

SMALL BUSINESS FAILURES IN BOTSWANA WITH SPECIAL REFERENCE TO
THE FINANCIAL ASSISTANCE POLICY (FAP) FUNDED PROJECTS

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DECLARATION

This work is original, except where due reference is made to the author of another study that was relevant to the current study. Various sources to which I am indebted are acknowledged in the references in the text.

Signed: 

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This dissertation has been submitted with my approval as University Supervisor and I certify that the requirements for the applicable MBA Programme rules and regulations have been fulfilled.

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The work is also dedicated to the loving memory of my late father B.G. Mokgwathi.

ABSTRACT

The study was conducted in order to establish the major causes for small business failures in Botswana. The study was carried out specifically using businesses which were financed by the Financial Assistance Policy (FAP). Employment generation and economic diversification objectives of the policy were emphasized in this study.

The primary data was collected through a questionnaire and unstructured interviews. The questionnaires were distributed to entrepreneurs operating in the 4 areas being Gaborone, Pilane, Ramotswa and Molepolole. The original intention was to distribute 40 questionnaires but finally only 35 were distributed because some entrepreneurs declined to accept the questionnaires.

Literature was reviewed using different text documents, policies and programmes as well as edited books and relevant studies. The data was analyzed using tables and descriptive information to explain the results.

Constraints were identified and they accounted for most or all the failures of FAP assisted projects. The findings showed that in general, FAP failed to achieve its objectives. It was also found that many small businesses collapsed immediately after exhausting FAP funds.

The conclusion made is that The Small Business Sector is faced with many problems and some of these can be identified to the owners/managers of the businesses. If the Government does not extend the support for small business beyond just financing, it will be difficult for this sector to succeed. Government needs to do a lot in terms of training and changing the mindset of citizens before this sector can succeed.

The administration of FAP was characterized by inappropriate incentives: the main incentive was to disburse available funds, not to maximize the survival rates of assisted projects.

It can also be concluded that the FAP was neither a cost effective way of promoting the establishment of sustainable jobs nor of diversifying the economy.

The study has many recommendations some of which being as follows:-

- Support for SME's should focus on training in business skills and entrepreneurial development.
- The small business should implement all the necessary accounting controls and operate on a cash basis to avoid bad debts.
- Government must instill a culture of entrepreneurship among citizens through creating an environment that will result in making citizens committed to their businesses. An example is by providing secured loans at subsidized interest rates instead of non-repayable grants.
- The owner/manager must have all round experience in the major activities of the business, such as finance, purchasing, inventory, selling, marketing and production.
- The small business should prepare budgets to assist the owners/managers in controlling the company; it should prepare financial statements and above all maintain its profitability.

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ACRONYMS AND ABBREVIATIONS

AC	-	Administrative Committee
BEE	-	Black Economic Empowerment
BOCCIM	-	Botswana Confederation of Commerce and Industry
BEDU	-	Botswana Enterprises Development Unit
BIDPA	-	Botswana Institute for Development Policy Analysis
BMC	-	Botswana Meat Commission
BURS	-	Botswana Unified Revenue Service
CEE	-	Citizen Economic Empowerment
CEDA	-	Citizen Entrepreneurial Development Agency
DTI	-	Department of Trade and Industry
DCEC	-	Directorate on Corruption and Economic Crime
FAP	-	Financial Assistance Policy
GDP	-	Gross Domestic Product
IFO	-	Industrial Field Officer
IFS	-	Integrated Field Services
JCC	-	Joint Consultative Council
LEA	-	Local Enterprise Authority
NACCEE	-	National Conference on Citizen Economic Empowerment
NDB	-	National Development Bank
NDP	-	National Development Plan
NGO	-	Non Governmental Organisation
PDC	-	Productive Development Committee

- SMEs - Small Medium Enterprises
- SMMEs - Small Medium and Micro Enterprises
- UNDP - United Nations Development Programme

CHAPTER 1

ORIENTATION

1.1. INTRODUCTION

Botswana attained independence on the 30th September 1966 after 80 years as a British Protectorate. At that time, the country was poor with a small population of just over half a million and of which about 80 percent was rural (National Development Plan (NDP) Vol. 8, 1991 and NDP Vol. 9, 2003). At independence, Botswana was one of the poorest countries in Africa. An overwhelmingly rural population depended mainly on agriculture for a livelihood. Beef production was the mainstay of the economy in terms of output and export earnings, but both arable and livestock agriculture had been ravaged by a prolonged and severe drought (NDP Vol.7, 1991). Apart from the railway line, communications and infrastructure were barely developed. Prospects for rapid development of the economy seemed bleak and the Government was dependent on foreign aid (mostly from Britain), not only for its investment projects, but also to finance its recurrent expenditures (NDP Vol.7, 1991).

Although the country was poor, the discovery of diamonds in the late 1960's at Orapa and Letlhakane and most recently, the diamond mine in Jwaneng completely transformed the Botswana economy. By 1989, diamonds alone accounted for 77 percent of total export value (NDP Vol. 7, 1991). There were roughly 25 000 people employed in the formal sector of the economy with probably an equivalent number employed in the South African mines (NDP Vol.7, 1991). The Botswana Meat Commission (BMC) was the only large organisation available and as such the only big employer besides Government. The BMC is a government autonomous agency which was established on December 1966 to purchase and slaughter livestock, process and sell meat and other animal products in such a manner as to promote the interest of livestock in Botswana. In the early years of Botswana's development, beef export was the only foreign exchange earner (BMC, 2005).

1.2 DEFINING THE CONCEPTS

1.2.1. National Development Plans (NDP)

The National Development Plan (NDP) referred to above is the major statement of Government's development strategy and policies. It explains the general principles on which

policies are based, as well as incorporating quantitative targets for resource allocation. It pays attention to the activities of the private sector, as well as of Government and parastatals, but the plan's quantitative targets deliberately concentrate on those areas of development over which Government has most control or influence (Planning Officers' Manual, 1996). The Planning Officers' Manual is a document intended to serve as a reference manual to assist planning officers in their work as they play an important role of monitoring and evaluating ongoing projects as well as the administration of projects.

In order to achieve sustainable and effective planning, Botswana established a cadre of professional planning officers – comprising officers from the rank of Assistant Economist to the Secretary for Economic Affairs - the Economic cadre, for whom the Planning Officers' Manual is intended (Planning Officers' Manual, 1996).

Planning in Botswana is intended to ensure that the nation's financial, manpower and natural resources are used effectively and in accordance with national priorities. It seeks to balance, throughout the plan period, the prospective aggregate demand for scarce resources with the probable supply of resources. The demand emanating from Government must be structured to promote development without crowding out productive private sector activities which are essential to balanced development (Planning Officers' Manual, 1996).

The NDPs which are implemented over a period of around six years each detail all development projects that the Government intends to embark on for that given period. The NDPs form the basis upon which the Annual Development Budget is set. What this means is that, unless there are compelling reasons to divert from the projects approved in the NDP, the Annual Development Budget should reflect those projects that are detailed in the NDP, and that are planned to be earmarked during the financial year (Planning Officers' Manual, 1996).

The Minister responsible for finance (the Minister of Finance) is constitutionally required to submit Estimates of Government Revenue and Expenditure to the National Assembly before the start of each financial year. These estimates of revenue and expenditure are referred to as an Annual Development Budget (Planning Officers' Manual, 1996). Through these development plans, development is more focused and can be effectively managed. According to NDP Vol. 7, (1991) previous development plans covered the following periods:

- Transitional Plan for Social and Economic Development (1966 – 1968)
- National Development Plan (NDP. Vol. 1) 1968-1973 (1968)
- National Development Plan (NDP. Vol. 2) 1970-1975 (1970)
- National Development Plan (NDP. Vol. 3) 1973-1978 (1973)
- National Development Plan (NDP. Vol. 4) 1976-1981 (1976)
- National Development Plan (NDP. Vol. 5) 1979-1985 (1980)
- National Development Plan (NDP. Vol. 6) 1986-1991 (1985)
- National Development Plan (NDP. Vol. 7) 1991-1997 (1991)
- National Development Plan (NDP. Vol. 8) 1997/98-2002/3 (1997)
- National Development Plan (NDP. Vol. 9) 2003/04-2008/09 (2003)
- NDP. Vol. 9 is the current National Development Plan.

1.2.2 Financial Assistance Policy (FAP)

As the BEDU initiative was not sufficient to deal with unemployment problems, Government decided to consider other alternatives specifically grants. The idea of providing grants to productive activities was born in the 1978 report on Employment and Labour Use in Botswana (Peat in FAP, 2000:4).

This report concluded that high levels of unemployment would be likely in Botswana during the 1980's and 1990's unless a wide variety of major policy adjustments could be introduced to combat poverty and unemployment side problems. Problems of rural unemployment were anticipated to result from population growth and the lack of agricultural employment possibilities (FAP, 2000). The report pointed out that the anticipated decline in mining employment outside Botswana would lead to urban drift on a substantial scale. This implied that in order to avoid economic and social problems of unemployment in both urban and rural areas, urgent action would be required. Hence the Financial Assistance Policy was considered (FAP, 2000).

The Botswana Government FAP was a system of grants to assist with the setting up or expansion of private sector businesses in manufacturing and some agriculture and selected mining and mineral projects. It was launched in May 1982 following the Presidential Commission on Economic opportunities in order to assist Botswana businesses to be productive. By productive businesses, Government meant those which can generate

sustainable employment opportunities, those which can replace imports as well as those which can produce exportable products. All sizes of companies qualified for assistance be they small, medium or large (FAP, 1995).

For purposes of this research, concentration was on Small Scale FAP which was for small businesses. The medium and the large scale FAP was for both foreigners and locals whereas the small scale FAP was meant for Botswana citizens only (FAP, 1995). In addition, the Government built factory shells all over the country to provide the entrepreneurs with premises from which to operate (FAP 1995). The National Development Bank (NDB) a Government autonomous agency was tasked with administering the disbursements of FAP funds on behalf of Government (FAP, 1982; NDB, 1996; NDB, 1997; and NDB, 1998).

1.3. STATEMENT OF THE PROBLEM/RESEARCH PROBLEM

This research proposed to identify the major causes of small business failures in Botswana. Concentration was for those which benefited from the FAP (Small Scale) only. Small businesses are the heat of the economy of many countries with their buying and selling of products and services. Small firms are often seen as a vital source of growth and innovation in a dynamic economy (Faulkener, Beaver, Lewis and Gibb 1986 in Ramatlapana, 1993:1).

There are no standard definitions of small, medium and micro enterprises. Their definitions vary from country to country. These variations depend largely on the size of the economy and the levels of development. The only common considerations are that annual turnover (sales) and number of workers are generally used to categorise them (Small, Medium and Micro Enterprises (SMME) Policy, 1998). There is a general agreement that a strict definition is not really important except when an eligibility threshold is required to process various incentive and other promotional and assistance schemes. In such cases, it is desirable to segment enterprises as micro, small and medium, if targeted policy intervention and assistance are to reach the intended target groups (SMME, Policy, 1998). According to the SMME Policy (1998), Botswana Government has accepted a proposal by the SMME task force for defining the three categories of enterprises, consisting of annual turnover and numbers of employees. Accordingly, the enterprises are defined as follows (SMME Task Force Report, 1998 in SMME Policy 1998:2):

- Small enterprises are defined as those with less than 25 employees and an annual turnover of between P60 000 and P1 500 000.
- Medium enterprises are defined as those with less than 100 employees and an annual turnover of between P1 500 000 and P5 000 000. (SMME Task Force Report, 1998 in SMME Policy, 1998:2)
- Micro-enterprises are defined as those with less than 6 workers including the owner and have an annual turnover of less than P60 000. Small enterprises are defined as those with less than 25 employees and an annual turnover of between P60 000 and P1 500 000. Medium enterprises are defined as those with less than 100 employees and an annual turnover of between P1 500 000 and P5 000 000. (SMME Task Force Report, 1998 in SMME Policy, 1998:2)

It is necessary to explain how the two reports referred to above that is the SMME Task Force Report and the SMME Policy came about. On recognising the numerous problems faced by SMMEs and being conscious of the need for a comprehensive policy framework, the former Ministry of Commerce and Industry established a private sector led Task Force to address comprehensively SMME issues and to steer the development of a policy for this sector in May, 1997. The task force held extensive consultations with business owners and other interested parties throughout Botswana and presented a final report to the Minister of Commerce and Industry in April, 1998. This was a Small Medium and Micro Enterprises Task Force Report (Task Force Report, 1998). A working group comprising members from both the public and private sector was set up by the former Ministry of Commerce and Industry currently Ministry of Trade and Industry to review the above Task Force Report and its 61 recommendations. As a result, this working group came up with a SMME Policy Document which was approved by the National Assembly on 15th December 1998.

The purpose of this policy document was to provide Government with a response to the abovementioned SMME Task Force Report of April 1998 (SMME, Policy, 1998)

It represented policy framework for the development of SMMEs in Botswana, including guiding principles as well as an outline of the overall objective of the SMME policy. It also identified specific programmes and initiatives of Government in support of SMME development and institutional arrangements for the coordination, implementation and follow up of the policy. As such, it constituted an integral aspect of the Government's strategy for

industrial development consistent with the theme of sustainable diversification contained in NDP Vol. 8. This explains the above references to the SMME Task Force Report and the SMME Policy.

After the implementation of FAP in 1982, many businesses and individuals applied for assistance and were given grants. Millions of Pula were disbursed. Not very long after the implementation of FAP, unconfirmed reports about project failures surfaced. The FAP was evaluated four times the latest being in 2000 (FAP, 2000). The third evaluation report of FAP which was carried out in 1995 and the fourth and final one carried out in 2000 confirmed reports of project failures. It turned out that some businesses collapsed, others just closed down whilst in some cases promoters disappeared at times without a trace (NDP. Vol. 9, 2003; FAP, 1995 and FAP, 2000). All evaluations confirmed the allegations of failures. According to the FAP fourth evaluation of 2000, there appeared to be a tendency for small scale firms to close down after the period of FAP grants. This report indicated that for small scale FAP, the survival rate was 20 – 25 percent after five years (FAP, 2000).

1.4 THE HYPOTHESIS

The study tests the following set of hypotheses

- a. Small businesses in Botswana are not likely to experience financial constraints because of the Government financial assistance.
- b. Small businesses are likely to operate inefficiently due to lack of management skills of owners/managers.
- c. As a result of lack of management skills, owners/managers of small businesses do not have proper marketing plans in place.
- d. Since most owners/managers are not exposed to basic Accounting and Financial training, they are not likely to perceive any need to establish budgets, cash flow and to maintain books of accounts.

1.5 OBJECTIVE OF THE STUDY

The primary objective of this study was to provide information on why the small business sector in Botswana has not succeeded after more than 40 years of independence. The research project also aimed at establishing the following:

- a. To determine whether small businesses in Botswana are not likely to experience financial constraints because of the Government financial assistance.
- b. To determine whether small businesses are likely to operate inefficiently due to lack of management skills of owners/managers.
- c. To determine whether as a result of lack of management skills, owners/managers of small businesses do not have proper marketing plans in place.
- d. To determine whether most owners/managers are not exposed to basic Accounting and Financial training, and therefore they are not likely to perceive any need to establish budgets, cash flow and to maintain books of accounts.

1.6 IMPORTANCE OF THE STUDY

The study provides empirical data to improve and enhance the understanding of issues in the management of financial assistance programmes in Botswana. The importance of roles played by Government and its agents in creating a conducive environment for citizen participation in the economy are studied and analysed empirically. The study provides progress made by Botswana through FAP in the creation of sustainable employment and diversification of the economy. The questions can be asked as to whether FAP grants benefited the country by creating sustainable businesses and whether the leadership of the country is preparing citizens for today's business challenges.

1.7 STUDY ENVIRONMENT

The study was conducted in the areas of Gaborone, Pilane, Ramotswa, and Molepolole. These areas have Government factory shells from which small businesses are operating. This made it easy to locate entrepreneurs. Those who were involved are owners/managers or proprietors of small businesses.

1.8. PLAN OF THE STUDY

The study is broken down into 6 chapters as follows:

Chapter 1 – Introduction

It includes the historical background of Botswana and the country's economy at the time of independence. It clearly indicates why it was necessary for Government to implement initiatives necessary to curb the then high rate of unemployment and the eradication or elimination of poverty including the need for the diversification of the economy from minerals (diamonds) and beef industries.

Chapter 2 – Literature Review

It shows the existing and empirical knowledge in the area focused on by this study. It also provides history, origins and development of the issue being researched.

Chapter 3 – Theoretical or conceptual framework

It contains detailed various factors that were used to analyse the study. (It is from this that the hypothesis was derived).

Chapter 4 – Methodology

It describes the method or procedure that was used to investigate the questions or hypothesis.

Chapter 5 – Findings or Results

This refers to the results of the study. The results were obtained through analysing and interpreting the responses of the questionnaires.

Chapter 6 – Conclusions and Recommendations

This chapter presents the conclusion and how it relates to the initial hypothesis together with their significance and implications. The recommendations are also captured in this chapter as well as the lasting comments within the context of the study.

1.9. CONCLUSION

On consideration of the above mentioned information, it is quiet obvious that the study provides reasons for the small business failures in Botswana. Although the study concentrated on enterprises which were FAP funded, the fact is that small business problems are the same regardless of their source of finance. Therefore lessons drawn from this study will definitely be applicable to small businesses in general and will provide a guideline for the improvement of the management or development of the small business sector. The findings and recommendations arrived at will be applicable to all small businesses whether they are family funded, grant or subsidy funded or loan financed.

The next chapter deals with the literature review on the topic.

CHAPTER 2

LITERATURE REVIEW

2.1. INTRODUCTION

This chapter is to give analysis of existing knowledge and research that was carried out on the research topic. An overview of the developments that are taking place globally with regard to the management of the small business sector and its role in the economies of countries is provided.

2.2. DEFINITIONS OF THE CONCEPTS

2.2.1. Definition of a small business

According to the book entitled *Entrepreneurial Small Businesses*, Shepherd and Wiklund, (2005) state that when trying to define what a small firm is, it becomes evident that the concept of smallness varies and that there is no single, suitable definition of a small firm. Basically there are two different ways of defining small firms. The first type of definition could be labelled the theoretical. In this definition, criteria for defining a small firm would typically include small market share, personalised management, vulnerability to environmental conditions and non-economic objective of the manager. The second type of definition could be labelled as quantitative. In this case, size itself is the criterion for smallness, and quantitative size data regarding sales, employees or equity are usually used when classifying firms as small or large (Shepherd and Wiklund, 2005). On the other hand, Bannock, (2005) says that it is easier to explain a small business than to define it. One approach to defining the small firm is to focus specifically on the features which distinguish the small firm from the large firm. The Committee of Enquiry on Small Firms, chaired by the late John Bolton (Bolton, 1971 in Bannock, 2005:2) identified 3 characteristics in its economic definition of a small firm as follows:

- A small market share, that is not large enough to influence national prices or quantities. Even though a village shop may be the only one, its prices cannot get too far out of line from those of major national retailers in the nearest town, even though people will pay something for local convenience.

- It is managed in a personal way, the owners actively participate in all aspects of the business, unlike in a large firm where the shareholders and management are usually almost entirely separate.
- Independence or exercise of ultimate management responsibility. A small subsidiary of a large firm which has a head office to report to does not share this characteristic.

The abovementioned are to be found in the vast majority of all businesses and therefore most businesses are small but the economic definition is of no use for statistical purposes since business statistics are not classified in terms of markets, owner's management and independence. For this reason, small firms are usually defined in terms of numbers employed (Bannock, 2005). However, for the purposes of this study, the definition that has been accepted by the Botswana Government will be used. Small enterprises are those with less than 25 employees and an annual turnover of between P60 000 and P1 500 000. It states that micro enterprises are those with less than 6 employees, including the owner and a turnover of less than P60 000 (SMME Task Force Report in SMME Policy, 1998:2).

2.2.2. Definition of Entrepreneurship

In his classic definition of entrepreneurship Schumpeter, (1934) in Shepherd and Wiklund, (2005:1) stressed that entrepreneurship has to do with combining resources in new ways that create disequilibrium in the economic system. In other words entrepreneurial firms are innovative to such an extent that they have a substantial impact on the market. In another well recognised definition of entrepreneurship, Stevenson advocates that pursuit of opportunity is the most important component of entrepreneurship (Stevenson, 1984; Stevenson and Jarillo, 1986; 1990 in Shepherd and Wiklund, 2005:2). This definition concerns the business's relation to, and success in the market place, and realising what the wants and needs are, and will be in the future. The definitions complement each other. When combined, entrepreneurship is defined as taking advantage of opportunity by novel combinations of resources in ways which have an impact on the market (Shepherd and Wiklund, 2005). Another definition is by Dollinger, (2002) which says that entrepreneurship is the creation of an innovative economic organisations or network of organisations for the purpose of gain or growth under the conditions of risk and uncertainty. It is hard to imagine a small business taking advantage of an

opportunity and having considerable impact on the market without growing (Shepherd and Wiklund, 2005).

2.2.3. Small business and Entrepreneurship

Academic interest in small business is relatively recent. Whether the previous lack of interest reflected real-world dominance of big business or simply unawareness of small business by researchers could be debated. More important however, is that scholars now recognise that small businesses are essential for entrepreneurial activity, innovation, job creation and industry (ACS, 1992; Thurik and Wennekers, 2001 in Shepherd and Wiklund, 2005:1). Evidence from a range of countries shows that since the 1970's economic activity has moved away from large firms to small firms and at present the majority of new jobs are created by small firms (Davidson et al, 1994; Thurik and Wennekers, 2001 in Shepherd and Wiklund, 2005:1). As a consequence, over the past 25 years, researchers in several academic fields have increasingly become interested in various issues related to small business. It is of importance to consider the growth, performance and entrepreneurial activities of small businesses (Shepherd and Wiklund, 2005). While small businesses are not necessarily entrepreneurial, and entrepreneurship also takes place outside of the small business sector, it is clear that the entrepreneurial activities of small businesses are related to outcomes of individual small businesses as well as the economy at large. Small businesses make a substantial entrepreneurial contribution because they are a source of considerable innovative activity, in particular of radical innovation, and are important change agents in the economy (ACS, 1992; Baumol, 1993 in Shepherd and Wiklund, 2005:1).

There is also a close relationship between the entrepreneurial activities, growth and performance of small businesses. For a healthy economic development, it is essential that old ideas are replaced by new ones and that old products, services and processes are substituted by those which are better and more effective. New ideas and innovations are often created by new and small businesses that grow rapidly and sometimes even create new industries (Shepherd and Wiklund, 2005). Many of the best known and most successful Swedish companies such as IKEA, SKF, Tetra Pak, AGA and Electrolux, were founded and developed upon individual innovations. More recent examples outside of Sweden are Apple, Microsoft and Netscape; all relatively young companies that have grown extremely rapidly and have changed the computer industry. Most people would regard these as examples of exceptional entrepreneurship

(Shepherd and Wiklund, 2005). The above discussion implies that entrepreneurship is a key to economic development and also illustrates how closely connected entrepreneurship is to small business growth.

2.2.4. Need for Economic Diversification

Firstly, the realisation that minerals will not last forever and the fear of falling prices which in the past had resulted in stock piling of diamonds prompted the government to look for alternative ways to maintain its economic performance (Ramatlapana, 1993). The second factor that prompted Government to look for alternative ways to maintain its economic performance was the ever increasing unemployment, which posed a problem (Ramatlapana, 1993). While the mining sector served Botswana well in terms of wealth accumulation and provision of Government revenue, it had little direct impact on employment generation for the majority of Botswana citizens.

The mining industry employed a relatively small number of people (Ramatlapana, 1993 and Financial Assistance Policy (FAP, 2000). In this respect, there was a need to diversify the economy rather than to rely heavily on diamonds and meat in order to achieve sustainable future growth (FAP, 2000). Government then implemented the Botswana Enterprises Development Unit (BEDU). BEDU was a project which was commenced in August 1974 to provide low interest loans and technical services to small and medium scale projects.

The National Development Bank (NDB) was appointed to act as the agent for Government in the disbursement and administration of funds made available under the BEDU programme. BEDU also provided serviced land and factory shells to investors at reasonable rentals (NDB, 1995). However, by 1980 it had been realised that this initiative was not sufficient to deal with the looming unemployment problems. Hence, the idea of a grants policy to create new employment opportunities was born. (With which Government wanted to develop entrepreneurship) (FAP, 2000).

2.2.5. Definitions on the characteristics of a small business.

For purposes of this research, a small business would have the following characteristics:

- Management – Responsibility for the firm rests with the owners. Usually the owners are the managers (Ramatlapana, 1993).
- Capital – initial funds to start the business are supplied by the family, financial institutions, or through government funding (Ramatlapana, 1993).
- Financial Assistance Policy (FAP) officers - Officers who were responsible for monitoring FAP projects (FAP, 2000).
- Industrial Field Officers - Officers employed by the former Ministry of Commerce and Industry to undertake training of entrepreneurs on management skills required for businesses in which they wanted to venture (FAP, 2000).
- Integrated Field Services (IFS) - A unit of the former Ministry of Commerce and Industry under which Industrial Field Officers fell. This Unit was responsible for skills and technical training of FAP recipients (NACCCE, 2000).
- Opportunity Identification - This is a process by which an entrepreneur comes up with the opportunity for a new venture (Dollinger, 2002).
- Risk and uncertainty - The two are not the same. Risk refers to the variability of outcomes (or returns). If there is no risk, the return is certain (Dollinger, 2002).
- Gross Domestic Product (GDP) - Refers to the total value of goods produced and services provided within a country during one year (Oxford Dictionary).
- Collateral Investments - First liens on assets, personal guarantees etc (Oxford Dictionary).
- Pula – Botswana Currency

The problem of small business failures is experienced by many countries. Hence, many research endeavours have been carried out in various countries to identify the major causes of small business failures. A known business failure is bankruptcy or other withdrawal from business with known losses to creditors. Many businesses unable to pay debts simply close down (Ramatlapana, 1993). As mentioned earlier, there is now considerable academic interest in the operation of small business. At the aggregate level, scholars have started to accumulate evidence of the importance of small businesses. Whereas small businesses appear to be a vital part of the economy, the prospect for any individual business is uncertain. Many small businesses die during their first years of operation, or struggle to survive. The number of small businesses that achieve large economic returns for their owners and grow substantially is limited (Shepherd and Wiklund, 2005). Research has revealed that the majority of small firms

do not grow, and that many are not even interested in pursuing growth (Storey, 1994; Shepherd and Wiklund, 2005).

2.3. WHAT HAPPENS IN OTHER COUNTRIES

2.3.1. United States of America

In the United States, approximately 600 000 new small businesses are registered each year. Fifty percent never proceed to the 2nd year of operations, thirty percent collapse within the next five years, and the remaining twenty percent are bought by bigger companies (Albert, 1977 in Ramatlapana, 1993:7). Despite their high failure rate, small business accounted for 43 percent of the United States business output, one third of Gross National Product and employed over 50 percent of workers in the private sector (Fubara, 1987 in Ramatlapana, 1993:8). The small business industry in the United States is identified as the driving force behind the American economy (Albert, 1977 in Ramatlapana, 1993:9). The United States powerful multinational companies such as IBM, Ford, Polaroid, Xerox and Hewlett-Packard, all had one thing in common; they all started as small businesses. (Albert, 1977 in Ramatlapana, 1993:9).

2.3.2. Asia Pacific Countries

According to Mowat, (1999) in Moha and Mohd, (2000:221), 99 percent of the total number of establishments in Canada are SME's (Small Medium Enterprises), 99 percent of all firms in the United Kingdom with employment of less than 50 people represent a major part of the United Kingdom's economy (Smallbone, 1999 in Moha and Mohd, 2000:221). According to Ganguly, (1985) in Ramatlapana, (1993:7), in the United Kingdom, 50 percent of new small businesses collapse within two and a half years, 33 percent in the next two and half years and the rest in the next 5 years.

SME's account for 99.3 percent of the total number of enterprises in South Korea with 39.7 percent of the total value added production and 70 percent of the employment; SME's play an important role in the expansion of manufactured export in Thailand's economy since SME's comprise 98.3 percent of the total number of establishments with 118,648 enterprises (Watcharapun, 1999 in Moha and Mohd, 2000:221). There are more than 700 000 SME's in Taiwan, comprising over 98 percent of the total number of enterprises (Youn-Jai, 1999 in

Moha and Mohd, 2000:221). SME's represent over 99 percent of the total number of establishment in New Zealand (Beal, 1999 in Moha and Mohd, 2000:221). More than 95 percent of the total business establishment comprises SME's in Malaysia (Moha, 1999 in Moha and Mohd, 2000:222).

There are 5072 922 SME's in Japan, a 99.4 percent share of the total number of firms with 60.1 percent of the total employment and 55.7 percent of the total value added. In China SME's employ more than 42 percent of the total labour force and generate 87 percent of the total rural output value. About 90 percent of the total establishment are classified to be SME's in the Philippines whereas in Pakistan, over 98 percent of the total number of establishments are SME's (Rebulida, 1999 in Moha and Mohd, 2000:222).

2.3.3. Namibia

According to the Joint Consultative Council (JCC,1997:10), SME development in Namibia had largely been guided by the Ministry of Trade and Industry 1997 document titled, 'Namibia; Policy and Programme on Small Business Development. It was recognised that the development of SMEs would contribute strongly to the country's socio economic development, but since resources were limited, the government intended to focus support on small business over the medium term. Of major concern to the government had been the creation of opportunities for people through key variables such as access to finance, markets, skills training, technology transfer and provision of infrastructure (with particular reference to sites and premises). This resulted in the implementation of Black Economic Empowerment (BEE) (JCC, 1997:10). To that extent, Government had played its chief role as a facilitator, ensuring SME growth through key establishments as follows (JCC, 1997:18):

- The Small Credit Guarantee Scheme, designed to enhance the plight of small businesses in accessing capital;
- The vendor development programme, ensuring the provision of infrastructure and premises; and
- Training and development assistance.

There were however problems for SMME's, and they were identified as follows (JCC, 1997:18-20):

- Lack of competitiveness among SME's;
- Lack of resources for SME development;
- Lack of managerial skills;
- Poor quality products and inefficient service delivery;
- Failure to honour contractual obligations;
- No upfront capital to start with;
- Lack of technical and management capacity;
- Lack of skills;
- Access to capital challenges or lack of funding;
- Low levels of economic literacy; and
- Lack of capacity.

In addition to this, the President of the Namibia Economic Society (NES) in the paper on economic transformation and development with regard to BEE wrote that out of a random sample of 10 SMEs contacted the following was observed (JCC, 1997:11):

- Eight mourned the lack of access to capital;
- Seven noted that competition from big businesses was intense and fierce;
- Six highlighted the unwillingness by bigger companies to engage SMES;
- Six urged government to open up and allocate more business (tenders) to SMES;
- Five felt government needed to do more with regard to support; and
- Eight wished there was a legal instrument to foster SME engagement and BEE.

Studies to date have confirmed that SME development is arguably the single most critical tool in enhancing BEE. Empowerment of the majority thus could not be complete without a strong push for small businesses. Over the years, SME contribution to Gross Domestic Product (GDP), employment creation and share of labour force have been on an increase. According to the 1998 Ministry of Trade and Industry small business baseline survey, the SME sector provided employment to 160 000 people, of which 60 000 are permanent (JCC, 1997:11). However the Joint Consultative Council/Namibia Economic Policy and Research Unit, (JCC/NEPRU) Small Business Impact Assessment 2003 estimated that 107,166 people were

employed within the SME sector (about 19.79 percent of the total labour force). This figure does not include part time, occasional or commission workers or the SME owners themselves. The JCC/NEPRU survey also revealed that women ownership of SMEs was at 37.1 percent and continues to rise. It concluded that SMEs were key in alleviating poverty and generating economic growth. (JCC, 1997:2). The study further revealed that the small business sector contribution to GDP rose from 8.04 percent in 2002 to 11.01 percent in 2003, the Namibian labour force working full time in the small business sector increased from 15 percent in 2002 to 19.8 percent in 2003 (JCC, 1997:11).

2.3.4. South Africa

Following the 1994 democratic elections in South Africa, the Government decided to re-distribute wealth and create some jobs. Some strategies for Black Economic Empowerment (BEE) were implemented. The Government therefore targeted the SME sector as one of the economic empowerment vehicles to empower people. As a result, the SMME sector received significant attention and investment ranging from the establishment of state initiated projects to supportive legislation; a variety of funding institutions and government incentives through the Department of Trade and Industry (DTI). The Small Business Act, passed in 1996, helped to establish many of the supportive structures now in place (South Africa. Info 2006:1). However, it should be noted that the gap between the rich and poor has grown since 1994. This has been mirrored by a substantial increase in the income gap within the black community. According to the F.W. De Klerk Foundation, South Africa has failed quite re-markedly to realise one of the central goals of the constitution – the promotion of greater equality among all South Africans (JCC, 1997:26). In 2004, 57 percent of South Africans were living below the poverty line of R1 290 a month for a family of four. At the R10 000 per capita per month income levels, less than 10 percent of Africans, 20 percent of Coloureds and 40 percent of Indians have this real monthly income or more, whilst the equivalent proportion of whites is just under 80 percent (JCC, 1997:26).

This is underscored by the Theil index that showed a declining share of between group inequality from 62 percent to 40 percent between 1975 and 2001, whilst within-group inequality rose from 38 percent to 60 percent during the same period. The former Archbishop of the Anglican Church criticised South Africa's BEE when he gave the 2005 Nelson Mandela lecture saying it enriched only a small elite not the vast majority (JCC, 1997:26). According to

Towards a Ten Year Review, a discussion document reviewing the impact of the government's policies since 1994, there were 2.3 million people who owned at least one Value Added Tax (VAT) unregistered company. Of these, only 338 000 owners had employees, a total of 734 000. The above numbers may raise the question of the job creation potential of these enterprises, but it also demonstrates the level of self employment, a large portion of which may be survivalist (South Africa Info. 2006:1).

Value Added Tax (VAT), or goods and services tax (GST), is tax charged on the consumption of goods and services, (VAT Act No. 1 of 2001 in Botswana Unified Revenue Service (BURS, 2001:3). BURS is a semi autonomous agency of government responsible for assessing and collecting tax revenue as well as border administration (The Botswana Gazette, 3rd – 9th October, 2007:4).

Data on small and medium enterprises suggested that these enterprises contributed about half of total employment, more than 30 percent of total GDP. Also one out of five units exported is produced in the small and medium sector in South Africa. That Small, Medium, Micro Enterprises (SMME's) generate jobs, has been proved by the fact that between 1996 and 1999 employment in the informal sector increased from 19 per cent to 26 per cent (South Africa Info. 2006:1).

The above statistics clearly show that SMEs play a vital role in the national economics of the respective countries. Nonetheless, much more important than their numerical predominance, is the significant role SMEs play in the overall economic development in these countries. In short, SMEs employ more workers per unit of capital as compared to large enterprises; they have formidable impact on regional economic development; they serve as a 'training platform' for upgrading and developing skills of industrial workers and entrepreneurs; and they contribute significantly to forward and backward linkages, and they play a vital complementary role to large and giant firms in the economy. SMEs create substantial employment opportunities because they use relatively labour intensive production techniques (Moha and Mond, 2000).

2.3.5. Botswana

2.3.5.1. Financial Assistance Policy (FAP) – A Review

The over dependence of Botswana in beef-cattle raising and diamond mining industries has resulted in high and growing level of unemployment and overdependence on imports of industrial goods as well as consumer goods (Chankuluba, 1998).

On the positive side, the dependence on the 2 dominant industries had resulted in the country accumulating large budget surpluses. The high unemployment level and over dependence on imports for industrial and consumer goods had been issues of greater concern to the Government and the Government found it necessary to attend to such issues. To do this, the Government decided to make use of the surpluses accruing from the dominant industries, and accomplish national objectives of increased employment and economic diversification (Chankuluba, 1998). With the above objectives in mind, the Botswana Government in May 1982 launched the FAP (Chankuluba, 1998).

According to the report of the National Conference on Citizen Economic Empowerment (NACCEE, 2000), the FAP was the Botswana Government Financial Assistance through the provision of non-repayable grants to eligible business. The third evaluation of the FAP defines it as a scheme for giving government grants to new businesses in the private sector, plus additional grants for expansions of existing businesses (FAP, 1995). The key objective of the FAP was the creation of employment opportunities through productive activities. Complementary objectives included economic diversification and development of local entrepreneurial skills (FAP, 2000). The specific objectives of FAP were to (FAP Policy, 1982 and FAP, 2000):

- Create sustainable employment for unskilled labour;
- Produce goods for export or to substitute for imports;
- Diversify the economy to lessen its dependence on large scale mining, beef exports and growth of the public sector; and
- Improve citizen skills levels through training

Given the emphasis on employment creation, FAP incentives were structured so as to encourage maximum employment of unskilled and semi-skilled workers (World Bank, 1993 in FAP, 2000:5).

2.3.5.2. Administration of FAP

Application forms for FAP could be obtained from the Ministry of Finance and Development Planning, Botswana Development Corporation (BDC), Commercial Banks, National Development Bank (NDB), Consulting firms, Rural Industries Offices in rural areas, Town Councils in urban areas as well as Ministries of Commerce and Industry (Now Ministry of Trade and Industry), Ministry of Mineral Resources (Now Minerals, Energy and Water Affairs) and the Ministry of Agriculture (FAP, 1995; FAP, 2000 and NACCEE, 1999). NDB is a government autonomous agency which carries out various agency functions for government for a fee, BDC serves as the Government's main arm for commercial and industrial development for example BDC was the source of finance for FAP beneficiaries' contributions.

Integrated Field Services (IFS) offered training and advisory services to small and medium scale manufacturing enterprises. This division which fell under the former Ministry of Commerce and Industry offered two types of training; which is Business Management training and technical training (NACCEE, 1999).

However, according to the Small, Medium and Micro Enterprises (SMME's) Task Force report in NACCEE (2000:242), the officials themselves did not have the skills or expertise to offer such training. Furthermore, the vastness of the area to be covered made it difficult for officials to reach all entrepreneurs. This suggests that the programme was not very effective in promoting citizen participation in economic activity (NACCEE, 2000).

Any Motswana aged 18 years or more was eligible for assistance. Even public officers could apply for assistance, provided their proposed projects complied with the general orders concerning their employment by Government (NACCEE, 2000).

Appraisal and evaluation of the FAP projects was based on information submitted by the project promoter. In most cases the promoter would have solicited the assistance of the FAP officer for help in completing the application form (FAP, 2000). After evaluation,

recommendations were submitted to the local Productive Development Committee (PDC) in rural areas and Local Administration Committee (AC) in urban areas for approval. The PDC or AC was supposed to consider recommendations for financial assistance from FAP officers. Each project was evaluated for compatibility with the FAP rules and procedures with particular attention to (FAP, 2000):

- The nature of the project or activity;
- Project promoters and details of origin;
- Location and conformity to land allocation requirements;
- Total investment envisaged in terms of size;
- Project employment;
- Market situation for example over trading; and
- Applicable grant (amount and form).

Once the PDC or AC has approved a project, FAP officers took over the implementation in their respective areas by way of checking and implementing conditions prior to disbursement of funds. The same officer who presented the application would be the one who oversees its implementation, having served as the project advocate at the PDC or AC in his role as a member (FAP, 2000). This was not an ideal situation because the officers were already interested parties from the beginning.

Since its inception, FAP has been based on two basic principles; first, the benefits in the form of new jobs, generated tax revenues and it developed skills that should out-weigh the total cost of assistance provided by Government. That is cost benefit analysis which means the grant was offered, if and only if the expected benefit – cost ratio exceeds one. Second, the assistance from Government should be temporary. That projects should be able to continue on their own after the assistance period of 5 years expires (Ramatlapana, 1993). Eligibility for assistance from FAP was also restricted to certain types of ‘productive’ economic activities. Originally productive activities, in the context of FAP, meant businesses or investment projects that produce or process products that were either exportable to other countries or that would replace products that were imported. Thus the focus was on manufactured products, small and medium scale mining, mineral processing and agriculture (other than meat processing). Selected linking service industries and tourism came later as being eligible for assistance under FAP. Some businesses and industries were specifically excluded such as entertainment

(including casinos), shops and wholesalers, brewing and distilling, construction and other non-linking services sector industries. The amount and type of assistance potentially available depended upon the size of the proposed project (FAP, 2000). Businesses that were eligible for FAP had always been divided into three size categories. These were small, medium and large scale projects. Each category had rules and regulations governing it (FAP, 1995). The FAP was coordinated by the Ministry of Finance and Development Planning, Sectoral Ministries: which is the former Ministry of Commerce and Industry, the Ministry of Agriculture and the former Ministry of Mineral Resources and Water Affairs played major roles in the implementation of the FAP policy (FAP, 1995).

2.3.5.3. Small Scale FAP

The Small Scale FAP scheme had for many years been the Government's main form of financial assistance to small and micro enterprises in Botswana. It was restricted to Botswana citizens, and was applicable to enterprises in manufacturing, certain agricultural activities, and services including tourism and repair services. Assistance took the form of cash grants payable against the capital cost of establishing enterprises or expansions of existing ventures in the eligible sectors, as well as a small contribution towards capital. The level of grant payable to a project was determined according to a range of criteria, including the location of the project, whether the promoter was male or female and the number of jobs that were projected. The maximum grant payable was 90 percent of the capital cost of the project. FAP, Small scale projects were defined as those with a maximum investment in fixed assets of P25 000 and the owners contribution was five percent. However as a result of the recommendations of the 1995 evaluation report the maximum investment figure was increased to P75 000 and owners contribution to 20 percent (FAP, 2000). All payments or disbursements were made in the first three years of the project's operation, although grantees could apply later for expansion grants. NDB regional offices disbursed FAP funds to small scale projects. When payment has been done by NDB, responsibility then reverted to FAP officers for actual implementation and monitoring (FAP, 2000). Small scale businesses received a 'once off' capital grants to assist with start up or extension of certain projects in manufacturing, agriculture and tourism (FAP, 2000).

The former Ministry of Commerce and Industry and the Ministry of Agriculture each kept a computerised data base of their respective small scale projects. The data bases had provision for the following information (FAP, 1995):

- FAP code;
- Location;
- Activity description;
- Entrepreneurs names and sex;
- Projected employment levels; and
- Approved amount.

There was also a space in the data bases for the actual amount disbursed but this information was not always entered (FAP, 1995). Information available at the former Ministry of Commerce and Industry (Now Ministry of Trade and Industry) indicated that between 1982 and 1994, the number of FAP small scale grants approved was 4400 and between 1994 and 1999 FAP small scale projects approved were 7121. The above information was supplemented by data from IFS stations (FAP, 2000). Disbursements under small scale FAP at current prices between 1982 and 1993 was P39.3 million (FAP, 1995). However, after the 1995 evaluation there was a high increase in Small Scale disbursements resulting in the expenditure rising to P232 million between 1982 and the 1998/99 financial year (FAP, 2000).

The assisted projects were being monitored for performance profitability and sustainability, but there were no systematic or regular monitoring schedules nor was there capacity to carry out the required monitoring (FAP, 2000). This was one of the serious weaknesses. In principle, Small Scale FAP projects were being monitored by the FAP unit of NDB through its monitoring section and through the extension services of the sectoral ministries, that is Integrated Field Services and the regional and district agricultural offices. The industrial officers and the agricultural officers were supposed to visit each small scale project within their areas once every three months for the first five years of its operation (FAP, 1995).

2.3.5.4. Evaluation of FAP

The FAP was evaluated four times in the years 1984, 1988, 1995 and 1999. The 1984 study was prepared for the Botswana Government by the Christian Michelsen Institute (CMI)

Norway after the FAP had been in operation for two years. The main conclusion was that FAP was a worthwhile effort and should be continued. The recommendations were broadly supported by Government (FAP, 1995). The second study was done in 1988. The study was prepared for the Botswana Government by the National Institute for Development Research and Documentation (NIR) of the University Of Botswana (UB). Again the evaluation was on the favourable but some recommendations were accepted, some amended and some were rejected (FAP, 1995).

The Ministry of Finance and Development Planning published detailed Terms of Reference for the Third Evaluation of the FAP in 1993. The evaluation was done by Phaleng Consultancies (PTY) Limited. The study found that since its inception in 1982, the FAP had succeeded in meeting its main goal, that of creating new jobs for unskilled citizen employees in a fairly cost effective manner (FAP, 1995).

The objective of encouraging citizens to go into business had been achieved. Jobs had been created throughout the country, including most parts of the rural areas. A large number of women had been encouraged to become entrepreneurs. There had been considerable diversification of economic activity, but most of that took place early in the programme. The cost to government of job creation in small scale firms was estimated to have been reasonably low, the same order of magnitude as creating jobs on labour intensive employment schemes (FAP, 1995).

Administration of small scale FAP had been weak as the system for maintaining a computer data base was poor. The small scale FAP had suffered from problems due to poor monitoring and some abuse of FAP had occurred. There had been a tendency to continue approving small scale projects in over traded sub-sectors. The third evaluation (1995) report observed that reducing unemployment still remained a major challenge. It argued that it would be crucial for FAP to focus on labour intensive enterprises. The study made several recommendations. Among these were (FAP, 1995):

- Recruitment of monitoring officers for FAP projects;
- The extension of FAP to Tourism and Borehole repair (National Budget Speech, 1997);

- The boundary for the small scale FAP was among the major changes in FAP as a result of the recommendations of the Third Evaluation. The fixed investment was increased from P25 000 to P75 000; and
- The minimum equity contribution by the entrepreneur was increased from 5 percent to 20 percent of the start-up investment (National Budget Speech, 1996).

In April 2000, the Ministry of Finance and Development Planning published a report entitled “Report of the National Conference on Citizen Economic Empowerment” (NACCEE, 1999). This conference took place from 5th to 7th July 1999 in Gaborone. In opening the conference, the then Minister of Finance and Development Planning noted that preparations were made by a committee of Government and private sector representatives following up a recommendation of the National Business Conference held in Francistown in October 1998, and that a wide spectrum of interest groups had been invited to be represented at the conference. The Minister summarised the objectives of the conference as to (NACCEE, 1999):

- Agree on a working definition of Citizen Economic Empowerment (CEE);
- Consider practical options to achieve sustainable Citizen Economic Empowerment;
- Assess the present status of Citizen Economic Empowerment in Botswana including government policies and measures by the private sector and Non Governmental Organisations (NGO’s);
- Consider whether and in which areas of Citizen Economic Empowerment further measures need to be taken by the Government, the private sector and other stakeholders; and
- Consider appropriate recommendations for a National Policy on Citizen Economic Empowerment.

At this conference, the FAP was also discussed and it was found that benefits under the small scale FAP were short lived. The conference concluded that a lot had been done for citizens to participate in the economy, but efforts to improve implementation of policies like FAP should be improved (NACCEE, 1999). As a result of the discussions at the above conference, in 1999, the government (through the Ministry of Finance and Development Planning) commissioned the Botswana Institute for Development Policy Analysis (BIDPA) to carryout the fourth evaluation of FAP.

The Terms of reference and subsequent discussions with the reference group for the project indicated that the review should assess FAP as a whole, rather than concentrating on “fine-tuning” it. Therefore the evaluation had focussed on two main questions. First, has FAP been successful in achieving its objectives of sustainable employment creation, especially during the period since the last evaluation in 1995? Second, is FAP or something similar to it, likely to be an appropriate investment incentive for Botswana over the next one or two decades (FAP, 2000)?

The main questions that evaluation was seeking to answer were the following (FAP, 2000):

- To what extent had small scale FAP been successful in achieving its objective of assisting in the establishment of sustainable small enterprises and sustainable jobs?
- Is the scheme cost effective in achieving its objectives?
- What are the main problems encountered in the implementation of small scale FAP?

Depending on the answers to these questions, recommendations were to be made as to whether small scale FAP should be continued, and if so what kind of reforms should be introduced in its operation (FAP, 2000). The 4th FAP evaluation report observed the following (FAP, 2000):

- That small scale FAP had expanded enormously since the 3rd evaluation with major increases in the number of projects approved and in grants committed and disbursed;
- The number of jobs projected to be created in small scale FAP projects has not kept pace with the rising expenditure on small scale FAP;
- The number of actual jobs created by Small Scale FAP was well below the projected number of jobs.
- The net result of the above developments was that the cost to Government of creating a job through small scale FAP had risen enormously. To create a sustainable job (one that lasted for five years or more) costed P170 000 for industrial projects and P207 000 for agricultural projects. To create one job-year

of employment in a small scale FAP enterprise costed P9 700 for industrial enterprises and P16 600 for agricultural enterprises (FAP, 2000).

- The survival rate for small scale FAP enterprises was by then much lower than that found at the time of the 1995 evaluation; it was estimated that 25 per cent of all small scale individual projects failed each year, and that only 25 per cent lasted for five years or more, and that 33 percent of all small scale agricultural projects failed each year with only 15 percent lasting for five years or longer (FAP, 2000).

The same sentiments were repeated by then Minister of Finance and Development Planning in the National Budget Speech of 2001. He stated that about 75 percent of small scale FAP projects have not survived beyond the period of existence that is five years. This situation shows that small businesses are in a high risk area with a failure rate of between 90-95 percent (Ramatlapanana, 1993).

With such a high failure rate, why would any sensible person start a small business? According to Megginson, Scott, Trueblood, Megginson in Ramatlapanana, (1993:7), there are three reasons why people start small businesses. One of the reasons was stated as to achieve independence. This independence means the ability to make any decision and take action without control of supervisors (Megginson et al in Ramatlapanana, 1993:7).

The second reason is that people start small businesses to obtain needed income or to supplement existing sources of income (Megginson et al in Ramatlapanana, 1993:7).

Thirdly, formation of small businesses might be necessitated by non-availability of certain products elsewhere. The small businessman in starting a small business, attempts to satisfy personal desires and goals. In certain situations people start small businesses not out of choice, or desire to supplement their income, nor in pursuit of independence but largely because of unemployment (Megginson et al in Ramatlapanana, 1993:7).

The creation of employment to a small business is a secondary objective, while to the Government; employment creation is a primary objective (Ramatlapanana, 1993). In setting up a business to satisfy his desires, the businessman indirectly is satisfying Governments

primary objective of creating employment, the invisible hand of Adam Smith (Ramatlapana, 1993).

In Botswana the availability of the FAP can be considered the 4th factor which influenced people to start business. The need for initial capital was greatly reduced. Hence, those who may not have started businesses in the absence of FAP may have done so because of the existence of financial assistance to be offered (Ramatlapana, 1993).

According to Fubara (1987) in Ramatlapana, (1993:8), research evidence shows that those who started their own businesses were:

- People who had retired from paid employment;
- Those not satisfied with paid employment;
- Those who wanted independence;
- Those unable to obtain paid employment; and
- Those who wanted to be entrepreneurs

It is therefore of vital importance that before one starts a small business, an opportunity must have been identified in that kind of business. The above five factors must therefore be coupled with opportunity identification.

2.3.5.5. Reasons for the poor performance of small scale FAP firms

There were many reasons that led to the failure of many small scale FAP projects. Some of these reasons were indicated in 1999 by the then Minister of the former Ministry of Commerce and Industry when answering a question in parliament.

According to the Botswana Daily News paper, the Minister said that many small scale businesses failed because they were run by entrepreneurs with limited skills in management, particularly in maintaining and use of business records. Other factors which contributed to failure of projects included inadequate skills in managing the work force, timely purchasing and maintenance of inventory or raw materials, efficient production and effective marketing of their products. He continued to say besides failure to capture adequate export markets, some

businesses collapsed because their owners did not devote sufficient time to managing them (The Botswana Daily News, 15th March 1999)

In today's fiercely competitive market, these constraints need to be eliminated. In addition the 4th evaluation of the FAP stated that discussions with officials in the administration and implementation of small scale FAP revealed a number of major problems that lay behind the scheme's poor performance. These included (FAP, 2000):

- Inadequate appraisal of projects and lack of clear effective criteria on which to base decisions;
- Inadequate monitoring and after care of grant recipients;
- Over trading in certain sectors;
- Perceived political pressure maximised grant approvals and disbursement at the expense of quality;
- Lack of commitment by grant recipients to their projects;
- Numerous Integrated Field officers reported instances of political interferences in decisions to award small scale FAP grants. Such interference came from Councillors and Members of Parliament. On a more general level, politicians had undermined small scale FAP by promoting it as a "right" (like drought relief) and not emphasising that it is only intended for those people who have a realistic chance of becoming successful entrepreneurs. They saw it as a scheme with which to buy votes (FAP, 2000); and
- There was widespread fraud and abuse of small scale FAP grants by recipients and suppliers of equipments. According to the evaluation, fraud and abuse characterised the majority of grant applications and approvals. Almost universally, the price of capital goods provided under the FAP grants was inflated to provide the entrepreneurs obligatory contribution (FAP, 2000).

Other types of FAP abuse included (FAP, 2000):

- Suppliers providing second hand instead of new equipment, or in other ways not providing the equipment that was specified and paid for;

- Suppliers not supplying equipment at all despite being paid for it, or supplying it “on loan” so that it is available for inspection by Integrated Field Services (IFS) officers prior to removal and later supply to another small scale FAP “project”
- The sale of equipment by grantees during the initial two year period where the equipment belonged to government and the grantee was just a trustee;
- The inflation of employment projections above realistic levels so as to secure higher level of grant;
- Fronting of female for male applicants or of Botswana citizens for foreigners. Grants for women were 15% over and above those of men;
- Since the 3rd evaluation; however, there had been mounting evidence that the number of cases of abuse was growing. In particular, collusion between suppliers and recipients initially aimed at obtaining the FAP recipient contribution had escalated and become more sophisticated, and crossed the line from abuse to fraud. That increasing sophistication of FAP related fraud – involving schemes deliberately designed to defraud government resulted in the establishment of the specialised unit within the Directorate on Corruption and Economic Crime (DCEC);

- There were also an increasing number of cases identified by IFS officers some of which were reported to DCEC where FAP applicants had no intention of starting a project and colluded with suppliers with the sole objective of defrauding government. A typical example of such fraud is where an application was made for an FAP grant supported by supplier’s quotations for equipment. After the approval of the grant, the equipment was delivered to the applicants’ premises and signed for by the applicants. However after being checked by an IFS officer, the equipment was then taken back by the supplier after paying an agreed amount to the bogus FAP applicant. In some cases the equipment was recycled across a number of bogus schemes;

- A variation on this type of fraud consists of genuine FAP projects, but involved collusion between suppliers and the applicants for the oversupply of equipment or raw materials. Again after it had been checked by IFS

officers, the extra equipment would be taken back by the supplier who shares the profit with the FAP beneficiary; and

- The reduction in the number of small stock for which a small scale FAP grant could be obtained had given rise to similar ‘scams’ using the same flock of goats or sheep to obtain multiple grants. The goats were moved around the various bogus FAP projects whenever an IFS officer/Integrated Field Officer made a visit.

In some instances, genuine FAP applicants were defrauded by suppliers in the following ways (FAP, 2000):

- Cases included suppliers who required FAP beneficiaries to sign for goods before they were received and then claimed payment from NDB against the signed delivery note. The equipment however was never delivered;
- Other examples of how small scale FAP beneficiaries and government were defrauded, were through the supply of reconditioned equipment being passed off as new, and the supply of obsolete or inappropriate equipment;
- For example there were documented cases where sewing projects in rural areas had been supplied with electrically driven sewing machines, but the FAP recipient had no electricity. Other cases were where three phase industrial sewing machines were supplied in areas where only single phase power was available; and
- According to the DCEC, there were an increasing number of suppliers establishing themselves in Botswana with the primary purpose of providing equipment for FAP supported projects. Many suppliers according to the DCEC had also started a dual pricing system – with higher quoted prices for FAP supported projects compared to non – FAP projects.

Abuse and fraud had a large number of undesirable effects including (FAP, 2000):

- Inflating the cost of projects and hence job creation;
- Reducing the survival rate of projects approved because some of them are ‘bogus’ projects where there was never any intention;
- Helping to enrich corruption in the fabric of society;
- Wasting public funds; and
- Reducing the entrepreneur’s commitment to the project as their effective contribution is very small or zero.

The main findings of the 4th evaluation of FAP, 2000 were that the programme was no longer effective in achieving its objective of promoting sustainable employment creation. Furthermore, it had become inappropriate to Botswana’s needs and was not addressing the main constraints to investment and the development of sustainable productive enterprises. The review concluded that the programme’s shortcomings could not be dealt with while its basic structure remained in place. It was then recommended that the programme be terminated and replaced with an alternative form of support for the promotion of sustainable productive activities. As a result, the programme was terminated in June 2001 and replaced by the Citizen Entrepreneurial Development Agency (CEDA), which provides loans and mentoring to citizen owned projects in all sectors of the economy (NDP. Vol.9, 2003).

In 2001, when the Citizen Entrepreneurial Development Agency (CEDA) was established, the administration of the FAP was transferred from the NDB to CEDA. CEDA is an autonomous institution which was established in an effort to improve the efficacy of citizen enterprise development programmes. The institution was to coordinate and manage some of the existing as well as additional programmes aimed at the development of citizen owned business enterprises through the development of entrepreneurial and managerial skills (National Budget Speech, 2001).

An unpublished report from CEDA entitled “Report On FAP Clean Up as at September 2006” states that the report itself was prepared to map the process of winding up the FAP Scheme. The report indicated that the FAP was discontinued in June 2001 with the last grants approved in 2002. According to the report, there were grantees whose projects had balances because they were not disbursing and some could not even be located during the monitoring exercise. The report concluded by indicating that it was no longer cost effective to continue monitoring projects which were not viable and non existent. The report called on management to take a

decision to make the announcement setting a deadline for grantees to have disbursed all their grant balances. The FAP policy is clear that after two years, ownership of assets passes to the grantee. The announcement was carried out in the newspaper called the Mirror (22 November, 2006:6)

2.4. CONCLUSION

Small business firms form a substantial proportion of the total number of establishments in many countries. Despite their failure rate, they have the following advantages:

- They generate more job opportunities than large organisations;
- They are a source of innovation;
- They result in many citizens participating in the economy;
- They serve as training ground for skills development of industrial workers and entrepreneurs; and
- They assist in diversifying economies of countries.

It is obvious that as countries develop, small business will become even more important and will be accorded greater priority. Nonetheless, the development of small business firms is constrained by a number of problems. The most serious problems faced by the small business are financial aid, premises, shortage of skilled labour, training and technology, limited skills in management, inadequate skills in managing the work force, timely purchasing, and maintenance of inventory or raw materials and marketing of products.

The above discussion indicates that small businesses require various forms of assistance. Small business needs highly organised and systematic entrepreneurs even more than giant entrepreneurs. This is because they have relatively small limited resources to withstand any major mistakes in their resources.

If government policies were more favourable and if adequate financing, technical assistance, extension and advisory service as well as infrastructure support were available and economical, a more prosperous growth and development of individual small businesses in all countries could be expected. This means that for the small business sector to flourish and prosper,

Governments must create a conducive environment for such. The next chapter deals with the theoretical/conceptual framework.

CHAPTER 3

THEORETICAL/CONCEPTUAL FRAMEWORK

3.1. INTRODUCTION

This chapter discusses a critical review of the various theories/factors that have a bearing on the problem, in this case on small business failures in Botswana. The guidelines which will culminate in the hypothesis or research questions are drawn from this chapter.

3.1.1. The Small business and its problems

The importance of the small business in national economic development is widely recognised in many countries, developed and developing alike. However, a small business is confronted by many problems. Some of the major problems faced by the small business are inherited, like the small size. Problems faced by the small business inhibit their full potential. (Moha and Mohd, 2000). The nature of the small business makes it difficult to manage efficiently. One of the major weaknesses is that the owner or manager is involved in a 'one person show doing everything and delegating nothing' (Ramatlapana, 1993).

The owner/manager believe that there is only one way of doing things, and that is the manager's way whether it is right or wrong. Decision making is extremely centralised. When the manager is not available, the business is paralysed (Ramatlapana, 1993).

As the manager is responsible for running the entire firm, he does not allocate enough time to vital business areas such as strategic planning, organising, leading and controlling (Ramatlapana, 1993).

3.2. FACTORS OF BUSINESS MANAGEMENT

3.2.1. Business Knowledge

Failure to have adequate knowledge about the business leads to a situation where external opportunities are not taken care of and firms' weaknesses are not identified. If weaknesses are

identified, they can be turned into strengths. Small businessman fails to take an active part in business organizations such as Chamber of Commerce. Hence they are not exposed to new opportunities and new approaches to solving business related problems. The businessman is not familiar with all suppliers of commodities he is trading in (Albert, 1977 in Ramatlapana, 1993:13).

3.2.2. Business Management

It is well documented that the effectiveness of the management of enterprises is very much affected by the entrepreneurs. The ability of managers to perform has very important bearings on the performance of the business (Hornaday, 1982; Foley, 1987, Anderson, 1987 in Moha and Mohd, 2000:7). Management problems in small business arise largely because many of their entrepreneurs have neither a high level of education nor any professional training. Simultaneously, these entrepreneurs have to be familiar with many aspects of management such as finance, personnel, sales, production. Small business entrepreneurs perform poorly in many areas of management such as book-keeping, marketing, costing, warehousing, stock control, production scheduling and quality control. The entrepreneurs, in some cases, either do not understand financial statements or do not use them for planning purposes (Moha and Mohd, 2000).

The value of physical assets such as machinery, plant, tools and equipment is unknown and no systematic inventory is made. Stock is rarely recorded according to type, quantity and value. Many entrepreneurs tend to adopt an autocratic approach in management style of their enterprises (Moha and Mohd, 2000). In most cases, small business entrepreneurs do not even understand cash management. The revenue from sales is regarded as their own personal money as some of them do not even maintain a bank account. They do not understand the need for daily banking or depositing as and when money becomes available. Some of the money received from business is utilized without ever going to the bank for those who maintain bank accounts. Business expenses are not distinguished from personal expenses. Furthermore, Albert, (1977) in Ramatlapana, (1993:13) stated that "Good management is the life blood of a successful business". The ability of small businesses to retain their strategic positions in the economy to compete effectively with large business firms rests primarily on the shoulders of the owner/manager. The leadership provided by competent managers is paramount for strengthening the firm's position in the business community.

According to Wood, (1978) in Ramatlapana, (1993:13), the good manager focuses attention on opportunities not problems. He spends his time on activities that will produce the greater results. Small business managers are said to spend their time “trying to do things right” that is efficiently, instead of ‘doing the right things’ (Wood, 1978 in Ramatlapana, 1993:14).

Too many small firms are run inefficiently, offering poor service, late payment, low wages and poor working conditions. If the managers of these small businesses paid more attention to improving profitability, the small business would be able to offer better service, prompt payment, higher wages and better working conditions (Ramatlapana, 1993).

Success in practicing the art of management calls for imagination, courage, enthusiasm and a shrewd sense of judgment. It demands the ability to recognize and exploit new opportunities and new ideas. Pickle and Abrahamson, (1984) in Ramatlapana, (1993:14) identified the following as the consequences of inadequate management:

a. Credit Control

Small firms must guard against extending too much credit which often results in substantial bad debts.

b. Sales Volume

Inadequate sales represent a common problem of the small firms. Income for the firm is generated by the sales. Without income the result is obvious, failure of the business. Many reasons contribute to a poor sales record. Some of the most commonly identified factors include poor location, inferior products, ineffective advertising, and prices out of line with those of competitors and poor customer service.

c. Inadequate Inventory Control

Small businesses often do not have specialized and technical skill required for proper management of the firm such as control of inventory. An excessive inventory results in too much capital been locked up in stock and inadequate inventory may lead to loss of sales.

d. Location

This is one area which it is said is not receiving the attention it deserves. A location is often selected for some reasons such as reasonable rent, and proximity to owner/managers without giving priority to salient locational factors necessary to build a successful business.

e. Negligence

The owner/manager is often faced with problems of appropriate time allocation between his business needs and other family needs and community needs. Sometimes the business is neglected because of the owner's poor health, laziness, and due to marital problems (Ramatlapana, 1993).

Managers need to be trained in management tactics and strategies. The managers of small business are often technical people who do not know anything about management. Appropriate training should be given to management if they are to fully execute their managerial functions. According to "Business failure record" published by Dun and Bradstreet, (1985) in Ramatlapana, (1993:15), nine out of ten small business failures can be traced to lack of managerial experience and lack of aptitude.

According to Albert, (1977) in Ramatlapana, (1993:15) "The decline of the Ford Motor company during the thirties was attributed by modern business writers to Mr. Ford's refusal to develop a management team.

f. Resource Planning

Businesses that fail to plan are said to be planning to fail. A written plan is a road-map for reaching a goal. The worst plan is having no plan. Without proper planning, an organization cannot control and direct its activities towards achieving the organization goal. Small businesses are not in the habit of preparing budgets. Budgets are an essential management tool for control of company activities through comparing actual performance against budgeted performance and allow management to concentrate on areas which show unacceptable variations from budgets. (Jones and Persy, 1983 in Ramatlapana 1993:17)

Delaney (1984) in Ramatlapana, (1993:17) stated that, “No amount of effort, dedication, hard work or devotion can ever turn a bad or non-existent plan into a good plan. However a good plan does not guard against failure sooner or later”. And also that “There is no better way to prepare for successful business operation than by learning the ingredients of good planning, having experience in the particular line of business and knowing the essentials of management”. Managers are too involved in day to day operation such that they end up failing to execute their managerial function. According to Kuel, Lambing and College, (1987) in Ramatlapana (1993:18), a business plan can assist with management control to help obtain finance and provide a roadmap for the company.

g. Experience

Decision making in an organisation is often based on personal judgment. It is believed a new manager does not have the rich experience in running the business like a long serving manager (Ramatlapana, 1993). Albert (1977) in Ramatlapana, (1993:18) identified poor record keeping as one of the major causes of small business failures. He went on to say, “Good records are an essential part of operating a successful business. Accurate and up to date records, are necessary to exercise managerial control”. He further stated that good records can be used to obtain finance from the bank, to project meaningful budgets, to substantiate the performance of the business if you decide to sell and that they are an integral part of a good business operation to satisfy government requirements.

Delaney (1984) in Ramatlapana, (1993:19) stated that:

“In business it is simple. You are winning when you are making profit and you are losing when you are not”. However what if you cannot tell the difference? This signifies the importance of keeping proper records. Because of limited financial resources and expertise, small business entrepreneurs have relied on “hunch” or intuition rather than marketing research techniques. Marketing research is the process of collecting, recording and analyzing data pertaining to the target market to which the firm caters. Marketing research survey can provide the small business owner with the means to accomplish the following:

- To determine if the firm is obtaining a reasonable share of the market;
- Identify changes in consumer interests, tastes and habits; and

- To identify what consumers like about the business so the features may be continued and reinforced.

Marketing research is very important for the long term survival of the small business because it enables the small business owner to base decision on facts instead of hunches.

h. Credit facilities

The financial system in most countries is developed especially in terms of a number and variety of institutions. Nonetheless despite the fact of the existence of these institutions and the large amount of credit extended by them, it is observed that small businesses are still generally short of credit. This inhibits the expansion and development potentials of small business. (Ramatlapanana, 1993).

i. Market and Export Penetration

According to Moha and Mohd (2000), SME's are also staffed by employees who suffer similar deficiencies as entrepreneurs. Most SME's employers have lower or little education and qualification, and little preview training. The problem affects SME's severally because SME's are often unable to compete with their large counterparts for skilled and highly qualified employees. In many cases SME's find it difficult to obtain and retain skilled labour because of their inability to pay competitive wages. Problems in marketing SME's products are due to a number of factors such as poor designs, poor quality of finished goods due to use of poor quality raw materials and lack of quality control, lack of skilled labour, lack of after sales services (Moha and Mohd, 2000). As a result SME's face problems in marketing and lack of export penetration, including keen competition, delivery difficulties, customer problems and export market.

The difficulties in finding an export market are also due to a number of external factors like stiffer competition from other exporting countries, the price increase of raw materials and the fluctuations in international currencies. However, SME's seem to play a more significant role in the export of manufactured products in more advanced countries. Evidence shows that SME's in Japan accounted for nearly 60 per cent of total manufactured exports while SME's in South Korea contributed around one third of the country's total exports (Moha and Mohd, 2000).

- Inexperience 15 percent

3.3. CONCLUSION

It is undoubtedly clear that the abovementioned factors are key determinants for the success of the small business. It is therefore of vital importance that owners/managers of small businesses must know these factors and understand how they affect the business. Some of these factors affect the business environment and any business that ignores environmental scanning cannot survive. This therefore means that owners/managers of small business cannot afford to ignore these factors if they want to see their businesses growing and succeeding. If entrepreneurs continue to ignore these factors, the small business sector will not grow regardless of the size of funding used to assist the sector.

The next chapter deals with the Research Design and Research Method.

CHAPTER FOUR

RESEARCH DESIGN AND RESEARCH METHOD

4.1. INTRODUCTION

In this chapter, a detailed description of the research design and methodology along with the context of the study is presented. In addition, the instrument of data collection is discussed. Also mentioned is the justification for the methods chosen to perform this study.

4.2. DEFINITION OF RESEARCH METHODOLOGY

The term methodology refers to the theory of how research should be undertaken (Saunders, Lewis and Thornhill, 2003). Research methodologies describe how to translate the research perspective into a way of studying the world. If research philosophy concerns the “study” of study; then research methodology concerns the ‘study’ of how to study. A research methodology may be implemented through several different research designs, the plan for conducting your study, through translating methodology into specific research methods, the techniques you use to collect and analyse data. In turn, research methods comprise specific techniques and tools, the physical or electronic artefacts associated with particular methods, for example a web survey, a questionnaire or an interview schedule (Maylor and Blackmon 2005).

4.3. RESEARCH DESIGN

The research design is how a researcher is going to conduct a research (Velde, Jansen and Anderson, 2004). According to Hair, Babin, Money and Samouel (2003), a research design provides the basic directions or ‘recipe’ for carrying out the project.

4.4 QUALITATIVE AND QUANTATIVE RESEARCH

Velde et al (2004) states that Quantitative research is where the results are numerical in nature. Qualitative research is where the results are not directly numerical in nature, but are composed for example, of words, narrations or descriptions of behaviour, which must later be categorised and quantified (converted into numerical value). According to Hair et al (2003),

Quantitative data are measurements in which numbers are used directly to represent the properties of something. Qualitative data represent descriptions of things that are made without assigning numbers directly.

4.5 METHODOLOGY CHOSEN AND RATIONALE

According to Velde et al (2004) it is common to use a combination of the methods and he calls it 'method triangulation'. He further stated that the researcher combines qualitative research (usually defined as observation research and interviews) and quantitative research (usually existing data and written questionnaire survey). He says 'in this way data sources complement each other and the researcher has the possibility of checking the information (do the various sources provide the same results?)

Based on Velde's et al contention above, this research used multi-programmed or method triangulation approach involving qualitative and quantitative methods of research. Qualitative technique was used for collecting, reviewing and analyzing literature. The qualitative design was most suitable as it facilitated flexibility and allowed entrepreneurs to describe their views and experiences. Analysis of responses from small business entrepreneurs was done through quantitative technique to determine results. Through this design, the researcher was able to appreciate the experiences of small business entrepreneurs and identify contributory factors to small business failures in Botswana. The survey strategy was adopted to collect empirical data from small business entrepreneurs because the survey method was found to be the most appropriate method for this research. The survey strategy is also simple to use.

4.6 LITERATURE SEARCH

Maylor and Blackmon (2005) state that a literature search mean the process of finding out more about a research topic, in particular a theoretical problem. The literature is the record of other peoples' research. It contains information about research topics, questions and data that accumulates as researchers conduct research projects and report their findings. A comprehensive literature search was undertaken in order to generate and refine the research ideas and assist in the formulation of the hypothesis propounded, secondly to indentify relevant material on the research topic for critical review and lastly to provide an idea for the empirical

research undertaken. Various sources were consulted and these comprise primary and secondary sources.

4.6.1. Primary Sources

According to Saunders (2003), primary literature sources are the first occurrence of a piece of work. He further said they include published sources such as reports and some Central and Local Government Publications such as White Papers and planning documents. They also include unpublished manuscripts sources such as letters, memos and committee minutes that may be analysed as data in their own right. Hair et al (2003) states that primary sources are collected for the purpose of completing the current research projects. He further said “Thus the researcher has been involved in every aspect of turning the data into knowledge. For this research, primary sources used were Central Government publications like White papers, planning documents like National Development Plans.

4.6.2. Secondary Sources

Saunders et al (2003) states that secondary literature sources such as books and journals are the subsequent publication of primary literature. Hair et al (2003) states that secondary data are data that have been collected for some other research purpose. For this research secondary sources such as books and journals have been used.

4.7 SAMPLING

Hair et al (2003) defines a sample as a relatively small subset of the population. Jankowicz (2000) defines sampling as the deliberate choice of a number of people, the sample, who are to provide data from which you will draw conclusions about some larger group, the population, whom these people represent. Saunders et al (2003) identified various techniques that can be used in random sampling. These are simple random sampling, systematic sampling, stratified sampling, and cluster sampling.

4.7.1. Simple Random Sampling

Saunders et al (2003) define it as: “probability sampling procedure/technique that ensures that each case in the population has an equal chance of being included in the sample”. The technique is used when the characteristics of the whole population are similar. Hair et al (2003) defines it as a straightforward method of sampling that assigns each element of the target population an equal probability of being selected. Jankowicz, (2000) states that simple random sampling involves a straight forward sampling frame of all people in your population not to classified in any way.

4.7.2 Advantages of Sampling

- Sampling can be very accurate as well as saving much time and money. Clearly using a sample instead of a census will save time and money, but if done right, samples can also be just as accurate as census.
- Taking a sample allows survey research to be conducted at a single point in time so that opinions of all respondents are comparable.
- A sample may achieve a greater response rate and greater cooperation in general from respondents and thus may be more accurate.

For this research, simple random sampling technique was used to select small business entrepreneurs to which questionnaires were administered as it gave every entrepreneur a chance to be selected. The rationale for using a survey questionnaire as opposed to other methods was that it is reasonably cheaper, easy to administer, allows the collection of both qualitative and quantitative data though it can suffer from response rate. Additionally, unstructured interviews were also conducted at the time of data collection. This was especially necessitated by a need for clarity whereby either the respondent did not understand the question or researcher needed some clarification. A total number of 35 questionnaires were distributed to small business entrepreneurs in Gaborone and surrounding villages of Pilane, Ramotswa, and Molepolole

4.8 MEASURING INSTRUMENT

The questionnaires containing 17 open ended questions were used to collect empirical data from small business entrepreneurs.

4.9 PROCEDURE FOR DATA COLLECTION AND ANALYSIS

Keizer and Kempen (2006) states that once it is clear what needs to be investigated, it must be decided how the required information will be collected. There are various methods of collecting information. The researcher must weigh up the pros and cons of each method and decide which is best. It is practically impossible to give general guidelines for doing this. The important point for the student to bear in mind is that the research results must be 'solid' enough to back up the proposals for organisational changes. The student's results must stand up to claims that they are 'only' the researchers' subjective impressions.

4.10. METHODS OF DATA COLLECTION

Keizer and Kemper (2006) state that 'to set up the working plan and project organisation, it is necessary to decide which data collection methods will be used. They further said possibilities are participation, interviews, observations, analysis of documents, and measurements. According to Velde et al (2004), various data collection methods can be used as part of the research strategies and the methods were indicated as observation, interviews questionnaire and multi method.

4.10.1. Interviews

According to Robson (2002), interviewing as a research method typically involves you, as researcher, asking questions and, hopefully, receiving answers from the people you are interviewing. Interviews can be structured, semi-structured and unstructured. Interviews can be conducted face to face or through a telephone.

4.10.2. Unstructured interviews

The interviewer has a general area of interest and concern, but lets the conversation develop within this area. It can be completely informal. An interview is a very useful method for qualitative (especially semi-structured and unstructured interviews) data collection and where probing is required to get the real views of the respondent. Interviews also allow the researcher to interact with the subjects of the research to provide clarification or expand areas of interest which in effect enriches the research and allow the researcher an opportunity to record some other forms of communication such as body language. However the problem with interviews is that they are difficult to arrange and are time consuming, as they require careful penetration, making arrangements to visit, securing necessary permission which takes time. This can restrict the size of the sample. The other problem is that the researcher may have an influence on the responses.

4.10.3. Questionnaires

Saunders et al (2003) describes a questionnaire as a general term to include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order. According to Walliman (2001) “asking questions is an obvious method of collecting both qualitative and quantitative information from people.” He further explained that a questionnaire enables the researcher to organize questions and get replies without having to actually talk to every respondent. Questionnaires are cheaper to complete as both hand, postal and/or e-mail provide a cost effective method of contacting large sample size. However the method can suffer from poor response rates and if poorly constructed can have misinterpretation, hence lead to misleading results. The following are general principles to consider when drafting items for a questionnaire (Walliman, 2001):

- Make sure that the question is clear;
- Avoid any jargon or specialist language;
- Avoid ‘personal’ questions;
- Do not ask two questions in one item; and
- Avoid ‘leading’ questions which suggest indirectly what the right answer might be.

Advantages of a questionnaire (Walonick, 2003):

- Questionnaires are easy to analyze, as data entry and tabulation for nearly all surveys can easily be done with many computer software packages;
- Cost effective in time and money, as compared to face to face interviews;
- Questionnaires are familiar to most people - nearly everyone has had some experience completing questionnaires and they generally do not make people apprehensive;
- Questionnaires reduce bias. There is a uniform question presentation and no middleman bias. There are no verbal or visual clues to influence the respondent.
- Questionnaires are less intrusive than telephone or face to face surveys; the respondent is free to complete the questionnaire on his own timetable.

Disadvantages of a questionnaire (Walonick 2003):

- Possibility of low response rates due to non-returns, which is a curse of statistical analysis.
- Inability to probe responses, as they are structured instruments; as such they allow little flexibility to the respondent with respect to response format. This can be partially overcome by researcher allowing frequent space for comments.
- Misinterpretation – When the respondent does not understand either the survey instructions or the survey questions.
- Valid problems – The respondent can deliberately choose answers to mislead the researcher, or he can give the questionnaire to a friend to complete.

For this study, both the questionnaire and unstructured interviews were used to collect data from entrepreneurs. The interviews were conducted face to face. The above general principles to consider when designing a questionnaire as recommended by Easterby-Smith et al, 1991 were complied with.

4.11. DATA ANALYSIS

Data analysis is the process of testing the research hypothesis. This means that the analysis tools used must be capable of providing some basis for determining whether the hypothesis is true or false. After the hypothesis have been developed, and before any information is collected, the researcher must decide how the hypothesis will be tested. For this research, the researcher had developed a hypothesis and tested it. The hypothesis tested was related to the questions in the questionnaire. The responses in the questionnaires were analyzed one after another. The data analysis was based on the frequency distribution (percentages) of responses. Aggregate response levels were calculated for all parameters under consideration.

4.12. ETHICAL CONSIDERATIONS

Saunders et al (2003) states that ethical concerns will emerge as you plan your research, seek access to organisations and to individuals, collect, analyse and report your data. In the context of research, ethics refer to the appropriateness of your behaviour in relation to the rights of those who become the subject of your work, or are affected by it. They define ethics in terms of code of behaviour appropriate to academics and the conduct of research. The ethical issues that affect the research generally as follows (Saunders et al, 2003):

- Privacy of possible and actual participants;
- Voluntary nature of participation and the right to withdraw partially or completely from the process;
- Consent and possible deception of participants;
- Maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity;
- Reactions of participants to the way in which you use, analyse and report your data;
- Behaviour and objectivity of the researches

Saunders et al (2003) further states that ‘the maintenance of your objectivity will be vital during the analysis stage to make sure that you do not misrepresent the data collected. This includes not being selective about which data to report or, where appropriate, misrepresenting its statistical accuracy. For this study, the researcher complied with almost all the above ethical issues. The

entrepreneurs were each interviewed privately, the participation was voluntary, their identity was anonymous and the data was kept confidential. The interviews were conducted in a relaxed environment to enable respondents to be free. Similarly other individuals, who provided assistance during literature search, did it voluntarily. Furthermore the researcher was objective and reported the results as they were without being selective of what to report and without any misrepresentation.

4.13. LIMITATIONS

This survey project has never been without problems. Originally the intention was to distribute 40 questionnaires in all the 4 areas but finally only 35 were distributed. This was so because some entrepreneurs were uncooperative and refused to accept the questionnaires. They mentioned being sick and tired of participating in interviews which never benefit them. They also indicated that many people have interviewed them in the past pretending that they wanted to assist them only to realize later that those interviewers used the responses for their own benefit. Such intimidation and mistrust by the entrepreneurs also made this exercise a lot more laborious. Another factor that affected our sample size was that most entrepreneurs who had been operating from factory shells which were constructed by the former Ministry of Commerce and Industry had either relocated to other places or closed down. This was so because after the establishment of the Local Enterprise Authority (LEA), the Ministry transferred the factory shells to LEA. LEA was established by the Small Business Act of 2003 as a Statutory Authority of the Botswana Government intended to create a coordinated and focused one stop shop authority that will provide support services to the local industry needs of SMMEs, encompassing training, mentoring, marketing and technology support. (The Botswana Daily News, 3rd August, 2007, p.5). Before the establishment of LEA, some of the abovementioned functions like training were performed by the former Ministry of Commerce and Industry through the Department of Industrial Affairs. LEA started operating in 2005 and in 2007 the factory shells which were under the above Ministry were transferred to LEA. Immediately after the transfer, LEA instructed the entrepreneurs to have vacated the premises by 30th September, 2007. Although some entrepreneurs have not yet vacated, some had already done so. It was therefore difficult for us to locate some of the entrepreneurs.

4.14. CONCLUSION

This chapter discussed the available research methods and research designs. It clearly shows the method used by the researcher and provides a justification for the method chosen. According to Gill and Johnson (1997), there is not necessarily one best research methodology – approach. And they have argued that we can discriminate between different approaches in terms of their relative emphasis upon deduction and induction, according to their degree of structure, the kinds of data they generate and the form of expectations they create.

CHAPTER 5

PRESENTATION OF DATA

5.1. INTRODUCTION

This chapter indicates a presentation of primary data for small business entrepreneurs in response to a questionnaire. A questionnaire was designed and distributed to small business entrepreneurs. Data was critically evaluated and analysed. The data presentation is in the form of tables followed by a detailed analysis. A total of 35 copies of the questionnaire (see Appendix 1) were distributed to small business entrepreneurs in Gaborone, Pilane, Ramotswa and Molepolole. A total number of 28 respondents completed the questionnaires representing 80 percent response. Of the twenty eight respondents, only twenty five had benefited from the Financial Assistance Policy (FAP). This therefore restricted the researcher to focus the analysis on 25 respondents because the research problem is concentrated on businesses which were FAP funded. The other three respondents were financed by own capital. The number of hypothesis posited in search of answers to the research problem was 4. The posited hypothesis shall be examined one after another to see how the responses reflect on each one.

5.2. THE HYPOTHESIS AND THE QUESTIONNAIRE

The questions which appeared in the questionnaire were directly related to the hypothesis as shown below:

- Hypothesis a – Questions 6,7,8 and 17
- Hypothesis b – Questions 9 - 11
- Hypothesis c – Questions 12 - 13
- Hypothesis d – Questions 14 -16

- **Hypothesis a**

Small businesses in Botswana are not likely to experience financial constraints because of the Government financial assistance.

The purpose of the hypothesis was to highlight that as small businesses in Botswana were provided with non-repayable grants to either establish themselves or to expand, they would

not experience financial difficulties in their day to day operations. The objective of the Financial Assistance Policy (FAP) was to facilitate diversification of enterprise from the mineral led economy. Hence the provision of grants was seen by Government as an essential policy instrument to assist entrepreneurs venture into other business outside diamond. The following is a presentation of a summary of the data collected in response to a question which was meant for entrepreneurs who benefitted from FAP.

Table 5.2.1 – Response to question 17 saying “Does your company have any financial constraints”

Financial Constraints

	Not Having Financial Constraints	Having Financial Constraints	Total
No. of Businesses	5	20	25
	20%	80%	100%

The results of the above show that of all businesses that have benefitted from FAP, only 20 percent are not facing financial problems. The findings do not support the hypothesis that small businesses in Botswana are not likely to experience financial constraints because of the Government financial assistance. The provision of financial assistance by Government was not automatic for small businesses. The business owner was to satisfy certain conditions before the assistance could be granted. The Government realized that full financial assistance could not arouse the required commitment from the businessman to efficiently manage the business.

Most of the small businesses are still plagued by lack of adequate funds to finance their operational expenses and capital acquisitions. The financial institutions require a high contribution and collateral security which small businessman find difficult to raise.

Table 5.2.2 – Response to question 6 saying “Did you seek FAP funds for the business”

Financial Assistance Policy funds applied for

	Applied for FAP funds	Did not apply for FAP funds	Total
No. of Businesses	25	-	25
	100%	-	100%

The results show that all the respondents seek and received FAP funds. This means that all needed financial support and some could have collapsed if they were not financed.

The findings support the hypothesis that small businesses in Botswana are not likely to experience financial constraints because of the Government Financial Assistance.

Table 5.2.3 – Response to question 7 saying “How many times have you benefitted from FAP”

Frequency of businesses benefitting from FAP

	Benefitted once	Benefitted more than once	Total
No. of Businesses	12	13	25
	48%	52%	100%

The results show that 48 percent of businesses have benefitted from FAP once. This means that the 52 percent which benefitted more than once continued to experience financial constraints despite having been financed before. There is likelihood that if these businesses were not financed more than once, they would not have survived. The findings do not support the hypothesis that small businesses in Botswana are not likely to experience financial constraints because of the Government Financial Assistance. This is so because despite having been financed more than once, they still struggle to survive. It appears being financed over and over again does not benefit the small business sector.

Table 5.2.4 – Response to question 8 saying “Would you like FAP to be re-implemented”

Re – implementation of FAP

	Want FAP to be Re- implemented	Do not want FAP to be Re- implemented	Total
No. of Businesses	25	-	25
	100%	-	100%

The results show that 100 percent of businesses want FAP to be re - implemented. This is surprising because according to table 5.2.1, only 80 percent had indicated having financial constraints. However, the results may be so because FAP funds were free grants and everybody would like to have money given to them. Some of them have been assisted more than once, but are still struggling to survive.

The findings do not support the hypothesis that small businesses in Botswana are not likely to experience financial constraints because of Government assistance.

- **Hypothesis b**

Small businesses are likely to operate inefficiently due to lack of management skills of owners/managers.

The purpose of this hypothesis was to find out if small businesses are run by owners/managers who are adequately skilled in management. Small businesses are started for various reasons by people from all walks of life, some with management skills and others without.

Table 5.2.5 – Response to question 9 saying “How long have you been in a managerial position”
Experience of Owner/Manager

	Experienced owners/manager	Inexperienced Owners/Managers	Total
No. of Businesses	2	23	25
	8%	92%	100%

The results show that 92 percent of the respondents lack adequate experience to manage. Those who have experience held management positions for over 5 years. The findings support the hypothesis that small businesses are likely to operate inefficiently owing to lack of management skills of owners/managers.

Table 5.2.6 – Response to question 10 saying “Have you ever attended any course in management”

Management courses attended

	Courses not attended	Courses attended	Total
No. of Businesses	1	24	25
	4%	96%	100%

The results show that 96 percent of all the respondents have attended management courses. This may be so because at the time of FAP, beneficiaries were encouraged to pursue short courses although this was not a requirement. The findings do not support the hypothesis that small businesses are likely to operate inefficiently owing to lack of management skills of owners/managers.

Table 5.2.7 – Response to question 11 saying “ Are you satisfied with the knowledge acquired from management course/courses attended”

Knowledge acquired from the management course/courses attended

	Knowledge acquired satisfactory	Knowledge acquired not satisfactory	Total
No. of Businesses	5	20	25
	20%	80%	100%

The results show that 80 percent of entrepreneurs were not satisfied with the knowledge they acquired from management courses attended. There is likelihood that the courses may have been too short for the participants. The findings support the hypothesis that small businesses are likely to operate inefficiently due to lack management skills of owners/managers.

- **Hypothesis c**

As a result of lack of management skills, owners/managers of small businesses do not have marketing plans in place. The purpose of the hypothesis was to find out if owners/managers of small businesses have the capability to promote their products to facilitate growth.

Table 5.2.8 – Response to question 12 saying “Does your company have a marketing plan”

Existence of marketing plans

	Prepare proper marketing plans	Not preparing proper marketing plans	Total
No. of Companies	3	22	25
	12%	88%	100%

The results show that only 12 percent of the companies develop marketing plans. The owners/managers who prepare the marketing plan have management skills. The three owners/managers in this case have attended self sponsored short courses on management. The results highlight the fact that without managerial skills, it is almost impossible to successfully prepare comprehensive marketing plans. Management skills are inseparable from owners/managers.

The findings support the hypothesis that as a result of lack of management skills, owners/managers of small businesses do not have proper marketing plans.

Table 5.2.9 – Response to question 13 saying “Does this marketing plan only contribute to the formal sector”

Contribution to formal/informal sector

	Contribute to formal sector	Contribute to informal sector	Total
No. of Companies	2	23	25
	8%	92%	100%

The results show that 92 percent of respondents sell their products to the informal sector. The results indicate that small businesses do not market their products to facilitate growth. Alternatively it may be that small businesses do not have the capacity to meet the demands of the formal sector. The informal sector is unreliable and as such it becomes difficult to plan ahead due to the uncertainty of the income generation. With the formal markets, the supplier is assured of payment and as such can plan ahead based on the income expectations. If the small businessman had management skills he would know the benefits of having a market plan in place.

The findings support the hypothesis that as a result of lack of management skills, owners/managers of small businesses do not have marketing plans in place.

- **Hypothesis d**

Since most owner/managers are not exposed to basic Accounting and Financial training, they are not likely to perceive any need to establish budgets, cash flows and to maintain books of accounts.

The purpose of this hypothesis was to find out if small business owners/managers perceive any need to establish budgets, cash flows and to maintain books of accounts.

Table 5.2.10 - Response to question 14 saying “Are budgets prepared on a yearly basis”

Preparation of budgets and cash flows

	Prepare an effective budget and cash flow	Do not prepare an effective budget and cash flow	Total
No. of Businesses	4	21	25
	16%	84%	100%

The results show that only 16 percent of small businesses prepare budgets and cash flows. This shows that some owners/managers perceive the need to establish budgets and cash flows but other managers may perceive the need but are not capable.

The results show that the owners/managers who prepare budgets and cash flows are owners/managers who have pursued short courses for self development. The fact that 84 percent of the respondents do not prepare budgets and cash flows reflects that such companies do not maintain any book-keeping records and are not sure of how they would be proceeding.

The findings support the hypothesis that since most owners/managers are not exposed to basic Accounting and Financial training they are not likely to perceive any need to establish budgets and cash flows.

Table 5.2.11 – Response to question 15 saying “Does your company maintain monthly management accounts”

Maintenance of Monthly Management Account

	Accounts maintained	Accounts not maintained	Total
No. of Businesses	4	21	25
	16%	84%	100%

The results show that only 16 percent of small businesses maintain monthly management accounts. This indicates that most of the small businessmen do not have basic book-keeping knowledge and as such they do not even know whether they are making a profit or not.

The findings support the hypothesis that since most owners/managers are not exposed to basic Accounting and Financial training, they are not likely to perceive any need to establish budgets, cash flows and maintain books of accounts.

Table 5.2.12 - Response to question 16 saying “Does your company have a business plan”
Business plan

	Business plan available	Business plan not available	Total
No. of Companies	7	18	25
	28%	72%	100%

The results show that only 28 percent of the respondents establish business plans. The reason for not establishing business plans may be associated with the fact that managers do not have any training in management skills.

The findings support the hypothesis that since owners/managers are not exposed to basic Accounting and Financial training, they may not perceive any need to prepare budgets, cash flows and to maintain books of account.

5.3 CONCLUSION

The aim of this research project was to provide reasons for small business failures in Botswana. The reasons were arrived at by testing a set of the hypothesis. This chapter therefore discusses the results of the hypothesis tested. The hypothesis tested confirmed that there are mainly four reasons which lead to small business failures in Botswana namely:-

- Financial – Difficulty with raising funds both for day to day operations and capital;
- Lack of management skills - Almost all the entrepreneurs contacted have never gone for long term training. Most of them lack adequate experience and have attended courses of short duration ranging from one to four weeks. Only two of them attended courses which took up to six months;
- Lack of basic Accounting and Financial training - Most of them has no idea about basic Accounting and Financial knowledge.
- Non development of marketing plans – As a result of lack of management skills, small business entrepreneurs do not develop marketing plans. It has also come

out clear that the small business entrepreneur himself is the cause of most of these problems. This is so because in spite of all his limitations, the small business entrepreneur seldom seeks assistance from knowledgeable and experienced people.

From the literature review conducted, the project has also shown that problems associated with the small the business sector are not confined to Botswana only. Some countries are also facing the same problems. Examples of such countries are the United States of America, the United Kingdom, Namibia and South Africa.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1. INTRODUCTION

This chapter is aimed at outlining the findings and conclusions from the analysis of empirical data with recommendations for a way forward. The conclusion is based on data analysis.

6.2 SUMMARY OF FINDINGS

The research findings show that lack of funding is still a problem in Botswana, despite the availability of a Government Assistance Policy. Small business requires fixed capital and working capital to get the business started and to assist with the day to day running of the business.

To compete with their rivals, small businesses require finance to recruit and retain the skilled employees, to promote the product, to purchase stock, to buy fixed assets and to have adequate working capital to finance day to day business operations.

Financial institutions are prepared to assist small businesses provided they satisfy the necessary conditions, but in most cases, small businesses fail to satisfy such conditions, claiming that financial institutions require a high contribution and collateral security which they cannot raise. This situation leaves the small business with no where to go to seek financial assistance. Hence lack of funds becomes one of the major causes of small business failures in Botswana. As stated earlier, financial institutions are prepared to assist small business provided they meet the banks' conditions.

The only feasible way for small businesses to get financial assistance from financial institutions is to maintain proper accounting records, to have an effective manager and to make a profit. If the small business is profitable, there is no reason why it cannot raise the required contribution and collateral security. The financial institutions would certainly not refuse to assist where it is obvious that the business is viable, is making profits and is under sound

effective management. In summary, accounting information is very important to any organization.

Most of the business decisions taken by the owner/manager must be based on accounting information. Hence, without any accounting information, decision making would be a trial and error game.

The failure of small businesses can be identified to the owner/manager of the business. The people who start these businesses are mostly unskilled in management. They also do not attend part time courses to equip themselves with the necessary skills. Hence, most small business owner/managers are not capable of executing their managerial functions and the business gradually fails.

The research has clearly indicated that small business failures are partly due to an inexperienced and/or unskilled owner/manager. Small businesses do not only serve the objectives of the owner/manager but also help members of the community in providing employment and offering goods and services which the community needs to satisfy its desires. Therefore poor management of the small business is not only the problem of the owners/managers but also a cause for concern for the community at large. In today's world of tough competition, the success of the company depends on the competence of its manager. The owners/managers must be able to execute their managerial functions of planning, organizing, controlling and leading. These are the essential ingredients for a successful manager. The owner/manager must be a generalist who can perform any activity within the organization.

Small businesses are not marketing their products despite the high level of competition. Small businesses do not promote their products or services and as a result their products and services are known only by a few customers. Product promotion is important because it informs members of the public about businesses' products and at the same time persuade and arouse their interest in the product

A marketing plan is an essential tool that guides the business action to achieve its marketing objectives. A business that does not understand its market and competitors has little chance of success. The marketing plan details how the business should price its products, how the distribution process will take place and how the products would be promoted. It also identifies

the internal weaknesses and strengths of the organisation and external opportunities and possible threats to watch. This will enable the business to take appropriate action to strengthen its weaknesses, to take advantage of external opportunities and to formulate strategies to counteract the activities of the competitors that have direct impact on the company's performance. A business plan serves as a guideline for the actual running of the business.

In summary, this study has identified four major causes of business failures in Botswana which are:

- Financial Constraints;
- Lack of management skills;
- Non development of marketing plans;
- Lack of Basic Accounting and Financial training

It is obvious that the inability of business to meet its day to day finance requirements is the primary cause of business failures.

Other contributory factors to small business failures are inexperienced managers, and failure to keep proper records.

With so many challenges facing the small business sector, the implication is that the Government, apart from funding did not do enough to assist small businesses. The economy will grow at a very slow pace resulting in increased unemployment.

6.3. RECOMMENDATIONS

The recommendations have been divided into two sections:

6.3.1. Recommendations for owners/managers

From the findings, it is recommended that, the small business should prepare budgets to assist the owners/managers in controlling the company; it should prepare financial statements and above all maintain its profitability.

It is recommended that during the early years of the business, the owners/manages should seek assistance of accounting services to prepare records of the company. At the same time the

owner/manager should also attend seminars on accounting or attend part time business courses that will equip them with the necessary skills to be able to read and interpret the financial statements. Such financial statements will be useless for decision making if the owners/managers cannot interpret them.

The small business should implement all the necessary accounting controls and should operate on a cash basis to avoid bad debts.

The owners/managers should have managerial experience in the major activities of the business, such as finance, purchasing, inventory, selling, marketing and production.

The owner should learn how to delegate because this would give him adequate time to attend to the most pressing issues of the organisation.

The owners/managers of small business should also recognize their weaknesses when it comes to management. They should be willing to learn more to improve their managerial performance. Owners/Managers should also not shy away from seeking assistance from those who are well experienced managers. In that way, they are consolidating their knowledge.

Owners/Managers who lack managerial skills to run the company should not hesitate to employ even on part time basis, a skilled manager. It is only when a business is managed by a skilled manager that profits are likely to be made. The owners/managers should all the time understudy the part time manager and he should also attend seminars and short courses that are geared at improving managerial skills.

Owners/Managers need to do a lot of learning if they harbor any hopes of making it big. They should forget the 'it's my business thinking' and concentrate on equipping themselves and their employees with the necessary skills to be able to take right decisions when the going is tough. The owners/managers should improve their public relations skills. Public relations are very important especially where customers, suppliers and employees are involved. Successful entrepreneurs must have good human relations.

The owners/managers who lack marketing knowledge have to hire the services of marketing consultants. The consultant would prepare a marketing plan.

Owners/Managers have to improve their managerial skills if small businesses are to compete with big businesses.

The owners/managers should endeavour to join the local Chamber of Commerce to take advantage of its training assistance to small businesses. In the case of Botswana, it is the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM). The Local Enterprise Authority (LEA) is also offering training to small business managers, and this is an opportunity that should not be missed by owners/managers of small businesses.

6.3.2. Recommendations for Government

Support for the Small Business Sector should focus on training in business skills and entrepreneurial development. Although the Local Enterprise Authority (LEA) is there to support small businessmen, the private sector can also assist.

There is a need to address the issue of how to solve the problems in the short term and in the long term. In the short term these small business managers should join hands with Chambers of Commerce i.e. the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) to arrange for professional services that are being 50 percent subsidized by Government. BOCCIM runs courses for the small business sector at 50 percent costs for members and 100 percent for non-members.

During the days of the Financial Assistance Policy, Government should have provided accreditation of consultants in Engineering, Accounting, Management, Marketing and Finance who could have provided assurance to small business organisation.

With reference to solving the problems in the long term, Government has established Local Enterprise Authority (LEA), and with this it is anticipated that these problems will be resolved. As mentioned before, LEA was established by the Small Business Act of 2003 as a Statutory Authority of the Botswana Government, intended to create a coordinated and focused one stop authority that will provide support services to the local industry needs of SMMEs, encompassing training, mentoring and technology support.

Government should instil a culture of entrepreneurship among citizens. This can be done through training and by creating an environment that will enforce citizens to be serious and committed to their businesses. One way of creating an environment that will enforce people to

be committed to businesses is by doing away with non-repayable grants and instead provide citizens with secured loans at reasonable rates of interest. Once a loan is secured, beneficiaries will be committed and therefore work hard because they will not want to lose their property or whatever assets that may have been used to secure the loan.

Both LEA and financiers specifically Government financiers like the National Development Bank (NDB) and the Citizen Entrepreneurial Development Agency (CEDA) should each maintain a data base on the performance of their clients in order to be able to know those clients doing well, those who need assistance and those who abused past Government initiatives. It is well documented in the research that some FAP beneficiaries continued to benefit over and over again despite having abused past grants. In addition, some FAP abusers also benefitted in later schemes that were meant to assist small businesses. This was due to the absence of an informative data base. The Government should propose a policy that will prevent abusers of any Government initiative to benefit from initiatives which are given at a later stage.

There must be coordination between Government financiers such that on receiving application for assistance, the financier requests a confidential report from the other financier. The reason for the request of the confidential report is to find out how the applicant handles his financial affairs with the other financiers if he has any dealings with them. This will also assist in making people serious about their businesses. The way the applicants conduct their financial affairs with other financiers must be taken into account when considering their applications for finance.

Government should, in collaboration with the private sector, establish small business 'hives' or premises where small businesses can be located, and benefit from centrally provided support services. These hives should be managed by the private sector on a competitive basis.

Government, local authorities, parastatals and large companies should enhance their procurement policies in order to accommodate small businesses. For the small business to grow they need access to markets, both in the public sector and private sector. The public sector can assist in accelerating the growth of the small business in Botswana. This will however require that Government makes its procurement procedures amendable to purchasing from the small business. The amendments can include breaking the large quantities or volumes

of procurements into smaller units to allow the small business to meet the supply requirements of procuring entities.

The large businesses can play a role by purchasing some of their basic inputs from the small business. Examples of such inputs are goods like horticulture produce, bread, candles and many more one can imagine.

6.4. CONCLUSION

The study revealed that there are several problems that are being faced by small businesses. These problems result in small business failures in Botswana. The failure of small businesses can be identified to the owner/manager of the business. Most of small business entrepreneurs in Botswana are ignorant but they do not see the need to employ qualified managers. This is adversely affecting the performance of the small business sector.

The lesson got from this study is that when people are given free grants like in the case of FAP, they do not become committed to the business because they have nothing to lose.

If the Government does not extend the support for small business beyond just financing, it will be difficult for this sector to grow. Government needs to do a lot in terms of training and changing the mindset of citizens for the small business sector to succeed.

The administration of FAP was characterized by inappropriate incentives: the main incentive was to disburse available funds, not to maximize the survival rates of assisted projects.

The FAP was neither a cost-effective way of promoting the establishment of sustainable jobs nor of diversifying the economy. Even though some of the earlier evaluations of FAP were in its favour, this resulted in increasing abuses leading to loss of government funds unnecessarily.

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APPENDIX I

QUESTIONNAIRE

1. NAME OF BUSINESS

2. Occupation

3. Are you the manager/owner of the business?

4. If you are the owner, what motivated you to start the business?

5. When did you start your business?

6. Did you seek Financial Assistance Policy (FAP) funds for the business?

7. How many times have you benefitted from FAP?

8. Would you like FAP to be reimplemented?

9. How long have you been in a managerial position?

10. Have you ever attended any course in management?

11. Are you satisfied with the knowledge you acquired from management courses attended?

12. Does your company have a marketing plan?

13. Does this marketing plan only sell to the formal sector?

14. Are budgets prepared on a yearly basis?

15. Does your company maintain monthly management accounts?

16. Does your company have a business plan?

17. Does your company have any financial constraints?
