

https://dspace.org/

Understanding the relationship between business failure and macroeconomic business cycles: a focus on South African businesses

De Jager, Marinus

2017

http://hdl.handle.net/10539/23110

De Jager, Marinus (2017) Understanding the relationship between business failure and macroeconomic business cycles: a focus on South African businesses, University of the Witwatersrand, Johannesburg, <http://hdl.handle.net/10539/23110>

Downloaded from a DSpace repository. https://dspace.org/

ABSTRACT

This study examined the relationship between business failure and macroeconomic fluctuations within business cycles of South Africa's economy for the time period 1980 to 2016. The study also sought to understand where, if any, immediate and lag correlations between fluctuations and business failure could be established. To understand this connection, this study used longitudinal data sets of different macroeconomic factors and studied their influence on business failure. The vector error correction model (VECM) was used to determine the long-term relationship between failure and each of the other variables. Additionally, Granger Causality was applied to establish whether the macroeconomic variables investigated in this study can be constructed to predict the probability of business failures.

Three classes of macroeconomic predictor variables were considered. Firstly, well-known international variables in the form of GDP and CPI were used. Secondly, the study incorporated the three Composite Business Cycle indicators- leading, coincident and lagging. Lastly, behavioural indicators were used to incorporate the views of the actual businesses and their customers, which for this the study were the Business and Consumer Confidence Indices.

After examining the effects the 7 macroeconomic variables had on business failure, the study found that there is a long-run relationship between the Composite Lagging Business Cycle indicator, the Business Confidence and Consumer confidence, which influenced Business Failure. Additionally, it was noted that Business Failure influence the Composite Lagging Business Cycle indicator in the long-run. The study additionally found that Business Failure may Granger Cause the Composite Leading Business Cycle indicator

Outcomes of the study are potentially vital for entrepreneurs to understand the timing of entry into markets based on macroeconomic fluctuations through their cycles in certain industries. Business owners can make proactive financial and strategic decisions vital for survival of their business through the expansion and especially in the contraction cycles of the macroeconomic environments.