

**UNIVERSITY OF KWAZULU-NATAL**

**AN EXPLORATION OF SMALL BUSINESS MORTALITY: A LESOTHO PERSPECTIVE**

**By**

**‘M’akahlolo Qhobela**

**204519766**

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**Supervisor: Prof. W. D. Geach**

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## **DEDICATION**

This is dedicated in loving memory of my father, Ntate Khanyane Koalepe; to my mother 'M'e 'M'atebello Koalepe; to My husband Makomosela and our children Kahlolo and Masupha.

## **DECLARATION**

I..... ‘Mákahlolo Qhobela .....declare that

- (i) The research reported in this dissertation/thesis, except where otherwise indicated, is my original research.
- (ii) This dissertation/thesis has not been submitted for any degree or examination at any other university.
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## **LIST OF ACRONYMS AND ABBREVIATIONS**

AGOA	African Growth and Opportunity Act
BEDCO	Basotho Enterprise Development Corporation
CRUT	Charitable Remainder Unit trust
ESOP	Employee Stock Ownership Plan
FDI	Foreign Direct Investment
GDP	Gross National Product
GoL	Government of Lesotho
I.T	Income Tax
IF	Integrated Framework
IMF	International Monetary Fund
LCCI	Lesotho Chamber of Commerce and Industry
LRA	Lesotho Revenue Authority
LTU	Large Taxpayer Unit
MoU	Memoranda of Understanding
MTICM	Ministry of Trade and Industry; Cooperatives and Marketing
NAWBO	National Association of Women Business Owners
NCDC	National Curriculum Development Centre
NEF	National Empowerment Fund
NFWBO	National Foundation for Women Business Owners
OAS	Official Assessment System
OECD	Organisation for Economic Co-operation and Development
RSCGs	Rural Savings and Credit Groups
SAS	Self Assessment System
SBA	Small Business Administration
SMEDA	Small and Medium Enterprise Development Authority
SMEs	Small and Medium-sized Enterprises
SMTs	Small and Medium-sized Taxpayers
TEU	Taxpayer Education Unit
TIN	Taxpayer Identification Number
UNCTAD	UN Conference on Trade and Development
VAT	Value Added Tax
VIP's	Very Important People

## **ABSTRACT**

The informal sector, a sector which is formed by small businesses, plays the pivotal role in Southern African countries' economic development and has predominately acted as a source of entrepreneurship essential to economic restructuring. It also acts as a social buffer for mitigation of the imbalances created by falling growth in the formal sector. Currently the sector appears the most viable alternative for employment creation to formal sector. The research notes that the economic crisis has exacerbated unemployment and poverty in Southern Africa in general, and Lesotho in particular. Low rate of labour absorption in the formal sector has meant that informal sector provides the best opportunity for unemployment reduction and poverty eradication. Further, it offers alternative employment and a source of income supplementation to formal sector workers as the formal sector is now not able to generate adequate employment opportunities.

Factors contributing to failure of small businesses include lack of management skills/practices, marketing, financial, poor coordination and networking especially formation of partnerships, lack of knowledge of succession and strategic planning, poor access to credit and other problems such as lack of support from the government, and high tax rates. The infrastructure is inefficient and directly and indirectly hinders development and employment. Many small business owners are entrepreneurial but lack support both financially and institutionally. Measures are outlined to improve access to finance, formation of partnerships through buying syndicates, and access to relevant training. A vacuum exists in developing policies so governmental support to small businesses is also important in economic development. Recommendations are made on the restructuring of educational curricular through the National Curriculum Development Centre (NCDC) so as to address the environmental needs and also those of small business owners in the country.

The key conclusion is that because small businesses are the breeding ground for new and emerging entrepreneurs, they have a major role in job creation for the expanding labour force in Lesotho. Lesotho government, relevant private agencies and chambers of commerce are urged to assist specifically the developing small businesses in Lesotho.



## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 INTRODUCTION**

In today's fiercely competitive marketplace, an organization can fail at a moment's notice. The realisation today is that entrepreneurships or organizations are increasingly fading from the limelight at an escalating rate as economies throughout the world are going through turbulent change. Companies need fresh thinking about how to operate and compete in the new economy as Kotler (2003) observed. Lesotho is no exception. The concept of domestic economic development is still farfetched in Lesotho.

A trend shows that there has been a significant increase in the closure rate of small businesses in Lesotho in the past five years. The role-players involved in Lesotho's economic development are Basotho and domestic economic development expatriates who have over time been competing over small businesses. It is crucial to equip business owners with skills and qualities required for participation as citizens in a democratic society and as employment creators in the economy. Small, Micro and Medium-sized enterprises have been recognized as the base of growth of all economies in the world.

In Lesotho and in many other developing countries small and informal sector operators form a larger part of the population from tax revenue perspective and their contribution to corporate tax collection is so pivotal that they should not be ignored. A vibrant and growing small business sector is critical to creating jobs and poverty alleviation in a dynamic economy.

Kotler (2003) states that companies can outperform the competition if they can move from a product and sales philosophy to a marketing philosophy. He further contends that a business must be viewed as a customer-satisfying process, not a goods-producing process. Small business operators are facing a challenging dilemma in moving rapidly into the new economy and employ internet and other technologies to achieve a competitive advantage.

Thompson, Strickland and Gamble (2005) argue that crafting strategy calls for good management; excellent execution of an excellent strategy is the best test of managerial excellence and that good

strategy is the most trustworthy signs of good management. Hence, the intent of this study is therefore to explore factors that contributed to the failure of small businesses in Lesotho. It will further develop strategies to be implemented for combating these factors. The contents of this study should improve the understanding of the extent to which this becomes a serious impediment to economic growth in the country.

## 1.2 BACKGROUND AND CONTEXT

From 2002 to 2006 a trend has shown that a closure of small businesses in the retail sector (cafes and mini-supermarkets/grocers) in Lesotho has been increasing from 8% to 19% (Trade and Industry, 2008).

**Table 1.1:** Total Population of Taxpayers registered with the Lesotho Revenue Authority per Category (cumulative figures).

Category	2002	2003	2004	2005	2006	Dormant by 2006 end	Active by 2006 end
Sole Proprietors	15926	16429	16784	17652	18378	4860	13518
Small Companies	5289	5301	5319	5358	5622	2122	3500
Large Companies	95	99	1	-	100	-	100
Total					24100	6982	17118

Source: Lesotho Revenue Authority's Records (2007)

According to the Lesotho Revenue Authority (LRA) records (2007), total population of small businesses is about 24,000. Small businesses comprise of individually owned businesses such as cafes, mini-supermarkets; taxi owners ; companies with employees between 2-50; partnerships and building constructions and they account for 99.5 % of the total population as shown in Table 1 above hence they play a pivotal role in economic development in the country in terms of job creation and poverty alleviation. There is a closure rate of 29.1% of small businesses by 2006 and this has direct negative economic implications on corporate revenue collection. This becomes a serious problem, on the part of the Lesotho Revenue Authority as it decreases total revenue collection.

Practically, tax agencies in most of developing countries rarely exclude small and medium businesses/taxpayers from the tax base, regardless of their weak organizational structures and very low contribution to the corporate revenue, (Terkper, 2003). Lesotho is therefore no exception. Value Added Tax (VAT) threshold level is M500,000.00 and will normally exclude most of small taxpayers. Under Income Tax there is no threshold and it does not exclude small taxpayers from the tax base. Under Official Assessment System (OAS), most of small taxpayers would not keep adequate records and submit them for official assessment, as a result estimated assessment would be raised but taxpayers defaulted on tax obligations despite the greater percentage of total population they form. Therefore, corporate debt could not be easily recoverable from such a situation. To remedy this situation tax amnesty was introduced as incentives to taxpayers and encouragement for voluntary compliance.

### **1.3 PROBLEM STATEMENT**

The study emanates from a revenue collection perspective in Lesotho. The records from the Ministry of Trade and Industry; Cooperatives and Marketing show that the small businesses' closure rate increased from 12% to 19% between 2002 and 2006 and from the LRA records the closure rate was 29.1% by 2006. The reason for the discrepancy in percentage closures between the Ministry of Trade and Industry and the LRA, could be due to the fact that the LRA also records the closure of unlicensed businesses.

The high rate of closure of small businesses such as retail stores; cafes and mini-supermarkets have increasingly impacted negatively on the corporate revenue collection in that revenue decreases. The main objective of the LRA is to maximize revenues by including all small locally owned businesses into the tax net and see them successful in their businesses.

As small businesses are a primary contributor to the economic and social well-being in Lesotho, their general lack of longevity is a cause of concern. Therefore, it is undoubted that the economic and social costs and high closure rates have impacted negatively on the corporate revenue collection hence economic growth in Lesotho. Therefore this study will investigate the reasons for small business failure in Lesotho. The objective of this research is set out in paragraph 1.4 below.

## **1.4 RESEARCH OBJECTIVES**

In the context that has been outlined above, the aims and objectives of this study are:

- To determine the demographic profile of the owners of small businesses that closed.
- To determine the background of owners of small businesses that closed.
- To determine the level and type of skills, education and training of the owners of small businesses that closed.
- To determine the type of support, guidance and mentoring received by the owners of small businesses that closed.
- To determine the level of financial support, if any, received by the owners of small businesses that closed.
- To determine whether owners of small businesses that closed engaged in strategic planning.
- To determine whether the owners of small businesses that closed engaged in networking with their peers.
- To determine the contribution of small businesses that closed to job creation.
- To determine whether owners of small businesses that closed prepare for succession planning.

## **1.5 RESEARCH QUESTIONS**

- What is the demographic profile of the owners of small businesses that closed?
- What is the background of owners of small businesses that closed?
- What is the level and type of skills, education and training of the owners of small businesses that closed?
- What is the level and type of support, guidance and mentoring received by the owners of small businesses that closed?
- What is the level of financial support, if any, received by the owners of small businesses that closed?
- Have owners of small businesses that closed engaged in strategic planning?
- Have owners of small businesses that closed engaged in networking with their peers?
- What was the contribution of small businesses that closed to job creation?
- Did owners of small businesses that closed prepare for succession planning?

## **1.6 LIMITATIONS OF THE STUDY**

- From the interpretation of questions in the questionnaire, most of respondents were reluctant to give information and had a negative attitude. This was due to distrust in the government and inaction by some authorities including the government and other stakeholders. The respondents' contention was that they have been neglected by the same authorities so they were of the opinion that the study would not have any positive impact.
- The study was limited due to business owners' hesitation to read questionnaires; some respondents could not understand the English very well so they were eventually interviewed by interpreting the questions to them. As a result, the process was prolonged and more time was taken more than it was anticipated.
- Limited to one district. Because of scared resources, the study was conducted in one district.

## **1.7 DESCRIPTION OF CHAPTERS**

This chapter (Chapter One) provides the background to the study in the form of an introduction. It then briefly covers classification of small and medium businesses, the problem statement and the purpose and significance of the study. The chapter then further states research objectives and questions. Additional information focuses on the justification why Lesotho is being chosen, Limitations to the study and Description of chapters were later covered.

Chapter two provides a review of the literature on demographic factors on small business success; family tradition/background and entrepreneurship; skills, education and training and their effects on small business; guidance and mentoring; capitalisation; importance of strategic planning; importance of networking; importance of succession planning and finally, the role of small business in job creation were discussed. Additional information including problems facing small businesses and characteristics of small businesses were discussed.

Chapter three discusses research design and methodology, including a pilot study. Chapter four examines and analyses survey findings. Chapter five provides discussions of findings and relates them to the literature. Chapter six provides conclusions and recommendations.

## **1.8 CONCLUSION**

In conclusion, the significance and the role of small businesses in the economy development have been indicated in numerous ways. The problem statement was clearly defined in which escalating rate of closure of small businesses has been observed in Lesotho. The background and context to the study were also discussed. In the quest to explore and indentify mitigation strategies, research objectives were indicated and questions were developed. There were however, some limitations of the study that were clearly indicated and finally, the description of chapters was provided.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

The goal of this study is to evaluate the level of small business mortality and explore factors that contribute to their failure. It also aims to provide the necessary context within which the levels and trends in small businesses can be evaluated and interpreted. All factors inclusive of demographic, other factors such as skills, education and training are being guidance and mentoring, capitalisation, importance of strategic planning, networking, succession planning and the role of small business in job creation that are key to the failure of small businesses have also been interpreted.

#### **2.1 BACKGROUND TO STUDY**

In April 2004 Self Assessment System (SAS) was introduced which requires taxpayers in control of tax data to make voluntary and reliable disclosures by keeping adequate records, calculating tax, filing return and being compliant. Introduction of Self Assessment System (SAS) has resulted into a greater number of taxpayers filing either a nil or loss return forms and this has negative impact on then corporate revenue collection. Under this system the taxpayer files a return which is taken at face value, audit is conducted and revised assessments are raised.

In principle, self-assessment procedures are superior to official assessment regime, (Terkper, 2003). Where a taxpayer is unable to meet submission deadline which is 30<sup>th</sup> June each year, an extension of time for submission is granted on application in writing to the Commissioner of Taxes. The Income Tax Act No.9 of 1993 as Amended clearly stipulates that granting of an extension of submission time does not suspend quarterly payments of income tax due but this group of taxpayers does not adhere to this section of the act.

Regional and multilateral trade negotiations seem to have direct impact on some developing countries on their ability to participate effectively in the regional and international trading system, both from a policy and a commercial perspective, Lesotho is no exception. Basotho entrepreneurs in Lesotho have over the past decade experienced severe competition from expatriates such as Chinese over small retail ventures such as cafes and mini-supermarkets.

According to the LRA records, a better portion of these ventures did not show healthy investments in 2006/2007 fiscal year. Most of them returned nil and loss assessments. Upon the registration of businesses with the LRA, taxpayers are normally interviewed and registration forms filled. Some of these small businesses were captured into the tax base during door-to-door exercises that are normally undertaken each year. Likewise, when closing their businesses, they are referred to the LRA by the Ministry of Trade and Industry; Cooperatives and Marketing for tax clearance purposes to ensure that they are legally cleared before the closure of such businesses. On the same token, others are identified to have closed their businesses during tax clinics and door-to-door exercises. It is at this stage where the LRA will deregister such taxpayers and update its index for dormant traders.

The LRA records indicate that most Basotho men are being retrenched from South African mines and paid their terminal benefits which they use to establish small business ventures such as cafes, mini-supermarkets because they view them to be relatively inexpensive and easy to establish. Such information is gathered through interviews (questionnaires are filled during interviews) of taxpayers who come for registration of their new businesses. Not only retrenched men are engaged in these business ventures but also Basotho women.

These types of businesses are normally established but there is lack of business sustainability or longevity in them. The seriousness of the closure of locally owned small retail businesses is underscored by the fact that after their closure, the premises are let out to foreigners to run the same kind of businesses and they prosper under their management. The question is why are so many locally owned small businesses closing down?

## **2.1.1 The Lesotho Ministry of Trade and Industry, Cooperatives and Marketing background**

### **2.1.1.1 Vision**

“Lesotho shall assume a leadership position in the Sub-region and in Africa as an investment destination of choice and shall be competitive in the multilateral trading system while maintaining highest consumer protection standards. These will be achieved through development of policies conducive to promotion of entrepreneurial skills and transfer of appropriate technology and application of cutting edge technology and through smart partnership of the public and private sectors”, Ministry of Trade and Industry, Cooperatives and Marketing 2008.



#### **2.1.1.2 Mission**

the new mission statement for the Ministry has been set as follows after considering the above factors: “To create and maintain a more equitable and enabling environment for industrial, agribusiness and commercial development”, Ministry of Trade and Industry, Cooperatives and Marketing 2008.

It is indicated that the above vision and mission statements can only be fulfilled the ministry through formulation and monitoring and the implementation of policies at commercial and industrial level in order to support legislation. Foreign direct investment and domestic participation by local business owners in marketing, commercial and industrial activities need to be promoted through establishment of institutional frameworks, Ministry of Trade and Industry, Cooperatives and Marketing 2008.

#### **2.1.1.3 Goals of the Ministry**

The Ministry is in the long run aiming at broadening the country’s industrial base and improving, employment opportunities for Basotho by attracting foreign investment. It is their intention to see the country’s foreign exchange and economic growth improving. They therefore, envisage identifying and assisting local entrepreneurs and the farming community to utilize export opportunities.

Lesotho is a signatory to some treaties of which they have to maximize their benefits through fostering an effective participation in international and regional trade organizations. To improve the performance, and to support the growth of local entrepreneurs and farmers, there is a need to facilitate the creation of a conducive and appropriately regulated environment for commercial and marketing activities. Finally, they are eager to increase profit margins and producers’ market share.

#### **2.1.1.4 Objectives of the Ministry**

The main objectives of the Ministry include, among others, development and promotion of relevant quality and productivity programs in order to enhance the country’s competitive position in the liberalized global economy. To promote participation of government and private sectors in development programs and employment creation, the ministry aims at fostering smart partnership. It is one of their objectives to ensure transfer of appropriate skills and technology between investors and local entrepreneurs to ensure sustainable growth, Ministry of Trade and Industry 2008.

## **2.2 Basotho Enterprises Development Corporation (BEDCO) background**

“BEDCO was established in 1975 with the mandate to promote local entrepreneurs. It is essentially government funded and until 1992, it also received operational funding from Canadian development funds. Anyone can apply for assistance and the only requirements are that the applicant must be a Basotho and have the necessary permits to engage in their intended business” (Genesis Analytics 2003).

There are various services that BEDCO offers to entrepreneurs throughout the country. Their responsibility among others is to ensure availability of space for trading to small business owners at subsidised cost. They conduct training programmes, workshops and short term courses on various aspects including technical training in woodwork, metal work, sewing, business and management

As indicated earlier that the mandate of BEDCO is to promote local entrepreneurs, they also market their students’ products, through flea market for example. On average, a total of about 800 students are trained in a year, Genesis Analytics 2003.

## **2.3 Lesotho Chamber of Commerce and Industry**

The Lesotho Chamber of Commerce and Industry is the leading national business promotion body, particularly for small and medium enterprises. It has, since 2006 been supported by Canadian International Development Research Centre in developing a computer-based trade information system for collecting, processing and disseminating market information. The policy formation is the responsibility of the Ministry of Trade and Industry, Cooperatives and Marketing.

## **2.4 Mohloli Chamber of Business**

Mohloli Chamber of Business (MCB) is a small organization recently established by local entrepreneurs and professionals, with intent to promote business locally, regionally, and internationally. MCB is a membership driven organization, with membership fee of M3, 000.00 per year from different sectors of the economy, be it large or small scale. The main reason of their existence is to facilitate creation of wealth by identifying and establishing business opportunities for their members, Mohloli Chamber of Business 2008.

### **3.0 CLASSIFICATION OF SMALL AND MEDIUM TAXPAYERS/BUSINESS**

According to the LRA records 2007, the criteria for selecting large taxpayers in the Large Taxpayer Unit (LTU) distinguished them based on the turnover, assets and number of employees; and that taxpayers are Very Important People (VIP's) and the rest have been classified as small and medium. According to Terkper (2003) this group is normally made up of formal and informal entities and fall under conventional "hard-to-tax" group which is small and vulnerable taxpayers. Most of them are engaged in businesses such as sole proprietorships, retail outlets, transport industry and other small entities of different business ventures. They are further classified as small and medium based on their inability to comply with tax administrative procedures.

## **4.0 WHY LESOTHO?**

### **4.1 Overview**

The Kingdom of Lesotho is a small, landlocked and mountainous country surrounded entirely by South Africa covering an area of about 30,350 square kilometres. About a quarter of the total land area averaging 1,500 metres above sea level constitutes the main agricultural zone. SACU – Kingdom of Lesotho, Annex 2, WT/TPR/S/114/LSO (undated).

### **4.2 Economy**

Lesotho's economy is based predominantly on exports of water, the only significant natural resource to South Africa which generated royalties for Lesotho. Manufacturing, agriculture, livestock, and to some extent the earnings of laborers employed in South Africa are also its other economic resources. In 1986, Lesotho started Lesotho Highland Water Project (LHWP) under which it was able to adequately produce electricity and generated approximately \$24 million annually from the sale of electricity and water to South Africa. This constitutes about 90% of its own electrical power needs, Travel Document Systems (1996).

Other Lesotho's also exports include; diamonds, wool, mohair, clothing and footwear. The Southern Africa Customs Union (SACU) is the principal source revenue of the Lesotho government, an institution that provides tariffs, and which aims at an equitable distribution of benefits to member countries from economic development. Lesotho's geographic location created an easy economic integration with South Africa, SACU – Kingdom of Lesotho, Annex 2, WT/TPR/S/114/LSO (undated).

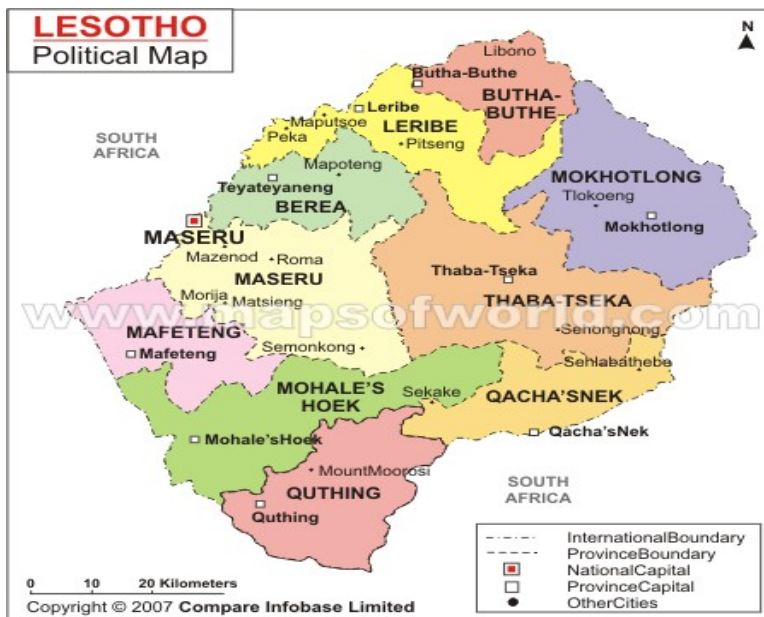
A second important institutional arrangement with South Africa is the Common Monetary Area (CMA), a common currency and exchange control of which Lesotho, Swaziland, Namibia, and South Africa are members, which pegs the Lesotho's Loti at par with SA Rand, which also circulates as legal tender in Lesotho. There are however, no controls on exports except for diamonds, for which a license is needed.

Lesotho, being one of the member counties that are governed by African Growth and Opportunity Act (AGOA), was advantaged and became the largest exporter of garments to the US from sub-Saharan Africa. In 2002, a remarkable performance of exports totaling over \$320 million and employment reaching over 50,000, was realised and marking the first time that manufacturing sector workers outnumbered government employees.

It has been evident that manufacturing base has since developed slightly due to steady decline of mineworkers. There has been significant and rapid growth and expansion in apparel-assembly sector due to Lesotho qualifying for the trade benefits contained in AGOA. Though Lesotho benefited from AGOA, the fact that its economy is predominately based on subsistence agriculture is inevitable.

In the quest to mitigate inequality in the distribution of income which still remains extreme an drawback, Lesotho signed an Interim Poverty Reduction and Growth Facility with the International Monetary Fund (IMF). In July 2007, Lesotho also signed a Millennium Challenge Account Compact with the US worth \$362.5 million, Lesotho Economy 2007 and SACU – Kingdom of Lesotho, Annex 2, WT/TPR/S/114/LSO (undated).

### 4.3 Map of Lesotho



**Source:** Compare Infobase Limited, 2007.

### 5.0 DEMOGRAPHIC FACTORS IN SMALL BUSINESS SUCCESS

Brush (1992) deliberates that provision of proper socioeconomic and regulatory environment should facilitate the growth and success of the small business sector worldwide. He contends that educating the workforce and consideration of different obstacles and outcomes should provide possible changes in public policy and assistance programs.

As put by Bates (1990), education plays a pivotal role and that businesses that will remain in operation for a considerable period are mostly owned by highly educated entrepreneurs. The financial capital structure of small business startups is largely determined by owner's educational background, he argues. Hall (1995) stated that the age of the owner at the start of business can have positive correlation to the probability of survival of the business as human capital includes all the capabilities an individual.

Furthermore, women have apparently proved that they play a pivotal role in the economy. The number of women entrepreneurs is rising in many member countries of the Organisation for Economic Co-operation and Development (OECD). The OECD (1997) observed that enterprises

owned by women made up one-quarter to one-third of the total business population worldwide. In future, women are likely to become even more important to the economy (Ball 2005).

Recently, gender equality in the labour market has significantly progressed. Access to education and training has enabled women to acquire professions and occupy and managerial positions previously reserved for men. In the past women were discriminated institutionally and otherwise, to combat the attitudinal and institutional discrimination that prevents women from certain jobs and hinders their career development, many organizations and governments, have devoted much thought and energy (Wirth, 2002). SME development and economic growth can successfully be driven by a well-educated workforce, (Coy, Shipley, Omer and Khan, 2007).

The above deliberation is evidenced by the fact that in Pakistan for instance, male literacy constitutes (63.7 percent) which is substantially higher than female literacy (39.2 percent) among the literate population of approximately 48 percent of the total population. Males were found almost twice as likely to have earned a college degree (4.9 percent) than females (2.6 percent). Attainment of some higher education other than a degree is similarly distributed with 3.9 percent overall, and males (4.7 percent) again surpassing females (3.1 percent) (Coy *et al.*, 2007).

### **5.1 Recent Governments Initiatives**

Some governments are seen committed and ready to remedy situations which neglected education as a success factor to small businesses development and survival. For instance, the government of Pakistan developed the national education policy in an endeavour to improve their educational system and make it more meaningful. They are concerned about its relevance and they are committed to developing a knowledge-based society as they believe SME development and economic growth, (Coy, Shipley, Omer and Khan, 2007).

According to Brush (1992), the number of women-owned sole proprietorships in Pakistan increased from 1.9 million to 3.3 million, an increase of about 9.4 percent per year versus 4.3 percent for men during the same period. Estimates are that women are starting businesses at a rate more than twice that of men. He further indicates that recent survey by Census Bureau notes that there is an increase of 57 percent in the number of women-owned business from 1982 to 1987.

Other studies reveal that America's economy is heavily driven by women-owned businesses. According to Census Bureau 1991, 29 percent of all businesses are owned by women who constitute over 15 million jobs created, (National Foundation for Women Business Owners [NFWBO] and Dunn and Bradstreet Information Services 1995).

In 1994, female entrepreneurs have more than tripled in number from 2.5 million in 1980 to 7.7 million in most industries, (NFWBO 1995). The Committee on Small Business (1988) estimated that about half of all businesses will be owned by women by the year 2000. Nearly 31 percent of these women have had previous executive/management or supervisory experience prior to starting their own businesses, (Census Bureau, 1991).

According to Coy *et al.*, (2007), it has been reported in a number of studies that for small business ventures to be successful, diverse factors have to take a lead. There are a number of critical factors to the success of small businesses either managerial, marketing or financial and could include, to mention a few dedication, growth potential, innovation, , commitment to service and quality, emphasis on quality, operating efficiency and hard work.

Additionally Coy *et al.*, (2007) content that relevant managerial, marketing and financial background and experience, are seen to be pivotal demographic factors impacting on small business success.

As put by success Lussier and Pfeifer 2000, both environmental factors and entrepreneurial characteristics were considered as factors in business success by other studies could be defined in terms of rate of return on sales, and age or longevity of the firm also found that sales, profit, and longevity were important to success.

Pullig and Chawla (1998) state that critical success factors have been due to managerial inadequacy, failure to execute managerial, marketing, financial and human resource management skills, environmental factors, not possessing higher education, minority status, entrepreneurial characteristics, interpersonal skills, and strategic planning, not having parents who also owned a small business as important determinants of failure.

According to Stewart, JoAnn, Carland and Watson (1990) entrepreneurs' main objective is profit maximization and they are growth oriented for their ventures. Strategic planning is the fundamental management tool through entrepreneurs can achieve motivation, take risk and improve their innovation skills to be more successful in their entrepreneurship.

Studies show that firms that are owned by highly educated entrepreneurs are most likely remaining in operation and have longevity (Bates, 1990). Though an exploration on the reasons behind such irrationalities has been attempted by many researchers, most of these attempts have focused on the owners and their inability to plan their succession. Few have focused on the heirs and the factors related to their involvement in the family business (Stavrou, 1998).

## **6.0 FAMILY TRADITION/BACKGROUND AND ENTREPRENEURSHIP**

### **6.1 Family Tradition**

Family tradition or background is believed to have some impact on the success or failure of a business. A typical example is of sojourners. Altinay and Altinay (2002), acknowledge that in the context of immigrant entrepreneurship, sojourners; (strangers who usually spend many years without losing their homeland tie), are more likely to be successful entrepreneurs than settlers, (people who have migrated to an area or another country with an intention to establish a permanent residence). Internal solidarity among sojourners helps them to compete with the rest of society. However, family tradition in business and entrepreneurial behaviour are affected by cultural attributes of different immigrant groups.

## **7.0 SKILLS, EDUCATION AND TRAINING AND THEIR EFFECTS ON SMALL BUSINESS SUCCESS**

Increasingly, there has been an interest in informal sector business activities over time. It was noticed that informal sector business owners differ in the various Business Skills Cognition and dimensions of business. In Kenya for instance, both the private and public domains have credited the informal sector as a provider of jobs to Kenyans and as a prime mover in the country's efforts towards industrialisation (Republic of Kenya 1997). Many school leavers, retrenchees as well as those dissatisfied with formal wage employment resorted to entrepreneurial activities within this sector for poverty alleviation (Bosire and Gamba, 2003).

For small business survival, education and management training courses play fundamental role. Previous management experience in business ownership or management is also important (Hall, 1995). The skills level of the workforce is also important as it would greatly enhance the volume of



human capital in the business (Hall, 1995). Bates (1990), contents that one's educational background is directly associated to and considered as a major determinant of the financial capital structure of small business startups.

## **7.1 Management Skills in Small Businesses**

“Running a small business means being able to handle a wide range of jobs. The Small Firms Enterprise Development Initiative (SFEDI) business start-up and business development standards set these out in detail. Small business owners and managers described a diverse range of skills they needed, including:

- Business strategy and analytical thinking
    - visionary, strategic and analytical thinking, managing change, decision making, problem solving, setting goals and business planning, spotting and seizing opportunities
  - People abilities
    - Communication, motivation, emotional intelligence, team working, build confidence, giving social and emotional support, ability to listen and engage
  - Functional or task-based abilities
    - Financial awareness, marketing, delegating, organisational skills, technical skills and multi-tasking
- The very preponderance of small businesses means that they will be incredibly diverse. Allied to differing business objectives and management structures this means that different skill sets will be required. Skill needs will also change as a business develops or its environment alters” (SFEDI, 2004).

According to the US Small Business Administration (SBA) (1994), there a number of benefits that are likely to contribute directly to a small business's fundamental financial health and vitality. These include; effective training and development of employees, increased efficiency, improved employee morale including reduced turnover, and a decreased need for supervision.

## **7.2 Skills in Relation to Development: from the Periphery to the Centre.**

McCutcheo and Fitchett (2005) state that development as a concept has since been focusing on poor countries. As a result, the discussion about skills development has generally been seen within the context of poor, non-industrialized countries. It has also generally been related to the relatively low skills required for relatively low technology application.

### **7.3 Education**

In order for innovation to succeed it has been found essential to educate senior politicians, officials and all the professionals engaged upon the provision of infrastructure. The education of politicians and officials would be more accurately described as “orientation”. The members of the professions certainly need to be educated and then trained. The School of Civil and Environmental Engineering at the University of the Witwatersrand has integrated education related to development and employment creation in construction into its undergraduate and postgraduate curricula. The Expanded Public Works Programme is encouraging an extensive amount of orientation and training. Training and education received a great deal of attention during WORK 2005 conference, (McCutcheon and Fitchett, 2005).

### **7.4 Skills and Opportunities**

Much more than marginal expenditure on peripheral activities is required for significant improvement in socio-economic condition. In the major economy, large numbers of employment opportunities must be generated and for people to be able to take advantage of such opportunity, skills must be fostered. The Expanded Public Works Programme is a challenge to other elements of society to do as much or better to generate “South Africa’s four letter word: Jobs”. Many issues remain unresolved, McCutcheon and Fitchett, 2005.

“Thought, ingenuity, investigation, reflection and action over extended periods of time are required’ The main objective must be to improve the lot of the poor who are willing to work: there should always be opportunities in the main economy for them” (McCutcheon and Fitchett, 2005).

### **7.5 Working together to fight the Skills Shortage**

According to Queensland Skills Plan Progress Report (2007), the skilling needs are never static across the board. This is evidenced by emergence of new industries, impact of new technology on nearly every type of work, and the continuous economy boom and diversification. There are however, notable shortages in training, workforce participation, recruitment, the attractiveness of industries and working conditions. To mitigate these challenges an open dialogue between industry and government is crucial.

## **8.0 GUIDANCE AND MENTORING ON SMALL BUSINESS SUCCESS**

“In South Africa, only about 1 in 2 start-ups survive their first year and one of the worst ways to end a business is through liquidation or insolvency. From 2000 to 2005, South Africa had 6 757 liquidations on average per annum” (Stats SA, 2006).

## **9.0 CAPITALISATION ON SMALL BUSINESS SUCCESS**

“Financial capital endogeneity notwithstanding, firms with the larger financial investments at startup are consistently overrepresented in the survivor column. Firm leverage, finally, is trivial for delineating active from discontinued businesses. Reliance upon debt capital to finance business startup is clearly not associated with heightened risk of failure” (Bates, 1990).

‘Today's restrictive credit environment makes it more vital than ever for small companies to pay scrupulously close attention to every detail when preparing a loan request. Here are important steps that experts say a business owner must take to obtain additional capital from a bank during a recession. One should ensure s/he stacks up well on the five C's of credit - character, cash flow, capital, collateral, and economic conditions, as bankers are paying much close attention to them’ (Szabo, 1991).

Lambing and Kuehl (2003) state that according to Small Business Administration, it is vital that access to credit for small business is facilitated for their survival and a key supplier of credit to small firms is the commercial banking systems. As Ntseane (2000) put, “Access to financial services is gender-based in Southern Africa. In Botswana, recent studies show that the vast majority of women have no access to financial services”.

Elhiraika and Nkurunziza (2006) state that entrepreneurs' financial constraints imply that their start-ups are relatively small regardless of their contribution to horizontal expansion through the creation of a sizable number of jobs. They further state that access to credit is one of key determinants of firm growth in Africa and in developing economies where financial markets are under-developed; lack of access to financial resources has resulted into slow growth of firms in Africa

All firms must, at all times, obtain capital for their smooth running. Raising capital can be achieved through debt financing, equity financing or both. There are a number of determinants of each firm's capital structure. The size, its life cycle stage and its growth prospects are fundamental to how a firm raises capital (Firer, Ross, Westerfield and Jordan, 2004). Sustainability and continued

business growth are fundamental concepts for any business owner to understand. “Capital investment decisions normally represent the most important decisions that a firm makes, since they commit a substantial proportion of a firm’s resources to actions that are likely to be irreversible” (Drury, 2003).

## **9.1 Recent Government Initiatives**

“In Pakistan, the lack of available credit for entrepreneurs is an important impediment to the growth of SMEs. In realizing this constraint, the government of Pakistan has established specialized non-credit banks and directed the SMEDA to develop managerial skills and provide technical support and information to SMEs. By 31 January 2005, the SME Bank had financed 4,522 SMEs and disbursed loans amounting to Rs.3,031.57 million, thereby creating 9,044 new employment opportunities in India. Furthermore, the government has undertaken responsibility to identify and promote sectors that are considered not only to be the major drivers of growth, but also to have the greatest potential for creating more employment opportunities” Coy *et al.*, (2007)

Finance has been identified by many business surveys as the most important factor determining the survival and growth of SMEs in both developing and developed countries. It is tradition that SMEs faced difficulty in obtaining formal credit or equity despite their role and importance to the economies of both developing and developed countries. Commercial banks and investors are reluctant to services SMEs as they consider the level of risk involved. Due to vulnerability to market fluctuations, high mortality rates, low capitalisation and insufficient assets acquired. For SMEs to be assessed for creditworthiness by creditors, they must at least meet minimum requirement such as maintenance of proper accounting records, adequate financial statements and/or business plans, (UNCTAD, 2003)

## **9.2 Access to Financial Services in Lesotho**

### **9.2.1 Financial Intermediation**

“Banks are the primary vehicles for financial intermediation. The arguments making the case for the necessity of such intermediation are clear. The importance of banks’ function grants them protected status as a 'backbone' of an economy. Intermediation as the process of indirect finance whereby intermediaries such as banks and insurance companies link savers to borrowers, by borrowing funds from the former and making loans to the latter” (Central Bank Report, 200

### **9.2.2 Micro Lending**

“Industry in Lesotho is still highly unorganised. Practically no data is available on this industry and all indications are that it is very much in the early stages of evolution. The current legislation prohibits the moneylenders from charging interest rates in excess of prime plus 8 percent per annum (currently about 25%) but does not provide effective authority to the Central Bank to enforce this. A unique phenomenon (at least in terms of the BLNS countries) is that most people (including government employees) in Lesotho still receive their salaries by means of cheques. To get their money, micro lenders, have an arrangement with employers that the cheques be given to them. They then go to the bank with the client to cash the cheque, deduct the amount owed to them and then pay out the remaining salary to the cheque owner” (Genesis Analytics, 2003).

## **9.3 Other Government and Donor Initiatives**

### **9.3.1 Basotho Enterprises Development Corporation (BEDCO) Background**

“BEDCO was established in 1975 with the mandate to promote local entrepreneurs. It is essentially government funded and until 1992, it also received operational funding from Canadian development funds. Anyone can apply for assistance and the only requirements are that the applicant must be a Basotho and have the necessary permits to engage in their intended business” (Genesis Analytics 2003).

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As indicated earlier that the mandate of BEDCO is to promote local entrepreneurs, they also market their students’ products, through flea market for example. On average, a total of about 800 students are trained in a year, Genesis Analytics 2003.

## **9.4 Financial or Capital School of Thought**

“This approach deals with the whole entrepreneurial venture from a financial management perspective where decisions involving finances are taken during the entire life cycle of the business. Every phase of the venture is viewed in terms of capital. For example, the start-up phase requires seed capital or venture capital resources and the decision is to proceed or abandon the venture

depending on the availability of capital. This view suggests that an individual would engage in an entrepreneurial venture if capital was readily available” (Sha, 1998).

Hisrich and Peters (1998) also indicate that frequently, small businesses or entrepreneurs are missing the necessary track record, assets, or some other ingredient to obtain a commercial bank loan. An alternative is a Small Business Administration (SBA) Guaranty Loan whereby SBA guarantees to pay should a small business owner default in paying.

## **10.0 IMPORTANCE OF STRATEGIC PLANNING ON SMALL BUSINESS SUCCESS**

### **10.1 Strategy Formulation School of Thought**

Sha, 1998 contents to structure the entrepreneurial process and its various factors, entrepreneurship can also be viewed through a process approach. Steiner (1997) states that strategic planning is the backbone support to strategic management which provides guidance, boundaries for operational management and direction.

According to Wheelen and Hunger (2004), strategic management typically deals with large, established business corporations. However, they assert that small businesses cannot be ignored as research shows that small-business financial performance is strongly related to strategic planning. Nevertheless, they argue that many small businesses still do not use the process for a number of reasons. There are however, reasons that are commonly cited for apparent lack of strategic planning practices in many small-businesses: limited time due to day-to-day crisis management and operating problems; Unfamiliarity with strategic planning - planning may be viewed as a straitjacket that limits flexibility or may it as irrelevant to the small-business situation; small business owners lack of skills to develop strategic planning is a hindering factor; they often view it as wasting money to import trained consultant. Many small-business owner/managers are very sensitive and particular regarding key information about the business or confidentiality and thus unwilling to share strategic planning with employees or outsiders. More often than not, they are managed by relatives or owners/manager’s friends – people who are unlikely to provide and objective viewpoint or professional advice.

Robbinsons and DeCenzo (2004) state that managers should engage in planning for direction, coordinated efforts established; reduction of uncertainty and establishment of objective or standards that facilitate control.

“Planning is an important business activity and a large body of research points to business performance being positively associated with the level and sophistication of planning undertaken. Unfortunately, the majority of SMEs do not plan and scant attention is paid to strategic issues. Although a lack of planning is commonly attributed to a lack of management skills (especially in planning), a lack of time and even a desire for ‘secrecy’, little is actually known about the factors that facilitate and hinder planning within SMEs” (Wang, Walker and Redmond, 2006).

“Relationship between strategic planning in small businesses and a number of factors focused on the operator and the business (e.g., operator demographics, operator skills, risk propensities, operator business ownership motivations, business location, business type, industry type, turnover, and size). In most cases, operators in business to achieve financial goals are more likely to engage in strategic planning than operators motivated by lifestyle change and those ‘pushed’ into small business ownership. Operators driven by personal achievement goals (e.g., self-development, personal challenge and recognition) were similar to ‘financial’ operators and showed a greater likelihood to strategically plan. Overall, ownership motivations are diverse and significantly influence how operators manage their businesses” (Wang *et al.*, 2006). For SMEs to survive, they should adopt c-Commerce, and strive develop strategies that foster entrepreneurship and innovation and to gain value from knowledge networks, and in c-commerce (Burn *et al.*, 2007).

## **10.2 Strategic Planning and Performance**

Kargar and Parnell (1996) argue that managerial intuition and judgment should however, not be replaced with strategic planning.

Pycraft, Singh, Phihlela, Slack, Chambers, Harland, Harrison and Johnston (2000) state that planning and control reconciles the supply of an operation’s products and services with the demand for them. Venter, Boshoff and Mass (2003) argued that traditionally, family businesses are usually small and can be managed fairly informally, they attempt to survive from one generation to the next; as a result, general lack of strategic planning in family businesses has contributed to their high failure rate.

Strategically thinking, managers at all companies face three central questions about their company’s present circumstances and prospects: where are we now? Where do we want to go and how will we get there. Crafting of strategy calls for good entrepreneurship that can be archived through this equation: Good Strategy + Strategy Execution = Good Management, (Thompson *et al.*, 2005).

### **10.3 Strategy**

“All firms undertake strategy whether or not they would use the term to describe what they were doing. Firms need to decide on their operating hours, location and product lines all of which are strategic decisions. The ability of the owner-manager to communicate his or her long term view to their employees is vitally important” (Wheelen and Hunger, 2004).

Ehlers and Lazenby (2004) define strategy as “an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage”. Further, they highlight that strategies that are relevant for large organisations are not necessarily valid for application in small ventures and the size governs the management decision-making process and may impact on the venture’s operations, financing marketing and so on and therefore its potential success.

### **11.0 IMPORTANCE OF NETWORKING ON SMALL BUSINESS SUCCESS**

Networking creates greater social and business opportunity to mingle and contact with different clusters or groups from with different backgrounds, with whom one can exchange ideas and skills to be they may be potential customers. A network of diverse people is very helpful for any business and worth building up.

The influence and impact of e-commerce and the internet on the economy in general, and business have been significant. Companies are increasingly taking a value network view for their businesses. Supply chain that links raw materials, components and manufactured goods shows how they are moved towards final consumer and this needs to be examined, (Kotler, 2003). He defines a value network as “a system of partnerships and alliances that a firm creates to source, augment, and deliver its offerings”. Kotler (2003) further states that its management has required companies to make increasing investments in information technology (IT) and software.

Elhiraika and Nkurunziza (2006) state that high inter-firm relationships that make individual firms less susceptible to risk is required for promoting SMEs. Mutual exchange of information and know-how between firms creates a rich pool of collective knowledge. Inter-firm cooperation is important for provision of technological extension of services by government, manufacturers and suppliers.

There are many benefits that can be brought in by networks. These include “increased output and employment in linked enterprises; diffusing knowledge and skills among enterprises; bringing SMEs



into formal sector; increasing commercial transactions between large domestic firms and the SMEs; improving the ability of members to get finance on commercial terms and increasing choice and lowering the prices for poor consumers by bringing a greater variety of goods to market. Good networking must focus on a commitment to build and nurture long-term relationships” (Elhiraika and Nkurunziza, 2006). As acknowledged by Mears and Theron (2006), the majority of African enterprises have a weakness of lack sustained networking and partnerships.

Establishment of inter-firm cooperation by SMEs can help them to combat their traditional weaknesses such as isolation and the lack of economies of scale and scope. To raise the competitive potential of SMEs through synergies and collective efficiencies, which individual business owners can never attain alone; horizontal, vertical, arms-length and long distance, spontaneous and artificial, formal and informal cooperation are pivotal. These could through strategic alliances, networking and partnering, joint-ventures licensing, franchising and subcontracting (UNCTAD, 2003). Clusters permit focused interventions, allow information to be rapidly diffused and can also be used to improve networking as feedback between clients and suppliers can be a source of both information and innovation.

## **12.0 IMPORTANCE OF SUCCESSION PLANNING ON SMALL BUSINESS SUCCESS**

Many entrepreneurial families eventually bring the children into the business even though many children do not want the family business, which requires long hours and a substantial commitment. Both unwillingness to work hard and sibling rivalry lead into failure of transition to the next generation. Only about 20 percent of family businesses are successfully transferred to the second generation, and only 13 percent are transferred to the third generation, further, lack of planning for the succession is one of the major reasons why transfers are often not successful (Lambing and Kuehl, 2003).

Literature strongly supports the argument that succession planning is very significant factor in the continuity of the family; normally small businesses from one generation to the next (Venter, Boshoff and Maas, 2003). As put by Venter *et al.* (2003), succession is a difficult and complicated issue which needs thorough and discussion of thoughts and feelings through honest and open communication by all parties concerned.

“Conventional wisdom holds that the more family members who are employed and the more central their roles, the greater the influence these men and women will exert on critical decision processes in family businesses. Among the more important problems facing family businesses is that of succession, the transference of leadership for the purposes of continuing family ownership, which must be addressed for the continuity of the family business, and in order for the business to survive and be passed on to subsequent generations” (Stavrou and Swiercz, 1998). It should be noted that the firm’s future can be affected by the involvement of and the reasons for the involvement of offsprings in their parents’ (Stavrou and Swiercz, 1998).

According to Venter *et al.* (2003), one of the reasons of the high failure rate among first-and second-generation is inability of small businesses to manage the complex and highly emotive process of ownership and management succession from one generation to the next. The literature strongly supports the argument that succession planning is a very significant factor in the continuity of the family business from one generation to the next.

Birley (1986) states “the small firm is essentially short lived and any cease to exist within the first two years, and only a few survive beyond five years. Moreover, although more than 98 percent of corporations in the U.S. are family owned, it is estimated that only 30 percent continue into the second generation and only 15 percent into the third”.

“Family business studies have focused on succession because of the incidence of family business failure and the importance of family businesses within the US economy”, File and Prince (1996)

Studies indicate that transfer of family businesses is a mammoth task, lifelong, and a continuous process, in which the soft elements of the transfer process which are entrepreneurship, freedom, values, outside experience, upbringing, and education must be fostered by the family. Furthermore, it is only important for the family to embrace sound governance as a fundamental principle; that is, the individual family member belongs to the family, which belongs to the business before a business family can develop into a family dynasty only when it embraces (Lambrecht, 2005).

“The continued profitability of the business is influenced by the willingness of the successor to take over the business, the preparation level of the successor, and the relationship between the successor and owner-manager. The relationship between the owner-manager and successor is in turn

influenced by the extent to which interpersonal relationships in the family can be described as harmonious” (Venter, Boshoff and Maas, 2005).

### **13.0 THE IMPACT OF FAILED SMALL BUSINESSES ON EMPLOYMENT.**

Craig and Kohlhase, 2006 states “the role of small businesses in the formation, maintenance and growth of employment sub centres provides an excellent window for observing the relative role of small and large firms in economic development. Small businesses play a pivotal role in economic maintenance and growth in most of societies”.

“The small business sector is growing at a very impressive rate, with small businesses making up more than 50% of the sales and products in the private sector” (US SBA, 1994).

According to Coy *et al.*, (1998), small business and entrepreneurship have been considerably taken care of in Pakistan’s economy for almost 60 years, but possibility is that little (if any) research has been conducted that identifies factors crucial for small business success in Pakistan. And that they have not only been at the forefront of the move toward economic progress and prosperity of the free-market western economies, but may have also become the primary driving force of employment growth in many less developed countries of the world of which Pakistan is a good example.

“As family businesses are primary contributor to the economic and social well-being of all capitalist societies, their general lack of longevity is a cause for concern” (Venter *et al.*, 2003).

Regional and multilateral trade negotiations seem to have direct impact on some developing countries on their ability to participate effectively in the regional and international trading system, both from a policy and a commercial perspective, therefore, Lesotho is no exception. There a number of domestic trade policy issues that the Lesotho government will need to address for the benefit of the public and private sector. To mention a few, these include strengthening institutions supporting trade, improving trade facilitation and customs administration etc., UNDP in Lesotho – Integrated Framework (IF) Coordinator (2007).

Lambing and Kuehl (2003) view family businesses as cornerstones and play a substantial role in the US economy. They account for 78 percent of all new job creation and 60 percent of the nation’s employment. Horton, Honderich and Modise (2000) state that “small businesses are being hailed as the engine of job creation and black economic empowerment, of innovation and redistribution”.

Micro and small enterprises (MSEs) have been defined as those businesses having employees between 1 and 50. Consequently, it is evidenced that most African governments do not have a small and medium enterprises (SMEs) Act or even reliable statistics on SMEs regardless of general agreement that in developing countries SMEs' share in the total number of enterprises constitutes about 98 percent, in employment between 50 and 80 percent and in manufacturing output about 50 percent (UNCTAD, 2003).

**Table 2.1: Percentage share of enterprises by employment size band in total employment in enterprises with or fewer employees in selected African countries.**

Number of workers, including working proprietors	Botswana	Kenya	Lesotho	Malawi	South Africa	Swaziland	Zimbabwe
	1992	1991	1991	1992	1991	1991	1991
1	65.0	55.1	79.5	59.5	46.6	68.8	69.6
2-5	28.1	42.7	18.0	38.4	50.1	28.4	26.9
6-10	5.1	1.9	1.6	1.3	2.8	1.4	2.3
11-19	1.0	0.2	0.5	0.5	0.5	0.9	0.7
20-50	0.9	0.1	0.4	0.3	0.1	0.5	0.5

Source: UNCTAD (2003) in Liedholm and Mead (1993)

More than half of micro and small enterprises are one person, Lesotho being the leader, micro firms usually operating in the commercial sector.

D'Amboise and Muldowney (1988) state that although the literature on small business management has increased in recent years, the question of theory development is rarely raised and as a result, knowledge about small business management is fragmented. Smith (2007) observed financial economists having given limited attention to the study small business and argues that small business are intrinsically interesting and important. He points out the important role that small businesses play in terms of the dynamics of the larger economy.

Mears and Theron (2006) content that although SMME's require much guidance as well as supporting resources, they can substantially prove to be a major source of economic growth for African countries. In Africa, they are mostly found in informal rural areas, which tend to be smaller, have lower growth rates, lower buying bargain and have a limited local market and skills base and one of the keys to encouraging entrepreneurship in rural areas is considered to be innovation.

Smith (2007) argues that the more robust this sector, the larger the pool of experiments being undertaken and the more rapid the overall rate of innovation within the economy. He defines this sector as including small businesses that have high operating risk but providing important set of research opportunities for financial economists.

While it is generally and globally accepted that small and medium-sized enterprises (SMEs) are the backbone of the domestic economy everywhere in the informal sector of developing countries, not many African governments have framed policies to enhance their growth, survival or longevity as pointed out by UNCTAD (2003). The decline in the absorptive capacity of large corporate businesses has inflated the number of poor alarmingly; forcing many people to start some kind of enterprise in order to survive hence their socio-economic impact in a form of labour absorption, innovative and creative expansion of economies and innovative technological driving is globally recognized (Venter *et al.*, 2003). Small and medium enterprise sector is regarded as the seedbed for forthcoming generations of African entrepreneurs (UNCTAD, 2003).

Thornhill and Amit, 2003, state “there has been an explosion of interest in how micro and small enterprises (MSEs) can help provide jobs, alleviate poverty, and supply the essential goods and services people need to enjoy an adequate standard of living and maintain basic human dignity during the past decade. There have been several developments of which this interest has been a result. First, the nature and extend of employment in MSEs have been studied in a wide variety of countries and the importance of MSEs, in terms of employment levels and numbers of enterprises, has been documented in both developing nations and industrialised countries such as United States, Italy and Germany. Research has shown that small businesses play a major role in generating non-farm employment in industrialised countries as well as in developing countries and regions since 1980s”.

“Firms are at the greatest risk of failure when they are young and small. Beyond and early peak in mortality rates, often described as the liability of adolescence, exit rates normally decline to a positive asymptote and get beyond the observed age-mortality relationship and begin to understand

why young firms fail at consistently higher rates, and also why failure continues to haunt firms that have survived their initial liabilities of newness and smallness. Bankruptcy occurs when firms lack sufficient capital to cover the obligations of the business” (Thornhill and Amit, 2003).

“ Failure among young firms is attributed to deficiencies in general management skills, while an evolving competitive environment is identified as a significant influence in the demise of older organizations” say Thornhill and Amit, 2003.

“Face of this growing array of evidence that documenting the nature and importance of small enterprises in the contemporary world economy, development programs worldwide have begun to focus on ways of promoting MSE growth. Small businesses are being hailed as the engine of job creation and black economic empowerment, of innovation and redistribution. In order to achieve these weighty goals, we are being told, small business must be exempted from the advances in labour standards that have been achieved in the post apartheid era” (Horton, Honderich and Modise, 2000).

### **13.1 Export, Production and Productivity**

“Overall, SMEs account for between 30 and 70 percent of value added with variations between countries and industries. Also, as would be expected, the likelihood that output is exported is smaller for SMEs than for large enterprises: in very general terms and depending on the country, SMEs contribute between 15 and 50 per cent of exports, while between 20 and 80 per cent of SMEs are active exporters. Overall, it is estimated that SMEs contribute between 25 and 35 per cent of world manufactured direct exports” (OECD, 1997, *Globalisation and Small and Medium Enterprises*).

“As SMEs account for most of the entrants, exits, growth and decline, they form an integral part of a competitive process that contributes significantly to aggregate productivity growth. The small business sector is growing at a very impressive rate, with small businesses making up more than 50% of the sales and products in the private sector” (US SBA, 1994).

The importance of small businesses to the economy is quite evident (Shonesy and Gulbro, 2004). The importance of small enterprises as mechanisms for job creation, innovation, and the long-term growth and development of economies has been emphasised by politicians around the world over the past decade.

Small businesses have been termed differently by economies around the globe. These include the term Small Medium and Micro sized enterprise (SMME) as in the case in South Africa, Small Medium sized enterprise (SME) and, the generic term, small business or small firm which regarded as the ones with the potential for job creation and make a substantial contribution (35%) to GDP of South Africa (Sha, 1998).

Small business is termed, Pakistan's Small and Medium Enterprise Development Authority (SMEDA) in Pakistan and is recently estimated that 95 percent of private enterprises in the industrial sector employ less than 100 employees. The employment created by small business constitute approximately 78 percent of the non-agricultural labor force in Pakistan and contribute over 30 percent to Pakistan's GDP and 25 percent of the country's exports of manufactured goods (Coy *et al.*, 2007).

Lesotho's economy is based predominantly on exports of water, the only significant natural resource to South Africa which generated royalties for Lesotho. Manufacturing, agriculture, livestock, and to some extent the earnings of laborers employed in South Africa are also its other economic resources. In 1986, Lesotho started Lesotho Highland Water Project (LHWP) under which it was able to adequately produce electricity and generated approximately \$24 million annually from the sale of electricity and water to South Africa. This constitutes about 90% of its own electrical power needs, Travel Document Systems (1996).

Other Lesotho's also exports include; diamonds, wool, mohair, clothing and footwear. The Southern Africa Customs Union (SACU) is the principal source revenue of the Lesotho government, an institution that provides tariffs, and which aims at an equitable distribution of benefits to member countries from economic development. Lesotho's geographic location created an easy economic integration with South Africa, SACU – Kingdom of Lesotho, Annex 2, WT/TPR/S/114/LSO (undated).

A second important institutional arrangement with South Africa is the Common Monetary Area (CMA), a common currency and exchange control of which Lesotho, Swaziland, Namibia, and South Africa are members, which pegs the Lesotho's Loti at par with SA Rand, which also circulates as legal tender in Lesotho. There are however, no controls on exports except for diamonds, for which a license is needed, Lesotho Economy 2007.

Lesotho, being one of the member countries that are governed by African Growth and Opportunity Act (AGOA), was advantaged and became the largest exporter of garments to the US from sub-Saharan Africa. In 2002, a remarkable performance of exports totaling over \$320 million and employment reaching over 50,000, was realised and marking the first time that manufacturing sector workers outnumbered government employees, SACU – Kingdom of Lesotho, Annex 2, WT/TPR/S/114/LSO (undated).

It has been evident that manufacturing base has since developed slightly due to steady decline of mineworkers. There has been significant and rapid growth and expansion in apparel-assembly sector due to Lesotho qualifying for the trade benefits contained in AGOA. Though Lesotho benefited from AGOA, the fact that its economy is predominately based on subsistence agriculture is inevitable, Lesotho Review, 2000.

In the quest to mitigate inequality in the distribution of income which still remains extreme a drawback, Lesotho signed an Interim Poverty Reduction and Growth Facility with the International Monetary Fund (IMF). In July 2007, Lesotho also signed a Millennium Challenge Account Compact with the US worth \$362.5 million, Lesotho Economy 2007 and SACU – Kingdom of Lesotho, Annex 2, WT/TPR/S/114/LSO (undated).

It is, however, worth mentioning that “Lesotho’s economy is dependent on a narrow flow of exports of clothing largely destined to one country-the United States of America (US). At the end of 2005 exports to the US accounted for nearly 60 per cent of the total exports. It is for the following three main reasons the issue of narrow product flow and market is paramount to Lesotho; the indication of preferential tariffs being eroded, the Multi Fibre Agreement (MFA) quota system has come to an end in 31 December 2004, allowing for ascension of more competitive countries, like China, into the World Trade Organization. The derogation from the Africa Growth and Opportunities Act (AGOA) rules of origin (ROO) which will come to an end at the end of 2007, presents a challenge on sourcing of inputs. Lesotho also faces a problem of heavy reliance on clothing and garment exports destined to mainly one market, the US. Access to this market is dependent on rules as embodied in AGOA. Therefore the dependency of the economy on one market will last as long as such concessions are in place” (Central Bank of Lesotho, 2006).



To improve the business environment and investment climate for facilitation of firm entry, growth and survival, many African countries stipulated private sector development by implementing economic and financial reforms. This was done mainly to achieve macroeconomic stability and to improve economic governance. The fundamental aspect of these reforms is for mobilising domestic resources to finance local investment, attracting increased capital inflows and reversing capital flights. Development of private sector is a fundamental channel through which management of improved fiscal and monetary, greater macroeconomic stability and overall economic performance can be achieved. In Africa, microeconomic reforms are crucial in view of the prevalence of informality. Reports show that a high percentage of Small and Medium Scale Enterprises (SME's) remains in the informal sector with limited opportunities for growth (Elhiraika and Nkurunziza, 2006).

In the United States, like in many other countries small businesses or entrepreneurial firms strongly impact the overall United States economy generating a significant number of jobs, production, and sales dollars. The number of small firms has consistently increased over 21 million. More importantly, new employment opportunities are being provided by small firms while many large firms are scaling down their workforce in U.S., (U.S. SBA, 1994).

According to Stavrou and Swiercz (1998), the importance of family businesses cannot be overemphasized as they are regarded as contributors to economies both nationally and locally throughout the globe. For example, in the U.S., more than 90% of the 15 million companies are controlled or operated by single families, representing 175 of Fortune 500 firms. Estimates indicate that these family firms account for the majority of all jobs nationwide and generate approximately 40% of the U.S. gross national product. In Canada for instance, family-owned firms are estimated to constitute 80% of all Canadian businesses and generate \$150 billion in sales. And, in Europe and Australia, more than 70% of businesses are family-owned or controlled. Family businesses also engage in social responsibility by supporting various cultural and social welfare institutions and this contributes to the quality of life in their communities.

## **14.0 GENERAL INFORMATION**

### **14.1 Problems Facing Small Businesses**

d' Amboise and Muldowney (1988) argue that three distinct perspectives from which any organization can be analysed are centered on task environment, organizational configuration, managerial characteristics, success-failure issues and growth issues which are generally and equally valid for a review for the small business literature. According to Venter *et al.*, (2003) inability of small business owners to manage the complex and highly emotive process of ownership and succession management from one generation to the next is regarded as the main reasons of the high failure rate.

Elhiraika and Nkurunziza (2006) argue size, age, access to credit, lack of stock, poor quality of human capital within a firm have substantial influence to failure of a business. Location also can be an important determinant of a business failure if such businesses are at remote locations. In developing countries, SME's entry and growth may adversely be affected by the absence of a sound macroeconomic and business environment. Lack of a supporting environment often hinders African SME's growth and sustainability. Most SME's in Africa suffer from limited market information and fail to keep track of trends and changing tastes and preferences of consumers. This results into small businesses' frequent loss of existing market share or their failure to penetrate new markets. In addition, African SMEs face competition from better quality, better expertise and inexpensive imports from abroad.

Van Eeden, Viviers and Venter (2003) pointed out that numerous difficulties that small businesses encounter can be described as environmental, financial, managerial or marketing in nature. Radipere and van Scheers (2005) argue that the success, viability and development of small businesses can adversely affected by lack of marketing and managerial skills.

Lack of outside advice and governance structures has, to large degree negative impact on small business success and growth and family businesses with effective governance practices are more likely to undertake strategic and succession planning (Venter *et al.*, 2003). They content that to safeguard the long-term interest of family shareholders and to promote the family's harmony and welfare, governance structures in family businesses must be designed. One of the determinants of whether the succession is an evolution or revolution is organisational culture. Therefore, where

values and ideas are clearly expressed and experienced by the business members, an explicit culture serves a common starting point for the entrepreneurial process.

Having given literature review on small businesses, the observation is that small businesses constitute an important aspect of the economic and social dynamics in developing countries including Lesotho. BEDCO (2007) defines Small, Micro and Medium Enterprises (SMMEs) as characterized as those businesses that are lack of business management skills and unfamiliarity with management techniques to deal with problems of an enterprise. Inclusively they are poor or lack of financial and non-financial record keeping, lack of marketing knowledge and skills, inadequate internal administrative controls, a general dearth of business acumen, sensitization to the business culture and inability to handle market shrewdness.

**Table 2.2: Factors that Contribute to the Small Businesses Failure**

<b>Marco-environmental issues</b> State of economy- economic growth, interest rates, inflation, exchange rates etc. Government legislation/interference Social issues (crime, unemployment, HIV/AIDS) Lack of resources and difficulties in procuring raw materials Changing technology and low technological capabilities	<b>Market/Competitive Issues</b> Industry changes, complexities, weaknesses and market imperfections Increased competition/oversupply Reduced/low demand Limited market/growth
<b>Management Skills/Attitudes</b> Inexperience and lack of training Unwillingness and inability to grow Wrong attitude and management views Unrealistic self-evaluation Lack of constructive communication and team building Lack of assertiveness Lack of creative and problem solving Lack of maintaining order and rationality	<b>Management Actions/Behaviour</b> Inability or failure to perform selected general and strategic management tasks Reluctance to seek advice Lack of commitment Entrepreneurial burnout/ill health A general dearth of business acumen Sensitisation to the business culture Inability to handle market shrewdness Social or family issues
<b>Marketing Issues</b> Poor location Ineffective marketing Inability to identify target markets and conduct research Poor products/services	<b>Production/Operations Issues</b> Lack of quality control systems Lack of capacity planning or problems Development products/services Problems with resource suppliers
<b>Human Resource Issues</b> Inability to attract and retain suitable staff Losing key employees	<b>Financial Issues</b> Inadequate capital. Lack of credit Inadequate estimates of capital requirements

Low productivity, low morale and labour problems Failure to adjust organizational structure Not hiring additional employees soon enough Human resource training and development	Limited knowledge of bookkeeping Inadequate bookkeeping Failure to do financial planning/budgeting No provision for contingencies Inadequate/irregular financial controls Poor credit and inventory management Difficulties in obtaining supplier credit Inadequate or incorrect cash flow estimates High fixed operating expenses Poor turnover or failure to reach critical mass Insufficient profits Unsuitable costing/pricing policy and strategy Burdensome debt High initial costs set-up costs Withdrawing too much cash for personal expenses Fraud/misuse of directorship
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Adapted from Radipere and Van Scheers (2005); Tambunan (2006) and BEDCO (2007)

## 14.2 Characteristics of Small Businesses

On broader perspective, SMEs in LDCs, especially in rural areas, are characterised by the following:

- 1) They are large in number and are widely spread throughout rural and remote areas and therefore may have a special "local" significance for the rural economy.
- 2) Since the SMEs have considerable employment growth potential, inclusion of their development in the policy will be crucial aspect for employment creation and income generation.
- 4) Scarcity of capital, including human capital.
- 5) As most of them do not graduate from smaller size category, they are regarded as enterprises having the “seedbed LEs” function.
- 6) SMEs are regarded as starting point to mobilise talents of villagers as entrepreneurs and their small amount of capital to be invested; besides, they are a fundamental sector to provide an avenue developing entrepreneurial ability in the rural areas.

7) SMEs' financing basically come from owners' personal savings, and supplemented by loans from relatives, informal money laundry, traders, input suppliers.

8) SMEs often achieve rising productivity through investment and technological change though it takes them time and it also depends on different experiences and various factors from country to country in the LDCs, Tambunan (2006).

## **15.0 CONCLUSION**

The literature study revealed useful information that forms an integral part of the research methodology of this study

The literature study revealed many significant variables to the success of the small businesses globally and the factors that negatively impact of their failure. Characteristics of small business were also outlined.

## **CHAPTER 3**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.0 INTRODUCTION**

Chapter 1 briefly introduced the research methods used in this study. These research methods will be discussed in further detail in this chapter, along with reasons for their specific use. The chapter will also describe and present data collection strategies, research design and methods including pilot testing for validity and reliability. Sampling and target populations will be discussed. Method of data analysis and ethical requirements will also be addressed.

#### **3.1 METHODOLOGY**

##### **3.1.1 Quantitative Method**

Quantitative research method is research techniques that rely less on interviews, observations, and small numbers of responses to a questionnaire, focus group, subjective reports and case studies but are much more focused on the collection and analysis of numerical data and statistics. Here, data can range from simple counts such as the frequency of occurrence to more complex data like test scores or prices.

Tables, graphs and statistics are often used to present the results of these methods. The main objective of quantitative research is to develop and employ mathematical models, theories and/or hypotheses pertaining to natural phenomena. In this method, observation studies, correlational research, developmental designs and survey research can easily be described. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships.

It is in this method whereby evidence is evaluated, theories and hypotheses are refined, technical advances are made, and so on (Saunders, Lewis and Thornhill 2003; Leedy and Ormrod, 2005; Blumberg, Cooper and Schindler 2005).

It is on the above information that the researcher has used quantitative research methods to know “how many” and/or “how often” and to establish profile a target audience by determining what proportion of the audience has certain behaviours, behavioural intentions, attitudes, and knowledge.

### **3.1.2 Qualitative Method**

Qualitative research method involves the use of qualitative data, such as interviews, documents, and participant observation data, to understand and explain social phenomena that occur in natural settings – that is, in the real world. The qualitative research method is more holistic and emergent with specific focus. The qualitative research method relies on reasons behind various aspects of behaviour.

Under this method, data is based on meanings expressed through words and analysis is conducted through the use of conceptualisation. Simply put, it investigates the *why* and *how* of decision making, not just *what*, *where*, and *when*. This is where researchers aim to gather an in-depth understanding of human behaviour and the reasons that govern human behavior. Researchers enter the setting with open minds, prepared to immerse themselves in the complexity of the situation and interact with their participants (Saunders *et al.*, 2003; Leedy and Ormrod, 2005; Blumberg *et al.*, 2005).

There are four methods for gathering information participation on which qualitative researchers rely in the setting; direct observation, in depth interviews, and analysis of documents and materials. Qualitative research is exploratory - hypothesis-generating. Based on the above information, the researcher also used a qualitative method to establish reasons for failure of small businesses in Lesotho.

## **3.2 RESEARCH DESIGN**

The researcher used primary information – interviews using a questionnaire to collect data. The research design utilized a descriptive research component to reach the research objectives. A sample was drawn from a population meaning, the specific design was a cross-sectional design.

## **3.3 TYPE OF RESEARCH**

A Likert-style three-point scale, where 1 meant *disagree*, 2 *undecided* and 3 *agree* was used, items were phrased with a possible response continuum, linked to it.

## **3.4 TARGET POPULATION**

The target population for the small business questionnaire comprised entirely of a database of closed small businesses obtained from the LRA. The target population was not discriminated either by gender, ethnicity, marital status, age, or background of respondents. In the quest to establish how

supportive economic development bodies are to small businesses within the country, the second group targeted was stakeholders whose mandate is to play pivotal role in economic development in the country including the Ministry of Trade and Industry; Cooperatives and Marketing; Lesotho Chamber of Commerce and Industry; Mohloli Chamber of Business and Basotho Enterprises Development Corporation.

### **3.5 SAMPLING**

The sample size, the confidence interval and confidence levels will be calculated using a sample size calculator. The researcher used sampling to solicit the responses of 95 small businesses who had failed in the Maseru district. Only the firms qualifying as small businesses were selected to participate in this study. Firms were considered a “small business” if they were engaged in businesses such as sole proprietorships, retail outlets, transport industry and other small entities of different business ventures. They were further classified as small and medium based on their inability to comply with tax administrative procedures. This sample may also be used to assess interrelationships among variables within a population. For stakeholders, the population is equivalent to sample which comprised of four main economic development players.



### 3.6 RESEARCH INSTRUMENTS

#### 3.6.1 Questionnaire Design

**Table 3.1: The Main Supporting Literature**

Literature	Research Objective	Link to Research Question	Corresponding Questionnaire Questions
<b>Demographic Factors in Small Business Success:</b> <ul style="list-style-type: none"> <li>• Coy <i>et al.</i>, (2007)</li> <li>• Brush (1992)</li> <li>• Hall (1995)</li> </ul>	To determine the demographic profile of the owners of small businesses that closed.	What is the demographic profile of the owners of small businesses that closed?	Questions 1 to 4
<b>Family Tradition/Background and Entrepreneurship:</b>	To determine the background of owners of small businesses that closed.	What is the background of owners of small businesses that closed?	Questions 6 and 7
<b>Skills, Education and Training and their Effects on Small Business Success:</b> <ul style="list-style-type: none"> <li>• SFEDI's Research Report (2004)</li> <li>• Webster <i>et al.</i>, (2005)</li> <li>• Hall (1995)</li> </ul>	To determine the level and type of skills, education and training of the owners of small businesses that closed.	What is the level and type of skills, education and training of the owners of small businesses that closed?	Questions 5 and 18
<b>Guidance and Mentoring on Small Business Success:</b> <ul style="list-style-type: none"> <li>• Stats SA, Nov (2006)</li> </ul>	To determine the type of support, guidance and mentoring received by the owners of small businesses that closed.	What is the level and type of support, guidance and mentoring received by the owners of small businesses that closed?	Questions 8 to 11
<b>Capitalisation on Small Business Success:</b> <ul style="list-style-type: none"> <li>• Bates (1990)</li> <li>• Szabo (1991)</li> <li>• Firer <i>et al.</i>, (2004)</li> <li>• Drury (2003)</li> <li>• Sha (1998)</li> </ul>	To determine the level of financial support, if any, received by the owners of small businesses that closed	What is the level of financial support, if any, received by the owners of small businesses that closed?	Questions 12 to 14
<b>Importance of Strategic Planning on Small Business Success:</b> <ul style="list-style-type: none"> <li>• Steiner (1997)</li> <li>• Wheelen and</li> </ul>	To determine whether owners of small businesses that closed engaged in strategic planning.	Have owners of small businesses that closed engaged in strategic planning?	Question 15

<p>Hunger (2004)</p> <ul style="list-style-type: none"> <li>• Wang <i>et al.</i>, (2006)</li> <li>• Hall (1995)</li> <li>• Ehlers and Lazenby (2004)</li> <li>• Kargar and Parnell (1996)</li> </ul>			
<p><b>Importance of Networking on Small Business Success:</b></p> <ul style="list-style-type: none"> <li>• Kotler (2003)</li> </ul>	To determine whether the owners of small businesses that closed engaged in networking with their peers.	Have owners of small businesses that closed engaged in networking with their peers?	Question 16
<p><b>Importance of Succession Planning on Small Business Success</b></p> <ul style="list-style-type: none"> <li>• Stavrou and Swiercz (1998)</li> <li>• Birley(1986)</li> <li>• Lambrecht (2005)</li> <li>• Venter, Boshoff and Maas (2005)</li> </ul>	Did owners of small businesses that closed prepare for succession planning?	Did owners of small businesses that closed prepare for succession planning?	Question 17
<p><b>Importance of Small Businesses in Job Creation:</b></p> <ul style="list-style-type: none"> <li>• Van Eeden <i>et al.</i>, (2003)</li> <li>• Smith (2007)</li> <li>• Mears and Theron (2006)</li> <li>• Stavrou and Swiercz (1998)</li> </ul>	To determine the contribution of small businesses that closed to job creation.	What was the contribution of small businesses that closed to job creation?	Questions 19 and 20
<p><b>General Information: Problems Facing Small Businesses:</b></p> <ul style="list-style-type: none"> <li>• Van Eeden <i>et al.</i>,(2003)</li> <li>• Venter <i>et al.</i>,(2003)</li> <li>• Radipere and van Scheers (2005)</li> <li>• d'Amboise and Muldowney (1988)</li> </ul>			Question 21

### **3.6.2 Pilot Study**

A pilot study is a trial run, feasibility study or a small experiment designed to test logistics and gather information prior to a larger study, in order to improve the latter's quality and efficiency and done in preparation of the complete study. A pilot experiment can also be defined as a precursor to a full-scale study used to check if all operational parameters are in check. It normally follows after the researcher has a clear vision of the research topic and questions, the techniques and methods which will be applied, and the research schedule will look like. Therefore it can provide only limited information on the sources and magnitude of variation of response measures, state National Centre for the Replacement, Refinement and Reduction of Animals in Research, 2006.

#### **3.6.2.1 The Value of a Pilot Study**

Things never work quite the way one envisages, regardless of how many times they have been done before and the value of pilot research cannot be overestimated. The pilot study in the current research is essential to prevent the waste of time, energy and money. The main reason why a pilot study is needed might be the growing disillusionment with many novice researchers when they find out that the guidelines for research are only valid in an ideal environment and not in the practical research environment where they conduct their research study. There are a number of logistical issues that a pilot study may address. As part of the research strategy the following factors can be resolved prior to the main study:

- The detection of possible flaws in measurement procedures including instructions
- To identify unclear items or ambiguity in a questionnaire
- It gives advance warning about whether the main research project can fail.
- It indicates whether research protocols might not be followed
- Non-verbal behaviour of participants in the pilot study may give important information about any embarrassment or discomfort experienced concerning the content or wording of items in a questionnaire.
- The pilot study can also identify practical problems of the research procedure
- Check skilfulness of investigators and technicians in the procedures;
- Check the reliability and validity of results
- Detect a floor or ceiling effect (e.g. if a task is too difficult or too easy there will be skewed results)
- Assess whether the level of intervention is appropriate

It indicates whether proposed methods or instruments are inappropriate or too complicated, National Centre for the Replacement, Refinement and Reduction of Animals in Research, 2006.

### **3.6.2.2 The Goal of a Pilot Study**

A pilot study can refer to many types of experiments, but generally, the goal of study is to ensure that the full scale experiment is replicated but only on a smaller scale.

Generally speaking, the goal of a pilot study is related to the aim of the research study which it forms part. Simply put, it is to provide information, which can contribute to the success of the research project as a whole. To zero in, the goal is thus, to test the study on small scale first to sort out all the possible problems that might lead to failure of the research procedure and minimize the risk of failure, National Centre for the Replacement, Refinement and Reduction of Animals in Research, 2006.

### **3.6.3 Methodology of Pilot Study for Small Business Owners**

The pilot survey covered both the rural and urban areas of the Maseru District with 6 respondents from the rural and 4 from urban for small business owners that closed and were randomly selected. A questionnaire was distributed to the owners of small businesses that had closed and requested demographical information such as gender, ethnicity, marital status, age, literacy, management qualifications, work experience and the number of full-time employees.

Other questions sought information relating to management skills, financial issues, macro-environmental issues, management actions which included mentoring, capitalization, skills education and training, strategic planning, networking, succession planning and role and importance of small business in job creation. Items were phrased with a possible response continuum, linked to a Likert-style three-point scale, where 1 meant *disagree*, 2 *undecided* and 3 *agree*.

### **3.6.4 Methodology of Pilot Study for Stakeholders**

The second set of questionnaires was sent to the following stakeholders: The Ministry of Trade and Industry, Basotho Enterprise Development Cooperation, Lesotho Chamber of Commerce and Industry and Mohloli Chamber of Business some of which have been mandated by the Government of Lesotho (GOL) to license and assist in the establishment and developments of Basotho-owned business enterprises with particular emphasis on the promotion of indigenous entrepreneurial skills and what role to play in economic development and helping small business owners to grow.

### 3.6.5 Results

First, Cronbach alpha was used for the first questionnaire to estimate the proportion of variance that is systematic or consistent in a set of test scores, as stated by Brown (2002), to investigate the reliability of language test results and Reliability Coefficient Cronbach Alpha value was calculated.

According to Brown (2002), Cronbach alpha can range from 00.0 to 1.00, (if no variance is consistent) and (if all variance is consistent) respectively with all values between 00.0 and 1.00 also being possible. An example could be if the Cronbach alpha for a set of scores turns out to be .60, then this can be interpreted as meaning that the test is 60% reliable, and by extension that it is 40% unreliable. This means that the higher the Alpha is, the more reliable the test is.

Secondly, the validity of the instrument was also tested and there were no major changes on the questionnaire except to explain the questions tabled below.

**Table 3.2: Results**

Questions	Comments	Changes
15	Strategic Planning	No changes were made except to explain this question and to interview respondents using the questionnaire.
17	Succession Planning	No changes were made except to explain this question and to interview respondents using the questionnaire.

## 3.7 RESEARCH PROCESS

The research process is a step-by-step process of developing a research paper. The research process itself involves identifying, locating, assessing, analyzing, and then developing and expressing one's ideas and formulating recommendations, Rasmuson and Biosciences Libraries (2009).

### 3.7.1 Quantitative Method

The researcher discovered the research dilemma which triggered the need for exploring why small businesses are failing in Lesotho. The researcher further developed research questions and objectives. Critical review of literature was conducted. The research design was undertaken by data collection design and sampling design in which the target population was identified. Pilot testing

was conducted to detect weaknesses in design and instrumentation, and to provide proxy data for selection of a probability sample. Since there were no major changes in the questionnaire, instrument revision was unnecessary. Data were collected through interviews, using the questionnaire. Findings will be analyzed and interpreted in chapter 4 using tables and graphs. Finally conclusions and recommendations based on the interpretation of the data will be made in chapter 6.

### **3.7.2 Qualitative Method**

The researcher discovered the research dilemma which triggered the need for exploring why small businesses are failing in Lesotho. The researcher developed research questions and objectives. This method was used to gather information from both small business owners and other major stakeholders in the country. The research design was undertaken by data collection design and sampling design in which the target population was identified.

Pilot testing was conducted to detect weaknesses in design and instrumentation, and to provide proxy data for selection of a probability sample. Since there were no major changes in the questionnaire, instrument revision was unnecessary. Data were collected through interviews, using the questionnaire. Findings will be analyzed and interpreted in chapter 4 using tables and graphs. Finally conclusions and recommendations based on the interpretation of the data will be made in chapter 6.

### **3.7.3 Administration of Questionnaires**

Questionnaires were constructed based on information uncovered in the literature study and were aimed at asking questions that would help to establish the determinants of failure of small businesses in Lesotho. A pilot study was conducted to refine the questionnaire. The questionnaires were administered by the researcher with an assistance of four students from the National University of Lesotho. The questionnaires were physically distributed to respondents and interviews conducted using the questionnaires.

The second questionnaire, which is slightly different in focus, was sent to some stakeholders whose mandate is support, materially or otherwise, all business communities: The Ministry of Trade and Industry; Cooperatives and Marketing, Basotho Enterprise Development Cooperation, Lesotho Chamber of Commerce and Industry and Mohloli Chamber of Business. All the questionnaires were distributed and interviews were conducted using the same questionnaires during return visits.

#### **3.7.4 Response Rate**

A sample size of 95 was required and since the respondents were interviewed using the questionnaire, all the 95 questionnaires were answered which makes 100% response rate.

#### **3.7.5 Method of Data Analysis**

The data analysis was conducted using the statistical software, SPSS and the data obtained from the returned questionnaires were analyzed using both descriptive and inferential statistics including means, frequencies and Cross-tabulations were run. The means and frequencies were used to summarise the data collected and to describe the relative importance and impact of respondents' demographic profile, various skills, mentoring and guidance, succession planning, strategic planning, financing and networking on the failure of small businesses. Cross-tabulations were calculated because of the nature of data being analysed and the suitability of this method. Bivariate correlations were calculated to analyze and explain the relationship between two variables. Based on these tests, various graphs and tables were extracted in order to illustrate the findings.

Apparently, the respondents and were asked open-ended question to solicit reasons for failure of their small businesses. A number of challenges revolved around financial, managerial and other issues. Data was collected and collated and findings were presented in graphs. All the resultants graphs and tables have been used in chapter 4 to assist in the explanation of the data analysis. The results of the data analysis will now be discussed in detail in chapter 4.

#### **3.7.6 Ethical Requirements**

The data collection stage is associated with a range of ethical issues (Saunders, *et al.*, 2003). To comply with the relevant University policies on ethics and related requirements as determined by the Senate and the Council, the researcher applied for ethical clearance from UKZN and official approval before using the questionnaires or conducting interviews. A letter of request to the Commissioner of Taxpayer Services in Lesotho was also written requesting access to records and attending tax clinics for the purpose of this study. The importance of not intruding on any participants' privacy was observed by the researcher. Great care was also exercised in maintaining confidentiality and each participant's anonymity.

### **3.8 CONCLUSION**

This chapter discussed the research methods that were used in this study, along with reasons for their specific use. The chapter also described and presented data collection strategies, research design and methods including pilot testing for validity and reliability. Sampling and target populations were discussed. Method of data analysis and ethical requirements were also addressed. The data will be analysed in the next chapter.



## **CHAPTER FOUR**

### **DATA ANALYSIS**

#### **4.0 INTRODUCTION**

The main purpose of this study is to explore the factors that contribute to the failure of small businesses in Lesotho. This chapter presents and reports the results both descriptive and inferential statistics of the questionnaires sent to both small business owners and four stakeholders.

#### **4.1 REPRESENTATIVE SAMPLING**

Representative sample of completed questionnaires is 95 and the results of the survey will be extrapolated beyond the researcher's sample to the general population. A total of 95 questionnaires were sent out and all 95 questionnaires were completed and returned. This represents a response rate of 100%. Respondents participating in this study were located in the Maseru district. The majority of respondents were the managers of their own small business.

By far, the greater majority of respondents indicated that their families owned 100% of the controlling share in the business and that at least one family member were employed on a full-time basis to look after the family's interests. Sole proprietorship and close corporations were the most prevalent business forms.

Ethnicity of the business owner is sometimes an important determinant of growth given the pattern of ownership in manufacturing in many African countries Elhiraika and Nkurunziza (2006) state. The same phenomenon and dichotomy are observable and are between foreign-owned small businesses and those owned by Basotho in this study.

## 4.2 QUESTIONNAIRE 1

### 4.2.1 Quantitative Data Analysis of Small Business Owners

Responses from small business owners were analyzed using quantitative method.

#### 4.2.1.1 QUESTIONS 1 TO 20

**Table 4.1: Coefficient Alpha**

\*\*\*\*\* Method 1 (space saver) will be used for this analysis \*\*\*\*\*

#### RELIABILITY ANALYSIS - SCALE (ALPHA)

Reliability Coefficients

N of Cases = 95

N of Items 14

Alpha = .8172

To investigate the reliability of language test results and Reliability Coefficient Cronbach Alpha value was calculated at .8172 for 14 items

**Table 4.2: Gender Frequencies**

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	66	69.5	69.5	69.5
	Female	29	30.5	30.5	100.0
	Total	95	100.0	100.0	

The above table depicts that, the majority (69.5%) of closed small businesses were owned by males. This could be argued that males would, in most incidents, take a lead in entrepreneurship than females.

**Table 4.3: Ethnicity Frequencies**

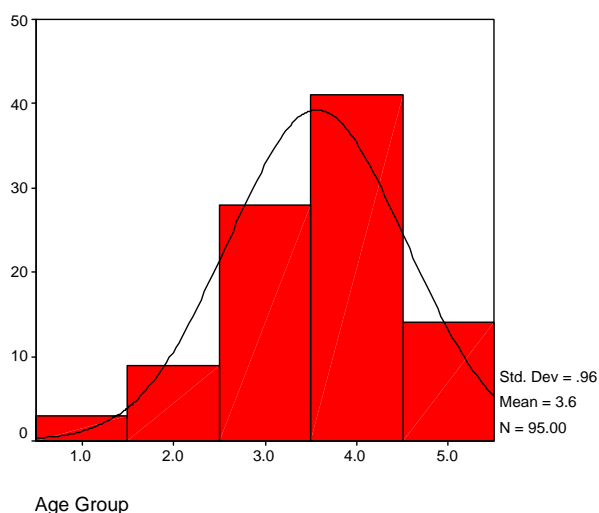
Ethnic Identity		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mosotho	93	97.9	97.9	97.9
	Other	2	2.1	2.1	100.0
	Total	95	100.0	100.0	

Table 4.3 above indicates that the sample consisted of both Basotho (96.8%) and other respondents (2.1%). Indicatively, most businesses that are being closed are owned by Basotho.

**Table 4.4: Marital Status Frequencies**

Marital Status		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	6	6.3	6.3	6.3
	Married	62	65.3	65.3	71.6
	Widowed	18	18.9	18.9	90.5
	Divorced	9	9.5	9.5	100.0
	Total	95	100.0	100.0	

In table 4.4 above, most of respondents are married (65.3%) and second largest group is widowed business owners/managers. This could indicate how financially committed married couples are. Their small businesses could be their only source of income and diverted to supporting their families instead of reinvestment and business growth.

**Figure 4.1: Frequency Distribution of Age Groups**

As figure 4.1 above depicts, the majority of respondents fall in the age group of 50 - 59 years, constituting (43.2%). This could be argued to be and could be owners who had retired from their previous employ and invested in small businesses. Some respondents 12.6 % indicated that they come from families of entrepreneurs.

**Table 4.5: Level of Education Frequencies**

**What is your level of education?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid None	1	1.1	1.1	1.1
Primary	19	20.0	20.0	21.1
Secondary	72	75.8	75.8	96.8
Tertiary	2	2.1	2.1	98.9
Postgraduate	1	1.1	1.1	100.0
Total	95	100.0	100.0	

The majority (75.8%) of owners/managers did not possess a managerial qualification rather, they obtained secondary qualifications. The second largest group, (20%) possessed primary qualifications. The next group with 2% possessed tertiary and the last two groups possessed 1% postgraduate and lastly no education respectively.

**Table 4.6: Ability to Read and Write Frequencies**

**I am able to read and write**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	2	2.1	2.1	2.1
Agree	93	97.9	97.9	100.0
Total	95	100.0	100.0	

Literacy rate of 97.9% of respondents indicates that almost all Basotho are able read and write.

**Table 4.7: Coming from a Family of Entrepreneurs Frequencies**

**I come from a family of entrepreneurs**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	58	61.1	61.1	61.1
Undecided	25	26.3	26.3	87.4
Agree	12	12.6	12.6	100.0
Total	95	100.0	100.0	

Only 12.6% of questionnaires were received from potential successors; and 61.1% from the founding (first) generation, owner-managers; and 26.3% did not know about their family history.

**Table 4.8: Receiving Guidance and Mentoring from MTICM****I received guidance and mentoring from the Ministry of Trade and Industry**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	77	81.1	81.1	81.1
	Undecided	4	4.2	4.2	85.3
	Agree	14	14.7	14.7	100.0
	Total	95	100.0	100.0	

It was discovered that 14.7% of respondents received guidance and mentoring from the Ministry of Trade and industry; Cooperatives and Marketing. Most business owners (81.1%) have proved not to have been mentored by the ministry.

**Table 4.9: Receiving Guidance and Mentoring from BEDCO****received guidance and mentoring from the Basotho Enterprise Development Corporation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	75	78.9	78.9	78.9
	Undecided	2	2.1	2.1	81.1
	Agree	18	18.9	18.9	100.0
	Total	95	100.0	100.0	

Most of respondents indicated that they never received any mentoring and guidance from the Basotho Enterprise Development Corporation. Only 18.9% agreed to have received such guidance.

**Table 4.10: Receiving Guidance and Mentoring from LCCI****I received guidance and mentoring from the Lesotho Chamber of Commerce**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	90	94.7	94.7	94.7
	Undecided	1	1.1	1.1	95.8
	Agree	4	4.2	4.2	100.0
	Total	95	100.0	100.0	

94.7% never received any guidance and mentoring from the Lesotho Chamber of Commerce and Industry

**Table 4.11: Receiving Guidance and Mentoring from Mohloli Chamber of Business****I received guidance and mentoring from the Mohloli Chamber of Business.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	94	98.9	98.9	98.9
	Agree	1	1.1	1.1	100.0
	Total	95	100.0	100.0	

Almost all the respondents (98.90%) indicated that they did not receive any assistance from Mohloli Chamber of Business.

**Table 4.12: Self Funding of Small Businesses****My small business was self funded**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	13.7	13.7	13.7
	Agree	82	86.3	86.3	100.0
	Total	95	100.0	100.0	

Business funding became problematic as 86.3% of respondents self funded their small business with their employment terminal benefits mostly from South African mines and their other respective employments. Financial institutions regulations and credit facility requirements also posed serious problems and made it difficult for small business owners to obtain loans for financing their businesses.

**Table 4.13: Small Business Funded through Loans****My small business was funded through loans**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	88	92.6	92.6	92.6
	Agree	7	7.4	7.4	100.0
	Total	95	100.0	100.0	

The above table depicts that financial institutions are much reluctant to grant credit to small businesses as 92.6% of them never got financial assistance. Funding through loans only accounted for 7.4%.

**Table 4.14: Engagement of Small Businesses in Strategic Planning****I engaged in small business strategic planning**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	68	71.6	71.6	71.6
	Undecided	27	28.4	28.4	100.0
	Total	95	100.0	100.0	

Strategic planning is a far fetched concept for the majority of respondents. Results indicate that 71.6% of small business owners were not engaged in small business strategic planning. This could be attributable to both their lack of experience and level of education as mostly they obtained secondary qualifications. Only 28.4 % was undecided whether they were engaged in strategic planning for their business growth or not.

**Table 4.15: Small Businesses Networking with Peers****I networked with my peers.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	89	93.7	93.7	93.7
	Undecided	5	5.3	5.3	98.9
	Agree	1	1.1	1.1	100.0
	Total	95	100.0	100.0	

As indicated in table 19 above, 93.7% confirmed to have been working in silos hence why they were unsuccessful. Basotho small business owners confirmed that they lack networking skills and oneness and further, they are beaten by other small business owners (Chinese and Indians) because they support one another.

**Table 4.16: Number of Staff that was Employed by Small Business****How many staff were there employed in your small business?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	7	7.4	7.4	7.4
	1 - 3	72	75.8	75.8	83.2
	4 - 6	16	16.8	16.8	100.0
	Total	95	100.0	100.0	

In table 20 above, 75.8% of respondents employed one to three employees. The next group, (16.8%) employed 4 to 6 employees and only 7.4% were working for themselves. All the respondents were working in managerial positions as most of businesses are “a one man/family owned businesses”.

**Table 4.17: Engagement of Small Business in Succession Planning****I engaged in small business succession planning**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	62	65.3	65.3	65.3
	Undecided	32	33.7	33.7	98.9
	Agree	1	1.1	1.1	100.0
	Total	95	100.0	100.0	

On the other hand, succession planning was another business concept which most respondents (65.3%) of respondents indicated that they had not started planning and developing their potential successors. 33.7% was undecided whether to start preparing their successors or not.

**4.2.1.2 CROSS-TABULATIONS****Table 4.18: Gender \* I Received Guidance and Mentoring from the Ministry of Trade and Industry; Co-operatives and Marketing.****Crosstab**

			I received guidance and mentoring from the Ministry of Trade and Industry			Total
			Disagree	Undecided	Agree	
Gender	Male	Count	52	4	10	66
		% within Gender	78.8%	6.1%	15.2%	100.0%
	Female	Count	25		4	29
		% within Gender	86.2%		13.8%	100.0%
Total		Count	77	4	14	95
		% within Gender	81.1%	4.2%	14.7%	100.0%

Cross-tabulation of gender with guidance and mentoring received from Ministry of Trade and Industry show that 78.8% and 86.2% of males and females respectively were not mentored and guided by the ministry.



**Table 4.19: Gender \* I Received Guidance and Mentoring from the Basotho Enterprise Development Corporation.**

**Crosstab**

			I received guidance and mentoring from the Basotho Enterprise Developemt Corporation			Total
			Disagree	Undecided	Agree	
Gender	Male	Count	52	1	13	66
		% within Gender	78.8%	1.5%	19.7%	100.0%
	Female	Count	23	1	5	29
		% within Gender	79.3%	3.4%	17.2%	100.0%
Total		Count	75	2	18	95
		% within Gender	78.9%	2.1%	18.9%	100.0%

Cross-tabulation of gender with guidance and mentoring received from BEDCO show that 78.8% and 79.3% of males and females respectively were not mentored and guided by the ministry.

**Table 4.20: Gender \* I Received Guidance and Mentoring from the Lesotho Chamber of Commerce; Co-operatives and Marketing.**

**Crosstab**

			I received guidance and mentoring from the Lesotho Chamber of Commerce			Total
			Disagree	Undecided	Agree	
Gender	Male	Count	61	1	4	66
		% within Gender	92.4%	1.5%	6.1%	100.0%
	Female	Count	29			29
		% within Gender	100.0%			100.0%
Total		Count	90	1	4	95
		% within Gender	94.7%	1.1%	4.2%	100.0%

Cross-tabulation of gender with guidance and mentoring received from LCCI show that 92.4% and 100% of males and females respectively were not mentored and guided by the ministry.

**Table 4.21: Gender \* I Received Guidance and Mentoring from the Mohloli Chamber of Business.**

**Crosstab**

			I received guidance and mentoring from the Mohloli Chamber of Business.		Total
			Disagree	Agree	
Gender	Male	Count	65	1	66
		% within Gender	98.5%	1.5%	100.0%
	Female	Count	29		29
		% within Gender	100.0%		100.0%
Total		Count	94	1	95
		% within Gender	98.9%	1.1%	100.0%

Cross-tabulation of gender with guidance and mentoring received from Mohloli Chamber of Business show that 98.5% and 100% of males and females respectively were not mentored and guided by the ministry.

**Table 4.22: Gender \* My Small Business was Self Funded**

**Crosstab**

			My small business was self funded		Total
			Disagree	Agree	
Gender	Male	Count	9	57	66
		% within Gender	13.6%	86.4%	100.0%
	Female	Count	4	25	29
		% within Gender	13.8%	86.2%	100.0%
Total		Count	13	82	95
		% within Gender	13.7%	86.3%	100.0%

About 86.4% for males and 86.2% for females confirmed that their businesses were self funded. This indicates that most of small business owners do not get any financial support from financial institutions to facilitate economic development.

**Table 4.23: Gender \* My Small Business was Funded through Loans****Crosstab**

			My small business was funded through loans		Total
			Disagree	Agree	
Gender	Male	Count	61	5	66
		% within Gender	92.4%	7.6%	100.0%
	Female	Count	27	2	29
		% within Gender	93.1%	6.9%	100.0%
Total		Count	88	7	95
		% within Gender	92.6%	7.4%	100.0%

On the other hand, 92.4% and 93.1% for males and females respectively also disagreed to have been funded through loans. The results here confirm lack of support of financial institutions to small businesses and indicated in the preceding table.

**Table 4.24: Gender \* I Engaged in Small Business Strategic Planning****Crosstab**

			I engaged in small business strategic planning		Total
			Disagree	Undecided	
Gender	Male	Count	49	17	66
		% within Gender	74.2%	25.8%	100.0%
	Female	Count	19	10	29
		% within Gender	65.5%	34.5%	100.0%
Total		Count	68	27	95
		% within Gender	71.6%	28.4%	100.0%

The cross-tabulation of gender with engagement of strategic planning indicates that 74.2% of males were not engaged in small business strategic planning; most of them obtained secondary qualifications, a lower level to offer both the managerial and technical skills. Further, their businesses were self funded which could indicate inadequate additional capital to keep the wheel turning.

**Table 4.25: Gender \* I Networked with my Peers.****Crosstab**

			I networked with my peers.			Total
			Disagree	Undecided	Agree	
Gender	Male	Count	61	4	1	66
		% within Gender	92.4%	6.1%	1.5%	100.0%
	Female	Count	28	1		29
		% within Gender	96.6%	3.4%		100.0%
Total		Count	89	5	1	95
		% within Gender	93.7%	5.3%	1.1%	100.0%

Cross-tabulations of gender with networking with peers show that either males or females were not networking with their peers for cross fertilisation of ideas and growth of their businesses. This could make it difficult for business owners to know their clientele and so that they can satisfy their needs.

**Table 4.26: Gender \* I Engaged in Small Business Succession Planning****Crosstab**

			I engaged in small business succession planning			Total
			Disagree	Undecided	Agree	
Gender	Male	Count	41	25		66
		% within Gender	62.1%	37.9%		100.0%
	Female	Count	21	7	1	29
		% within Gender	72.4%	24.1%	3.4%	100.0%
Total		Count	62	32	1	95
		% within Gender	65.3%	33.7%	1.1%	100.0%

The majority of respondents disagreed that they were engaged in small business succession planning. Some of them were not even undecided whether to engage in it or not. Without succession planning a business risks its future existence.

**Table 4.27: Gender \* How Long have you been in this Business?****Crosstab**

			How long have you been in this business?				Total
			Up to 1 year	1 - 3	3 - 5	5 - 10	
Gender	Male	Count	2	23	28	13	66
		% within Gender	3.0%	34.8%	42.4%	19.7%	100.0%
	Female	Count	2	7	19	1	29
		% within Gender	6.9%	24.1%	65.5%	3.4%	100.0%
Total		Count	4	30	47	14	95
		% within Gender	4.2%	31.6%	49.5%	14.7%	100.0%

Cross-tabulation here shows that only 49.5% of businesses could survive up to 3-5 years. Only 14.7% survived beyond this point, for 5-10 years. Most of the businesses had not survived for more than five years. Their mortality rate clearly indicates that they did not have habits for survival in a turbulent business environment.

**Table 4.28: Ethnic Identity \* I Received Guidance and Mentoring from the Ministry of Trade and Industry; Co-operatives and Marketing.**

**Crosstab**

			I received guidance and mentoring from the Ministry of Trade and Industry			Total
			Disagree	Undecided	Agree	
Ethnic Identity	Mosotho	Count	75	4	14	93
		% within Ethnic Identity	80.6%	4.3%	15.1%	100.0%
	Other	Count	2			2
		% within Ethnic Identity	100.0%			100.0%
Total		Count	77	4	14	95
		% within Ethnic Identity	81.1%	4.2%	14.7%	100.0%

As depicted in the above table, all respondents regardless of ethnicity did not receive guidance and mentoring from the Ministry of Trade and Industry, Cooperatives and Marketing. Only 14.7% agreed to have been mentored by the ministry.

**Table 4.29: Ethnic Identity \* I Received Guidance and Mentoring from the Basotho Enterprise Development Corporation.**

**Crosstab**

			I received guidance and mentoring from the Basotho Enterprise Developemnt Corporation			Total
			Disagree	Undecided	Agree	
Ethnic Identity	Mosotho	Count	73	2	18	93
		% within Ethnic Identity	78.5%	2.2%	19.4%	100.0%
	Other	Count	2			2
		% within Ethnic Identity	100.0%			100.0%
Total		Count	75	2	18	95
		% within Ethnic Identity	78.9%	2.1%	18.9%	100.0%

All respondents were not mentored by BEDCO except 18.9% of respondents regardless of the fact they are a government body mandated to facilitate and promote local entrepreneurs.

**Table 4.30: Ethnic Identity \* I Received Guidance and Mentoring from the Lesotho Chamber of Commerce and Industry.**

**Crosstab**

			I received guidance and mentoring from the Lesotho Chamber of Commerce			Total
			Disagree	Undecided	Agree	
Ethnic Identity	Mosotho	Count	88	1	4	93
		% within Ethnic Identity	94.6%	1.1%	4.3%	100.0%
	Other	Count	2			2
		% within Ethnic Identity	100.0%			100.0%
Total		Count	90	1	4	95
		% within Ethnic Identity	94.7%	1.1%	4.2%	100.0%

Also, respondents were not guided or mentored by LCCI expect for 4.2% who indicated to be been assisted.

**Table 4.31: Ethnic Identity \* I Received Guidance and Mentoring from the Mohloli Chamber of Business.**

**Crosstab**

			I received guidance and mentoring from the Mohloli Chamber of Business.		Total
			Disagree	Agree	
Ethnic Identity	Mosotho	Count	92	1	93
		% within Ethnic Identity	98.9%	1.1%	100.0%
	Other	Count	2		2
		% within Ethnic Identity	100.0%		100.0%
Total		Count	94	1	95
		% within Ethnic Identity	98.9%	1.1%	100.0%

Mohloli Chamber of Business did not seem to be extending a helping hand to small business owners especially café owners.

**Table 4.32: Ethnic Identity \* My Small Business was Self Funded****Crosstab**

			My small business was self funded		Total
			Disagree	Agree	
Ethnic Identity	Mosotho	Count	13	80	93
		% within Ethnic Identity	14.0%	86.0%	100.0%
	Other	Count		2	2
		% within Ethnic Identity		100.0%	100.0%
Total		Count	13	82	95
		% within Ethnic Identity	13.7%	86.3%	100.0%

Both Basotho and Other owners self funded their businesses.

**Table 4.33: Ethnic Identity \* My Small Business was Funded through Loans****Crosstab**

			My small business was funded through loans		Total
			Disagree	Agree	
Ethnic Identity	Mosotho	Count	86	7	93
		% within Ethnic Identity	92.5%	7.5%	100.0%
	Other	Count	2		2
		% within Ethnic Identity	100.0%		100.0%
Total		Count	88	7	95
		% within Ethnic Identity	92.6%	7.4%	100.0%

Again, ethnicity did not have much significance since all respondents were not funded through loans.

**Table 4.34: Ethnic Identity \* I Engaged in Small Business Strategic Planning****Crosstab**

			I engaged in small business strategic planning		Total
			Disagree	Undecided	
Ethnic Identity	Mosotho	Count	67	26	93
		% within Ethnic Identity	72.0%	28.0%	100.0%
	Other	Count	1	1	2
		% within Ethnic Identity	50.0%	50.0%	100.0%
Total		Count	68	27	95
		% within Ethnic Identity	71.6%	28.4%	100.0%

Moreover, 72% of them were not engaged in small business strategic planning. At least 50% of other small business owners disagree to have been engaged in strategic planning.

**Table 4.35: Ethnic Identity \* I Networked with my Peers.****Crosstab**

			I networked with my peers.			Total
			Disagree	Undecided	Agree	
Ethnic Identity	Mosotho	Count	88	4	1	93
		% within Ethnic Identity	94.6%	4.3%	1.1%	100.0%
	Other	Count	1	1		2
		% within Ethnic Identity	50.0%	50.0%		100.0%
Total		Count	89	5	1	95
		% within Ethnic Identity	93.7%	5.3%	1.1%	100.0%

Most of respondents, 94.6% of Basotho, lacked networking skills. Other (50%) was not sure whether they were engaged in strategic planning or not.

**Table 4.36: Ethnic Identity \* I Engaged in Small Business Succession Planning****Crosstab**

			I engaged in small business succession planning			Total
			Disagree	Undecided	Agree	
Ethnic Identity	Mosotho	Count	60	32	1	93
		% within Ethnic Identity	64.5%	34.4%	1.1%	100.0%
	Other	Count	2			2
		% within Ethnic Identity	100.0%			100.0%
Total		Count	62	32	1	95
		% within Ethnic Identity	65.3%	33.7%	1.1%	100.0%

The majority of respondents were not engaged in succession planning. Succession planning seems to be a farfetched phenomenon which needs to be considered carefully.

**Table 4.37: Ethnic Identity \* How Long have you been in this Business?****Crosstab**

			How long have you been in this business?				Total
			Up to 1 year	1 - 3	3 - 5	5 - 10	
Ethnic Identity	Mosotho	Count	4	29	46	14	93
		% within Ethnic Identity	4.3%	31.2%	49.5%	15.1%	100.0%
	Other	Count		1	1		2
		% within Ethnic Identity		50.0%	50.0%		100.0%
Total	Count	4	30	47	14	95	
	% within Ethnic Identity	4.2%	31.6%	49.5%	14.7%	100.0%	



For both Basotho and other most businesses could not survive beyond 3-5 year. Only 15.1% survived for 5-10 years. The table above table depicts that most of small business have poor longevity.

**Table 4.38: Marital Status \* I Received Guidance and Mentoring from the Ministry of Trade and Industry.**

**Crosstab**

			I received guidance and mentoring from the Ministry of Trade and Industry			Total
			Disagree	Undecided	Agree	
Marital Status	Single	Count	4	1	1	6
		% within Marital Status	66.7%	16.7%	16.7%	100.0%
	Married	Count	50	2	10	62
		% within Marital Status	80.6%	3.2%	16.1%	100.0%
	Widowed	Count	16	1	1	18
		% within Marital Status	88.9%	5.6%	5.6%	100.0%
	Divorced	Count	7		2	9
		% within Marital Status	77.8%		22.2%	100.0%
Total	Count	77	4	14	95	
	% within Marital Status	81.1%	4.2%	14.7%	100.0%	

Only divorced business owners (22.2%) indicated that they received mentoring from the Ministry of Trade and d Industry.

**Table 4.39: Marital Status \* I Received Guidance and Mentoring from the Basotho Enterprise Development Corporation.**

**Crosstab**

			I received guidance and mentoring from the Basotho Enterprise Developemt Corporation			Total
			Disagree	Undecided	Agree	
Marital Status	Single	Count	5		1	6
		% within Marital Status	83.3%		16.7%	100.0%
	Married	Count	49	2	11	62
		% within Marital Status	79.0%	3.2%	17.7%	100.0%
	Widowed	Count	12		6	18
		% within Marital Status	66.7%		33.3%	100.0%
	Divorced	Count	9			9
		% within Marital Status	100.0%			100.0%
Total	Count	75	2	18	95	
	% within Marital Status	78.9%	2.1%	18.9%	100.0%	

In total, 78.9% did not receive mentoring and guidance from BEDCO except for 33.3% of widowed respondents.

**Table 4.40: Marital Status \* I Received Guidance and Mentoring from the Lesotho Chamber of Commerce and Industry.**

**Crosstab**

			I received guidance and mentoring from the Lesotho Chamber of Commerce			Total
			Disagree	Undecided	Agree	
Marital Status	Single	Count	6			6
		% within Marital Status	100.0%			100.0%
	Married	Count	58	1	3	62
		% within Marital Status	93.5%	1.6%	4.8%	100.0%
	Widowed	Count	17		1	18
		% within Marital Status	94.4%		5.6%	100.0%
	Divorced	Count	9			9
		% within Marital Status	100.0%			100.0%
Total		Count	90	1	4	95
		% within Marital Status	94.7%	1.1%	4.2%	100.0%

Almost all the respondents did not receive any guidance and mentoring from LCCI.

**Table 4.41: Marital Status \* I Received Guidance and Mentoring from the Mohloli Chamber of Business.**

**Crosstab**

			I received guidance and mentoring from the Mohloli Chamber of Business.		Total
			Disagree	Agree	
Marital Status	Single	Count	6		6
		% within Marital Status	100.0%		100.0%
	Married	Count	62		62
		% within Marital Status	100.0%		100.0%
	Widowed	Count	18		18
		% within Marital Status	100.0%		100.0%
	Divorced	Count	8	1	9
		% within Marital Status	88.9%	11.1%	100.0%
Total		Count	94	1	95
		% within Marital Status	98.9%	1.1%	100.0%

Also all the respondents did not receive any guidance from Mohloli Chamber of Business.

**Table 4.42: Marital Status \* My Small Business was Self Funded****Crosstab**

			My small business was self funded		Total
			Disagree	Agree	
Marital Status	Single	Count		6	6
		% within Marital Status		100.0%	100.0%
	Married	Count	7	55	62
		% within Marital Status	11.3%	88.7%	100.0%
	Widowed	Count	4	14	18
		% within Marital Status	22.2%	77.8%	100.0%
	Divorced	Count	2	7	9
		% within Marital Status	22.2%	77.8%	100.0%
Total	Count	13	82	95	
	% within Marital Status	13.7%	86.3%	100.0%	

Here, 88.7% of married business owners self-funded their businesses whilst on the other hand 77.8% was for both widowed and divorced owners.

**Table 4.43: Marital Status \* My Small Business was Funded through Loans****Crosstab**

			My small business was funded through loans		Total
			Disagree	Agree	
Marital Status	Single	Count	6		6
		% within Marital Status	100.0%		100.0%
	Married	Count	57	5	62
		% within Marital Status	91.9%	8.1%	100.0%
	Widowed	Count	16	2	18
		% within Marital Status	88.9%	11.1%	100.0%
	Divorced	Count	9		9
		% within Marital Status	100.0%		100.0%
Total	Count	88	7	95	
	% within Marital Status	92.6%	7.4%	100.0%	

Almost all small business owners did not receive loans to finance their businesses

**Table 4.44: Marital Status \* I Engaged in Small Business Strategic Planning.****Crosstab**

			I engaged in small business strategic planning		Total
			Disagree	Undecided	
Marital Status	Single	Count	6		6
		% within Marital Status	100.0%		100.0%
	Married	Count	45	17	62
		% within Marital Status	72.6%	27.4%	100.0%
	Widowed	Count	10	8	18
		% within Marital Status	55.6%	44.4%	100.0%
	Divorced	Count	7	2	9
		% within Marital Status	77.8%	22.2%	100.0%
Total	Count	68	27	95	
	% within Marital Status	71.6%	28.4%	100.0%	

Marital status was further cross-tabulated with engagement in small business strategic planning.

**Table 4.45: Marital Status \* I Networked with my Peers.****Crosstab**

			I networked with my peers.			Total
			Disagree	Undecided	Agree	
Marital Status	Single	Count	4	1	1	6
		% within Marital Status	66.7%	16.7%	16.7%	100.0%
	Married	Count	60	2		62
		% within Marital Status	96.8%	3.2%		100.0%
	Widowed	Count	17	1		18
		% within Marital Status	94.4%	5.6%		100.0%
	Divorced	Count	8	1		9
		% within Marital Status	88.9%	11.1%		100.0%
Total	Count	89	5	1	95	
	% within Marital Status	93.7%	5.3%	1.1%	100.0%	

Cross-tabulation of marital status with networking with peers indicates that at least 16.7% of single business owners were able to network with their peers for cross-fertilisation of ideas. Married, widowed and divorced owners accounted for 96.8%, 94.4% and 88.9% respectively. Hypothetically speaking, this could be due to the fact of different backgrounds the adults come from which influenced their behaviour in the business environment.

**Table 4.46: Marital Status \* I Engaged in Small Business Succession Planning.****Crosstab**

			I engaged in small business succession planning			Total
			Disagree	Undecided	Agree	
Marital Status	Single	Count	4	2		6
		% within Marital Status	66.7%	33.3%		100.0%
	Married	Count	40	21	1	62
		% within Marital Status	64.5%	33.9%	1.6%	100.0%
	Widowed	Count	13	5		18
		% within Marital Status	72.2%	27.8%		100.0%
	Divorced	Count	5	4		9
		% within Marital Status	55.6%	44.4%		100.0%
Total	Count	62	32	1	95	
	% within Marital Status	65.3%	33.7%	1.1%	100.0%	

Also, marital status was cross-tabulated with small business succession planning and results indicate that the majority (65.3%) of small business owners are not engaged in succession planning. The widowed owners accounted for 72.2%, while divorced owners accounted for 55.6%. Failure to engage in small business planning should have significantly contributed to failure of their businesses.

**Table 4.47: Age Group \* I Received Guidance and Mentoring from the Ministry of Trade and Industry; Co-operatives and Marketing.****Crosstab**

			I received guidance and mentoring from the Ministry of Trade and Industry			Total
			Disagree	Undecided	Agree	
Age Group	20 - 29	Count	2	1		3
		% within Age Group	66.7%	33.3%		100.0%
	30 - 39	Count	8		1	9
		% within Age Group	88.9%		11.1%	100.0%
	40 - 49	Count	21		7	28
		% within Age Group	75.0%		25.0%	100.0%
	50 - 59	Count	35	3	3	41
		% within Age Group	85.4%	7.3%	7.3%	100.0%
	60 - 70	Count	11		3	14
		% within Age Group	78.6%		21.4%	100.0%
Total	Count	77	4	14	95	
	% within Age Group	81.1%	4.2%	14.7%	100.0%	

Age was not significant in as far as receiving guidance and mentoring was concerned. Only 33.3% of 20-29 age group of owners were undecided.

**Table 4.48: Age Group \* I Received Guidance and Mentoring from the Basotho Enterprise Development Corporation.**

**Crosstab**

			I received guidance and mentoring from the Basotho Enterprise Development Corporation			Total
			Disagree	Undecided	Agree	
Age Group	20 - 29	Count	3			3
		% within Age Group	100.0%			100.0%
	30 - 39	Count	7		2	9
		% within Age Group	77.8%		22.2%	100.0%
	40 - 49	Count	24	1	3	28
		% within Age Group	85.7%	3.6%	10.7%	100.0%
	50 - 59	Count	30		11	41
		% within Age Group	73.2%		26.8%	100.0%
	60 - 70	Count	11	1	2	14
		% within Age Group	78.6%	7.1%	14.3%	100.0%
	Total	Count	75	2	18	95
		% within Age Group	78.9%	2.1%	18.9%	100.0%

Age was not significant in as far as receiving guidance and mentoring was concerned. Only 26.8% of owners of 50-59 age group were undecided.

**Table 4.49: Age Group \* I Received Guidance and Mentoring from the Lesotho Chamber of Commerce and Industry.**

**Crosstab**

			I received guidance and mentoring from the Lesotho Chamber of Commerce			Total
			Disagree	Undecided	Agree	
Age Group	20 - 29	Count	3			3
		% within Age Group	100.0%			100.0%
	30 - 39	Count	9			9
		% within Age Group	100.0%			100.0%
	40 - 49	Count	27	1		28
		% within Age Group	96.4%	3.6%		100.0%
	50 - 59	Count	39		2	41
		% within Age Group	95.1%		4.9%	100.0%
	60 - 70	Count	12		2	14
		% within Age Group	85.7%		14.3%	100.0%
	Total	Count	90	1	4	95
		% within Age Group	94.7%	1.1%	4.2%	100.0%

Age was not significant in as far as receiving guidance and mentoring was concerned.

**Table 4.50: Age Group \* I Received Guidance and Mentoring from the Mohloli Chamber of Business.**

**Crosstab**

			I received guidance and mentoring from the Mohloli Chamber of Business.		Total
			Disagree	Agree	
Age Group	20 - 29	Count	3		3
		% within Age Group	100.0%		100.0%
	30 - 39	Count	9		9
		% within Age Group	100.0%		100.0%
	40 - 49	Count	27	1	28
		% within Age Group	96.4%	3.6%	100.0%
	50 - 59	Count	41		41
		% within Age Group	100.0%		100.0%
	60 - 70	Count	14		14
		% within Age Group	100.0%		100.0%
Total		Count	94	1	95
		% within Age Group	98.9%	1.1%	100.0%

Age was not significant in as far as receiving guidance and mentoring was concerned.

**Table 4.51: Age Group \* My Small Business was Self Funded**

**Crosstab**

			My small business was self funded		Total
			Disagree	Agree	
Age Group	20 - 29	Count		3	3
		% within Age Group		100.0%	100.0%
	30 - 39	Count	1	8	9
		% within Age Group	11.1%	88.9%	100.0%
	40 - 49	Count	2	26	28
		% within Age Group	7.1%	92.9%	100.0%
	50 - 59	Count	9	32	41
		% within Age Group	22.0%	78.0%	100.0%
	60 - 70	Count	1	13	14
		% within Age Group	7.1%	92.9%	100.0%
Total		Count	13	82	95
		% within Age Group	13.7%	86.3%	100.0%

Most of small business owners self funded their business and age was insignificant.

**Table 4.52: Age Group \* My Small Business was Funded through Loans****Crosstab**

			My small business was funded through loans		Total
			Disagree	Agree	
Age Group	20 - 29	Count	3		3
		% within Age Group	100.0%		100.0%
	30 - 39	Count	9		9
		% within Age Group	100.0%		100.0%
	40 - 49	Count	27	1	28
		% within Age Group	96.4%	3.6%	100.0%
	50 - 59	Count	36	5	41
		% within Age Group	87.8%	12.2%	100.0%
	60 - 70	Count	13	1	14
		% within Age Group	92.9%	7.1%	100.0%
Total	Count	88	7	95	
	% within Age Group	92.6%	7.4%	100.0%	

All respondents confirmed that getting loans from financial institutions was a problem.

Financial institutions would require collateral from small business owners which made it difficult for them to improve or sustain their businesses.

**Table 4.53: Age Group \* I Engaged in Small Business Strategic Planning****Crosstab**

			I engaged in small business strategic planning		Total
			Disagree	Undecided	
Age Group	20 - 29	Count	3		3
		% within Age Group	100.0%		100.0%
	30 - 39	Count	5	4	9
		% within Age Group	55.6%	44.4%	100.0%
	40 - 49	Count	19	9	28
		% within Age Group	67.9%	32.1%	100.0%
	50 - 59	Count	30	11	41
		% within Age Group	73.2%	26.8%	100.0%
	60 - 70	Count	11	3	14
		% within Age Group	78.6%	21.4%	100.0%
Total	Count	68	27	95	
	% within Age Group	71.6%	28.4%	100.0%	

Strategic planning is a far fetched concept for the majority of respondents. Results indicate that 71.6% of small business owners were not engaged in small business strategic planning. This could be attributable to both their lack of experience and level of education as mostly they obtained



secondary qualifications. Only 28.4 % was undecided whether they were engaged in strategic planning for their business growth or not.

**Table 4.54: Age Group \* I Networked with my Peers.**

**Crosstab**

			I networked with my peers.			Total
			Disagree	Undecided	Agree	
Age Group	20 - 29	Count	2		1	3
		% within Age Group	66.7%		33.3%	100.0%
	30 - 39	Count	8	1		9
		% within Age Group	88.9%	11.1%		100.0%
	40 - 49	Count	24	4		28
		% within Age Group	85.7%	14.3%		100.0%
	50 - 59	Count	41			41
		% within Age Group	100.0%			100.0%
	60 - 70	Count	14			14
		% within Age Group	100.0%			100.0%
Total	Count	89	5	1	95	
	% within Age Group	93.7%	5.3%	1.1%	100.0%	

As indicated in table 4.54 above, 93.7% confirmed to have been working in silos hence why they were unsuccessful. Basotho small business owners confirmed that they lack networking skills and oneness and further, they are beaten by other small business owners (Chinese and Indians) because they support one another.

**Table 4.55: Age Group \* I Engaged in Small Business Succession Planning**

**Crosstab**

			I engaged in small business succession planning			Total
			Disagree	Undecided	Agree	
Age Group	20 - 29	Count	1	2		3
		% within Age Group	33.3%	66.7%		100.0%
	30 - 39	Count	8	1		9
		% within Age Group	88.9%	11.1%		100.0%
	40 - 49	Count	20	7	1	28
		% within Age Group	71.4%	25.0%	3.6%	100.0%
	50 - 59	Count	27	14		41
		% within Age Group	65.9%	34.1%		100.0%
	60 - 70	Count	6	8		14
		% within Age Group	42.9%	57.1%		100.0%
Total	Count	62	32	1	95	
	% within Age Group	65.3%	33.7%	1.1%	100.0%	

On the other hand, succession planning was another business concept which most respondents (65.3%) of respondents indicated that they had not started planning and developing their potential successors. 33.7% was undecided whether to start preparing their successors or not.

**Table 4.56: Age Group \* What is your Level of Education?**

			Crosstab				
			What is your level of education?				
			None	Primary	Secondary	Tertiary	Postgraduate
Age Group	20 - 29	Count			3		
		% within Age Group			100.0%		
	30 - 39	Count		1	7	1	
		% within Age Group		11.1%	77.8%	11.1%	
	40 - 49	Count	1	4	21	1	1
		% within Age Group	3.6%	14.3%	75.0%	3.6%	3.6%
	50 - 59	Count		8	33		
		% within Age Group		19.5%	80.5%		
	60 - 70	Count		6	8		
		% within Age Group		42.9%	57.1%		
Total		Count	1	19	72	2	1
		% within Age Group	1.1%	20.0%	75.8%	2.1%	1.1%

The majority (75.8%) of owners/managers did not possess a managerial qualification rather, they obtained secondary qualifications. The second largest group, (20%) possessed primary qualifications. The next group with 2% possessed tertiary and the last two groups possessed 1% postgraduate and lastly no education respectively.

**Table 4.57: Age Group \* How Long have you been in this Business?**

			Crosstab			
			How long have you been in this business?			
			Up to 1 year	1 - 3	3 - 5	5 - 10
Age Group	20 - 29	Count		1	1	1
		% within Age Group		33.3%	33.3%	33.3%
	30 - 39	Count	2	3	4	
		% within Age Group	22.2%	33.3%	44.4%	
	40 - 49	Count	1	9	16	2
		% within Age Group	3.6%	32.1%	57.1%	7.1%
	50 - 59	Count	1	12	20	8
		% within Age Group	2.4%	29.3%	48.8%	19.5%
	60 - 70	Count		5	6	3
		% within Age Group		35.7%	42.9%	21.4%
Total		Count	4	30	47	14
		% within Age Group	4.2%	31.6%	49.5%	14.7%

They could not grow well to generate more employment. Not more than 49.5% of small businesses survived longer 3-5 years. Further it depicted that 27.8% of widowed owners survived for 5-10

years. This could be of the fact that it is a group of single parents who were supporting families; hence they had to exert more effort for prolonging sustainability of their businesses.

**Table 4.58: Gender \* I Come from a Family of Entrepreneurs**

**Crosstab**

			I come from a family of entrepreneurs			Total
			Disagree	Undecided	Agree	
Gender	Male	Count	39	19	8	66
		% within Gender	59.1%	28.8%	12.1%	100.0%
	Female	Count	19	6	4	29
		% within Gender	65.5%	20.7%	13.8%	100.0%
Total		Count	58	25	12	95
		% within Gender	61.1%	26.3%	12.6%	100.0%

As table 4.58 above portrays, 59.1% of males and 65.5% of females indicated that they did not have entrepreneurial background. Some were undecided and others (12.1% and 13.8%) for males and females respectively agreed to have had come from families of entrepreneurship.

**Table 4.59: Gender \* My Family is Engaged in the Same/Similar Business**

**Crosstab**

			My family is engaged in the same/similar business		Total
			Disagree	Undecided	
Gender	Male	Count	65	1	66
		% within Gender	98.5%	1.5%	100.0%
	Female	Count	29		29
		% within Gender	100.0%		100.0%
Total		Count	94	1	95
		% within Gender	98.9%	1.1%	100.0%

In table 4.59 above, 98.5% of males and 100% of females proved that their families were not engaged in the same/similar business.

**Table 4.60: Gender \* What is your Level of Education?****Crosstab**

			What is your level of education?					Total
			None	Primary	Secondary	Tertiary	Postgraduate	
Gender	Male	Count		15	50	1		66
		% within Gender		22.7%	75.8%	1.5%		100.0%
	Female	Count	1	4	22	1	1	29
		% within Gender	3.4%	13.8%	75.9%	3.4%	3.4%	100.0%
Total		Count	1	19	72	2	1	95
		% within Gender	1.1%	20.0%	75.8%	2.1%	1.1%	100.0%

Cross-tabulation of gender with the level of education indicates that a substantial number of respondents, a total of 75.8%, only acquired secondly qualification. Only 2.1% possessed tertiary qualifications and 1.1%, postgraduate qualification.

**Table 4.61: Ethnic Identity \* I Come from a Family of Entrepreneurs****Crosstab**

			I come from a family of entrepreneurs			Total
			Disagree	Undecided	Agree	
Ethnic Identity	Mosotho	Count	57	24	12	93
		% within Ethnic Identity	61.3%	25.8%	12.9%	100.0%
	Other	Count	1	1		2
		% within Ethnic Identity	50.0%	50.0%		100.0%
Total		Count	58	25	12	95
		% within Ethnic Identity	61.1%	26.3%	12.6%	100.0%

The cross-tabulations of ethnicity with coming from a family of entrepreneurs; engagement of strategic planning and networking indicate 61.3% of respondents are Basotho who do not come from entrepreneurial background.

**Table 4.62: Age Group \* I Engaged in Small Business Strategic Planning****Crosstab**

			I engaged in small business strategic planning		Total
			Disagree	Undecided	
Age Group	20 - 29	Count	3		3
		% within Age Group	100.0%		100.0%
	30 - 39	Count	5	4	9
		% within Age Group	55.6%	44.4%	100.0%
	40 - 49	Count	19	9	28
		% within Age Group	67.9%	32.1%	100.0%
	50 - 59	Count	30	11	41
		% within Age Group	73.2%	26.8%	100.0%
	60 - 70	Count	11	3	14
		% within Age Group	78.6%	21.4%	100.0%
Total	Count	68	27	95	
	% within Age Group	71.6%	28.4%	100.0%	

Strategic planning is a far fetched concept for the majority of respondents. Results indicate that 71.6% of small business owners were not engaged in small business strategic planning. This could be attributable to both their lack of experience and level of education as mostly they obtained secondary qualifications. Only 28.4 % was undecided whether they were engaged in strategic planning for their business growth or not.

**Table 4.63: Age Group \* I Networked with my Peers.****Crosstab**

			I networked with my peers.			Total
			Disagree	Undecided	Agree	
Age Group	20 - 29	Count	2		1	3
		% within Age Group	66.7%		33.3%	100.0%
	30 - 39	Count	8	1		9
		% within Age Group	88.9%	11.1%		100.0%
	40 - 49	Count	24	4		28
		% within Age Group	85.7%	14.3%		100.0%
	50 - 59	Count	41			41
		% within Age Group	100.0%			100.0%
	60 - 70	Count	14			14
		% within Age Group	100.0%			100.0%
Total	Count	89	5	1	95	
	% within Age Group	93.7%	5.3%	1.1%	100.0%	

As indicated in table A60 above, 93.7% confirmed to have been working in silos hence why they were unsuccessful. Basotho small business owners confirmed that they lack networking skills and

oneness and further, they are beaten by other small business owners (Chinese and Indians) because they support one another.

**Table 4.64: Age Group \* What is your Level of Education?**

**Crosstab**

			What is your level of education?					Total
			None	Primary	Secondary	Tertiary	Postgraduate	
Age Group	20 - 29	Count			3			3
		% within Age Group			100.0%			100.0%
	30 - 39	Count		1	7	1		9
		% within Age Group		11.1%	77.8%	11.1%		100.0%
	40 - 49	Count	1	4	21	1	1	28
		% within Age Group	3.6%	14.3%	75.0%	3.6%	3.6%	100.0%
	50 - 59	Count		8	33			41
		% within Age Group		19.5%	80.5%			100.0%
	60 - 70	Count		6	8			14
		% within Age Group		42.9%	57.1%			100.0%
Total		Count	1	19	72	2	1	95
		% within Age Group	1.1%	20.0%	75.8%	2.1%	1.1%	100.0%

The majority (75.8%) of owners/managers did not possess a managerial qualification rather, they obtained secondary qualifications. The second largest group, (20%) possessed primary qualifications. The next group with 2% possessed tertiary and the last two groups possessed 1% postgraduate and lastly no education respectively.

**Table 4.65: Age Group \* How Long have you been in this Business?**

**Crosstab**

			How long have you been in this business?				Total
			Up to 1 year	1 - 3	3 - 5	5 - 10	
Age Group	20 - 29	Count		1	1	1	3
		% within Age Group		33.3%	33.3%	33.3%	100.0%
	30 - 39	Count	2	3	4		9
		% within Age Group	22.2%	33.3%	44.4%		100.0%
	40 - 49	Count	1	9	16	2	28
		% within Age Group	3.6%	32.1%	57.1%	7.1%	100.0%
	50 - 59	Count	1	12	20	8	41
		% within Age Group	2.4%	29.3%	48.8%	19.5%	100.0%
	60 - 70	Count		5	6	3	14
		% within Age Group		35.7%	42.9%	21.4%	100.0%
Total		Count	4	30	47	14	95
		% within Age Group	4.2%	31.6%	49.5%	14.7%	100.0%

They could not grow well to generate more employment. Not more than 49.5% of small businesses survived longer 3-5 years. Further it depicted that 27.8% of widowed owners survived for 5-10

years. This could be of the fact that it is a group of single parents who were supporting families; hence they had to exert more effort for prolonging sustainability of their businesses.

### **4.3 CORRELATIONS ANALYSIS**

As simply put by Lind, Marchal and Wathen (2005), correlation analysis is a group of techniques to measure the relationship between two variables. Significant bivariate correlations which relate to research problem stated in chapter 1 will be scrutinized. Descriptive statistics in table below shows the mean, standard deviation, and total number of respondents for each selected variable

**Table 4.66 Correlation Analysis**

		Correlations																		
		Respondent	Gender	Ethnic Identity	Marital Status	Age Group	I am able to read and write	I come from a family of entrepreneurs	My family is engaged in the same/similar business	I received guidance and mentoring from the Ministry of Trade and Industry	I received guidance and mentoring from the Basotho Enterprise Development Corporation	I received guidance and mentoring from the Lesotho Chamber of Commerce	I received guidance and mentoring from the Mopheli Chamber of Business	My small business was self funded	My small business was funded through loans	My small business was funded through a combination of loans and self funding	I engaged in small business strategic planning	I networked with my peers	I engaged in small business succession planning	What is your level of education?
Respondent	Pearson Correlation Sig. (2-tailed) N	1.000 . 95	-.013 . 95	.067 . 95	.352* . 95	-.199 . 95	.059 . 95	.009 . 95	.094 . 95	-.343* . 95	.361* . 95	-.139 . 95	.094 . 95	-.297* . 95	-.145 . 95	.244* . 95	.144 . 95	-.195 . 95	-.052 . 95	.065 . 95
Gender	Pearson Correlation Sig. (2-tailed) N	-.013 . 95	1.000 . 95	-.079 . 95	-.005 . 95	-.155 . 95	.097 . 95	-.031 . 95	-.068 . 95	-.056 . 95	-.017 . 95	-.152 . 95	-.068 . 95	-.002 . 95	-.012 . 95	.048 . 95	.089 . 95	-.087 . 95	-.063 . 95	.096 . 95
Ethnic Identity	Pearson Correlation Sig. (2-tailed) N	.067 . 95	-.079 . 95	1.000 . 95	.230* . 95	-.080 . 95	-.697* . 95	-.075 . 95	.993* . 95	.229* . 95	-.061 . 95	-.028 . 95	.993* . 95	-.251* . 95	-.034 . 95	-.028 . 95	-.056 . 95	.342* . 95	-.086 . 95	-.155 . 95
Marital Status	Pearson Correlation Sig. (2-tailed) N	.352* . 95	-.005 . 95	.230* . 95	1.000 . 95	.240* . 95	-.138 . 95	.072 . 95	.238* . 95	-.042 . 95	-.037 . 95	-.029 . 95	.238* . 95	-.164 . 95	-.012 . 95	.156 . 95	.111 . 95	-.107 . 95	.008 . 95	.010 . 95
Age Group	Pearson Correlation Sig. (2-tailed) N	.199 . 95	-.155 . 95	-.080 . 95	.240* . 95	1.000 . 95	.087 . 95	-.060 . 95	-.061 . 95	-.018 . 95	.089 . 95	.183 . 95	-.061 . 95	-.083 . 95	.127 . 95	.008 . 95	-.057 . 95	-.330* . 95	.124 . 95	-.217* . 95
I am able to read and write	Pearson Correlation Sig. (2-tailed) N	.059 . 95	.097 . 95	-.697* . 95	-.138 . 95	.087 . 95	1.000 . 95	.107 . 95	-.703* . 95	-.339* . 95	.075 . 95	.034 . 95	-.703* . 95	.155 . 95	.041 . 95	.035 . 95	.092 . 95	-.209* . 95	.105 . 95	.090 . 95
I come from a family of entrepreneurs	Pearson Correlation Sig. (2-tailed) N	.009 . 95	-.031 . 95	-.075 . 95	.072 . 95	-.060 . 95	.107 . 95	1.000 . 95	-.075 . 95	-.010 . 95	-.068 . 95	-.059 . 95	-.075 . 95	-.186 . 95	.250* . 95	.028 . 95	.002 . 95	-.030 . 95	.073 . 95	-.007 . 95
My family is engaged in the same/similar business	Pearson Correlation Sig. (2-tailed) N	.094 . 95	-.068 . 95	.993* . 95	.238* . 95	-.061 . 95	-.703* . 95	-.075 . 95	1.000 . 95	.238* . 95	-.052 . 95	-.024 . 95	1.000* . 95	-.259* . 95	-.029 . 95	-.024 . 95	-.065 . 95	.320* . 95	-.074 . 95	-.162 . 95
I received guidance and mentoring from the Ministry of Trade and Industry	Pearson Correlation Sig. (2-tailed) N	-.343* . 95	-.056 . 95	.229* . 95	-.042 . 95	-.018 . 95	-.339* . 95	-.010 . 95	.238* . 95	1.000 . 95	-.126 . 95	-.108 . 95	.238* . 95	.101 . 95	-.132 . 95	-.110 . 95	-.035 . 95	.080 . 95	.133 . 95	-.120 . 95
I received guidance and mentoring from the Basotho Enterprise Development Corporation	Pearson Correlation Sig. (2-tailed) N	.361* . 95	-.017 . 95	-.061 . 95	-.037 . 95	.089 . 95	.075 . 95	-.068 . 95	-.052 . 95	-.126 . 95	1.000 . 95	.013 . 95	-.052 . 95	.047 . 95	-.041 . 95	.000 . 95	.154 . 95	-.125 . 95	.064 . 95	.020 . 95
I received guidance and mentoring from the Lesotho Chamber of Commerce	Pearson Correlation Sig. (2-tailed) N	-.139 . 95	-.152 . 95	-.028 . 95	-.029 . 95	.183 . 95	.034 . 95	-.059 . 95	-.024 . 95	-.108 . 95	.013 . 95	1.000 . 95	-.024 . 95	.017 . 95	.033 . 95	-.054 . 95	-.088 . 95	-.057 . 95	.142 . 95	-.019 . 95
I received guidance and mentoring from the Mopheli Chamber of Business	Pearson Correlation Sig. (2-tailed) N	.094 . 95	-.068 . 95	.993* . 95	.238* . 95	-.061 . 95	-.703* . 95	-.075 . 95	1.000* . 95	.238* . 95	-.052 . 95	-.024 . 95	1.000 . 95	-.259* . 95	-.029 . 95	-.024 . 95	-.065 . 95	.320* . 95	-.074 . 95	-.162 . 95
My small business was self funded	Pearson Correlation Sig. (2-tailed) N	-.297* . 95	-.002 . 95	-.251* . 95	-.164 . 95	-.083 . 95	.155 . 95	-.186 . 95	-.259* . 95	.101 . 95	.047 . 95	.017 . 95	-.259* . 95	1.000 . 95	-.708* . 95	-.592* . 95	.047 . 95	-.004 . 95	-.021 . 95	.157 . 95
My small business was funded through loans	Pearson Correlation Sig. (2-tailed) N	.145 . 95	-.012 . 95	-.034 . 95	-.012 . 95	.127 . 95	.041 . 95	.250* . 95	-.029 . 95	-.132 . 95	-.041 . 95	.033 . 95	-.029 . 95	-.708* . 95	1.000 . 95	-.066 . 95	-.088 . 95	-.070 . 95	.040 . 95	-.135 . 95
My small business was funded through a combination	Pearson Correlation Sig. (2-tailed) N	.244* . 95	.048 . 95	-.028 . 95	.156 . 95	.008 . 95	.035 . 95	.028 . 95	-.024 . 95	-.110 . 95	.000 . 95	-.054 . 95	-.024 . 95	-.592* . 95	-.066 . 95	1.000 . 95	.061 . 95	-.058 . 95	.020 . 95	-.009 . 95
I engaged in small business strategic planning	Pearson Correlation Sig. (2-tailed) N	.144 . 95	.089 . 95	-.056 . 95	.111 . 95	-.057 . 95	.092 . 95	.002 . 95	-.065 . 95	-.035 . 95	.154 . 95	-.088 . 95	-.065 . 95	.047 . 95	-.088 . 95	.061 . 95	1.000 . 95	-.155 . 95	.016 . 95	-.052 . 95
I networked with my peers	Pearson Correlation Sig. (2-tailed) N	-.195 . 95	-.087 . 95	.342* . 95	-.107 . 95	-.330* . 95	-.209* . 95	-.030 . 95	.320* . 95	.080 . 95	-.125 . 95	-.057 . 95	.320* . 95	-.004 . 95	-.070 . 95	-.058 . 95	-.155 . 95	1.000 . 95	-.036 . 95	-.050 . 95
I engaged in small business succession planning	Pearson Correlation Sig. (2-tailed) N	-.052 . 95	-.063 . 95	-.086 . 95	.008 . 95	.124 . 95	.105 . 95	.073 . 95	-.074 . 95	.133 . 95	.064 . 95	.142 . 95	-.074 . 95	-.021 . 95	.040 . 95	.020 . 95	.016 . 95	-.036 . 95	1.000 . 95	-.117 . 95
What is your level of education?	Pearson Correlation Sig. (2-tailed) N	.065 . 95	.096 . 95	-.155 . 95	.010 . 95	-.217* . 95	.090 . 95	-.007 . 95	-.162 . 95	-.120 . 95	.020 . 95	-.019 . 95	-.162 . 95	.157 . 95	-.135 . 95	-.009 . 95	-.062 . 95	-.050 . 95	-.117 . 95	1.000 . 95
How many staff were there employed in your small business?	Pearson Correlation Sig. (2-tailed) N	-.002 . 988	.107 . 304	-.006 . 956	.154 . 136	.248* . 016	.029 . 762	-.081 . 434	-.020 . 846	.060 . 566	-.017 . 873	.008 . 940	-.020 . 846	.078 . 452	.078 . 594	-.055 . 656	-.046 . 037	.215* . 059	-.194 . 069	-.010 . 926
How long have you been in this business?	Pearson Correlation Sig. (2-tailed) N	.041 . 691	-.081 . 435	.165 . 110	.069 . 509	.155 . 133	-.146 . 157	-.130 . 207	.171 . 097	-.076 . 464	.099 . 338	.145 . 161	.171 . 097	-.133 . 197	.148 . 152	-.046 . 657	.087 . 400	.129 . 211	.156 . 131	-.035 . 739

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

Bivariate data and the Pearson correlation coefficients were calculated to quantify the relationships between the various variables. From these data, it was found that guidance received from Mopheli Chamber of Business has perfect positive correlation with a family being engaged in the similar/same business at the 99% confidence level. There were 15 variables negatively correlated each other and 14 had positive correlation relationships all at 99% confidence level. On the other hand, 8 variables had negative correlation relationships and 19 variables positively correlated each other at 95% confidence level and at two-tailed test of significance.



## 4.4 QUALITATIVE DATA ANALYSIS OF SMALL BUSINESS OWNERS

### 4.4.1 QUESTION 21

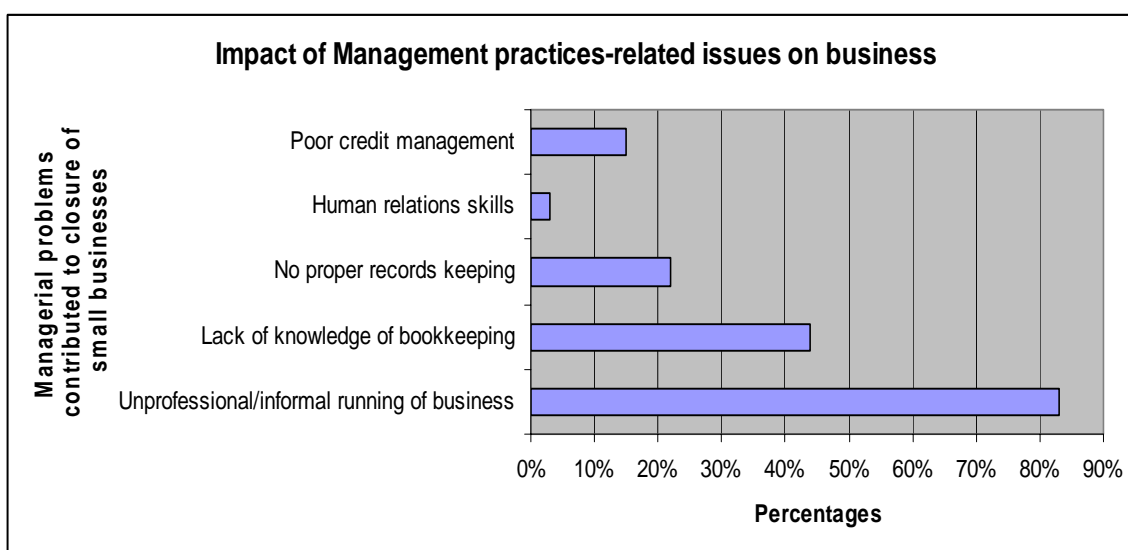
The respondents were lastly asked an open-ended question to state specific problems that they experienced and regarded as the cause of their small businesses closure. Managerial skills and business knowledge are an indication of how well an entrepreneur can perform important tasks and activities related to the functioning of a business. By large, a number of problems were stated and categorized as follows:

#### Management Practices or Skills or Managerial Skills

- Unprofessional/ informal running of business – Lack of financial planning, budgeting (Unable to separate personal/family issues from business issues.)
- Lack of knowledge of bookkeeping
- No proper records keeping
- Staff turn over – Human resource/personnel management/ human relations skills
- Incompetent Management
- Poor Credit Management – credit sales which led bad debts

The findings on Management Practices/Skills or Managerial Skills are presented in figure 4.2 below.

**Figure 4.2**



By far the greater majority of respondents 83 percent indicated that they were informally operating their businesses. This could include lack of financial planning, budgeting and inability to separate

The second category, marketing problems, also constituted a larger portion of respondents' problems.

- Competition
- Pricing
- Poor Locality – remote areas some near the town – customers prefer to buy in town
- Unreliable infrastructure -            Transportation – expensive  
    Communication  
    Networking
- Target market – low income earners – with weak purchasing power.
- Lack of information

### Figure 4.3



Results indicate that increased competition directly decreased small business income which led to business failure. As figure depicted in figure 4.3 above, 75 percent complained of increased competition which included Chinese competitors operating at remote areas. Coming to the issue of pricing, 36 percent of the respondents had problems with their counterpart business owners establishing same pricing models unlike Chinese whose prices of products would be the same across the board. Only 11 percent complained of poor locality of their small businesses. Some were just at the outskirts of the town and consumers would, more often than not, prefer to buy in town. Others would be at remote places where infrastructure is a serious problem.

Unreliable infrastructure was another problem whereby 21 percent indicated to have had experienced problems with expensive transportation, difficult communication and networking. As indicated in the characteristics of small businesses, most of them are found in the rural areas where the majority of the population was that of weak bargaining power. The implication was that they operated in a sector with potentially low profit margins. Ineffective market in terms of weak purchasing power accounted for 23 percent. Lastly, lack of information was another cause of business failure and constituted to 19%. Most of small businesses did not have strong extended social and business networks in developing their stringent communication strategies.

Small businesses, like larger corporations, depend on both equity and debt. Capital structure of any operation is crucial to its survival.

### **Financial Problems**

- Low capital/started small – Capital Structures are problematic
- Low turnover
- No enough funds for expansion – stagnation of businesses
- No financial support in the industry from expected institutions/firms/organizations.

**Figure 4.4**

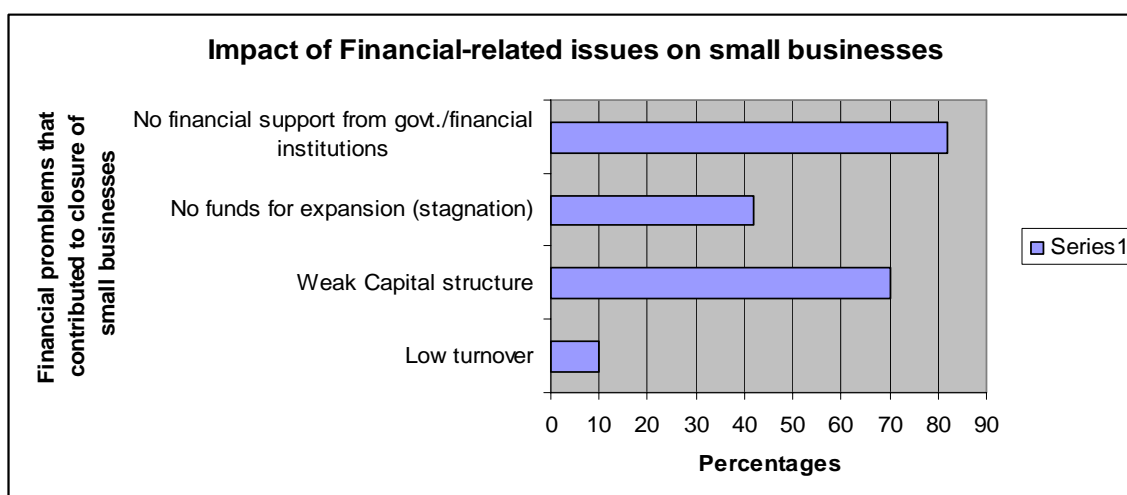


Figure 4.4 indicates that 70 percent of the respondents indicated that the major problem they encountered was the limited capital. Their capital structure only consisted of equity. The results suggest that a lack of money for running costs or capital items is a widespread problem facing small businesses financial markets were much more reluctant in financing small businesses due to their vulnerability to high mortality rate. Because they operated in a sector with low profit margins, low turnover could not allow for any expansions. Only 10 percent of the respondents reported to have experienced low turnover and 42 percent, insufficient funds for expansion. Most of the respondents indicated that they did not get any financial support form financial intermediaries and this constituted 82 percent.

There were some problems which fell into the last category and they are analysed below.

### **Other Problems**

- Expensive rent
- Discrimination by suppliers/ wholesalers – they give huge credit facilities to Chinese and as opposed to Basotho. Prices fluctuate depending on the buyer.
- No team support/cooperation between Basotho owners regarding pricing.
- Weather
- High tax rates
- No governmental support – Issuance of licenses to Chinese over small scale businesses. – Government policy to being implemented.
- Involvement of children in the business
- High interest rates

- Crime/Robbery/burglary/Theft - Murder - 2 cases were reported. Many attempts were reported.
- Low level of personal involvement – to be “behind the till” – Lack of commitment
- No family support

The above problems are graphically shown in figure 4.5

**Figure 4.5**

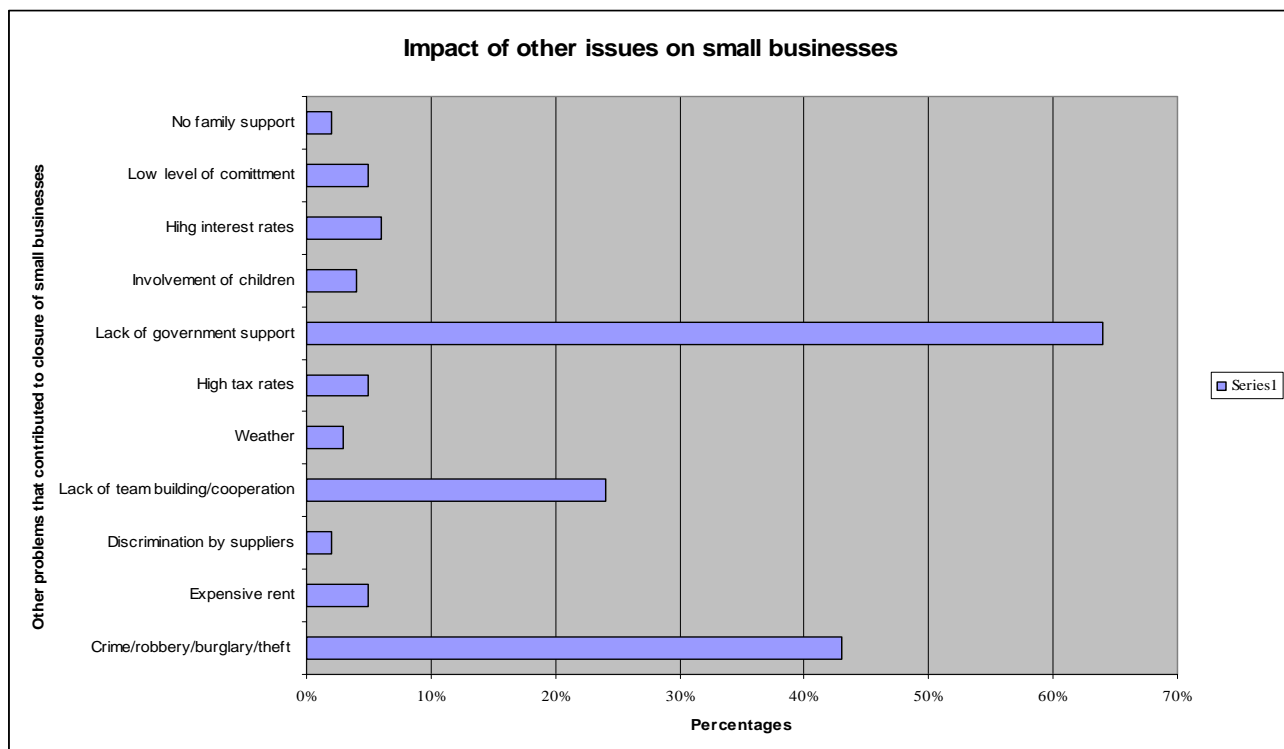


Figure 4.5 indicates that 5 percent of the respondents experienced expensive rent as a major problem. At least 2 percent reported to had been discriminated by suppliers as opposed to Chinese business owners who were granted huge credit facilities. Prices fluctuated depending on the buyer. Only 3 percent indicated that they operated in unfavorable weather conditions that affected their performance and success of the business. High tax rates had negative impact as 5 percent complained about them. It is evidenced form the above figure that 64 percent indicated that government was never supportive regarding establishment and/or implementation of trade policy. Chinese were increasingly licensed to operate businesses which according to trade policy, were supposed to have been reserved for indigenous Basotho. Only 4 percent indicated the involvement to children into a business caused a problem. High interest rates and other conditions surrounding the external debt finance to small business hindered progress of the majority of small businesses; and

only 6 percent experienced this problem. Crime/robbery/burglary/theft was another disease constituted for 43 percent. At least two murder cases and many attempts were reported. Low level of personal involvement – to be “behind the till” – Lack of commitment also played part in business failure whereby 5 percent reported. Lack of family support accounted for only 2 percent. As far as teambuilding and cooperation is concerned, the respondents constituting 24 showed that they lack cooperation in as far as pricing are concerned and team building skills. Most small business owners are still reluctant to form partnerships and teams but instead, they work in silos.

## **4.5 QUESTIONNAIRE 2**

### **4.5.1 QUALITATIVE DATA ANALYSIS FROM STAKEHOLDERS**

The second group of respondents was four stakeholders namely; Ministry of Trade and Industry, Cooperatives and Marketing; Lesotho Chamber of Commerce and Industry; Basotho Enterprises Development Corporation and Mohloli Chamber of Business.

The Ministry of Trade and Industry, Cooperatives and Marketing Lesotho Chamber of Commerce and Industry and the have just recently developed supporting programmes including buying syndicates, establishing business rapport with other chambers worldwide in terms of training, building capacities, and obtaining direct funding from Global and International Monetary Fund (IMF) to mention a few; holding monthly meetings which are meant to mentor members and serve as networking sessions. All these strategies have just been formulated and tried to be implemented. Indicatively, these two bodies were not as actively participating in small business development as they were anticipated.

The study showed that the Ministry of Trade and Industry; Cooperatives and Marketing does not maintain proper statistical records pertinent to all traders in the country. It therefore made it difficult to establish how small businesses or entrepreneurial firms including cafes strongly impact the overall Lesotho economy and how significantly are they generating jobs, production, due to unavailability of traders profiling and proper maintenance of statistical records.

Lesotho Chamber of Commerce and Industry however, felt it was the government’s responsibility to harmonise the environment and put mechanisms and or/ policies in place for protecting small business entrepreneurs from foreign competitors.

The Basotho Enterprises Development Corporation indicated that they have programmes in place for small business development and assistance and these included market development in which they undertake facilitation of trade fairs participation and local district shows. Sector development was one of them. BEDCO on the other hand, had skills up gradation of programme for SMMEs to equip small business owners with skills to exploit business opportunities and gain competitive intelligence and strategy.

Among the many services that BEDCO offers to entrepreneurs throughout the country, the confirmed that their responsibility is to ensure availability of space for trading to small business owners at subsidised cost. They conduct training programmes, workshops and short term courses on various aspects including technical training in woodwork, metal work, sewing, business and management

Their main mandate of BEDCO is to promote local entrepreneurs; they also market their students' products, through flea market for example. On average, a total of about 800 students are trained in a year. Here, there are industry linkages between small and large manufacturers. Then, business counseling, and lastly, business management and technical training were offered. Monitoring was done through progress reports and regular visits whereby linkages in particular, is a project fully supervised by BEDCO.

BEDCO specifically mentioned that their main clients are small and medium scale manufacturers on which it focuses mainly and that other small business owners such as cafes are also welcome despite the indication by the results that they have been neglected.

By far, Mohloli Chamber of Business argued that Africa is going for economic integration; therefore, there is no need to protect business against competition. Rather, they need support to overcome competition and become nationally and regionally competitive. All these will help in exploitation of business opportunities for small businesses or private sectors. It should however, be noted that it is for the benefit of members only. It must however, be noted that membership fee of M3, 000.00 on yearly basis is quite expensive regarding the calibre of business owners we are focusing on. This could be one of their constraints prohibiting them from being included in the network. Training programme, product research and development, business counselling and

business plans or projects development assistance were just being put in place. Mohloli Chamber of Business for instance, offered entrepreneurship development training program for small businesses.

The four stakeholders mentioned above showed that there are numerous challenges that small businesses facing including lack of good business practices, businesses concentrated on few sectors, access to finance, access to prudent statistical information, lack of management and administrative skills, lack of planning skills, lack of governmental and financial support from financial institutions and that small business owners are living in a “survival of the fittest” environment.

#### **4.6 CONCLUSION**

Problems that led to small business mortality cannot be overemphasised. Data that was received from the two target groups was analysed using both quantitative and qualitative data analysis methods. Representative sampling was extrapolated to the general population. Results were presented by graphs and tables



## **CHAPTER FIVE**

### **DISCUSSION AND IMPLICATIONS**

#### **5.0 INTRODUCTION**

The objective of this chapter is to discuss the implications of the findings in relation to the literature. A number of issues will be addressed: the demographic profile of the owners of small businesses that closed, the background of owners of small businesses that closed, the level and type of skills, education and training of the owners of small businesses that closed, the type of support, guidance and mentoring received by the owners of small businesses that closed, the level of financial support received by the owners of small businesses that closed, engagement of small businesses that closed engaged in strategic planning, engagement of small businesses that closed in networking with their peers, the contribution of small businesses that closed to job creation, preparation of succession planning by small businesses that closed and other problems. A conclusion was drawn from these discussions and implications.

#### **5.1 SUMMARY OF THE MAIN FINDINGS**

##### **5.1.1 Demographic Profile of the Owners of Small Businesses that Closed.**

Numerous studies have demonstrated the role of demographic variables in small businesses success. (Hall, 1995) states that human capital is an important aspect which includes all the capabilities of a single person. He further states that the age of the owner at the start of business can have positive correlation to the probability of survival of the business as human capital includes all the capabilities an individual. The present research shows that small businesses that closed were mainly owned by Basotho males who are married. The study further indicates that respondents fall in the age group of 50-59 years.

As stated by OECD 1997, enterprises owned by women now make up one-quarter to one-third of the total business population worldwide. Women are likely to become even more important to the economy in the future (Ball 2005). The literature also reveals that the participation rates of women in particular in the informal economy are high—80% in Lima, Peru; 65 percent in Indonesia; 72 percent in Zambia; and 41 percent in the Republic of Korea. The results in (chapter 4) suggest that most businesses that closed were owned by males.

### **5.1.2 The Background of Owners of Small Businesses that Closed**

The present research shows that the majority of small business owners are from the founding (first) generation, as they did not come from families with business history. The research is supported by many studies (as presented in chapter 4) by Pullig and Chawla (1998) stating that critical success factors have been due to managerial inadequacy, failure to execute managerial, marketing, financial and human resource management skills, environmental factors, not possessing higher education, minority status, entrepreneurial characteristics, interpersonal skills, and strategic planning, not having parents who also owned a small business as important determinants of failure.

The results could be attributed to contention by Altinay and Altinay (2002) where they acknowledge that in the context of immigrant entrepreneurship, sojourners; (strangers who usually spend many years without losing their homeland tie), are more likely to be successful entrepreneurs than settlers. (people who have migrated to an area or another country with an intention to establish a permanent residence). Internal solidarity among sojourners helps them to compete with the rest of society. However, family tradition in business and entrepreneurial behaviour are affected by cultural attributes of different immigrant groups.

### **5.1.3 The Level and Type of Skills, Education and Training of the Owners of Small Businesses that Closed.**

In a larger number of studies, the importance of training, education and skills has been predominantly indicated. The results in (Chapter 4) indicate that the majority of owners/managers did not possess managerial qualification rather, they obtained secondary qualifications. The second largest group possessed primary qualifications. The next group possessed tertiary and the last two groups possessed postgraduate and lastly no education respectively. Many studies of small business failure also have identified key personal entrepreneurial characteristics such as not possessing higher education, minority status, and not having parents who also owned a small business as important determinants of failure. Highly educated entrepreneurs are most likely to create firms that will remain in operation throughout.

For small business survival, education and management training courses play fundamental role. Previous management experience in business ownership or management is also important (Hall, 1995). The skills level of the workforce is also important as it would greatly enhance the volume of human capital in the business (Hall, 1995). Bates (1990), contents that one's educational

background is directly associated to and considered as a major determinant of the financial capital structure of small business startups.

Accordingly, most small business owners revealed that the fore and most problems were insufficient knowledge of bookkeeping/ records keeping; unprofessional running of business – lack of entrepreneurial skills as these owners are not necessarily entrepreneurial and they do not necessarily have attributes which drive entrepreneurs to be successful; these were reinforced by the fact that small business owners were never or hardly guided or mentored by relevant stakeholders; lack of networking – most of the time they were separately operating their businesses or operating in silos; inability to retain staff – high staff turnover; poor turnover; insufficient profits and customers are low income earners; poor credit management which led to bad debts; inadequate capital which compelled most of them to start small and it was uneasy to grow/expand.

The results accord with Pullig and Chawla (1998) stating that critical success factors have been due to managerial inadequacy, over growth and over expansion and failure to seek professional advice poor working capital management, competitive environment, failure to plan, and human resource problems.

The study further found that among other problems that small business owners encounter, are lack of entrepreneurial skills, not business management skills. Majority of SMMEs are semi-skilled or not skilled at all. The overall strategy and objectives of the small business lead to effective training and development.

According to the results in Chapter 4, running a small business means being able to handle a wide range of jobs. This is evidenced by the fact that most of respondents' businesses were "a one man/family owned business". Clearly, it indicates that under this set-up, the owner is expected, in most cases to execute both managerial and technical responsibilities.

The SFEDI business start-up and business development standards set these out in detail. Small business owners and managers described a diverse range of skills they needed, including:

- “• Business strategy and analytical thinking
  - visionary, strategic and analytical thinking, managing change, decision making, problem solving, setting goals and business planning, spotting and seizing opportunities
- People abilities

– Communication, motivation, emotional intelligence, team working, build confidence, giving social and emotional support, ability to listen and engage

- Functional or task-based abilities

– Financial awareness, marketing, delegating, organisational skills, technical skills and multi-tasking

The very preponderance of small businesses means that they will be incredibly diverse. Allied to differing business objectives and management structures this means that different skill sets will be required. Skill needs will also change as a business develops or its environment alters” (SFEDI’s Research Report 2004).

Bates (1990) also supports the present results in Chapter 4 by stating that owner educational background, further, is directly associated with and considered as a major determinant of the financial capital structure of small business startups. Some governments are seen committal and ready to remedy situations which neglected education as a success factor to small businesses development and survival. The government of Pakistan also recognizes that a well-educated workforce is a critical driver of SME development and economic growth.

There is a need to revisit, at national level, training from primary school to tertiary level. The syllabus structure should include self reliance or employment programmes through NCDC. Business owners need to have grow-oriented focus on their businesses – This is what Mohloli Chamber of Business is all about. The study suggests that although different kinds of support and mechanism were put in place by some of stakeholders, the fact that retail business/café owner are being ignored in most cases and are being disadvantaged in various ways.

#### **5.1.4 The Type of Support, Guidance and Mentoring Received by the Owners of Small Businesses that Closed.**

It was discovered in the present study that from small business owners’ perspective, only insignificant number of respondents received guidance and mentoring from the Ministry of Trade and Industry; Cooperatives and Marketing. Most business owners have proved not to have been mentored by the ministry. BEDCO, on the other hand, is promoting its products as a few respondents indicated to have received the same guidance and Mentoring from this organization. Quite a large number never received any guidance and mentoring from the Lesotho Chamber of Commerce and Industry. There is indication that Mohloli Chamber of Business did not assist small businesses.

As it was mentioned in Chapter 4, the study showed that the Ministry of Trade and Industry, Cooperatives and Marketing did not maintain proper statistical records pertinent to all traders in the country. It therefore made it difficult to establish the impact of small businesses or entrepreneurial firms on the overall economy of Lesotho by way of generating jobs and production.

BEDCO on the other hand, indicated that they have programmes in place for small business development and assistance and these included market development in which they undertake facilitation of trade fairs participation and local district shows. Sector development was one of them. BEDCO on the other hand, had skills up gradation of programme for SMMEs to equip small business owners with skills to exploit business opportunities and gain competitive intelligence and strategy. All these programmes are meant for mentoring and empowering small business owners to evaluate their current competencies, identify the gaps, and then help them develop strategies to acquire new and required proficiencies. However, it is important that individual business owners understand these requirements, as mentoring could bring its own set of problems.

BEDCO clearly indicated that their main clients are small and medium scale manufacturers on which they focus. There is indication by four stakeholders in the study that there are numerous challenges that small businesses facing including lack of good business practices, businesses concentrated on few sectors, access to finance, access to prudent statistical information, lack of management and administrative skills, lack of planning skills, lack of governmental and financial support from financial institutions and that small business owners are living in a “survival of the fittest” environment.

The above correlates with a statement that mentoring can provide much needed support and guidance to help them become successful in their own businesses. Mentoring essentially entails the transferal of wisdom, knowledge and skills from a more experienced individual to those who hold more junior or less experienced positions in business. Other studies describe mentoring as a tool and process that can be utilised for the betterment of SMME development framework, as the mentor, or group of mentors, not only imparts years of business experience.

The study suggests that although different kinds of support and mechanism were put in place by some of stakeholders, the fact that retail business/café owner are being ignored in most cases and are being disadvantaged in various ways.

### **5.1.5 The Level of Financial Support Received by the Owners of Small Businesses that Closed.**

Numerous studies prominently demonstrated the importance of finance or capital in business success. The present study show that SMEs, are predominately financed by personal savings of the owners, supplemented by gifts or loans from relatives or from local informal moneylenders, traders, input suppliers, and payments in advance from consumers. Lambing and Kuehl (2003) state that according to Small Business Administration, it is vital that access to credit for small business is facilitated for their survival and a key supplier of credit to small firms is the commercial banking systems.

As simply put by Ntseane (2000), “Access to financial services is gender-based in Southern Africa. In Botswana, recent studies show that the vast majority of women have no access to financial services” which both supports the study that inadequate financial support, is prohibitive to small business growth and sustainability. Coy *et al.*, 2007 indicate that in Pakistan, the lack of available credit for entrepreneurs is an important impediment to the growth of SMEs.

The present study show that banks in Lesotho are reluctant to grant credit facilities to small businesses as they perceived them as them as the riskiest sector. The conditions and requirements are much more prohibitive as banks will look for collateral security of small businesses. The main barrier for accessing commercial finance is collateral, Genesis Analytics (2003). They are treated much like large businesses.

As put by Sha (1998), “every phase of the venture is viewed in terms of capital. For example, the start-up phase requires seed capital or venture capital resources and the decision is to proceed or abandon the venture depending on the availability of capital. This view suggests that an individual would engage in an entrepreneurial venture if capital was readily available”.

### **5.1.6 Engagement of Small Businesses that Closed Engaged in Strategic Planning.**

As indicated in Chapter 4, strategic planning is a far fetched concept for the majority of respondents. Results indicate that most of small business owners were not engaged in small business strategic planning. This could be attributable to both their lack of experience and level of education as mostly they obtained secondary qualifications. A few numbers was undecided whether they were engaged in strategic planning for their business growth or not. This correlates with the statement of Hall (1995) who found that formal strategic planning is not common among small firms.

According to Wheelen and Hunger (2004), strategic management typically deals with large, established business corporations. However, they assert that small businesses cannot be ignored as research shows that small-business financial performance is strongly related to strategic planning. Nevertheless, they argue that many small businesses still do not use the process for a number of reasons. There are however, reasons that are commonly cited for apparent lack of strategic planning practices in many small-businesses: limited time due to day-to-day crisis management and operating problems; Unfamiliarity with strategic planning - planning may be viewed as a straitjacket that limits flexibility or may it as irrelevant to the small-business situation; small business owners lack of skills to develop strategic planning is a hindering factor; they often view it as wasting money to import trained consultant. Many small-business owner/managers are very sensitive and particular regarding key information about the business or confidentiality. Lack of provision of objective or professional advice.

#### **5.1.7 Engagement of Small Businesses that Closed in Networking with Their Peers.**

Kotler (2003) defines a value network as “a system of partnerships and alliances that a firm creates to source, augment, and deliver its offerings”.

In Chapters 2 and 4 the results show that most small business owners indicated to have been working in silos hence why they were unsuccessful. Hypothetically put, it could be argued that the way adults behave in the business environment was influenced by their different backgrounds. Basotho small business owners confirmed that they lack networking skills and oneness and further that they are beaten by other small business owners (Chinese and Indians) because they support one another. Mears and Theron (2006), confirms the results by stating that vast majority of African enterprises are not ready for sustained networking and partnerships.

Networking creates social and business opportunities to mingle with people from a variety of backgrounds, with whom one can discuss ideas and issues and they may be potential customers. Supply chain integration is one of the important networking strategies. Elhiraika and Nkurunziza (2006) state that promoting SMEs requires high inter-firm relationships that make individual firms less susceptible to risk, fosters mutual exchange of information and know-how between firms and creates a rich pool of collective knowledge.

### **5.1.8 The Impact of Failed Small Businesses on Employment.**

The present study shows that the majority of small business owners are people without formal lucrative jobs in the corporate world. That is to say, most enterprises are not second jobs therefore, supporting families in all respects. On average, they are capable of hiring 1 - 3 (75.8%) employees. The second largest group could employ 4-6 (16.8%) employees. “As family businesses are primary contributor to the economic and social well-being of all capitalist societies, their general lack of longevity is a cause for concern”, (Venter *et al.*, 2003).

According to U.S. SBA (1994), the importance of small businesses to the economy is quite evident. Other studies indicate that small businesses are a key source of jobs and the breeding ground for business ideas. Lambing and Kuehl (2003), view family businesses as cornerstones and play a substantial role in the U.S economy. They account for 78 percent of all new job creation and 60 percent of the nation’s employment.

According to van Eeden *et al.*, (2003), the small and medium enterprises sector is globally regarded as the driving force in economic growth and job creation. According to Coy *at el.*, (1998), small business and entrepreneurship have been considerably taken care of in Pakistan’s economy for almost 60 years, but possibility is that little (if any) research has been conducted that identifies factors crucial for small business success in Pakistan. And that they have not only been at the forefront of the move toward economic progress and prosperity of the free-market western economies, but may have also become the primary driving force of employment growth in many less developed countries of the world of which Pakistan is a good example.

Smith (2007) observed financial economists having given limited attention to the study small business and argues that small business are intrinsically interesting and important. He points out the important role that small businesses play in terms of the dynamics of the larger economy.

Mears and Theron (2006) content that although SMME’s require much guidance as well as supporting resources, they can substantially prove to be a major source of economic growth for African countries. In Africa, they are mostly found in informal rural areas, which tend to be smaller, have lower growth rates and have a limited local market and skills base and one of the keys to encouraging entrepreneurship in rural areas is considered to be innovation.



Smith (2007) argues that the more robust this sector, the larger the pool of experiments being undertaken and the more rapid the overall rate of innovation within the economy. He defines this sector as including small businesses that have high operating risk but providing important set of research opportunities for financial economists. Small and medium enterprise sector is regarded as the seedbed for forthcoming generations of African entrepreneurs, UNCTAD (2003).

“The small business sector is growing at a very impressive rate, with small businesses making up more than 50% of the sales and products in the private sector” (US SBA, 1994). The importance of small businesses to the economy is quite evident (Shonesy and Gulbro 2004). It is noted that the importance of small enterprises as mechanisms for job creation, innovation, and the long-term growth and development of economies has been emphasised by politicians around the globe over the past decade.

#### **5.1.9 Preparation of Succession Planning by Small Businesses that Closed**

In Chapter 4, the study indicates that like in strategic planning, small business owners had not prepared for succession planning hence the reason for failure of their businesses. Most respondents indicated that they had not started planning and developing their potential successors while a few (33.7%) was undecided whether to start preparing their successors or not. The results in Chapter 2 also suggest that all too often, organizations wait until it is too late to react to the succession challenge. At times they wait for someone to step down or even worse, to be removed after which they only consider who or what should happen next. Succession planning needs to be part of every organization's strategy plan, reviewed annually and updated quarterly.

Simply put, it should be noted that succession planning is not just for the CEO instead it's for every major contributor in your organization. Literature strongly supports the argument that succession planning is very significant factor in the continuity of the family; normally small businesses from one generation to the next (Venter *et al.*, 2003).

Studies tell that succession is viewed by many business owners the least urgent matter on their plate. In most cases business owners cannot stand the idea of letting go of an entity they created and for which they toiled to achieve success. Apparently, most of these small and medium business owners need assistance both in formulating plans and in actual transitioning to future managers and owners of the firm. Stavrou and Swiercz (1998) found that few owner-managers plan their replacement with a new leader to ensure the long-term survival of their firms. This confirms the results in this

study. Training on succession planning offers a unique service to small business by raising awareness of the vital importance of succession planning as part of sound business practice and by improving the knowledge and skills of business owners and their advisors.

Many entrepreneurial families eventually bring the children into the business even though many children do not want the family business, which requires long hours and a substantial commitment. Both unwillingness to work hard and sibling rivalry lead into failure of transition to the next generation. They content that only about 20 percent of family businesses are successfully transferred to the second generation, and only 13 percent are transferred to the third generation, further, lack of planning for the succession is one of the major reasons why transfers are often not successful (Lambing and Kuehl 2003).

Small and medium businesses account for about half of the jobs in the Canadian economy, and potentially more than two million jobs could be at risk to inadequate succession planning. According to Venter *et al.*, (2003), small businesses' inability to manage the complex and highly emotive process of ownership and management succession from one generation to the next is one of the reasons of the high failure rate among first-and second-generation. The literature strongly supports the argument that succession planning is a very significant factor in the continuity of the family business from one generation to the next.

#### **5.1.10. Other Problems**

Apparently, small business owners encountered numerous other problems that significantly contributed to failure of their businesses. Present findings in Chapter 4 indicate the following:

- Expensive rent
- Discrimination by suppliers or wholesalers – they give huge credit facilities to Chinese and as opposed to Basotho. Prices fluctuate depending on the buyer.
- No team support or cooperation between Basotho owners regarding pricing.
- Weather
- High tax rates
- No governmental support – Issuance of licenses to Chinese over small scale businesses. – Government policy to being implemented.
- Involvement of children in the business
- High interest rates

- Crime, Robbery, burglary or Theft - Murder - 2 cases were reported. Many attempts were reported.
- Low level of personal involvement – to be “behind the till” – Lack of commitment
- No family support

Outlining some of the problems facing the private sector, the LCCI through its president, indicated that policies should ensure that it is cost-effective to do business by eliminating bureaucratic hurdles associated with starting a business. The country's fiscal policy also needs to be revisited, as it does not encourage the growth of businesses.

“Failure among young firms is attributed to deficiencies in general management skills, while an evolving competitive environment is identified as a significant influence in the demise of older organizations” (Thornhill and Amit 2003).

Elhiraika and Nkurunziza (2006) argue size, age, access to credit, lack of stock, poor quality of human capital within a firm have substantial influence to failure of a business. Location also can be an important determinant of a business failure if such businesses are at remote locations. The absence of a sound macroeconomic and business environment may adversely affect SME's entry and growth in developing countries. African SME's are often unable to grow because of a lack of a supporting environment.

Van Eeden *et al.*, (2003) pointed out that numerous difficulties encountered by small businesses can be described as environmental, marketing, financial, or managerial in nature. Radipere and van Scheers (2005) argue that lack of marketing and managerial skills has a negative impact on the success, viability and development of small businesses. Lack of outside advice and governance structures has, to large degree negative impact on small business success and growth and family businesses with effective governance practices are more likely to undertake strategic and succession planning (Venter, *et al.*, (2003). All the above studies support the present study in that the stated problems have negative and adverse impact on small business performance.

## **5.2 CONCLUSION**

In this chapter, implications of the findings in relation to the literature were discussed. A number of issues under discussion include: the demographic profile of the owners of small businesses that closed, the background and the level and type of skills, education and training that they have. The type of support, guidance and mentoring that they received was also discussed. Also, the level of financial support received was crucial to be discussed.

The engagement of small businesses that closed engaged in strategic planning, engagement of small businesses that closed in networking with their peers, the impact of failed small businesses to employment, preparation of succession planning by small businesses that closed and other problems were also under discussion and their implications were observed.

## **CHAPTER SIX**

### **CONCLUSION AND RECOMMENDATIONS**

#### **6.0 INTRODUCTION**

The objective of this study is to establish the factors that contribute to the failure of small businesses in Maseru, Lesotho. This chapter will summarise the analysis of chapter four, and then conclude the study by answering the research questions of the study. A conclusion will be made based on the findings of the study. Finally the chapter will make some recommendations for future studies, to small business owners and stakeholders such as the Ministry of Trade and Industry, Cooperatives and Marketing, Basotho Enterprise Development Corporation, Lesotho Chamber of Commerce and Industry, Mohloli Chamber of Business, Central and Commercial banks, highlighting the main areas of focus.

#### **6.1 RESEARCH QUESTIONS**

##### **6.1.1 What is the Demographic Profile of the Owners of Small Businesses that Closed?**

The present research shows that small businesses that closed were mainly owned by Basotho males who are married. The study further indicates that respondents fall in the age group of 50-59 years. The results also suggest that a larger percentage that closed was owned by males than those owned by females

##### **6.1.2 What is the Background of Owners of Small Businesses that Closed?**

The research shows that the majority of small business owners were from the founding (first) generation, as they did not come families with business history.

##### **6.1.3 What is the Level and Type of Skills, Education and Training of the Owners of Small Businesses that Closed?**

The results indicate that the majority of owners/managers did not possess a managerial qualification rather, they obtained secondary qualifications. The second largest group possessed primary qualifications. The next group possessed tertiary and the last two groups possessed postgraduate and lastly no education respectively. Also they had not acquired relevant entrepreneurial skills and training.

#### **6.1.4 What is the Level and Type of Support, Guidance and Mentoring Received by the Owners of Small Businesses that Closed?**

It was discovered in the present study that from small business owners' perspective, only insignificant number of respondents received guidance and mentoring from the Ministry of Trade and industry; Co-operatives and Marketing. Most business owners have proved not to have been mentored by the ministry. BEDCO, on the other hand, is promoting its products as a few respondents indicated to have received the same guidance and Mentoring from this organization. Quite a large number never received any guidance and mentoring from the Lesotho Chamber of Commerce and Industry. The study shows that Mohloli Chamber of Business was not of great help to small businesses.

#### **6.1.5 What is the Level of Financial Support, if any, Received by the Owners of Small Businesses that Closed?**

The present study show that SMEs, or in particular SEs (and micro enterprises), are financed overwhelmingly by personal savings of the owners, supplemented by gifts or loans from relatives or from local informal moneylenders, traders, input suppliers, and payments in advance from consumers. The present study show that banks in Lesotho are reluctant to grant credit facilities to small businesses as they perceived them as them as the riskiest sector. The conditions and requirements are much more prohibitive as banks will look for collateral security of small businesses.

#### **6.1.6 Have Owners of Small Businesses that Closed Engaged in Strategic Planning?**

As indicated in Chapter 4, strategic planning is a far fetched concept for the majority of respondents. Results indicate that most of small business owners were not engaged in small business strategic planning. This could be attributable to both their lack of experience and level of education as mostly they obtained secondary qualifications. A few respondents were undecided whether they were engaged in strategic planning for their business growth or not.

#### **6.1.7 Have Owners of Small Businesses that Closed Engaged in Networking with their Peers?**

The results show that most small business owners indicated to have been working in silos hence why they were unsuccessful. Hypothetically put, this could be due to different backgrounds the adults come from which influenced their behaviour in the business environment. Basotho small business owners confirmed that they lack networking skills and

synergy and further, that they are beaten by other small business owners (Chinese and Indians) because they support one another.

#### **6.1.8 What was the impact of Failed Small Businesses to employment?**

The present study shows that the majority of small business owners are people without formal lucrative jobs in the corporate world. That is to say, most enterprises are not second jobs therefore, supporting families in all respects. On average, they are capable of hiring 1 - 3 (75.8%) employees. The second largest group could employ 4-6 (16.8%) employees.

#### **6.1.9 Did Owners of Small Businesses that Closed Prepare for Succession Planning?**

The study indicates that like in strategic planning, small business owners had not prepared for succession planning hence the reason for failure of their businesses. Most respondents indicated that they had not started planning and developing their potential successors while a few (33.7%) was undecided whether to start preparing their successors or not. The results in Chapter 2 also suggest that all too often, organizations react to the succession challenge too late. They wait for someone to step down or even worse, be removed. Then, and only then, do they consider who or what should happen next?

### **6.2 FURTHER DISCUSSION**

The role of SMEs is increasingly becoming central in the process of creating sustainable economic growth, poverty alleviation and socio-economic transformation in the world's economies. Entrepreneurship and the process of promoting SMMEs are of critical importance to economic growth of any country. Capacity building in terms of training, support services and knowledge management through grass roots approach should be considered. Major issues of poverty and economic growth can be addressed by paying much attention to SMMEs.

The responsibility of promoting private sector development through reforms that boost macroeconomic and microeconomic stability, improving infrastructure, and creating a business environment conducive to firm entry, growth and survival squarely rests on African governments. Stakeholders including business associations, business chambers and labour organisations should play pivotal role in economic development in Lesotho and reform measures should be adapted to country-specific conditions. African SMEs are often unable to grow because of lack of a supporting environment that is necessary for expanding market access, improving management skills, marketing strategies and access to credit, information and technical skills as pointed in chapter two. SMEs are

faced with numerous challenges as observed on chapter four that can be met through integrated approach.

The current credit policies of financial institutions tend to discriminate against small and or informal business. Small businesses have been witnessed to have significantly contributed to provision of the development of the labour force, poverty alleviation and development of the real sense of betterment of people as observed in chapter two. Small business operators usually learn their skills and management techniques informally, with a focus on business survival and earning just enough to meet the basic needs of their families. The study found that marketing strategies and skills are crucial weapons to enhance them to develop competitive intelligence as competition was found to be their core enemy.

Small businesses are characterised by weak capital structure, family labour, lack of innovativeness low productivity, low skills and low educational qualifications. The study found other characteristics were vulnerability, in the sense that they lack protection from the impact of structural forces such as inflation, recession as well as legal protection with low consumer purchasing power. The vast majority of small businesses are not ready for sustained networking and partnerships. Commercial banks in general are reluctant to service SMEs because of the high transaction costs and risks.

Education (syllabi) in Lesotho should be structured such that it prepares student for self-reliance/employment. Managerial skills are required to organise the physical and financial resources needed to run a business. The level of managerial skills and business knowledge are among the most important indicators of how well an entrepreneur can perform important tasks and activities related to the functioning of a business.

Strategically speaking, opening of new small businesses can allow an entrepreneur to exploit a potential location advantage rather than having one big firm. This advantage can be better explained by several factors such as demand factors, family reasons and discretion.

When addressing a question of government responsibility licensing policy (Chinese), lack of protectionism on small business ownership can lead to instability. Therefore, this is an issue policymakers should address through proper policies. For instance, properly managed incentives



and government support to encourage disadvantaged small business owners can help attenuate this asymmetry in business ownership and control wealth.

It seems evident that planning should be an integral part of the strategic management process. To ignore planning is to relegate a source of competitive advantage and disadvantage.

Unlike large firms, small firms typically have a substantial amount of their funding provided by insiders such as the entrepreneur, other family members, other member of start-up team and friends. The vast majority of small businesses are owner-managed, which alleviates agency conflicts between owners and managers affect capital choice structure in large corporations.

Trainers, educators and facilitators in Lesotho should be aware of the relative importance of the problems indicated by small business owners in this study and discussions thereof should form an integral component of training or mentorship programmes. Environmental scanning and planning; strategic planning; succession planning should receive more attention in syllabi through NCDC. The development of financial acumen and planning skills should also be seen as crucial elements to be offered in business courses. Training should furthermore be demand-driven to meet entrepreneurs' needs. Employment and training programmes should be developed such that they empower communities and build capacity for self-help, solidarity and collective efforts.

Microeconomic reforms have to provide business development services for SMEs to grow through access to markets, networking and information services, technology, finance, and improved business management skills through training. Indeed, there is a huge spectrum of services that can be provided to support business development in the SME sector regarding technology, skill development, marketing and finance.

An ability to manage succession properly is a crucial element to understand factors that influence succession in small businesses. Only then can family members, owner and successor address succession pro-actively and a well-considered and planned succession will maximise the changes of survival and long-term profitability and finding a competent successor and will ensure smooth leadership between generations. Before joining the business to help the successor gain self-confidence and credibility regarding his abilities, insight in new technological and managerial developments, new business ideas and generally earn the respect and support of non-family

employees, potential successors should be encouraged to obtain extended work experience outside the family business

Some key ways to encouraging entrepreneurship in rural areas are considered to be innovative. Another way to encourage SME's is to develop clusters and networks as they can provide levels of support and information that would not be available on their own. They help them understand how they can compete effectively; identify particularly significant links in the network and focus on their long-term position in the network and in order to work on a joint development objective or better compete in the marketplace.

BEDCO has to execute their responsibilities which include; follow-ups, financial support, sound credit management skills/ debt management strategies.

Ministry of Trade and Industry; Cooperatives and Marketing, BEDCO, Chambers of Commerce should have in place, and implement well designed and computerised systems to access the database of SMEs, establish profiles of SMEs with analyses of capacity and growth potential and linking SMEs to Trade Net, a computerised database on tenders/suppliers/consumers.

Certain interventions by the government as such a need for government policy that promotes SMEs growth through business incubators; seed capital programs so as to assist them meet formal financing requirements will be important.

Development of financial instruments for mitigation of the risk associated with non-transparent SMEs through mechanisms that reduce the information gap, or shift risk to more credible partners; through franchising as franchised businesses have a high survival rate. Triangular partnerships between the government, financial institutions and the private sector are needed to share strategic information and strengthen the support and development of SMEs.

Firms should be stimulated and their staff trained to achieve continuous improvement through self-help and become less dependent on external support, thus developing an autonomous capacity to upgrade. In particular, enterprises should be trained to conquer niche markets and compete on the basis of quality, design and speed of innovation and should be trained to acquire competitive strategies and implement them.

Banks support to SMEs to improve the potential efficiency and profitability of small businesses – Banks and BEDCO and LRA should establish integrated capacity building programmes aimed at stimulating the development of entrepreneurial capabilities and the growth on innovative and competitive SME's.

BEDCO and Ministry of Trade and Industry; Cooperatives and Marketing have been focusing their training on small scale manufacturers and ignored retail sector most importantly general café owners. This study suggests that training should also focus on administration, financial management and marketing skills. Training should be more practical and less formal and classroom-based, and should also include follow-up practical courses. Small business owners would then be better equipped to make better-informed decisions, and to steer their business away from known pitfalls.

Lesotho has too few people with small business managing qualities, which contribute to the poor performance of the Lesotho economy because only few people succeed as small business owners. Deficiencies in the internal microenvironments of businesses are major cause of small business failures. Cause of failure centres largely on lack of managerial skills, poor management behaviour and lack of financial knowledge.

It has been realised that in cases of available frameworks and programmes, the stakeholders have a problem of implementing them.

#### **6.4 RECOMMENDATIONS**

It is recommended that SMEs should form partnerships with banks and investors to improve access to finance through establishment of Memoranda of Understanding (MoU), or Mutual guarantee schemes.

SMEs are advised to establish inter-firm Co-operation that can help them to overcome their traditional weaknesses such as isolation and the lack of economies of scale and scope. Horizontal, vertical, arms-length and long distance, spontaneous and artificial, formal and informal co-operations or efforts can raise the competitive potential of SMEs through synergies and collective efficiencies, which individual business owners can never attain alone.

Training should be more practical and less formal and classroom-based, and should also include follow-up practical courses. Small business owners would then be better equipped to make better-informed decisions, and to steer their business away from unknown pitfalls.

BEDCO and Banks should design electronic systems to be used to capture on-going business information from SME borrowers in order to build a dynamic risk management and loan-servicing model for SME lending and credit management strategy development.

To encourage commercial banks to lend SMEs, central banks and designated financial service regulators must play a proactive role. Government and central bank must set out a policy framework for channelling adequate funds to the SME sector.

To promote small businesses' ability to exploit economic opportunities, a support structure should be designed to address these shortcomings. These support structures should be as comprehensive as possible, including training in management and business skills and leadership, systems for financial support, marketing skills and strategies and counselling and attitudinal predisposition to handle the running of the business.

Ministry of Trade and Industry; Cooperatives and Marketing should frame or implement trade policies in a climate /create conducive trading climate by framing or implementing trade policies as formulated to enhance their growth and survival. The existence of formal planning and governing bodies in small businesses will positively influence the continued profitability of the business in various industries in the country.

Central banks and designated financial service regulators must be proactive in developing a set of special measures for SMME's. This could include guarantee programmes and more user-friendly and transparent disclosure systems to reduce the risks perceived by banks. Again, financial and fiscal incentives are also needed to support SMME's with their cash flows or to assist disadvantaged business in the rural areas or distressed sectors.

Business advisory associations should be established and decentralised in the districts to provide appropriate tools and supervision as well as support services about markets and business operations, and knowledge management and to deliver programmes to small business owners.

All stakeholders should exert more effort in approaching small business especially café owners who seem to have been neglected to ensure that all known by SMEs. Some of SMEs do not know about the existence of stakeholders and their role in the country. They can have tailored made programmes/slots with national media to promote themselves/images.

All stakeholders should conduct a gap analysis which will enable them to identify the gap and compare their actual performance with their potential performance or customers' expectations. Once the general expectation of performance in the industry is understood it is possible to compare that expectation with the level of performance at which the company currently functions. Such analysis can be performed at the strategic or operational level of an organization.

#### **6.4 LIMITATIONS**

- From the interpretation of questions in the questionnaire, most of respondents were reluctant to give information and had a negative attitude. This was due to distrust in the government and inaction by some authorities including the government and other stakeholders. The respondents' contention was that they have been neglected by the same authorities so they were of the opinion that the study would not have any positive impact.
- The study was limited due to business owners' hesitation to read questionnaires; some respondents could not understand the English very well so they were eventually interviewed by interpreting the questions to them. As a result, the process was prolonged and more time was taken more than it was anticipated.
- Limited to one district. Because of scared resources, the study was conducted in one district

#### **6.5 RECOMMENDATIONS FOR FUTURE STUDIES**

- This study is limited to small business owners whose businesses failed. A wider scope that includes small business owners that are currently in operations will assist in creating an overall picture of all small business owners.
- Future studies could also include the views of curriculum designers, central bank, commercial banks and Ministry of Finance Development and Planning.

## **6.6 CONCLUSION**

In conclusion, this chapter discussed conclusions and recommendations made. Results of all research questions were briefly discussed and conclusions made under each question. Further discussions were also considered. Recommendations were made as well and finally, limitations of the study were indicated.

## **APPENDICES**

### **Appendix 1: GLOSSARY**

#### **Business Sustainability or Longevity**

A pro-active approach to ensure the long-term viability and integrity of the business by optimizing resource needs, reducing environmental, energy or social impacts, and managing resources while not compromising profitability.

#### **Compliance Rate**

Timely filed returns; accurate reports on those returns; and voluntary and timely payments to the required tax in a given tax year and expressed as a percentage of total taxpayers registered with the LRA. Taxpayers are compliant when they meet these obligations. Noncompliance — and the tax gap — results when taxpayers do not meet these obligations.

#### **Conventional “hard-to-tax” group**

A group of taxpayers who often fail to register voluntarily even when they do register, they generally fail to keep appropriate records of their earnings and costs. They often do not promptly file their tax returns and frequently tend to be tax delinquent (Terkper, 2003).

#### **Developing Countries**

Those countries considered to be still working to attain levels of social, political and economic progress already achieved by more affluent countries. They are poor, often indebted countries of the world that are currently trying to industrialize or develop alternative methods of supporting their populations.

#### **Door-to-Door Exercises**

These are physical and official visits to traders/ business operators by the LRA, normally on yearly basis in an effort to establish and confirm existence of the traders registered with the LRA and establish how up to-date they are with their tax affairs. It is during these exercises that newly established operations are captured to broaden the tax net and official registration is effected at the office.

#### **Employees**

These include regular employees, working proprietors, active business partners who are salaried and unpaid family workers.

#### **Expatriates**

An expatriate is a person temporarily or permanently residing in a country and culture other than that of the person's upbringing or legal residence. In this context, expatriates who takeover small businesses (cafes and mini-supermarkets) in Lesotho are Chinese.

#### **Formal and Informal Entities**

Formal may be reasonably well structured entities, can make the tax system fairer, optimize the use of resources and minimize the adverse impact of Small and Medium-sized Taxpayers (SMT) defaults on general compliance. In contrast SMT informal entities are typically small, unstructured entities engaged in nontransparent cash transactions. They have genuine difficulty in keeping even simple records and make little or no use of banks and financial instruments.

**Index for Dormant Traders**

When a taxpayer has ceased operating for about five years without official notification to the office or submission of a self assessment return form, such a taxpayer is deemed to be dormant. Then a list or database of all dormant traders is created separately from a list/database of active taxpayers and arranged alphabetically for future reference purposes.

**Job Creation**

The action of creating employment to any acceptable activity that is wage employment and self-employment.

**Loss or Nil Returns**

These are tax returns whose taxpayers have realized losses (not made any profits) from their operations or not have been engaged in any commercial activity in a given fiscal year. These kinds of returns are not taxable but the losses are carried forward to be set off by profits that will be realized in the subsequent years.

**Official Assessment System**

This is a system under which taxpayers used to submit their financial statements (books of record) for examination by the office and the official assessments would be raised by the LRA notifying the taxpayer about his/her tax liability based on the profits the taxpayer will have made for that fiscal year.

**Organizational Structures**

The structure of the organisation is essentially the way the organisation is 'shaped'. The major focus of this 'shaping' is how the organisation is divided up into sub-units (i.e. on what common basis are units made, how big are the units, how are they controlled etc.) and processes design and job design are key areas for success in strategy implementation.

**Poverty Alleviation**

To arrest the economic decline and places the economy on a self-sustaining growth path. Poverty is more a rural problem than an urban one, and that it is strongly associated with lack of access to basic social services.

**Private Sector**

The private sector of a nation's economy consists of all that is outside the state. It includes a variety of entities such as for-profit and non-profit enterprises, corporations, banks (other than central banks), any other non-governmental organizations, as well as individuals not employed by the government

**Registration of Businesses**

This is a process of officially registering business owners with the LRA as taxpayers and broadens the tax net. It is in this process whereby each taxpayer is issued with Taxpayer Identification Number (TIN) as their official identity to the office.

**Self Assessment System**

This is a system under which the responsibility of tax calculations of taxpayers is shifted to them. The system compels them to maintain proper records from which they will be able assess themselves



and pay their taxes accordingly and voluntarily; but it does not imply that they must acquire accounting skills to comply.

### **Small Business Mortality**

This is the death probability or failure rate of small businesses.

### **Tax Administrative Procedures**

The Tax Administrative Procedures are those procedures established from the tax law under which the rules and regulations necessary to implement and enforce major legislative are created.

### **Tax amnesty**

It is a limited-time opportunity for a specified group of taxpayers who usually default in paying their tax liabilities or failed to meet their tax obligations, to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties) relating to a previous tax period or periods and without fear of criminal prosecution. It typically expires when some authority begins a tax investigation of the past-due tax.

### **Tax Base**

The assessed value of a set of assets, investments or income streams that is subject to taxation, or the assessed value of a single asset that is subject to taxation. Anything that can be taxed has a tax base.

### **Tax Clearance Certificate**

“A Tax Clearance Certificate is a written confirmation from Revenue that a person's tax affairs are in order at the date of issue of the Certificate. In some instances a Certificate may be issued to a customer who has tax arrears provided such arrears are covered by an installment arrangement that has been agreed with Revenue”

### **Tax Clinics**

Tax Clinics are programs designed to support taxpayers who are unable to prepare both books of account and self assessment return forms through taxpayer education. The clinics also provide educational workshops on tax issues to taxpayers for whom English is a second language. The Clinic also provides learners' high quality training that is transferable to both large firm and solo practices.

### **Tax Obligations**

A taxpayer is obliged to update his/her tax matters with the LRA by keeping proper records, filing of a return, paying due taxes and receiving tax refund where necessary.

### **Terminal Benefits**

“Voluntary Retirement Schemes (VRS), the question of relief available in respect of the compensation received at the time of such retirement has gained considerable importance such as Gratuity, Commuted Pension, and Compensation on termination, Severance pay, Retirement annuity”

### **Threshold**

The starting point for a new state or experience or the level at which an event or change occurs.

### **Voluntary Tax Compliance**

This means an assumption or principle that taxpayers will comply with tax laws and, more importantly, accurately report their income and deductions honestly.

## Appendix 2: QUESTIONNAIRE 1

### OWNERS OF SMALL BUSINESSES THAT CLOSED

Q1. Gender: ☐ Male ☐ Female

Q2. Ethnic Identity: ☐ Mosotho ☐ Other

Q3. Marital Status: Single ☐  
Married ☐  
Widowed ☐  
Divorced ☐

Q4. Age group 20 - 29 ☐  
30 – 39 ☐  
40 – 49 ☐  
50 – 59 ☐  
60 – 70 ☐

Disagree	Undecided	Agree	Q5. I am able to read and write.
Disagree	Undecided	Agree	Q6. I come from a family of entrepreneurs.
Disagree	Undecided	Agree	Q7. My family is engaged in the same similar business.
Disagree	Undecided	Agree	Q8. I received guidance and mentoring from the Ministry of Trade and Industry.
Disagree	Undecided	Agree	Q9. I received guidance and mentoring from the Basotho Enterprise Development Corporation.
Disagree	Undecided	Agree	Q10. I received guidance and mentoring from the Lesotho Chamber of Commerce.
Disagree	Undecided	Agree	Q11. I received guidance and mentoring from the Mohloli Chamber of Business.
Disagree	Undecided	Agree	Q12. My small business was self funded.
Disagree	Undecided	Agree	Q13. My small business was funded through loans.
Disagree	Undecided	Agree	Q14. My small business was funded through a combination of loans and self funding.
			Q15. I engaged in small business strategic

Disagree	Undecided	Agree	planning.
Disagree	Undecided	Agree	Q16. I networked with my peers.
Disagree	Undecided	Agree	Q17. I engaged in small business succession planning.

Q18. What is your level of education?

None  
Primary  
Secondary  
Tertiary  
Postgraduate


Q19. How many staff were there employed in your small business?

None  
1-3  
4-6  
7-10  
More than 10


Q20. How long have you been in this business?

Up to 1 year  
1 – 3  
3 – 5  
5 – 10  
10 – 20  
20 or more years


Q21. Were there any specific problems that you experienced that you regard as the cause of your small business closure?

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### End of the Questionnaire

Thank you for taking the time to complete the questionnaire.

## **Appendix 3: QUESTIONNAIRE 2**

The Ministry of Trade and Industry; Cooperative and Marketing  
Basotho Enterprise Development Corporation  
Lesotho Chamber of Commerce and Industry  
Mohloli Chamber of Business

**1. Do you have Programmes in Place to for Small Business Development and Assistance?**

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**2. Do you monitor their performance?**

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**3. If YES,**

**3.1 Then, what Business and Managerial Problems have you Observed in this Small Business Industry?**

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**3.2 What Mechanisms/Controls do you put in Place to Protect Small Business Entrepreneurs from Foreign Competitors?**

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**3.3 What Kind of Continuous Assistance/Support in general, do you given them so to ensure Efficiency and Effective Business Management?**

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**4. If NO, then**

**4.1 What are your Plans to Remedy the Situation?**

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**5. Please give Additional General views/Comments if any**

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**End of the Questionnaire**

Thank you for taking the time to complete the questionnaire.

#### **Appendix 4: LETTERS OF ETHICAL CLEARANCE, INFORMED CONSENT AND PERMISSION TO ACCESS OF INFORMATION.**



**Pay Tax** and Build Lesotho's Future  
**Lefa Lekhetho**, u Ahele Lesotho Bokamoso

Lesotho Revenue Authority  
Income Tax Division  
P.O. BOX 1085  
Maseru 100  
Lesotho, Southern Africa  
Tel: +(266) 2231 3796  
Fax +(266) 2231 0338  
Email: [incometax@lra.org.ls](mailto:incometax@lra.org.ls)  
Website: [www.lra.org.ls](http://www.lra.org.ls)

Mrs. Christel Haddon  
MBA & DBA Administrator  
Graduate School of Business  
Westville Campus, University of KwaZulu - Natal

Dear Madam

#### **RE: AUTHORISATION TO ACCESS OF RECORDS AT THE LRA**

This letter serves to confirm that 'M'akahlolo Qhobela is a bona fide employee of the LRA. As she is currently undertaking her research study she has been granted an informed permission to access the records or utilize data, space and /or facilities in this organization.

Yours faithfully

Thabo Moleko  
Assistance Commissioner – Taxpayer Services

**UNIVERSITY OF KWAZULU-NATAL  
GRADUATE SCHOOL OF BUSINESS**

Dear Respondent,

**MBA Research Project**

**Researcher:** 'M'akahlole Qhobela +266 - 63011565)

**Supervisor:** Professor Walter Dayson Geach

I, **'M'akahlole Qhobela** an MBA student at the Graduate School of Business, of the University of Kwazulu Natal., invites to participate in a research project entitled:

**An Exploration of Small Business Mortality: A Lesotho Perspective**

The aim of this study is to:

Look at why small businesses in Lesotho fail.

Through your participation I hope to understand **your views on why the Basotho's small businesses are failing.** The results of the survey are intended to contribute **to an understanding why small business in Lesotho fail, and in doing so, this will help to increase the chances of business success.**

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

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

The survey should take you about **15-20** minutes to complete. I hope you will take the time to complete this survey.

Sincerely

Investigator's signature \_\_\_\_\_ Date \_\_\_\_\_

---

**CONSENT**

I \_\_\_\_\_ the undersigned have read and understand the above information. I hereby consent to participate in the study outlined in this document. I understand that participation is voluntary and that I may withdraw at any stage of the process."

Participant's signature \_\_\_\_\_ Date \_\_\_\_\_ »

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