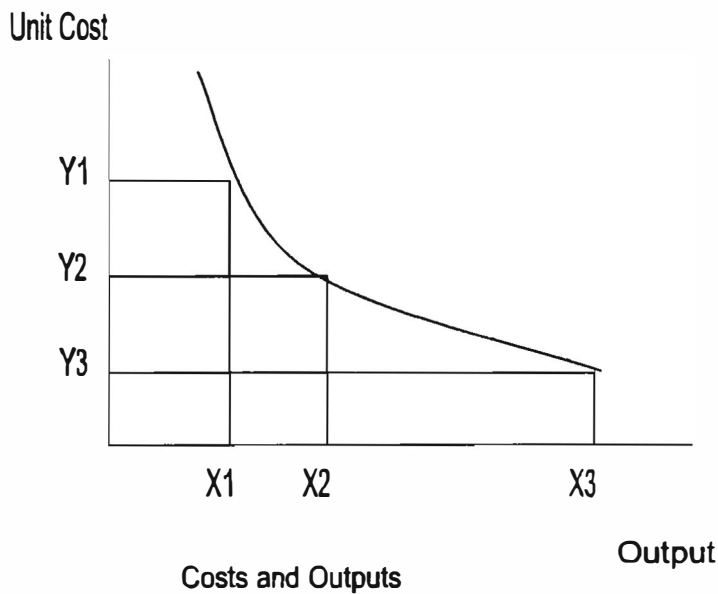
- At the maturity stage the firm either swings into higher and greater profitability or swings toward decline and failure.
- During this stage innovation is critical to future success.
- According to Hodgetts *et al.* (1998:494) at the maturity stage firms should consolidate and control financial gains brought in by rapid growth.

Stage 5

- This is a critical stage, at which most firms start to decline. It had been noted by Birley and Muzyka (2000:251) that, at ossification stage, firms that failed to innovate will failed.

The challenges that could be faced at the above life cycle stages are detailed in Chapter 3

Figure 2: The challenges of the effects of economies of scale on the small firm



Source: Pratten (1991:03)

Fig.2 illustrates the effect of economies of scale between small and large firms. Pratten (1991:3) concludes that large firms have higher outputs and lower costs compared to smaller firms. This illustrates that as output increases from X_1 to X_2 , unit cost falls from Y_1 to Y_2 . The point at which the costs cease to fall rapidly is defined as the minimum efficient scale. This illustration proves the point that it is difficult for a small firm with an output of X_1 to compete with larger firms with an output of X_3 (Pratten, 1991:3). The larger firms would have lower unit costs and would be expected to eliminate the smaller firms.

Pratten (1991:16) stated in his book that large firms are more productive than small firms and utilize huge machines with higher outputs. Small firms are more labour intensive and they have higher operating costs compared to larger firms.

Table 1: Comparison between a small firm and a large firm

	Small Firms	Large Firms
Economies of massed resources	<ul style="list-style-type: none"> - Cannot spread risk as they have fewer resources - Experimenting can be costly - Lower outputs 	<ul style="list-style-type: none"> - Have an ability to spread risk, thus can take greater risks (Pratten, 1991:17) - Have a greater opportunity to experiment with new methods and introduce new products - Higher outputs
Economies of increased dimension	<ul style="list-style-type: none"> - Small firms are more labour intensive and have high operating costs compared to large firms They cannot afford to purchase big machines - Cost of maintaining large number of small machines is high 	<p>Costs of running one huge machine are lower</p> <ul style="list-style-type: none"> - Labour costs of operating units of equipment are not affected by their size (Pratten, 1991:16) - Fewer spares are required <p><i>Diseconomies</i></p> <ul style="list-style-type: none"> - Takes longer to design, build and run
Economies of specialization	<ul style="list-style-type: none"> - Machinery with limited capacity resulting in lower output - Unskilled labour is less productive 	<ul style="list-style-type: none"> - Increased outputs may enable a firm to employ staff with specialized skills (Pratten, 1991:17) - May also use special purpose machinery
Superior techniques	Machinery is mostly manually operated	Automatic machinery is used instead of manually operated machinery (Pratten, 1991:18)

Source: Pratten (1991:16)

Table 1 compares small firms and large firms in South Africa, with regard to challenges that they are facing during their operation and which consequently may lead to their failures.

2.2 Business Start-ups

According to Entrepreneur SA (2005:8) small businesses play a crucial role in the development of the economy. Goss (1991:9) alludes to the fact that small businesses are a vital component of a market economy and enhance economic performance. By the same token, Dundas (1997:87) concludes that if the performance of the industry can improve, this will ultimately result, on a national level, in higher levels of GDP (Gross Domestic Product) and subsequently higher standards of living and a reduction in unemployment. Small firms are therefore regarded as the essential mechanism by which many can enter the economical and social mainstream (Acs, 1999:11).

Story (2000:48) relates to the United Kingdom's (UK) increase in self-employment in 1980s that resulted from an increase in the unemployment rate. A similar situation as in the UK prevailed in South Africa. Government has to provide a conducive environment for doing business; to ensure the development of small the business sector and promote entry for newly constituted firms in order to address the imbalances of the past.

According to Dundas (1997:16) more than 95% of all firms in the economies of the European Community are classified as small and, indeed, within the UK small firms were publicly perceived as the engine of new enterprise. This justifies the need for South Africa to promote the start-up of small businesses.

Kanungo (1998:47) concludes that there is an emerging organization in which the ideas of the entrepreneurs and environment interact to turn the ideas into reality. The time spent on preparing to start a new business is the most valuable time that determines the successful outcome of the business.

2.3 Major steps involved in starting a business

There are a number of significant factors that may influence the survival of a newly constituted firm. Merson (2004:35) stated that the decisions taken before the business is founded have the most influence on the business after its formation and are the most difficult to reverse. According to Macleod (1988:9) any person who intends starting a business should ensure that he has some basic entrepreneurial attributes. He should be able to recognize an opportunity and also have knowledge and skills to exploit it.

Macleod stipulates the following essential points to be considered when starting a new venture:

1. Assess your own potential as a business person;
2. Pinpoint an opening and work out whether it is likely to succeed;
3. Prepare a plan for each aspect of the business;
4. Combine these plans into one comprehensive plan and then draw up a final business plan

Casson (2003:11) states “there is a close connection between the personal qualities of the entrepreneur and the economic success of the firm, as measured by its growth and profitability”. At the microeconomic level, the entrepreneur is an important figure in the foundation and development of the firm, because the whole ideology of what needs to be achieved relies on knowledge of the type of business envisaged.

2.3.1 Entrepreneur Qualities

Broadly speaking, the survival of a small entity depends on the qualities of the entrepreneur. Kanungo (1998:287) explains that these qualities may include independence, initiative, analytical ability, imagination, and innovative ability. Without these relevant qualities the entrepreneur’s may failure.

Using one of the two main approaches defined by Casson (2003:19) the *functional approach*, an entrepreneur is defined as what an entrepreneur does.

According to Kanungo (1998:287) an entrepreneur should have the following qualities:

- A high degree of drive and energy for achievement;
- A high level of self-confidence;
- Commitment to a long-term involvement;
- The ability to set clear goals;
- The ability to accept failure as a learning curve;
- Independence, initiative, analytical ability, imagination and innovative ability; innovation being a dynamic process that aims at achieving or improving the competitive advantage of the firm
- Knowledge of the principal's objectives and that of the business he proposes to set up;
- Practical knowledge; and
- Good communication skills in the formulation of instructions.

Those qualities that are most scarce are of the most economic significance in ensuring competitive advantage against other competitors. Some qualities are innate and some can be enhanced by training, or by experience (Casson, 2003:30).

A lack of these qualities may lead to business failure (Kanungo, 1998:287). Birley and Muzyka (2000:100) stated that an entrepreneur should aim to project confident professionalism, should dress conservatively and be presentable when attending meetings. Birley and Muzyka (2000:100) hold the same view as Covey and Astle (1995:27) that an entrepreneur who is not punctual and dependable may ruin his image. Arrival, for meetings is critical. Being late for meetings portray a bad picture to clients or potential customers. He should also emphasise good managerial skills during discussions and portray confidence.

Table 2: An analysis of entrepreneurial qualities.

Quality	Essential to all non-trivial decisions	Scarce and unequally distributed	Difficult to screen for	Capable of enhancement	Essential scarce and difficult to screen	scarce, difficult to screen for & capable of enhancement
Self-know ledge	x		x			
Imagination	x	x	x		x	
Practical know ledge	x			x		
Analytical ability	x	x		x		
Search skill	x		x	x		
Foresight	x	x	x	x	x	x
Computational	x	x		x		
Communication skill			x			
Delegation skill		x	x	x		x
Organizational skill		x	x	x		

Source: Casson (2003:31).

Table 3 depicts an analysis of entrepreneurial qualities necessary for the sustainability of a firm. All of the above qualities are essential and are a necessity for an entrepreneur to be successful. It is noted by Casson (2003:31) that some of these skills are natural and some are scarce, but they can be acquired and improved. Failing to show these qualities could result in the firm's failure and is a challenge to small business owners.

2.4 Important considerations to ensure that the proposed business will succeed

There are important considerations to be taken into account to ensure the survival of the new firm, failing which could result in the early demise of the small enterprise.

- Macleod (1988:4) and Casson (2003: 20) agree that that an entrepreneur should be able to recognize an opportunity to make profit;
- Identify key success factors in order to enhance competitive advantage; and

- Conduct thorough market research of the market targeted so as to understand market needs.

In addition to the above important considerations, the identification of a type of a business to be developed should be clearly determined. There are three types of businesses identified by Macleod (1988:13):

- a) A manufacturing business;
- b) A trading business; and
- c) A service business.

For rendering a specific service an entrepreneur should understand the type of business he or she is starting.

2.4.1 A Service Business

It is of paramount importance that a service business is discussed as it is mostly applicable to service providers, including electrical construction firms. A service business involves being of service to customers, based on the skills and knowledge that can be offered. The present researcher believes that this type of a business is least costly from a capital point of view, compared to a manufacturing or trading business, as it initially requires small storage premises, transport, an office with basic communication system and much less labour.

Construction is one example of a service business. According to Macleod (1988:14) people generally remember mistakes and bad deeds in life far longer than they do the good ones. Therefore it is very important that the firm should always strive for excellence and deliver good quality otherwise it may lose its reputation.

2.4.2 Key Success Factors

Birley and Muzyka (2000:21) point out that successful growing firms use low-cost strategies to compete. They compete with high-quality products and superior service and adopt continuous improvement strategies. They also take advantage of new opportunities and adopt formal and a professional approach to people management. Improvements in performance: Porter's model in the study of Naylor (1996:90) combines two strategic

variables, competitive advantage and competitive scope. Competitive advantage is the sustainable strategic edge, which a firm has in relation to its competitors (Naylor 1996:90). According to Naylor (1996:90) firms may compete on low prices or product differentiation. A firm, which differentiates, provides superior value, in terms of product quality and service quality, compared with lower price rivals.

Ackerman (1996:26) holds the same view as Covey and Astle (1995) that customer care is critical. Customers are not interested in the problems that the firm has but are concerned with what can be obtained from the interaction of the two parties. Losing valuable customers could be detrimental to the business survival.

Jacob *et al.* (2001) noted the following to be the key success factors of an entrepreneur:

- Skill, expertise, aptitude (that can be used profitably to a business)
- Personal qualities (sound human relations, commitment to business and persistence).
- Management skills (balanced experience).
- External factors (use external advice if necessary).

2.5 Forms of business in South Africa

Three forms of business in South Africa are to be discussed, as small black electrical businesses are not aware of the benefits attached to each different form of business. The study shows that most of them opted for sole proprietorship of the business.

2.5.1 Nature of a Firm

Casson (2003:161) describes a firm as a unit of control that enjoys certain legal privileges. The actual privileges acquired depend on the form of incorporation that is chosen.

2.5.2 Close Corporations and companies

The Government has stated its intention to promote small and medium sized enterprises (SMMEs). The National Small Business Act provides a mechanism to review the impact of proposed legislation on small businesses (Business Guide to South Africa, 2006: 2).

Legal entities based on elaborate contract; and firms, including sole traders, operate within a system of detailed status and case law (Pratten, 1991:12).

Macleod (1988:182) stated that in 1982 there were over 175 000 registered companies in South Africa, of which 45% were small businesses, but there is no data of the failed SMMEs to date.

One of the challenges faced by small black electrical contractors is to decide what form of business to operate as. These electrical companies lack the knowledge of the advantage of each form of business to another. The present study shows that most of these small black electrical construction businesses are sole proprietors. The owner thus takes all the risk by himself or herself.

It therefore seems necessary that the different forms of businesses be discussed to enable these firms to understand the differences and the benefits attached to each form of business.

❖ Close Corporation

Double taxation is the main disadvantage of this form of business. The local government taxes income before shareholders receive income as dividends. The shareholder has to pay taxes from the same profits.

❖ Joint venture

This is another form of business in South Africa that allows the sharing of risks between two or more parties. Naylor (1996:95) refers to this as a coalition of partners and has the following tangible benefits:

- Reduces duplication or redundancy;
- Shares or alleviates risk;
- Combines efforts to compete with rivals; and
- Reaches a scale threshold where they can become effective entrants to a market.

This form of business is not as popular as a Close Corporation within the small business sector, yet it can provide a competitive advantage to small businesses without sufficient

capacity. By forming a joint venture the companies can combine resources and gain economies of scale and can be enduring. Most small businesses fail to secure tenders/contracts due to a shortage of resources, yet if they form a joint venture they can have the strength to face the competition.

❖ **Sole Proprietor**

Storey (2000:19) refers to sole proprietorship as those businesses with one self-employed worker. It has unlimited personal liability, the sole proprietor is personally liable for all business debts. Owners have limited access to capital and they often use their personal resources as collateral on existing loans.

This chapter examined the small business sector and different issues associated with venture life cycle, business start-ups and forms of businesses. Chapter 3 will discuss business challenges, as the sole aim of this research is to identify challenges that are facing small black electrical contractors in the Durban and Pietermaritzburg areas that could lead to their failures. These could be generally depicted in other areas of the country or in the whole world especially in developing countries, as most challenges are commonly experienced. Rapidly growing companies have special challenges because growth implies taking on new responsibilities, learning how to manage an ever-larger organization and solving ever more complex problems (Small Business Research and Policy, 2005:1).

2.6 Conclusion

Chapter 2 has explored the small business sector in view of a ventures' life cycle and compared small firms and large firms, business start-ups and the major steps involved in starting a business. Important considerations to ensure that the proposed business would succeed and forms of businesses in South Africa were highlighted. Chapter 3 discusses the business challenges and problems faced by small businesses.

CHAPTER 3: Business Challenges

3.1 Introduction

According to the Government Gazette (1995:11) small businesses are faced with a wider range of constraints and problems and are less able to address them on their own. These constraints relate for examples to the legal and regulatory environment confronting SMMEs, the access to markets, finance and business premises at affordable rentals and taxes. The micro and survivalist enterprises are far less able to face the constraints listed above (Government Gazette 1995:11).

Hendry *et al.* (1995:4) concluded that small firms face a disadvantage in the labour market, where large firms, aided in part by monopolistic or oligopolistic, circumstances have traditionally offered higher pay and job security. Smaller firms are prone to disproportionate costs through obligatory tax collection, legislative compliance, insurance obligations and training and educational investments.

Chapter 3 looks broadly at challenges faced by small businesses in general, that could lead to their failure. Gibb *et al.* (1986:29) concludes that failure is on the increase right across the industrialised world, but it cannot be quantified as there is still a lack of reliable overall data on business failures, generally, and small business and entrepreneurial failures in particular.

3.2 Classification of failed entrepreneurs

According to Gibb *et al.* (1986:52):

- 1) There are those who fail deliberately in the interest of pursuing fraudulent profits.
- 2) Some entrepreneurs fail without experiencing any learning and they are themselves a liability to the system.
- 3) Some entrepreneurs learn from their failures. For them failure is an experience through which they grow into entrepreneurs.

3.3 What failure means?

Hawkins (1998:163) defined failure as not being able to do something. Gibb *et al.* (1986:32) feel this means deceive, as used in the sense of disappointing expectation. It is also stated by Ross MacDonald (Fortune 2002:38) that failure is part of the natural cycle of business, companies are born, companies die and capitalism moves forward. Failure does not only refers to bankruptcy but may also refers to dramatic fall from grace qualities (Fortune 2002:38).

According to Gibb *et al.* (1986:39) firms disappear through failing performance, caused by discrepant non-rational behaviour and inability to live up to accepted expectations. One barrier to understanding the causes of failure and alleviating them is a lack of a reliable measure of a dependent variable, failure (Gibb *et al.* 1986:29).

Klandt (1993:123) feels that failure refers not only to companies shutting down but also to firms taking exit through sale to a third, independent party; sale to another business; sale to the management or employees; public quotation and liquidation.

Klandt (1993:123) concludes that there is an increasing body of evidence to suggest that growth in the small business sector is characterised not only by a positive trend in new firm formation but also by a countervailing trend in the firm failures. This refers to a counterbalance trend in the firm failures that is a difference between the existing firms and those that failed. This gives an indication of the growth in the business sector, if any.

Table 3 shows the way in which each phase has an associated definition, from which measures are derived and which are then subject to interpretation.

Table 3: Categories and Measures of Business Failure

PHRASE	DEFINITION	MEASURE
Moral Imperatives	Default and indebtedness = failure of trust and obligations	Quality / toxicity of relationships
Economic Evolutionism	Failure of firms to compete = non-survival	Exit rate
Legal and Accountancy	Proprietor bankruptcy company insolvency = liabilities exceed realisable assets	Assets and liabilities
Political Economy	Failure of economic system to perform = structural / cyclical problems	Dynamic entry and exit rate
Welfare	Unacceptable Human and Social Costs	Social indicators

Source: Gibb (1986:43)

3.4 A broad overview of challenges that small firms are faced with that could lead to their failure

An extract from Entrepreneur SA (2005:8) shows that the smallest firms in the formal sector spend 8.3% of their turnover on complying with red tape. Research that was conducted by the Small Business Project (SBP) has shown that small businesses have been under a disproportionately heavy burden of red tapes and that reporting requirements imposed by the tax system creates many of these burdens. This red tape is, for example, VAT, PAYE, and UIF etc. SARS, the Department of Labour, local

authorities and municipalities are authorities that create red tape that distract entrepreneurs from their businesses.

Goss (1991:16) alludes to the fact that small firms, because of the unstable and poorly rewarded nature of their work, are unable to attract core employees. They prefer those without formal training who command lower wages and with lower bargaining power. Macleod (1988:4) holds the view that most small firms that are started up by people without relevant skills do not operate successfully thus resulting in their failure. Goss (1991:4) concludes that market competition and the progressive development of large-scale technology produces giant enterprises that either drive small firms out of existence or absorb them.

The likelihood of the survival of most firms is identified as being positively influenced by the start-up size. Fisher and Reuber (2000:5) hold the view that small firms suffer disadvantages in the markets because of their size, but those firms with more product diversifications have a lower chance to exit, as customers are provided with more product options. Firms that start too small are more likely to fail at early stages of their lifespan as they have limited resources and less capacity.

Klandt (1993:142) noted that a lack of finance and high initial cost levels for new entries may act as an entry barrier to small firms. Larger firms enjoy an advantage as they have easy access to finance and the necessary skills level required. Fisher and Reuber (2000:5) point out that large firms also get volumes of discount from suppliers because they purchase in large quantities and thus achieve low costs for given volumes, and thus achieve economies of scale, whereas small firms can only manage to purchase in small quantities.

Kanungo (1998:289) sees market conditions, market segment, market size and growth, competition, prices and customer satisfaction as challenges that small firms are faced with that may influence their survival. Kanungo feels that uncertainty over future demand places the first mover at risk, as the high uncertainty in the environment may also inhibit technological innovation. (Naylor, 1996:87) felt that businesses have to find ways

to compete successfully through obtaining resources and serving customers, Birley and Muzyka (2000:247) emphasised that the firms venturing into unknown territory, where there is a lack of expertise, may result in wasted resources, or even failure.

Ownership status of an establishment may also influence the decision to exit an industry (Evans and Leighton, 1990:97). This may be due to poor delegation when owners abdicate authority rather than delegate it, with a belief that all the managers they hire, have the same drive as they possess: and founding entrepreneurs want to jump in and fix problems themselves to ensure that they have full control of their ventures (Birley and Muzyka, 2000:275)

Griffiths (2002:19) explains that the common mistakes made by small firms are poor planning and unrealistic expectations in terms of income and expenses.

- a) Underestimating costs (expenses).
- b) Overestimating income (how much money would be received).
- c) Failing to recognise that money will be slower coming in than is expected.

Smit and Cronje (1995:439) conclude that one of the challenges faced by small businesses is failing to control financial resources. Poor budgetary control may result in resources being allocated incorrectly, or insufficiently, to different activities in the enterprise.

Table 4: Types of budgets

TYPES OF BUDGETS	FOCUS	EXAMPLES
Financial budgets	- Focus on cash flow and assets.	- Cash flow budget; - Capital budget; - Balanced budget.
Operational budget	- Focus on the operational aspects of the enterprise.	- Sales budget; - Income budget; - Expenditure budget.
Non financial budgets	- Focus on diverse aspects of the enterprise not expressed in the financial terms.	- Production budgets in units; - Sale volumes in units; - Time projections of projects.

Source: Smit and Cronje (1995:440)

It is important that Table 4 be presented; to cover the concerns rose by Smit and Cronje (1995:439) regarding poor budgetary control, as this is one of the challenges faced by small black electrical businesses. This table indicates different types of budgets and their examples.

Petrina Roberts, (2003:55) is the executive director of the Micro Enterprise Network of Non Government Organization (MENNGOS) a non-profit organization that acts as an information resource for entrepreneurs. She stated that, they had realized the biggest difficulties faced by entrepreneurs include (Leadership 2003:55).

- Access to information: sharing information is a key aspect of their work. According to Fisher and Reuber (2000:5) the high fixed costs of acquiring relevant information on potential opportunities create disadvantages to small firms. They have limited resources to acquire or no access to information technology. Another difficulty faced by the firm may be a failure to secure projects. Skilled employees may leave for developed firms for job security;
- Tax evasion could lead to high penalties that could be detrimental to the firm's future should it fail to clear its name.

Huxham and Haupt (1998:305) stressed that Government tax is compulsory and any tax evasion is illegal and could result in severe penalties (fines or imprisonment). Tax evasion constitutes a criminal offence. It may include:

- Falsification of books;
- Suppression of income; and
- Fraudulent non-disclosure of income.

Klandt (1993:123) concludes that new firms should adopt the ways of those firms that are successful, by countervailing trends in firm failures. Reviewing the various trajectories that companies follow on their way to failure provides another more qualitative perspective on their decline and failure. Bibault (1982) pointed that a plateau of performance mediocrity is reached where the financial position deteriorates and the small firm loses its competitiveness and becomes highly leveraged.

Sacobs (1999:2) states that many owners of small businesses perceive a lack of access to finance as the major obstacle to the growth and development of their business and also the high cost of loan finance. Most lending institutions refuse to give loans to person they judge to be higher risk applicants and may discourage loan applications from small borrowers. Longenecker *et al.* (1997:36) points out that failure can also result from economic conditions that were beyond the control of the manager, e.g. interest rates or poor pricing or promotion strategies that result from weak management.

There is a need to consider older theories on the subject to verify if there is any continuation or similarity of challenges with the most recent theories.

Barrow (1993:44) raised the following factors to be the challenges faced by small firms:

- (a) Lack of expertise. Starting a business calls for remarkable versatility.
- (b) No product/market strategy. Failing to define who would buy the product or service.
- (c) Underestimating start-up time. Not finding suitable premises, equipment and stock in time before customers arrive.
- (d) Starting cost too high.
- (e) Business growing quicker, than cash resources allow.
- (f) Barrow (1993:46) holds the same view as Cove and Astle (1995:27) regarding some entrepreneurs mistaking cash for profits. They endanger their financial future by spending unwisely, using cash to maintain living standards.
- (g) No management accounts. Seeing regular accounting as a bureaucratic means of benefiting Inland Revenue and thus failing to keep good company books.

Basic factors that are set to be the causes of firms' failures remain the same as in the previous years. It is important to compare of the factors in the 19th century to the 20th century. One can attribute failure to poor management.

Table: 5 Causes of failure

CAUSE	DESCRIPTION
Incompetence	Lack of fitness to run the business.
Lack of managerial experience	No experience of managing business and people.
Neglect	Too little attention to business
Fraud	Employee fraud or false financial statements.
Disaster	Burglary, fire or floods
Unbalanced experience	Manager's experience not well rounded in marketing, finance and operations.

Source: Barrow (1993:44); Kuratka and Hodgetts (1992:30)

A review of failures in the 1980's by Bennett, Barber and Berle (1989)

- Barrow (1993:44) and Bennet and Berle (1989:27) regarded wrong location as one of the causes of small business failure, i.e. poor accessibility to the public;
- Offer wrong product to the market, resulting from not understanding customer needs;
- Decisions based on wrong information gathered from corrupt data or unreliable sources;
- Employing the wrong people, unskilled labour or persons from the wrong discipline; Barber (1989:11) feels that small firms are likely to face special difficulty in attracting or retaining skilled labour;
- Shortage of cash, poor cash flow or insufficient capital;
- Excessive high working capital; and
- Inefficient utilization of staff, i.e. using the wrong staff for a job.

Berle (1989:27) concludes that ignorance, lack of record keeping and uninformed employees also contribute to the factors that could lead to small business failure.

Table 6: Reasons for failure

Operation Manager	Strategic	Marketing
- Skills shortage;	-Reliance on few customers;	- Over pricing;
- Under capitalization;	- Competitor behaviour;	- Under pricing; a
- Poor management of debt;	- New entrants.	- Poor focusing.
- Inaccurate costing;		
- Poor supervision of staff.		
Technology Environment	Rise in cost	Personnel
- Inferior product;	- Overhead costs;	-Excessive remuneration.
- Inferior plant; and	- Operating costs;	
- Experiences.	- Labour costs;	
	- Material costs.	
Environment		
- High interest rates.		

Source: Atkin *et al.* (1993:36)

Table 7: Findings

Put people first	Late for appointments	Understanding the customer
People are the backbone of the company, ill treating them can cost firms their growth	Being late for appointments creates a bad impression, a lack of trust or an impression of tardiness..	It is important to know customers and clients. Understand what their wants and expectations are.
Meet deadlines	Under capitalization	
Fulfil promises	Spending money on unnecessary things like buying expensive cars.	

Source: Astle and Covey (1995:57)

Fujita (1998:97) noted that a limitation of resources is another cause for the failure of small firm.

- a) **Limited financial resources:** small firms are faced with severe obstacles when they access credit for new investments.
- b) **Information:** they have less information than their larger counterparts on how to approach credit institutions.
- c) **Limited managerial resources:** SMEs' managers are absorbed by current responsibilities and can give only limited time or attention to the analysis of new opportunities. The need to respond quickly and efficiently to day-to-day problems constrains efforts to allocate scarce managerial resources to the evaluation of future opportunities.

CHAPTER 4: Business Financing

4.1 Introduction

Damodaran (2001:510) explains that firms go through a life cycle of five stages of which the choice of financing depends on the position of the firm in the life cycle and varies at different stages of growth. Most firms use generated cash flow and money borrowed from equity investors and money lenders to fund investments.

This chapter reviews literature on financial aspect of the business, as many businesses lapse or grow through finances.

4.2 Financing

Barber *et al.* (1989:39) hold the view that small firms suffer disadvantages compared to larger firms, in their relationship with capital markets. Investors are very reluctant to invest their funds in firms at their earliest growth stage due to the high risk involved. These firms normally have no attractive financial records and no history. Griffiths (2002:22) points out that financial institution will then charge very high interest, as a small business is considered to be a higher-risk borrower.

According to Casson (2003:207) capital is viewed as an important requirement for the self-employed entrepreneur. It is difficult to borrow money if potential lenders do not share the same view and may regard the collateral provided if poor. The survival of all organizations depends on their stewardship that is how well they have acquired, allocated and controlled funds to which they are entitled (Naylor, 1996:41).

If banks consider lending money to small firms, according to Casson (2003:207) one of the simplest methods banks use is applying the Operating Income Approach. They look at the firm's operating income and cash flows, which then enable them to decide how much debt the firm can afford to carry, based on its cash flows. Knowing firms' cost of equity and capital allows for the comparison of different ways of financing its operations (Damodaran, 2001:187).

Cost of Equity COE = rate of return investors require on an equity investment in a company.

Cost of Capital COC = weighted average of the cost of debt, equity and hybrid securities use by a firm to fund its financial requirement (Damodaran, 2001:212).

4.3 Financing mix

Below is an indication of types of financing mix that may be utilized for different growth stages. Damodaran (2001:511) pointed out that not all firms go through these stages. Some firms die at start-up phase and some that survive often continue as small businesses with little expansion potential. It is important that we discuss financing mix as it has a major influence on firm survival. Inability to secure funds at any of the growth stages may lead to failures and this is one of the key challenges faced by small black electrical contractors.

According to Damodaran (2001:542) borrowing money increases expected bankruptcy costs and can expose the firm to the possibility of default if cash flows from operations are insufficient to make interest payments.

Internal and External Financing at different stages in the Growth Life Cycle

Phase 1: *Start up or baby phase*

Debt financing or owner's equity funds the company. Damodaran (2001:511) emphasised that it is at this stage that a company is trying to establish its presence in the market and is very vulnerable. Owner's equity or families and friends either finance firms financed internally at this stage, if they are prepared to take the risk. According to Damodaran (2001:510) internal financing may not be sufficient to finance the firm's projects and thus could increase the chances of losing these projects to competitors.

Phase 2: *Expansion phase*

Financing is mostly by *venture capitalists, private equity or issued common stock*. At this stage the company generates very low cash flow and has high investment needs. Though venture capitalist may be one option of providing funds to small and often risky businesses, venture capitalists demand an ownership share based on how much capital it contributes to the firm, relative to total firm value (Damodaran, 2001:484). A challenge faced by owners is that the firm has to give up a disproportionate share of ownership to get the required funds and his bargaining position will be weaker.

Phase 3: *Growth phase*

Damodaran (2001:511) states that at this stage, cash flow lags behind reinvestment needs and revenues are growing rapidly. Accenture (2005:08) concludes that a failure of financial management at this stage could result in the firm failures. Financing is by convertible debt, equity issues, common stock and warrants. Failure to raise additional finance could escalate the risk of failure by a small firm.

Phase 4: *Maturity phase*

In this phase the need to invest declines. Earnings and cash flow increase rapidly. The firm becomes a “cash cow” and generates much cash and internal financing, corporate bonds or bank debts may finance it.

Phase 5: *Decline phase*

Revenues start declining as new competition overtakes. The firm has little need for investments. At this stage the firm is not generating cash and its products may not be in demand and there are marginal sales. At this stage the firm may use *internal financing*, buy back stock or liquidate itself.

Table 8 will show an analysis of the behaviour of firms at different stages of their life cycle, with focus on why small firms have a higher failure rate at start-up. Damodaran (2001:561) concludes that in the start-up and expansion phases the tax benefits to firms are too small or nonexistent. The low and volatile earnings increase the expected bankruptcy costs, as the lenders are much more cautious about lending to these firms. Agency cost is high and shows up as stringent covenants or in higher interest rates on borrowing. At this stage the firm is not as attractive as at a previous stage. At the early stages of the firm’s growth life cycle, costs exceed benefits and the need for flexibility is very high.

These phases of the business do give indications in terms of growth and decline. Therefore a business owner should be observing the challenges accompanying these stages.

Table 8 reflects different levels of the business life cycle in terms of debt equity and trade-off, with an indication of revenues. The issues raised by Table 8 indicate challenges that are broadly experienced by small black electrical contractors or small businesses.

Table 9 Firms' Status at different growth stages

Phase 1	<i>Baby Stage</i>	Phase 2	<i>Expansion Stage</i>
<i>Firm Status</i>	<ul style="list-style-type: none"> ➤ Costs exceed benefits; ➤ High need for flexibility as the firm is seeking ways to establish itself; ➤ Very high agency costs, as firm has few assets. 	<i>Firm Status</i>	<ul style="list-style-type: none"> ➤ Costs exceed benefits; ➤ Very high bankruptcy; ➤ Earnings are low and volatile.
Phase 3	<i>Growth Stage</i>	Phase 4	<i>Maturity Stage</i>
<i>Firm Status</i>	<ul style="list-style-type: none"> ➤ Debt start yielding net benefits; ➤ Earnings increase, though still volatile. 	<i>Firm Status</i>	<ul style="list-style-type: none"> ➤ Debt becomes a more attractive option; ➤ Earnings from existing assets increase.
Phase 5	<i>Decline Stage</i>		
<i>Firm Status</i>	<ul style="list-style-type: none"> ➤ Debt will provide benefits; ➤ Firm has no new investment needs; ➤ Tax benefits are high. 		

Source: Damodaran (2001:562)

Table 9 summarizes the status of firms at different growth stages and highlights the potential causes of the failure of small firms at early stages of their growth life cycle.

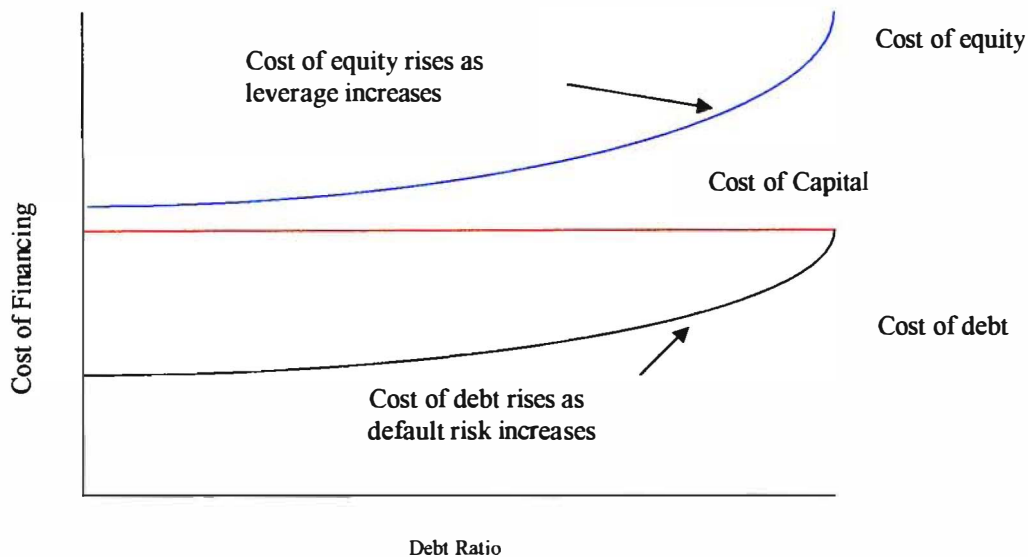
4.4 Cost of financing

According to Damodaran (2001:542) borrowing money increases expected bankruptcy costs. When a firm is bankrupt its assets can be liquidated and the proceeds from liquidation will be used to meet outstanding claims. This could lead to loss of control of the firm to lenders.

A failure to acquire finance by the small firms is regarded as one of the key factors that lead to their failure. Damodaran (2001:558) concludes that investment decisions can be made independently of the financing decision. In other words, if a project is a bad project when evaluated as an all equity project it will remain so using any other financing mix.

Figure 3 depicts the relationship between cost of capital, cost of equity and cost of debt. It is clearly indicated that the cost of capital, which is the weighted average of cost of debt and cost of equity, is unaffected by changes in the proportions of debt and equity (Damodaran, 2001:557). It is also indicated that the value of a firm is unaffected by the amount of leverage it has. Therefore, for a financial institution to consider investing its money in a small firm, it has to consider all the risks involved and be convinced that the business is viable and will generate profits to be able to pay back debt.

Figure 3: Cost of Capital



Source: Damodaran (2001:557) Debt Ratio

Fig.3 shows that both equity investors and lenders make their investment expecting to obtain a return. According to Damodaran (2001:186) the expected return for equity investors would include premium for the equity risk in the investment and that of lenders will include premium for the default risk. Pratten (1991:16) regards small firms as high-risk entities. They cannot spread risk as they have fewer resources. Fig.3 shows that the higher the risk the higher would be the cost of financing. Damodaran (2002:550) noted that an increase in debt financing does not increase cash flow. It would rather increase the expected-cost of bankruptcy, thus reducing the chances to raise additional financing at a later stage. This could increase the chances of the failure of the small firm.

4.5 Debt financing

Damodaran (2001:483) defines debt as any financial vehicle that has a contractual claim on the company cash flows and assets, creates tax-deductible payments, has a fixed life and has priority claims on the cash flows in both operating periods and bankruptcy.

4.5.1 Objective for debt financing

An objective for debt financing is to maximize the value of the firm, by choosing the financing mix that maximizes the value of the firm and matches the assets being financed. Damodaran (2002:541) states that firms that carry less debt have more borrowing power. There is evidence that increases in leverage are followed by improvements in operating efficiency, as measured by operating margins and returns on capital.

Though there are tax benefits which are supposed to give tax relief to businesses, e.g. interest on debt is tax deductible, using debt financing increases the expected cost of bankruptcy, thus reducing chances to raise additional financing at a later stage (Damodaran, 2002:550). Companies with volatile earnings and cash flows should use debt financing less often than firms with a stable cash flow. The greater dependence of smaller businesses on loan capital within the environment of high real interest rates means that a competitive edge in terms of the cost capital can only be accommodated by a reduction in their profits, within resulting disincentive effects (SACOB, 1999).

Whenever the small firms fail to secure funds from the recognized financial service providers an alternative may be to seek funds through informal moneylenders. This can be a very costly means of securing funds as “micro-lenders” charge very high interest on loans.

An example:

1. If company A borrows R100000 in April at 20% interest rate per month, one month later what is owed is R100000 + R20000 and in case of no payments being made the new balance would then be R120000 for the following month.
2. Yet if funds were secured from a bank at a current going annual interest rate of 11%, this can provide huge savings in the long term.

It is very difficult for the small firm to come out of this situation without losing vast sums of money. Small companies at their earliest growth stage require strong financial support for sustainability. Due to poor cash flows and insufficient funds these small firms fail to meet daily running requirements for their businesses. This may delay payment to creditors or of staff salaries.

4.6 Cash flows

Birley and Muzyka (2000:276) noted that rapid growth can outrun cash flows, thus requiring additional capital if growth is to be maintained. Birley and Muzyka (2000:271) stress that every business has an operating cash cycle. They invest cash in materials, engage in various marketing and operating activities and then deliver and invoice for services. The shorter the cycle the faster one can redeploy cash and grow from internal sources.

Collins and Lazier (1995:70) pointed out that rapid growth is accompanied by large investments in the inventory and accounts receivable. External financing is often needed and this becomes a primary restriction on a firm's growth potential. If financing cannot be found, it will soon run out of cash.

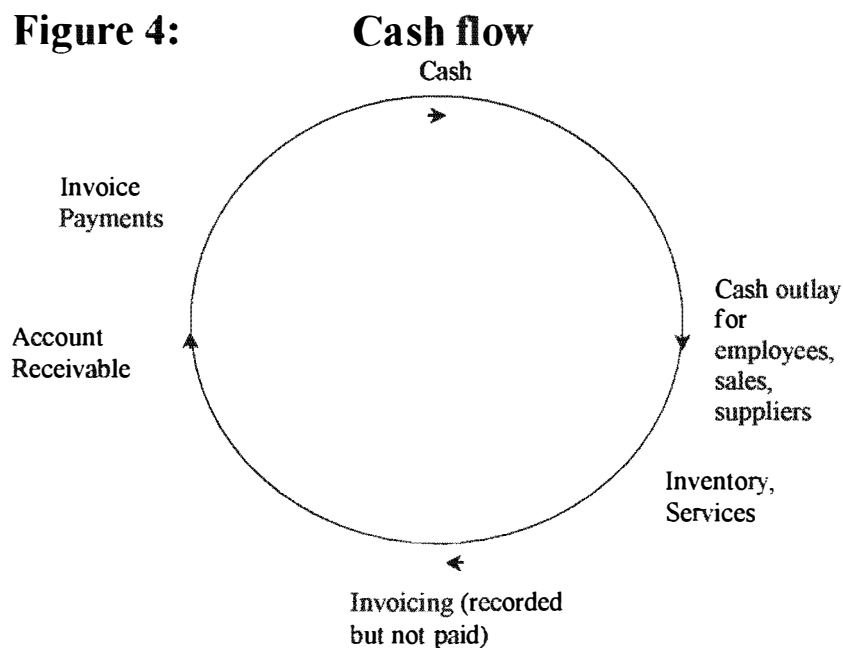
Bygrave (1994:234) concludes that cash flows are not always a direct measure of a company's performance. A company can sustain losses for a time without suffering

permanent damage, but a company that has no cash is insolvent and in imminent danger of bankruptcy no matter what its profit status is. A firm can be profitable and at the same time be bankrupt if it does not have enough cash on hand to pay its bills (Collins and Lazier, 1995:59).

Things that may lead to poor cash flow:

- Late invoicing, incorrect invoicing;
- High debt and large instalments; and
- Low business income inversely proportional to business running costs.

Poor cash flows may result in poor administration by the firm, or late invoice payments by the client. Fig.4 indicates a cash flow cycle that reflects that the services provided do not coincide with cash flow, which often occurs later, depending on the invoice payment lead-time.



Source: Collins and Lazier, 1995:59

4.6.1 Late invoicing and late payments

Late invoice payments by the clients may be due to invoices submitted late or due to incorrect invoicing and invoices have to be returned to the contractor for corrections. Without prompt invoice payments a small firm's cash flow deteriorates. A firm will fail to pay creditors and staff salaries on time. This will reflect as a bad reputation and the firm may lose its longstanding relationship with creditors and suppliers. Staff may lose faith with a firm that fails to pay them on time and the firm may end up losing skilled employees to companies that pay on time. Training costs for employees to replace those leaving the company can be very high.

Owners of small firms confuse principal with interest.

- They invade business profits to enrich themselves.
- They increase their standards of living by buying executive cars, expensive houses and expensive clothing.

Capital dwindles until it can no longer supply even basic needs. Although there is a concern that some businessmen invade business profits to enrich themselves, driving executive cars and wearing expensive clothing can act to the benefit of the business by improving the owner's image and can work to his or her advantage when sourcing business. To avoid this malpractice by small business owners, it is important for them to get paid a monthly salary like every other employee.

4.7 Cost of debt

Damodaran (2001:542) stressed that a firm that borrows to its limit loses the capacity and flexibility to use debt to cover unanticipated needs in the future. This is one of the challenges that small black electrical contractors experience. Due to a shortage of operating capital they are forced to spend and exceed their credit limits. As a firm continues to borrow money, it should take precautions and measure its costs of debt, to avoid costs that may not be manageable.

4.8 Conclusion

Chapter 4 has shown that firms go through a life cycle of five stages of which the choice of financing depends on the position of the firm in the life cycle and varies at different stages of growth. It discussed different ways of financing, which can be in the form of usage of generated cash flows or money borrowed from equity investors and money lenders to fund investments. It has been indicated that borrowing money increases expected bankruptcy costs and can expose the firm to the possibility of default if cash flows from operations are insufficient to make interest payments. The next chapter will stress the importance of training and technology within the small business sector.

CHAPTER 5: Technology and Training

5.1 Introduction

Labour Minister Membathisi Mdladlana, opening the AU commission said he sees employment creation as central to poverty alleviation, which is why South Africa is emphasizing skills development and poverty reduction (Business Report April 2005). “Commitment is on developing skills of the unemployed through training and learner-ship programmes as these programmes will enhance their skills and make them employable” (Business Report April 2005). Pam Christie (1991:13) states that more technical and vocational education is needed to address the shortage of skilled workers. “This will boost the economic growth in the country”.

Small firms suffer disadvantages in the markets because of their size. The high costs of acquiring relevant information on potential opportunities create disadvantages to small firms (Fisher and Reuber, 2000:5). Chapter 5 examines technology and training of the small business sector and different strategies that have been introduced to build the SMMEs.

5.2 Training

Naylor (1996:127) defines training as the process of changing employee behaviour, attitudes or opinions through some type of guided experience. According to Ackerman (1996:27) employees should be trained in the importance of good customer care as customers keep the firm’s staff employed. It is the manager’s responsibility to ensure that staff appreciates the manner in which customers should be treated.

It is a known factor that managers have budget constraints and training costs could be high but a compromise has to be reached (Naylor, 1996:127). Naylor points out that, to some extent, training resources are wasted when employees are given standardized training courses in spite of their not needing every element of it. Small businesses prefer on-the-job training for their employees, but Naylor (1996:128) feels that, that type of training can lead to a narrow training prescription, as it is more specialized. The

disadvantage of on-the-job training is that bad habits are passed on. This refers to all the old ways or short cuts of doing things, which may not be the correct ways and are likely to be transferred to the next person.

Safety training is also vitally important in ensuring that work is conducted in a safe manner. Workers should be trained accordingly. Naylor (1996:129) concludes that conformance is best achieved if staff is encouraged to develop positive attitudes towards and opinions about safety. Any non-conformance could lead to fatalities and unnecessary costs to the firm.

5.3 Leadership

According to Naylor (1996:142) leadership is the process of persuading others to voluntarily accept the organization's goal. Managers have power vested in them by their position in the firm and are expected to exercise formal leadership with respect to those in positions beneath them. Lack of managerial skills by SMMEs may lead to the poor operation of the business. This may be reflected in poor cash flows, poor annual turnover and poor labour supervision. Naylor (1996:129) holds the view that managers spend most of their time communicating. They are responsible for planning, controlling, and development, decision-making and problem solving. It is therefore necessary that they have good communication skills. Organizational and individual performance improves when there is effective communication.

Collins (1995:119) stressed that management style is critical to ensure the survival of a firm. These styles are as follows:

- Authenticity
- Decisiveness: the ability to decide in the absence of perfect information.
- Personal touch: managers should be approachable, not status symbols who distance themselves from employees.
- Focus
- Communicator: managers who are poor communicators do not communicate.

5.4 Strategy

Walker *et al.* (1999:8) define strategy as a fundamental pattern of present and planned objectives, resource deployment, and interactions of an organization with markets, competitors and other environmental factors. Walker *et al.* (1999:8) feels that a firm without a good strategy has no direction, and a good strategy should specify:

- What is to be accomplished?
- Where? (on which product markets it will focus.); and
- How? (which resources and activities will be allocated to each product.)?

Silbiger (2001:292) agrees that strategy is a company's plan to achieve its goals.

5.4.1 The components of strategy

According to Walker *et al.* (1999:9) a well-developed strategy will consist of the following components;

- **Scope:** a definition of the essential nature of what the business is all about and what it should be in future;
- **Goals and objectives:** specify desired levels of accomplishment on all dimensions of performance;
- **Resource deployment:** how resources are to be obtained and allocated;
- **Identification of a competitive advantage:** how the firm is going to position itself to develop and sustain a differential advantage over competitors;
- **Synergy:** when the total performance of the firm is to be greater than the sum of its parts.

Johnson and Scholes (1997:143) emphasised that a resource audit is a useful starting point in understanding strategic capability. It is important to understand the inherent strength of resources based on – the quantity of resources available, the nature of those resources and the extent to which those resources are unique and difficult to imitate.

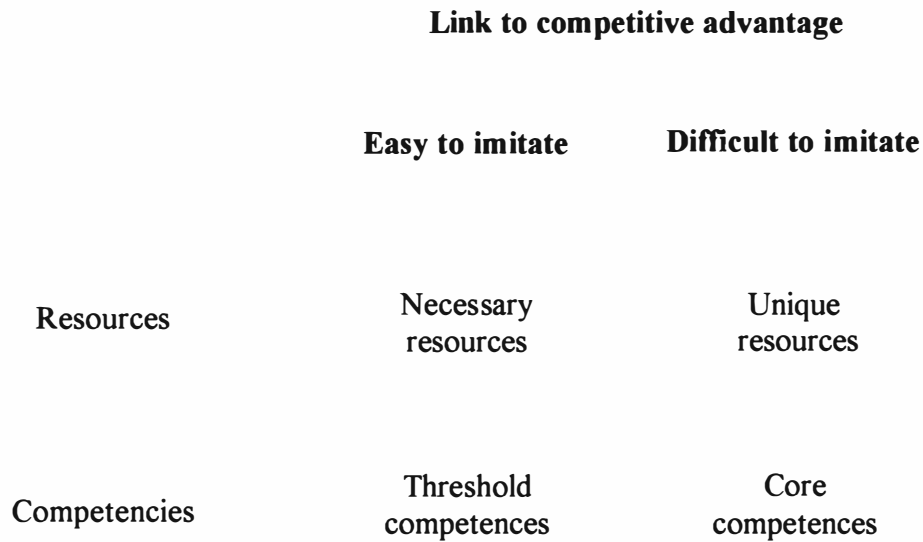
These resources are grouped under the following headings:

- **Financial resources:** these include the sources and uses of money, such as obtaining capital, managing cash, the control of debtors and creditors and the management of relationships with suppliers of money.
- **Physical resources:** listing of the production capacity, numbers of machinery, age, condition, location, etc.
- **Human resources:** identify a number of employees and types of different skills within the organisation.
- **Intangibles:** Goodwill

A challenge faced by small electrical contractors is to ensure that their resources are not easily acquired or imitated by competitors, as these resources are expected to provide a competitive advantage against competitors.

Fig. 5 shows a link to competitive advantage and provides the basis to outperform competitors or demonstrably provide better value for money.

Fig.5: Resources, competencies and competitive advantage



Source: Johnson and Scholes (1997:144)

5.5 Technology

One of the challenges faced by small black electrical contractors is that they are slow to innovate or apply technology to improve competitiveness. They may lack the time or resources to become well informed about technological change or its implications for their businesses. They may not even recognize that solving a problem or realizing an opportunity could depend on technology (Small Business Research and Policy, 2005:1).

Capital constraints prohibit them from buying and implementing technology systems that they need to perform their business operations. The main focus of the study is to try to identify challenges that are faced by small black electrical contractors in the Pietermaritzburg and eThekweni areas. The components of the strategy raised in this chapter could be related to some synergies that are not technologically provided.

5.6 Conclusion

The results of the study show that 12.7% of the identified challenges faced by small black electrical contractors are shortage of skills. Pam Christie (1991:13) stated that more technical and vocational education is needed, to address the shortage of skilled workers. This justifies a need to invest more on technology, training and skills development.

Naylor (1996:128) feels that on-the-job type of training can lead to a narrow training prescription, as it is more specialized. Firms should practice on-the-job and formal training.

Chapter 6 will examine the legal aspects of government policies, fronting and the effect of HIV/Aids in the working environment.

CHAPTER 6: Legal aspects of government policies

6.1 Introduction

In the white paper on the National Strategy for the Development and Promotion of Small Businesses, it was acknowledged that inappropriate legislative and regulatory conditions were acting as a constraint on the growth and development of small businesses (South African Chamber of Business, Feb 1999). Although business regulation is important for consumers, to prevent fraud, deception and even exploitation, the object is to balance the need for regulation with over-regulating, to have the right balance of regulation to allow small businesses to prosper. Legislation is regarded as reducing the owner's control over his/her business and the flexibility to adapt to new circumstances. It can act as a disincentive to both the starting of new businesses and to the growth and expansion of existing ones.

According to Dr Alistair Ruiters, Director General of the DTI, regulation is a balancing act, balancing the interests of consumers and the impact on business. The intention is to implement a regulatory regime that gives equal attention to consumers, business in general, and provides the SMMEs with protection, as they have limited bargaining power. In MYBusiness magazine (2004:3) it is stated that the regulations currently in place do not help the SMMEs, especially emerging black enterprises.

According to Accenture in SME Survey 2004, on the factors influencing small and medium enterprises (SMEs) in South Africa, the focus was on the role of government, information technology and financial services in the growth of the SMEs: 86% of the SMEs surveyed regarded themselves as competitive and few businesses gave the government's initiatives credit for their competitiveness nor rated government efforts to promote small business as effective. Seventy percent of respondents gave government a poor rating for the way in which it communicates these efforts (Accenture, 2005:03).

Government so far has failed to provide services and policies that are directed towards addressing market failures that in turn create disadvantages for the SMEs in accessing markets, so that they may become competent and independent of support (Accenture, 2005:03). Fisher and Reuber (2000:6) stated that there is an allusion from an approach of government policy that reflects an attitude that governments are donors and the SMEs the ready recipients of charity. This coincides with President Thabo Mbeki's opinion, quoted by Western Cape MEC for Finance and Economic Development, Ebrahim Rasool, that government policy is to make people less dependent on state structures for welfare but for people to earn their livelihood in the economy.

Government Role: Government Gazette Vol. 407 (1999)

- Is to facilitate the achievement of socio-economic objectives, through promotion of programme, which target support for sectors that are disadvantaged by current or historical circumstances.
- Intervention to promote equity and affirmative action of historically disadvantaged enterprises.

6.2 Economic growth

It is deemed necessary for the government to promote small businesses, as they are understood to be the vehicle for job creation. Government objectives should include creating a black bourgeoisie and to protect the legitimacy of the free market. Black empowerment faces twin challenges, to increase the scope and pace of integrating previously disadvantaged people into the mainstream economy and to foster a black capitalist class (Accenture, 2005:03).

Government introduced a BEE strategy in order to empower those who were previously disadvantaged. Without government support small businesses are likely to fail. BEE emerged as a central objective of the reconstruction and development plan. It is a key component of an integrated growth and development strategy, to put the province's economy on a variable and sustainable footing. It is therefore one of the driving forces to create globally competitive and equitable economy in KZN (Draft KZN BEE Strategy,

2006:02). For this strategy to be implemented effectively there has to be a way of measuring progress. Loyisa Mbabane, a senior lecturer at the University of Cape Town's Graduate School of Business, also an executive director of the BEEC, says the decentralization of responsibility for empowerment means that there will be no coherent monitoring and evaluation of progress (Engineering News Mar/Apr 2003).

6.3 Black Economic Empowerment (BEE)

BEE is a government strategy to redress the imbalances in the South African society created by apartheid (Statistics South Africa. 2001:1). It is an integrated and coherent socio-economic process which aims to redress past imbalances by transferring and conferring ownership, management and control of South Africa's financial and economic resources to the majority of its citizens and ensure broader participation of black people in the economy, in order to achieve sustainable development and prosperity.

The notion that the broad-based BEE strategy is discriminatory was misguided. The consequences of apartheid compelled the democratic government to introduce legislation and policies to facilitate economic equity and bring marginalized communities back into the mainstream economy (Business Report: 13 Sep. 2005).

BEE includes ownership and control, operational involvement, preferential procurement, enterprise development, skills development and corporate social investment. Black empowerment may be classified into three categories (Draft KZN BEE Strategy, 2006:22):

- a black owned enterprise: is at least 50.1% owned and managed by black people;
- a black empowered enterprise: is at least 25.1% owned and managed by black people; and
- a black influenced enterprise: is 5% - 25% black-owned and managed.

According to the Broad-Based Black Economic Employment Act of 2003, "black people" is a generic term that includes blacks, Coloureds and Indians.

6.4 BEE Strategy Objectives

The overarching objective is to fundamentally change economic power relations in the province, to be in line with demographic reality, introduce principles of equality and equity as enshrined in the constitution, in a sustainable manner that would grow the economy and to be broad based and inclusive. The objective of the BEE strategy is defeated by the manipulation of the system by fronting firms. Projects are awarded to small companies with the hope of developing them. All the allocated funds end up in the hands of white minority owned companies.

6.5 Fronting

Fronting is defined as any entity, mechanism or structure established in order to circumvent the BEE requirements as required under various policy instruments elicited from The Code of Good Practice on BEE, released in December 2004. Fronting manifests itself in many different ways, which can range from outright misrepresentation of a white business' equity ownership status, to more sophisticated corporate structures designed to obscure the true nature of relationships between a company and its BEE partner (Business Report, 13 Sept 2005).

According to eThekweni city manager, Mike Sutcliffe in COMPANYZONE (2004) fronting techniques:

- Constrain the development of sustainable black businesses;
- Inhibit the transfer of skill from established business to emerging black business;
- Damage the ethos of broad-based BEE; and
- Result in immense economic and social cost.

Fronting techniques includes:

- Using a hardly literate black person or company to obtain government contracts on behalf of the white minority owned company;
- Tendering through fake joint ventures; and
- Tendering on the basis of profit sharing, where the profits are reduced through creative accounting, including the use of management fees to transfer moneys out of the joint venture.

“More sophisticated contracts and procedures may well have to be developed to ensure that the aims of spreading benefits and growing new companies and businesses are met,” Sutcliffe added. The matter is extremely serious and one of the worst forms of corruption. Necessary steps have to be taken to stop corrupt elements from subverting the creation of a more equal and caring society.

6.6 The HIV and the Aids pandemic

A survey was conducted by Deloitte & Touché Human Capital Corporation on behalf of the South African Business Coalition (SABCAHA) on HIV/Aids and funded by the United Kingdom’s Department for International Development (DFID) to gauge employer’s reactions to HIV/Aids in the workplace (Informer Volume 1 Edition 3).

The structure of the questionnaire sought to cover topic headings such as:

- Formulating an HIV/Aids strategy and policy;
- The impact of HIV/Aids in the workplace;
- Managing infected and affected employees;
- HIV/Aids awareness and education programmes; and
- The impact of HIV/Aids on medical aid schemes, employee benefits, recruitment, training, monitoring and reporting.

The HIV and Aids pandemic has a negative impact in the workplace. The performance of affected employees drops drastically, thus rendering them unproductive. The impact of this epidemic is enormous and uncontrollable in the small business sector, as there are

no policies in place that address issues of this epidemic. The absentee rate of affected employees increase dramatically and the daily performance of the affected individuals fluctuates. This has a significant impact on the business, as affected workers will be inefficient due to sickness. To avoid losing their payments (wage or salary) sick workers will try to avoid staying home.

Dolan, a chairman and CEO of Bristol Myers Squibb, urges global companies to think creatively about the expertise they can contribute, such as clinical specialists to train local health care practitioners and educate traditional healers, advertising specialists to market HIV prevention and treatment and logistic specialists to ensure that medication reaches remote places (Business Day, March 2005).

6.7 Conclusion

Chapter 6 has discussed the role of the government, which is to facilitate the achievement of socio-economic objectives. It covered legal aspects of government policies, how they impose a challenge to small firms. Inappropriate legislative and regulatory conditions were acting as a constraint on the growth and development of small businesses (South African Chamber of Business, Feb 1999). Expectations are for the government to implement a regulatory body that gives equal attention to consumers, business in general and provide the SMMEs with protection, as they have limited bargaining power.

Fronting and HIV/Aids were discussed, as they form part of the challenges faced by small black electrical contractors. Chapter 7 provides the background of the electrical industry and the challenges faced by small black electrical contractors in South Africa.

CHAPTER 7: The South African electrical contracting industry

7.1 Introduction

Connecting over three million new customers increased the overall extent of electrification from about 36% of households in 1990 to 67% in 2000. The new connections planned and implemented by utilities have decreased since the electrification targets were reached at the end of 1999 (Financial and Fiscal Commission, 2002:05). As a result, with the growing population, urbanisation and the construction of new houses, the percentage of electrification in some regions and nationally has fallen since the highest figures reached in 1999 (Financial and Fiscal Commission, 2002:05). According to the study by the Financial and Fiscal Commission (2002:05) development programmes have envisaged complete electrification by 2012:

“Government committed itself to funding both grid and non-grid connections at the average rate of R3000 per connection for 300000 connections per year from 2001 to 2005, and 250000 connections per year from 2006 to 2010. However, recent budgetary allocations indicated that these targets would not be met” (Financial and Fiscal Commission, 2002:05).

Chapter 7 examines the background to sources of energy and consumption by sectors and also focuses on challenges that are faced by the small black electrical contractors in an electrical industry that could lead to their failure in South Africa.

7.2 Background to sources of energy and consumption by sectors

These six Regional Electricity Distributors (REDs) are located in the six major metropolitan areas in South Africa, namely Johannesburg, Tshwane (Pretoria) Ekurhuleni (East Rand) eThekweni (Durban) Nelson Mandela Metro (Port Elizabeth) and Cape Town. The restructuring process will see Eskom Distribution and the electricity-distributing municipalities transferring all their assets, liabilities, obligations, staff and

rights to the six REDs (Thale 2004). The first RED is expected to be operational towards the end of 2005. Once all REDs are set up the role of EDI Holdings will be to monitor and support them until the company is disbanded in 2008 (Thale 2004: 2).

South Africa has an installed electricity generation capacity of some 40 000 MW, with an extended national grid spanning some 281 000 km of high voltage transmission and distribution lines (Department of Minerals and Energy, 2004). The maximum demand, for the winter of 1999 amounted to just over 27 800 MW, was leaving South Africa with a substantial excess generation capacity. At the same time the country boasts the second lowest unit price of electricity in the world, at 12.29 c/kWh (Department of Minerals and Energy, 2004). Yet, when the new democratic government came into power in 1994, millions of South Africans were without access to electricity.

Under the apartheid government, prior to 1994, government policies were geared at serving the needs of the minority white population group. Energy policies, including electricity provision, focused on ensuring sufficient supply for the mining, chemical and agricultural industries, which formed the backbone of the South African economy. Due to the UN-led oil embargo, energy policies were shaped by the objective of becoming energy self-sufficient, leading to large, often uneconomic investments in synthetic fuel plants and in the nuclear fuels chain (Department of Minerals and Energy, 2004) leaving little financial resources for improving household access to electricity.

Thus, in terms of domestic access to electricity, there was (and still is) a huge discrepancy between population groups and areas. The vast majority of people without electricity are black South Africans and electrification levels in rural areas generally fall short of the ones in urban areas. In both rural and urban areas, the poorest people are most likely to be the ones without access to electricity.

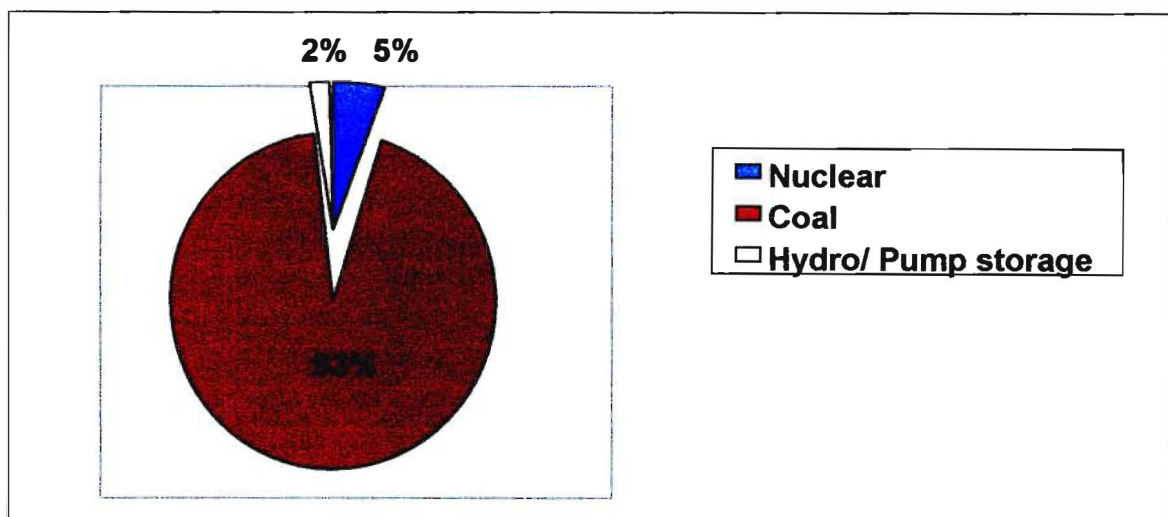
Against this background the newly elected democratic government initiated a large-scale electrification program, with the objective of improving access to electricity for the poor and ultimately providing access to electricity for all South Africans. The electrification program is complemented by further policies directed at improving electricity availability

for the poor, such as the Free Basic Electricity (FBE) policy, as a result of which households receive a minimum amount of 50 kW/h of electricity per month, free. At the same time, a substantive restructuring of the electricity supply and distribution industry is on the way, with the aim of making the industry more efficient in order to ensure that growing industrial and domestic electricity demands can be met in the future.

South Africa's energy supply system is based largely on the country's abundant coal reserves. Coal plays an important role for the country's synthetic fuel production (the conversion of coal to synthetic fuels) and coal is by far the most important energy source for electricity generation.

According to the National Electricity Regulator (2003:03) in 1999, 69 % of South Africa's total primary energy supply stemmed from coal, with crude oil accounting for 22 % and the rest being made up by nuclear energy (3 %) gas (1 %) and renewable sources (solar, wind) and waste (5 %). As far as energy sources for electricity generation are concerned, the importance of coal as a primary energy source is even more predominant. In 2001, 93 % of electricity in South Africa was generated from coal, with nuclear energy and hydropower accounting for the remaining 7 % (see Fig. 6).

Figure 6: Energy sources used in electricity generation in South Africa



Source: National Electricity Regulator, 2003:03

In May 1993, in the run-up to the 1994 elections and change in government, the National Electrification Forum was established, which presented a set of recommendations for the reform of the energy sector to cabinet in the second half of 1994 (Department of Minerals and Energy, 2004).

7.2.1 Challenges that the small firms are faced with in a local context

All businesses undergo the same life cycle, experience the same difficulties and are exposed to the same challenges, from business start-up to business decline. However, despite a focused and aggressive local economy, development programmes and several related initiatives, small businesses still fail. The question remains why small businesses fail. Failure of the SMME is not only when it goes bankrupt but also if it fails to contribute to economic growth and job creation in the regional economy (Business Failure - Financial Control, 2006:3).

From research that was conducted by the Trade and Industrial Policy Strategy (TIPS) in the year 2002, on the economics of the SMMEs in South Africa, it was concluded that the failure of the SMMEs can be attributed in part to the fact that their growth depends on the growth of the macro-economy. Another argument is that the promotion of South Africa's economy suffers from poor implementation of policy initiatives.

The researcher raised the following points as the potential restraining factors for SMME growth:

- Labour regulations and employment dynamics, small businesses are more labour intensive than their larger counterparts;
- SMMEs lack the skills to apply for finance and mitigate their capital risk;
- They have difficulty in gaining access to potential markets.
- Capital constraints prohibit them from buying and implementing technology systems that they need to perform their business operations.

As an extract from Accenture (2005:08) the following are the challenges faced by the small businesses at different lifecycle stages that could lead to their failure: Three stages have been discussed:

- a) Business Start-up
- b) Business Growth Stage.
- c) Business Decline Stage

- **Business Start-up**

- *Lack of start-up capital*; credit is scarce and collateral is not easy to secure.
- *Insufficient market research* on the business proposal;
- *Lack of legal advice*;
- *Poor financial planning*, resulting in a failure to secure funds; and
- *Wrong recruitments*; firms failing to recruit suitable persons that would add value to the business.
- *Undercapitalization*; many people get caught up in the emotions of the moment when it comes to starting a business. Their excitement about the new venture often overshadows their normal strong sense of reason.

Source: Accenture (2005:08)

- **Business Growth Stage**

- Failure of financial management (failure to effectively deal with bad debts, cash flow problems, credit control, invoicing and payments.)
- Human resources management failure (failing to handle workers' issues)
- Administration problems
- Failure to raise additional finance to sustain the business
- Poor market research
- Bad service delivery

- **Business Decline**

- Lower demand for the products of the business
- Financial constraints prohibiting further growth
- Internal cost of business escalation with growth
- Legal challenges
- Bad service delivery.

In Small Business Week (1992:06) Dr Ben Vosloo, MD of SBDC highlighted the following challenges to be faced by the SMMEs, which are in line with the current challenges, as noted in Accenture (2005:08).

Lack of start-up capital:

- Commercial banking institutions, even those owned by government, are reluctant to finance small-scale enterprises as they are viewed as high risk;
- Credit is scarce and collateral is not easy to secure; and
- Government is not guaranteeing loans that contracted small enterprises.

Lack of proper business strategies:

- Lack of technology, marketing and financing information about a particular business;
- Lack of formal education, business decisions often made based on guesswork or taking chances;
- Absence of bookkeeping and accounting; and
- Some businesses are not even aware of the government rules and regulations governing the particular lines of business.

Restrictive government policies:

Walker *et al.* (1999:98) stated that every country has a regulatory environment within which local firms must operate. As with any external force, the political/legal environment presents a firm with strategic opportunities, as well as threats. It is stated in

the Stratos Group (1990:42) that government intervention and bureaucratic interference, in the context of the competitive economic system and business environment, is generally assumed to be detrimental to innovative drive and motivation, reflecting, in the end, upon entrepreneurial behaviour itself. Robinson and Pearce (2000:88) stated that the government can limit or even foreclose entry to industries with such stringent rules and regulations. This is one of the many threats to the entry of small businesses into industry. These entry barriers may be due to the high cost of entry capital, economies of scale that deter entry by forcing the aspirant either to come in on a larger scale or to accept a cost disadvantage (Robinson and Pearce, 2000:87).

- These refer to the government rules and regulations governing the particular industry.
- Labour regulations and employment dynamics (SMMEs are more labour intensive than their larger counterparts).
- Trade and market structures (difficulty to gain access to potential markets).

Griffiths (2002:24) warns that a common mistake among small businesses operators is to keep personal records separate from business records. They may at times pay a bill for the business using their credit card or pay personal bills using business funds. This makes working out tax returns much more complicated.

7.3 Length-man Contracts

Bbenkele (2000:129) defines length-man contracts as a mechanism for employing local people on a contractual basis to undertake activities assigned to them by the contractor. The system is used to anchor household incomes indefinitely, thus breaking the poverty cycle and giving hope to new generation.

As part of the government's economic development strategy and ways of addressing poverty and the unemployment rate, it is a requirement by the government that for all community projects, local people should be utilized. This somehow imposes a threat to small black electrical contractors, because the ill behaviour of some of the community

members threatens the contractors' workforce, should the contractor not meet some of their demands.

Some workers have no basic working skills:

- They require continuous monitoring and guidance;
- They are not in favour of task-based activities. When given instructions of how much production is expected per day, they do not agree. They want to work at their own pace and expect to be paid a days wage irrespective of their outputs;
- Local members demand to be paid very high rates that the contractor cannot afford or as stipulated by government in a labour pricing list;
- Threatening to confiscate the contractor's possessions whenever their demands are not met, stealing the contractor's equipment, transport or even threatening violence;
- Safety of the staff could not be guaranteed, as they may not be welcomed in some areas;
- The contractor is accountable for any damages, either of community property or municipal equipment, resulting from malpractice by an unskilled length-man;
- The contractor is not reimbursed for money spent on community labour, being extra work expenses not budgeted for;
- Costs generated from these facets can lead to financial distress. It is stated in the Green Paper (Nov. 1997:15) that if labour absorption occurs without an improvement in productivity, costs rise. It is a government prerequisite, though, that for all the community projects awarded to electrical contractors, the community in those particular areas should be offered employment for the duration of the project. The reason for this is to try to assist with the high unemployment rate. A contractor is expected to ensure safety of community members, provide the necessary Personal Protective Equipment (PPE) which in most cases is not returnable to the contractor on completion of the project, or in case any person leaves before the closure of the project.

Prior to commencement of any work, community workers should undergo basic training, to ensure that they can perform their duties correctly and safely. The utilization of community people has a detrimental effect on permanent employees, as they become redundant and a contractor may fail to establish and consolidate a permanent skilled force. Giving basic training to length men may reduce the amount of damage that may result from utilizing them. This may include damages to community property (buried water pipes, plants, driveways, etc.) or municipality property (underground electric cables or Telkom fibre-optic cables).

As stated in a Government Gazette Vol. 407 (1999:5) the development of the emerging sector is frustrated by its inability to access finance and credit, as vocational or management training. Small black electrical contractors are reluctant to provide formal training because when firms invest in training there is no guarantee that the worker may not change jobs after training (Fisher and Reuber, 2000:5). It becomes very costly for a small company to keep on training new employees over and over again.

Other causes of the high failure rate of the SMMEs are (Business Failure - Financial Control, 2006: 3):

- Lack of skills;
- Insolvent customers;
- Financial control;
- Sales problems;
- High cost of financing;
- Red Tape
- Lack of funds;
- Marketing issues;
- Overtrading;
- Development;

7.4 Environmental influences

Small businesses are also affected by environmental influences, to some extent. A model given depicts a PEST analysis of environmental influences that have been particularly important in the past. Those that have a direct influence on the small businesses will be highlighted in bold print.

A PEST analysis of environmental influences

<p>Political legal</p> <ul style="list-style-type: none"> ➤ Monopolies legislation ➤ Environmental protection laws ➤ Taxation policy ➤ Employment law ➤ Government stability 	<p>Economic factors</p> <ul style="list-style-type: none"> ➤ Business cycles ➤ GNP trends ➤ Interest rates ➤ Inflation ➤ Disposable income ➤ Unemployment
<p>Socio-cultural factors</p> <ul style="list-style-type: none"> ➤ Levels of education ➤ Income distribution ➤ Social mobility ➤ Attitudes to work ➤ Population demographics 	<p>Technology</p> <ul style="list-style-type: none"> ➤ Government spending on research ➤ New discoveries/development ➤ Speed of technology changes ➤ Rates of obsolescence ➤ Government and industry focus on technological effort

Source: Johnson and Scholes (1997:96).

7.5 Reasons for failure Griffiths (2002)

- i) SMEs failing to handle difficult times, failing to inform creditors in time to let them know what is happening, why it is happening, and what is being done about it (Griffiths, 2002:30). Failing to keep good records from the start, *bank statements, cheque stubs, invoices, receipts, etc.* (Griffiths, 2002:38).

- ii) Bad relationships with suppliers due to the small firm failing to pay on time (Griffiths, 2002:47).
- iii) Bad relationships with the landlord. Should he decide to evict at short notice, there may be problems allocating other work-premises within a short time (Griffiths, 2002:50).
- iv) Failing to balance staffing levels against the amount of work that needs to be done (Griffiths, 2002:78).

Research conducted by Bbenkele (2000:130) on SMMEs in urban areas shows that their failure is due to:

- Lack of skills
- Lack of entrepreneurial development
- Failure to acquire contracts on a continuous base. The discontinuity in their work affects their morale and competency to an untold extent (Bbenkele, 2000:140).

These three key inhibitions are underlying reasons for continued exclusion from participation of emerging SMMEs in the mainstream of the economy. The prevailing disadvantage faced by emerging SMMEs provides fertile ground for sustained and prolonged exploitation of opportunities by established businesses.

7.6 Conclusion

Chapter 7 presented the implementation of the electricity sector in South Africa, with a special emphasis on domestic electricity supply by ESKOM (Pietermaritzburg) and eThekweni Electricity, in the view of subcontractors. The next chapter will focus on the research methodology.

CHAPTER 8: Research Methodology

8.1 Introduction

Chapter 8 details the methods used to carry out the primary research, which is considered to satisfy the research objectives. The research was carried out in areas of Pietermaritzburg and Durban in KwaZulu-Natal province. The focus of this study was on the small black electrical contractors in the electrical industry in the two areas.

8.2 Research design

According to Bless and Smith (1995:63) a research design is a specification of the most adequate operations to be performed in order to test a specific hypothesis under certain conditions. Research design revolves around surveys, experimentation and case studies.

According to Durrheim (1999:40) descriptive studies seek accurate observations and the research design should focus on the validity (accuracy) and reliability (consistency) of the observations, especially if it is a positive study. This study will be carried out using a quantitative research method, with the language of measurement as numbers.

Durrheim (1999:42) describes quantitative research as collecting data in the form of numbers and using statistical methods for data analysis. The process begins with a series of predetermined categories, usually embodied in standardized quantitative measures. It uses this data to make broad and generalizable comparisons (Durrheim 1999:42).

8.2.1 Population of the study

Bless and Smith (1995:85) described the population as the entire set of objects and events or group of people, about which the researcher wants to determine some characteristics. According to Powell (1991:63) a population is a group of units to which a researcher generalizes the results of the research. Gay (1967:67) describes a population as a group of interest to the researcher that has a character differentiation from another group.

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Mouton (1998:135) describes a target population as the population to which results would be generalised on, in this case the contractors from the eThekweni Electricity Department in the Durban area, uMsunduzi and ESKOM electricity department in the Pietermaritzburg area. The sampling frame according to Mouton (1998:135) is the operational definition of the population that provides the base for sampling.

Martins *et al.* (1996) describe the survey population as the aggregate of elements from which the sample is drawn. Therefore the survey population of this study comes out of small black electrical contractors from these Municipalities, both in the Durban and Pietermaritzburg areas. The survey population of a total of one hundred and twenty one black contractors were used for this study.

8.3 Sample size

A sample is a finite part of a statistical population whose properties are studied to gain information about the whole (Webster, 1985: 28). When dealing with people it can be defined as a set of respondents selected from a larger population for the purpose of a survey. Sampling is the act, process, or technique of selecting a suitable sample or a representative part of a population, for the purpose of determining parameters or characteristics of the whole population.

Probability sampling was used for this study. Huysamen (1994:15) distinguishes between probability and non-probability samples: examples of probability samples include random samples, cluster samples and stratified samples. In probability sampling, the size of the population under investigation is known to the researcher. Other characteristics of probability sampling are, for example, every individual and unit has a chance of being sampled and the researcher can make generalizations to the larger population. McMillan and Schumacher (1993:161) state that, in simple random sampling, subjects are selected from the population so that all members have the same probability of being selected. Therefore the probability exists that any element or subject in the population can be included in the sample.

The sample of this study was randomly selected from the obtainable contractor data base of the three major municipalities, ESKOM, eThekweni Electricity and uMsunduzi Electricity on all small black electrical contractors in the Pietermaritzburg area and the eThekweni municipality, with a total number of one hundred and twenty one elements. The study focused mainly on company owners.

8.4 Questionnaire

The questionnaire used to collect the data was divided into three sections.

Section one sought to determine demographical information on the business, such as gender, race, age, number of years and employees of the business, (this information was asked in order to provide variables that could give the required research results).

Sections two and three dealt with the challenges that could lead to failure of a business, such as finances, poor cash flows, government regulations, managerial experiences, contracts, shortage of skills, late invoices and poor bookkeeping.

Section four tried to discover the perceptions on different small black electrical contractors regarding government influences on issues related to BEE and SARS. Other problems or challenges related to the study were requested as additional information at the end of the questionnaire.

Self-administered questionnaires were used for data collection. The questionnaire was considered as the most appropriate method for collecting data because of the advantages it provides when compared to other types of instruments (Busha and Harter, 1980:18). A self-administered questionnaire was used in this study as the present researcher did not use face-to-face interviews due to time constraints. A self-administered questionnaire was used to allow respondents to answer questions in their own time.

Confidentiality entails issues of ethics in the research. Confidentiality is defined by Gilbert (2001:45) as a matter of integrity and high standards of principled sensitivity to the rights of others. Confidentiality involves respect for human dignity and ensuring the respondent's anonymity. To achieve this, certain ethical measures are considered by the

institution at which the researcher is based. In the present case ethical clearance was given by the University of KwaZulu-Natal (see Appendix 3). The consent form involved respecting the informants' rights to privacy and getting informed consent from the participants.

The use of the self-administered questionnaire through open-ended questions allowed for freedom of expression on the part of the respondents. However, it should be noted that the use of the self-administered questionnaire did not permit any follow-up, in terms, for example, of clarifying ambiguous responses. A questionnaire had been drafted which sought to obtain views of small black electrical contractors regarding challenges that they are faced with that could lead to their failure. An attempt was made to access a list of small black electrical contractors.

The questionnaire required small black electrical contractors to answer a number of specific questions, designed to obtain quantifiable data concerning the challenges faced by small black electrical contractors. The questionnaire was aimed at identifying:

- Demographics
- Firms' characteristics, and
- Challenges faced by small black electrical contractors.

8.4.1 Pre-testing

Dane (1990:127) found pre-testing to be an important phase of survey research. No survey data can be trusted unless one can ensure that the respondents understood the instrument and provided appropriate responses. Pre-testing ensures relevance, effectiveness and clarity.

According to Alreck and Settle (1995:178) it establishes if the survey population will understand the questions, the scales and instructions, how easy or difficult they find it and asks for suggestions after attending to the questionnaire. This enables the researcher to make changes that improve the performance of the questionnaire.

The pre-test of a questionnaire may at times reveal serious errors, oversights or problems. Dane (1990:127) describes the purpose of the pre-test as to “fine tune the instrument, in much the same way that a bench check allows a technician to evaluate a part before installing it”. Powell (1991:99) points out that pre-testing of the questionnaire is supposed to give the researcher an opportunity to identify items that tend to be misunderstood by the participants or do not obtain information that is needed, or to give a general reaction to the instrument. The pre-test ensures that the respondents understand and respond appropriately to the instrument. It is done to allow the researcher to identify those items that might be misunderstood, are poorly constructed or are irrelevant.

The pre-testing was done to seven different small black electrical contractors of Pietermaritzburg. A pre-test also indicates whether or not the instructions are clear to the respondents. In the pre-test, the respondent was asked to give his comments on clarity, language, length and appropriateness of the questions in terms of embarrassment. Some minor problems were identified and addressed prior to distribution of the questionnaire.

An open-ended questionnaire in addition to those provided was included for more information regarding challenges faced by small black electrical contractors. The questionnaire attempted to obtain an indication of the most desirable delivery modes.

Structured questions included:

- Dichotomous questions (e.g. Yes/No, Male/Female, Agree/Disagree)
- Multiple-choice questions with a single answer
- Scaled questions (using the Likert scale)

(Partington, 2002:109) stated that the quantitative approach involves collecting data using reliable and valid measures from a representative sample of respondents. The quantitative approach was selected because it is best characterized by the analytical approach to the data that are generated.

8.5 Data collection

The data collection procedure was completed by faxing and emailing questionnaires to the different companies, which were selected for study purposes. Those without access to faxes and the Internet were physically given the questionnaire by the researcher. Respondents were asked to fax or email back the completed questionnaires and the researcher collected them. It took three weeks to retrieve all the questionnaires, back from July to August 2006.

8.6 Data analysis and presentation

Data was manually entered into the SPSS Data Editor. SPSS generates data to make it easy for analysis. According to Powell (1991:164) the content analysis approach is best used for the responses for closed-ended questions. This was the method adopted for part of this research.

Content analysis is collecting and organising information systematically, in a standard format that allows analysts to draw a conclusion about the characteristics and meaning of the recorded material (Alreck and Settle 1995:271). Content analysis was made for open-ended questions: major themes were drawn from the diverse responses. Dane (1990:154) describes content analysis as a methodology used for determining the content of written recorded or published communications via a systematic, objectives and quantitative procedure.

Through the preliminary discussions with a group of emerging small black electrical contractors, the need to carry out a further investigation was justified. Since the purpose of data gathering is to solve a research problem, it should be analysed. Leedy (1989:17) spoke of the need for a researcher to be able to interpret and analyse data so as to draw information that can lead to decision-making. Data was presented in the form of tables, graphs and percentages. This method was used to analyse the qualitative data and the categories for the data, which were developed during the initial analysis. The data collected was analysed using SPSS. Data was tested through the t-test for the differences

between the means. The t-test for dependent samples demonstrated the differences between raw scores.

8.7 Evaluation of the methodology

Closed-ended questions were also beneficial in the study, as they limited the length of responses and standardised responses. However, the use of the self-administered questionnaire did not permit any follow-up, in terms of clarifying ambiguous responses. When evaluating a particular research method, issues of validity and reliability become another important factor.

8.8 Validity and reliability

According to Newell (1993: 99) “validity” in the study refers to its ability to measure what it sets out to measure and to the accuracy of the information. Leedy (1997: 160) stipulates the different forms of validity, such as face validity, criteria and construction validity. This study has validity because theories from a number of different authors were referred to.

Leedy (1989: 105) says that “reliability” refers to the accuracy of the instrument, which requires the elimination of bias. From the interviewer’s aspect this was done through the pre-testing of the questionnaire to ensure that the interviewees understood the contents of the questionnaire. The final questionnaires were sent to the relevant persons who own these small businesses. The instrument used in the present study was pre-tested on samples from ESKOM, eThekweni Electricity and uMsunduzi Electricity, all small black electrical contractors in the Pietermaritzburg area and the eThekweni municipality. In order to ensure validity, questions were adjusted on the basis of the responses and comments received from the pre-test. An effort was made to ensure that the questions asked related closely to the objectives of the study. In terms of the present study, it could be argued, given the very good response rate achieved, that the results can be generalized to all small black electrical contractors in the Pietermaritzburg area and the eThekweni municipality, or any electrical contractors in South Africa. To what extent these results

can be generalized to electrical contractors in other countries is debatable and any generalization to electrical contractors outside South Africa must be made with caution.

8.9 Summary

Chapter 7 presented the research methodology, data collection procedure, questionnaires and data analysis. Pre-testing was carried out to eliminate any possible ambiguity, unclear choices and poorly worded questions. The data was collected and analysed through the use SPSS and data results are presented in Chapter 9.

CHAPTER 9: Presentation and interpretation of the findings

9.1 Introduction

Chapter 9 presents an analysis of the collected data and an interpretation of the findings. The questionnaire used to collect the data was divided into three sections.

Section one sought to determine demographical information of the business, such as gender, race, age and number of years the business has been running (this information was asked in order to provide variables that would give the required research results).

Sections two and three dealt with challenges that are leading to the failure of the businesses, such as finances, poor cash flows, government regulations, managerial experiences, contracts, shortage of skills, late invoices and poor bookkeeping.

Section four tried to find the perceptions on different small black electrical contractors regarding government influences on issues related to BEE and SARS. Other problems or challenges related to the study were requested as additional information, at the end of the questionnaire.

9.2 Section 1: Demographics and characteristics of the business

Figure 7: Race

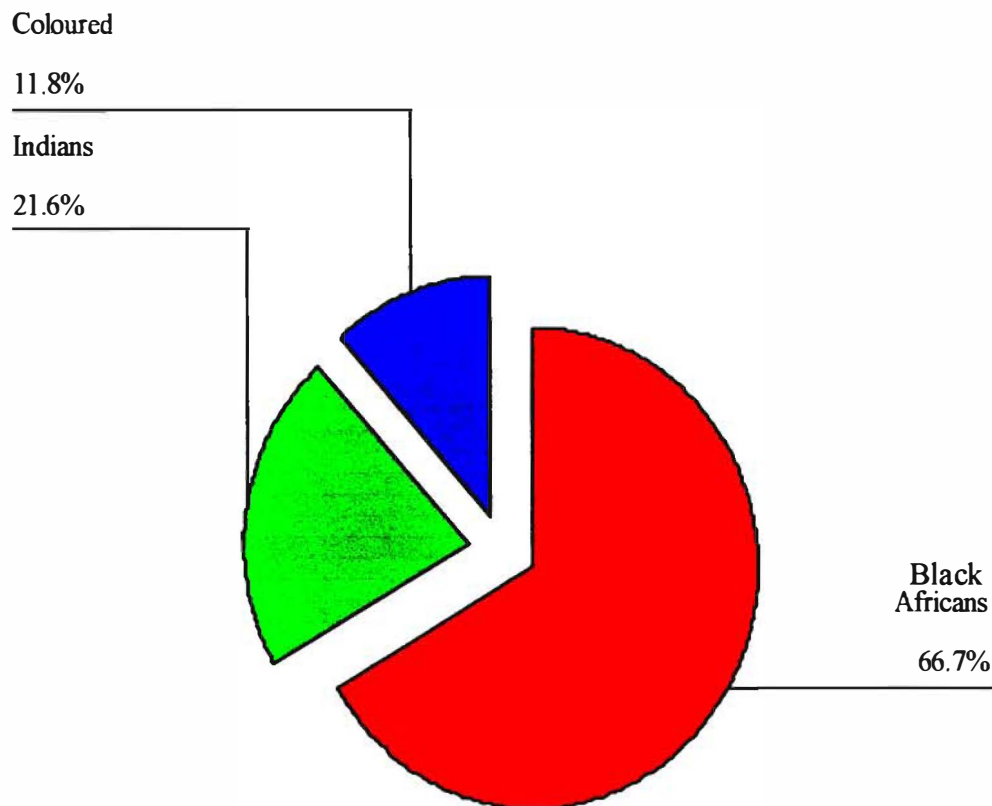
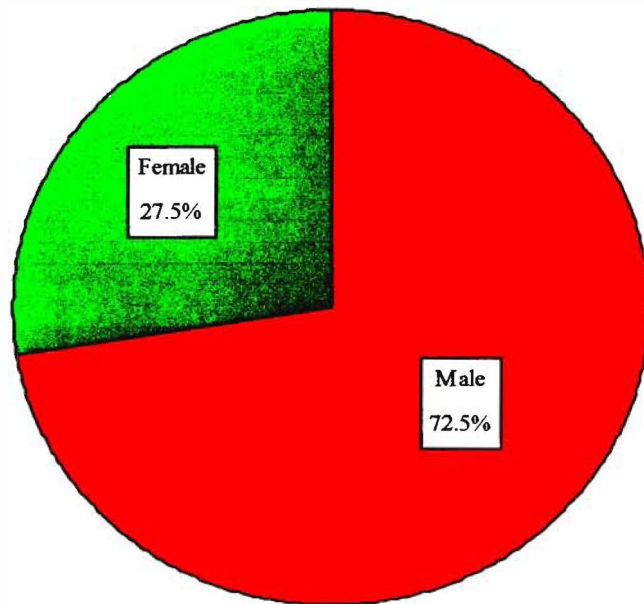


Fig.7 represents the population of small black electrical contractor groups in the electrical industry. When breaking it into different races Fig.7 indicates that the electrical industry is dominated by black Africans by (66.7%) followed by Indians (21.6%) then Coloured at (11.8%) this excludes the white sector, as it does not form part of this study.

As many as 72.5% of this population group consists of male and the balance of 27.5% is women, as depicted in Fig.8. This number of women is expected to grow, as more women are now showing interest and participating in the construction industry. The disadvantages that women face are of being new in the industry. They lack the necessary

experience and have limited resources and insufficient capacity. They often get jobs and subcontract them out to male counterparts.

Figure 8: Gender partners



The question sought to discover which gender dominates the electrical industry. It was discovered that the industry is dominated by males (72.5%) compared to (27%) females. The findings revealed that although women are given priority in the construction industry males to gain BEE status and obtain contracts are using them.

Figure 9: Business partnership

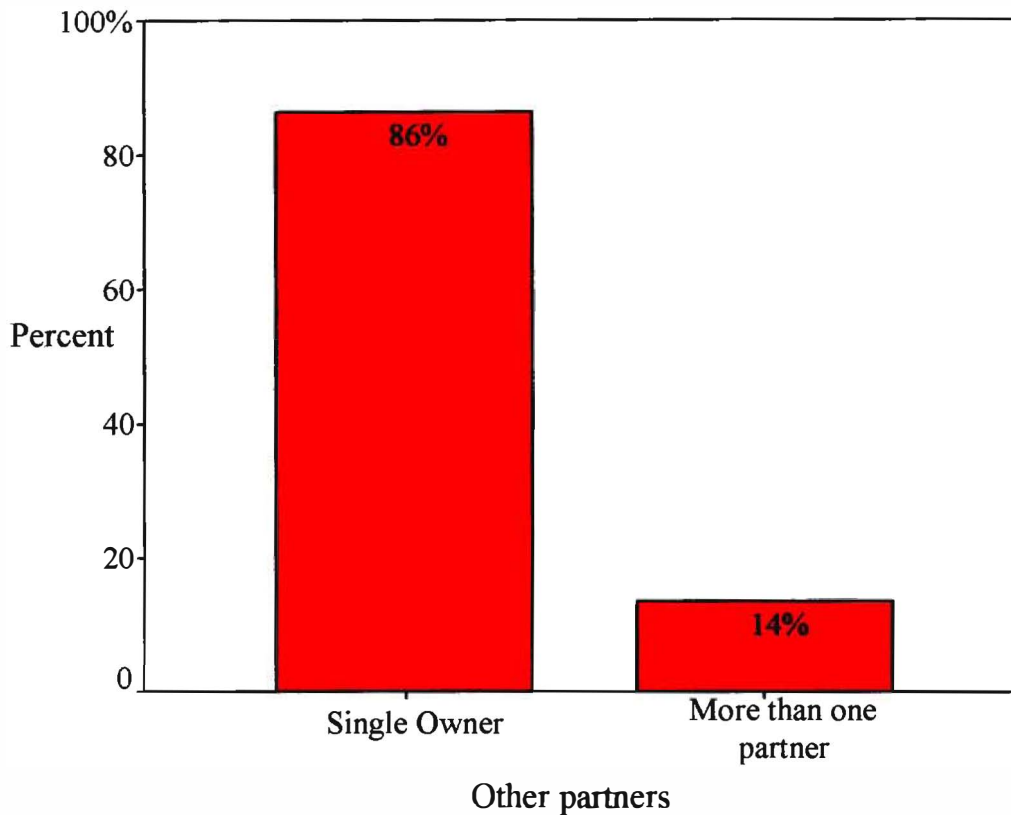
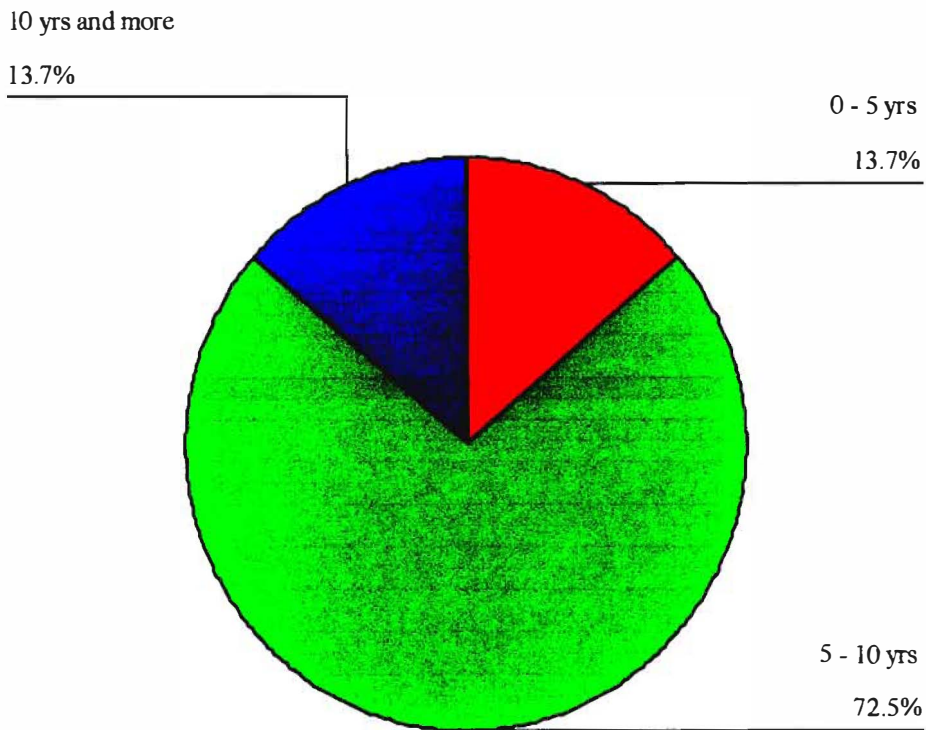


Fig.9 indicates that 86% of small black electrical contracting businesses are owned by a single owner and 14% by more than one partner. This increases the risk of failure, as owners are independent and have no partners to challenge their business decisions, or whether they are to benefit the business or not. They carry all the risks by themselves. They do the work themselves and become involved with all activities of the business. The business relies on their potential for its survival. If they fail the business fails with them.

Figure 10: Age of business



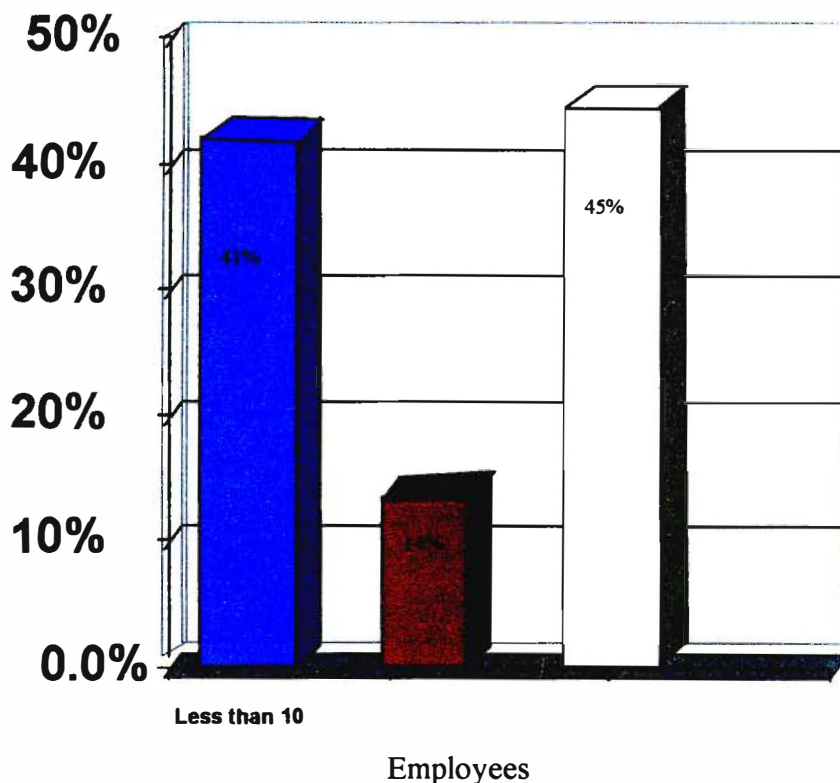
According to Fig.10, only 13.7% of black electrical contracting businesses have operated for more that ten years; 72.5% have been in operation for five to ten years and the other13.7% has only been in the industry for less than five years. There was no indication or accurate recorded data of those that failed, but the number of those, which had reached ten years, and above is low.

According to Birley and Muzyka (2000:251) at zero to five years the firm is still regarded as being in the entry stage and is when the business is establishing itself into the industry. It is when it faces high entry barriers; competition and greediness of existing firms that do not want to share the industry with new entrants (Birley and Muzyka 2000:251). Damodaran (2001:511) added that it is at this stage that the company is trying to establish its presence in the market and is very vulnerable.

From five to ten years the firm has sufficient size and product market penetration to ensure economic success and make profits (Birley and Muzyka, 2000:253). This stage is when a business wants to stay in the industry. More resources are required to increase the capacity, so as to be competitive. Businesses that are not well managed and lack resources and appropriate workforce may fail to survive and may not reach ten years and above (Birley and Muzyka, 2000:253). Though venture capitalism might be one option for providing funds to small and often risky businesses, venture capitalism demands an ownership share based on how much capital it contributes to the firm, relative to total firm value (Damodaran, 2001:484).

Thirteen point seven percent of the respondents have operated for more that ten years and are in the maturity phase. In this phase the need to invest declines. Earnings and cash flow increases rapidly. The firm is prosperous and generates much cash and may be financed by internal financing, corporate bonds and bank debts (Damodaran, 2001:484).

Figure 11: Number of employees



With regard to the number of employees employed by these electrical contracting businesses, Fig.11 indicates that this type of industry is highly labour intensive. The resources and capacity determine growth, as operations are manual. Fig.11 indicates that 14% of these firms have more than ten workers in employment with 45% employing more than twenty employees.

Labour costs escalate as the number of employee increases and if business turnover is not sufficient to cover the operation expenses, the business is likely to fail. Although this type of industry is labour intensive, irrespective how many employees are employed, if it is not productive or if the employees do not have the right skills the future of the business can be adversely affected.

Figure 12: Type of business

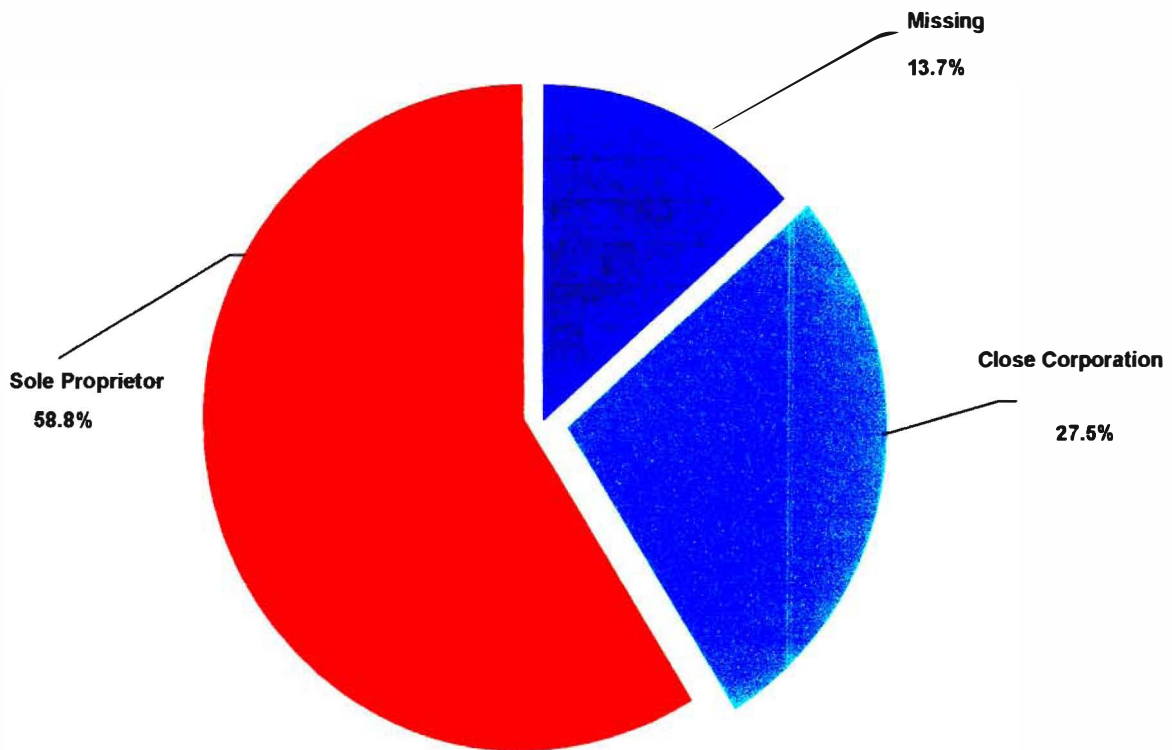
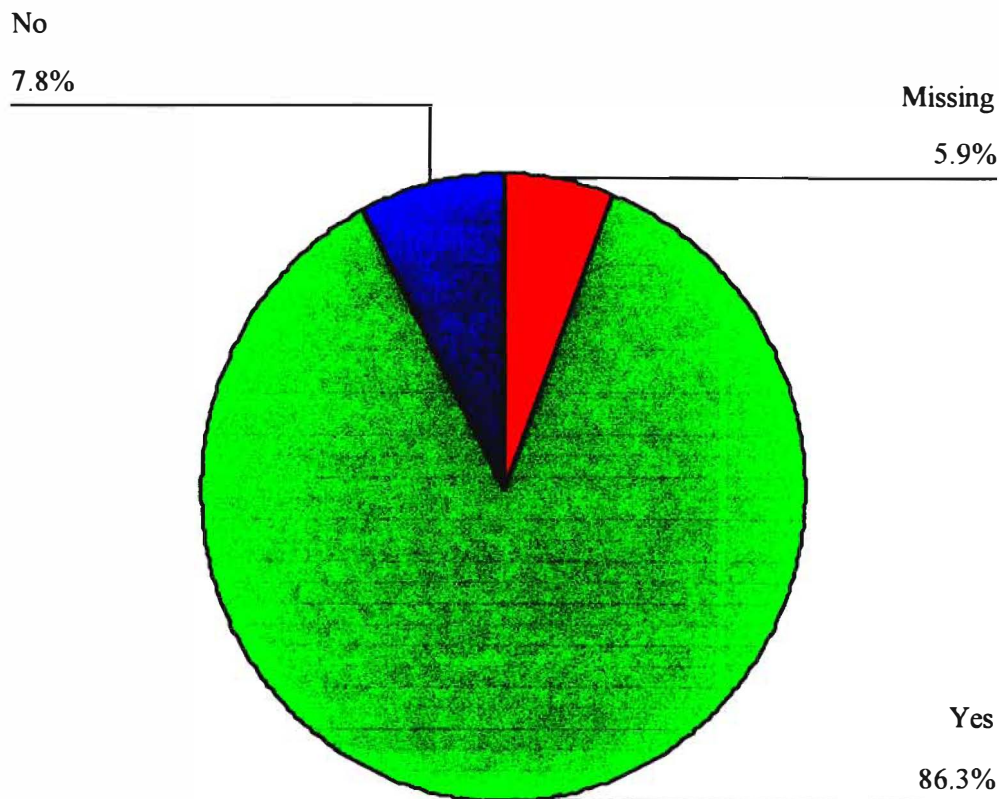


Fig.12 shows that single owners own 58.8% of these businesses. This justifies the preference of the sole Proprietor form of business by these firms. Only 27.5% had registered their businesses as Close Corporations, 13.7% did not respond to the survey questionnaire. Because of a lack of management skills most people that start up businesses in the electrical industry opt for the Sole Proprietor form of business because they are not aware of the benefits of other forms of businesses, e.g. Close Corporation or Joint Venture. Close Corporation and companies are legal entities based on elaborate contract; and firms, including sole traders, operate within a system of detailed status and case law (Pratten, 1991:12).

Figure 13: Formal training in the electrical



Business owners have a basic understanding of the electrical industry, as is reflected in Fig.19 and 86.3% of them had formal training in the electrical field. Only 7.8% had no relevant training and 5.9% never responded to the survey questionnaire. Formal training

and past experience provides a competitive advantage over those who had no experience, though this does not guarantee that the business will survive. If there are insufficient resources and the right skills the future of the business may not be guaranteed even, though the owners have skills. It is important that the whole team should be skilled and share the same vision.

Figure 14: Formal training in business management

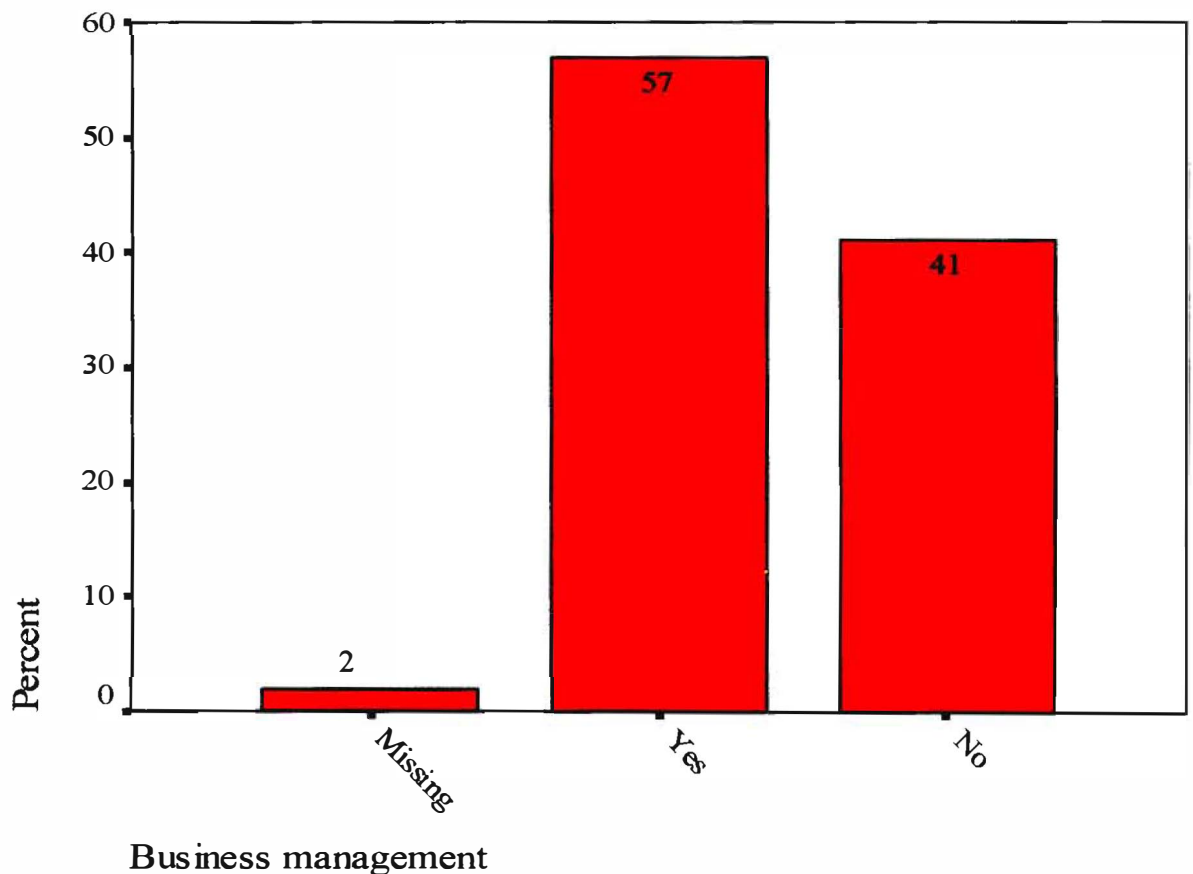
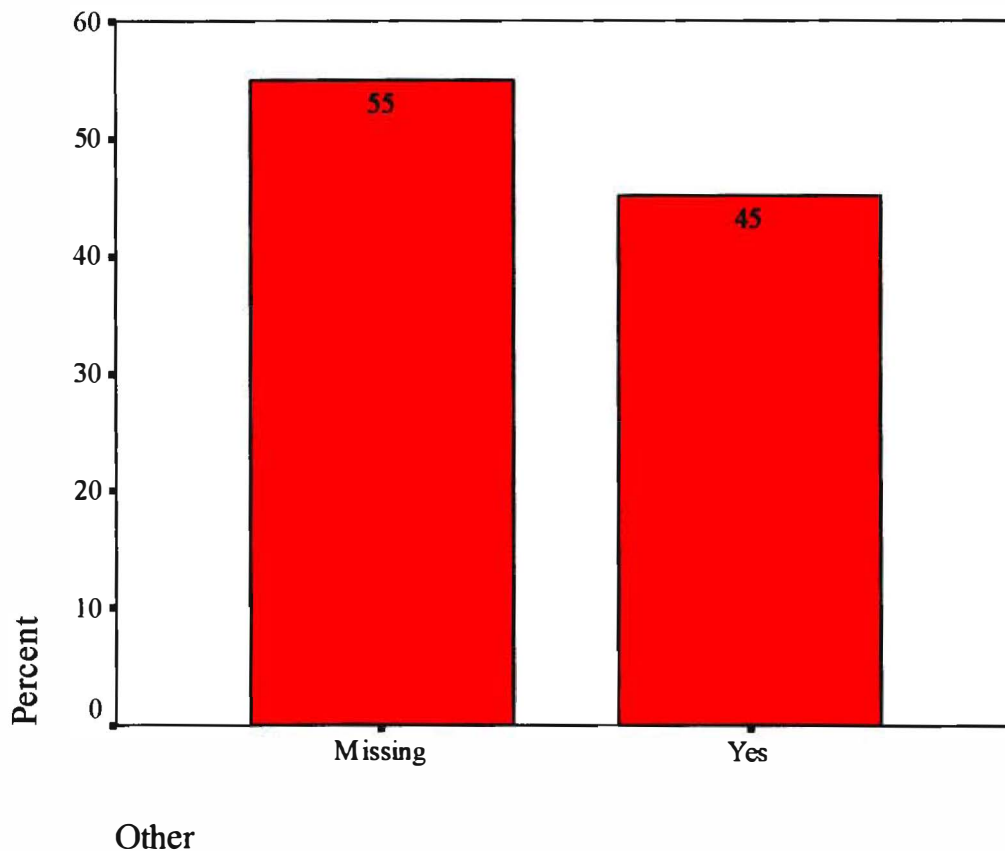


Fig.14 depicts the formal training in business management of the business owners. It clearly indicates that there is a lack of training amongst these business owners on how to manage their businesses. Although 57% seem to have had formal training in business management, 41% did not and the other 3% that did not respond may be added to those that have never been trained. Fig.17 indicates that lack of business managerial skills

count as the most serious challenge faced by small black electrical contractors in the electrical industry. A failure to manage the business professionally and poor personal skills may lead to the failure of the business. The downfall of most small businesses can be related to poor business management.

Figure 15: Formal training in other fields

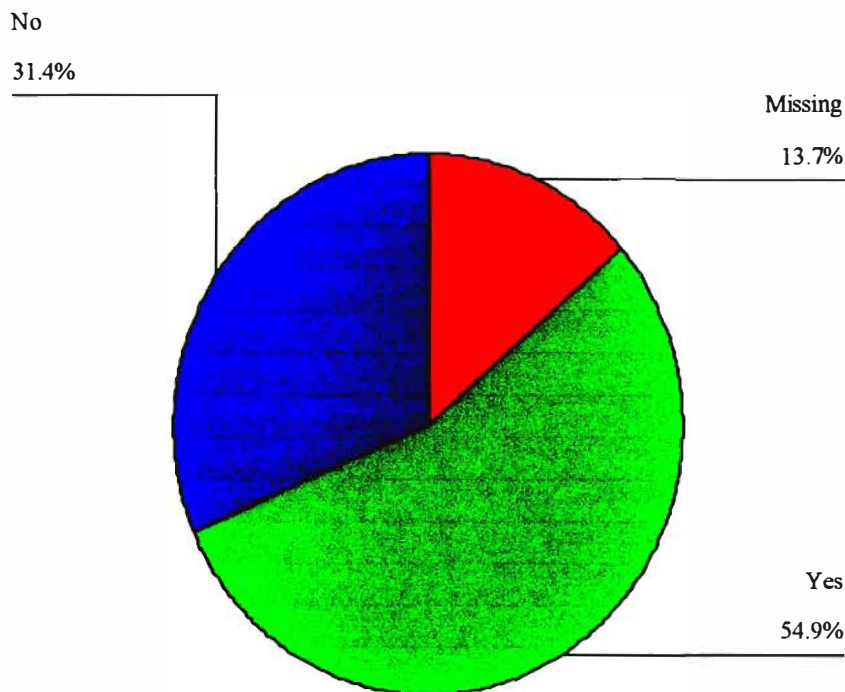


More than 50% of those interviewed did not respond to the question concerning whether they had any other type of formal training. Even with those that responded there is no indication if the training they underwent was relevant to their business requirements or needs.

Nevertheless, any form of training acquired empowers the individual, irrespective of the field of study. In one-way or another, one day it will come in handy. According to

Ackerman (1996:27) employees should be trained. That is the importance of good customer care, as customers keep the firm's staff employed. It is the manager's responsibility to ensure that staff appreciates the manner in which customers should be treated. It is a known factor that managers have budget constraints and training costs could be high, but a compromise has to be reached (Naylor, 1996:127). Naylor points out that to some extent training resources are wasted when employees are given standardized training courses, in spite of their not needing every element of it. Small businesses prefer on-the-job training for their employees, but Naylor (1996:128) holds the view that on-the-job training can lead to a narrow training prescription, as it is more specialized.

Figure 16: Experience in an electrical field before starting business



Although Fig.13 reflects that 86.3% of these small electrical construction businesses have had formal electrical training, only 54.9% of them had experience on this type of industry. 31.4% had no experience and 13.7% did not respond and this number is likely

to increase the number of those that had no experience whatsoever. The owners that had previous experience have an advantage as they have the understanding of the principles of electrics.

9.3 Section 2: Challenges faced by the firm which leads to business failure

The following were challenges faced by small black electrical contractors that could lead to their failure. Respondents were asked to indicate amongst the given challenges with the aim of determining their influence on small black electrical business failures

Figure 17: Challenges faced by the firms

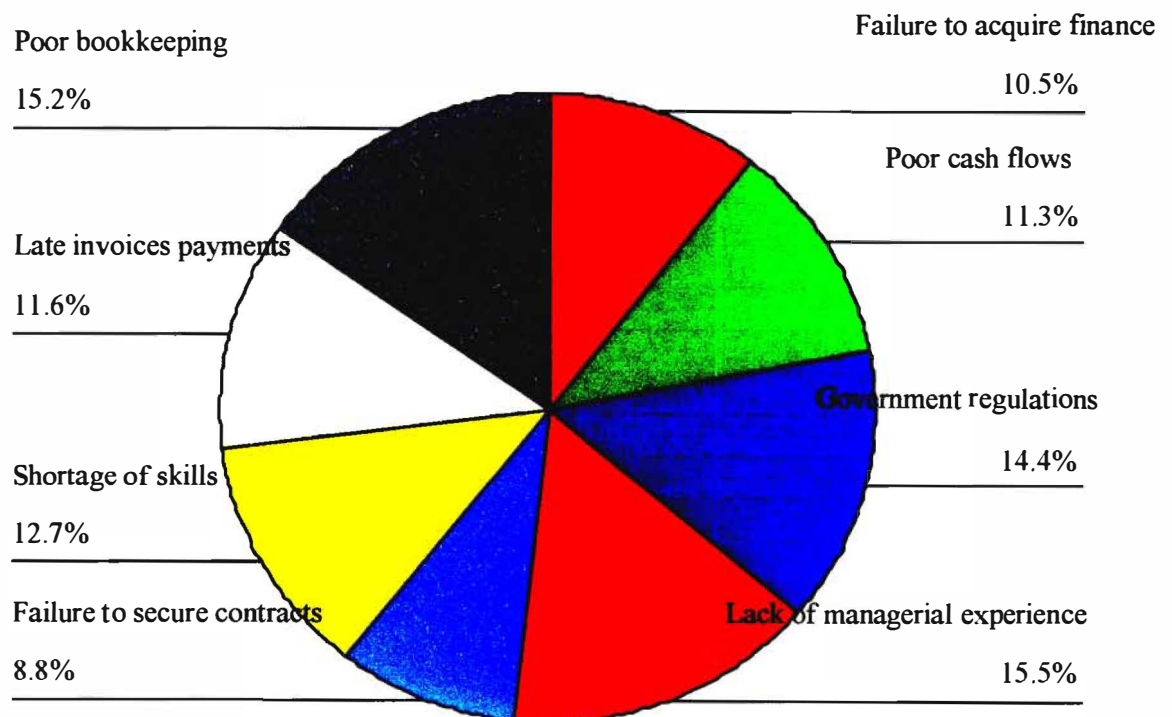


Fig.20 shows that the results of the survey, in descending order, are as follows:

1.) Lack of managerial skills	15.5%
2.) Poor bookkeeping	15.2%
3.) Government regulations	14.4%
4.) Shortage of skills	12.7%
5.) Late invoicing	11.6%
6.) Failure to acquire finance	11.3%
7.) Failure to secure contracts	8.8%

Fig.17 reflects that a lack of managerial skills is the key factor that is eminent to challenges faced by small black-owned businesses in the electrical industry. This is followed by poor bookkeeping, which may be as a result of corrupt data, lost data, outdated data, data not kept or collected properly, etc. Finance has not been seen as the important challenge faced by small black electrical contractors and it has been rated lower on the scale. The root cause of failing to acquire finances has been a failure to comply with the qualifying requirements for financial support. The controls are there to ensure that the funds are given to potential borrowers who meet the requirements. Most small businesses are regarded as high-risk borrowers. Fujita (1998: 21) stressed that SMME managers are absorbed by current responsibilities and can give only limited time or attention to analysis of new opportunities. The need to respond quickly and efficiently to day-to-day problems constrains efforts to allocate scarce managerial resources to the evaluation of future opportunities (Fujita, 1998: 23).

According to Fink (1995:17) a typical test item in a Likert scale is a statement that is used by the researcher to ask the respondents to indicate their degree of agreement with the statement. Traditionally a five-point scale is used, but many psychometricians advocate using a four, seven or nine point scale (Fink 1995:17).

The Likert scale is a summated rating scale with 5 options, 1 being strongly disagree, 2 being disagree, 3 uncertain, 4 agree and 5 strongly agree (Fink 1995:17). In this study only four options were provided for respondents, namely 1 being strongly disagree, 2 being disagreed, 3 agree and 4 strongly agree. The respondents indicate how closely their

feelings match the question or statement on a rating scale. The number at one end of the scale represents least agreement, or "strongly disagree," and the number at the other end of the scale represents most agreement, or "strongly agree." If the scale includes other words at either end to further clarify the meaning of the numbers, it is known as a Likert-style question (Fink 1995:17).

9.4 Section 3: Performance measures

Figure 18: Business linkages

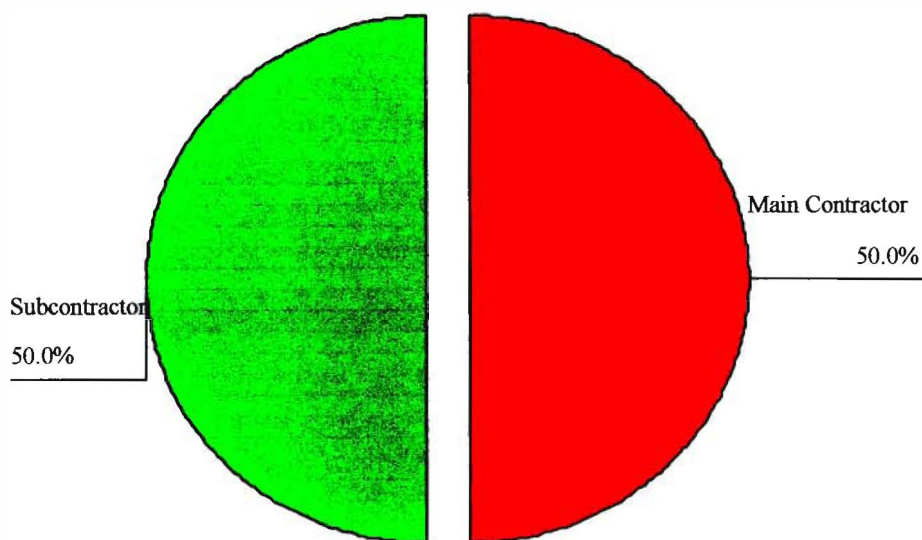
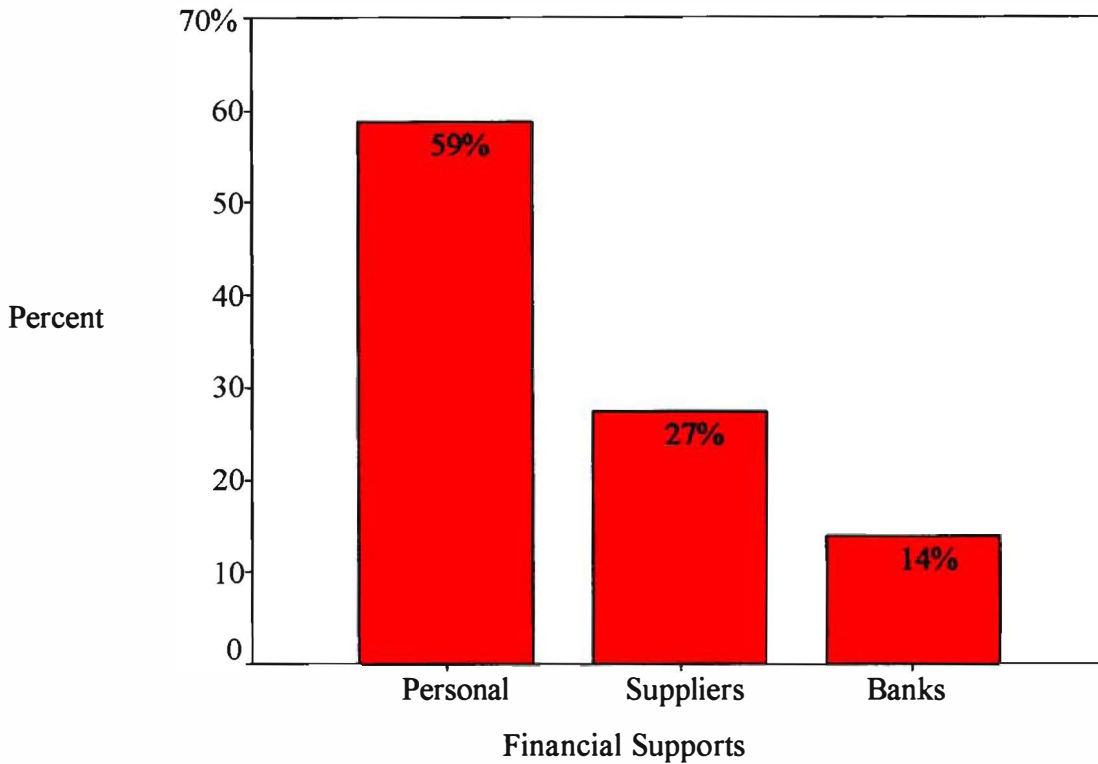


Fig.18 shows the equal number of main contractors and subcontractors. This implies that the main contractors acquire jobs and sub contract a certain portion to subcontracting firms. Apart from providing jobs to subcontractors or other emerging firms this can also be a result of a lack of capacity and resources by the main contractors, thus spreading the risks around. In the worst cases, all the costly, difficult to accomplish and notorious jobs would be given to the subcontractor, who is also paid less, as the main contractor expects to make profit from those jobs. This can get very costly for any firm exposed to these unfavourable conditions.

Figure 19: Financial support



The questionnaire aimed to discover which type of business financing was most applicable to small black electrical contractors.

Fig.19 shows that 59% of respondents of the small black businesses are owned by single owners and registered as Sole Proprietors. These businesses have difficulty in acquiring finance on business start-ups. They therefore finance themselves with their savings, money borrowed from families or money generated when they were employed. This is a difficult means of financing a new venture, but most emerging small black electrical contractors are left with no choice but this.

Birley and Muzyka (2000:21) alluded to the fact that successful growing firms use low-cost strategies to compete. They compete with high-quality products and superior service and also adopt continuous improvement strategies. They also take advantage of new opportunities and adopt a more formal and professional approach to people management

(Birley and Muzyka 2000:21). There are pros and cons for this type of financing: pros being there are no funds owed to any financial institutions and therefore no escalating interests or debt, and cons being that they may have inadequate starting capital or run out of cash to keep the businesses functioning.

Fig.19 indicates that 27% of small electrical businesses have accounts with material suppliers. There are set material supplier requirements that businesses have to comply with, failing which they may not qualify to be entered in the customer supplier database. This becomes a disadvantage to those firms that have no access to materials on an instalment, payable over a set period of time, by the supplier. Suppliers are also not transparent and cannot be challenged should they disqualify an applicant's application for a loan for materials. When the application has been denied, no feedback is given to indicate why the application was not successful.

Small businesses are always disadvantaged as they are normally the ones who do not qualify for this privilege. Fisher and Reuber (2000:5) pointed out that large firms get volume discounts from suppliers because they normally purchase in large quantities.

One of the challenges faced by small businesses is to acquire financial support from the banks, due to the collaterals and securities required by the banks. Fig.20 shows that the banks have financed only 14% of the small electrical businesses in this study.

According to the bank consultants, funds are available for borrowers irrespective of their business size, as long as they meet the requirements. This includes providing a financial statement, financial projections, collaterals, proof of contract, etc. Most of the small businesses fail to comply with bank requirements and therefore forfeit the chance to obtain finance. Klandt (1993:142) showed that a lack of finances and high initial cost levels for new entries might act as an entry barrier to small firms. The larger firms enjoy an advantage as they have easy access to finance from the banks and they also have the necessary skills levels required.

Barber *et al.* (1989:39) felt that small firms suffer disadvantages compared to larger firms in their relationship with capital markets. Investors are very reluctant to invest their funds in firms at their earliest growth stage due to the high risk involved (Barber *et al.*, 1989:39) maintain that these firms normally have no attractive financial records and no history. Griffiths (2002:22) stated that financial institutions charge very high interest rates, as small businesses are considered to be higher risk borrowers.

Figure 20: Channel of communication directed to a specific department or depot

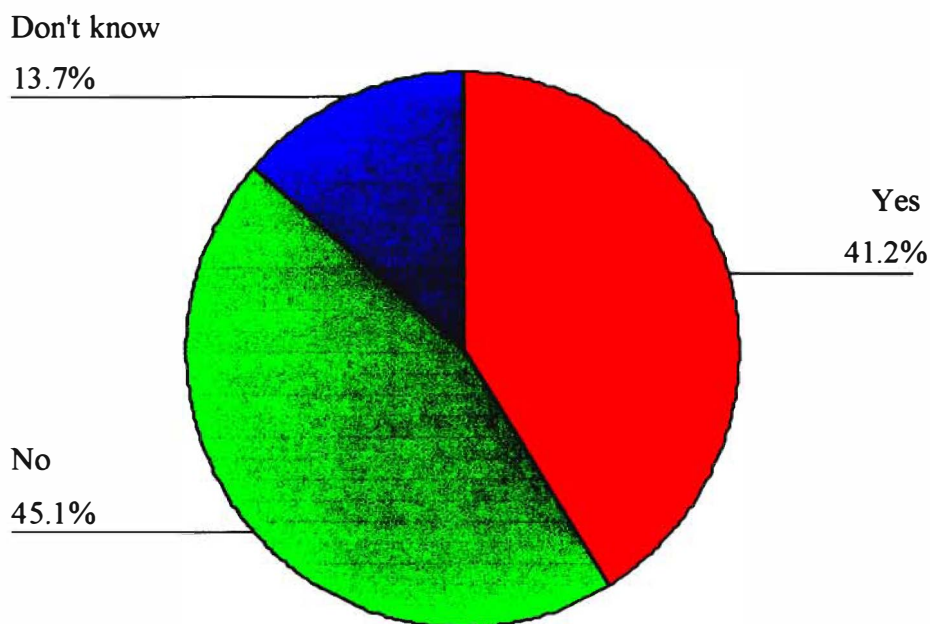


Fig.20 indicates that not every contractor is familiar with the right channels of communication within the municipalities to which they provide services. This may be because the information was not communicated properly initially, or was not communicated at all to all the small black electrical contractors as to where to direct their concerns, should they arise. It may also be that these departments are operating on closed-door policies where no unauthorised person is welcomed.

If small black electrical contractors do not know, which are the right communication channels available to them they are denied the right to communication with the employer or his or her representatives. According to the survey, 41.2% know the communication channels, compared to 45.1% whose response was that there are no specific departments to which their concerns, problems or complains can be directed. Thirteen point seven percent do not know whether there are any channels for directing problems to the client.

Figure 21: Specific persons to report to

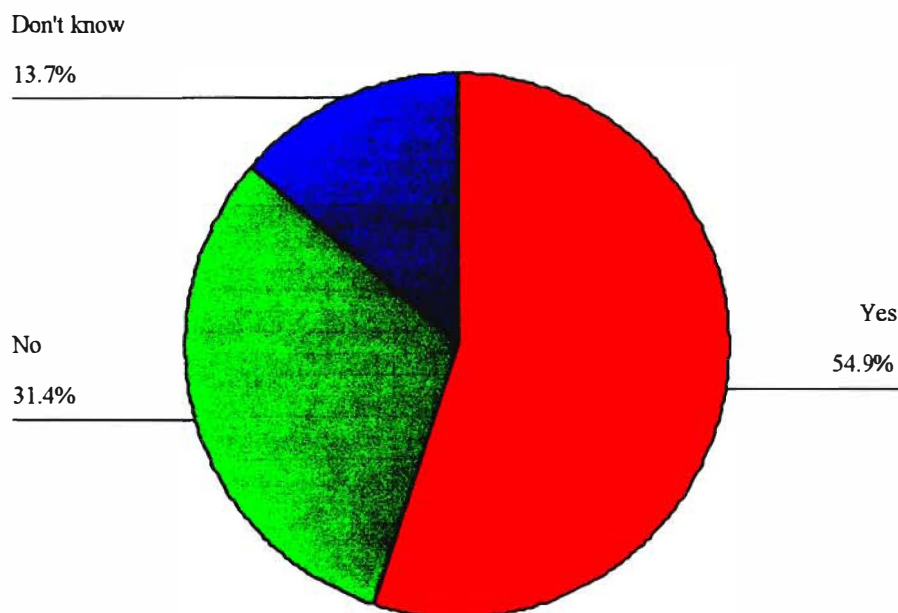
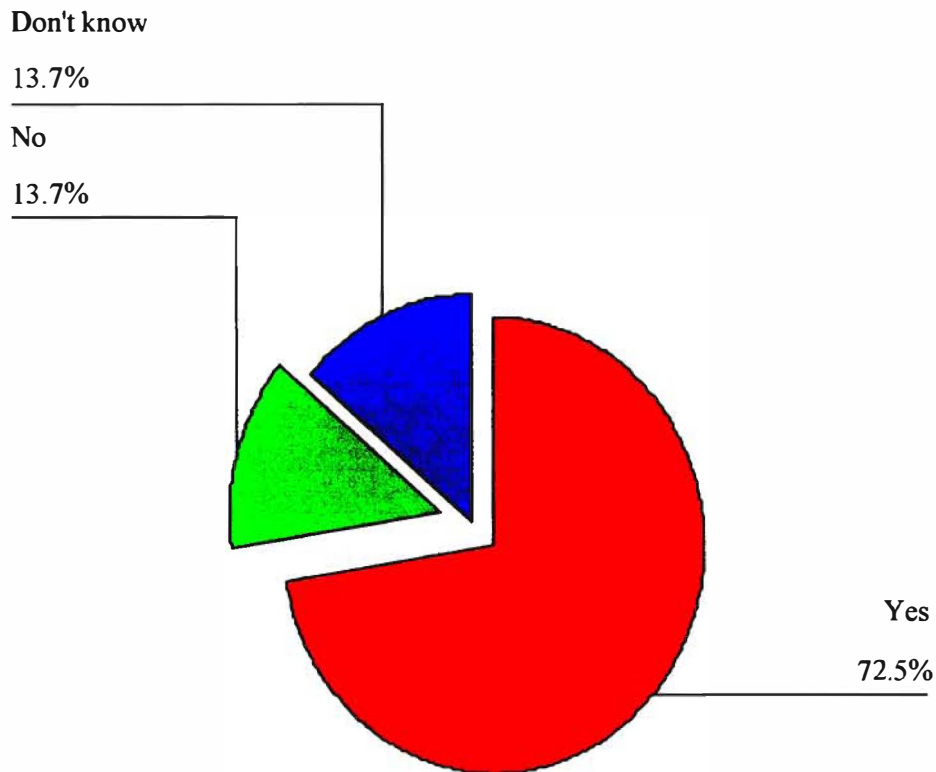


Fig.21 indicates that 54.9% of small black electrical contractors agree that there are specific persons to report to should the need arise; 31.4% say there are no specific persons that are known to them and the rest do not know. This displays a breakdown of communication, as it is not ideal if some of the small black electrical contractors do not know to whom they may report. Basically they would prefer to keep things to themselves.

Figure 22: Channels of communication in terms of clients' complaints



As many as 72.5% of the respondents are convinced that continuous complaining may jeopardize the relationship with the client; 13.7% feel that it will cause no harm and another 13.7% are not certain whether it will or not. This is a bad sign if most of the small black electrical contractors are not free to express their feeling due to fact that they avoid being targeted or being troublesome. They maintain a continuous good relationship with the employer at their expense. According to Macleod (1988:14) people generally remember mistakes and bad deeds in life far longer than they do the good ones. Therefore it is very important that the firm should always strive for excellence and deliver good quality, otherwise it may lose its reputation.

Figure 23: Channel of communication in terms of clients' responses

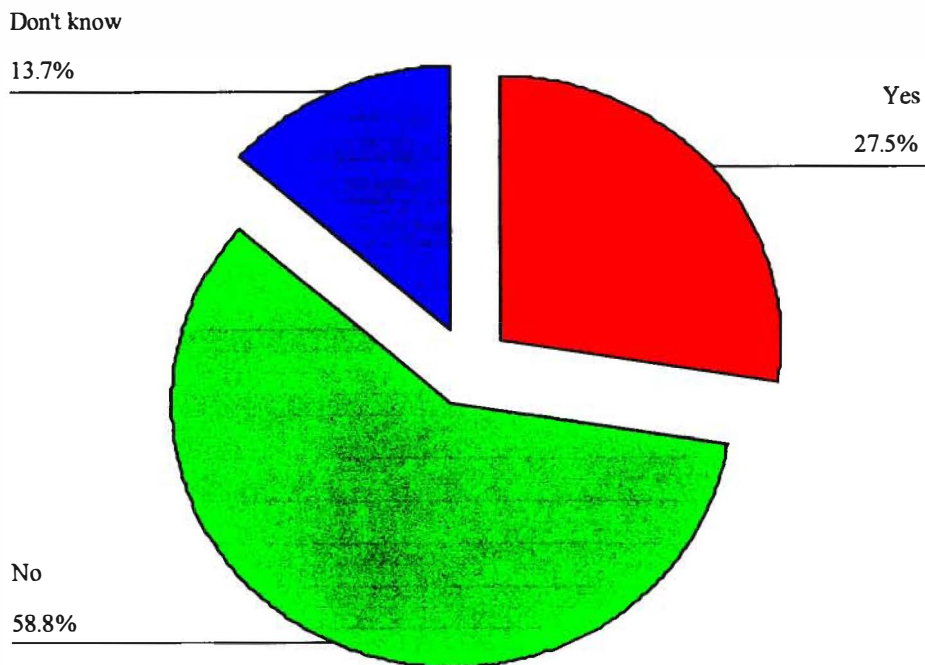


Fig. 23 shows that 58.8% of these small black electrical contractors are not satisfied with the client responses on any matters that are reported and only 27.5% indicates they are satisfied. The other 13.7% responded with being not sure. It also raises a concern why most small black electrical contractors are not happy or satisfied with the client responses.

Ackerman (1996:26) and Covey and Astle (1995) agree that customer care is critical. Customers are not interested in the problems that the firm has, but are concerned with what can be obtained from the interaction of the two parties. Losing valuable customers could be detrimental to the chances of the business survival.

9.5 Section 4: Government influences on issues related to BEE and SARS.

Figure 24: Government's initiated Business Employment Equity

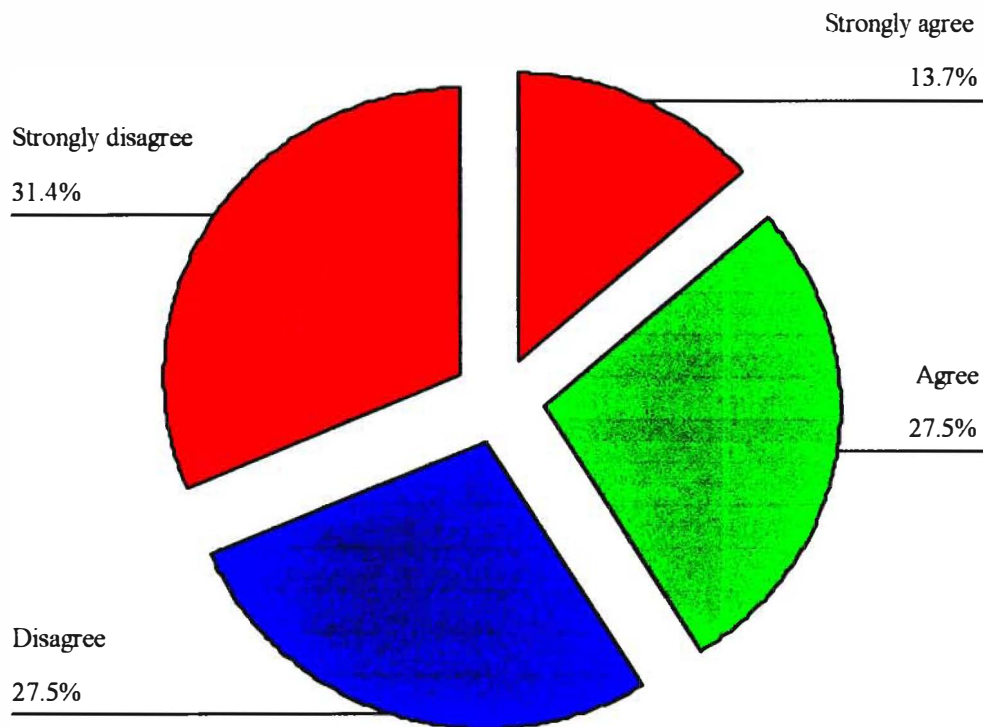


Fig.24 shows that about 60% of small black electrical contractors disagree that the BEE government initiated strategy has met its objectives. About 40% indicated that small black electrical contractors disagree that the BEE government initiated strategy has met its objectives, which was to readdress the inequality that was a result of a previous regime (Statistics South Africa, 2001, par.7).

Figure 25: The contribution of SARS to business failure

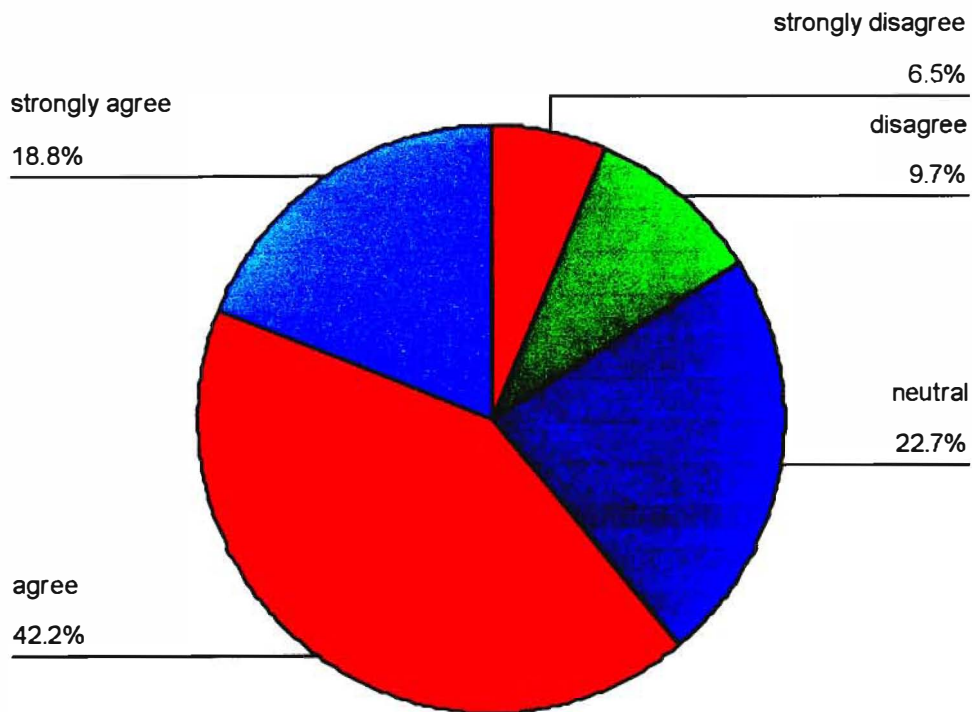


Fig.25 presents question 5 which rated the contribution of SARS to the failure of small black electrical contractors. The Likert scale, was used in a rating scale with 5 options: 1 being strongly disagree, 2 being disagree, 3 neutral, 4 agree and 5 strongly agree (Fink 1995:17) and 61% of respondents agreed that SARS contributed to failure of small businesses; 23% of respondents were neutral and almost 16% were of the view that SARS did not contribute to the failure of small businesses. Hendry *et al.* (1995:4) stressed that small firms face a disadvantage in the labour market, where large firms, aided in part by monopolistic or oligopolistic circumstances, have traditionally offered higher pay and job security. Smaller firms are prone to disproportionate costs through obligatory tax collection, legislative compliance, insurance obligations and training and educational investments (Hendry *et al.*, 1995:04).

The respondents, who listed more problems faced by small black electrical contractors, according to the open-handed question, have raised the following concerns in the findings:

- a) Fronting defeats the objectives.
- b) Only a few prominent figures aligned to politics benefit the most.
- c) No progress-measuring controls in place.
- d) BEE is too broad; some people on the ground do not understand its main objectives and whether they are achievable.
- e) Most of the small businesses are of the view that some government departments, e.g. SARS, have no interest in small businesses but only on collecting money from them. They do not care whether the small businesses close down thereafter. This defeats the government's objective of promoting development of the small business sector.
- f) As many as 89.9% of respondents to the questionnaire are of the view that SARS has a large influence on the failure of small businesses.
- g) The present researcher states that it is a government requirement that all businesses should be registered, in order to keep an accurate database of companies in South Africa. Companies that are not registered cannot tender for any government contracts.

9.6 Issues arising from the open-ended questionnaire

Other challenges faced by small black electrical contractors:

- a) **Failing to comply with government legislation**
 - Failing to familiarise with legislation. This refers to company regulations. The government stipulates that all companies have to comply with certain regulations; failing to do so could lead to prosecution or jail. These include:
 - Occupational Health and Safety Act (OHS Act)
 - Employment equity
 - Employer and employee rights etc.

- Sometimes other employers do not understand the context of the regulations and do not see the importance of the legislation.
- Some of those that are aware of these requirements fail to make them known to the employees

b) Failing to meet deadlines and commitments

- This may be due to a lack of knowledge or failing to understand what is required to be done
- Lack of capacity to carry out assigned duties
- Over-commitment to a number of things, thus failing to focus on one task. This is typical of a sole proprietor business, where an owner does everything by himself or herself

c) Ignorance

- This refers to a lack of knowledge, pretending not to understand or know anything

d) Failing to employ and pay the right staff that have suitable skills

- This may be due to a shortage of skilled workers that have the relevant competencies for the job
- An employer not prepared to pay high salaries targets cheap labour. A problem with this is that, although there would be short-term savings, in the long-term this may cost a firm its reputation when the quality of services provided is compromised due to a lack of skills.

e) No resources, expect staff to work without relevant tools

- Irrespective of how skilled workers may be, if they do not have the right tools to do the job they will be unproductive
- Equipment not in good working condition will render the whole operation unproductive
- Insufficient workforce on-the-job could affect productivity
- High rate of absenteeism renders it difficult for supervisors to plan and allocate workers efficiently.

f) Greediness, taking more work than can be handled

- Having more work than one can perform can spoil the reputation of the business if it fails to deliver on time. This normally happens when a firm wants to ensure that it has enough work to keep it going for some time, but failing to consider its capacity.

g) Some force their way through the industry not ready to compete at that level

- A firm claiming to have all the competencies required for entry level into a particular industry, yet not ready.
- Claiming to have enough capacity and resources, yet not having them.
These firms are then faced with challenges to become competent in order to stay in the industry

h) Use VAT for private financing, e.g. to finance business operations as if VAT belongs to them

- This is one of the main challenges faced by small firms. When they run out of cash they utilize tax monies to fund business operations, with the hope that once there is money the loan would be repaid. Unfortunately interests and penalties accumulate to uncontrollable levels
- Small firms do not default intentionally but they are forced by the circumstances at that point in time

i) Poor business management

- Lack of formal training in business management
- Lack peoples skills, financial skills, business management skills. Operation system controls not in place etc.
- One of the challenges faced by small businesses is failing to control financial resources. Poor budgetary control may result in resources allocated incorrectly or insufficiently to different activities of the enterprise

j) No control over clients' materials.

- Lost materials due to theft. Once the material is issued and received by a contractor to do job for the council, the onus is left with the contractor for safeguarding of the materials. All leftover materials from material that was issued

by the council after completion of a project have to be handed back. Contractors are charged for all materials lost.

k) Misrepresentation of the business capacity

- Claiming to have adequate capacity. Some small black electrical contractors fail to disclose accurate information about their capacity. They claim to have sufficient resources so that they can acquire more work. This becomes a challenge to small firms, because if they disclose their inadequacy in resources they may forfeit their work or chances to be awarded contracts.
- Another shortfall of small businesses is poor planning and unrealistic expectations in terms of income and expenses: underestimating expenses, overestimating income and failing to recognise that money will be slower coming in than expected.

l) Defaulting with SARS or suppliers

- Government tax is compulsory and tax evasion is illegal and could result in severe penalties, fines and/or imprisonment. Tax evasion constitutes a criminal offence and it may include: falsification of books, suppression of income and fraudulent non disclosure of income. Small businesses get black listed either by SARS or suppliers just because they fail to pay in time because of their poor cash flows. This jeopardizes future involvement in business and spoils relationships with suppliers and financing institutions. SARS involvement in the small business sector creates unfavourable working conditions for the small businesses

m) Corruption in the form of bribery

- This is a sensitive issue and has been raised on many occasions by unhappy respondents. They claim that corruption is found in every department within municipalities, starting from the top to the clerk of works, and filters through right down to the store man. Respondents claim that they have to bribe in order to increase chances of being awarded contracts. They bribe clerk of works to ensure a continuous fruitful relationship and they bribe the store-man so that they can receive better services and preference. This is considered to be one of the key challenges that they are faced with in the electrical industry and is not just a once off-payment.

- A problem arises when SARS questions how these large sums of money were utilized. A contractor cannot disclose that they were used for this purpose.

n) Expensive labour due to low operating rates

- If rates are too low for doing work for the municipality the operating costs exceed income and no business survives this situation. Skilled staff is expensive to keep and maintain if a firm is running at a loss.
- A small firm may find itself in an unfavourable situation, where it is forced to compromise its staff and employ unskilled, cheap labour.

o) Tenders not transparent in the tender process relating to the issuing of contracts

- It is always questionable what criterion is used in awarding contracts. The respondents are concerned about unfair awarding of contracts, whereby contractor A is requested to provide 15 teams and contractor B asked only provide three teams. This could result in contractor A having an annual turnover of about +/- R15 million and contractor B with an annual turnover of only about +/- R2 million. This causes a bone of contention.

p) Not being treated equally and fairly by officials

- Favouritism, or contractors' not getting similar treatment by an employer, is a concern and a challenge that is faced by different contractors in the electrical industry. Some of the contractors end up getting fewer jobs than others.
- When failing to comply with some employer requirements some contractors are penalised more than other contractors in a similar situation.

q) Failure to acquire financial support

- Failing to acquire finance is an ongoing challenge that is faced by small black electrical contractors. According to financial institutions, funds are available but small businesses fail to meet set criteria to qualify them to borrow money. They lack collateral and fail to provide financial projections that convince the finance provider that monies can be repaid.
- Material suppliers are not willing to open an account with a firm that does not have a good credit record.

- Some contracts require that a contractor should purchase trucks, but the challenge that small businesses are faced with is that banks are not willing to finance firms that have signed a one-year contract because when the contract elapses they may fail to pay their premiums.
- r) Fronting or window dressing**
- This is viewed as a key factor that defeats the objective of the BEE strategy. Fronting manifests itself in many different ways, which can range from outright misrepresentation of a white business' equity ownership status, to more sophisticated corporate structures designed to obscure the true nature of relationships between a company and its BEE partner (Business Report, 13 Sept 2005).
 - It constrains the development of sustainable black businesses and inhibits the transfer of skill from established business to emerging black business. It also damages the ethos of broad-based BEE and results in immense economic and social cost.
- s) Issuing of contracts to women**
- Although this is viewed as a good initiative taken by the government to address inequality between genders, some of the respondents' perception is that contracts are awarded to inexperienced woman, who then subcontract the work to males.
 - They conclude that contracts are awarded to inexperienced women just to satisfy government quotas or requirements thus denying opportunities to experienced firms.
- t) Black in BEE context is too broad.**
- The respondents are of the views that the programme caters for or enriches the very few who are mostly prominent figures in government.
- u) Black on black discrimination**
- Blacks have no respect for black seniors, nor do they want to work for black-owned construction firms. They prefer to work for firms owned by white people. A perception is that they have more respect for a person in charge if he or she is white.

v) Electrician's competencies

- Although electricians are qualified electricians before they do any municipal jobs they have to have competency. This can take any time from one month to twelve months. This is a challenge faced by small electrical contractors, as it seems as if there is a shortage of electricians yet this is not true, but it is the red tape that is in place. When candidates attend training they fail and no feedback is given.

w) Corruption

- Some contractors receive early information regarding what contracts they were going to be awarded. This gives them enough time to approach potential skilled artisans and offer them better packages, so as to recruit them. The artisan of the firms that have no prior information are left insecure and are very vulnerable and attempt to leave for the firms that already know that they are in for lucrative new contracts. By the time the contracts are awarded firms that had no first hand information find them with insufficient capacity. When contracts are awarded the officials, thus discriminating against other contractors, do not follow rules that were specified from the BID documentation. This cannot be challenged as it can jeopardize any future dealings with the council.

x) Awarding of contracts

- Contract Requirements
 - 1) Only contractors with proven previous competency and experience will be considered for appointment and the maintenance and repairs crews will consist of staff with minimum qualifications as electricians.
 - 2) During evaluation of tenders the top compliant tenders will be required to attend a compulsory technical assessment, which takes the form of a written test.
 - 3) The assessment is to be attended by only the relevant electricians who are assigned the contract.

Failure to pass the assessment by the contractor's electricians is supposed to result in the contractor tendering for appointment being disqualified.

Deviations

- 1) Contractors who had been successful had not been required to undergo assessment in fulfilment of the tender document requirements.
- 2) Not all of the successful contractors had competent staff to pass the assessment if they had been required to undergo the technical assessment
- 3) Some contractors that were successful had no enough number of competent staff and usual of new contracts were given chance to recruit competent staff from the contractors that were not successful though had met all the requirements.

Continuity of contracts

One of the key challenges that the small businesses in the electrical industry are facing is to ensure continuity.

- This pertains to the situations whereby small businesses fail to acquire contracts on a continuous basis. This may result in job loses as the small business may not have enough work to keep employees in employment. The employees will run out of jobs, but the small firms may also fail to pay creditors on time. This study is partly motivated by the writers' own experiences in the electrical industry, as the writer is one of the electrical contractors who experienced similar challenges in the electrical industry. Reference could be made to some of the challenges viewed by the writer as most applicable to the study.

The writer had forty-six employees accrued over the last five years of operation. Forty of them were utilised in construction work and the rest in maintenance work. At the end of July 2006 the running contracts elapsed and new contracts were awarded. This time the contractor was not awarded with a construction contract, but a maintenance contract and forty workers were out of work.

The implications that resulted from this scenario were that:

- The firm was downsized to six employees which consist of two artisans with their two labours each, from a total of forty-six employees.
- Skilled workers who were concerned with job security decided to seek alternative, secured jobs from other firms that are competitors.

- Shortage of cash flows required for the running of operations and the payment of business instalments.
- Any other promising job opportunities that prevail are constrained by the shortage of competences after losing skilled and experienced staff to other firms.
- Turnover dropped from four hundred thousand rand a month to sixty thousand rand a month, not enough to cover the business monthly costs.
- All bank debit orders and transactions failed because of insufficient funds.

9.7 Limitations to the present the study

- a) The present study revealed that most small black electrical contractors blame outside forces for their business failures, protecting the internal operations of their businesses i.e. pretending that there are no problems within their firms.
- b) Some of these small black electrical contractors could not respond due to a fear that their names might be exposed or published. They were not willing to participate, being cautious of victimisation, should their names be published
- c) On many occasions electrical contractors have no tertiary education. They lack understanding of the aim and reasons for conducting business research. Therefore their education level inhibited their participation in the study.
- d) Other contractors would not participate thus avoiding exposing how many problems they experience in running their business. They prefer to pretend everything is fine.
- e) Some owners have too many commitments and could not spare the time to go through the questionnaire.
- f) Some owners did not see the need, or were not obliged to participate and others preferred oral interviews.
- g) Other contractors have no communication systems. The fax machines were either broken or not available. Some have no access to Internet.
- h) Other contractors not responding nor giving any excuse for not responding
- i) Other contractors committed themselves to responding but failed to do so.

9.8 Conclusion

The results received from the survey were presented and analyzed in Chapter 8. The analysis included an examination of the overall profile of the sample and a determination of whether or not there was any significant lack of transparency. It looked at small black electrical contractors' participation aspects, which accounted for differences in response to the questionnaires. The results showed problems, which were faced by small black electrical contractors. The results presented the challenges that led to a failure of small business. The study also interpreted the findings. Chapter Ten will present conclusions and recommendations, as well as what the researcher discovered and recommends for further research.

CHAPTER 10: Conclusion and Recommendations

10.1 Introduction

This chapter concludes and presents recommendations of the study and the researcher's suggestions for further research.

10.2 Conclusions

The objectives of the study were achieved because the study managed to identify key challenges that were experienced by small black electrical contractors in the electrical construction industry. According to the survey, the root cause of failure to acquire finance by small businesses is that they lack the skills of drafting and providing, financial statements, financial projections and the required collaterals and securities. Fig.17 indicated a lack of managerial skills to be the biggest challenge that is being faced by the small black electrical contractors, followed by poor bookkeeping and government regulations.

Although some firms regard a failure to acquire finance as the main challenge faced by small businesses, the research survey results showed that most managers lack business management skills. Klandt (1993:142) speculated that lack of finances and high initial cost levels for new entries might act as an entry barrier to small firms. The larger firms enjoy an advantage as they have easy access to finance and the necessary skill levels required. Fisher and Reuber (2000:5) point out that large firms also get volumes of discount from suppliers because they purchase in large quantities and thus achieve low cost for a given volume. They achieve economies of scale, whereas small firms can only manage to purchase in small quantities. The cause of failing to acquire finances has been a failure to comply with the qualifying requirements for a financial support. The controls are there to ensure that the funds are given to potential borrowers who satisfy the requirements. Most small businesses are regarded as high-risk borrowers.

The study aimed to also to determine the similarity of challenges faced by black electrical contactors from various ethnic groups e.g. Blacks, Coloureds and Indians. The evidence obtained from the respondents indicated that electrical contactors from various ethnic groups, blacks and Coloureds or Indians, experienced challenges. The study has been able to identify problems or challenges encountered by small electrical contractors from various ethnic groups e.g. Blacks, Coloureds and Indians. A common challenge with all three groups has been the influence of SARS to small businesses; SARS was viewed as making a major contribution towards their failures. Indians seemed to have fewer problems in acquiring finances from the banks, compared to other groups, blacks and Coloureds. The study has been able to determine that Indians were more literate and familiar with procedures to be followed when sourcing funds from banks. Of the three ethnic groups a high percentage of Indians agreed that government BEE strategy has met its objectives, yet the other groups were not happy with the results. It was indicated in Fig.19 by the respondents that small businesses, which were owned by single owners and registered as Sole Proprietors, have difficulty in acquiring finance on business start-ups. They therefore finance themselves with their savings, money borrowed from their family or money generated when they were employed. This is a difficult means of financing a new venture but most emerging small black electrical contractors are left with no choice. These two challenges became evident from the study that it is continuity, a failure to have projects on continuous basis that leads to business failures and also intervention by the government.

Continuity refers to the situations in which small businesses fail to acquire contracts or projects on a continuous basis. Most respondents indicated that many businesses die at the entry stage. Fig.10 showed no indication or accurate recorded data of those that failed but the number of those that reached ten years and above in business is low. Birley and Muzyka (2000:251) stated that at zero to five years the firm is still regarded at entry stage and it is when the business sets up its foot into the industry. It is when it faces high entry barriers; competition and greediness of the existing firms that do not want to share the industry with new entrants (Birley and Muzyka 2000:251). The results depicted on

Fig.14 have clearly indicated that there was a lack of training amongst these business owners on how to manage their businesses.

Government so far has failed to provide services and policies that are directed towards addressing market failures that creates disadvantages for the SMEs in accessing markets, so that they may become competent and independent of support. Fisher and Reuber (2000:6) feel that an allusion from an approach of government policy reflects an attitude that governments are donors and the SMEs the ready recipients of charity. The major challenge was on tax policy, as illustrated in Fig.25, and confirmed that SARS contributed to small business failures. It was also noted that smaller firms are prone to disproportionate costs through obligatory tax collection, legislative compliance, insurance obligations and training and educational investments (Hendry *et al.*, 1995:04).

10.3 Recommendations

The following recommendations were made concerning small firms; in an attempt to improve their services regarding access to the legislation, financing of businesses and communication strategies.

- **Defaulting with SARS**

The practices by SARS of blacklisting businesses for not complying with the tax payments raise concerns within the small businesses sector. SARS involvement in the small business sector creates unfavourable working conditions. When small firms run out of cash they utilize tax monies to fund business operations. Interest and penalties are very high and sometimes it gets very difficult to repay tax money.

- a) **Recommendations**

It is recommended that:

- Government should provide a legal framework with a specified focus on regulating the ability of SARS to practise its powers on small businesses. Instead of closing down small businesses that fail to pay tax on time, SARS should provide assistance, to ensure the sustainability of those small businesses.

- SARS penalties and interest on tax owed should be reduced and there should be a limit on accumulating interests and penalties, otherwise small business may fail to ever settle debt.

- **Lack of finance**

Sacobs (1999:2) states that many owners of small businesses perceive the lack of access to finance as the major obstacle to the growth and development of their business and also the high cost of loan finance. Most lending institutions refuse to give loans to whom they judge to be higher risk applicants. This may discourage loan applications from small borrowers. Lending institutions also claim that small businesses lack skills and securities required by financial providers to render them lower risk borrowers.

- b) Recommendations**

- It is recommended that:

- The financial institutions must have relaxed requirements that show a desire to lend money to small businesses.
 - There should be a special provision for fewer collateral and securities required for the small business to acquire finance.
 - Contractors have to be trained on how to apply for finance, what requirements to comply with, where to go and whom to consult for assistance.

- **Lack of communication channels**

Fig.21 indicates that not every contractor is familiar with the right channels of communication within the municipalities to whom they provide services. This may be because the information was not communicated properly initially, or was not communicated at all, to all the small black electrical contractors as to where to direct their concerns, should they arise. It may also be that these departments are operating with closed-door policies where no unauthorised person is welcomed.

According to the survey report, 41.2% of the respondents know the communication channels, compared to 45.1% whose response was that there are no specific departments that their concerns / complaints can be directed to; 13.7% do not know whether or not there are any channels for directing problems to the client.

c) Recommendations

It is recommended that;

- The client should ensure that the communication channel is appropriate and understood by all small black electrical contractors. It should be made known to them to whom they should report and where to report or direct complaints.

- **Failing to meet deadlines and commitments**

One of the challenges raised by the respondents from an open-ended questionnaire was a failure by small businesses to finish assigned work in time and failing to meet their commitments. This has been analyzed to be due to a lack of knowledge and contractors' failing to understand necessary procedures. It may also be due to lack of capacity to carry out assigned duties, or when a contractor is over-commitment to a number of activities, thus failing to focus on one task. It is more pronounced in business in which an owner does everything by himself or herself.

d) Recommendations

It is recommended that:

- Training needs must be identified and training should be provided to relevant workers, to improve job skills and knowledge. These may include formal and on-the-job training, time management, production management, human resources management, operations management, etc.
- Staff should be assigned to do jobs, which they are trained to carry out.
- Employ skilled staff and ensure that they have suitable tools and equipment, which is used in good working conditions.

- **Ignorance**

This refers to a lack of knowledge and pretending not to understand or know anything. This is evident in situations when a mistake has been made or damage has been caused. The person involved pretends not to know or understand what occurred.

e) Recommendations

It is recommended that:

- Training should be provided to relevant workers so as to improve their job skills and knowledge.
- Staff should be placed on the jobs, which they are trained to do and be monitored.
- Employ skilled staff and ensure they have suitable tools and equipment, to be used in good working condition.

- **Reason for failing to employ the right staff**

First reason: It may be because of the unstable and poorly rewarded work conditions that the firm is unable to attract core employees. Small black electrical business owners prefer employees without formal training, who command lower wages and with lower bargaining power. **Second reason:** may be due to a shortage of skilled workers that possess the relevant competencies for the job. **Thirdly:** may be an employer not prepared to pay high salaries who thus target cheap labour. A problem with this is that although there would be short-term savings in the long-term this may cost a firm its reputation when the quality of services provided is compromised due to a lack of skills. **Fourthly:** another challenge is accidentally employing artisans with fraudulent certificates, as had happened at eThekweni electricity in the year 2006, where three-quarter of the electrical artisans were investigated and found to possess fraudulent certificates.

- f) **Recommendations**

- It may be cheaper to train the firm's own staff to improve their job skills and knowledge, than to source skilled staff with long-services records.
- Double check qualifications submitted and confirm with the bodies or institutions where the studying was done, because a number of people buy certificates or photocopy them.

- **Inadequate resources**

Irrespective of how skilled workers are, if they do not have the right tools to do the job they will be unproductive and equipment not in good working order will render the whole

operation unproductive. Fujita (1998:97) noted that a limitation of resources is another cause for the failure of small firm.

- a) **Limited financial resources:** small firms are faced with severe obstacles when they access credit for new investments.
- b) **Information:** they have less information than their larger counterparts on how to approach credit institutions.
- c) **Limited managerial resources:** SME managers are absorbed by current responsibilities and can give only limited time or attention to the analysis of new opportunities. The need to respond quickly and efficiently to day-to-day problem or constrains efforts to allocate scarce managerial resources to the evaluation of future opportunities.

g) Recommendations

- An employer has to provide the right tools for the job, and those tools should be in good working order, free of defects and safe to use.
- Transport has to be reliable.

- **Selecting a suitable form of business**

The study indicated that 86% of respondents are operating as sole proprietors and are single owners of their businesses. As single owners they have full responsibility for the operation of their businesses. The biggest challenge that they are faced with is that they have no partner with whom to share risks. They become physically involved in all business operations. If they die the business dies with them.

h) Recommendations

- It is recommended that small electrical business owners should consider joint ventures with other businesses. A benefit from a joint venture would be an increased capacity, as the resource, responsibility and risk would be shared.

- **Training**

What is interesting from the study is that 86% of the respondents had formal training in electrics, which forms a good base for running these entities. The shortfall with them is that they lack formal training in business management.

i) Recommendations

It is recommended that all small electrical business owners should attend formal management training. This will ensure that they acquire the managerial skills necessary for them to run their businesses professionally and efficiently. Management training may include human resource management, financial management and operations management.

• **Technology**

Goss (1991:4) states that market competitors and the progressive development of large-scale technology produces giant enterprises that either drive small firms out of existence or absorb them. One of the challenges faced by small black electrical contractors is that they are slow to innovate or to apply technology to improve competitiveness. They may lack the time or resources to become well informed about technological change or its implications for their businesses. They may not even recognize that solving a problem or realizing an opportunity could depend on technology (Small Business Research and Policy, 2005:1). Some of the small electrical businesses have no access to the Internet yet it is one of the most economic and most efficient ways of communication now used worldwide.

j) Recommendations

- It is recommended that small electrical contractors should seek training and more information about technological changes or the implications for their businesses.
- They should improve their communication systems so that they would be as competitive as their rivals.

• **Safe-keeping of materials**

The contractor should safeguard all the materials issued by the council and received by the contractor. Contractors are charged for all materials lost, losing material can be very costly.

k) Recommendations

- It is recommended that a permanent store man should be employed, who would keep data on all materials issued, received and used. He would be responsible for ensuring that these materials are returned safely to the municipality stores.

10.4 Further recommendations

The present author suggests the following further recommendations:

- Improve enterprise performance; enhance profitability and growth and management support to South African SMMEs, to enable them to develop their innovations to their full commercial potential. Key service issues should include strategic, technical and operational mentoring and shared resources, such as Internet access, access to service providers and funding sources.
- It was recognized that in order to achieve a commercially driven financial sector supply of finance to SMMEs there are two main requirements: The role of government must be clearly defined; its programmes must be structured so that they promote the desired goal and do not introduce market distortions.
- There must be a conducive regulatory and legal framework, with a specified focus on stimulating the development of financial services to the SMMEs, while still maintaining a sound financial sector overall.
- The financial institutions must have the capacity and desire to lend to this sector (SMMEs) this will enable them to develop the appropriate services and systems to serve the market.

Recommendations for further research:

- 1) Investigation to the extent of damage if any, on the white ethnic group caused by the implementation of BEE programme, especially with reference to the white youth.

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APPENDIXES

APPENDIX 1: Structured Questions:

Scaled Questions

Likert scale has been used to verify the degree of agreement and disagreement with statements related to the attitude object. Martin et al., 1996:228.

Why Small Businesses fail?

This research is done to fulfil the requirement of MBA Dissertation with the University of KwaZulu Natal PMB. The **aim** is about trying to find out what challenges small black electrical contractors in the vicinity of Durban and Pietermaritzburg are faced with that could lead to their failures.

This questionnaire requests information to be used in comparing the historical findings and current views by small black electrical contractors on this topic. Your input is very important and your responses would be confidential. No names or individual information will be published; only statistical results will be published. Please complete the survey and return it by 15 August 2006: by fax or e-mail.

Sender: Mandla Patrick Myeza

Company: Mandlas Electrical

Cell: 082 9272 992

Work No.: 031 500 9655

Fax: 031 507 9161

E mail: mandlaselectrical@telkomsa.net

QUESTIONNAIRE DESIGN

Question 1 will focus on the firm's characteristics, please put a cross on the relevant box

e.g. Do you own a car?

 Yes No

Question 1

Demographics & Characteristics of the Business

a) What ethnic group do you belong to?

 Black Indian Coloured

b) Are you the only owner of the firm?

 Yes No

If an answer is **No**, how many other partners? _____

c) Gender

 Female Male

d) Age of the business:

 0 to 5 yrs 5 to 10 yrs 10 yrs and more

e) Number of employees:

 1 to 5 5 to 10 10 or More

f) Number of electricians
Employed:

 1 to 5 5 to 10 10 or More

g) What form of business is your firm?

 Close Corporation Sole Proprietor Joint venture

h) Please indicate if you had any formal training in the following fields?

i. Electrical	<input type="checkbox"/> Yes	<input type="checkbox"/> No
ii. Business management	<input type="checkbox"/> Yes	<input type="checkbox"/> No
iii. Other	<input type="checkbox"/> Yes	<input type="checkbox"/> No

i) Did you have any practical experience in **business management** prior to owning your business?

<input type="checkbox"/> Yes	<input type="checkbox"/> No
------------------------------	-----------------------------

j) Please indicate in one of the boxes your past experience in the **electric field** before starting your business

i. Practical experience	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> No comment
-------------------------	------------------------------	-----------------------------	-------------------------------------

If **YES**: How long

<input type="checkbox"/> Less than 5yrs	<input type="checkbox"/> More than 5 yrs
---	--

ii. Technical background

<input type="checkbox"/> Electrician	<input type="checkbox"/> Technician	<input type="checkbox"/> Other
--------------------------------------	-------------------------------------	--------------------------------

Question 2

Challenges faced by the firms the could lead to their Failures

The following are challenges faced by small black electrical contractors that could lead to their failure? Please indicate by a cross in the column that best suits your opinion.

	Strongly Agree	Agree	Don't Agree	Strongly Disagree
i. Failure to secure finance				
ii. Poor cash-flows				
iii. Government regulations (taxes)				
iv. Lack of managerial experience				
v. Failure to acquire contracts				
vi. Failure to get skilled people				
vii. Late invoice payments				
viii. Poor bookkeeping				
ix. Owing SARS				

Question 3

Performance measure

a) Business Linkages

Which category best suits your business?

- i. Main Contractor
- ii. Sub-Contractor

b) Financial Support

How is your business financed?

- i. Bank finance
- ii. Supplier Purchase Account
- iii. Own

c) Channel of Communication external

How easy is to communicate problems with the client (e.g. Ethekwini electricity departments)?

- Can problems be directed to a specific department? Yes No Don't know
- Is there any person to report too? Yes No Don't know
- Would complaining jeopardize your relationship with the client?
 Yes No Don't know
- Are you always satisfied with the client's response to your problems or concerns?
 Yes No Don't know

Question 4

Government Regulations

BEE (Black Economic Empowerment) main objective is to re address the inequality that was a result of a previous regime. Would you agree with the following statement?

- a) This objective has been achieved and all small emerging businesses (SMMEs) are benefiting from the program. Do you agree?

Please put a cross in a relevant column

Strongly Agree	Agree	Neither Agree nor disagree	Disagree	Strongly Disagree

- b) Government Tax is compulsory, and any Tax evasion is illegal and could result in severe penalties, fines and or imprisonment. Tax evasion constitutes a criminal offence. Failing to pay SARS all Taxes in time owed may lead to black listing of the business by SARS or even liquidation. Small business blame their failure to pay in time to due to poor cash flows, high interests on Tax owned, high penalties accumulated over a period.

Question

Do you agree that SARS contributes to small business failures regarding the above statements?

Strongly Agree	Agree	Neither Agree nor disagree	Disagree	Strongly Disagree

Open ended questionnaire

Please list more problems if any other than those already mentioned that you think small black electrical contractors are also faced with.

a) _____

b) _____

c) _____

d) _____

e) _____

APPENDIX 2: ETHICAL CLEARANCE APPLICATION

UNIVERSITY OF KWAZULU-NATAL

(HUMAN AND SOCIAL SCIENCES)

Inquiries:

Ms Phumelele Ximba

Tel: 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: | Mandla Patrick Myeza |
| 1.2 | Title (Ms/ Mr/ Mrs/ Dr/ Professor etc): | Mr. |
| 1.3 | Student Number | : 9621 45171 |
| | Staff Number | : _____ |
| 1.4 | School | : School of Business |
| 1.5 | Faculty | : Commerce |
| 1.6 | Campus | : UKZN |
| 1.7 | Existing Qualifications | : _____ |
| 1.8 | Proposed Qualification for Project | : MBA |

2. Contact Details

Telephone Number : 033 3433 467
Cell. Number : 082 9272 992
E-mail address : mandlaselectrical@telkomsa.net
Postal address (in the case of students
and external applicants) : PO Box 2035
Hilton Gardens

3. SUPERVISOR DETAILS

<i>NAME</i>	<i>TELEPHONE NO.</i>	<i>EMAIL</i>	<i>DEPARTMENT / INSTITUTION</i>	<i>QUALIFICATI ONS</i>
3.1 Mr. S Soni	082 972 1998	soni@ukzn.co.za	UKZN	M. Comm.
3.2				
3.3				

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

A STUDY OF CHALLENGES THAT BLACK ELECTRICAL CONTRACTORS IN DURBAN AND PIETERMARITZBURG AREA ARE FACED WITH THAT COULD LEAD TO THEIR FAILURE.

2.2 Location of the study

Durban and Pietermaritzburg Area

2.3 Objectives of and need for the study

The main objective of compiling this report is to identify key challenges that are faced by small black contractors particularly in the electrical construction industry e.g. (finance, government taxes, industry regulations etc.) apart from those identified in the previous works. The need to do this report is justified by the continual failure of small businesses irrespective of all the initiatives that had been taken previously regarding this issue.

Contribution of the research

- Identify current challenges faced by black contractors in the electrical industry
- Compare highlighted challenges to historical studies to verify if there are any relationships or deviations.
- Verify similarity of challenges faced by different ethnic groups in the context of black contractors e.g. Black, coloured, Indians.
- Propose the implementation of proposed solutions to minimize the rate of failures.

2.4 Theoretical framework

The motivation for this study stemmed from the writer's own experience of having owned an electrical business which is also exposed to similar challenges with other small black contractors in the same industry. This necessitated the study to be done to get the views of different contractors as to what they perceive to be the challenges that influences their firm's survival.

The first phase involved a verbal discussion with the group of black electrical contractors, to verify if there was a need to do this report. This group was attending a training on Small Business Management Training at Pinedene Hotel in Pine Town that was organized by ESKOM especially for all black contractors in ESKOM data base after realizing that managers of these emerging firms lacks managerial skills.

Literature will explore the small business sector in view of Hodgetts *et al* (1998:493) ventures life cycle as they provide information on start-ups and declines of small businesses, the important considerations that ensure the proposed business to succeed and forms of businesses in South Africa. The study will also discuss challenges that are faced by the small black contractors in an electrical industry that could lead to their failures, business financing, national government intervention through the Department of Labour, factors that are influencing small and medium enterprises (SMEs) in South Africa and the influence of government policies such as economic growth and BEE.

2.5 Questions to be answered in the research

What challenges are small black electrical contractors in the electrical industry faced with that could lead to their failures?

2.6 Research approach/ methods

Preliminary Research

The first phase involved an informal verbal discussion with the group of black electrical contractors regarding challenges that they are faced with. Discussion showed a need for this study.

Needs Analysis

Analyze the response to preliminary discussions with the group of emerging contractors.

Questionnaire

Draft a questionnaire which sought to obtain views of black contractors regarding challenges that they are faced with that could lead to their failures. A population of contractors is obtainable from the contractor's data bases of the three major municipalities, ESKOM, eThekweni Electricity and uMsunduzi Electricity.

The questionnaire requires contractors to answer a number of specific questions, designed to obtain quantifiable data concerning the challenges faced by small black contractors. The questionnaire is aimed at identifying;

- Demographics
- Firms Characteristics, and
- Challenges faced by contractors.

The question also attempts to obtain an indication of the most desirable delivery modes;

Structured questions include

- Dichotomous questions (example Yes/No, Male/Female, Agree/Disagree)
- Multiple-choice questions with single answer
- Scaled questions (using Likert scale)

A quantitative approach has been selected as the objective is to generalize the findings.

Sample of the study

The sample of this study will use all the operating electrical contractors in the Msunduzi Municipality area which are outsourced to ESKOM and the eThekweni electricity. The study will focus mainly on the ESKOM outsourced contracting companies and eThekweni electricity. The instrument of the study will be the purposive or snowball. In a purposive or snowball, preferences are often given to the key informants who have more information than regular group members (Welman and Kruger, 2001:37)

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
Questionnaire	End of July 2006
Final Submission	End of Nov. 2006

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 staffs 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 which 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 3.1

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

QUESTION 3.2

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

QUESTION 3.3

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.

QUESTION 3.4

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	

QUESTION 3.5

Specify what efforts been made or will be 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	
1) The researcher will submit a clearance form to appropriate authorities		

QUESTION 3.6

How will the research data be secured, stored and/or disposed of?
1) The research data would be analyzed and be reflected in a report 2) A copy of the research would be kept at the university library 3) All unused data would be deleted from data collected

QUESTION 3.7

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?
a) No name of individuals would be published

QUESTION 3.8

Is this research supported by funding that is likely to inform or impact in any way on the design, outcome and dissemination of the research?	YES	NO X
--	------------	-----------------------

SECTION 4: FORMALISATION OF THE APPLICATION

APPLICANT

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.

NB: PLEASE ENSURE THAT THE ATTACHED CHECK SHEET IS COMPLETED



.....
16 May 2006

SIGNATURE OF APPLICANT

DATE

SUPERVISOR/PROJECT LEADER

NB: PLEASE ENSURE THAT THE APPLICANT HAS COMPLETED THE ATTACHED CHECK SHEET AND THAT

THE FORM IS FORWARDED TO YOUR FACULTY RESEARCH COMMITTEE FOR FURTHER ATTENTION

DATE:

SIGNATURE OF SUPERVISOR/ PROJECT LEADER

: _____

RECOMMENDATION OF FACULTY RESEARCH COMMITTEE/HIGHER DEGREES COMMITTEE

FULL NAME : _____ (CHAIRPERSON) _____

DATE :

SIGNATURE : _____

RECOMMENDATION OF UNIVERSITY RESEARCH ETHICS COMMITTEE (HUMAN AND SOCIAL SCIENCES)

FULL NAME: _____ CHAIRPERSON _____ DATE :
.....

SIGNATURE : _____

**UNIVERSITY OF KWAZULU-NATAL
RESEARCH OFFICE**

ETHICAL CLEARANCE: HUMAN AND SOCIAL SCIENCES

CHECK SHEET FOR APPLICATION

PLEASE TICK

1. Form has been fully completed and all questions have been answered	X
2. Questionnaire attached (where applicable)	X
3. Informed consent document attached (where applicable)	X
4. Approval from relevant authorities obtained (and attached) where research involves the utilization of space, data and/or facilities at other institutions/organisations	X
5. Signature of Supervisor / project leader	X
6. Application forwarded to Faculty Research Committee for recommendation and transmission to the Research Office	X

GUIDELINES FOR DRAWING UP AN INFORMED CONSENT DOCUMENT

The Informed Consent document could either be

1. in the form of a letter to the participant, containing information on the items listed below and concluding with a declaration allowing for the name of the participant, signature and date, or
2. drawn up as a declaration with a separate information sheet containing information on the items listed below

Note: in the case of 1 above, a copy of the signed consent has to be given to the participant.

INFORMATION TO BE INCLUDED IN THE INFORMED CONSENT DOCUMENT

- . **The project title understandable by the lay person.**
- . **A statement of the projects aims, in terms understandable by the lay person,**
- . **The names, affiliations and contact details of the investigator/s, with qualifications where appropriate,**
- . **Name, contact address or telephone number of an independent person whom potential subjects may contact for further information, usually the project supervisor, team leader or school director,**
- . **A brief explanation of how the subject was identified,**
- . **A clear explanation of what is required of the subjects who agree to participate, including descriptions of any procedures they will undergo and any tasks they will perform, together with an indication of any possible discomfort or any possible hazards involved. The estimated total time of involvement and the number of occasions or duration of time over which this involvement is spread should be stated.**
- . **Potential benefits to be derived from participating in the study should be stated,**
- . **An indication of payments or reimbursements of financial expenses incurred by subjects,**
- . **A statement on the use of any written, audio or video recordings made,**
- . **An indication of how and when the gathered data will be disposed of,**
- . **A statement assuring confidentiality or anonymity as appropriate,**
- . **A statement that a decision not to participate will not result in any form of disadvantage,**

- A statement that participation is voluntary and that subjects are free to withdraw from the study at any stage and for any reason.

EXAMPLE OF DECLARATION

I MANDLA PATRICK NYEZA.....(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

16/MAY/2006
DATE

NOTE:

Potential subjects should be given time to read, understand and question the information given before giving consent. This should include time out of the presence of the investigator and time to consult friends and/or family.