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Assessing the causal failures of emerging manufacturing SMEs in Johannesburg

Mthabela, Thabani Eddison

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Assessing the Causal Failures of Emerging Manufacturing SMEs in Johannesburg

Student name

Thabani Eddison Mthabela

Supervisor name

Dr. Jose Barreira

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management specialising in Entrepreneurship and New Venture Creation

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ABSTRACT

This report provides an examination of reasons that may be responsible for the failure of start-up manufacturing small to medium enterprises (SMEs) or businesses in Johannesburg, South Africa. The high failure rate of manufacturing SMEs can be, to some extent ascribed, to the following factors: The lack of support that the small, medium and micro-enterprises receive from Government and its policies, lack of sponsorship from well-established organisations that could provide SMEs with commercial advantages such as legitimacy of the brand, and also their own internal processes that are weak in organisational design and execution of strategies. While it is well-known that the SME sector is regarded as the major contributor to any economy, it can be highlighted that the failure of most businesses could also be as a result of common causes such as lack of entrepreneurial mindset and financing, due to lack of up-skilling, inability to meet customer requirements and international standards certification. This research study was exploratory in nature, descriptive and employed a qualitative and quantitative analysis. A research instrument was presented by email and also physically sent to the respondents by the researcher and delegates and semi-structured interviews were also conducted.

The results of the study indicated that the most common causes of SMME failure are lack of Government funding, lack of coaching and mentorship and high interest rates and taxes. Based on the findings of the study, recommendations were developed to try and minimise the failure rate currently crippling SMMEs. The study recommends that the South African Government should review its SMME governing policies and make them more flexible towards SMME establishment. Government should also create transparent communication channels between start-up SMEs and bigger organisations within the same field of interest and also sponsorship for additional studies to be conducted based on SMME failure. Should these recommendations be properly implemented, the failure levels of SMMEs could be reduced, not only in Johannesburg but across South Africa as a whole.

DECLARATION

I, Thabani Eddison Mthabela, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

(Type your name in full here, and sign in the space above)

Signed at ……

On the …….. day of …… 2015

DEDICATION

This Research study is dedicated to my parents, Sibusiso and Nonhlanhla Mthabela. Without you, this project wouldn’t have materialised. Ngiyanithanda!

ACKNOWLEDGEMENTS

All praises be to God! Amen.

I would like to articulate my sincerest appreciation to my supervisor, Dr Jose Barreira, who has been very supportive and challenging throughout this study.

To my wife, Zamashinga Amanda Mthabela, thank you for being my pillar of strength and most importantly my partner in times of need where my strength was failing me. The lonely nights without me have finally paid off! Thank you for having the faith in me that allowed you to agree in using our investments to further invest in something as invaluable as this qualification. I love you!

To my team, my soldiers who went out there on my behalf to collect all necessary information to make this report a success, I know at times I could be a pain, but thank you for your tolerance and patience.

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1. INTRODUCTION

1.1 Purpose of the study

This study has been inspired by the concerning statistical findings of Kew, et al., (2009), Kew, et al., (2010), Simrle, et al., (2011), Herrington, et al., (2012) and Amoros & Bosma, (2013) that find that the Total-entrepreneurial Activity (TEA) for South Africa tends to fluctuate below the average of efficiency driven economies by 5.9%, 8.9%, 9.1%, 7.3% and 10.6% respectively, which in return has somehow led to speculation that it has played a role in the reduced survival rate of the nascent small, medium and micro enterprises in South Africa. This remains a matter of serious concern in South Africa and prompted a more thorough investigation to determine the causal failures responsible for such low total-entrepreneurial activity in South Africa. Additional statistics have been presented in the South African Global Entrepreneurship Monitor GEM (2011), in particular where it includes the comparison of total entrepreneurial activity between the BRICS countries for the years 2006 and 2011, prior to the global economic crisis. The BRICS countries is an association of five major emerging national economies that are also part of the G2020 membership, namely: Brasil, India, China, Russia and South Africa. Yet again South Africa has been found to be the second lowest economy with entrepreneurial activity of the BRICS economies due to its large percentage of 48.2% youth unemployment for people between the ages of 18–34 years.

This research study has selected the manufacturing sector within the Johannesburg region as the area of focus in an attempt to identify some of the major causes that may play a significant role in the failure of start-up and new manufacturing SMEs. It is important to identify these as statistics have proven that small businesses are major contributors towards the South African gross domestic product (Chimucheka, 2013; Seeletse, 2012). Ni, et al.,(2012) believe that when entrepreneurship, as a tool, is fully exploited, it can yield the richest fruit in terms of economic growth of a country. Its highly

essential characteristics, i.e. value creation, need to be explicitly scrutinised in order to promote innovation because the breakthrough within the interface of such characteristics can only stimulate economic growth and productivity (Kuratko 2012). Another key influencer in successful entrepreneurship is quality education that has the ability to develop an individual's cognitive abilities, thus promoting high levels of self-confidence and acquiring the drive to serve as an agent of change, according to Barreira, et al., (2011).

1.2 Purpose of the study

The purpose of this research study is to add to the body of knowledge by analysing some of the underlying contributing factors responsible for some of the failures experienced by SMEs in Johannesburg, more specifically in the manufacturing sector, since the manufacturing sector in South Africa has expanded an established, diversified foundation that has publicised its resilience and potential to compete in the global economy (Africa, 2013). The manufacturing sector presents a locus for invigorating the growth of other conducts, such as services, and achieving specific results, such as employment creation and economic empowerment. This sector contributed 15.2% to South Africa's GDP in 2013, (Africa, 2013), making it the third-largest contributor to the nation's economy after finance, real estate and business services at 21.5%.

This study aims to specifically compare SMEs that have failed, in terms of service operations, profit, employment opportunities and growth to SMMEs that have only recently started their venture. In addition, it aims to outline the critical factors that result in failure among SMEs. Furthermore, this study aims to confirm whether or not there is a problem of business failure in Johannesburg and to identify the potential causes of the problem.

1.3 Problem statement

Despite the attempts made by the South African Government to assist in developing the SMME sector, most manufacturing SMMEs in Johannesburg are failing to develop into successful and sustainable businesses. A number of researchers have projected that the failure rate of small, medium and micro enterprises is within the bracket of 70% and 80% and that millions of rands are being misused on avoidable oversights and problems (Brink & Cant, 2003, Fatoki, 2011, Nyanga & Van Der Merwe, 2011). Schumpeter (1934), as cited in Olawale & Garwe (2010). was one of the earliest economists to argue for new firm creation, stating that new firms are the vital force behind the progress of capitalism and that the innovative activity of entrepreneurs feeds a creative "destruction process" by causing constant disturbances to an economic system in equilibrium, creating opportunities for economic rent. As cited in Olawale & Garwe (2010), based on evidence presented in the Amoros & Bosma (2013) journal, the survival prospect of new SMEs beyond 42 months in South Africa is less likely than any other GEM-sampled country and these failures contribute to the increase in the unemployment rate, poverty and possibly the crime rate, as well as a migration to provinces such as Gauteng that seem more attractive for opportunities.

This is definitely not an ideal situation for South Africa given the fact that in South Africa, SMEs are responsible for the contribution of 56% of private sector employment and 36% of gross domestic product (GDP) (Olawale & Garwe, 2010) and based on a recent study by (Seeletse 2012) it has been found that small businesses in South Africa constitute over 80% of the business sector. One of the contributing factors to the failure of SMEs in South Africa identified by Neneh & Vanzyl (2012) was that all SME owners need to possess a growth entrepreneurial mindset, since it is believed that entrepreneurs with a fixed mindset tend to have low confidence when faced with challenges and low performance goals. It is important to note that creating surviving SMEs calls for total reliance on entrepreneurship and the need for entrepreneurs to

possess an entrepreneurial mindset, entrepreneurial characteristics and good business practices that can enable them to create sustainable SMEs Neneh & Vanzyl, (2012).

1.3.1 *Main problem*

The main problem of the study is that despite the empirical evidence continuously presented by scholars, who are always contributing to the body of knowledge, Johannesburg, South Africa still has a very high rate of SMME failure.

1.3.2 *Sub-problems*

- There is a possibility that manufacturing SMME owners are not fully informed about the advantages and disadvantages of establishing a business venture.
- There is a lack of competitive spirit in business owners.
- There are not enough growth strategies adopted by manufacturing SMMEs in Johannesburg.

1.4 Delimitations of the study

This study will be limited to nascent SMMEs and new SMMEs that are aspiring to be heavily involved in manufacturing (no specific product) in order to narrow the scope of identifying the challenges that hinder SMME growth. These SMMEs researched will have been operating for between zero and three years from establishment, and will include failed SMMEs, where the former owners will be provided the research instrument to complete for analysis. A specific research conceptual model has been developed to assist with a collection of rational and mathematical relationships that will represent characteristics of the research variables that will be used to determine how businesses can be sustainable and successful. This model is explained in the literature review section where all its variables and how these variables play a role in the establishment of SMMEs are explained in detail.

1.5 Definition of terms

In this research there are a number of definitions that require further explanation.

Entrepreneurial Mindset

McGrath and MacMillan (2000,p.15) state: “The successful future strategists will exploit an entrepreneurial mindset, melding the best of what older models have to tell us with the ability to rapidly sense, act, and mobilize, even under highly uncertain conditions.” An entrepreneurial mindset is both an individualistic and collective phenomenon; an entrepreneurial mindset is important to individual entrepreneurs as well as to managers and employees in established firms to think and act entrepreneurially Covin & Slevin, (2002) (Ireland, et al., 2009, p.967).

Cognition

The cognitive approach to entrepreneurship is a response to the limitations of the trait approach. The cognitive elements such as self-efficacy, scripts, cognitive styles and heuristics provide a clear understanding of entrepreneurial cognition and it highlights the most important contributions of Cognitive Psychology to the field of entrepreneurship (Sanchez, et al., 2011).

The socio-psychological approach

Most discussions in this area of study usually begin with the work of Max Weber in his famous exposition of “The Protestant Ethic and the Spirit of Capitalism” in which he attempts to establish that the protestant ethic or the “minor virtues” of thrift, hard work, sobriety, honesty, and fulfilment of promises contribute to the successes of capitalist institutions in fostering fast economic progress brought about by a new character type. The Calvinist doctrine, which sold the notion of ‘calling’ to believers, required them to work out their own salvation through hard work and responsibility and resulted in them channelling their energies through entrepreneurial activities (Dhliwayo, et al., 2008, p.65).

SMME/ EME

Exempted Micro-Enterprises (EMEs) are deemed to have a Level 4 Broad-based black economic empowerment (BBBEE) status and start-up enterprises (in the first year of formation or incorporation) are measured as EMEs. This is not changing but the threshold to qualify as an EME has been increased from R5 million (or less) to R10 million (or less) of the total annual income (Attorneys, 2014).

SME/ QSE

The threshold for being a Qualifying Small Enterprise (QSE) has been increased to a total annual income of between R10 million and R50 million (currently R5 million to R35 million). The amendments also provide that the BBBEE status of QSEs will be measured by reference to all five BBBEE elements (under the current Codes, QSEs

may choose to be measured by reference to any four of the existing seven elements) and are subject to the automatic downgrade in BBBEE status if the minimum requirements are not met (Attorneys, 2014). The seven elements (codes) are:

- Ownership
- Management and control
- Employment Equity
- Skills Development
- Preferential Procurement
- Enterprise Development
- Socio – Economic Development

Faliure

Failure implies the absence of success and, like success, it can only be understood in relation to the expectations and goals of the people employed in the firm. Failure usually results if expectations are not met, and thus the concept of failure may mean different things to different people (April, 2005).

1.6 Assumptions

The study will be based on the following assumptions:

i) Manufacturing SME failures are caused by insufficient funding because this tends to limit their growth as a business and they have limited access to research and development, if any.

ii) Manufacturing SME failures can possibly be caused by unfavourable government policies that suffocate start-up businesses through high tax and insufficient support in assisting the business to acquire required resources.

iii) Manufacturing SMEs can also fail due to poor entrepreneurial mindset in business knowledge, business experience, cognition, and human and social capital.

Some of the questionnaires will also be based on these assumptions as they aim to prove that experience, knowledge, finance and favourable government policies are essential to the success and sustainability of any starting and growing business.

2. LITERATURE REVIEW

2.1. Introduction

This chapter commences with defining SMEs and the assumed motives behind their establishment. Entrepreneurship is then briefly described followed by a thorough analysis of literature based on the proposed research conceptual model for SMME/SME sustainability, where the role of government policy, entrepreneurial mindset and finance are rigorously scrutinised to determine whether they foster SME sustainability or not. This research study has been inspired by the failure rate of start-up manufacturing SMEs within the Johannesburg district and seeks to determine causal failures responsible for the demise of these SMEs.

This chapter aims to discuss and outline some of the arguments that various scholars have noted regarding the assortment of roles of entrepreneurs or small business owners and the significance and diversity of entrepreneurship intertwined with business outputs that lead to the success or failure of these businesses. It will also concentrate on some of the environments that are believed to be favourable and advantageous in establishing a successful venture that will have the likelihood of contributing towards the economy and GDP, whilst creating employment opportunities in the most disadvantaged areas.

2.2. Definition of SMME and its Significance

Small, medium and micro enterprises (SMMEs) is a model crafted and put into practice by the South African Government in an endeavour to advance the economy of South

Africa (Watkins & Bruwer, 2010) and the South African National Small Business Act No. 102 of 1996, classifies small, medium and micro enterprises as separate and distinct business entities together with its subsidiaries as mechanisms of an effort of inspiring the national economy, Bruwer, (2012). Coertze & Solms (2013) substantiated that SMMEs make up an imperative part of the business environment in developing countries as their activities have considerable implications for the general public and the environment.

As part of economic development, SMEs are key players in the establishment of socio-economic stability of a country (Battle, et al., 2013 & Aigbavboa, et al., 2014). SMEs are believed to have the potential to minimise the unemployment rate of South Africa and a study conducted by (Aigbavboa, et al., 2014, p.350) calculated that approximately 91% of formal business entities in South Africa are SMEs, and that they contribute between 52% and 57% to GDP and provide about 61% of employment. According to Schumpeter (2005, p.11), the entrepreneur is the crucial catalyst and solution to effective economic development and growth, and entrepreneurs are the individuals who create new recipes on the foundation of the organisational skills they possess and their creativity as decision-maker in the organisation. There are also a number of definitions that were useful in an effort to describe entrepreneurship that were positioned together in a strategic manner describing the contrasting hypothetical observations of how entrepreneurs accomplished outstanding profit. This is described in the table below that was cited in Gedeon, (2010) who tabulated the risk theory of profit and the dynamic theory of profit.

Author	Definition or aspects of a definition	School
Cantillon (1755) in Thornton (2005)	The entrepreneur is the bearer of risks inflicted by changes in market demand. Entrepreneurs purchase inputs at a given price to produce and sell later at an uncertain price. The entrepreneur brings prices and production into line with demand.	Risk Profit

Hufeland (1807) Thunen (1826) in Knight (1964)	Profit is what is left after interest, insurance, and management wages. This residual profit consists of payment for risk and the extra productivity of the manager's labour due to the fact that he is working for himself, his sleepless nights when he is planning for the business. The residual profit that arises from this extra productivity is termed Unternehmergewinn – the entrepreneur's profits.	Risk Theory
Hawley (1907)	Risk taking is the essential function of the entrepreneur. Proprietorship is the essence of entrepreneurship. "… the profit of an undertaking, or the residue of the product after the claims of land, capital, and labor are satisfied, is not the reward of management or coordination, but of the risks and responsibilities that the undertaker… subjects himself to…. profit is identified with the reward for the assumption of responsibility, especially, though not exclusively, that involved in ownership."	Risk Theory of Profit
Hartman (1959)	A distinction between manager and entrepreneur in terms of their relationship to formal authority in the industrial organization… The entrepreneur may justify his formal authority independently or he may describe it as delegated from others, notably from the stockholders. But within the organization he alone is the source of all formal authority. Management is defined residually as "not being the source of all authority." The border between the entrepreneur and the manager is thus relatively precise.	Risk Theory
Hornaday and Bunker (1970) Hornaday and Aboud (1971)	The successful entrepreneur was defined as a man or woman who started a business where there was none before, who had at least 8 employees and who had been established for at least 5 years.	Risk Theory
Palmer (1971)	The entrepreneurial function involves primarily risk measurement and	Risk Theory

	risk taking within a business organization.	
Draheim (1972) Howell (1972)	Entrepreneurship – the act of founding a new company where none existed before. Entrepreneur is the person and entrepreneurs are the small group of persons who are new company founders. The term is also used to indicate that the founders have some significant ownership stake in the business (they are not only employees) and that their intention is for the business to grow and prosper beyond the self employment stage.	Risk Theory
Brockhaus (1980)	An entrepreneur is defined as a major owner and manager of a business venture not employed elsewhere.	Risk Theory
Hull and Bosley (1980)	A person who organizes and manages a business undertaking assuming the risk for .	Risk Theory
Mescon and Montanari (1981)	"Entrepreneurs are, by definition, founders of new businesses."	Risk Theory
Vesper (1982)	"The overall field of entrepreneurship is loosely defined as the creation of new business enterprises by individuals or small groups."	Risk Theory
Lumpkin and Dess (1996)	"The essential act of entrepreneurship is new entity." "An EO [Entrepreneurial Orientation] refers to the processes, practices, and decision-making activities that lead to new entry."	Risk Theory & Behavior School
Say (1816)	The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield. The agent who unites all means of production and who finds in the value of the products …. the re-establishment of the entire capital he employs, and the value of the wages, the interest and the rent which he pays, as well as the profits belonging to himself.	Dynamic

Clarke (1899, 1907)	An invention makes it possible to produce something more cheaply. It first gives a profit to entrepreneurs… and this profit… is an elusive sum, which entrepreneurs grasp but cannot hold. [It] slips through their fingers and bestows itself on all members of society. Were it not for that interval, entrepreneurs as such would get nothing, however much they might add to the world's productive power.	Dynamic Theory
Schumpeter (1934)	"The carrying out of new combinations we call 'enterprise'; the individuals whose function it is to carry them out we call 'entrepreneurs'."	Dynamic Theory
McClelland (1961)	Entrepreneurial activity involves (a) risk-taking, (b) energetic activity, (c) individual responsibility, (d) money as a measure of results, (e) anticipation of future possibilities, and (f) organizational skills.	Traits School

Table 1: Summary of the Major Definitions that Provide Alternative Sub-Domain Adjectives of Entrepreneurship (Gedeon, 2010)

To provide a brief description of the difference in schools, Gedeon, (2010) established that the Risk Theory of Profit was invented by one of the great authors Cantillon, 1755 (1931), where this term described the farmer or trader who took the risks coupled with purchasing inputs at a given price to produce and sell later at an uncertain price. In contrast to the Risk Theory of Profit is the Dynamic Theory of Profit which begins with neoclassical economy theory which suggests that profits arise as a result of dynamic change from static equilibrium state fo perfect competition Schumpeter (1934).

2.2.1 *The Role of Business owners/Entrepreneurs*

According to Kuratko & Audretsch, (2009) the following factors should be considered by an entrepreneur when managing a business:

- ***Entrepreneurs should have the ability to plan strategically***: This is the formulation of long-term plans for the effective management of environmental opportunities and threats in light of a venture's strengths and weaknesses. It includes defining a venture's mission, specifying achievable objectives, developing strategies and setting policy guidelines.
- ***Entrepreneurs should have the ability to think strategically***: Thinking strategically is a result of strategic planning among business owners. Although not always articulated formally, strategic thinking synthesises the intuition and creativity of an entrepreneur into a vision for the future.
- ***Strategic management of a business***: This is a process that guides how the basic work of the organisation is approached, ensures the continuous renewal and growth on the firm, and, more particularly, provides a context for developing and implementing the strategy that drives a firm's operations.
- ***Entrepreneurs should have a strong desire to succeed***: Most entrepreneurs have an abundance of confidence in their ability to succeed. According to the study by the National Federation of Independent Businesses (NFIB), it was found that one third of the entrepreneurs rated their chances of success to be 100 percent. This proves that at times some entrepreneurs are overly optimistic, and this may sometimes result in business failure before they eventually become successful.
- ***Entrepreneurs should have the skills to organise the resources in the organisation***: When entrepreneurs establish a business venture, it is very important that they manage resources carefully and that they assemble a combination of effective people to execute the strategy.

- ***Business commitment***: Entrepreneurs should possess and demonstrate a high degree of commitment towards the business venture, as this is one of the key driving forces behind a successful business. An entrepreneur should also have a high tolerance for ambiguity because businesses do not operate in a vacuum, but in a business environment in which many changes take place.

A number of scholars such as (Mmbengwa, et al., 2011; Rankhumise & Lehobye, 2012; Fatoki, 2014;) have embarked on research to determine the factors and barriers that influence the success and failure of SMMEs and they have added to the body of knowledge that attempts to identify such critical factors. It is from this body of knowledge that the discussions of this literature review stem.

2.3 Government Policy

2.3.1 *Flexible Start-Up SMME/SME Policy*

Abor & Quartey (2010) and Aigbavboa, et al., (2014) went on to discuss the distinctiveness, contributions of SMEs to economic development, and the limitations to SME development in developing countries. They estimated that approximately 91% of formal business entities are SMEs and make a contribution of between 52% and 57% to GDP, whilst providing at least 61% of employment. They also believed that Government's failure to recognise the importance of the roles that SMEs play has a negative impact on their development as the development is constrained by a number of aspects such as, insufficient access to fitting technology, limited access to international markets and internationalisation, the existence of laws, regulations and rules that hinder the development of SMMEs, weak institutional capacity, lack of management skills and training and, most importantly, finance (Abor & Quartey, 2010).

To further elaborate on general constraints on SME development, Abor & Quartey (2010) also identified that lack of managerial expertise and knowledge have a more

severe impact on SME development, regardless of the ability of SMEs to exert a pull effect on motivated managers since they cannot compete with superior firms. They also identified that lack of support services or their comparatively elevated unit cost can obstruct SMEs' efforts to progress in terms of their management, because consulting firms are often not equipped with suitable cost-effective management solutions for SMEs. Wennekers, et al. (2010) and Abor & Quartey (2010) determined that even though there are numerous institutions that provide training and advisory services, there is still a skills shortage within the SME sector. They assume that this is possibly due to entrepreneurs not being able to afford the training costs and high advisory costs, whilst there could be another possibility that other entrepreneurs simply do not see the need to upgrade their skills due to contentment. Furthermore, other studies all agreed that when it comes to technology, SMEs often have difficulty in obtaining right of entry to suitable technologies and information on accessible methods (Rogerson, 2009; Shepherd & Patzelt, 2011; Morris, et al., 2011; Abor & Quartey, 2010). It has been found that in most instances, SMEs make the most of foreign technology with limited entitlement of shared ownership. More often than not, SME owners would obtain foreign licences because of the difficulty in obtaining local patents.

Another factor that has been found to make major contributions towards SME failure is regulatory constraints. Literature determined that regulatory constraints also present challenges to SME development, even though a wide range of structural reform has achieved some improvement and prospects for enterprise development are still to be dealt with at firm level (Abor & Quartey, 2010; Smit & Watkins, 2012). High start-up costs for SMMEs, together with licensing and registration requirements can impose significant and potentially pointless burdens on SMMEs (Abor & Quartey, 2010: 224), it takes approximately 176 days in South Africa to obtain the relevant licences and this involves 18 procedures and at the same time the lack of antitrust legislation favours larger firms, despite the fact that lack of protection for property rights limits SMMEs access to foreign technologies.

2.3.2 *Enterprise Development*

The Small Enterprise Development Agency (SEDA) is an agency of the Department of Trade and Industry (DTI) that was set up with a sole mandate to develop, support and promote small businesses in South Africa and to guarantee their growth and sustainability (Jassiem, et al., 2012). The setting up of such agencies is part of Government's efforts to gauge the progress of SMMEs to try and improve their sustainability. However, Abor & Quartey (2010) and Jassiem, et al. (2012;) as well as Battle, et al. (2013) and Fatoki, (2014) and others state that SMMEs encounter many challenges which result in the high failure rate of these entities. Nichter & Goldmark (2009: 20) found that enterprise development programs do not have clear objectives and that general practitioners should at all times evade unrealistic objectives such as "broad-based micro and small enterprise expansion", since a broad range of evidence from both the developing and developed world demonstrates that few micro and small enterprises are likely to grow substantially.

Government has taken the effort to review enterprise development requirements in an attempt to promote the principle of fair distribution of work by re-aligning enterprise development procurement policy with the Preferential Procurement Policy Framework Act, (Act 5 of 2000) (Antonites & Truter, 2010: 450). This requirement provides mechanisms that maintain preferential procurement through the determination of bid requirements in relation to bid value. Further ammendments to the National Small Business Act (102 of 1996) were made in 2004 with a vision to integrating Ntsika Enterprise Development Agency and the Manufacturing Advisory Center to form the integrated SEDA to:

- Improve geographic outreach;
- Provide a single access point for small enterprises;
- Have an impact on small enterprises; and
- Optimise resource usage.

These support mechanism were presented by Rankhumise & Lehobye (2012: 5600).

Studies conducted by Nichter & Goldmark (2009 and Fatoki (2014) reflect the belief that Government agencies should strongly support small enterprise development by organising formal training for new SME owners on how to prepare business plans and most importantly business management. An awareness should be created through advertisement to inform the enterprise development owners of these training programmes. This notion was also shared by Mbedzi (2011), who also believes that with the provision of proper training in financial support to small enterprises in areas such as manufacturing, tourism and transport, businesses would be managed in a much-improved manner. As a result the main SEDA objectives can be achieved, such as:

- Enhancing competitiveness and capabilities of small enterprises through co-ordinated services, programmes and projects; and
- Ensuring equitable access for small enterprises to business support services through partnerships (SEDA, 2009)

Furthermore, Mbedzi, (2011) also identified that the Enterprise Development Finance Division (EDFD) has an important function in ascertaining that any SME funded through this body achieves sustainability. Mbedzi, (2011) identified that the South African Breweries (SAB) had launched an initiative in 1995 to kickstart Enterprise Development as a poverty alliviation initiative, which has subsequently developed into a platform for promoting sustainable enterprise development. However, this programme is targeted at young people that are business driven or to expand their existing businesses. A strong point of this kickstart project is that it provides training to SMMEs, issues allowances as start-up capital and provides post-training mentorship and assistance during the setting-up phase of the business. Not only does Government policy need to to favour enterprise development, it also needs to consider other aspects such as resource availability to newly-established SMMEs. These resources need to be readily available or made

readily available so as to create something similar to a “turn key” solution where the entrepreneur can focus on growing the business rather than having to acquire resources, which is normally a challenge. The next important criteria that Government needs to take into consideration is resource availabilty, since lack of resources is also part of SMME failure.

2.3.3 *Resource Availability*

In a report by Watson, (2004: 21) it was noted that should there be resources available, entrepreneurs will utilise them to realise whatever opportunities they had initially identified, and those same resources, when correctly used, will contribute to the success or failure of the new venture. A critical key factor that entrepreneurs need to possess is the ability to control, co-ordinate and manage the limited resources at their disposal, where they can have full control of their business activities and in support of resource availablity towards start-up SMMEs. Smit & Watkins (2012) believe that by integrating risk management into SMME processes, SMMEs are better equipped to take advantage of their resources and should they also have a business plan in place, this too can assist the entrepreneur to better recognise the resources required, risks that are involved and to develop a management system suitable for the success of the venture or business.

It is also essential that when entrepreneurs establish an SMME, they determine the resources that will be required for the venture. They need to determine all resource types, timeframes for when these resources will be required and workforce requirements (Watson 2004). There is, however, a support structure from agencies that also use Government resources to help start-up SMMEs with the resources they require for operating, for example, Khula Enterprise Finance isyanother agenct that assists start-up SMMEs by improving the lending resources, even though they do not lend money directly to SMMEs, but rather to investment bankers who operate as intermediaries between Khula and the nascent SMME. These intermediaries consist of

micro-credit outlets, commercial banks and even financial intermediaries (Watson, 2004). In a study conducted by Smit & Watkins (2012: 6325) they speculated that it is a commonality that SMEs should experience an insufficiency of resources like finances, human resources and time, which normally results in SME failure.

Mbedzi (2011: 12) noted (in support of Watson, 2004) that SMEs lack adequate right of entry to public support in terms of financial resources, which then negatively impacts the SMEs' development, which then results in most SMEs relying on black market supplies or even corruption or bribery for funding. Additionally, it was also found that organisations accountable for emergent SME support policies are not sufficiently resourced to make available quality support to SMEs. Further to these findings, research conducted by Jassiem, et al. (2012) found that limited introduction to important resources including that of adequate financial information systems, which are meant to assure a "cutting-edge" advantage that has a positive effect on the sustainability of enterprises, also has a significant contribution towards SMME failure. As a result this also has led South African entrepreneurs to develop a negative attitude and even have a low desire to start a business since it requires a lot of time and resources. I could be assumed that this alone proves that South African entrepreneurs lack entrepreneurial mindset if such challenges can deter them from persisting in making sure their businesses succeed despite lack of resources and unfavourable SMME Government policies. The entrepreneurial mindset will be the next discussion in this literature review as it will cover one of the model variables.

2.4 Entrepreneurial Mindset

2.4.1 *The Influence of Internal/External Environment*

In prior research by Chimucheka (2013) and Bruwer (2014) it was identified that it is essential that SMMEs take on a sound entrepreneurial mindset to accomplish business success. The importance of the entrepreneurial mindset is that it conveys the

personality of a business leader or entrepreneur, the way they handle and utilise their business funds, resources, and even their passion. In literature by Bruwer (2014), the entrepreneurial mindset is defined as something which relates to an innovative, willing and energetic pursuit towards any given opportunity by means of rapid sensing, acting and mobilised responses in order to achieve a possible gain. Allen & Economy (2008) articulated the view that entrepreneurial mindset is a type of thinking that is characterised by certain qualities which include, but are not limited to,:

- Being comfortable with ambiguity
- Being comfortable with uncertainty
- Having strong self-discipline
- Having a strong inner-drive
- Having a high level of responsibility
- Having a high level of accountability
- Having no fear of failure
- Being opportunity focused

Based on literature supplied by various authors, such characteristics, amongst others, should be evident and as such become instinctive characteristics resembling a natural entrepreneur. Siwangaza, et al. (2014) aver that even though an entrepreneur should possess an entrepreneurial mindset, there is also a variety of challenges and constraints faced by South African SMMEs. These constraints can be categorised as either macro-economic factors or micro-economic factors (Siwangaza, et al., 2014: 165). The macro-economic factors are classified as those factors that exist externally from a business (external environment); and micro-economic factors which include all business specific factors that are internally influenced within a business (internal environment).

- *External environment*: Macro-economic factors cannot be managed easily by the business leader because these factors are, more often than not, influenced by events that are beyond the control of the business leader.
- *Internal environment*: Micro-economic factors include all business specific factors that are internally influenced by a business leader's actions, including the availability of resources, potential skills and abilities, as well as the effective use of both financial and non-financial resources (Siwangaza, et al., 2014: 166).

Should an entrepreneur have lack of control over both the external and, most importantly, internal environments, this is certain to result in business failure. This is simply because the internal environment is the more controllable environment in which the entrepreneur or business owner has the ability to affect circumstances than the external environment. This is where management is delegated the responsbility to both blueprint and implement a successful management system of internal control and it is responsible for instituting and maintaining this management system of internal control, which also classifies proper internal control frameworks to be used when assessing internal controls, providing an estimation on the effectiveness of internal controls, and identifying any evident material weaknesses in the existing system of internal control (Siwangaza, et al., 2014). This notion was also supported by Buys (2012), who reffered to internal environment as: "the inside-out analysis", that includes resources, capabilities and core competencies. Buys (2012) believed that combining the internal and external environment can result in establishing a "sweet spot" or area of success for a business. However, Nemaenzhe (2010) speculated that lack of alignment between the internal environment and the external environment has been renowned for being the cause of small business failure.

2.4.2 *Business Knowledge*

Several scholars have also acknowledged that micro-economic factors are factors within a business that affect it from within, and therefore the entrepreneur needs to have

sufficient control over these factors to avoid business failure. These factros include: Fruitless marketing, poor management skills, inadequate business knowledge and poor financial management skills. Mmbengwa, et al. (2011) further argued that managerial skills and business knowledge are signals of how well a business owner can execute essential tasks. It was further argued that business mentorships require attention and consideration for profitability and sustainability of a business since skill levels and business knowledge were recognised as major causes of success or failure, followed by financial resources and infrastructure. In a report by Magagane (2012) it was found that very often it is a challenge to retrieve reliable records from SMMEs due to poor record-keeping resulting from lack of business knowledge, which also implies that SMMEs lack basic business administration resources as well. Further emphasis was found in literature by Antonites & Truter (2010), in which they underlined that SMMEs struggle with basic administration and record keeping as well as a lack of business knowledge and skills.

It was also mentioned by Siwangaza, et al. (2014) that blurred corporate strategies and vague market strategies, lack of business plans and knowledge on information technology and poor supplier performance are the main micro-economic factors that have a direct impact on small business sustainability. Ngary, et al. (2014) believe that limited access to funds, lack of real-time business information, lack of business knowledge, high interest rates, stringent government legislation, taxation rates, high inflation rates, volatile market conditions and crime are factors that also cause SMMEs to become susceptible to failure. Based on a report by Mkatshwa (2012: 109), the Eastern Cape Development Corporation (ECDC) has begun to introduce more targeted programmes for SMMEs of different industries, backgrounds and levels of business knowledge with a strong focus on the ones from rural areas. These are very well-planned programmes that offer comprehensive assistance from start-up to a fully-fledged independent business. Mkatshwa (2012) further stated that it is crucial that the challenges faced by SMMEs should be shared between local government, small business support agencies, financial institutions and entrepreneurs themselves to

enable them to find ways and means through which economic growth could be enhanced through SMME development. The ECDC proposal also states that the programmes should be available in the entrepreneurs' locality to prevent them from exhausting scarce resources on travel. It very important that entrepreneurs are constantly educated and trained in order to keep up with the trends of the wider business environment and to provide them leverage to reduce the failures of small businesses and successfully develop their SMMEs.

Panda, et al. (2011) believed that entrepreneurs possessing technical skills and business knowledge together with sound and mature judgement can be involved in the decision-making processes, and their suggestions, viewpoints and feelings can be solutions to combating challenges faced by SMMEs. These skills can positively assist the survival of SMMEs as they can open doors to continuous improvement and allow businesses to continuously evolve and redefine themselves. Good business knowledge also allows the entrepreneur to remain motivated towards the business development phase and may even result in the entrepreneur striving for positive results, such healthy financial statements, business passion and knowledge sharing with their subordinates. Pfeffer & Sutton (2000) stipulate the importance of companies having the ability to turn knowledge into action as being a key success factor towards business sustainability since good business knowledge empowers employees by eliminating fear, improving problem-solving methodologies and increasing competitive advantage as there will be an increased availability of information regarding competitors. Taking into account the importance of possessing business knowledge, the entrepreneur must also possess business experience or even managerial experience as this will provide an added advantage towards starting up or operating a business.

2.4.3 *Experience in Business*

According to Ucbasaran, et al. (2009), the nature of entrepreneurial experience can shape how entrepreneurs adapt, and business failure was linked with entrepreneurs

who are less likely to report comparative optimism. This led to an argument between scholars such as Ucbasaran, et al., (2009) and (Esan, 2010) that there is a difference in the relationship between entrepreneurial experience and optimism because in their research, Ucbasaran, et al., (2009) found that some entrepreneurs who had failed believed that they were too optimistic and that they tended to adjust their thinking and report a more realistic outlook towards a subsequent venture because experience from a failed business enterprise resulted in a less optimistic entrepreneur. The findings showed that entrepreneurs who had not experienced failure were significantly more likely to report comparative optimism than novice entrepreneurs. In juxtaposition to the findings by Ucbasaran, et al. (2009), additional research by Hall, et al., (2010) was conducted in support of these findings to determine how exactly some entrepreneurs responded to business failure and whether or not the outcome had any effect on their entrepreneurial mindset.

Furthermore, it was later highlighted by Hayward, et al. (2009) that prior ventures can provide valuable resources for entrepreneurs' future use and that experience helps entrepreneurs develop new skills and generate a wealth of social capital that can be used used in their newly found venture, i.e recruiting executive officers. Their results also stipulated that greater founding experience improves entrepreneurs' ability to obtain sensible financing and better valuations from venture capitalists. In their literature they also pointed out that some venture capital investors reported a preference for entrepreneurs who have failed at least once, on the basis that these entrepreneurs will be more self-aware. Further evidence is noted that business experience on entrepreneurs' social capital is also positively related to entrepreneurs' access to financial capital, a better-developed reputation, social networks and positions within such networks. This theory is also in line with the theory developed by Zhang, (2007) who also found, through empirical study and literature, that entrepreneurs with prior firm-founding experience had more skills and social connections than novice entrepreneurs and that such skills and social connections could give experienced founders an added advantage in the process of raising venture capital. However, it was

predicted that experienced founders whose earlier firms were not venture-backed do not display a similar advantage over newly start-up entrepreneurs, which reflects the significance of associations with venture capitalists in the early stage of venture capital financing.

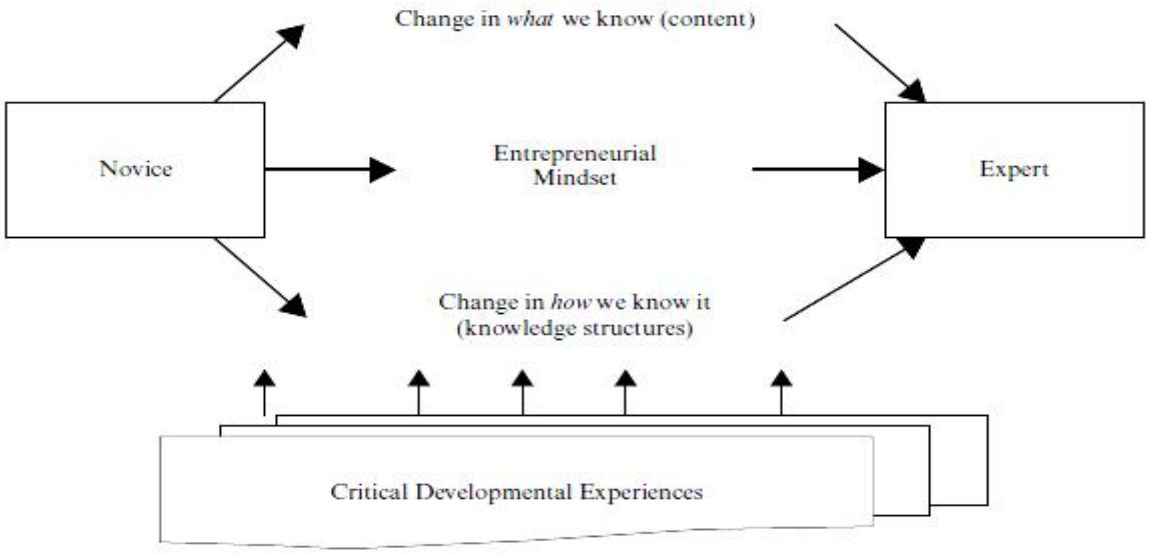
In a study conducted by Kuckertz & Wagner (2010) the aim was to determine the influence of sustainability orientation on entrepreneurial intentions. The findings were alarming when they discovered that the positive impact of sustainability orientation vanishes with business experience. In their research they hypothesised a positive relationship between an individual's sustainability orientation and entrepreneurial intention, and based on literature regarding organisational legitimacy and empirical findings from supplementary research on business ethics, they hypothesised that business experience negatively impacts on this relationship. They drew from their empirical study that business experience demolishes the positive relationship between sustainability orientation and entrepreneurial intention (p:525). They discovered from literature that most entrepreneurs who fail and learn from their experiences have reduced levels of optimism, meaning that learning about the facts of business and its challenges causes entrepreneurs to assess entrepreneurial opportunities more meticulously, which results in a decline in sustainable entrepreneurship.

However, numerous researchers cited in Kuckertz & Wagner (2010), argued that a business enterprise's legitimacy, as professed by key stakeholders, would be a fundamental resource to prevail over a venture's burden of novelty, since pursuing a legitimate business model allows easier acquisition of other crucial resources.

2.4.4 *Entrepreneurial Cognition*

Cognition is what moves an entrepreneurial novice thinker to an expert entrepreneurial thinker (Kruger, Jr 2009). Kruger, Jr (2009) noted that knowledge is not just a gathering of data because it requires both the information content and, most importantly, the

structure by which it is systematised. It is important tgar entrepreneurial education provides entrepreneurs with relevant knowledge, but the most crucial aspect is to teach novice thinkers to develop into expert entrepreneurs through the *application* of knowledge. One of the proposed methods to educate novice thinkers to becoming expert thinkers is to situate entrepreneurship education in settings where mental modes are not shared and where there is cognitive diversity, that is, a significant diversity of knowledge structures. Cognitive infrastructure is the main supporter of entrepreneurial thinking affecting entrepreneurial intentions and attitudes and even deeper cognitive structures such as personal mental models of 'what is an entrepreneur?'. An entrepreneurship education model was adopted by Kruger, Jr (2009) from work done by Krueger (2007), in which they expressed how, through teaching, learners are provided with an opportunity and environment to change not just what they think but how they think.



Source: Adapted from Krueger, (2007).

Figure 1: Entrepreneurship Education Model

This model was developed to assist entrepreneurs in changing how they structure what they know about entrepreneurship by providing them opportunities for critical developmental experiences and helping them to re-shape their mental models.

This theory of knowledge by Krueger (2007) and Kruger, Jr (2009) is also supported by Barreira, et al. (2011), and stated that cognitive processes emerge, develop and are displayed within a socio-cultural context, and that contextual factors serve as socialising functions in shaping the development and deployment of mental processes. Barreira, et al. (2011) also acknowledged that behaviour, cognitive and other personal factors, and environmental influences all operate interactively as determinants of one another. Furthermore, Barreira, et al. (2011), and other scholars such as Sanchez, et al. (2011) also describe entrepreneurial cognition through entrepreneurial behavior as an element that holds self-efficacy, cognitive styles and heuristics. Pitta-Pantazi & Christou (2009) quoted a number of scholars defining cognitive styles, includingAllport (1993), who described cognitive styles as the habitual way in which an individual processes different information and Friend & Cole (1990), who expanded in the definition of cognitive styles to include the way in which the individual perceives, codes, saves and recalls information.

Since cognition involves education, an increase in knowledge, processing of knowledge and the application of gained knowledge, it must therefore, play a significant role in human capital.

2.4.5 *Human Capital*

Various scholars summarised human capital in different ways, such as Dimov (2010: 1129), who describes human capital as a representative of knowledge and skills that individuals carry to a task they set out to complete. Literature also differentiates between general human capital pertaining to overall education and life experience, and specific human capital that pertains to education and experience specific to a particular

action or environment. In addition tol Dimov's findings (2010), it has been said that human capital perception has been used to envisage a diversity of entrepreneurial outcomes, such as becoming a nascent entrepreneur or self-employed, new venture formation, and new venture performance and survival. Barreira, et al. (2011: 41), explain the human capital theory as the expanding of an individual knowledge pool that provides entrepreneurs with efficient and effective cognitive abilities, leading to more productive and efficient potential entrepreneurial activity.

It was also predicted by that micro- and macro- level investments in superior human capital produce enhanced SMME performance, even though human capital takes time and money to grow or attain, which possibly compromises its positive benefits (Crook, et al., 2011). In their study, Crook, et al. meta-analysed effects of the human capital and firm performance relationship and investigated three moderators that were suggested by resource-based theory. They hypothesised that human capital was positively related to performance, that the relationship between human capital and performance was stronger among studies using longitudinal data than among studies using cross-sectional data; and lastly they hypothesised that the relationship between human capital and performance was stronger when measures captured specific human capital rather than general human capital.

In their findings, they found that human capital related strongly to performance, especially when the human capital in question was not readily tradable in labor markets. Their results also suggested that managers should invest more in programs that amplify and preserve firm-specific human capital. Their results were somewhat in line with the research study results obtained by Unger, et al. (2011), whoexamined a meta-analytical review of human capital and entrepreneurial success. They too, hypothesised about human capital investment versus outcomes of human capital investments; the relationship between human capital and success was higher for outcomes of human capital investments than for human capital investments; the relationship between human capital and success was higher for human capital related to entrepreneurial

tasks than for human capital that was not related to entrepreneurial tasks; the relationship between human capital and success was higher in high-technology industries than low-technology industries.

Their findings were somewhat on the low side as they discovered a small relationship between human capital and success. However, another portion of their findings was that the relationship was higher for outcomes of human capital investments (knowledge/skills) than for human capital investments (education/experience), for human capital with high task-relatedness compared to low task-relatedness, for newer businesses compared to older businesses (Unger, et al., 2011). According to literature by Tengeh, et al. (2011) starting a business in South Africa had numerous challenges that prohibited African immigrants from starting a business, and growing it further presented a significant challenge, they set out to examine how those that succeed acquired the necessary resources. One of the key factors that stood out was that immigrants equipped only with an abundance of human capital, which in most instances is not recognised in the host nations and possibly limited financial capital, turn to business, particularly self employment, as the major economic activity in their host countries. Therefore, this indicates that even though immigrants may have human capital in abundance, this does not necessarily guarantee their success in their field of knowledge, rather they turn to business venture for survival in their country of migration.

2.4.6 *Social Capital*

It is believed that for an SMME to be successful, it will need to possess financial capital, human capital and social capital as its foundation resources coupled with effective resource management (Ireland, et al. 2009). The importance of human capital and social capital combined is that they form the basis for obtaining and developing other important resources necessary for exploiting opportunities and thereby creating wealth. Ireland, et al. (2009) claimed that human capital is often enhanced through the firm's social capital and its importance has been revealed through various organisational

activities including the creation of intellectual capital, inter-firm learning, inter-unit and inter-firm exchanges, innovation and entrepreneurship. Social capital has become so imperitive because of its characteristics such as establishing relationships between individuals (internal social capital) and between individuals and organisations (external social capital) that facilitate action. Collectively, social capital is the total set of value-creating resources that accrues to the firm because of its durable network of intra- and inter-firm relationships. Resulting from relationships inside the firm and with external entities, social capital helps the firm to gain access to and control resources, and to absorb knowledge (Ireland, et al. 2009).

It is also interesting to note that general experience helps entrepreneurs develop new skills and generate social capital (Hayward, et al. 2009). Social capital is accumulated through social exchange over time, and is mirrored in the sentiments of compulsion and team spirit (Tengeh, et al. 2012). They also maintained that social capital, like financial capital is an asset that yields profit, whether in business, education or in securing non-economic rewards like social approval and status. Groenewald, et al. (2012) also supported that, in this emerging form of entrepreneurship, which is typically rooted in community culture, natural and social capital are integral and inseparable from economic considerations, thus transforming the community into an entrepreneur and an enterprise. They also established that returns on business investments rely massively on factors that determine social capital, amongst others. Even though social capital plays a fundamental role in the viability of businesses, small businesses owned by poor communities still have challenges in valuing and investing in their social capital factors. The dilemma with these SMMEs is that their social partners,which include both state and non-state organisations, do not appear to pay serious attention to social capital development of these types of businesses. In a research conducted by Urban and Shree (2012) they built their study on past studies that recognised that when an entrepreneurial firm undertakes an internationalisation strategy, financial, social, and human capital factors play a major role in its success or failure.Their results also emphasise the importance of social capital and its social ties and networks as some of

the best ways to acquire the necessary resources to operate a firm. Furthermore, they suggested that, with regard s to social capital, a support infrastructure needs to be made available for entrepreneurial firms going global, similar to incubators for businesses that are failing or have failed. SEDA (2010) also believe that social capital is a major contributor to enhancing reputation along with intellectual capital and good will.

2.5 Finance

2.5.1 *Government Financing and External SME Financing*

In a study that aimed to investigate potential causes of success and failure in small businesses within the department of social development in the Eastern Cape, Petrus (2009) contended that an atmosphere that can encourage entrepreneurial thinking needs to be created as this is believed to equate to the availability of finance for any entrepreneur. Petrus highlighted other studies by (Zhang, 2007)that state the South African Government's involvement in small business development should be cautiously managed, as numerous SMEs are simply "copycats" and heavily dependent on Government's preferential procurement opportunities for their survival. Petrus (2009) also noted that governments are making an insignificant contribution when it comes to the financing of innovative small businesses and that their policies are problematic. Although the South African Government promotes its desire for SMEs to flourish, there are other internal governmental problems causing SMEs to fail. Apart from inadequate finance, there is the issue of access to finance that is believed to be responsible for lack of financial support, which is the biggest stumbling block for up-and-coming entrepreneurs as well as for those who wish to develop their business venture. Not having access to financial support is therefore a major constraint to growth and development of SMEs.

The management capacity of the governmental departments to support SME development plays a critical role in the success of many SMEs, and it is currently under

the spotlight, since it significantly impacts on the business operations of SMEs, particularly their cash flow. The Department of Trade and Industry (DTI) has acknowledged the necessity to empower SMEs and has established the Small Enterprise Development Association (SEDA), whose role is to provide non-financial support to SMEs (Petrus 2009). Government finance is one of the key factors that assists SMEs in finding suitable markets for their products or services. However, this requires the SME owners to cautiously choose their markets due to the propensity to obtain government tenders and risk experiencing serious cash flow problems or lack of sufficient capital which can lead to SME failure. Luiz (2009) found out that small businesses usually complain that shortage of capital is their major problem and that this impacts their ability to invest in a particular asset to grow their business, whether it be raw material, equipment, customer credit or finished products. One of the many issues raised is the deficiency in the availability of finance where in South Africa, Government has attempted to attend to the first issue of finance through various organisations such as Khula Enterprise Finance Ltd. Garwe and Olawale (2010) determined that the business environment can be devided into the internal and external environment where in this case the factors in a firm's internal environment are largely controllable by the firm and these factors include finance (especially internal finance such as owner's equity contribution and collateral). They also stated that all businesses require financial resources in order to begin their trading activities and also to fund their growth. It is also noted that new SMEs can be financed from the founders' own wealth or by accessing external sources of finance, whether from informal resourses such as family and friends or from formal market-based sources such as banks, venture capitalists and private equity firms. Once a business has started trading, further development can be financed using retained profits. Lack of financial support has been reported as the second biggest contributor to failure, after education and training in South Africa.

An additional discovery was made by Fatoki and Odeyemi (2010), who found that lack of finance is one of the primary reasons for the failure of new SMEs in South Africa. They also established that approximately 75% of all applications for bank credit by new

SMEs are rejected, which was the reason for their drive to investigate the determinants of credit approval for new SMEs. They found that there are two primary sources of external finance for new SMEs, namely: Equity and debt. External equity in the form of venture capital or stock exchange is normally not available for new SMEs due to venture capitalists entering the firm at the middle or at later stages of a firm's life cycle. In South Africa, it has been found that in 2008 the South African Venture Capital Association hosted approximately 65 venture capital funds and controlled a total of R29 billion with an avarage investment size of R15.4 Million with a total investment of R1.1 billion for SMEs.

Since only 3.8% of the venture capital funds from the association above is allocated to SMEs, this results in a shortage of funds which then forces SMEs to be dependant on bank loans and overdrafts and suppliers credit for early-stage financing. Despite their dependance on debt finance, ironically, access to debt finance is very limited for new SMEs, more especially in developing countries where commercial banks hesitate to lend to new SMEs. Rungani (2008) pointed out that a key consideration in choosing the source of finance for a new SME is to create a balance between equity and debt to ensure that the funding structure is suitable for the business, however, this then creates a challenge in determining the sensible amount of debt a new SME can take on without jeopardising its well-being and long-term growth potential.

When Fatoki and Odeyemi (2010) investigated which new small and medium enterprises had access to bank credit, they discovered that their results were consistent with other empirical studies on the importance of collateral to the availability of debt finance. Their results also found that new SMEs managed by owners with high education and related business experience are most likely to be successful in their credit applications and that SME owners with business education and working experience are not likely to have their credit applications be successful, but new SMEs that have comprehensive business plans are significantly more likely to be successful in their credit applications. Smit and Fatoki (2011) also investigated the barriers to credit

access by new SMEs from commercial banks and trade creditors through an observation that was made by Atieno (2009), which claimed that access to external finance is needed for new SMEs to start and expand operations, develop new products, invest in new staff or production facilities. The availability of finance for investment in positive net present value projects is vital to the sustainability and viability of new SMEs. The majority of start-up SMEs depend on internal finance (contribution from the owners. The main challenge with internal finance is the difficult test of keeping the costs within the constraints of self-financing, which if they cannot, in turn forces start-up SMEs to seek capital from external sources.

The results of this study prompted Fatoki and Asah (2011) to further explore the impact of firm and entrepreneurial characteristics on access debt finance by SMEs in South Africa. In their literature they revealed that long-standing relationships between a bank and SMEs owners does convey an advantage in the case of bank credit and that SMEs with a close banking relationship use less debt in their financing. This could be because networking could be expected to provide to the banks, trade creditors, venture capitalists and financial institutions information on legitimacy, which in turn, could give the SMEs advantages in accessing debt finance, therefore, they also hypothesised that there is a positive relationship between managerial competency and access to debt finance by SMEs from commercial banks. They further hypothesised that networking and long-standing relationships with banks positively impact on access to debt finance by SMEs. However, they found that firm and entrepreneurial characteristics impact on access to debt and finance by SMEs.

In addition to these findings, Black and Hasson (2012) found that a state-owned finance institution, the Industrial Development Corporation (IDC), plays a significant role in influencing economic growth in accordance with Government’s strategic objectives. It does so by supporting firms in giving them equity finance and loans, frequently at concessional rates. The IDC has also funded large-scale mineral beneficiation projects and has been directly associated with the parastatals as well as the large private sector

conglomerates. For example, the basic chemicals sector is dominated by Sasol, which was initially a state corporation where its capabilities are derived from huge state financing of its artificial fuel-from-coal operations that were established for strategic reasons as a result of the sanctions threat.

2.6 SMME/SME Growth and Sustainability

Wealth creation and firm growth are interrelated and, generally, valuable growth is projected to assist SMMEs create wealth by building economies of scale as well as market power (Ireland, et al., 2009). The positive side to such outcomes is that they offer supplementary resources and contribute to achieving a competitive advantage. Similarly, an increase in wealth creates further possibilities for small businesses to assign resources to stimulate additional growth. As much as wealth can assist SMME growth, Urban and Naidoo (2012) contend that there needs to be a relationship between operational skills and SMME sustainability, since they believe that an entrepreneur's technical and operations competencies are an important form of expert power that aids the execution of the business vision and strategy. Proficient operations represent major opportunities for SMMEs to improve their productivity and profitability, as well as to reduce costs and enhance customer service.

They also developed an hypothesis where they wanted to test the association between operation skills and SMME sustainability. Government and business also play significant roles in their attempts to promote growth of SMMEs by encouraging local production of manufacturing goods, which were previously imported. The operations of an SMME are important because they determine how an organisation manages its management systems and processes that are involved in the manufacturing of its products (Urban & Naidoo, 2012). This also means that the operations function is responsible for the conversion process through which manufactured goods satisfy

customer's requirements for good quality, competitive pricing and excellent customer service (Stevenson 2002). It has been found from previous research that the operations function in SMMEs normally has a poor relationship with other functions in the business due to involvement of individuals who lack particular skills and training and are not technologically inclined. However, in a study of successful SMMEs that was conducted by Barreira (2004), it was noted that a minimum of five years experience is required as this would give the entrepreneur enough time to develop the necessary operational and management skills for the SMME to be sustainable.

It has been further stated in literature of various scholars, Yusuf & Dansu, (2013) that competency in a variety of skills will contribute to the profitability and sustainability of a business. In addition, a strong focus on skills development in the operations function is key to competitiveness and growth for SMEs. This literature was in line with the findings of the hypothesis by Urban & Naidoo (2012), based on the empirical findings that operations skills are positively associated with SME sustainability and that a strong positive relationship, where a linear association can be identified, exists between operational skills and SME sustainability. Okubena (2014) too supported the theory of SME growth through training, and substantiated that the importance of training as a tool for business growth has been recognised worldwide since it has been empirically established that businesses owned by individuals who also underwent businessrelated training showed evidence of higher growth than those owned by individuals who had never undertaken business training.

With regards to SME sustainability, Garg & Van Weele (2012) focused on succession planning as they realised that SME failures also resulted due to a lack of succession planning. Their literature illustrated that even though most SMEs are run by their founding entrepreneurs, not many have adequate succession plans in place, which may have a direct effect of causing a collapse of SMEs upon the founder's retirement. This again highlights that there is indeed a lack of tools strategically targeted towards helping SMEs achieve sustainability and good governance. Their findings were quite

astonishing, in that even though most enterprises are still owned and managed by their founding entrepreneurs who perceived succession planning as a measure to ensure sustainability and identified succession planning as a value adding element to their business, they did not follow the necessary steps to shift from their current state to the preferred state. Jamsa, et al. (2011) had a different view on SME sustainability. Their study seeked to examine how sustainable SMEs utilise their networks by means of activities that are performed by SMEs in networks and how they are influenced by these networks. In their study, they observed that there are certain factors that clearly distinguish SMEs from large organisations, these include the way they approach their markets, resource limitations, deficiency in business knowledge, training and expertise and employee turnover. While these characteristics may prove to be unfavourable towards SME sustainability, networking has the ability to improve these conditions as it offers a platform for resource development, as networks are believed to be frameworks where business activities occur and relationship building takes place. Networks are beneficial to SMEs as they can serve different purposes such as providing market knowledge that can enhance decision making, providing resources, amplified cost efficiency and most importantly education from other business owners or experts (Jamsa, et al., 2011). A study conducted by Dulger, et al. (2011) looked at how staying innovative may be beneficial to SME sustainability especially in an uncertain, complex and continually changing business environment. They hypothesised that higher levels of market-focused learning will generate higher levels of SME innovativeness, higher levels of internally-focused learning will generate higher SME innovativeness and lastly, that higher levels of relationally-focused learning will generate higher SME innovativeness. They hypothesised through a conceptual model that organisational learning is hypothesised to be the forerunner to SME innovativeness, anticipating that learning activities yield innovative tendency that allows SMEs to be tolerant in the highly competitive and demanding market conditions. It is believed that sustainability is an innovative and potentially transformational force that generates new products and processes that challenge existing practices (Blum-Kusterer & Hussain, 2001: 26).

However, in a report by Maladzhi, (2012) it is argued that globalisation, the rapid pace of technological innovation and growth in customer requirements, are the reason for the pressure that organisations experience, which then forces them to strive for sustainability in order to survive. This tends to become overwhelming for SMEs and their leadership due to insufficient market experience, poor management skills, lack of specialised education and training, low entrepreneurial drive, lack of technological orientation, low product distribution and limited networking, especially when these SMEs are compared to larger organisations. Such pressure becomes too much for certain leaders and ends up dictating their decision-making, creating an altered environment in an attempt to adapt to these external pressures by promoting employee innovation and at times adopting international-based policies such as organisational restructuring and reengineering. In Maladzhi‘s (2012) study, it is disclosed that leadership characteristics are lacking in leaders of SMEs in South Africa and that management also lacks inspiration, motivation and risk-taking characteristics.

However, Yusuf & Sewhenu (2013: 84) theory differed slightly to the one above on the topic of sustainability as they described the concept of sustainability as the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local and global community as well as future generations. They believed this could only be accomplished by larger organisations rather than SMEs because of differences in size and the ability to overcome challenges in the business environment and through this view, the entrepreneur is expected to identify and broaden fair treatment to the three Ps of People, Planet and Profit (Crals & Vereek, 2004). The authors further argued that all the three Ps need to be fulfilled by the all types of organisations, including SMEs, before they can be labeled as sustainable.

The first aspect: People, deals with the manner in which SMEs handle social and ethical issues, as well as whether the way in which they treat their staff promotes social

cohesion or not, for example, protection of human rights, non-indulgence in fraud and corruption, gender relationship and discrimination on in the workplace.

The second aspect: Planet, deals with the natural environment by looking at the effect and remedy of entrepreneurial activities on natural resources, where SMEs are expected to display satisfactory care towards the natural environment.

The third aspect: Profit, is not directly linked to the financial results of an enterprise, but rather the utilisation and provision of value contributed towards employment, investments in plant equipment and infrastructure.

These three Ps of sustainability are said to also structure the main foundations of business risks faced by SMEs and should the three ’s be properly handled, achieved and maintained, it would not only mean movement towards sustainability for an SME but also attempt to minimise the risks that threaten the achievement of businesses corporate objectives. This further supports the findings that careful management of SMEs’ risks will result in positive performance, which will further enhance sustainability (Yusuf & Sewhenu, 2013). However, when it comes to financial performance and financial records to determine SME performance, it becomes very complex, as this construct remains inconclusive to most scholars such as Wiklund (1999 and Kraus, et al. (2012), even though financial performance is ackowledged to be a multidimensional construct, which hosts a combination of characteristics such as profitability, growth, efficiency, liquidity, size and leverage (Soininen, 2013). This literature is in support of a study by Sunday (2011), who established that even though the need to maintain effective working capital management within SMEs continues to be essential to solvency and liquidity of SMEs, most SMEs remain unconcerned about their working capital position, as they usually don’t even have a standard credit policy. The lack of financial experience and education has made these SMEs negligent about their financial positions, and instead they more commonly focus on cash receipt and their bank account statements. Therefore, as much as these SMEs do not keep formal

records of their financial positions, it appears that , with regards to their survival, they focus on overtrading which runs a risk of illiquidity, as they are only concerned about their profit maximisation whilst disregarding completely the payment of their creditors (Sunday 2011).

However, the recommendation to avoid this shortcoming is that, in order for these SMEs to continue to exist, they need to develop a standard credit policy and implement a good financial reporting and control system through which there is satisfactory awareness to the management of the organisation's working capital to ensure continuity, growth and solvency. Silva (2012) put forward two hypotheses; that there is a positive relationship between effective liquidity management and SMEs' profitability and growth, and that there is no relationship or a negative relationship between a low cost approach and SMEs' profitability and growth. The results found that liquidity management may be a moderately unspectacular aspect of management and its inclusion as a strategy is likely to reap rewards, both in terms of profitability and growth as a strategy of differentiation. Based on the results it was also found that low debt, effective liquidity management, operation in a profitable sector, the avoidance of a low cost approach, the use of differentiation and the avoidance of a customer focus are associated with SMEs' profitability. Not only is SME growth measured in financial increases, it can also be estimated through the rate of employee growth. However, Nichter & Goldmark (2009) admitted that very little knowledge exists about micro and small enterprises and their growth. Not only in South Africa is this knowledge minimal, but also in countries like the United States, where high-growth corporations rarely start with a "winning product idea" that propels the start up entrepreneur from nascent to fully successful. Nichter & Goldmark (2009) put forward the notion that regardless of the inventiveness and diligence of many developing-country entrepreneurs, only a minority of their enterprises will ever experience considerable growth. This statement was also motivated by the results found in the studies by Mead and Liedholm (1998 and Liedholm (2002), which were longitudinal surveys of over 28,000 micro and small enterprises in Africa and Latin

America, that showed that less three percent of micro and small enterprises expand by four or more employees after start-up.

Nichter and Goldmark (2009) define firm growth as an increase in the number of employees over time. Also, a vast majority of researchers Ugbam, et al., (2012) who study small firm growth in developing countries rely on employee growth as an indicator of growth because it is often exceedingly difficult to obtain reliable financial data from small businesses. Contrary to this study in defining firm growth, Yusuf and Sewhenu, (2013: 78) believed that SMEs' survival is threatened by high employee turnover which may result in poor and unstable organisation structure.

2.7 Perceived Business Failures

Prior to taking into consideration the causes of small and medium business failure, it is imperative to discuss the notion of enterprise failure. Enterprise failure transpires when a business gets a point of liquidation, when it can no longer maintain its trading ability. Once a business becomes insolvent, it has basically reached total failure and the entrepreneur or owner needs to acknowledge that the business will be faced with ever increasing financial and legal problems (Lewis 2012). However, various various causes responsible for business failure have been identified, such as:

- ***Lack of Business Skills***: The type of business that an individual owns does not matter, but what is most essential is that the owner should demonstrate fundamental skills to manage a business. These skills do not necessarily refer to business skills such as accounting, but skills that are sufficient enough to successfully operate a business (Olawale & Garwe 2010).
- ***Lack of Management Skills***: Most owners of small and medium enterprises have a perception that the more capital they have, the more likely they can solve most of their problems. In doing so they contradict the most vital element of business, which is good management. There is a wide range of functions that

entrepreneurs need to control to run a successful business, like marketing, financial management, sale purchasing, research and development, inventory control and production. Should the entrepreneur not be able to fulfil these functions in an efficient manner then the business is bound to fail (Olawale & Garwe 2010).

- ***Lack of accounting experience and poor financial contro*l**: Most SMEs fail because of failure to integrate accounting practices into the business, which tends to result in a lack of financial control and consequently cash flow problems. Thus, it is vital that entrepreneurs or business owners employ a skilled bookkeeper should they have weak accounting skills to at least ensure effective management of accounts (Nandan 2010). Not enough capital is another significant factor in SME failure and these reasons are major contributors to why small businesses fail within the first three years of their initial start-up.
- ***Credit Problems****:* According to Mutezo (2009), in order for small businesses to be successful in today's competitive market, they need to have a sound credit record. This is because effective business managers realise that successful businesses need to have appropriate financial planning in place since, in the business world, there are two common financial drawbacks, tax customer credit policies and under-capitalisation. The common trend in start-up SMEs is that most ventures begin by being undercapitalised and never seem to catch up financially as their business activities tend to consume increasing amounts of cash to fuel growth. This is normally a result of too much optimism from the entrepreneur and often the mistake of underestimating the importance of sound accounting practices. Additionally, small business owners tend to sell their products on credit, because they believe they could potentially gain a competitive advantage by offering this service where their competitors do not. However, it is essential that business owners exercise strict control over credit as poor credit controls tends to have a detrimental effect on the financial health of the company (Chimucheka 2012).

- ***Poor Marketing and Sales Execution****:* The secret to a successful business is its ability to effectively execute sales. This is assisted by effective marketing of products or services. Entrepreneurs need to understand that whenever the business introduces a new product or service, regardless of how experienced the sales staff may be, they still need to create a demand for that product or service by making sure that the customers remain interested in the product. Poor marketing is one of the major reasons why businesses fail (Seeletse 2012). Should there be no success on the marketing of a new product or service due to the amount of competition, then the sales figures will be very low. Sometimes, the reason for poor sales of a product are caused by the negligence of the entrepreneur, as he or she tends to view the poor sales as an isolated problem, rather than a problem related to poor marketing. Van Scheers (2011) suggested that entrepreneurs should realise that if sales growth for a particular period of time is poor, then they should resolve the problem through aggressive sales techniques, price-cutting or even advertising gimmicks.
- ***Poor staff keeping****:* Another factor that plays a significant role in business failure is personnel problems. Personnel problems maybe absenteeism, poor workmanship, long coffee breaks and the failure of employees to follow directions. It has been noted by Ganesh & Mehta (2010) that dissatisfied workers not only waste the time and materials of the organisation, but also tend to drive away customers as many businesses lose customers because of poor customer service.
- ***Bad time management****:* Entrepreneurs have much to do in a limited time period as they spend close to fifty and sixty hours per week on business activities, but research by various scholars has proven that most of these business owners spend too much time on insignificant matters. The essence of effective time management lies in learning to control the job rather than having the job control the person. The primary objective is to work smarter and not harder, and this teaches the business owner to manage time effectively through self-discipline.

Also, delegating jobs appropriately to subordinates is a critical aspect to time management as the employees would know what is expected of them to fulfil their roles effectively (Sharif & Rozan 2010).

- ***Bad Business Locality****:* Choosing the right location is partly a skill and art to ensure the success of any small business. Too often business owners choose the location for their businesses without performing a proper feasibility study for the particular enterprise. Some owners even go to the extent of choosing a site for a business merely because they have seen a vacant building. Location is critically important for trading business concerns, because the lifeblood of the business is related closely to customers frequenting the business to buy goods or services (Chimucheka 2012).
- ***Pricing Challenges****:* If the price of the products being sold is very high, the business risks losing customers, whilst on the other hand, if the prices are too low they may attract more customers but could have a negative impact on the business if costing is done incorrectly. However, instituting market-related prices will generate profit rather than selling products based on vague ideas of selling at low prices, which could be dangerous to the business (Rootman & Kruger 2010).
- ***Failure to Develop and Implement a Strategic Plan****:* The majority of business owners assume that contingency planning is only applicable to large organisations, not realising that failure to plan for contingencies usually results in a failure to survive. If a business does not have a clearly defined strategy, it does not have sustainable basis for creating and maintaining a competitive edge in the market place. When an entrepreneur establishes a strategic plan, he or she is forced to realistically assess the potential of the business. This is usually a form of investigating issues such as, whether the customers are able to buy a particular product or service and who the target market is.

Following the conceptualised model that aims to uncover the perceived causal failures of manufacturing SMEs within the Johannesburg district, additional literature has been

sourced in an effort to the uncover these failures. In a research study conducted by Mallur, et al. (2009), they aimed to explore the relationship between Total Quality Management (TQM) and Business Excellence (BE) in small- and medium- sized manufacturing enterprises (SMEs) of India, North Karnataka region, to determine if it fostered business success or failure. In so doing, they used twelve critical success factors (CSFs) of TQM practices where four factors of dependant variables of business excellence were identified to measure the performance of SMMEs. TQM, as defined by Oakland (1989), is an approach to improving the effectiveness and flexibility of business as a whole. It is also an essential way of organising and involving the whole organisation; every department, every activity, and every single person at every level. The critical success factor independent variables include: leadership and top management commitment, vision and plan statement, supplier quality management, system process quality improvement, total employee involvement, education and training, performance appraisals and recognition, customer focus and satisfaction, evaluation, work environment and culture, continuous improvement and communication. For busines excellence, the dependant variables are: satisfaction of employee, quality of product, satisfaction of customer and strategic business performance.

Their findings were quite unexpected, as they found that the smaller companies were more dedicated to TQM than the medium enterprises by a 16.3% difference. However, the implementation of TQM was not that far apart as the medium enterprises were at 10.4% and the small enterprises at 10.5%. Additional findings were that enterprises with ISO certification performed much better than enterprises without ISO certification and the same was found for their employee turnover and satisfaction. It was made evident from their findings that ISO-certified manufacturing SMEs performed fairly well as compared to uncertified manufacturing SMEs, which was believed to be because they were influenced by better organisational structures and organised operations which assist them to achieve superior product quality. Additional research that was conducted by Esan (2010), stated that the primary core of their research was to establish if the development of an integrated manufacturing strategy that is based on Lean-Six Sigma

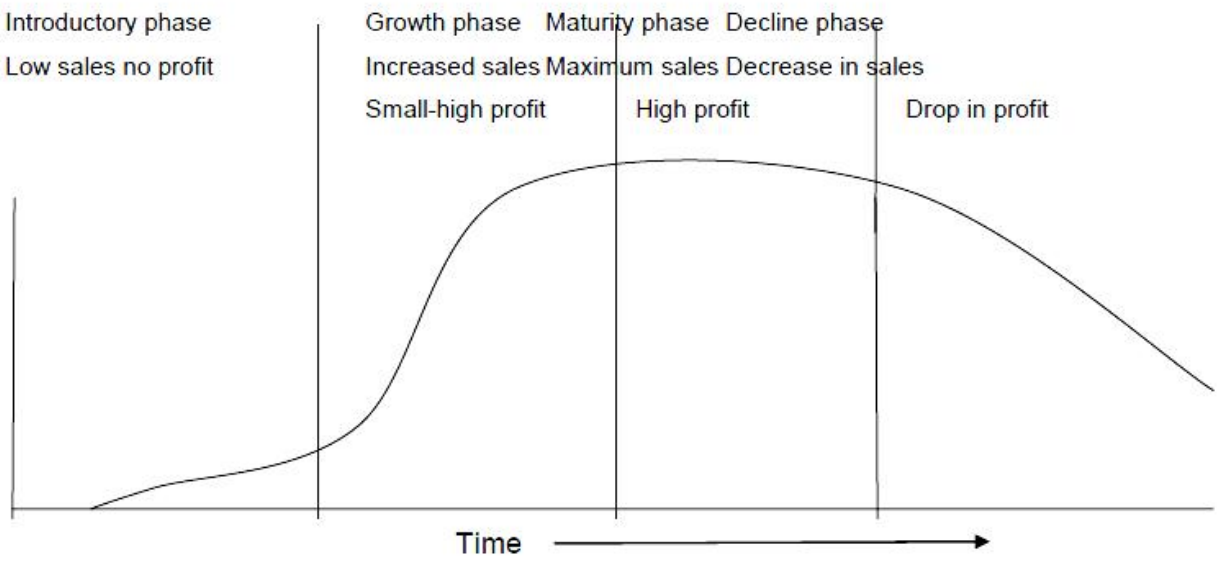
was effective for organisation sustainability. Six Sigma is simply a method of efficiently solving a problem and it reduces the amount of defective products manufactured or services provided, resulting in increased revenue and greater customer satisfaction (Stephens, 2007).

The structure that was used for positioning this strategy was based on inputs from a business environment analysis, a lean strategic planning module and a lean resource planning interface that is predicted on value stream analysis and simulation models. This lean manufacturing strategy was defined as the total pattern of decisions and actions which set the role, objectives and activities of manufacturing so that they contribute to and support the organisation's business strategy (Slack, et al., 1998, p.4). This defined that manufacturing strategy had a primary focus for developing policies with regards to the location, capacity, technology, suppliers and the supply chain, people and other organisational aspects. The other manufacturing strategy that was studied in this research was the Lean Manufacturing strategy which, based on empirical evidence by Sanchez, et al., (2001), was proven to improve an organisation's competitiveness, hence, making it a strategic goal for manufacturers. In their research they also discovered that the improvements brought in by Lean Management are not only evidenced by performance indicators but also by physical examination of the workplace. Furthermore, Esan (2010) advocated that Lean Management is "lean" because it uses less of everything when compared to mass production - half the human effort in the factory, half the manufacturing space, half the investment in tools, half the engineering hours to develop a new product in half the time. Furthermore, literature by Esan (2010) substantiated literature by Mallur, et al. (2009) by highlighting the fact that critical success factors that have a direct link to specific factors impacting on a company or value stream need to be established for lean manufacturing policy deployment. Esan (2010) also stressed the fact that Lean Manufacturing combined with Quality Management results in a very important strategy for achieving a competitve advantage, since traditional quality alone, such as statistical control, zero defects and total quality management have been key initiatives for many years. However, Six Sigma is now

considered the recent quality improvement initiative that has gained popularity and acceptance in many industries globally (Esan, 2010).

Even though Lean Manufacturing has become a much more effective and efficient method in operating a business at very low cost, studies by various scholars, such as Deros, et al. (2011), have shown that SMEs in general are incapable of implementing Lean manufactring strategies. The failure to implement these strategies tends to cause production delays and profit loss which normally results in SME shutdown or failure. Various motivations have been acknowledged as the main drivers for SME establishment as cited in Mokgatla (2011), who stated that even though most SMMEs' ultimate goal is to develop into bigger and much more sustainable entities, their initial aim was only to establish a certain "lifestyle" and not to employ more people, but as they progressed and realised how stiff competition is they then begin to become competitive. Ultimately they learned that business success and sustainability could be achieved through satisfying the needs, wants and demands of consumers or customers by adhering to the economic principles of SMMEs, such as maximising income and minimising costs. This often required SMMEs to supply quality produce and services to the customer conveniently, dependantly and with a very short order lead time (Mokgatla 2011, p.1). As much as quality achievement may be difficult to achieve, SMME owners need to understand the importance business knowledge, as this can teach them the importance of "Venture Life Cycle" which was presented by Strydom (2008, p.278-279) when comparing it to "Product Life Cycle". The reason for such a comparison was motivated by the analogy of the product life cycle as it moves through the following phases: introductory phase, growth phase, maturity phase and decline phase, as presented in the diagram below (Mokgatla, 2011: 29).

Figure 2.1: Product life cycle



Source: van der Walt *et al*. (1996: 515)

Figure 2: Product Life Cycle

Strydom (2008) referred to this diagram as a venture life cycle (VLC). Strydom disputed that small businesses should be considered as developing if they consistently turn decline phases into growth phases, because during the introductory phase, the enterprise experiences slow growth in sales resulting from consumer resistance and normally after appreciation by innovators, sales come from early adopters of the enterprise's product. Through this phase there is deficiency in profit due to an increase in costs of production and marketing and low sales. The growth phase of the enterprise is then characterised by a rapid growth in sales, mainly due to the sales from early majority consumers, and lower production costs per-unit, thus resulting in large profits. However, it is only a matter of time before the enterprise starts entering into its maturity phase, which is characterised by a slow increase in sales, with purchasers from the late majority group. It is at this stage that the enterprise has reached saturation point, at

which few non-users of the enterprise remain in the target market and profit margins become lower (Mokgatla 2011, p.29). This set of cirsumstances symbolise the decline phase, since sales are also on the decline and the early innovators and early majority have lost interest in the business.

A proposal was tabled by Strydom (2008, p.278-279) that outlined that SMME managers need to understand the implications of VLC in order to avoid further decline in business, and adopt a different VLC as presented in the figure below.

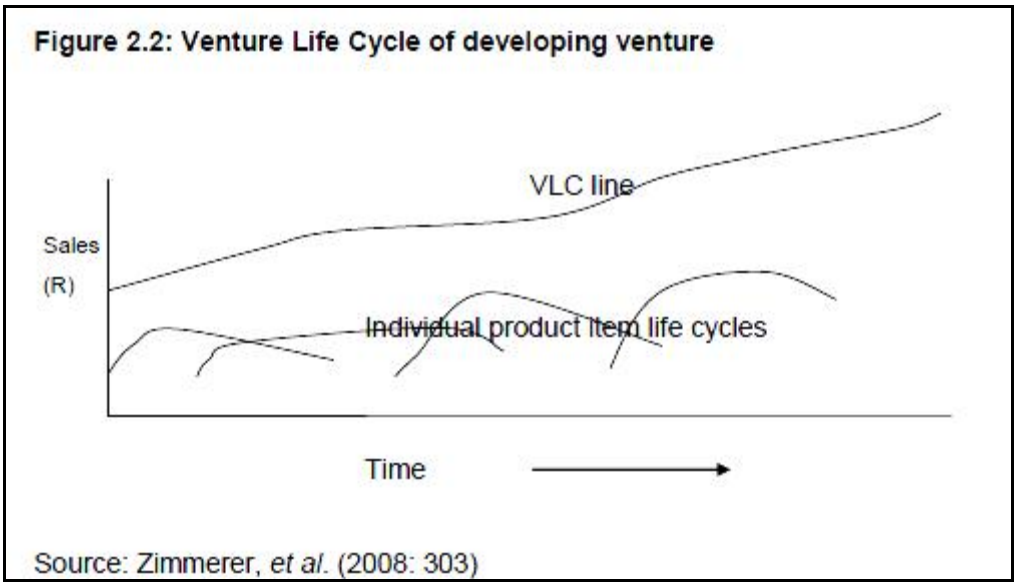


Figure 3: Venture Life Cycle

According to Zimmer, et al. (2008) the enterprise should prepare at all times to deal with the possible eventuality of going out of business by maintaining product development and constantly introducing new products to the market. The best point on the VLC for this type of activity to occur is just before the existing product exits the marketplace. However, maintaining product development can be a costly exercise as it requires full product diversification, product specialisation, product standardisation, product simplification, product differentiation, maintanance of product range and most importantly, product modification (Mokgatla 2011,p.31). This theory was proven

empirically by Mokgatla, (2011,p.158), who found that indeed SMMEs have difficulty achieving sustainability. This was due to various factors that contribute to manufacturing SMME failure, such as negative consumer behaviour, and even when some manufacturing SMMEs made numerous efforts to adopt certain strategies such as market penetration, market development and product development as growth strategies, it was unfortunate that these growth strategies were were all non-developmental, an element which was then assumed to be part of possible causes for closure of SMMEs.

It seems that as much as SMMEs are having difficulty staying afloat while operating in their regions of establishment, globalisation is another phenomenon that seems to have negative impact, since they are now compelled to adapt to a broader ever-changing environment to survive. In a study conducted by Fan, et al. (2012) to determine concerns around the failures of manufacturing SMEs that have tried to implement business process re-engineering, the researchers looked at the critical success factors (CSFs) of re-engineering in manufacturing SMEs in Bangladesh, which is known as a developing country. They determined that some of the reasons for business process re-engineering were as a result of ever changing customer requirements and increasined environmental and governmental regulations that compel an organisation to make drastic changes for future growth and survival. Re-engineering involves the process improvement of the organisation to adapt to change (Fan, et al. 2012). Although the focus of the study was on business process re-engineering, which is regarded as a potential success mechanism for SMEs due to their business configuration, which is much flatter than that of larger organisations and therefore they do not suffer from bureaucracy and cumbersome organisational systems, their results were similar to those of Mallur, et al. (2009), who also found that lack of management experience, planning and commitment always results in SME failure.

2.8 Conclusion of Literature Study

On reflection of the presented literature, it can be concluded that through the founding of SMEs through entrepreneurship, any developed and developing economy stands a greater prospect of improving and attaining an even better edge in its competitive advantage. The literature has provided an in-depth justification of what SMEs are and the significant role they play in the alleviation of economic growth. By the same token, the definition of an entrepreneur has been defined as someone who crafts an enterprise or stimulates a venture in the face of risk and ambiguity for the sole purpose of accomplishing profitability and growth by identifying opportunities and having the ability to pull together the necessary resources and to exploit them to their full potential.

The literature examined in this research study is consistent with the assumptions that this research is seeking to prove through its conceptualised model. The first hypothesis is in full support of the literature provided by the scholars, especially Abor & Quartey (2010 and Smit & Watkins (2012), who clearly stated in their literature that regulatory constraints also present grave challenges to SME development. This proves that government policy is indeed the catalyst that has the ability to sustain an SMME. Nichter & Goldmark (2009 and Fatoki (2014) also put forward valuable recommendations when they mentioned that government agencies should strongly support small enterprise development by organising formal training for new SME owners on how to prepare business plans and wider business management. Their theory is also in line with the pilot study results where it was discovered that there is a need to review the research model by adding an additional variable, namely Mentorship/Coaching. These government agencies can then act as mentors and coaches to start-up entrepreneurs where they can focus on business development principles and strategies that will assist the owner in creating and maintaining a successful business. This will indeed improve SME sustainability.

In addition to mentorship and coaching, it has been further argued by Gray, et al. (2011: 864) that coaching approaches can be broadly grouped into two categories: personal development and performance coaching. The latter which Gray, et al. call goal-driven coaching, is distinguished by three key features: non-directive, goal focused and performance driven. Regarding mentorship, Ralph & Walker (2014: 221) conceptualized mentorship as a developmental process by which an individual with more knowledge and skill in the field,i.e. a mentor, assists a person with less knowledge and skill in that field to develop in key areas. They state that mentors adjust their mentoring responses to match the mentee's task-specific development level while coaching them in their learning setting.

Literature from Chimucheka (2013) and Bruwer (2014) supports the second hypothesis as it clearly states that for entrepreneurs to operate successful enterprises they need to develop an entrepreneurial mindset. The model developed by Kruger Jr (2009) is an excellent tool that substantiates the entrepreneurial mindset theory by also offering training methods that teach entrepreneurs how to think and more importantly, how to think in a structured manner. This model refines the entrepreneurial mindest from novice thinking mode to expert thinking mode and shows how the entrepreneur can face challenges without giving in to failure.

The last hypothesis fits very well with literature by Fatoki & Odeyemi (2010), who also discovered that lack of finance is one of the primary reasons for the failure of new SMEs in South Africa. This also means that adequate financing can give start-up SMMEs an opportunity to be sustainable, and that SMEs managed by entrepreneurs with education qualifications and related business experience are more likely to be successful in their credit applications. However, in view of the perceived failures, the theory presented here is worth noting as it is highlighted that most SMEs struggle to achieve employee growth and also to increase revenue. This is because SME owners lack business experience, business knowledge and most importantly a structured and legitimate support system that has much in-depth knowledge about the manufacturing industry.

These shortcomings are significant contributing factors to the failure of emerging manufacturing organisations, as there is very little to mitigate their devastating setbacks. Also, SMMEs do not have the ability to become agile in times of hardship and turmoil which in-turn renders them vulnerable to multinational enterprises and competition caused by globalisation.

Below is the designed conceptualised model that will be employed in this research study as a basis to determine if there is an alignment between literature and the research purpose.

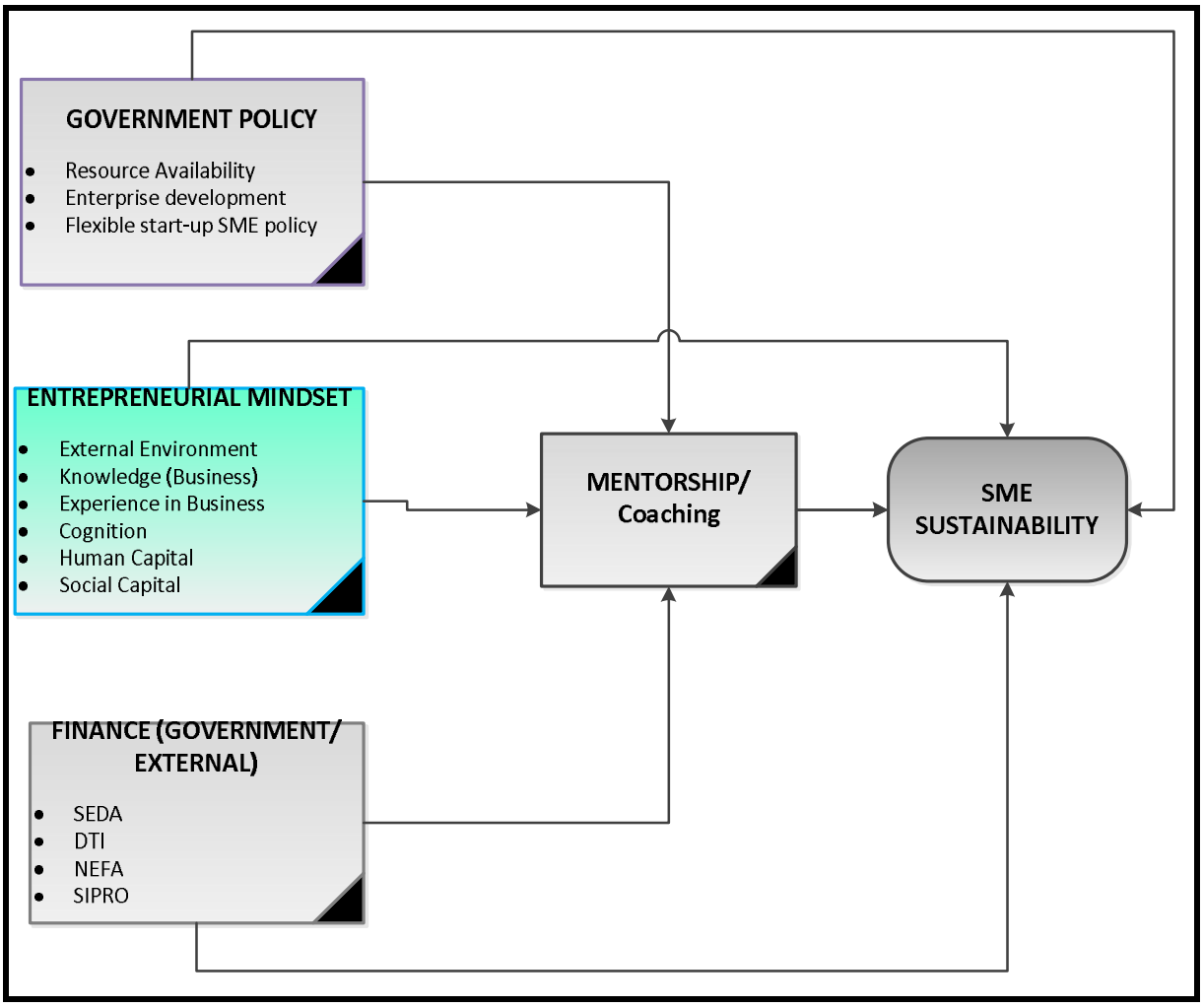


Figure 4: Research Conceptual Model for SME Sustainability

The research model will also make use of a quantitative study using a regression method to establish how and to what extent independent variables (systemic and individual factors) mediated by entrepreneurial or SME growth activities impact the likelihood of the dependent variable (entrepreneurial success) or firm sustainability. The hypotheses outlined below will be evaluated to determine the reasons for SMME failure.

2.9 Sub-problem Discussion Heading

First discussion heading

2.9.1 *Hypothesis 1*

There is a positive relationship between favourable Government policy and SME growth that can lead to SME sustainability.

2.9.2 *Hypothesis 2*

There is a positive relationship between entrepreneurial mindset and SME growth that can lead to SME sustainability.

2.9.3 *Hypothesis 3*

There is a positive relationship between sufficient financing and SME growth that can lead to SME sustainability.

3. RESEARCH METHODOLOGY

A qualitative and quantitative approach is used in this research where a collection of primary data and secondary data from participants who are currently running nascent manufacturing SMEs (0-3 years) and who ran failed manufacturing SMEs (after 3 years) is obtained. The first part of the study iss descriptive in nature since secondary sources were used to argue the factors responsible for business success and failure. The secondary part of the study is based on primary data using questionnaires completed by manufacturing entrepreneurs or business owners in the Johannesburg region. The advantages of secondary data are that it is readily available, faster, less expensive and requires less activity, than a survey, for instance. The disadvantages of secondary data are that it is not adequate, inaccurate or biased, could contain outdated information, vary in definitions and may not meet the needs of the researcher (Ut 2013). The advantages of primary data are that the data is more reliable and free from respondent bias, it is easier to note the effects of environmental influences on the specific outcome and it is easier to observe certain groups of individuals. The disadvantages are that the observer must be present at all times and there is a high possibility of low collecting data (Ut 2013). According to Leech & Onwuegbuzie (2009) mixed methods research represents research that involves collecting, analysing, and interpreting quantitative and qualitative data in a single study or in a series of studies that investigate the same underlying phenomenon.

The respondents in this study will be required to complete two sets of different questionnaires where the first set will focus on the nascent conditions and the second set on new SME conditions (Welman, et al. 2012). Regarding the main problem which is the potential causes of failure of emerging manufacturing SMEs, an investigation will be done on literature to identify common problems and a list will be made in an effort to determine the commonality of these causes and a comparison will be made with the feedback from the respondents to determine which ones are the most common. The

environment or area in which the study will be conducted, the research approach, design, population, sample and procedure are defined in this report. The research instrument to be used in collecting data, including the procedure for data collection and analysis and methods to maintain validity and the reliability of the instrument will be described. A cover letter will accompany each questionnaire to assure the confidentiality of the respondents.

3.1 Research Approach

The approach for this research will be an exploratory research with an aim to evoke responses that are meaningful, rich and explanatory in nature and, most importantly, anticipated by the researcher. Quantitative analysis will be used to follow a logical positivism approach based on natural-scientific method in human behaviour, observation, objectively measuring feelings and opinions of human behaviour (Welman, et al., 2012: 6). The survey will identify the extent of the problem and interviews will be used to give some of the detail and the narrative of how the failure of the SME has affected the entrepreneur. Closed-ended questionnaires will be formulated in such a way that each question is answered independently and to ensure errors are limited in respondent replies.

3.2 Research Design

The design for this research will make use of a qualitative and quantitative analysis that will examine the relationships between the independent variables, moderator and the dependent variable. According to Patton & Cochran (2002), the quantitative method has the same type of questions where researchers ask all respondents identical questions in the same order by having question types that are closed-ended or fixed. The advantages of this inflexibility is that it allows for meaningful comparison of responses

across participants and study sites. Qualitative analysis is used because of its ability to explain the behaviour and the attitudes of small businesses in a quantitative form.

The predictor or independent variables are entrepreneurial mindset, finance and Government policy, the moderator variable is mentorship or coaching employed to foster SME growth and the dependent variable is SME sustainability. Since there are more than two variables to the research problem, the statistical technique will follow a particular trend which accomodates one dependent variable and more than two independent variables that influence it. The relationships between the variables will be treated as additive and all the relationships treated as linear, and a regression analysis, using SAS software, will be employed for estimating these relationships. A Chi-square testing method will be used to test proportions, where necessary. The proportion z-test will be used to indicate which proportions are significantly different and which are not:

$$z = \frac{\hat{p} - p_0}{\sqrt{p_0(1-p_0)/n}}$$

As defined in Lee (2014), SAS 9.3 is a huge suite of statistical analysis programmes with many desirable features. The data collected will be interrogated to determine the fit of the dependent variable's average (R^2) where the percentage fit will be expected to be greater than .5 and not more than 1. The data fit is tested to determine how the independentindependent variables impact the dependent variables, therefore, should the percentage be between .5 and 1 then the hypotheses will prove true but if the percentage is below .5 then the independent variables have no impact on the dependent variable. The entrepreneurial Intention Questionnaire (EIQ) that was developed and validated by Linan & Chen (2009) to collect primary data will be used. The advantages of this questionnaire is its ability to integrate a broad set of variables that can describe entrepreneurial intention and behaviour and how intention and behavior can influence SME failure (Linan, et al. 2011). The EIQ questionnaire is built on Ajzen's theory of planned behavior.

3.3 Population and Sample

The population is the study object and consists of individuals, groups, organisations, human products and events or the conditions to which they are exposed. In essence, a population is the full set of cases from which a sample is taken (Welman, et al. 2005: p. 52,53). Sampling is the process of selecting a group of subjects for a study in such a way that the individuals represent the larger group or population from which they were selected (Yount, 2006: p. 7-1).

3.3.1 Population

The population chosen will be:

- Manufacturing SMEs (active and inactive) registered with the Department of Trade and Industry (DTI)

Manufacturing SMEs registered with the DTI have been selected mainly because of their legitimacy and their assumed entrepreneurial inclination. Their experience and survival techniques for sustainability will be well utilised as part of new SME sustainability and competitiveness. Inactive SMEs will be selected for a clearer understanding of the reason for their inactivity.

3.3.2 Sample and sampling method

The sample or subgroup of the target population of this study will be based on manufacturing businesses functioning in the Johannesburg area, since it has potentially the highest number of businesses (SMEs) and is focused on emerging small and medium enterprises (Urban 2012).

Table 2: Profile of Respondents

Description of respondent type:	Respondent Results
Nascent Manufacturing SMEs	191
Failed Manufacturing SMEs	42

3.4 The Research Instrument

The composition of the instrument will comprise five demographic questions: Age, ethnicity, education, household composition and professional or employment status, since it will contribute to the analysis on male versus female entrepreneurs. A similar questionnaire (April 2005) will be administered for the research instrument where respondents will be required to simply mark their choice of answer.

3.5 Procedure for Data Collection

The procedure for data collection flows from the research design and all data will be completed manually by each participant who will be provided an opportunity to complete it independently and willingly to ensure that honest data or feedback is obtained. Questionnaires and possibly telephonic interviews will be conducted so that a larger number of respondents in the Johannesburg district may be reached. During personal interviews (telephonic) the researcher will pose personal questions to the interviewee. Questionnaires were used for the purpose of this study because of the following reasons (Bird, 2009):

- A large number of respondents is reached through questionnaires because of their ability to uncover present, and past behavior or attitudes with respect to the topic under investigation; and
- Questionnaires provide valuable information.

For this research a short structured questionnaire was adapted from April (2005) to be completed by the respondents.

3.6 Data Analysis and Interpretation

Software SAS 9.3 will be used to analyse the data obtained from the participants and the analysis will be done through a simple linear regression model: $y = \beta_0 + \beta_1 x$ to determine how much the dependent variable changes every time the independent variable changes. A standard t-test will be used to do a comparison of the means of the two groups (nascent and new manufacturing SMEs) to determine if there will be a significant difference in the dependent variable. A Pearson correlation will also be used to determine if the relationship between the data of both groups is linear and a Cronbach's alpha will be used to measure internal consistency on whether the hypotheses constructs will produce similar scores.

3.7 Limitations of the Study

There were three limitations identified in this study. The first limitation was the low number of failed entrepreneurs and within that minority; some of them were not very co-operative in terms of completing questionnaires and most importantly they did not want to participate in the interview sessions. The second limitation was the unavailability of financial statements for some of the SMME businesses as some of the business owners did not want to share their financial statements as they regarded them as intellectual property and did not want them distributed or published. As a result, it was difficult to determine whether an increase in financial turnover yields improved results with regards to SMME sustainability. Thirdly, the objective of the research had to change slightly due to the finding that, on average, the manufacturing SMMEs were not older than 3 years, which meant that this measure on SMME sustainability was no longer a criterion. This forced the study to shift its focus from the conceptualised model objective of measuring

SMME sustainability to measuring SMME sustainability through perception of entrepreneurs.

3.8 Validity and Reliability of Research

It has also been found in literature by Welman, et al. (2012) that the traditional criteria for validity find its roots in a positivist tradition. Also, that validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. Therefore, researchers generally determine validity by posing a series of questions, and will often look for the answers in the research of others.

To establish the validity of responses to the questionnaire instrument on the perceived failure factors in business ownership, an interview of a sample of failed small business owners among the respondents was conducted to determine factors that motivated them to start a business. However, the findings produced from the interviews were mostly in concurrence with the findings from the analysis of the responses to the questionnaire. It is quite interesting to note that most failed entrepreneurs, especially male, included the following reasons for starting a venture:

- Negative work experience
- The need to overcome poverty
- The need to earn good income
- The need to earn respect and recognition
- The need to be financially free

Most female entrepreneurs indicated that they were in business to support their spouses and some females stated that they were in business to be relatively self-reliant.

3.8.1 External validity

This research was conducted based on available literature and primary data obtained from the sample population and the results from the recorded respondents were used to represent the overall population of the Johannesburg region (Welman, et al. 2012). External validity examines whether or not an observed causal relationship should be generalised to and across different measures, persons, settings and times (Calder, et al. 1982). Since the study was carried out in Johannesburg, Ekurhuleni district, this may mean that other SMMEs in different provinces may have different perceptions of SMME sustainability or failure.

3.8.2 Internal validity

To ensure that the research study is effective and reliable, the significance of the study was emphasised to all participants and they were made aware of the importance of their contributions since conclusions can be drawn from their stated causes and effects. This will be critical since the findings should be repeatable if anyone else were to repeat the research (Welman, et al. 2012). In addition, to reduce potential threats to the internal validity of the study, all respondents were assured of the confidentiality and anonymity of their responses and were informed that they would be used for the sole purpose of the research. Also, extraneous variables such as experimental variables were considered a possible threat to the research since they are not part of the study and could have an influence on the variables that have been included in the results (Starr & McCormick, 2011). The extraneous variables are measured in this study but can increase or decrease the magnitude or intensity of the relationships measured, more specifically between dependent and independent variables (Starr & McCormick, 2011). Therefore this research does not have the strong level of internal validity that would be required to draw causal relationships between factors that influence SMME failure and SMME sustainability.

Statistical tests for validity were also conducted to determine correlation between the independent variables and the dependent variable where a Chi-square was used to determine sample adequacy and statistical significance of the relationships.

3.8.3 Reliability

The reliability demonstrates the extent to which “a particular technique, applied repeatedly to the same object, yields similar results each time” (Babbie, 2010: 196). In addition to that, reliability is mostly concerned with estimates of the degree to which a measurement is free from random error – a measure is reliable to the degree that it supplies consistent results (Cooper & Schindler 2011).

This research study should be replicable in a consistent manner as the questionnaire that was used was evaluated by experts in the field of SMEs. However, the context in which it was used was slightly different to the context of this study as this study contains a much larger sample group when compared to the sample group used by previous researchers.

4. PRESENTATION OF RESULTS

4.1 Introduction

The purpose of this chapter is to present the results pertaining to demographics of the study (age, gender, education qualification, number of years in the business and form of business) representing the population surveyed in an effort to determine the perception of entrepreneurs as to why the majority of SMMEs are unsuccessful in Johannesburg. As described in the first chapter of this report, these results aim to uncover the main research problem that, despite the empirical evidence continuously presented by scholars regarding the critical success factors of SMMEs, Johannesburg, South Africa, still has a very high rate of SMME failure

4.2 Demographic Profile of Respondents

4.2.1 *Respondent age and gender*

The average age group category of respondents is 35 years old, where the average of females is 36 years old and the average for the males is 35 years old. The male respondents were the majority as they outnumbered the female respondents, with males comprising 55% of the total sample and females 45% (see table below).

Table 3: Respondent Age and Gender

Label	Scale Median	Percent
Age	35	
Male	129	55%

Female	104	45%

4.2.2 *Education and qualifications*

All respondents were questioned about their qualifications and education level. They were all measured against the same criteria for the level of education, namely: Trade test, Diploma, Degree, Honours and Masters Degree. The table below represents the findings of the questionnaires:

Table 4: Respondent Education and Qualifications

Education				
Education	**Frequency**	**Percent**	**Cumulative Frequency**	**Cumulative Percent**
Degree	29	12.45	29	12.45
Diploma	12	5.15	41	17.6
Hons	4	1.72	45	19.31
Masters	9	3.86	54	23.18
Trade	179	76.82	233	100

The majority of respondents had a trade test qualifications at 77% followed by undergraduates with a degree at 12%, diploma graduates at 5%, postgraduates at 4% and honours at 2%.

4.2.3 *Forms of SME Ownership*

The table below depicts the findings of the types of SMMEs:

Table 5: Respondent Forms of SME Ownership

Forms of Ownership				
Forms of Ownership	**Frequency**	**Percent**	**Cumulative Frequency**	**Cumulative Percent**
Partnership	82	35.19	82	35.19
Sole Trader	151	64.81	233	100

The Sole trader has the higher percentage at 65% and Partnership SMMEs at 35%.

4.3 Analysis of Hypotheses

This section presents the results of the three above-mentioned hypotheses, where data was compared by means of integrated regression in order to test whether the hypotheses may be accepted or rejected. The hypotheses aim to test whether there is a relationship between variables that can cause SME success or failure by collecting data on the perceptions of entrepreneurs or business owners.

Table 6: *Statistical Analysis of Hypotheses*

			Statistical Significance	
Variable	**B**	**β**	**p**	**95% interval**
Intercept	3.07**	0	0.01	0.73 to 5.41
Age	-0.03	-0.08	0.274	-0.07 to 0.02

Gender1		-0.07	-0.03	0.763	-0.52 to 0.38
Sole_Trader		0.14	0.06	0.536	-0.31 to 0.59
G_Policy		0.11	0.09	0.207	-0.06 to 0.28
E_Mindset		0.12	0.07	0.28	-0.1 to 0.34
Finance_Gov	0.16*		0.11	0.088	-0.02 to 0.35
Finance_Ext		-0.03	-0.03	0.71	-0.21 to 0.15
Mentorship	-0.2*		-0.13	0.051	-0.4 to 0
Diploma		-0.2	-0.04	0.588	-0.93 to 0.53
Degree	-0.46*		-0.13	0.063	-0.94 to 0.02
Honors		-0.89	-0.1	0.154	-2.13 to 0.34
Masters		-0.24	-0.04	0.564	-1.06 to 0.58
F		1.27	.	0.24	
R2		0.06	.	.	
Adj R^2		0.01	.	.	

*Notes: B = unstandardised parameters, β = standardised parameters, *** = p < .01, ** = p < .05, * = p < .10.*

4.4 Results pertaining to Hypotheses

Hypothesis 1: There is a positive relationship between favourable Government policy and SME growth that can lead to SME sustainability (this hypothesis is rejected)

H1 was aimed at predicting that favourable Government policies can foster SME sustainability, but according to the replies from the respondents, the data proved this

assumption to be statistically insignificant at (.11) and therefore the hypothesis was rejected.

Hypothesis 2: There is a positive relationship between entrepreneurial mindset and SME growth that can lead to SME sustainability (this hypothesis is accepted based on entrepreneurial education)

H2 was aimed at predicting a positive relationship that possessing an entrepreneurial mindset can lead to a sustainable SME. This hypothesis proved to be supported by a majority of respondents as most of them believed that human capital as a form of education provides the entrepreneur with a much better chance of creating a sustainable SME or business. This hypothesis was found to be statistically significant at (-.14) with obtaining a University degree being the highly recommended education level. The hypothesis was therefore accepted.

Hypothesis 3: There is positive relationship between sufficient financing and SME growth that can lead to SME sustainability (this hypothesis is accepted based on Financing from the results)

H3 was aimed at predicting the relationship between strong financing of an SME and its ability to sustain a business. This assumption aimed to prove that a healthy financial income statement of a business has the ability to sustain a business and the statistical data resulted at a positive (.16). This hypothesis was accepted.

4.4.1 *Moderator Result*

Based on the results from the pilot study, it was decided that a moderator variable be added into the model to influence the direction and strength of the relation between the

independent variables (Government Policies Entrepreneurial Mindset and Finance) and the dependant variable (SME Sustainability). The moderator result proved to be a success as it was found to statistically significant at (-.20)

5. DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter discusses in detail the results depicted in the previous chapter, namely, age, respondent gender and the three hypotheses that aim to prove whether a combination of relationships might yield rewarding results in SME growth. However, this chapter thoroughly describes the challenges encountered during the data collection phase and how the aim of the research model had to be adapted from a measure of SME sustainability to a measure of entrepreneur perception of SME sustainability. SME sustainability is represented by the variable, SME year of establishment. Furthermore, this chapter will also highlight the link between results and the theory scrutinised in this report to establish whether the sample that was surveyed to represent the population does have some similarities or differences in terms of their perceptions and this will also be somewhat influenced by the geographical area from which the sample was taken. Factors such as politics, community or societal impact are expected to play a role on the entrepreneurs' perceptions.

5.2 Demographic profile of respondents

A total of 376 questionnaires were distributed and 233 were returned and the results from the model were based on the dependent variable (Year of Establishment) that was being measured. The table below represents the variance in the number of observations from the model.

Table 7: Demographic Profile of Respondents

Variable	Mean	Median	Std Dev	25th Pctl	75th Pctl	Minimum	Maximum
Age	35.33	35	3.52	34	38	26	48
Yr_of_Establishment1	2.62	3	1.18	2	4	1	5
G_Policy	3.85	4	0.94	3	5	2	5
E_Mindset	3.06	3	0.73	3	4	1	4
Finance_Gov	3.53	3	0.84	3	4	2	5
Finance_Ext	2.18	2	0.88	2	3	1	4
Mentorship	3.77	4	0.78	3	4	2	5

For data collection, the snowball sampling method was used because most SMME owners were acting as informants and were able to identify other entrepreneurs (mostly acquaintances) that would participate in the study. However, this method evolved to an accidental sampling method since most respondents were found to be near their area of operation.

Government Policy: The results pertaining to the questionnaires issued came back positive as the majority of business owners strongly believed that favourable Government policies do have an impact in the success of their businesses. This is also shown by the mean value that represents Government policy at a score of (4) on the Likert scale which in this case states 'Important' on the scale. Not only did they feel a positive government policy is what they require, but also felt they needed Government support in terms of resource allocation. These results show that Government policy should allow for flexible SME start-up programmes by making sure that regulations that govern start-up SMEs are reviewed and made suitable for SMEs as mentioned by Abor

& Quartey (2010 and Smit & Watkins (2012), asregulatory constraints can cause grave challenges to SME development. These constraints can involve high start-up costs together with licensing and registration requirements. To address the issue of resource availability and allocation, as mentioned by the respondents, the recommendations made by Nichter & Goldmark (2009 and Fatoki (2014) that government agencies should strongly support SME development by organising formal training on the drafting of business plans, will assist the SME owners to identify required resources and allocate them more effectively. Should these recommendations be implemented properly, Mbedzi (2011) believes that competitiveness and equitable access to business support through partnership will be achieved. This should also address the concerns raised by Mbedzi (2011:12) that lack of adequate access to finance, which forces some SMEs to resort to black market dealings, corruption and even bribery, will be minimised.

Entrepreneurial Mindset: The mean calculation for the entrepreneurial mindset was found to be at (3) on the Likert scale which represents 'Neutral'. This indicates that there is no strong or weak perception towards entrepreneurial mindset from entrepreneurs as they believe that this needs to come naturally from the individual. Referring back to H2, the respondents perceive higher education to be highly relevant to SME sustainability as this will provide in-depth business and operations knowledge. This is in line with Magagane (2012), who identified that very often SMEs face challenges in retrieving reliable records due to poor record keeping, which is mainly caused by lack of business knowledge. Not only is business knowledge necessary, but business experience too is highly recommended because it is believed by Hayward, et al. (2009) that prior ventures can provide valuable resources for entrepreneurs' future use and that experience helps entrepreneurs develop new skills and generate social capital that can be used in the development of their newly found venture, i.e when recruiting executive officers. However, Hayward, et al. (2009) was in support of the literature developed by Zhang (2007) through an empirical study that showed that entrepreneurs with prior business experience tend to have more developed skills and social connections than beginner entrepreneurs and that such skills and social connections could award experienced

founders an added advantage in the process of raising venture capital. This theory is also in line with literature from Mbedzi (2011) that states that connections or partnerships can enhance SME competitiveness. On the other hand, contrasting findings by Kuckertz & Wagner (2010) discovered that experienced entrepreneurs who fail and learn from their experiences, suffer from diminished optimism, meaning that learning about the facts of business and its challenges causes entrepreneurs to more thoroughly and realistically assess entrepreneurial opportunities, potentially resulting in a decline of sustainable entrepreneurship.

Moreover, an entrepreneurial mindset requires a high level of human capital as this can provide entrepreneurs with efficient and effective cognitive abilities that result in a more productive and efficient potential entrepreneurial activity (Barreira, et al. 2011: p. 41). This cognitive ability can be the balance between diminishing optimism and utilising the obtained connections in the most efficient way, e.g. lessons learned, and to improve on previous failures.

Government Finance vs. External Finance: Most business owners indicated that there is a strong need for financial assistance for SME owners. The Likert scale score was found to be 'Important' at (4). They also felt that financial assistance tends to relieve them from business pressure in terms of procurement since financial support is available. This finding was also statistically significant since some of the respondents strongly believed that ethnicity is also a role player in raising funds and they felt that black business owners in particular had the greatest difficulty in raising or acquiring financial assistant and therefore relied upon 'bootstrapping' as a financing strategy, which is why they feel Government financial assistance will at least provide equal opportunity for any business owner. Based on the results on external financing the respondents did not support external financing and the common reason was that they were not able to receive financial assistance from either family or friends so this form of finance does not benefit them in any way. The result on the Likert scale was a (2) which represents 'Slightly important'. Petrus (2009) also established that government finance

is one of the key factors that assist SMEs in finding suitable markets for their products or services.

Government needs to invest more in SME funding due to minimum funds being allocated to SMEs at only 3.8% of R1.1billion of investments on SME focus, according to the South African Venture Capital Association (Rungani 2008). This forces SMEs to be dependent on bank loans and overdrafts.

Mentorship: The statistic on the Likert scale for mentorship was very high at (4) which states 'Important' as most entrepreneurs indicated that they need mentorship and guidance that will assist them in the establishment and development of their businesses. They also felt that information on resource allocation is critically important since this would also enable them to utilise their resources more effectively and efficiently. Hamburg (2013) stated that mentoring is a human resource development process supporting learning and knowledge transfer.

5.2.1 *Construct Correlations*

Table 8: Construct Correlations

Pearson Correlation Coefficients, N = 233						
	Age	**G_Policy**	**E_Mindset**	**Finance_Gov**	**Finance_Ext**	**Mentorship**
Age	1					
Age						
Yr_of_Establishment1	-0.03691					
Yr_of_Establishment1	0.575					

G_Policy	0.10421	1				
G_Policy	0.1126					
E_Mindset	-0.09889	-0.06131	1			
E_Mindset	0.1323	0.3515				
Finance_Gov	-0.1042	-0.16069	-0.04195	1		
Finance_Gov	0.1127	0.0141	0.524			
Finance_Ext	0.18232	-0.04645	0.08997	0.02448	1	
Finance_Ext	0.0052	0.4804	0.1711	0.7101		
Mentorship	-0.06439	-0.01149	-0.04948	0.00135	0.04596	1
Mentorship	0.3278	0.8615	0.4523	0.9837	0.4851	

Correlations indicate the extent to which two variables are related and represent the strength of association between the variables in a linear relationship. Correlations are measured by means of a correlation coefficient and values run on a continuum of -1 to +1, with both extremes indicating that the data comprises a perfectly straight line (Somekh & Lewin 2009). When an r value of 0.00 represents a lack of relationship between variables, a negative r value depicts a negative relationship and implies that an increase in the value of one variable is associated with a decrease in the value of the other. In contrast, a positive correlation coefficient value indicates a positive relationship and implies that an increase in the value of one variable is accompanied by an increase in the other and vice versa.

A Pearson correlation program was used to evaluate the relationships and whether one variable has an effect on the existence of the other. This means that should one variable increase, then the other will increase as well. In this regard, none of the relationships had an effect or influence on each other. None of the relationships were statistically significant as there were very weak relationships established between them.

However, the relationships worth noting are the relationships between age and year of establishment where the correlation was a positive and strong at (0.6), as the entrepreneurs believed that maturity plays a significant role in business. Another correlation was between Government policy and year of establishment although it was a weak correlation of (0.5), as the entrepreneurs believe that in order to stay afloat, Government policies needs to favour start up SMMEs in terms of favourable tax laws and product promotions for market accessibility.

5.2.2 *SME founding type*

During data collection, one of the findings that were discovered was the type of establishment that some of the SMEs were based on. Two types were found, namely: Sole trader SME and Partnership SME. These SME types are explicated in detail below.

Sole trader SME: This is an SMME that is started as a one-man business operator where the entrepreneur running it is considered a “jack of all trades”, which means that the business owner is in charge of everything and all operations. This includes marketing of the business, managing of all finances and even the building. Usually, such businesses involve high volumes of outsourcing, whereby, if the entrepreneur secures a project, labour is then outsourced in order to assist the owner with the completion of that specific project (Seeletse & Ladzani, 2011: p. 3292).

Based on the results, it was found that the average lifespan of SMMEs in operation for sole traders is two years or the year 2011 (when measured on a scale of 2009 - 2013.

Sole trader SME type was the majority type at (65%) and it was comprised of entrepreneurs who have businesses that are still in operation at (47%) with female sole traders at (12%) and male at (35%). The failed entrepreneurs were found at (18%) with female failed entrepreneurs at (3%) and failed male entrepreneurs at (15%). There was a commonality in the response of failed entrepreneurs or respondents as they stated some of their reasons for failure as:

- Insufficient cash flow
- General operating costs were always higher than their income
- Lack of financial capital to leverage especially on storage of stock
- Too many debts with high interest rates
- No possible investment into the business could be generated as there was no return on investment

The organisational schematic diagram below illustrates the split in the Sole trader SMME findings.

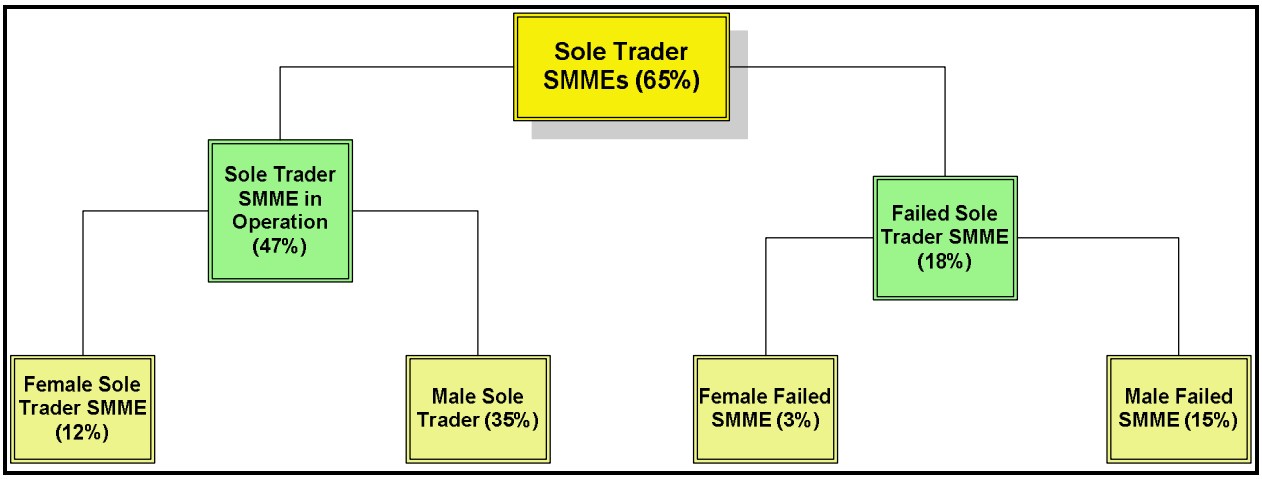


Figure 5: Operational Sole Trader vs Failed Sole Trader

Partnership SME: This is a business type or entity in which the partners or owners share with each other the profits or losses of the business (Krause, et al. 2009: p. 5).

Partnership SMEs were (35%) and (21%) were female partnerships and (14%) were male partnerships, however, by organisation, the meaning of partnership is categorised by female partnership where the female is the larger shareholder and also in the male category, where the male is the larger shareholder. There were no failed entrepreneurs

found within the partnership SME category. The table below depicts the findings based on partnership SMEs.

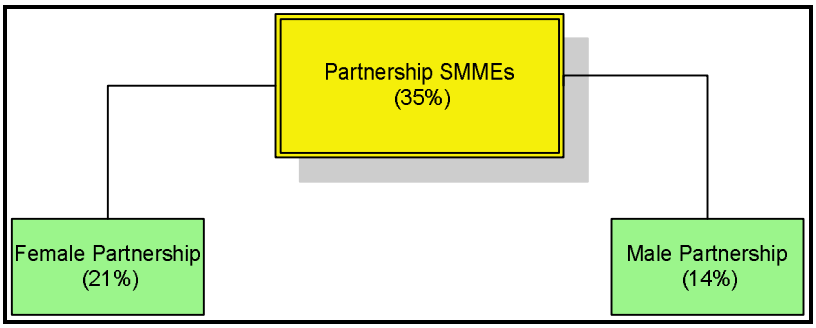


Figure 6: SME Partnership

The majority of Sole trader entrepreneurs indicated that the greatest motivator for starting their business was the FIFA 2010 Soccer World Cup coming to South Africa. They believed that this memorable event would bring fortunes, without knowing that starting a business is not easy. Both male and female sole trader entrepreneurs also had common responses during the interviews that through their experience of running a business they did not contribute much to employment creation and also that they did not possess solid business education background and that they lacked training and experience on how to operate and manage a business. Instead they relied on other entrepreneurs that they knew or acquaintances that they would assist them to overcome whatever difficulties they encountered. This is a clear indication of how much SME owners or entrepreneurs require mentorship and coaching on how to co-ordinate a business effectively and efficiently. Another main challenge that was mentioned by the failed entrepreneurs was said to be a lack of resources such as finance, information, training and business knowledge and skills.

They believed that with sufficient access to finance they could have been able to exploit economic opportunities, but sadly they were faced with insufficient finance and were unable to improve their negative situations.

Entrepreneurs who are in partnership SMEs indicated that the primary reason for their partnering was for survival and some of the advantages that exist in a partnership are:

- Increased customer base
- Improved profit margins
- Increased competitive advantage
- Improved supplier relations
- Increasing benefits in networking
- Increased scope of supply
- Increase in resources (manpower, machinery, material)

In literature it has been further stated that partnerships between SMEs are needed to create business opportunities, enhance social benefits and provide protection for smaller businesses from competition of larger organisations (Matela 2013: p. 55). However, partnerships are difficult to establish because of the legal issues such as taxes involved (Krause, et al. 2009: 9)

5.3 Discussion pertaining to Hypotheses

This chapter presents the data analysis pertaining to hypotheses and how they the variables relate to one another using a regression to test for linearity. Note that consistent throughout is that the results are significant at Alfa = 0.05.

5.4 Overview of Results

5.4.1 *Discussion pertaining to Hypothesis 1*

Hypothesis 1: There is a positive relationship between favourable Government policy and SME growth that can lead to SME sustainability

The rejection of this hypothesis was unexpected as literature is in support of Government policies being able to assist small businesses in becoming sustainable. Abor & Quartey (2010 and Smit & Watkins (2012) determined that regulatory constraints also present grave challenges to SME development, even though a wide range of structural reform has somehow achieved a little bit of improvement and prospects for enterprise development are still to be dealt with at firm level. High start-up costs for SMEs, together with licensing and registration requirements can impose extreme and pointless burdens on SMEs. As cited in Abor & Quartey (2010: p. 224) it takes approximately 176 days in South Africa to obtain licensing and this involves 18 procedures and at the same time the lack of antitrust legislation favours larger firms, despite the fact that lack of protection for property rights limits SMEs access to foreign technologies. However, during the interviews, a small number of entrepreneurs mentioned that they believe it is pointless to think that Government policies would ever favour the development of start-up businesses. However, these were emotional responses as they were received mostly by entrepreneurs that had unsuccesful businesses.

5.4.2 *Discussion pertaining to Hypothesis 2*

Hypothesis 2: There is a positive relationship between entrepreneurial mindset and SME growth that can lead to SME sustainability

The hypothesis was accepted based on education where it was found to be statistically significant to have an entrepreneurial mindset through education. It was interesting to find that even the entrepreneurs who had a trade qualification also highlighted the fact that obtaining a higher education is more beneficial as it enhances human capital and the ability to be more strategic when faced with difficulties. This finding was very much in line with literature where it is supported by the investigations made by Fatoki & Odeyemi (2010) when their results also pointed out that new SMEs managed by owners with higher education and related business experience are more likely to be successful

in their credit applications and that SME owners with business education and working experience are not likely to have their credit applications successful. Education is also further supported by Kruger Jr, (2009) as that study mentions the importance of entrepreneurial education is in that it provides entrepreneurs with the relevant knowledge, and even more critically it teaches novice thinkers to think like expert entrepreneurs through the application of knowledge.

Additional literature by Dimov (2010) further differentiates human capital into general human capital, pertaining to overall education and life experience, and specific human capital, which pertains to education and experience specific to a particular action or environment.

5.4.3 *Discussion pertaining to Hypothesis 3*

Hypothesis 3: There is positive relationship between sufficient financing and SME growth that can lead to SME sustainability

The hypothesis was accepted as it was found to be statistically significant where most entrepreneurs voiced their opinions that Government funding is i imperative to the success of small businesses. It was noted that SMEs with acceptable credit histories and satisfactory security, had satisfactory access to bank credit. With regards to start-ups, micro-enterprises and entrepreneurs from previously disadvantaged districts or any other group with limited or weak credit histories, it was mentioned that their access to credit is very restricted. However, the Government has made efforts over a period, where certain major banks have partnered with Khula Enterprise Finance Limited to provide SME businesses with finance and also there are other players such as business partners and various venture capital firms who play a vital role in providing small businesses with financial products (SEDA; DTi; Petrus, 2009).

5.5 Conclusion of Results

This section explains the results obtained from the interviews and questionnaires conducted with to successful and unsuccessful entrepreneurs in search of their perception of how they perceive SME sustainability. It also identified some of the factors that the respondents cited as being responsible for their businesses failing. This was then followed by the statistical descriptions of the various relations between variables that were conceptualised in a model that aimed to identify whether certain relationships could cause SME failure or sustainability by also determining whether these relationships can influence one another. However, it was argued in the findings pertaining to the correlations that the statistical associations did not provide any insights as to the causes of the business failures since none of the relationships had an effect or influence on each other and none of the relationships were statistically significant as there were very weak relationships established between them. Therefore, mentorship, was added to the conceptualised model to determine if the influence of variables on each other would be enhanced or not and indeed this was found to be true as variables such as education and Government finance were affected positively. As stated concisely by Lawrence & Tar (2013:29):

> "A grounded theory is one that is discovered, developed, and provisionally verified through systematic data collection and analysis of data pertaining to a particular phenomenon."

Therefore, as it was mentioned in this chapter, the business respondents need to be harked back that behind empirical trials are hidden methods or mechanisms which need to be made known to them. In this research it has been illustrated that poor knowledge of business operation are evident which entrepreneurs ascribed to their management principles and this ultimately led to the demise of their businesses. It can also be highlighted that all failed SMEs fail at entry level or in the introductory phase, according to the venture life cycle Strydom (2008) and they do not even reach the growth phase.

They fail due to poor profits caused by an increase in the costs of production and marketing. Since they also struggle to keep up with the financial demands of running a business they cannot even apply the Zimmer, et al. (2008) concept according to which they maintain product development by constantly introducing new products to the market. An empirical study by Mokgatla (2011,p.158) also proved that indeed SMEs have difficulty becoming sustainable as it was proven that one of the factors that contributes to manufacturing SME failure, is negative consumer behaviour, which was even a factorwhen some manufacturing SMEs made numerous efforts to adopt certain strategies such as market penetration, market development and product development as growth strategies.

The next chapter, dealing with conclusions and recommendations will be presented to determine how this situation could be addressed or improved.

6. CONCLUSIONS AND RECOMMENDATIONS

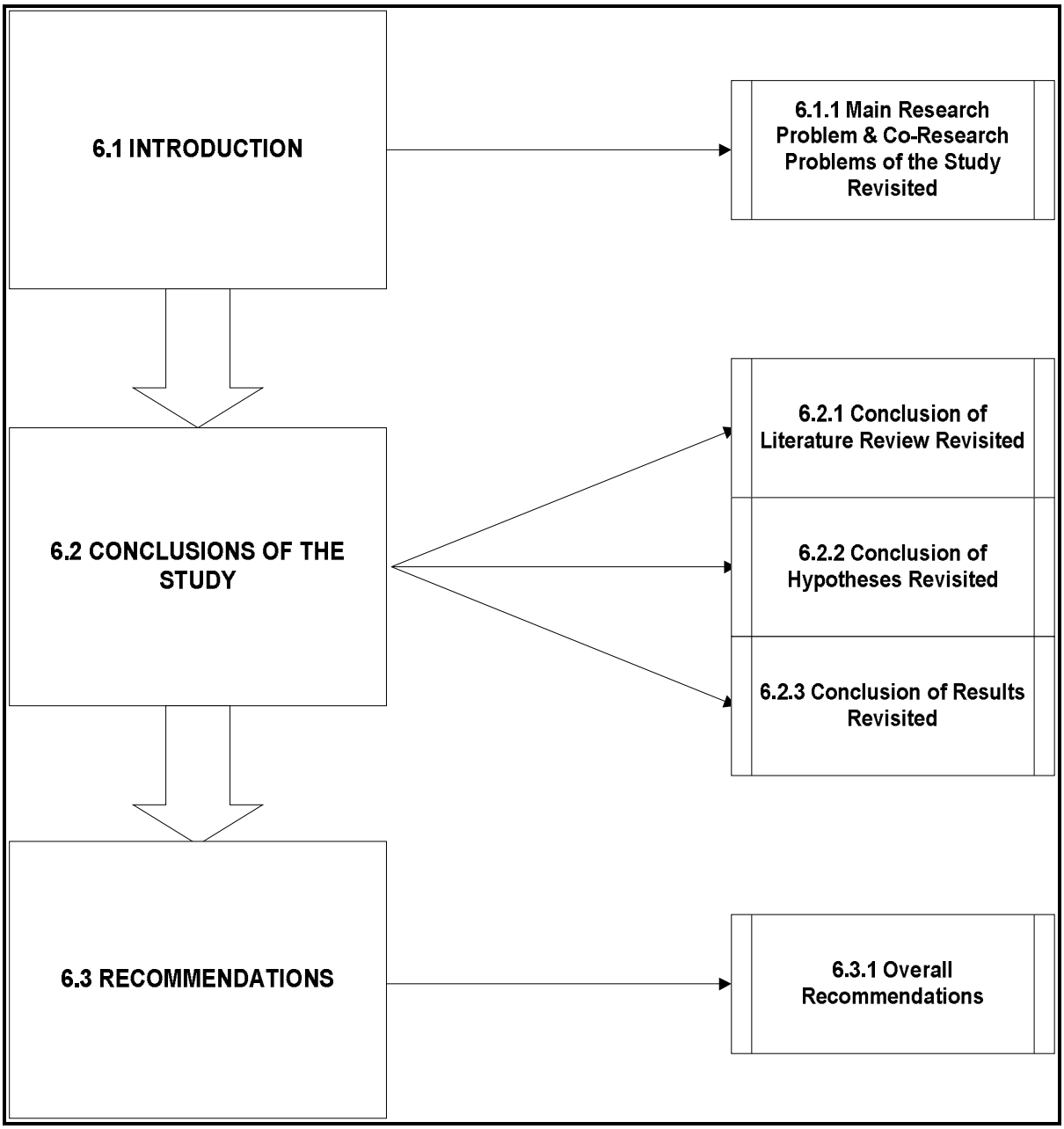


Figure 7: Chapter 6 Layout

6.1 Introduction

"*Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon."* ***Winston Churchill, former Prime Minister of the United Kingdom***

In Chapter six a short summary of the study will be provided, beginning with the background and the main problem of the study. Thereafter, a summary of the literature review, followed by a summary of conclusions pertaining to hypotheses assumed in the study and the summary of results from the empirical study, will be outlined. Finally, all necessary recommendations will follow, where they will touch on research limitations and most importantly the conceptualised model.

6.1.1 Main problem and Co-research Problems of the Study Revisited

Currently, SMME failure in South Africa remains the second lowest of the BRICS economies due to its large percentage of 48.2% for youth unemployment for people between the ages of 18 – 34 years (South African GEM, 2011). The issue of business failure is problematic because small and medium enterprises are created to foster economic development and growth within a country (Chimucheka, 2013; Seeletse, 2012). Against this background the overall problem statement of this study is presented as follows:

The main problem of the study is that despite the empirical evidence continuously presented by scholars, who are always contributing to the body of knowledge, Johannesburg, South Africa, still has a very high rate of SMME failure (Chapter 1).

Co-research Problems

- There is a possibility that manufacturing SMME owners are not fully informed about the advantages and disadvantages of establishing a business venture
- There is a lack of competitive spirit in business owners

There are not enough growth strategies adopted by manufacturing SMMEs in Johannesburg.

6.2 Conclusions of the study

Under the literature review in Chapter 2, the theories on the possible causes of the failures used were initially presented in a conceptualised model, where Government Policy, Entrepreneurial Mindset, Government Finance and SME Growth and sustainability were all scrutinised.

6.2.1 Conclusion on Literature Review Revised

In the perception of Government Policy, the literature revealed that regulatory constraints also cause grave challenges to SME development, which may result in SMME failure due to various reasons such as lack resource availability, lack of knowledge on enterprise development and most importantly, a lack of flexible start–up SME policy.

The perception for entrepreneurial mindset, was well theorised by Kruger Jr (2009), showed developing a model that would assist entrepreneurs to change how they structure their perception about entrepreneurship by providing them opportunities for critical developmental experiences and assist them into re-shaping their mental models. By establishing this change, failure can be viewed as a learning curve rather than the end.

The perception on Government finance, the theory revealed that governments are making an insignificant contribution when it comes to the financing of innovative small businesses and that their policies are problematic (Petrus 2009). Apart from inadequate finance, there is the issue of access to finance that is believed to be responsible for lack of financial support as the most difficult stumbling block for up-and-coming entrepreneurs as well as for those who wish to further develop their business venture.

6.2.2 Conclusion of Hypotheses Revised

The hypotheses which were advanced in Section 5 are revisited in this chapter.

H1: There is a positive relationship between favourable Government policy and SME growth that can lead to SME sustainability

H2: There is a positive relationship between entrepreneurial mindset and SME growth that can lead to SME sustainability

H3: There is positive relationship between sufficient financing and SME growth that can lead to SME sustainability

Hypothesis 1 was the only rejected hypothesis based on the statistical results as the respondents had a different perception towards government policy and SME growth. Hypotheses 2 and 3 were accepted based on the statistical data provided from the respondents.

6.2.3 Conclusion of Results Revisited

The results of the study revealed that SMME failure is not determined by age or Government policy or education since all these factors were found to be statistically insignificant towards one another, instead, possession of entrepreneurial mindset,

financial support from Government and, most importantly, mentorship will increase or strengthen the survival rate of SMEs.

6.3 Implications and Recommendations

The discussed conclusions derived from the empirical study will be used as the basis for the formulation of recommendations for this study. In addition, recommendations on research limitations, Government policy, Government finance, entrepreneurial mindset and mentorship will be discussed. Furthermore, the literature review exposed that there is a shortage of journal articles, publications and accessible information that addresses the reasons for failure of SMMEs in Johannesburg. Therefore supplementary research needs to be given to this important element of accessible information on manufacturing SMME failure.

6.3.1 Overall Recommendations of this Study

The recommendations made in this study scrutinise the potential of shifting the existing situation through increased understanding and self-awareness to enable the owners of small businesses to renew their confidence and to become conscious agents for their future. This is even more important in a country like South Africa that has emerged from crippling political turmoil that created great challenges for economic development. The overall assumptions and reasons for SMME failure researched in this study were met and based on these the researcher will make recommendations based on the results obtained from this study. This study investigated the causal failures for emerging manufacturing SMEs in Johannesburg. From the study it was evident that there is a crisis of emerging manufacturing SMEs in Johannesburg in the Ekurhuleni district. A range of factors such as lack of business skills, lack of management skills, lack of accounting experience and poor financial control, credit problems, poor staff keeping, bad time management, bad business locality, pricing challenges and failure to develop and implement a strategic plan were identified as key factors that lead to the failure of

SMEs in the Ekurhuleni region. The Government needs to ensure that before small businesses are registered, policies such as tax laws, financial grants, etc are established in such a way that they promote sustainability of small businesses.

With reference to the interviews, interacting with the small business owners and the results from the questionnaires, the researcher fully understands that most of the small business owners in Johannesburg and South Africa in general, are from previously disadvantaged backgrounds. With this in mind:

- The South African Government has a huge task to review its small business governing policies and make an effort in terms of helping small business owners to not only become sustainable but to also flourish and grow into well-established organizations.
- Another initiative will be for the Government to create communication channels between well-established manufacturing businesses and previously disadvantaged start-up SMEs in order to establish a relationship and to expand the ability of the business to meet the existing market demands.
- The South African Government needs to also invest in entrepreneurial education that will focus solely on research on SMME sustainability where longitudinal data can be collected in an effort to measure trends on various methods to improve SMME operations and to learn from countries that have established successful business models.

A repeat study should be conducted on the critical factors that influence the failure of SMMEs in the whole of South Africa, but should be made into a comparison study where it will be split into different provinces and once all provinces have been studied, a comparison of results will be done to determine the commonality of causes.

6.4 Research Findings and Comparisons of Perceived Obstacles

This section will tabulate the findings of the study identified to be the main contributing factors of SMME failure. Other research findings will also be shown in order to determine whether there is a commonality in the findings of this study when compared to various studies that have been involved in identifying factors responsible for manufacturing SMME failure. In a research study conducted by Cant Wiid (2013) very similar characteristics to the ones that this research has set out to establish were provided. They followed a quantitative study that evaluated four business types: Partnership (5%), Private Company (3%), Close Corporation (32%) and Sole Proprietor (60%). Their findings uncovered challenges and issues that included both exogenous macro-environmental variables and endogenous environmental variables like marketing. Their findings are also presented in the table below where they are compared to various findings by other contributing researchers to the body of knowledge.

Table 9: Comparison of Perceived Obstacles

Research Study Findings	Other Research Findings	Researchers
• Insufficient Cash – Flow	• Poor Cash-Flow Management	(Seeletse, 2012)
• High Operating Costs		
• Lack of Finances to Store Stock	• Lack of Finances	(Seeletse, 2012); (Bindu, et al., 2011)
• High Debt		
• High Interest rates	• Interest Rates	(Cant & Wiid, 2013); (Garwe & Olawale, 2010)
• No Business Return On Investment (ROI)	• Low Business Return On Investment (ROI)	(Harash, et al., 2014)
• Lack of Business Knowledge		
• Lack of Resources		
• Lack of Support or Mentorship/Coaching		
	• Inflation	(Cant & Wiid, 2013); (Garwe & Olawale, 2010)
	• Crime	(Cant & Wiid, 2013); (Seeletse, 2012); (Garwe & Olawale, 2010)

	• Unemployment	(Cant & Wiid, 2013)
	• Low Product Demand	(Cant & Wiid, 2013)
	• Wrong Pricing Strategies	(Cant & Wiid, 2013)
	• Wrong Business Location	(Cant & Wiid, 2013); (Seeletse, 2012)
	• Employee Dissatisfaction	(Seeletse, 2012)
	• Inadequate Technology	(Seeletse, 2012) (Kang, 2012)
	• Foreign Competition	(Bindu, et al., 2011)

It is evident from the table presented above that regardless of where in the world an SME is established, there is a commonality in the factors responsible for their failure. This means that no SME has unique reasons for failure and instead there is a dependability on the type of SMME being established, but the reasons still remain similar. The findings of the research study and the findings of other researchers have been aligned in the table presented below to present a clear comparison of similar findings between this research and other studies. Such data may also be proposed to some of the Government entities such as SEDA or DTI, where they can use such information as a basis for continuous improvement towards developing start-up SMMEs. This type of data could additionally be used for sharing with the start-up SMME business owners in an effort to prepare them better for the challenges they could face.

This information could also be used to equip the start-up business owners with the knowledge that when starting a business they need to think of investment before profit, they need to think of strategies that can assist them in operating their businesses at low cost and to be responsible lenders. Government will also need to play a role by perhaps, reviewing the high interest rates specifically faced by start-up SMMEs and possibly establishing a law that would benefit SMMEs, but to at least make it a law that for every start-up SMME there would need to be an evaluation or assessment to determine if the entrepreneur is prepared to start a new venture or if they first require coaching or mentorship.

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APPENDIX A

Actual Research Instrument

Individual Background

Please specify your answer by **placing a tick (√)** on the relevant answers provided.

1. Gender:

☐ Male ☐ Female

2. Age Group:

☐ Below 20 years old ☐ 21 – 23 years old

☐ 24 – 26 years old ☐ 27 – 29 years old

☐ 30 years old and above

3. Academic Qualification/s:

☐ MBA/ PHD/ Masters

☐ Bachelors Degree /Hons

☐ Diploma/ National Certificate

☐ Trade Test Certificate

☐ Grade 12

☐ None

Interview Protocol – 2nd Phase (April, 2005)

B	
1. In which year was your business founded?	20___
2. In which year did you become owner of this business?	20___
3. How did you become the owner of this business?	☐ I purchased it ☐ I founded it ☐ I inherited it ☐ Other (please specify) _____
4. For how many years have you been engaged in the manufacturing industry?	_____
5. Which one of the following is a form of ownership of your business?	☐ Sole Trader ☐ Partnership ☐ Private Company ☐ Limited Public Company ☐ Other (please specify)
6. For the past financial year, did you have a documented business plan?	☐ Yes ☐ No
7. To what extent do you conduct business in accordance to your business plan?	☐ Completely ☐ Mostly ☐ Sometimes

	☐ Not at all				
8. What were the main reasons as to why you decided to start your own business?	☐ Being own boss ☐ Monetary rewards ☐ Making a societal contribution ☐ Freedom ☐ More innovative thinking				
9. Rank the above mentioned factors in a chronicle order on a scale of (1-5), 1 being most important and 5 being least important?	☐ Being own boss ☐ Monetary rewards ☐ Making a societal contribution ☐ Freedom ☐ More innovative thinking				
Objective: Finding out the reasons for business success/failure Based on your opinion, please indicate the most appropriate response with the scale given below by **placing a tick (√)**. (1) Ni = Not Important (2) Si = Slightly Important (3) N = Neutral (4) I = Important (5) Vi = Very Important **Business Success determinants** **C**					
	1	2	3	4	5

1. Lack of general business skills					
2. Lack of management skills					
3. Poor financial control					
4. Credit problems					
5. Poor marketing techniques					
6. Uncontrolled growth					
7. Poor location					
8. Poor time management					
9. Responsibility					
10. Risk taking					
11. Desire for success					
12. Desire for immediate feedback					
13. Skill oriented					
14. Achievement Oriented					
15. Good management skills					
16. Proper record keeping					
17. Good cashflow management					
18. Changing roles of owner					
19. Effective marketing strategy					
20. Proper planning					

Perceived Causal Failures **D**					
21. Lack of entrepreneurial skills					
22. Lack of industry experience					
23. Ignoring competition					
24. Poor performance management					
25. Lack of relevant resources					
26. Lack of skilled workforce					
27. Ineffective marketing strategy					
28. Lack of proper business planning					

Interview Questions

E

29. What were the main reasons as to why you decided to start your own business? (April, 2005)

    a. Being own boss

    b. Monetary rewards

    c. Make a social contribution

    d. Innovation driven

30. How did you finance your business and what was the process like?

31. Did you have any plans for expanding your organization?

32. With regards to outsiders, who would you regard as most important and why? (e.g., banks, investors, mentors, customers or suppliers)

33. Did you have any marketing techniques to try and advertise your product?

34. What advice would you offer entrepreneurs who plan to start-up a venture today?

APPENDIX B

Consistency matrix

If the consistency matrix is included in the final report, it must be placed in an appendix.

Research problem: ***Assessing the Causal Failures of Emerging Manufacturing SMEs in Johannesburg***					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
There is a possibility that manufacturing SMME owners are not fully informed about the advantages and disadvantages of establishing a business venture	(Abor & Quartey, 2010; Aigbavboa, et al., 2014) (Rogerson, 2009; Shepherd & Patzelt, 2011; Morris, et al., 2011; Abor & Quartey, 2010) (Jassiem, et al., 2012) (Battle, et al., 2013; Fatoki, 2014) (Smit & Watkins, 2012) Mbedzi, (2011) Watson, (2004)	**Hypothesis 1:**There is a positive relationship between favourable government policy and SME growth that can lead to SME sustainability.	Global Entrepreneurship Monitor Reports, Countries' Manufacturing Support Agencies Reports, Small Business Development Case Studies, SEDA Business Monitor Reports, International Entrepreneurship Congress Reports Refer to Appendixes A, B C, D& E	Categorical data from completed questionnaire. Ordinal data for C, D& E	SAS 9.3 Linear Regression Integrated Regression Pearson Correlation

Research problem: ***Assessing the Causal Failures of Emerging Manufacturing SMEs in Johannesburg***					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
There is a lack of competitive spirit towards business owners	(Chimucheka, 2013; Bruwer, 2014) (Siwangaza, et al., 2014) (Barreira, et al., 2011) (Nemaenzhe, 2010) (Mmbengwa, et al., 2011) (Ucbasaran, et al., 2009) Kruger, Jr, (2009) (Allen & Economy, 2008) (Urban & Shree, 2012) Buys, (2012) (Antonites & Truter, 2010) (Ngary, et al., 2014) (Groenewald, et al., 2012)	**Hypothesis 2:**There is a positive relationship between entrpreneurial mindset and SME growth that can lead to SME sustainability	Global Entrepreneurship Monitor Reports, Countries' Manufacturing Support Agencies Reports, Small Business Development Case Studies, SEDA Business Monitor Reports, International Entrepreneurship Congress Reports Refer to Appendixes A, B C, D& E	Categorical data from completed questionnaire. Ordinal data for C, D& E	SAS 9.3 Linear Regression Integrated Regression Pearson Correlation

Research problem: ***Assessing the Causal Failures of Emerging Manufacturing SMEs in Johannesburg***					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
There isn't enough growth strategies adopted by manufacturing SMMEs in Johannesburg	Petrus, (2009) (Garwe & Olawale, 2010) (Fatoki & Odeyemi, 2010) Rungani (2008) (Smit & Fatoki, 2011) (Fatoki & Asah, 2011) (Black & Hasson, 2012)	**Hypothesis 3:** There is positive relationship between sufficient financing and SME growth that can lead to SME sustainability	Global Entrepreneurship Monitor Reports, Countries' Manufacturing Support Agencies Reports, Small Business Development Case Studies, SEDA Business Monitor Reports, International Entrepreneurship Congress Reports Refer to Appendixes A, B C, D& E	Categorical data from completed questionnaire. Ordinal data for C, D& E	SAS 9.3 Linear Regression Integrated Regression Pearson Correlation