

**THE REASONS THAT MAY PREVENT SMALL AND MEDIUM-SIZED
ENTERPRISES FROM BEING SUCCESSFUL**

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ABSTRACT

This document addresses the reasons that may prevent small and medium-sized enterprises (SMEs) from being successful. Chapter 1 is about the aim of the study and the definition of the small and medium-sized enterprises. Chapter 2 is identifying the impact of small and medium-sized enterprises in the country's economy and the rate of failure in this business sector. It also looks at the role of government and banks to these businesses and the reasons that may prompt individuals to go into this business sector.

Chapter 3 is about literature study which has been undertaken to identify reasons that cause small and medium-sized enterprises to fail, and the variables constraining internal growth. Chapter 4 is about the empirical research which complements the literature study in Chapter 3. This is done in order to verify if the reasons found in previous studies are still relevant for the current situation. Twenty black business managers, in Soweto, were interviewed. The findings suggest that the basic causes of business failure remain the same irrespective of location. The managers tend to lack management ability and they also suffer from inadequate capital to grow their businesses.

A proposal has been made, in Chapter 5, for an education curriculum to incorporate the basics of running a business at the early stages of learning. Apparently the majority of people who leave school at very early stages resort to starting their own businesses as they may not find jobs in corporate businesses or the Government sector.

UITTREKSEL

Hierdie dokument behels die redes wat klein en middelmatige ondernemings verhinder om sukses te behaal. Hoofstuk 1 is oor die doel van die studie en die definisie van die klein en middelmatige ondernemings. Hoofstuk 2 identifiseer die aanslag van klein en middelmatige ondernemings in die land se ekonomie en die mislukkingsprys in die besigheidssektor. Dit kyk ook na die rol van die regering en banke teenoor hierdie besighede en die redes wat 'n individu aanspoor om hierdie besigheidssektor te nader.

Hoofstuk 3 is oor literatuurstudie onderneem om redes te identifiseer waarom klein en middelmatige ondernemings misluk en die veranderlike groothede wat interne groei verkrimp. Hoofstuk 4 is oor die empiriese navorsing wat die literatuurstudie in Hoofstuk 3 komplementeer. Die doel hiervan is om die redes te bevestig wat in vorige studies gevind is en om uit te vind of hulle nog relevant is tot die huidige situasie. Twintig swart besigheidsbestuurders in Soweto is ondervra. Die bevindings stel voor dat die basiese oorsake van besigheidsmislukking is dieselfde afgesien van lokasie. Die bestuurders is geneig om gebrek te lei aan bestuursvernuf. Hulle het ook ongenoeg kapitaal om hul besighede te groei.

'n Voorstel is gemaak in Hoofstuk 5, vir 'n opleidingsleerplan om die basiese besigheidsvloei in die vroeë stadium te leer. Die bleik dat die meerderheid van mense wat skool verlaat op 'n baie vroeë stadium, is gedwing om hulle eie besighede te stig want hulle kry nie werk in die korporatiewe besighede of Staatssektore nie.

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CHAPTER 1

ORIENTATION

1.1. Introduction

During the last few decades there has been a renewed interest in the small and medium-sized enterprises in most countries, including South Africa. This renewed interest can be attributed to the ability of small and medium enterprises to create jobs or employment opportunities. Small and medium-sized enterprise development, especially the promotion of new small and medium-sized enterprises, is exclusively dependent on the identification of potential entrepreneurs and development of entrepreneurship.

According to Griffin, small and medium-sized enterprises play a major role in the United States of America's economy. More than 99% of the nation's sixteen million businesses are small and medium-sized enterprises. Their effects are felt in a number of areas, including financial performance, innovation, job creation, new business formation, and contribution to big business. As described by Griffin (1990:738) in Global view, small and medium-sized enterprises are exerting increasing influence in the international arena as well.

According to Cronje *et al*, entrepreneurs create seven out of every ten new job opportunities in the United States of America. During the period November 1982 to March 1984, four million job opportunities were created in the United States of America, the majority by small and medium-sized enterprises. In the decade up to 1984, twenty million new job opportunities were created in the United States of America, majority of them by small and medium-sized enterprises (Cronje *et al*, 1989:414).

1.2. Problem Statement of the Study

It is clear from the studies conducted by the Small Business Advisory Bureau (SBAB), Small Business Administration (SBA) and Incorporated Magazine (INC) that there are small and medium enterprises that are not successful in sustaining business operation or growing their businesses. These businesses either remain small or cease operation. It is therefore necessary to identify the **“The reasons that may prevent small and medium-sized enterprises from being successful”**.

1.3. The aim of the study

1.3.1. The main objective

The aim of the study is to establish the reasons that may prevent small and medium-sized enterprises from being successful.

1.3.2. The secondary objectives

The secondary objectives are to :

- ❖ Identify reasons that cause small and medium-sized enterprises to fail
- ❖ Identify variables constraining internal growth
- ❖ Verify the reasons for failure and growth constraints identified in the previous research findings (literature study) against the empirical study that is going to be undertaken in the Soweto small and medium-sized business community which is predominantly black, to find out whether they are applicable in the current situation.

1.4. The method of research

A literature study has been undertaken to establish the variables causing failure and constraining internal growth in the small and medium enterprises as found by previous researchers. This has been complemented by empirical research in order to

verify whether the reasons found in previous studies are still relevant for the current situation. A questionnaire was sent to a sample frame of one hundred owners/managers of small and medium-sized enterprises, around Soweto in the Gauteng Province, to complete. Black owner-managers of businesses with a turnover of between R100 000 and R5 million were interviewed.

1.5. Definition of small and medium-sized enterprises (SMEs)

Before investigating the problems that may prevent small and medium enterprises from growing, small and medium-sized enterprises should be defined. Virtually every country has its own criteria, which vary from qualitative, economic criteria such as independent ownership and management to quantitative, statistical criteria such as the number of employees, annual turnover or sales and total assets. The elements of qualitative criteria cannot be measured whilst those of quantitative criteria can be measured (Marx *et al*, 1998:728).

A definition of small and medium-sized enterprises will help to explain their nature. Although different countries have different economies and therefore different views on SMEs, two main characteristics distinguish SMEs. The most commonly used quantitative measure for an SME is the number of people employed by the business. In countries like Japan, the USA and in Europe, an SME is defined as any business with fewer than 500 employees where small enterprises have fewer than 200 employees and the medium enterprises have between 200 and 500 employees. In South Africa, an SME is defined as a business with fewer than 200 employees. Fewer than 50 is deemed to be small, and between 50 and 200, medium-sized. (Cronje, *et al*, 1997:451).

The market share, the number of employees and capital assets, determines the size of the business. A comprehensive definition of an SME in South Africa therefore reads that it is any business with one or more of the following characteristics:

- ❖ Fewer than 200 employees
- ❖ Annual turnover of less than R5 million

- ❖ Capital assets of less than R2 million
- ❖ The owners are directly involved in management

In 1992, the Bureau of Market Research at the University of South Africa conducted an investigation into the definition of a small business enterprise in South Africa. The definition excludes medium-sized enterprises and was formulated as follows:

A business is defined as small if it meets at least one qualitative criterion and two quantitative criteria. The one qualitative criterion is that the business must be privately and independently owned, managed and controlled but may have more than one branch or unit. The two quantitative criteria may include any two of the following:

- ❖ A total turnover of less than R2,5 million (1992 prices)
- ❖ Total asset value of less than R2,0 million
- ❖ Fewer than 50 full-time employees

For the purpose of this study, small and medium-sized enterprises will be those businesses with a turnover of between R100 000 and R5 million across the board which are independently owned and controlled by the owner. The owner is also involved in managing the enterprise.

One should keep in mind that the concepts, small and large, will differ from industry to industry. However, a classification according to industry does not yet exist in South Africa (Cronje *et al*, 1997:451). In the USA, the Small Business Administration (SBA), a body similar to South Africa's Small Business Development Corporation (SBDC), developed a classification of standard sizes from selected industries. The classification is beyond the scope of this research project.

The abbreviation SME, which is found in most literature will be used for small and medium-sized enterprises. Although the abbreviation SMME is also used in South Africa, SME is preferred for this document.

1.6. The scope of the study

Disadvantaged communities are not exception to the failure rate and lack of internal growth in small and medium-sized enterprises. They may still be trying to recover from the previous Government's apartheid system that may have worked to their detriment. Upliftment and economic empowerment of the disadvantaged communities is essential in South Africa, not only to correct the past, but also to involve the majority, namely black people, in developing the country for the benefit of all. It is therefore important that small and medium-sized business should, firstly, be stimulated and, secondly, be successful in these communities.

Based on the above, the scope involved the survey of black small and medium-sized enterprises managers with an annual turnover of between R100 000 and R5 million, around Soweto, in the Gauteng Province. The small or medium-sized enterprise should have a formal structure in the form of a building from which it operates or trades. The study needs to establish whether the problems experienced by the disadvantaged communities are similar to that documented problems experienced by small and medium-sized enterprises worldwide.

CHAPTER 2

THE ENTREPRENEURSHIP AND MANAGING SMALL AND MEDIUM-SIZED ENTERPRISES

2.1. The impact of small and medium-sized enterprises in the country's economy

2.1.1. Financial performance

In sheer numbers alone, small and medium-sized enterprises far outstrips big businesses. There is also evidence that suggests that small and medium-sized enterprises perform significantly better than big business financially. On average, for example, small manufacturers earn a higher return on owners' equity than do large manufacturers, for two main reasons. First, in many manufacturing industries, small and medium-sized enterprises can respond more rapidly and at less cost than can big business to the accelerating rate of change in products and services, processes and markets. Second, small and medium-sized enterprises have become more attractive to talented, individualistic men and women. In any event, small and medium-sized enterprises have a positive impact on the nation's economic performance in terms of gross national product, growth rates, and other indicators (Griffin, 1990:738). Many successful small and medium-sized enterprises owners do make more money in their businesses than when they were working for someone else. This may be attributable to the commitment and efforts he or she may show in their own business than another person's business.

2.1.2. Innovation

Entrepreneurs and small and medium-sized enterprises play a major role in innovation. Small and medium-sized enterprises or individuals working alone invented the personal computer, the transistor radio, the photocopying machine, the jet engine, and instant photograph. Their ingenuity also gave us

the pocket calculator, power steering, the automatic transmission, air conditioning, and even the nineteen-cent ballpoint pen. Clearly, we are all better off for the presence in the economy of millions of SMEs. Their resourcefulness and ingenuity have spawned new industries, and contributed a great many innovative ideas and technological breakthroughs. Alan McKim's small business has achieved several innovative solutions to toxic waste disposal problems (Griffin, 1990:738). It is evident that small and medium-sized enterprises owners and managers keep on thinking of the opportunities in the marketplace. They scan the environment and find out what is needed to improve human life and reduce manual labour which may cause fatigue and lower productivity. Innovation may help to increase productivity in a working environment. Personal computers and their respective software packages have made life easier for those who know how to use them. They do not have to go to their record rooms to search for files as was once the case. They are able to access files directly from the computer system at their workstations. Confidentiality of files can also be maintained by using passwords to access some files in the computer. This technology, invented by small or medium-sized enterprise or an individual working alone saves a lot of time for people using computers at home and in business environment.

2.1.3. Job creation

Small and medium-sized enterprises create more new jobs than do larger businesses. One study suggested that SMEs might create as many as 66% of all new jobs in the United States each year. In another study, the United States Department of Commerce found that small, young, high technology businesses created new jobs at a much faster rate than did larger, older businesses. Such small and medium-sized enterprises, especially those in chemistry and electronics, require employees with a high degree of scientific or engineering knowledge and thus generate additional demand for them. Clean Harbors, Inc., has created around 500 jobs in the New England area, and Reebok has created over 2 000 jobs in the last five years (Griffin, 1990:738).

In view of the fact that the rate of unemployment continues to escalate in South Africa, the development of small and medium-sized enterprises is critical. Some of the unemployed people may be encouraged to start their own SMEs and employ other unemployed people. Roelf Meyer of the United Democratic Movement has recently, when addressing business people in Rivonia near Johannesburg, indicated that a move towards promoting SMEs is the right direction to decrease rate of unemployment and possibly the rate of crime in this country.

2.1.4. New business formation

Another indicator of the importance of small and medium-sized enterprises is the record number of businesses formed each year since 1960. New corporations hit the 600 000 mark for the first time in 1983. This figure is more than five times the total in 1960. Of course some of the new corporations are mature businesses that were born as sole proprietorships or partnerships and have only recently incorporated. Nevertheless, many more SMEs are created each year than larger ones (Griffin, 1990:738). More and more SMEs are formed each year. These SMEs are trying to take products and services to the people where they may be needed. They make it easier for the consumers to have access to the products and services they want.

2.1.5. Contributions to big business

A final reason SMEs have such enormous impact is their contributions to big business. General Motors, for example, buys from over 25 000 suppliers, most of them small and medium-sized enterprises. Such businesses can create and deliver specialised products more efficiently than can larger businesses. Indeed, big businesses buy more of their inputs from small and medium-sized enterprises than from other big businesses. SMEs also play a key role in distributing and selling the products of larger businesses to consumers (Griffin, 1990:738). SMEs create opportunities for big business by acting as a

delivery channel for their products and services. They distribute these products and services to the consumers. They also provide services to commercial and corporate organisations like cleaning, painting, computer maintenance and more others.

2.2. The failure rate in small and medium-sized business sector

It is estimated that nine out of every ten small and medium-sized enterprises in the United States of America fail within the first five years of their existence, which is also the case in South Africa. According to estimates of the Small Business Advisory Bureau, sixteen business enterprises, of which by far the majority were small and medium-sized enterprises, fail financially every working day by mid-1986 (Cronje et al, 1989:416). The question that immediately comes mind is: "What can this particular vulnerability of small and medium-sized enterprises be attributable to?" It appears that apart from problems of a general nature, there are problems that are more or less peculiar to small and medium-sized enterprises.

A Small Business Administration study, summarized in Exhibit 1.1 below, covering the period from 1976 to 1986, found that two of every five small and medium-sized enterprises founded survived six or more years but that few achieved internal growth during the first four years. The study also found that survival rates more than double for firms which grow, and the earlier in the life of the business that growth occurs, the higher the chance of survival. A study done by INC. shows that, between 1982 and 1987, the average growth in sales of the INC. 500 was 96% per year. The study also finds that, of the seven million corporations in the United States of America, approximately 7% grew over 20% per year and just 1% grew 50% per year. Some of the firms did not grow at all. The true excitement of entrepreneurship lies in conceiving, launching and building firms that can grow internally (Timmons, 1994:13). Some businesses are unable to survive or grow, whilst other businesses are surviving and growing by increasing their number of employees, sales in quantity and capital assets, are definitely experiencing problems. These are the problems that we

need to identify in order to make suggestions for the small and medium-sized enterprises' owners and managers.

Exhibit 2.1.

Percentage of new small and medium-sized enterprises surviving six or more years

Industry	All Classes	Zero Growth	Low Growth	Medium Growth	High Growth
Total	38,8%	27,5%	66,3%	75,5%	78,4%
Agriculture, Forestry, Fishing	43,1%	35,0%	74,7%	80,7%	82,8%
Mining	39,1%	27,1%	67,8%	61,5%	57,0%
Construction	35,3%	24,1%	65,0%	72,2%	74,3%
Manufacturing	46,9%	27,0%	66,9%	73,5%	76,0%
Transportation, Utilities, Communications	39,7%	25,7%	68,5%	72,4%	75,6%
Wholesale Trade	44,3%	28,3%	66,5%	74,9%	77,2%
Retail Trade	38,4%	27,1%	62,7%	74,4%	76,8%
Finance, Insurance, Real Estate	38,6%	28,7	68,7%	76,4%	78,5%
Services	40,9%	28,7%	69,1%	79,4%	83,5%

Source : New Venture Creation: Entrepreneurship for the 21st Century (Timmons, 1994:14)

2.3. The role of the government to small and medium-sized enterprises

South Africa is presently experiencing a high rate of unemployment. Small and medium-sized business sector may be the area to look at and see how they can assist in the development of this sector which may help the government to decrease the high rate of unemployment. The government may start with seminars and invite people who may be taught how to run small and medium-sized enterprises successfully and grow them. They must also inform managers and owners of the resources available for them in the government sector. Giving the leads and subcontracting some of the services to them should encourage small and medium-sized enterprises. Those with potential should be identified and encouraged in one way or another. With the same

token the small and medium-sized enterprises should endeavour to carry out the job assigned to them in a professional way. Sometimes it makes it difficult for the government to assign a particular job to a small and medium-sized enterprises because of lack of experience and professionalism in handling projects.

The Small Business Development Corporation (SBDC) has been established to help in the development of small and medium-sized enterprises. Some of the provincial governments also have corporations that do more or less the same job as SBDC. The Department of Trade and Industry is also involved in developing small and medium-sized enterprises.

2.4. The role of the banks to small and medium-sized enterprises

The commercial banks are also playing a part in assisting small and medium-sized enterprises to help them survive and grow both internally and as a business sector. They have established SME suites specifically to service the small and medium-sized enterprises. The banks are trying to identify the needs of this market and the needs of individual SME customers in order to offer appropriate products and/or service. Notwithstanding this, some of the small and medium-sized enterprises are not able to survive or grow their businesses internally. The problems experienced by managers/owners of these businesses need to be identified and in need be addressed properly.

In view of the fact that small and medium-sized enterprises may make a positive contribution in creating job opportunities for many people that are presently unemployed in South Africa, it is important at this stage to review the findings of previous researchers in this business sector and see if the same problems are still being experienced by the present owners and managers.

2.5. Reasons that may prompt self-employment in small or medium-sized business

According to Hodgetts and Kuratko, there are a number of reasons that may prompt an individual to go into small or medium-sized enterprise. Some of the most important reasons are the need to be independent, financial rewards, community service, job security, family employment and challenge. While there is a great deal of responsibility associated with this independence, they are willing to assume it. A particular individual may realise that there is a need for a particular good or service. Convinced that the public will be able and willing to pay for the product or service, the person will start a business to sell the product or provide the service. Many small and medium-sized enterprises owners make more money by running their own businesses than working for someone else. When one owns a business, job security is guaranteed but by the same token the business may not succeed and one may lose his or her money invested in the business. An individual can work as long as he or she wants. There is no mandatory retirement (Hodgetts and Kuratko, 1989:9).

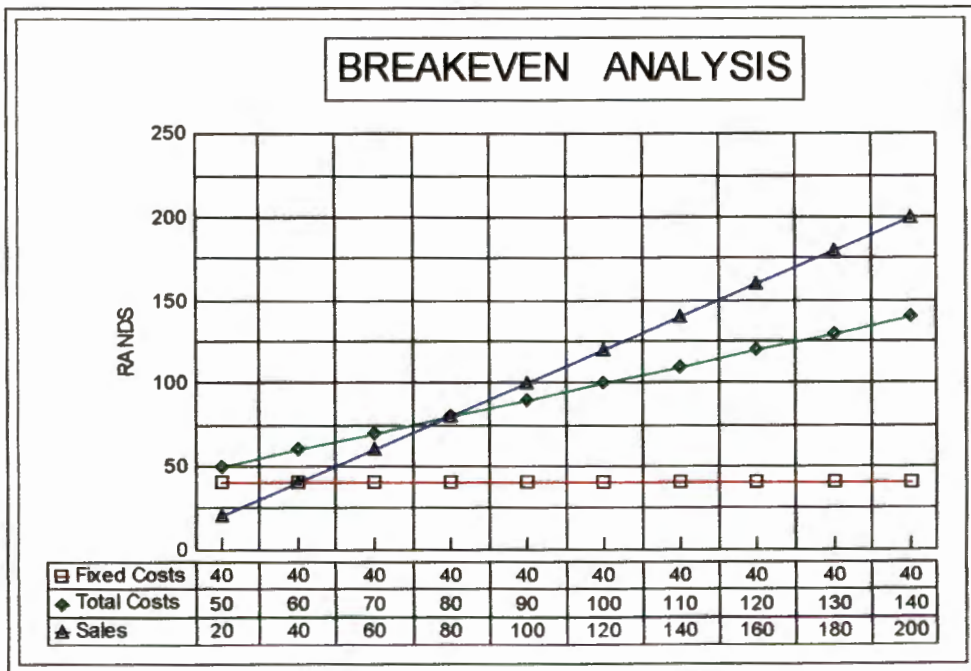
Another reason, mentioned by Hodgetts and Kuratko is to provide family members with employment. There is generally higher morale and trust in family-run businesses than in others. SMEs owner-managers also like to see their businesses remaining in the hands of a member of the family or relative. It is therefore necessary for them to either train their children or a relative to take over at a later stage.

Another community-cited advantage of going into business is the challenge that accompanies the undertaking. The owner-manager would like to see his or her business become successful and grow to create wealth for the family. Most successful small and medium-sized enterprises owners like to feel that there is a chance that they will succeed and a chance that they may fail. This enables them to measure their competency in the field of business.

2.6. Costing, pricing and sales

The main aim of the business is to make profit. Costing, pricing and sales may also influence the success of the business. For managers to make profit they should know the cost of their commodities. The products and services should be priced in such a way that the investors will get a return for their money. This can only be done if the manager understands the costs of his or her products and services. The manager should understand costing very well to price effectively. Managers must know at which point they breakeven. They should not ignore fixed costs when determining the price of the commodity. These fixed costs can drain the business profits if they are not catered for in the product or service price. These may be hidden costs as they may not be directly related to the product or service. Small and medium-sized enterprises managers should realise that they are not making profit per product, but may start making profit after they have sold a certain number of products because there are fixed costs involved.

FIGURE 2.1



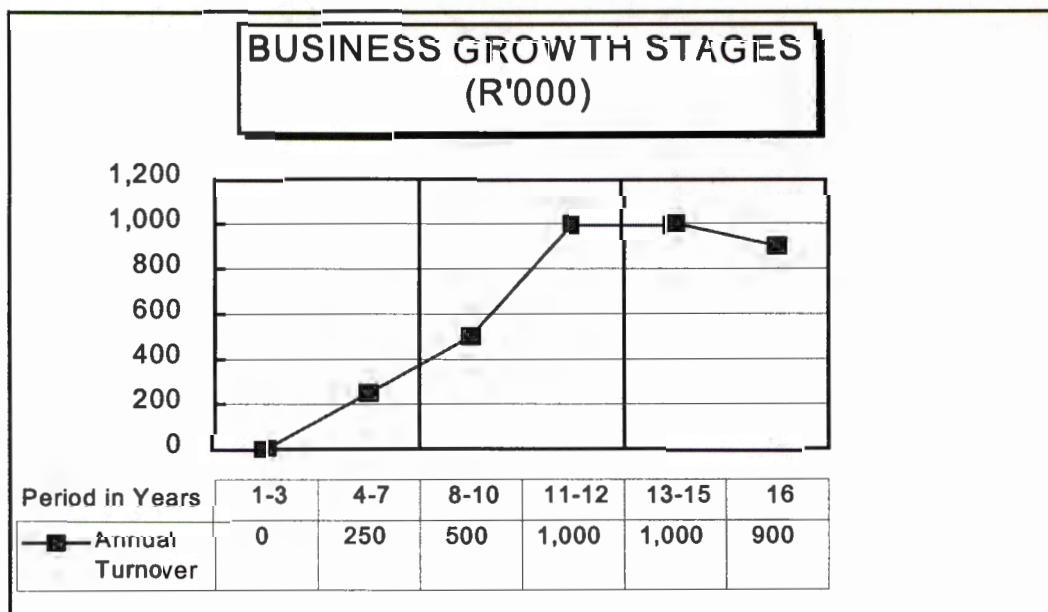
It is evident from figure 2.1, which I developed, that the business will only breakeven when sales is R80. Profit will only be made when sales is over and above R80. Any sales below R80 will mean that the business is trading at a loss because the revenue

will not cover the costs. Fixed costs will include items such as salaries and wages, rent, administration costs, sales expenses and others. It is therefore important that provision is made for these costs when pricing products. The sales team should also be up-to-date with products offered by their firm. They should inform customers of the new products and their benefits. They should be able to sell their company to new customers and develop the market for the business. High sales or turnover may also increase business profits and contribute to its survival and further growth.

2.7. Stages of business growth

Clearly entrepreneurship is not static. There is a process of gestation and growth of new ventures and the transitions that occur at different boundaries in this process. Ventures are sown, sprouted, and harvested. Even those successful ventures which are not grown to harvest go through stages of growth (Timmons, 1994:210).

FIGURE 2.2



Source: New Venture Creation: Entrepreneurship for the 21st Century (Timmons, 1994:211)

The start up stage, a stage that usually covers the first two to three years but perhaps as many as seven, is by far the most perilous stage and is characterised by the direct and exhaustive drive, energy and entrepreneurial talent of a lead entrepreneur and a

key team member or two. Here the critical mass of people, market and financial results, and competitive resiliency are established, while investor, banker and customer confidence is earned. The level of sales reached varies widely and may reach several million rands per year, but sales typically range between R2 million and R20 million. A new company then begins its high-growth stage. The exact point at which this occurs can rarely be identified by a date on the calendar until well after the fact. It is in this stage that new ventures exhibit the over sixty percent failure rate. That is, it is in this stage that the lemons ripen.

As with the other stages, the length of time it takes to go through the high-growth stage, as well as the magnitude of change occurring during the period, vary greatly. Probably the most difficult challenge for the founding entrepreneur occurs during the high-growth stage, when he or she finds it is necessary to let go of power and control over key decisions that he or she has always had, and when key responsibilities need to be delegated without abdicating ultimate leadership and responsibility for results. But the challenges do not end there. For example, sales of Litton's microwave oven division had reached \$13 million, and it had 275 employees. The long-range plan called for building sales volume to \$100 million in five years i.e. growing at forty percent per year compounded. The head of the division said, "Having studied the market for the previous two years, I was convinced that the only limit on our growth was our organisation's ability to grow as rapidly as the market opportunities".

From the high-growth stage, a business enterprise moves to what is called the maturity stage. In this stage, the key issues for the company is no longer survival. Rather, it is one of steady, profitable growth. The stability stage usually follows (Timmons, 1994:211).

2.8. Managing the small and medium-sized enterprises

According to Griffin, until just a few years ago, the conventional wisdom among managers and researchers was that management concepts and approaches were equally applicable to business regardless of size. People believed that managing a

small business was just like managing a larger one, but on a smaller scale. Now, however, there is general agreement that an entrepreneur managing small or medium-sized enterprise faces a different set of circumstances altogether, circumstances that dictate a different approach to management. Thus, planning, organising, leading and controlling must be approached from a special perspective when they are to be applied to small and medium-sized enterprises (Griffin, 1990:749).

According to Bekker and Staude, if one seeks to develop professional competence, he or she needs to begin with a clear understanding of a manager's tasks and responsibilities. Generally, a manager performs four functions to secure results, which are planning, organising, leading and controlling (Bekker and Staude, 1988:127).

2.8.1. Planning

Planning plays a pivotal part in how an entrepreneur does, yet perhaps no other function is ignored more than planning. Many entrepreneurs view planning as a function best done only by giant corporations such as General Motors or IBM. One reason for this attitude is that entrepreneurs tend to have more technical than analytical, conceptual or diagnostic skills. Manufacturing requires technical skills, as do selling and purchasing. Planning, however, requires conceptual, analytical and diagnostic skills that tend to intimidate entrepreneurs. Planning is not a tangible activity, so they tend to ignore it. In doing so, they often undermine the potential success of their venture before even starting it (Griffin, 1990:750).

Good management is the key to success and good management starts with setting goals. Thus, planning is the basis for successful management action (Bekker and Staude, 1988:128). According to Tate *et al*, planning must be done both before and after operations are begun. The need for effective planning in small and medium-sized enterprises is absolutely necessary (Tate *et al*, 1978:111). Dewhurst and Burns cited that SMEs need to formulate policy and plan for the future (Dewhurst and Burns, 1983:47). Planning may

help managers to identify any deviation in the results and take appropriate action timeously.

2.8.2. Organising

Given the high level of environmental uncertainty that exists in business oday, few entrepreneurs have the skills needed to succeed on their own. Until World War II, they worked in a world of few regulations, few taxes, few big competitors, few records and no computers, but simplicity has since given way to complexity. Major corporations such as AT&T and Du Pont employ thousands of specialists. Du Pont, for example, has more than 600 marketing researchers, most of whom have at least a master's degree. Such expert help is beyond the reach of most entrepreneurs, so they often have no choice but to stand alone. Entrepreneurs clearly need help to survive and grow. As a starting point, they must identify the kinds of help they need. To do so, they need to plan their organisation before they launch their business, and they need to continue updating their plan as the business grows. Yet despite the need for it, organising is ignored by many, if not most, entrepreneurs (Griffin, 1990:751).

The function of organising includes the activities of developing an organisation chart, delegating and developing relationships. All these are the responsibility of a manager of a business (Bekker and Staude, 1988:143). The managers may be able to identify those areas where they do not have the required expertise and hire people from outside, maybe on a part-time basis to assist in the business.

2.8.3. Leadership

Entrepreneurs must provide effective leadership if they are to succeed. Their goal should be to help employees satisfy their own personal goals while at the same time performing organisational responsibilities effectively. Managers can do several things along these lines. First, the entrepreneurs must want to

help their employees become achievers. Some do not, holding fast to the idea that employees do not care about deriving satisfaction from their jobs. This attitude can cause such problems as absenteeism and high staff turnover, shoddy workmanship, and a decline in employees' motivation to work. Second, just as coaches must be close to their players to be effective as leaders, so must entrepreneurs be close to their employees. Topflight coaches generally have teams that win consistently, mostly because the coaches know their jobs and have a knack for communicating that knowledge to players. Players see their assignments clearly because the coach helps them to understand what is expected of them. They know how to carry out their assignments because the coach has meticulously laid out the game plan and the plays to use against the competition. They carry out their assignments with precision because the coach has created the atmosphere of fairness, confidence and camaraderie (Griffin, 1990:756).

Creating such a work atmosphere is difficult. No two players or employees are exactly alike. What appeals to one may repel another. Because all employees are unique and complex, entrepreneurs must understand their needs in order to help them do their best (Griffin, 1990:757).

According to Bekker and Staude , the success of the business is largely dependent on the ability and enthusiasm of the people. Their competence and keenness depends on the leader, and his or her leadership and the way he or she manages them (Bekker and Staude, 1988:126).

Third, entrepreneurs, as leaders, can help employees achieve status and gain a positive opinion of themselves and their jobs. They may do so by sharing decision-making responsibilities with employees, giving employees greater responsibility as soon as they are ready for it, taking employees' ideas and suggestions to heart, and judging employees rigorously on merit and rewarding them accordingly. Entrepreneurs who follow these suggestions are more likely to succeed than those who do not. Of all the traits that

entrepreneurs must possess if they are to be effective leaders, perhaps none is so vital as the willingness to pursue excellence day in and day out. The entrepreneurs must set the tone that motivates employees to excel. As noted by the famed football coach Vince Lombardi, "You don't try to win some of the time. You don't try to do things right some of the time. You do them right all the time" (Griffin, 1990:757). Employees need to be directed in order to do their work more efficiently and effectively.

2.8.4. Controlling

A plan set forth a course of action which a manager is committed to follow in the future. While knowing where you want to go is important, equally important is the ability to stay on the predetermined course. A budget is a tool to control. The owner- manager should, therefore, use this tool to obtain the desired results (Bekker and Staude, 1988:157). What is needed in the small and medium-sized enterprises is the right product or service, careful thought and forward planning, and mechanisms that allow the owner-manager to monitor progress along his or her plan (Dewhurst and Burns, 1983:66).

Without control, the other three managerial functions, planning, organising and leading, lose meaning because, for only by practicing control can entrepreneurs tell how effective the other three functions are. It is never enough just to set goals and then organise and lead to meet these goals. Entrepreneurs must measure their progress at different intervals and make adjustments based on those measurements. To do this, they need information that tells them whether their goals are being met. Despite its importance, control tends to be ignored by many entrepreneurs. One reason may be their discomfort with numbers, and many may believe that control is a function practiced only by big business. With this attitude, it is hardly surprising that so many entrepreneurs find themselves in trouble from the start. They fail to see that control is simply the process by which they may assure themselves that

their actions, as well as those of their employees, conform to plans and policies (Griffin, 1990:757).

Especially vital is accounting information which may be useful in several ways. As a means of communication, it helps to inform employees of the actions that the entrepreneurs wish them to take. As a means of motivation, it helps to motivate employees in such a way that they will do what the entrepreneur wants them to do. As a means of getting attention, it signals the existence of problems that require investigation and possibly action. As a means of checking up, it helps the entrepreneur to assess how well employees are doing their jobs. Such an appraisal of performance can lead to salary increases, promotion, reassignment or corrective action of various kinds (Griffin, 1990:758).

The key element of the control process is the information that allows entrepreneurs to compare actual performance with planned performance. This information allows them to measure not only their performance but also the propriety of their goals and actions and, if need be, to adjust them. To illustrate the importance of controlling to the SMEs, consider the example of one small contracting firm. Elling Brothers Mechanical Contractors specialises in the design and installation of piping systems. After moving into the installation of custom and made-to-order systems, the company realised that tighter control was needed. On one project alone, Elling lost \$250 000 on small cost overruns that escalated and snowballed over the course of a fifteen-month job. Following a set of guidelines developed by a consultant, Elling implemented a new accounting control system that saved the company from going under (Griffin, 1990:758).

Budgeting is perhaps the most vital control for SMEs. The budget translates operating plans into rand terms or other quantitative measures. The budget enables SME manager to evaluate the performance and see if there is any variance, whether adverse or favourable, which need to be investigated and in

need correct the situation. Productivity is another method that can be used to measure output per employee. According to Griffin, the SMEs that, by what ever means, achieve reasonable levels of productivity increase their chances of surviving the early, critical years and building a pattern of long-term growth. He also mentioned that many small and medium-sized enterprises have begun to turn to automation and robotics to boost output per employee, especially in manufacturing (Griffin, 1990:759). Entrepreneurs should be sure of what they are doing before investing heavily in automation. They should estimate the cost involved, payback period, net present value and the internal rate of return at the end of the period. They should also be able to determine the productivity per employee before and after the implementation of automation to see if there is any improvement after the introduction of a new machine.

2.9. Sources of capital

2.9.1. Capital and trade credit

Capital refers to the amount of money the owners have invested in the business. The owner may also open lines of credit with their suppliers. In this way, if they do not have cash to pay for the merchandise, the supplier will carry them for thirty to sixty days. The advantage of this source of finance is that sometimes the suppliers do not charge interest on the money owed to them by their customers. Some creditors give discount on cash purchases and payments within a stated period of credit. These discounts may contribute to the business cash flow and profits because the business does not pay out. Such funds may be ploughed back into the business to bolster cash flow. It is therefore important for SME managers to take advantage of such situations to improve their capital and lessen the financial pressure.

Without credit, most small and medium-sized enterprises may not be able to sustain operation or grow internally. SMEs need sufficient funds invested in the firm to meet all financial obligations. Funds need not be tied up in a slow-

moving inventory because this may deny the owner an opportunity to invest the money in a more profitable way. Successful managers sidestep these problems by forecasting demand, budgeting expenditures and keeping available lines of credit. They are also careful about promptly paying bills so that credit can be extended again in the future. Surplus funds may be invested at better interest rate to increase cash inflow.

2.9.2. Small Business Development Corporation

Small Business Development Corporation (SBDC) was formed to promote entrepreneurship in South African small and medium-sized enterprises. Among the services offered by SBDC is the provision of finance which may either be direct or indirect. Direct finance is where loans are given direct to the borrower. Indirect finance is where SBDC guarantee a certain percentage of the facility granted to small and medium-sized enterprises by banking institutions to complement the owners' equity.

2.9.3. Commercial Banks in South Africa

The basic function of a bank, and of the banking system as a whole, is to provide an efficient mechanism for transferring the savings within the economy from those who own them to those who are best able to employ them. Basically, the banks attract the savings of the community in the form of deposits and allocate them in the form of loans. In this regard banks may be seen as great reservoirs into which flow countless small streams of liquid funds, and from which supplies of productive capital are distributed throughout the country, at the times when they are most needed and the places where they can be most productively used (Britzius, 1982:213). Some major commercial banks in South Africa have established SME divisions that look after this business sector. The small and medium-sized enterprises should take advantage of this opportunity and use the skills of the relationship managers

that are serving their respective areas. They have banking background and they are there to satisfy their financial needs.

2.9.4. General Banks

General banks offer the same services as commercial banks except that in general they do not offer cheque account facilities, although they may do so provided it does not become a substantial part of their business. Santam Bank, for instance, is a general bank which offers cheque account facilities.

2.10. Credit facilities that may be applicable to small and medium-sized enterprises

2.10.1. Overdrafts

Obtaining a loan by means of overdraft is the most common form of borrowing from a bank, and involves the agreement of the manager of the bank where the would-be borrower maintains the current account that the customer may overdraw up to a specified maximum. The intention of the bank is to provide a form of bridging finance to tide the company through its working capital cycle.

2.10.2. Mortgage bonds

A mortgage bond is a long-term loan which is usually secured over fixed property of the enterprise and which bears a variable rate of interest. Mortgage bonds can be raised against the value of the property offered as a security. The amount that can be raised depends primarily on the value of the property. However, the various institutions may offer differing amounts on the same property.

2.10.3. Medium term loans

Medium-term finance is a loan for a period between one and ten years. Anything longer than this period is classified as long-term finance.

2.10.4. Leases

A lease is a contract that provides a right to the use of assets, legally owned by the lessor, in exchange for a specified rental paid by the lessee (Correira *et al*, 1991:559). Leases are a common source of finance for the funding of movable assets. Leases, like loans, can be structured in almost any way. They are secured as the lessor retains ownership of the asset, while the lessee has the use of the asset during its useful life.

The above credit facilities arrangements can usually be made subject to the following conditions:

- ❖ That the bank manager is satisfied with the borrower's integrity, financial position and business capacity.
- ❖ That acceptable security is lodged with the bank.
- ❖ That the borrower agrees to pay interest on the day-to-day overdrawn balance at a rate that is determined from time to time in relation to the prevailing bank rate.

In conclusion, small and medium-sized enterprises may play a very important role in the economy of a country by providing jobs to the unemployed, supplying goods and services to both the government departments and corporate businesses. They may also play an important part in innovation by improving the existing technology. The high failure rate in SMEs need to be investigated to enable all interested parties to identify the causes of failure in this business sector. The research may then help existing and future owners and managers to avoid falling into the same trap. The SME managers should also develop their technical skills and learn more about running a business. They should know about different sources of capital and the credit facilities available. The contribution that SMEs can make to the nation as a

whole should not be ignored and they need assistance from the government, corporate and commercial businesses, and the community at large.

CHAPTER 3

THE ATTRIBUTES OF SUCCESS AND THE PROBLEMS EXPERIENCED BY SMALL AND MEDIUM-SIZED ENTERPRISES WHICH MAY CONSTRAIN THEIR SUCCESS

3.1. Introduction

The purpose of this chapter is to look at the factors that may be attributable to the success of small and medium-sized enterprises and the problems experienced by these businesses which may constrain their success.

3.2. Factors that may be attributable to the success of the business

According to Chisnall the factors that may be attributable to the success of an enterprise are the existence of business opportunity, management ability, adequate capital and credit and modern business methods (Chisnall, 1987:149).

According to Kotler, business success is not determined by the supplier but by the customer (Kotler, 1994:1). He went on to say that the enterprise's success probability depends on whether its business strengths not only match the key success requirements for operating in the target market but also exceed those of its competitors. The successful business will be the one that can generate the greatest customer value and sustain it over time (Kotler, 1994:80).

Griffin's list of reasons for success includes hard work, drive, market demand for the products or services provided, managerial competence and luck. Many ingredients contribute to SMEs success but these four are the most common ones (Griffin, 1990:742).

Knowledge of and capability in one or more aspects of business are important assets but of much more value is the ability to manage (Timmons, 1994:211).

According to Carland and Carland, the requirements for success include managerial expertise, ability and willingness to work, and financial resources. Many successful business owners have had business failures before finally becoming successful (Carland and Carland, 1990:33).

Businesses that scan the environment systematically are more successful than those that do not (Cronje *et al*, 1989:58).

According to Hodgetts and Kuratko other factors that may influence business success are sales fluctuations, competition, increased responsibilities, financial resources, employee relations and laws and regulations (Hodgetts and Kuratko, 1989:12).

Bekker and Staude state that the successful small and medium-sized enterprise owner or manager is a moderate risk-taker, not a gambler, decisive, versatile, a finisher, self-confident and a benevolent despot. He or she also has drive, thinking ability, human relations ability, communication ability and technical knowledge (Bekker and Staude, 1988:8).

3.3. Factors that may prevent small and medium-sized enterprises from being successful

According to Hodgetts and Kuratko, there are many reasons why businesses fail. Dun and Bradstreet, which keeps a record of business failures and analyses them in order to determine the specific causes, reports that the basic factors remain the same. In addition to these specific causes, one can also attribute failure to poor management which consists of incompetence, unbalanced experience, lack of managerial experience, and lack of experience in the line (Hodgetts and Kuratko, 1989:24).

Griffin has identified managerial incompetence or inexperience, neglect, fraud, disaster, weak control systems and undercapitalisation as the most basic causes of failure in SMEs. He also mentioned that, just as competence contributes to success, so does incompetence contribute to failure (Griffin, 1990:743).

Carland and Carland cited poor management as the primary reason for the failure of the majority of small and medium-sized enterprises. Almost half of the failures are attributed to managerial incompetence, such as undercapitalisation. Not all of the failures are bankruptcies. Many businesses are simply closed for a variety of reasons, namely boredom, absence of heirs, changing competitive environments and so forth (Carland and Carland , 1990:29).

Scarborough and Zimmerer cited that, because of their limited resources, inexperienced management, and lack of financial stability, small and medium-sized enterprises suffer a mortality rate significantly higher than that of larger established businesses. The circumstances surrounding failure are management incompetence, lack of experience, poor financial control, lack of strategic planning, uncontrolled growth, inappropriate location, lack of inventory control, and inability to make the entrepreneurial transition (Scarborough and Zimmerer, 1996:37).

The pricing function is not well understood by most business people. Although pricing arithmetic is not difficult to understand and apply, the reasons for establishing a specific price are often vague and are based on hunches or observations of what others are charging (Macfarlane, 1977:407).

According to Cronje *et al*, SMEs have particular management problems that prevent them from growing and are also causing them to fail. These problems and causes of failure can be classified as management inability and a lack of management experience (Cronje *et al*, 1989:416).

MacFarlane mentioned that there are two kinds of capital needed in an average business, which are working and fixed capital. Lack of money and difficulty in raising it is one of the overriding problems on SMEs (Macfarlane, 1977:106).

According to Britzius, small and medium-sized enterprises managers cannot get financial assistance easily because of the nature of the businesses they are running (Britzius, 1982:213).

Longenecker *et al* cited undercapitalisation, poor management of debt, inaccurate costing and estimating, poor management accounting and supervision of staff as causes of failure and lack of growth in SMEs (Longenecker *et al*, 1997:36).

According to Le Roux *et al* other causes of business failure are limited access to resources like finance, merchandise and raw materials. They also included lack of business experience and lack of technical skills in marketing and finance (Le Roux *et al*, 1998:313).

Smit and Cronje mentioned management experience as the major cause of business failure and lack of internal growth (Smit and Cronje, 1997:101).

Van der Walt *et al*, cited the decline in the economy as the one of the causes of business failure (Van der Walt *et al*, 1997:566).

According to Timmons, a 1991 study on small and medium-sized enterprises in United States of America found that empirical evidence supports the liability of smallness argument, and suggests that small size make survival and growth problematic (Timmons, 1994:12).

It is evident from the above information, sections 2.2 and 2.3 that the attributes of business success and the causes of failure may be classified into three categories, namely, business opportunities, management and finance. The attributes of business success and the causes of failure will therefore be discussed under these headings, but based on above factors which were identified by previous researchers.

3.4. The existence of business opportunity

The primary factor in the success of any business is the existence of a real business opportunity. There must be some potential customers in the market place who are able and willing to buy the goods or services that are being offered for sale. There are two approaches of determining the business opportunities. The owner may be product or

market orientated. The belief in the product orientation is that the market can always use another good product sold at a low price. In the marketing orientation the small and medium-sized enterprises owners should answer the question, "What goods or service will the customers buy?". Although sometimes costly and time-consuming, marketing orientation is a more scientific approach than the product orientation. The managers of small and medium-sized enterprises should be aware of the business opportunities available in the market and make use of the necessary skill to satisfy customers' needs. It is true that the customer determines the success of the business. Before starting a business, one should make sure that there is a market for the business and do everything within his or her power to satisfy the changing needs of the existing and potential customers. Chisnall, Kotler and Griffin agree with regard to the importance of the customer for the success of the business (Chisnall, 1987:149), (Kotler, 1994:1), (Griffin, 1990:742).

According to Timmons, the authors of a 1991 study on small and medium-sized enterprises in United States of America, inferred that perceived satisfaction, cooperation and trust between the customer and the organisation are important for the continuation of the relationship. High levels of satisfaction, cooperation and trust represent a stock of goodwill and positive beliefs which are critical assets that influence the commitment of the two parties to the relationship. It is interesting to note that the authors of this study noted that smaller organisations are found to be more responsive, while larger organisations are found to provide greater depth of service. The entrepreneurial task is to find a way to either direct the arena of competition away from the areas where you are at a competitive advantage or find some creative way to develop the required competency to be able to satisfy customers' needs (Timmons, 1994:12). The person running a business should make sure that there is a market for his or her products. This people should have the ability and willingness to buy the products.

3.5. Management issues in small and medium-sized enterprises

3.5.1. Management ability and inability

3.5.1.1. Management competence and incompetence

Entrepreneurs who build substantial companies that grow to over R10 million in sales and over 75 to 100 employees are good entrepreneurs and good managers. Typically, they might have developed a solid base and a wide breadth of management skills and a know-how over a number of years working in different areas, for example, sales, marketing, manufacturing and finance. It would be unusual for any single entrepreneur to be outstanding in all areas. More likely, a single entrepreneur will have strengths in one area, such as strong people management, conceptual and creative problem-solving skills, and marketing know-how, as well as some significant weaknesses. While it is risky to generalise, often entrepreneurs whose background is technical are weak in marketing, finance and general management. Entrepreneurs who do not have a technical background are, as you might expect, often weakest in the technical or engineering aspects, manufacturing and finance (Timmons, 1994:217). In view of the fact that owner-manager of an SME is expected to be a generalist, it is important for him or her to know finance, marketing, purchasing, human resources and general management. Both technical background and entrepreneurial flair are therefore important for SME managers to enable them to run their businesses successfully.

Sales fluctuations may also influence the success of the business. Managers should know when is the demand for his product high and when is it low. This will help them to order sufficient stock during high demand and invest surplus funds during slack periods. Funds should not be tied in stock during slack periods because one should

take advantage of opportunity cost at that period. The person running the business must balance cash inflows with outflows so that there is always sufficient funds to meet expenses. It will sometimes be necessary to raise short term loans to help the business get through a slack period. Owner-managers should take advantage of the competition and try to gain customers from the competitors and increase the market share of the business.

Once there is an increased responsibility in the business, it will be necessary for the manager to start delegating some of the responsibility to some staff members. This may give the manager sufficient time to look at management issues in the business. Delegation of responsibility to subordinates may also promote good relationship between management and employees. The staff may also become motivated and work hard to compete for better positions and the responsibility that may be entrusted to them. This may help the business to grow internally. Employees enjoy good working relationship and this need to be encouraged by managers of SMEs.

Small and medium-sized enterprises owners also need to be concerned with employee relations. If the workers are not content, sales may suffer and this could affect the growth of the business. Many retail stores management want workers to remain at their counters at all times in order to assist customers who may need some help. They believe that when the workers begin to talk to each other they may lose business as a result of poor customer service. On the other hand if the employees feel isolated or lonely their attitude towards the job may deteriorate. This may in turn affect their sales ability. They may end up being rude or curt to the customers who may in turn decide not to buy in that particular store. Therefore, a balance must be struck regarding how much socialising can be allowed. Job assignment is also necessary to avoid overloading one worker whilst the others are doing virtually nothing Good working relationship among the employees may boost

the moral and increase productivity which may contribute to the success of the business.

Laws and regulations may help small and medium-sized enterprises to create a barrier of entry. The requirements by the government not to establish a business within a particular radius may give the existing business an opportunity to be the only business in that area and serve that community without any competition. This may afford the manager of small and medium-sized enterprises an opportunity to grow the business further without the pressure of competition.

Incompetence means that the owners simply do not know how to run the business. They make major mistakes that an experienced, well-trained entrepreneur would quickly see and easily sidestep (Hodgetts and Kuratko, 1989:24). It is critical for owner-managers of SMEs to be able to run the business in a proper manner. They need to know the attributes of success and use them to the enterprise's advantage by applying them in the business. The manager should be able to identify his strengths and weaknesses and those of the business as a whole. The strengths should be maintained and weaknesses should be turned into strengths. The manager should develop his or her management skills to be able to run the business in a more professional way. He or she should be able to identify the requirements of the business.

3.5.1.2. Management experience and inexperience

The manager need to know how to handle money, machinery, manpower and materials. Specifically, an individual must be capable of getting things done through others. In addition, the manager should know quite a bit about business line, or at least a closely related line. There is really no substitute for experience in a business. Without the

necessary experience the owner lacks knowledge of operating methods, procedures and policies.

Unbalanced experience means that the owners do not have well-rounded experience in the major activities of the business, such as finance, purchasing, selling and production. Because the owner lacks experience in one or more of these critical areas, an enterprise gradually fails (Hodgetts and Kuratko, 1989:24). Some knowledge in finance, production, purchasing and selling is important for the SMEs owner-managers. Lacking experience in one or more of these critical areas of the business may cause failure or prevent the business from growing internally. Relevant education and training is therefore necessary to equip the owner-managers of SMEs. They need to attend courses conducted by institutions like Damelin, and seminars that are held from time to time by different organisations. These courses may equip managers in those areas where they lack the necessary expertise.

Lack of managerial experience means that the owner-manager of the business simply does not know how to manage people (Hodgetts and Kuratko, 1989:24). This may be detrimental to the growth of the business because the manager may not be able to lead and direct his or her staff to reach the business's objectives. Employees need to know where the business is going and how the business objectives can be accomplished. The owner manager should play an important role in guiding and directing his or her subordinates towards the achievement of personal and business goals. The manager should have the ability to influence the employees' behaviour for them to become motivated and work hard towards achieving the business goals and objectives. He or she should be able to boost the morale among the employees as this may improve productivity. The manager should also encourage teamwork for the achievement of the business's goals. He or she

should look for the leadership style that may be acceptable to the employees and work for the success of the business.

Lack of experience in the line means that the owner simply does not know much about the product he or she is selling. Lack of knowledge on the product or service rendered may also cause a business to fail (Hodgetts and Kuratko, 1989:24). This may make it very difficult for the business to compete with other stores in the nearby area. The manager needs to know the features and benefits of their products in order to sell them effectively. Buyers want to know the benefits of the product from their side. Small and medium-sized enterprises owners should be encouraged to start with the business similar to that of their previous employers, in which they have accumulated some knowledge of the products to be sold or services to be rendered. This could build their confidence and afford them the opportunity to survive and grow their businesses internally.

3.5.1.3. Competition and inappropriate location

Changing competitive environments may also affect the success of the business adversely. The manager should know of the internal and external environments. He or she should keep on scanning the external environment to establish what competitors are doing in the market and react sooner rather than later to the latest developments in the external environment. If prices in a particular store are higher than those of the competitors closer to the store, customers may decide to go to the cheaper store and the most expensive store may lose market share and fail to grow its business or even fail to sustain operation. SME managers need to know the products and services offered by their competitors. The need to know whether there is a substitute product that is being offered by the competitors and the features and benefits involved in those substitute products. This may afford them an

opportunity to enhance their existing products or recommend to their suppliers what features and benefits could be added to the products.

It is also advisable for the SME managers to look for a place that is suitable for the type of business. The centre of Johannesburg, for example, is busy during the day and quiet in the evening. It is therefore not advisable for the business that is more active in the evening to be in the centre of a town like this. For example, businesses of entertainment nature are now moving closer to the people in the suburbs. The issue of competition should also be looked at when deciding on location for the business. Managers of small and medium-sized enterprises should avoid entering the market where competition is rife unless if he or she could find a niche in that market which may be to the business's advantage and enable it to penetrate the market and grow the business internally.

Generally, an individual will often start a business and prosper for three to four years before meeting insurmountable competition. Small restaurant owners have discovered that many of their customers are being drawn away by fast-food chains which may be commercial or corporate businesses (Hodgetts and Kuratko, 1989:13). There may be changes in demand and the small and medium-sized enterprises managers may find that this new shift in demand is being satisfied by large competitors. The person running the business should understand the business very well and both the internal and external environments. This will give him or her an edge on his competitors and may create a barrier for entry by improving his products and services from time to time. Environmental scanning is important to enable the manager to keep abreast of changes in the external environment. It is necessary to identify factors which, in the environment may pose threat to the present goals and strategy of a business, and which may present

opportunities for the more effective attainment of the goals of a business by modification of its strategy.

3.5.1.4. Neglect, fraud and disaster

Other common causes of business failure include neglect, fraud and disaster. Neglect occurs whenever the owner does not pay sufficient attention to the enterprise. The owner who has someone else working in the store while he or she goes fishing often find the business failing because of neglect. Fraud involves intentional misrepresentation or deception. If one of the people responsible for keeping the business books begins purchasing material for his own account and make business pay for them, the business may find itself bankrupt before too long. Disaster refers to some unforeseen happenings or act of God. If a hurricane hits the area and destroys some of the materials that are sitting in the company's yard, the loss may require the firm to declare bankruptcy. The same is true in the case of fire, burglary, or extended strike. There is no way one can grow a business if the funds are not ploughed back into the business. Neglect and fraud should therefore be avoided to enable the business to survive and grow. The business requires full commitment from the owner and manager for it to grow. He or she must be up-to-date with what is happening around the business and attend to all matters that need immediate attention. Short-term insurance can also be taken to protect the business from total loss due to unforeseen circumstances like fire, theft and acts of God.

3.5.1.5. Managing for rapid growth

Scarborough and Zimmerer have cited uncontrolled growth as one of the causes of failure in small and medium-sized enterprises (Scarborough and Zimmerer, 1996:37). The manager of the business should be aware of the stages of business growth. He or she should

make provision for growth and make available the necessary resources such as additional fixed assets and finance for current liabilities that may occur due to internal growth. The manager should also try his or her best to grow with the business by equipping himself or herself with training in the necessary technical fields which may include finance, purchasing, marketing, production and human resources.

Managing for rapid growth involves a management orientation not found in mature and stable environments. For one thing, the tenet that one's responsibility must equal one's authority is often very counterproductive in a rapid-growth venture. Instead, results usually require close collaboration of a manager with other people than his or her subordinates, and managers invariably have responsibilities far exceeding their authority. Politics and personal power can be a way of life in many larger and stagnant institutions, as managers jockey for influence and a piece of the shrinking pie in a zero sum game. But in rapid-growth firms, power and control are delegated. Everyone is committed to making the pie larger, and power and influence are derived not only from achieving one's own goals but also from contributing to the achievements of others as well. Influence is also derived from keeping the overall goals in mind, from resolving differences, and from developing a reputation as a person who gets results, can manage others, and grows managerial talent as well (Timmons, 1994:211). To manage growth, one should delegate some of the responsibility and authority to other stakeholders in the business i.e. employees. Owner-managers should encourage stakeholders to come up with suggestions, and where necessary these suggestions should be accepted and implemented. The goals and objectives of an enterprise should be communicated to employees for them to work towards achieving these goals.

Thus, among successful entrepreneurs and entrepreneurial managers, there is a well-developed capacity to exert influence without formal power. These people are adept at conflict resolution. They know when to use resolution and when to persuade, when to make a concession and when to exact one. To run a successful venture, an entrepreneur learns to get along with many different constituencies, often with conflicting aims, the customer, the supplier, the money lender and the creditor, as well as the partners and others on the inside (Timmons, 1994:212).

Whereas successful entrepreneurs are interpersonally supporting and nurturing, not interpersonally competitive, successful entrepreneurial managers understand their interdependencies and have learned to incorporate mutual respect, openness, trust, and mutual benefit into their management style. Fundamental to this progressive style of management is the awareness and practice of reciprocity for mutual gain. When a strong need to control, influence and gain power over others characterises the lead entrepreneur or the entrepreneurial manager or when he or she has an insatiable appetite for putting an associate down, more often than not gets the venture into trouble. A dictatorial, adversarial, and dominating management style makes it very difficult to attract and keep people who thrive on a thirst for achievement, responsibility and results. Compliant partners and managers are often chosen. Destructive conflicts often erupt over who has the final say, who is right, and whose prerogatives are what (Timmons, 1994:216). The management's style of leadership is important for the business success. Employees should feel free to approach management, at any given time, with their problems and suggestions. Open door policy will inspire confidence on the management of the enterprise. They will be fed with information from time to time regarding the behaviour and satisfaction of the employees in the working environment.

3.5.1.6. Managing rapid growth

Higher potential ventures do not stay small very long. While an entrepreneur may have done a good job of assessing an opportunity, forming a new venture team, marshaling resources, planning, and so forth, managing and growing such a venture is, simply put, a different managerial game. Ventures in the high-growth stage face several problems. These include forces that limit the creativity of founders and team, that cause confusion and resentment over roles, responsibilities and goals, that call for specialisation and therefore erode collaboration, that require operating mechanisms and controls, and the like. The managers of rapidly growing ventures are usually relatively inexperienced in launching a new venture and yet face situations where time and change are compounded and where events are nonlinear and nonparametric. Usually, structures, procedures and patterns are fluid, and decision making needs to follow counterintuitive and unconventional patterns (Timmons, 1994:575). The SME managers should be prepared to relinquish power once the business is beyond their capabilities. They should give chance to people with the necessary expertise to come in and assist to run and grow the business further. The growth of the business and its different stages of growth should be forecasted and be catered for. Managers should estimate the period and time to bring additional people with the required skills. The timing for other additional resources is also important.

3.5.1.7. Modern business methods

According to Chisnall, the business manager should use the most efficient equipment and procedures available if it wants to sustain operation and grow the business internally. Failure to do this will make the company vulnerable to high costs and competition. Successful small and medium-sized enterprises managers are aware of the need to

update their business methods (Chisnall, 1987:151). Competitors may decide to use cost-efficient technology which may enable them to charge low prices at higher profit margins. SME managers may use the economic order quantity method, just-in-time system and other available methods. This may help them to avoid piling unwanted or slow moving stock on the shelves that may have been available for fast moving stock. Personal computers with relevant software are also essential for SMEs. Managers need to keep records of what is happening in the business and develop some financial models like calculation of pricing, VAT and depreciation. They may also make arrangements with their suppliers and bankers to be connected to their electronic systems which may make life easier by having access to their bank accounts and creditors' ordering systems whilst sitting at their work station in their stores. Personal computers may be an answer to these proposed arrangements.

3.5.1.8. Undercapitalisation, poor financial control and product pricing

Undercapitalisation means having too few funds to survive start-up or grow the business internally. According to Griffin, one rule of thumb is that an entrepreneur should have sufficient personal funds when starting out so as to be able to live with no business income for at least a year. Apparently one entrepreneur in College Station, Texas once invested \$95 000 in opening a new Mexican food restaurant with plush facilities, top-of-the-line decor and an extravagant office for himself. He closed the restaurant in less than one month because he lacked the funds to meet his payroll and pay his suppliers. If he had spent a little less on premium-quality carpet and had waited a few months before outfitting his office with oak paneling, he might have succeeded (Griffin, 1990:744). The manager of an SME needs to be able to maintain his or her personal life, cover all operating expenses, and still have an allowance for unexpected contingencies. The manager who is

planning to pay next month's rent from a new business profits may be courting disaster. It is critical for the manager to first establish the financial stability of the business before trying to live extravagant life that may cause the business to fail. The personal drawings in the business should also be reasonable in order to allow growth internally. Funds of the business need to be handle with care. Part of the profit need to be retained into the business in the form of additional capital to help in growing or expanding the business.

Although the business may sometimes look as if it is undercapitalised, there may be some areas which are not receiving the necessary attention to ensure that the business is generating the necessary revenue. According to MacFarlane, pricing arithmetic is not well understood by most business people who tend to observe what competitors are charging and follow suit (MacFarlane, 1977:407). The correct method of pricing may help SME managers to generate sufficient revenue and profit which may help to grow their businesses internally. The manager need to understand the factors that should be taken into account when determining the price which are cost, both fixed and variable, and sales volume. The breakeven point is very critical for the managers of different businesses.

3.6. Management traps

During poor economic times, many businesses fail whilst few businesses may go out of business during periods of prosperity. In one study, reported by the Small Business Administration of United States of America, ten firms which failed during prosperous years were compared to ten similar companies that were successful during the same time period. An analysis revealed eighteen specific and avoidable management traps. These eighteen management traps were related to three major areas which are poor management, poor coordination between manufacturing and selling, and poor administration (Hodgetts and Kuratko, 1989:25).

The eighteen specific and avoidable management traps involve inadequate records, cumulative losses, lack of tax knowledge, expansion beyond resources, inadequate cost analysis, lack of product development, lack of product diversification, lack of information about customers, failure to diversify market, lack of marketing research, continued policies of bankrupt predecessor, legal problems, nepotism, lack of technical competence, absentee management and internal conflict, lack of administrative coordination and one-person management (Hodgetts and Kuratko, 1989:28). The business management should look at these aspects and screen itself on a regular basis to see if there is an area that needs attention before things go wrong. Management needs to be proactive and reactive in order to manage the business enterprise effectively. This is part of internal environmental scanning.

3.7. Small and medium-sized enterprises and financial resources

Adequate finance is also important for the survival and growth of the business. The manager needs to meet the current and long-term liabilities of the business. This need to be catered for because failure to repay creditors may cause the business to close or may deny it an opportunity to grow internally.

3.7.1. Inadequate equity-related finance

According to MacFarlane, lack of money on the owners' part is one of the overriding problems on SMEs (Macfarlane, 1977:106). The first step when starting a business is to make sure that you have sufficient funds to sustain operation and grow the business internally. The manager of the business should know how much funds will the business require for fixed assets and how much for the working capital at all stages of growth. The manager should be able to determine how much of the money invested in the business should be from the owner's coffer. Part of the business profits should be retained in the business for further growth or expansion. It is therefore very important for

the small and medium-sized enterprises managers to have training in the financial domain.

3.7.2. Difficulty in raising finance from money lenders

MacFarlane also mentioned that the difficulty in raising money is one of the overriding problems on SMEs (Macfarlane, 1977:106). Britzius support MacFarlane by saying that small and medium-sized enterprises managers cannot get financial assistance easily because of the nature of the businesses they are running (Britzius, 1982:213).

According to Timmons, a 1991 study on small and medium-sized enterprises in United States of America found that empirical evidence supports the liability of smallness argument, and suggests that small size makes survival and growth problematic (Timmons, 1994:12). They may not have tangible security which may be required by the bank manager. They may not have a proven track record that may convince the bank manager that they are well-versed in the field of business. Before the bank manager can commit the bank, he or she must be satisfied that the loan will be repaid in full within the agreed period of time.

3.8. Luck

Griffin stated that, sometimes a person needs just luck to be successful (Griffin, 1990:743). An SME may just get an outstanding lead or contract from corporate organisation or government that may enable the business to sustain operation and grow internally. The contract may influence some stakeholders like money-lenders and suppliers to assist the owner with the necessary resources because they know that the payment may be forthcoming. They may even go to an extent of using contract as security and request that the money be paid to them, money-lenders and suppliers, directly by the contractor.

In conclusion, failure in a business venture does not preclude trying again. This may be a vital experience for small and medium-sized enterprises owners which may lead to success in running a business. Some of those who failed before may know where they went wrong and trying for the second time may enable them to close the gap.

CHAPTER 4

FINDINGS AND INTERPRETATION

4.1. Background

The purpose of this section is to formulate questions with some objectives. The research questionnaire was designed in such a way that the questions would address key issues and problems as found in the literature. The literature study was, therefore, used as the basis for the questionnaire. The findings have been interpreted in conjunction with the purpose of the study, which was to establish the reasons that may prevent small and medium-sized enterprises from being successful.

4.2. Results

Twenty copies of questionnaires were prepared for the sample that consisted of black business managers of SMEs in Soweto. Personal interviews were conducted. All interviewees' businesses had a turnover of between R100 000 and R5 000 000. The owners manage the businesses and their highest qualification is Standard 10. None of them has done commercial subjects at school. All businesses have Current Accounts with banks which ranges from less than one year to more than five years old. Only 6 have investment accounts and 11 have Plusplan accounts.

4.3. Business opportunities

Table 4.1 – Market demand

	Yes	No
Are you satisfied with the number of people buying your products?	6	14
Does any of the following factors make you satisfied with the number of people buying your products?		
Easy to manage	2	4
Sufficient annual income	0	6
Suits your business capacity	4	2
Does any of the following factors make you not satisfied with the number of people buying your products?		
Many competitors around	11	3
Few buyers	3	11

The questions in Table 4.1 were asked to determine whether the managers are satisfied with the demand for their products and what factors may affect the demand for their products. It is evident from the above tables that some of the businesses were opened while there was no sufficient market for their products. It seems as if no proper feasibility study has been undertaken to determine whether there were business opportunities before opening the business.

4.4. Training and experience

Table 4.2 – Formal training to run a business

	Yes	No
Have you been formally trained to run this type of business?	0	20
Have you ever received training in the following fields?		
Finance	5	15
Marketing	0	20
Personnel	0	20
Production	0	20
Purchasing	0	20
Have you ever worked in this type of business before, either commercial or corporate?	1	19

The questions in Table 4.2 were asked to see whether the managers interviewed have the necessary technical skills, and whether they have been trained to run the type of business they are operating or whether they have gained some experience over a period of time before opening their own businesses. It is clear from the response that the majority of small and medium-sized enterprises managers are not trained to run the type of business they are engaged in. They also do not appear to have the necessary technical skills in fields such as finance, marketing, personnel, production and purchasing. Only one out of twenty managers, who were interviewed, have worked in a similar type of business he or she is engaged in before opening his or her own. People tend to resort to opening their own businesses if they cannot find jobs. Some of these people do this without having an opportunity to work for a corporate business where they could have gained experience and attend some courses to develop their technical skills.

4.5. Modern business method

Table 4.3 – Stock ordering and business support systems

Do you use any of the following modern methods in dealing with stock?	Yes	No
EOQ	0	20
JIT	0	20
Do you have any of the following business support systems in your business?		
Personal computer	3	17
Product scanner	0	20
Any other fraud or theft prevention method	0	20

The questions in Table 4.3 below were asked to see whether the SMEs are using some of the methods used in the business currently. Modern business methods appear to be ignored by majority of SME managers. Only three out of twenty businesses have computers and none has any mechanism to prevent fraud or theft. None of them is using either just-in-time or economic order quantity method for stock control. Some of the SME managers may not be aware of the importance of the modern business methods. They may still be clinging to the olden days' methods of doing business. The reason for this may be the fact that SME managers did not have an opportunity to

be involved in corporate organisations and to see how the business strategies and technology are changed from time to time. These changes lead to a change in doing business and a change in equipment used. Equipment like computers may link the business manager to his suppliers' systems and make the ordering system easier. Product scanners may also be linked to the computer system to assist in stock control and an efficient system of ordering stock. Managers should keep up-to-date with the latest developments in the business environment and change their strategies and equipment accordingly if they are to remain competitive in their field of business.

4.6. The business financial position and credit accessibility

Table 4.4 – Financing a business

	Yes	No
Do you have adequate capital to sustain operation and grow the business internally?	2	18
Have you ever asked for financial assistance from moneylenders?	16	4
Did moneylenders assist you with the full amount required?	12	4
Did any the following factors make it difficult for you to obtain the full amount required?		
Security required	6	10
Reason not given	0	16
Adverse credit report	3	13
Were the funds made available to you in time?	5	11
Did the type of credit facility given by the bank satisfy your business needs?	5	11
Did any of the following factors make the type of facility given by the bank not to satisfy your business needs?		
Shorter repayment period	1	15
Funds not sufficient	6	10

The questions on table 4.4 were asked to establish whether the owners of the businesses have sufficient capital to sustain operation and in need grow their businesses internally and whether they have capacity to borrow money from moneylenders. Eighteen out of twenty businesses did not have sufficient capital to either sustain operation or grow the business internally. It is important that SME managers make a business plan, which is to be reviewed frequently. The business plan

will enable them to know the businesses' respective stages and the financial requirements at each business stage. This will afford them an opportunity to plan ahead and have adequate financial resources to sustain operation or grow the business.

4.7. Product pricing

Table 4.5 – Price determination

Do you determine all your prices?	0	20
Does any of the following determine prices for you or influence them somehow?		
Supplier	20	0
Government	3	17
Business associates	2	18
Hired professional	0	20
Competition	8	12

The questions in Table 4.5 were asked to see whether the owners are determining prices for the goods they are selling as they should take their costs into account when pricing the products. None of the interviewees determines all prices for the products he or she is selling. The suppliers have more influence in price determination. They appear to be supplying price lists to business managers on their respective products. Prices need to be determined by a person who understands the fixed and variable costs of the business. The entrepreneurial remuneration, which is profit, should also be built into the price of a product.

4.8. Management competence

Table 4.6 – Managing the business and decision-making

	Yes	No
Do you find it necessary to know what and how competitors are doing?	15	5
Do you have a financial advisor, either full-time or part-time?	3	17
Is the financial advisor adding value to your business?	3	0
Are you able to manage internal growth in your business?	18	2

The questions in table 4.6 below are related to management decisions. Majority of SME managers appears to be interested in what their competitors are doing. This is part of external environmental scanning which may help to improve the business performance. Respondents do not find it necessary to have financial advisors despite the fact that those who use their expertise perceive value from their services. Their knowledge may be used to complement management's credentials in managing the business.

The results in tables 4.1, 4.2 and 4.3 above, reflect the incompetence of SME managers in running their businesses. This confirms the authors' findings, mentioned in Chapter 3 paragraph 3.3, regarding managerial incompetence. This may be attributable to the fact that most of the black people who leave school early resort to business as they may not find jobs, while educated people tend to work for corporate and commercial organisations.

4.9. Tendering for business

Table 4.7 – Business subcontracted by corporate business or government sector

	Yes	No
Have you ever received any tender from a corporate business or government sector?	0	20
Was the organisation that gave you a tender satisfied with your performance?	n/a	n/a
Did any of the following factors contribute to your success in gaining a tender?		
Low price	n/a	n/a
Used experts	n/a	n/a
Previous experience	n/a	n/a
Did any of the following factors make you unsuccessful in gaining a tender?		
No track record	n/a	n/a
Insufficient financial resources	n/a	n/a

The questions in Table 4.7 were asked to find out whether there is a business that got a tender that may have bolstered its profits. Griffin mentioned luck as one of the reasons for business success (Griffin, 1990:742). The government or corporate

business may invite tenders for a particular work to be performed. A small business may win the tender and this may bolster its cash flow and profits as payments are forthcoming. The extra revenue generated by the tender business and the support from the organisation that gave the business may contribute to the success of the small and medium-sized enterprises. Although luck was cited as one of the factors that may cause business success, none of the interviewees had received a tender that contributed substantially to his or her business financial performance.

4.10. Other determinants of business failure and success

In view of the fact that a number of factors that may be attributable to the failure or success of a business were identified by the authors in Chapter 3 of this document, the questions in Table 4.8 below were asked in order to summarise the findings.

Table 4.8 – Attributes of business failure and success

	Yes	No
Does any of the following factors cause failure or lack of internal growth in a business?		
Lack of funds	20	0
Lack of family support	16	4
Insufficient market demand	20	0
Lack of managerial experience	8	12
Lack of business experience	18	2
Does any of the following factors contribute to the success of the business?		
Drive	20	0
Luck	5	15
Education	11	9
Hard work	20	0
Family support	8	12
Adequate finance	20	0
Business experience	20	0
Managerial experience	18	2
Technical knowledge	6	14
Modern business methods	11	9

Majority of the SME managers agrees that lack of funds, insufficient market demand, lack of managerial experience and lack of business inexperience may cause business failure and lack of internal growth. They also believe that drive, business experience, managerial experience, hard work and education may be responsible for the success of the business. This confirms what previous researchers have identified in Chapter 3 above.

According to Hodgetts and Kuratko, there are many reasons why businesses fail. Dun and Bradstreet, which keeps a record of business failures and analyses them in order to determine the specific causes, reports that the basic factors remain the same. (Hodgetts and Kuratko, 1989:24). It is clear from the findings that SME managers are facing almost the same problems irrespective of their location. It can therefore be concluded that the basic causes of business failure remain the same.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

The purpose of the study was to establish the reasons that prevent small and medium-sized enterprises from being successful and verify them against previous research and findings. It has been discovered that the empirical research undertaken validates what is in literature study section (Chapter 3) and what other previous researchers have discovered. There is no doubt at this stage that small and medium-sized enterprises managers in Soweto are facing the same problems mentioned in the literature section and those discovered by other previous researchers. These problems need to be addressed bearing in mind the fact that South Africa has recently joined the global village. There is absolutely no way we can avoid the global competition. We may decide not to go to other countries and open businesses there but the international community has started to enter our markets, including SME market. The concentration at this stage may be more at commercial and corporate level but this does not rule out the possibility in small and medium-sized enterprises. The business people in western countries are now focusing more on small and medium-sized enterprises than corporate and commercial. They are trying to find a niche in the market and are prepared to make use of the opportunity. This may be detrimental to small and medium-sized enterprises in South Africa and our resources may be used efficiently and effectively by foreigners who will in turn send profits to their respective countries. SME managers have a major role to play, which is to help reducing the rate of unemployment in South Africa.

The education system of a country influences the small and medium-sized enterprises environment. A relevant curriculum that provides knowledge and skills with a practical orientation can be of a great help to small and medium-sized business sector. This could mean that an academic bias that is sufficiently sensitive to the realities and need of the country, need to be changed.

The majority of South Africans, especially blacks, leave school at an early age and start businesses of their own. They find it difficult when they start because they do not have any background of how to run a business. They also struggle to survive or grow these businesses. It is therefore advisable for the education curriculum to incorporate the basics of running a business at early stages of learning.

5.1.1. What entrepreneurial managers need to know

Much of business education traditionally has emphasised and prepared the students for life in the administration domain. There is nothing wrong with that, but education preparing students to start and manage vibrant, growing ventures cannot afford to emphasise administrative efficiency, maintenance tasks, resource ownership, and institutional formalisation. Rather, such a program needs to emphasise skills necessary for life in the entrepreneurial domain. For example, effective entrepreneurial managers need to be especially skillful at managing conflict, resolving differences, balancing multiple viewpoints and demands, and building teamwork and consensus. These skills are particularly difficult when working with others outside one's immediate formal chain of command.

5.2. Recommendation

Managers should acquire the necessary skills to be able to grow their businesses to the full potential. They should attend courses relevant to their businesses on an ongoing basis. SME managers should also acquire the necessary technical skills by attending the courses and seminars of small and medium-sized enterprises. It is critical to train SME managers in finance, marketing, administration and purchasing. Managers should consider doing part-time business studies to keep up-to-date with the business practices in this changing global village.

Workers should be trained to be able to perform different duties and off load the managers to enable them to concentrate on very important matters of the business.

Full time bookkeepers or part-time financial advisors should be employed. Financial statements should be prepared properly and good financial record should be kept for both the business and individuals to be able to have access to financial assistance and as a proof that the transaction has been effected.

The government should ensure that an education system is put in place that would enable people to learn business or commercial subjects at a primary school level to enable the people of this country to learn more about business at their infancy stage. These subjects should be compulsory at a lower level although they may not be too detailed. Scholars need to have a feel of business subjects to enable them to administer different organisations in future. It should be realised that most South Africans are taking business as a last resort if they cannot find jobs. Many people in this sector do not have the necessary qualifications and experience to work for commercial and corporate organisation and running own small or medium-sized business is the only alternative. A feel of commercial subjects at primary school level will help in the developing of business skills for these people. Majority of educated people in South Africa is more involved in commercial and corporate world and this leaves small and medium-sized business sector with people without the necessary know-how.

The government should also encourage commercial and corporate businesses to subcontract some of their jobs to small and medium-sized enterprises. This will encourage SME managers and they may try to use the opportunity to grow their businesses. Commercial and corporate businesses should also assist in training staff of these SMEs and help to supervise projects subcontracted.

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