

## FACTORS THAT AFFECT THE GROWTH AND DEVELOPMENT OF SMALL, MICRO AND MEDIUM-SIZED BUSINESS ENTERPRISES IN THE VAAL TRIANGLE REGION OF GAUTENG PROVINCE IN SOUTH AFRICA

Professor Maurice Ndege (Ph.D. in Civil Engineering)  
Executive Dean: Faculty of Engineering and Technology  
Vaal University of Technology  
Van der Bijl Park, Gauteng Province

### ABSTRACT

A review of the literature shows that small, micro and medium-sized enterprises (SMMEs) that conduct business in the Vaal Triangle region of Gauteng Province are characterized by a high rate of failure. This study was conducted in order to identify and quantify factors that are responsible for the high rate of failure in SMMEs in the Vaal Triangle region. The study was based on a stratified random sample of size  $n=133$ . Stratified random sampling was used for collecting data by using a structured, pre-tested and validated questionnaire of study. Five strata were used (central, east, west, north and west) for conducting the study in the Vaal Triangle. A combination of quantitative and qualitative methods of data collection and analyses were used in the study. The variables used for quantitative analysis were socioeconomic variables that were associated with the viability of SMMEs operating in the Vaal Triangle region of Gauteng Province. Statistical analyses were performed by applying standard methods such as descriptive analyses, graphical methods of presenting data, exploratory methods, one and two-sample tests on the mean and proportion, Pearson's chi-square tests of associations among pairs of categorical variables, and factor analysis. Eigen values estimated from factor analysis were used as a measure of effect. Based on results obtained from factor analysis, 28 of the 133 businesses (21%) were found to be not viable financially. The study also showed that viability in small and medium-sized enterprises in the Vaal Triangle area was adversely influenced by three factors. These three factors were: difficulty in securing loans, lack of training opportunities, and shortage of entrepreneurial skills, in a decreasing order of strength. Results obtained from in-depth interviews showed that difficulty in securing loans on favourable terms from micro lending institutions was a key obstacle among SMMEs operating in the Vaal Triangle region of Gauteng Province. A recommendation has been made to the Department of Trade and Industry that SMMEs operating in the Vaal Triangle region should be supported by instituting comprehensive mentorship and monitoring and evaluation programmes.

**Keywords:** SMMEs, Vaal Triangle, Entrepreneurial skills, Access to loans, Factor analysis.

### INTRODUCTION

Small businesses and enterprises are a key to the growth and development of any society including South Africa (Abor and Adjasi, 2007: 111-112). The South African National Government supports and actively promotes the growth and development of small businesses in South Africa (South African Parliament, 2008: 1-3). In the Vaal Triangle geographical region, the role played by small and medium sized enterprises is prominent in view of the fact that the sector creates employment opportunities to hundreds of thousands of young and old South Africans. The livelihoods of ordinary South Africans are intertwined with the growth and development of small and medium sized enterprises. In order for small and medium sized enterprises to grow and develop, it is essential to have an economically enabling

environment. The purpose of this research was to identify factors that affect small and medium sized enterprises that conduct business in the Vaal Triangle. The study is exploratory in nature, and describes the state of small businesses that are operating at the Vaal Triangle region. The study was based on data gathered from a random sample of n=133 small and medium sized enterprises currently operating in the Vaal Triangle. The key objective of the study was to identify and quantify key predictors of viability in small and medium sized enterprises conducting business in the Vaal Triangle region of Gauteng Province.

The principal method of data collection and analysis was quantitative although a few qualitative methods of study were also used in the study. As part of the quantitative aspect of study, data was collected from each of the 133 businesses that were selected for the study by using a validated, pre-tested and structured questionnaire of study. Quantitative methods of data analysis such as frequency tables, Pearson's chi-square tests of association or cross-tab analyses (Dawson and Trapp, 2004: 159) and factor analysis (Field, 2010) were used. Eigen values estimated from factor analysis were used as a measure of effect for the purpose of identifying influential predictors of viability. In addition to quantitative methods, qualitative in-depth interviews were conducted with 5 owners of small businesses in the Vaal Triangle region. The study has led to the identification of key predictors of viability in small and medium-sized enterprises conducting business in the Vaal Triangle region of Gauteng Province.

### **Background to study**

According to Zheng, O'Neill and Morrison (2011: 175-176), Friedman, Miles and Adams (2000: 325-327) and Nieman (2001:445-446), it is essential to develop small and medium-sized business enterprises in order to develop national economies. The study conducted by Van Praag (2003: 1-17) has found that the world's leading economies rely on the growth and development of small and medium-sized enterprises for the creation of employment opportunities and sustained growth at the national level. A report published by the South African Small Enterprise Development Agency (2013: 1-3) states that 60% of all small businesses fail within the first year of operation. According to the report, although the South African Department of Trade and Industry provides incentives and support to small and medium sized enterprises, the degree of support provided is grossly inadequate. As a result, small and medium sized enterprises are seen failing in a number of areas of specialization (the South African Chamber of Commerce and Industry, 2013: 1-4; the South African Department of Trade and Industry, 2013: 1-5; the South African Small Enterprise Development Agency, 2013: 1-5; Ladzani & Netswera, 2009: 14-21).

The key aim of this study is to identify key predictors of failure in small and medium sized enterprises in the Vaal triangle region of Gauteng Province, and to propose feasible remedial actions so that support could be provided to small and medium-sized enterprises. According to the South African Small Enterprise Development Agency (2013: 1-5), although the South African Government promotes the growth and development of small and medium-sized enterprises by massively investing in local institutions such as the South African Centre for Small Business Promotion (CSBP), Ntsika Enterprise Promotion Agency and Khula Enterprise Finance, the failure rate in newly established South African small and medium-sized enterprises is as high as 60%. The study conducted by Ladzani and Netswera (2009: 17-19) has found that small and medium-sized enterprises often fail due to lack of access to finance and lack of entrepreneurial skills.

At the national level, South African small and medium-sized enterprises in all economic sectors are characterized by an acute shortage of entrepreneurial and technical skills and difficulty in raising finance from micro-lending institutions at favourable rates (South African Small Enterprise Development Agency, 2013: 4). According to research conducted by the South African Chamber of Commerce and Industry (2013: 2-3), the situation at the Vaal Triangle region is not different from the situation at the national level. The purpose of the study is to identify and quantify key factors that are responsible for failure in small and medium-sized enterprises operating in the Vaal Triangle region.

### **Rationale of study**

According to a report issued by the South African Chamber of Commerce and Industry (2013:2-3), more than 30% of the total gross domestic product of South Africa is attributed to small and medium-sized enterprises. Also, 20% of all units exported by South Africa are produced by small and medium-sized enterprises. It is impossible to grow the South African national economy on a sustainable basis without simultaneously achieving sustained growth and development in small and medium-sized enterprises (Saru, 2007: 36-38). Swanson (2007: 101) has reported that realizing sustained growth and development in small and medium-sized enterprises is a critical requirement for achieving sustained growth and development at the national level. Failure in small and medium-sized enterprises amounts to failure in the national economy according to Zheng, O'Neill and Morrison (2011: 175-176), Friedman, Miles and Adams (2000: 325-327) and Nieman (2001:445-446). This particular study is essential for finding out the root causes of failure in small and medium-sized enterprises that are conducting business in the Vaal Triangle region of South Africa. Very few studies have been conducted so far in the Vaal Triangle region. For this reason, this study carries significant weight and importance. Future researchers can use findings from this study for conducting large scale studies at other regions of South Africa.

### **Research problem**

Findings obtained from the study conducted by the South African Small Enterprise Development Agency (2013: 1-3) show that 60% of all newly established small businesses in South Africa fail within their first year of operation. According to the report, although the South African Department of Trade and Industry provides incentives and support to small and medium sized enterprises, the degree of support provided is grossly inadequate. As a result, small and medium sized enterprises are seen failing in a number of areas of specialization (the South African Chamber of Commerce and Industry, 2013: 1-4; the South African Department of Trade and Industry, 2013: 1-5; the South African Small Enterprise Development Agency, 2013: 1-5; Ladzani & Netswera, 2009: 14-21).

To date, very few studies have been conducted in the Vaal Triangle region to identify and quantify the key factors that are responsible for failure in small and medium-sized enterprises. Small Businesses are often regarded as high risk operations locally and globally due to the presence of factors that are difficult to predict adequately (Thomas, 2000: 287). According to Useem (2001: 297), it is essential to support and guide small business enterprises in the early stage of establishment by providing them with supervisory and skills-related support and supervision. White (2005: 41-42) has found that small and medium-sized enterprises often experience costly bureaucratic and administrative challenges. In South Africa, small and medium-sized enterprises are set up with minimal support and guidance from the national Government although the duty of the national Government is to create an

enabling economic environment. The study was conducted against the background of the need to obtain vital information that explains why more than half of all newly established small and medium-sized enterprises fail in the first three years of their establishment in the Vaal Triangle region. Findings from the study are valuable for providing meaningful assistance to businesses that operate in the Vaal Triangle region of Gauteng Province.

### **Objectives of study**

The primary objective of this study was to identify and quantify factors that affect viability in small and medium-sized enterprises operating in the Vaal Triangle region of Gauteng Province. The study has the following specific objectives:

- To describe the characteristics of small and medium-sized enterprises in the Vaal Triangle region of Gauteng Province;
- To estimate the percentage of newly established small and medium-sized enterprises in the Vaal Triangle region of Gauteng Province that fail in their first three years of establishment;
- To identify factors that adversely affect sustained growth and viability in small and medium-sized enterprises in the Vaal Triangle region of Gauteng Province;
- To propose suitable and feasible remedial actions that could assist small and medium-sized enterprises in the Vaal Triangle region of Gauteng Province;

### **Research questions**

This study aims to provide adequate answers to each of the following research questions:

- What are the socioeconomic characteristics of small and medium-sized enterprises in the Vaal Triangle region of Gauteng Province?
- How large is the proportion of newly established small and medium-sized enterprises in the Vaal Triangle region of Gauteng Province that fail in their first three years of establishment?
- What are the key factors that adversely affect sustained growth and viability in small and medium-sized enterprises in the Vaal Triangle region of Gauteng Province?

## **LITERATURE REVIEW**

Defining what is meant by a small business is of great consequence because policies are often formulated to assist these enterprises, given the crucial role that they play in growing the economy and reducing unemployment. For example in the European Union, a business enterprise will only qualify for special assistance and funding if it is classified as a small business (Deakins & Freel, 2003:38). In South Africa, policies are also formulated to allow small businesses special dispensations in respect of certain legislative compliance matters and in so doing encourage the proliferation of SMMEs. For example, BEE Codes of Good Practice measure the BEE status of small businesses differently to that of large businesses. The BEE Codes of Good Practice applies a different scorecard to an enterprise if it rates as a qualifying small enterprise in terms of the set criteria. A separate scorecard for small firms is termed the Qualifying Small Enterprise Scorecard. The Generic Scorecard applies to all other enterprises (Business Map Foundation, 2006).

Small businesses do have features in common with large businesses but they also have unique elements reflected in the manner in which they are organized and managed. Small firms differ from large businesses with respect to serving niche markets, customer service and

innovation. Organisational structure in large businesses is determined by their business activities. In small businesses, the elaborate hierarchies of top, middle and lower management that normally exist in large businesses are not present.

In the literature, small and medium-sized enterprises are defined by various economists. These definitions vary from country to country, and from industry to industry. In this study, three examples of such definitions are cited. According to O'Regan and Ghobadian (2004: 64), small, micro and medium-sized enterprises (SMMEs) are defined as enterprises that employ less than or equal to 250 employees. According to Lawal (2002:49) and Joseph (2005:13), small, micro and medium-sized enterprises are defined as an enterprise with a maximum asset base of about 10 million Rand excluding land and working capital in which between 10 and 300 employees work. According to Oboh (2004:64), small, micro and medium-sized enterprises are defined as an enterprise that has an asset of between 2, 500 and 20 million Rand excluding the cost of land and working capital.

According to the National Small Business Act of South Africa (the South African Department of Trade and Industry, 2013: 2-4), small, micro and medium-sized enterprises are defined as follows:

**Micro enterprises:** With growth potential that involves the owner and family members or at the most four employees and whose turnover is below 150, 000 Rand, the threshold for VAT registration;

**Small enterprises:** With 5 to 100 employees and are owner-managed and fulfill all the trappings associated with formality.

**Medium-sized enterprises:** With 100 to 200 employees which are still owner-managed and fulfill all the trappings associated with formality.

Small, Micro, Medium-scale Enterprises (SMMEs) are also defined as enterprises with a minimum asset base of 25 million Rand excluding the cost of land and working capital by the South African Department of Trade and Industry (2013).

The rapid increase in consumer expenditure by residents in the Vaal Triangle region since the early 1990s and the fact that the overwhelming majority of township dwellers have chosen to stay in their townships has enabled small businesses to set up shops with a view to render essential services to residents in the Vaal Triangle region of Gauteng Province. The importance of small and medium-sized enterprises is well documented in terms of economic development, competitiveness, and innovation. The contribution and importance of small enterprises to the national economy is based on the ability of the sector to create employment opportunities to the masses, utilization of local resources, output expansion, transformation of traditional and local technology, the production of intermediate goods, the promotion of an even development, the reduction of income disparities, and its ability to increase the revenue base for the South African Government. Small, micro and medium-sized enterprises (SMMEs) are of a great importance in the area of low capital and output ratio, optimal utilization of local inputs and other multiplier effect per unit of investment. The SMME sector is viewed by the South African Department of Trade and Industry (2003:4) as the key element in fostering economic growth among the unemployed masses in urban and semi-urban areas including the Vaal Triangle. Small and medium-sized enterprises often use locally made and available technologies for operation, growth in SMMEs amounts to growth in local and indigenous technology. The SMME sector is crucially needed for achieving overall economic growth and for the alleviation of poverty among the masses. The SMME sector is supported by the South African Government as a means of building capacity in local entrepreneurs and to promote the use of local raw materials, technologies and manpower.

Buckley and Ghauri (2004:67) argue that the extent of innovation by SMMEs, as opposed to large organisations is controversial, given that large firms have the capacity (resources and expertise) to embark on constant product research and development. Notwithstanding this, small businesses have a crucial role to play in developing and transferring certain types of technology advancement, especially where there is a satisfactory niche for them. The size of large businesses can deter them from some markets. Large organisations often have highly sector-specific expansion routes with regard to growth in the industry. This leaves niche markets for small enterprises to exploit; these tend to exist as a fringe in large enterprises (Buckley and Ghauri, 2004: 68). The situation provides substantial opportunities for small businesses to serve the niche markets with lower overhead costs. Small businesses can be more flexible than large enterprises, enabling them to tailor products to the specific needs of customers. Small businesses are likely to have a competitive advantage over large businesses because of the relationship they are capable of building with customers.

The SMME sector plays a critical role in job creation, skills development, technology transfer, and the alleviation of poverty among the unemployed. As a result, the South African Government regards the SMME sector as an engine of growth and economic expansion. The SMME sector in South Africa is similar to the SMME sectors in other Sub-Saharan African countries, and is exposed to high failure rate, lack of entrepreneurial skills, lack of resources, lack of access to finance and lack of modern technology. Although growth in the SMME sector is essential for establishing sustained growth in the overall economy, the sector is characterized by high failure rate due to lack of entrepreneurial and technical skills that are essential at the market place (Hashim, Ahmad and Leng, 2006: 56-58).

According to the South African Department of Trade and Industry (2003: 3), small, micro and medium-sized enterprises (SMMEs) contribute around 40% of South Africa's gross domestic profit, and employ more than half of the private sector work- force. It is estimated that as much as 80% of new jobs in world economies are being created by SMMEs, and this makes the SMME sector a key player in the national economy. There are more than 1.5 million self-employed people in the SMME sector, and they contribute about 40% of the total remuneration in South Africa.

Studies show that in South Africa, emphasis is placed on the potential of SMMEs to generate employment, job creation, thus contributing to poverty alleviation and ultimately to create wealth. It is this growth potential that makes small firms important to economic transformation (Dalziel, 2006). The contributions of small businesses are discussed below. The importance of large scale businesses as the driver of the economy is acknowledged by policy makers. More recently, the development of small firms is thought to be a more important focus for government incentive policies in developing nations, given their contribution to the GDP (Dalziel, 2006). According to Booyens (2011:67) the SMME sector contributes an estimated 50% to GDP. The World Bank (WB) and the International Monetary Fund (IMF) support the promotion of small business enterprises as a means of alleviating poverty in developing nations. For example, the World Bank (2014) has reported how support for small businesses has led to the alleviation of poverty in Egypt.

According to the OECD (2013), SMEs are classified broadly into two categories (low income and high income). In the low income category, SMEs are classified as low income (16%), informal (47%) and residual (37%). In the high income category, SMEs are classified as low (51%), informal (13%) and residual (36%).

According to the South African Department of Trade and Industry (2003: 4-5), the South African Government supports small and medium-sized enterprises by implementing a number of key initiatives. Examples of such initiatives are the Centre for Small Business Promotion (CSBP), Ntsika Enterprise Promotion Agency and Khula Enterprise Finance. The CSBP implements and administers the aims of the national strategy, which includes job creation. The DTI has recently signed an agreement with the European Union which will see the EU donating R550m to start a risk capital fund for SMMEs. The fund will be administered by the Industrial Development Corporation (IDC) and the European Investment Bank, and 90 enterprises will benefit. The IDC allocates 75% of new business loans to SMMEs. The South African Women's Entrepreneur Network was rolled out countrywide in 2002, alongside manufacturing advisory centres in all provinces. Non-governmental organizations include the Small Enterprise Foundation, which has a microcredit programme aimed at micro-enterprises, and the Tshumisano credit programme that specifically supports and promotes female entrepreneurs. The NTSIKA programme provides non-financial support services to the SMME sector, tackling issues like management development, marketing and business development services. The agency also helps with research and inter-business linkages. Khula offers financial support mechanisms to the sector. The financial products include loans, the national credit guarantee system, grants and institutional capacity building. The KHULA programme provides micro-lending to newly established businesses. The BRAIN programme (Business Referral and Information Network) offers basic information and essential service links to entrepreneurs. The BRAIN website includes information about the government's incentives and SMME support agencies, as well as links to business centres. The Franchise Advice and Information Network (FRAIN) programme strives to supply high quality information and support services to individuals and small businesses in order to promote growth and improvement in franchise businesses. The FRAIN programme is implemented by NAMAC (National Coordinating Office for Manufacturing Advisory Centres) with assistance from the Council for Scientific and Industrial Research (CSIR). The Namac programme has developed an extensive delivery structure across South Africa that serves as a channel for the application of new tools, information, products and projects, thus enabling the effective delivery of solutions aimed at SMMEs. The emphasis is on Historically Disadvantaged Individuals' (HDI) businesses. The Business Partners Limited (BPL) programme provides assistance to small and medium enterprises financially. The programme provides financial assistance at a cost of between 150, 000 Rand and 15 million Rand.

The Tourism Enterprise Programme (TEP) supports small businesses in the tourism industry financially and technically. The main objectives of the programme are to encourage and facilitate the growth and expansion of small and medium enterprises in the tourism economy, resulting in job creation and revenue generating opportunities. Primary emphasis is placed on historically disadvantaged entrepreneurs and enterprises. For example, at the World Parks Congress the TEP was instrumental in facilitated deals which provided employment for its beneficiaries. The National Small Business Office (NSBO) in SARS is the custodian of all small business tax and customs policy matters within SARS. The office exists to maximise compliance among small businesses while at the same time finding ways to reduce the compliance burden faced by these businesses in South Africa.

According to the OECD (2013:26), South Africa's employment rate is dismally low. Based on two polarising dimensions of age and ethnicity, the unemployment rate is at 28.6% among Africans compared to 5.5% among whites. It is evident that a number of factors including educational attainment, educational quality, location and household composition could be the cause of this catastrophe. Currently, the overall unemployment rate of all South Africans is equal to 24.9% (disregarding age and ethnic origin). The average poverty rate for all South

Africans is equal to 48% (disregarding age and ethnic origin). Both figures are considered too high (Mbonyane, 2006:123; Statistics South Africa, 2010).

There are various business structures that are suitable for small businesses. The structure of the business determines the legal status of the business enterprise. Depending on the nature of the business, the number of people involved, management capabilities, personal risk and future business plans, a suitable business structure can be chosen for a newly established company. A sole-trading company is suitable for running a business that has no fixed assets. The owner is the sole employee. Income accrues directly to the owner and there are no complicated statutory returns other than meeting basic legal and tax requirements. The disadvantage is that the business is not a separate legal entity, so the owner is liable for, and can be sued for, the business's debts. If the owner of the business dies, the business ceases to exist. A business based on partnership enables 20 or fewer partners to operate a business by pooling their resources and skills together. A close corporation (CC) company enables a business a separate legal identity without the formalities of the Companies Act that governs (Pty) Ltd companies. This structure is ideal for a business that purchases stock on credit. A CC company can have between one and 10 members, each of whom owns an agreed percentage of the business and who is liable for managing it properly. A CC cannot be owned by a company or be a subsidiary of another CC or company. A CC (rather than its members) can sue and be sued. All CC companies in South Africa are governed by the Close Corporations Act, which is administered by the Companies and Intellectual Property Registration Office (CIPRO).

A study conducted by the Global Entrepreneurship Monitor (2010) indicates that the key obstacles to the growth and viability of SMMEs in developing countries are related to policy, lack of entrepreneurial skills, and the lack of access to funds that are needed for development. The South African government is committed to boosting small business development as a means to alleviate unemployment and poverty which has been exacerbated by the global financial crisis. The strongest rationale for policies in support of the small business sector is explained by the high labour absorption ability of SMMEs. The small business sector has the ability to create jobs at a significantly higher rate than the large business sector. Labour markets are sharply dependent on a relatively small private sector in which large unions bargain with large firms, setting high wages that in many cases are extended to other firms in the sector by bargaining councils. This, in turn, puts smaller firms at a disadvantage and deters entry (OECD, 2013:30). Further still, Magruder (2012) cited in the OECD (2013:31) argues that sectoral bargaining agreements in South Africa decreases employment in affected industries to 8-13% with losses concentrated among small firms.

When market competition prevails, businesses compete for sales as customers have a wider choice of selection of products and services. A low level of competition may cause manufacturers to set high product prices, withhold technological developments, exclude competitors or abuse their position (monopoly) of power (Kirzner, 1997:33). Small firms compete with large firms, forcing the large organisations to become more efficient and responsive to customer needs. This improves the nature of the competitive environment in the economy.

A review of the literature shows that small and medium-sized enterprises are often beset by a host of factors that curtail their survival. In the majority of Sub-Saharan African countries, the most notable obstacles to sustained growth and development are lack of access to finance (Clemens, 2006: 493), the acute shortage of entrepreneurial skills (Chromie, 2000: 7), poor

infrastructural development (Cooper and Schindler, 2006: 114) and heavy bureaucracy and legislative obstacles (Bosworth, 2009: 664). The study conducted by Chapman (2000: 101) has found that superior and well-proven entrepreneurial skills are essential for establishing viable small, micro and medium enterprises globally, and that business operators who lack entrepreneurial skills must aspire to improve their capacity of business leadership constantly.

The South African Government aims to use small and medium-sized enterprises for the creation of employment opportunities for the masses. To this end, the South African Government has invested heavily in the sector with a view to foster economic growth, job creation and the alleviation of poverty at the national level. The South African Government has an agreement with the European Union in the European Union donates 550 million Rand for establishing a risk capital fund for small and medium-sized enterprises (South African Small Enterprise Development Agency (2013: 3). According to Useem (2001:297), the quality of entrepreneurial skills and leadership is a critical factor that determines the survival of small businesses.

Ratten and Suseno (2006: 62) have reported that although access to finance is critical for the growth and development of small businesses, entrepreneurial skills are equally important. Small and medium-sized enterprises in the Vaal Triangle are similar to enterprises in other parts of South Africa. They are characterized by a high failure rate in the first three years of establishment, lack of entrepreneurial skills, failure to assess the market condition, failure to utilize financial and logistical resources prudently, poor quality of leadership, the wastage and abuse of scarce resources, failure to meet the expectations of customers, inability to acquire training on essential entrepreneurial skills, and failure to draw up business plans for their operations. Lack of leadership is a critical problem in the SMME sector. According to Rowe (2001: 83-85), small and medium-sized enterprises that perish in their first three years of establishment are often characterized by poor leadership qualities and poor organizational skills.

Entrepreneurial skills are essential for steering small businesses in a manner in which they are profitable and viable. A good entrepreneur has good leadership skills. Such leadership skills and the ability to make the right choices enable small businesses to thrive under difficult circumstances. Leadership skills are key attributes of successful companies locally and globally (Tarabishy, Solomon, Fernald and Sashkin, 2005: 24). Yuki (2002: 102) has found that superior leadership skills and entrepreneurial success are inseparable. According to the Yuki (2002:103), good business leaders adhere to the key principles of corporate governance. These principles are accountability and transparency. In this regard, Abor and Biekpe (2007: 288) have reported that good corporate governance and sound leadership skills are critically needed in small and medium-sized enterprises. In successful businesses, significant market research is conducted by leaders and stakeholders. In addition, business processes are well defined in order to cut down operational cost. Industry benchmarks and standards of service delivery are adhered to by business leaders as a means of satisfying the needs and requirements of customers. The study conducted in Ghana by Carmingnani (2009: 398) has found that the viable small, micro and medium-sized enterprises set up in Ghana are often led by competent business leaders with superior entrepreneurial skills and sound market research experience.

The study conducted by Dalglish (2003: 45) shows that entrepreneurial success depends on market conditions, the possession of adequate skills and capital, and the ability of business owners to secure a reliable clientele base. Devane (2004: 59-60) has argued that high

performance institutions and vibrant small businesses require superior technical and entrepreneurial skills and the ability to negotiate amicable terms of service delivery with potential customers at the marketplace. Globally, all national governments of the world's leading economies actively support the Small, Micro and Medium Enterprises (SMME) sector globally (Fuller and Tian, 2006: 289). Support is provided to the SMME sector in various ways. One commonly used method of providing SMMEs with support is the adoption of tax-related policies that provide preferential treatment to newly established small businesses (Gilmore, Carson and Grant, 2001:8). The study by Hussey and Eagan (2007: 303) has shown that small and medium enterprises that thrive to protect the environment are often granted tax breaks in view of their contribution to values that are deemed important to the national economy. The other commonly used method of supporting small and medium-sized enterprises is the provision of skills-based and entrepreneurial trainings free of charge (Jenkins, 2006: 245). Small and medium-sized enterprises that spend significant resources in promoting basic innovation and research and development are often provided with adequate support by national governments as a means of promoting science and technology in the economic sector. In this regard, the most notable examples are small and medium-sized enterprises in countries such as China, South Korea, Singapore and Japan. The rationale of providing such support is motivated by the desire to use the SMME sector as a driver of national technological advancement (Khade, 2003: 2-4). Small businesses complement large organisations by supplying products that are used as raw materials. Wong and Aspinwall (2004) assert that the ability to innovate, adopt new technologies and apply them to local conditions is crucial to increase the productivity of SMMEs. Rogerson (2012) cited in Booyens (2011:67) rightly put it that innovative entrepreneurship is one key success factor for the growth of small enterprises.

Keller (2006: 202-208) has reported that superior business leadership is required for ensuring the survival of small businesses in competitive markets. Otusanya (2004:10-12) has found that superior business leadership is a critical requirement for ensuring viability in small businesses, and that leadership skills must be constantly improved by business leaders. The study by Luke (2009: 588-590) has found that the ability to provide superior services at competitive price is a critical requirement for establishing reputation. The ethical aspect of conducting business carries enormous weight in the eyes of customers. This is especially true in newly established businesses because newly established businesses often take a long period of time before they can establish their credibility at the market place.

In South Africa, a series of procedures need to be followed in order to set up a small business. Newly established businesses must be registered with the South African Department of Trade and Industry (DTI) and the South African Receiver of Revenues (SARS). The registration of closed corporations (CC companies) is governed by the Closed Corporations Act. The Act is administered by the Companies and Intellectual Property Registration Office (CIPRO).

The establishment of private companies (PTY) or Limited Companies (Ltd) is also governed by an Act in South Africa. Such companies need to be audited annually. For this reason, auditing skills are essential in setting up PTY or Ltd companies. In order to set up a new small business, it is essential to have adequate capital, stock and a good marketing skill. Working capital is needed for at least six months according to guidelines set out by the South African Department of Trade and Industry (2013:3) to new beginners. The guideline recommends that new entrepreneurs must have the ability to determine their start-up cost. Such entrepreneurs must be able to take inventory, draw up a list of items that need to be stocked and ordered, estimate selling prices, and market their goods and services effectively.

Failure to have such skills often results in a loss and failure (Mehra, Smith, Dixon and Robertson, 234).

According to Meyer and Heppard (2000: 98-99), start-up costs include expenses before the starting date such as market research, registration fees, legal fees, office stationery, design and printing of corporate identity (business cards and letterheads), registration of a domain name and creation of a website, installations and utility connections (if moving into a new property), start-up inventory, cash reserve to support the company during the early months before sales reach break-even levels, current assets, such as fixtures and signage, office furniture and vehicle, and fixed assets. Newly established businesses must make arrangements for overdrafts with their banks. Most banks demand collateral as a requirement for extending loan to new entrepreneurs. As such, it may not be easy for newly established businesses to borrow money from commercial banks at favourable rates. Lack of access to easy finance has been pointed out as a major cause of failure in SMMEs in most Sub-Saharan African countries (Macpherson and Holt, 2007: 174).

Newly established small businesses are often exposed to hidden costs such as wastage of valuable time on bureaucracy, water and light expenses, telephone fees, transportation cost, maintenance fees, employee turnover, outsourcing functions, and the payment of commission and administration fees to service providers. Most newly established businesses pay consultants to set up business plans. They also pay fees to have their tax returns completed and submitted in time. The cost of renting business premises in central business districts is often a costly exercise for newly established small businesses (Kirchgeorg and Winn, 2006: 174).

Newly established small businesses often do not have the skills to manage their cash flow and perform auditing exercises. The study conducted by McGrath and Macmillan (2000: 43-44) indicates that auditing and accounting skills are essential for viability in small and medium-sized enterprises. According to the researchers, newly established firms are often characterized by over-spending, wastage of scarce resources such as time, failure to take stock and inventory, failure to order items that are needed in time and in good quantity, and lack of skills in welcoming constructive suggestions from potential customers. Lynn (2003: 4-5) has reported that failure to manage or control finances according to approved business plans is a differential factor that adversely affects business processes in newly established firms globally, and that such problems are rampant in the world's poorly developed economies. Poor cash flow is one of the major causes of failure in small businesses. Businesses may be profitable. However, if they fail to manage cash flow issues efficiently, they could easily go bankrupt. The ability to manage cash flow enables business owners and operators to forecast their cash flow. Cash flow problems are abundant in South African small and medium-sized enterprises due to lack of formal education in the preparation of business plans, forecasting, auditing and accounting among business owners and operators. In this regard, the problem in the Vaal Triangle region of Gauteng Province is not so different from the problem in all South African metropolitan cities. There is an acute need for training newly established businesses on auditing, accounting, business plan preparation, report writing, oral presentations, stock taking and inventory.

The majority of small businesses fail to acquire technical assistance in areas related to auditing and accounting in an attempt to save cost. The ability to develop a cash flow forecast enables business operators to estimate the amount of money that is likely to flow into and out of their business over a period of time, thereby enabling them to allocate suitable

budgets for their operations, set realistic targets and operational budgets, and monitor their overall performance. Mullins (2007: 101-103) has pointed out that efficient organizational skills are essential for viability in small business enterprises, and that such skills enable business operators to manage utilization of their resources effectively.

According to Mullins (2007: 87-89), business operators, managers and owners working in newly established enterprises must have the ability to determine what portion of their sales should be kept in cash, what purchases should be made in order to secure enough stock, when such stock must be ordered and purchased, how much opening stock is needed, how much capital is required, how much loan is needed for operational requirements and needs, where such loans should be obtained, the rate at which loans should be raised, the list of routine daily, weekly and monthly expenses, ways and means of reducing such expenses, fees paid for employees in exchange for their labour-related services, how much monthly salaries should be paid out to employees, and how marketing should be done to potential customers. According to O'Donnell (2004: 10), it is essential to have adequate information on the cost of similar goods and services by rival business operators.

Based on findings from the study conducted by Porter and Tanner (2004: 8-9), the world's most successful and vibrant small businesses and enterprises are characterized by service excellence, dedication for satisfying their customers, research, innovation and development, and attention to quality. In this regard, small and medium-sized enterprises in Sub-Saharan African countries including South Africa are characterized by lack of entrepreneurial skills and relatively lower professional standards. The authors argue that service excellence often leads to a solid and sustainable customer base, and that dedication for rendering quality services is a requirement for sustained growth and development at the market place. The level of skills possessed by the majority of business operators in newly established businesses is often poor. As such, operators working in newly established businesses must be dedicated for achieving service excellence and reliable clientele. However, it is impossible to secure reliable clientele without demonstrating devotion for service excellence (Clemens, 2006: 491). The study by Chromie (2000: 5-60) has found that dedication for service excellence is a key requirement for credibility at the marketplace, and that newly established businesses cannot survive without possessing solid reputation and credibility at the market place. This assessment is consistent with findings reported by Cooper and Schindler (2006: 113-115) and Bosworth (2009: 663). According to Chapman (2000: 100), the vast majority of newly established businesses that fail in their first three years of establishment are characterized by poor reputation and low entrepreneurial skills in the eyes of potential customers, and often struggle to establish credibility. This explains why service excellence is critically needed in newly established small and medium-sized enterprises in the Vaal Triangle region of Gauteng Province. It follows that newly established firms need to allocate enough resources for the acquisition of essential entrepreneurial and technical skills in their first three years of establishment.

Nieman (2001: 446) has suggested a few useful methods of minimizing operational cost at small enterprises. These methods include keeping overheads down, avoiding credit terms, debt collection, improving supplier payment terms, keeping stock to a minimum. The author argues that newly established small businesses must not possess more stock than is needed because they could easily tie up all their free cash in stocks that are too difficult to sell fast enough. The author also cautions new entrepreneurs against the habit of selling on credit. Efficient debt collection requires business owners and operators to be aggressive in demanding monies that are owed by customers. If businesses fail to collect debt in time, they

stand to go bankrupt. As such, the ability to collect outstanding debt from customers in time is critical for the survival of newly established businesses.

The cost of labour and human capital is often high in South African businesses. It is essential for newly established businesses to save cost by minimizing labour. At the Vaal Triangle region, a few small businesses make an attempt to use family members as a means of saving money that should otherwise be paid for labour. The practice becomes useful if family members possess the entrepreneurial skills that are needed for business operation. Otherwise, the practice could be detrimental for sustained growth. Zhu, Chew and Spangler (2005: 39-43) have reported that the ability to utilize human capital efficiently as well as leadership and organizational qualities are essential for long term survival and viability in small and medium-sized enterprises globally. According to Foster (2007: 59-61), the cost of labour and capital in small business enterprises should be managed at competitive rates based on market conditions. The cost of goods and services fluctuates seasonally. The cost of some goods and services increases depending on demand that comes in certain seasons of the year. For example, the cost of warm clothes and winter shoes increases in winter. It would be prudent to keep extra stock for the next season in cases where it is not possible to sell such items currently. The other innovative method of managing cash flow is to allow customers to pay phase by phase depending on how much they can afford. However, in selling items on credit, the proper paperwork and procedures must be followed as a means of avoiding loss. In some cases, late payment should be allowed by debtors.

According to Hashim, Ahmad and Leng (2006: 56-58), good leadership is a pre-requisite for the effective accomplishment of organizational tasks in small and medium-sized business enterprises globally. The style of leadership of an entrepreneur has a significant bearing on the ability of the business enterprise to win and retain loyal customers on a sustainable basis. Good leaders have the ability to interact with their potential customers effectively. In cases where there are complaints from customers, good leaders have the ability to resolve disputes and misunderstandings promptly to the complete satisfaction of customers. Such a track record counts heavily in the eyes of the community. Good business leaders foster integrity, good leadership, and high efficiency in the eyes of potential customers. Different leadership styles result in different organizational effectiveness and performance in small and medium-sized enterprises.

Workers employed in business enterprises where the leadership is autocratic in style are less efficient and productive in comparison with workers employed in business enterprises where the leadership is democratic (Isaksson, 2006: 632). The styles of managerial leadership towards subordinate staff and the focus of power can be classified into three categories. The authoritarian style of leadership is autocratic, and the focus of power is with the manager and all interactions within the group move towards the manager. The manager alone exercises decision-making and authority for determining policy, procedures for achieving goals, work tasks and relationships, control of rewards or punishment Mullins (2007: 58).

The ability of small firms in South Africa to be a source of sustained income and employment depends on whether they have the financial capacity to embark on new projects and remain competitive in the market. The next section focuses on entrepreneurship and small businesses. These concepts are often perceived as being identical; while they are related, they are not synonymous (Longencker, Moore & Petty, 2003). The Global Entrepreneurial Monitor (2010) reported a significantly lower entrepreneurial activity level in South Africa compared to other developing countries. The total entrepreneurial activity rate in South

Africa was 7.3% in 2012 which decreased from its rate in 2011 at 9.1% and yet is far below the average for efficiency driven economies (14.3%).

The ability to respond to queries from customers and the manner in which customers are treated are crucially important for viability in small businesses. The study by Harms, Kraus and Reschke (2007: 661-667) shows that small and medium-sized enterprises that fail to respond to queries made by customers often fail in the first three years of their existence. A good example in this regard is the failure of over 50% of all newly established small businesses in areas such as Soweto, Alexandra, Tembisa and Sebokeng in their first three years of establishment over the period from 1994 to 2012 (South African Chamber of Commerce and Industry, 2003: 4). Street vendors often thrive in areas where formally setup small businesses fail. Consumers have a tendency to look for competitive prices at all times. This indicates that small businesses must be adequately informed about the selling price of goods and services. This requires the ability to do research in the market by gathering information on selling price and the quality of goods and services. Judge and Piccolo (2004: 756-758) have found that good entrepreneurs have good business leadership skills. According to the authors, leadership skills such as learning from competitors and fellow subordinates are quite helpful. The other key leadership skills are the ability to improve organizational leadership and performance by improving the degree of customer satisfaction, staff satisfaction, and financial performance. Understanding leadership is important to small and medium scale enterprises (SMMEs) because leadership binds subordinates to work together and stimulate employees' motivation. Effective leadership provides the building block for organizational performance. It is absolutely essential to the survival and growth of every organization. Autocratic leadership is detrimental to the growth of businesses. In autocratic business institutions, the leaders are not democratic enough in their relations with their subordinate, and problems that affect organizational performance are not frankly and effectively brought to the attention of leaders for fear of reprisal. As a result, overall productivity is low.

## **METHODS AND MATERIALS OF STUDY**

### **Study design**

The design of this study is descriptive and cross-sectional. It is descriptive because the study aims to explain and describe factors that affect the growth and development of small and medium-sized enterprises operating in the Vaal Triangle region of Gauteng Province. The study is cross-sectional because data is collected from the 133 participants who took part in the study once only. According to Babbie (2005:44), a descriptive study design is suitable for an exploratory study of this kind.

### **Sample size of study**

A random sample of size  $n=133$  small and medium-sized businesses was selected for the study. Eligible businesses were selected from the various parts of the Vaal Triangle by using stratified random sampling by region (North, West, South, East, and Central parts of the Vaal Triangle). The sample of the size and the sampling technique are both appropriate for an exploratory study of this kind according to Hussey & Hussey (2003:56).

### **List of variables of study**

Data collection was done on variables of study that affect viability in small and medium-sized enterprises conducting business in the Vaal Triangle region of Gauteng Province. These

variables are: loss making, amount of initial capital of business, the question of whether the business operator has formal entrepreneurial skills, the cost of labour, market condition, failure in securing a loan required for business, ownership of business premises, the ability to draw up business plan, the ability to perform bookkeeping tasks, the practice of selling goods and services to clients on credit, the legal status of business, the question of who the founder of the business is, the question of who the owner of the business is, the age of business in years, the type of business, the gender of the business operator, the age of the business operator in years, the level of education of business operator, the average net monthly income of business, and attending a business-related training with a view to perform better at business. The variables of study listed above are all highly relevant to the study. Each of the variables of study was selected for the study based on a review of the relevant literature.

### **Validity and reliability of measurements**

The study uses nominal and ordinal variables. The majority of the variables were nominal. A few of the variables were ordinal. In nominal variables, order does not matter. An example of a nominal scale is gender (male, female). The order between males and females does not matter. It only matters that males and females are different. In a few cases, ordinal variables with 5 categories were used in which category 1 represented the lowest score, and category 5 represented the highest score. An example of an ordinal scale is the degree of agreement. The respondent can provide any of five possible answers. These are: 1 (Strongly agree), 2 (Agree), 3 (Indifferent), 4 (Disagree), and 5 (Strongly disagree). In ordinal scales, order matters.

Validity is a technique in which one makes sure that the study measures variables that need to be measured in order to provide adequate answers to the research questions in the study. In this study, validity was ascertained by using face validity techniques as outlined by Golafshani (2003:597-607). The data collection instrument used in the study was pre-tested in order to ensure reliability. The Cronbach-Alpha test (Dawson and Trapp, 2004:128) was used for ensuring internal consistency of the 5-point ordinal scales used for the measurement of variables. Various sources of evidence, past records, as well as a review of the literature were used for ensuring validity.

### **Methods of data analyses**

Data capturing, coding and analysis were all done in the statistical package STATA version 13 (STATA Corporation, 2012). The following statistical tests were used for data analysis:

- Descriptive statistics and frequency tables
- Cross-tab analysis with Pearson's chi-square tests of associations (Dawson and Trapp, 2004)
- Factor analysis (Field, 2010)
- Qualitative in-depth interviews

### **Ethical considerations**

Standard ethical guidelines and procedures were followed for gathering data from each of the 133 business operators who took part in the study. Each of the participants took part in the study voluntarily, and signed an informed consent form prior to data collection. An explanation was provided to each of the respondents about the purpose of the study, along with their right to drop out of the study without having to explain why. They were informed

that responses obtained from each participant would be kept in confidence, and that responses provided by respondents would be made anonymous. Respondents were not exposed to any risk as a result of taking part in the study.

### Results of data analysis

The study showed that 28 of the 133 businesses that were selected for the study (21%) lost money, and hence were not viable.

**Table 4.1.5: Types of businesses**

Type of business	Number	Percentage
Agriculture	6	4.51%
Automotive	5	3.76%
Barber shop or hairdresser	5	3.76%
Construction	3	2.26%
Dry cleaning	1	0.75%
Electronic repair shop	1	0.75%
Food outlet	23	17.29%
Footwear shop	11	8.27%
Furniture	3	2.26%
Hotel	1	0.75%
Internet café	1	0.75%
Mini supermarket or convenience store	36	27.07%
Music or video store	1	0.75%
Newspaper or media outlet	1	0.75%
Pharmacy or clinic	2	1.50%
Photography	4	3.01%
Printing or books	4	3.01%
Professional services	2	1.50%
Textile shop	15	11.28%
Tour operator	1	0.75%
Transportation services	4	3.01%
Others	3	2.26%
Total	133	100%

Table 4.1.7 shows a comparison between businesses that lost money (non-viable businesses) and businesses that did not lose money (viable businesses) with regards to key variables of study. It can be seen from the table that businesses that lost money are characterized by low level of initial capital, low level of entrepreneurial skills, low level of net monthly income, low level of formal education, the habit of selling on credit, poor access to loan grants, operating under adverse market conditions, poor auditing skills, high labour cost, failure to draw up business plans, and lack of opportunities with regards to acquiring training on entrepreneurial skills that are valuable for conducting business.

**Table 4.1.7: Comparison between viable and non-viable businesses**

Characteristic	Viable businesses (n=105)	Non-viable businesses (n=28)
Initial capital	≤ 50, 000 Rand: 1.90% > 50, 000 Rand: 98.10%	≤ 50, 000 Rand: 53.57% > 50, 000 Rand: 46.43%
Labour cost	Fair: 83.81% High: 16.19%	Fair: 28.57% High: 71.43%
Entrepreneurial skills	Adequate: 82.86% Poor: 17.14%	Adequate: 32.14% Poor: 67.86%
Market conditions	Fair: 81.90% Adverse: 18.10%	Fair: 7.14% Adverse: 92.86%
Access to loan	Yes: 87.62% No: 12.38%	Yes: 39.29% No: 60.71%
Business premises	Own: 42.86% Rent: 57.14%	Own: 64.29% Rent: 35.71%
Business plan	Available: 77.14% Not available: 22.86%	Available: 60.71% Not available: 39.29%
Book-keeping skills	Yes: 74.29% No: 25.71%	Yes: 53.57% No: 46.43%
Selling on credit	Yes: 1.90% No: 98.10%	Yes: 53.57% No: 46.43%
Gender of business operator	Male: 76.19% Female: 23.81%	Male: 82.14% Female: 17.86%
Training on entrepreneurial skills	Yes: 8.57% No: 91.43%	Yes: 7.14% No: 92.86%

### Results from cross-tab analyses

The Pearson chi-square test of association (cross-tab analysis) is used for assessing the strength of association or interdependence between two or more categorical variables. At the 5% level of significance, the strength of association between two categorical variables is said to be statistically significant if the P-value is smaller than 0.05. If the P-value is greater than or equal to 0.05, it is said that the two variables are independent of each other at the 5% level of significance. In this study, all expected cell frequencies were greater than 5. As such, results of data analysis obtained from Pearson's chi-square tests of association were all valid.

Table 4.2.1, below, shows significant two-by-two associations obtained from Pearson's chi-square tests of associations. At the 5% level of significance, significant associations have large observed chi-square values and P-values that are smaller than 0.05. Significant results obtained from Pearson's chi-square tests of associations ( $P < 0.05$ ) showed that businesses fail due to lack of initial capital, high labour cost, shortage of entrepreneurial skills that are needed for operating business, adverse market conditions, difficulty in securing loans needed for business, inability to pay fees that are required for renting business premises, inability to do bookkeeping, the practice of selling on credit, the status of business being operated, the age of the business being operated (young businesses are exposed to loss more than old businesses are), and lack of training opportunities that are relevant to the business being operated.

**Table 4.2.1: Results obtained from Pearson's chi-square tests of associations**

List of variables significantly associated with financial loss in businesses	P-value
Low amount of initial capital	0.000
High cost of labour	0.000
Lack of entrepreneurial skills	0.000
Adverse market conditions	0.000
Difficulty in securing loan needed for business	0.000
Inability to pay fee needed for renting business premises	0.044
Inability to do bookkeeping	0.034
Selling on credit	0.000
Status of business	0.040
Age of business	0.031
Lack of training opportunities	0.000

P-values that are obtained from Pearson's chi-square tests of associations are theoretically less reliable than those obtained from factor analysis (Field, 2010).

### Results obtained from factor analysis

Factor analysis is a data reduction technique used to reduce a large number of variables to a smaller set of underlying factors that summarize the essential information contained in the variables (Field, 2010:134). The following procedures were followed while performing factor analysis:

- Computation of the correlation matrix for all variables
- Extraction of initial factors
- Rotation of the extracted factors as a terminal solution

Factor analysis was used for reducing the number of factors that had to be analyzed. The method produced 3 influential predictor variables that influenced viability in small businesses. Factor analysis is useful in cases where the correlation among the variables of study is significant. The correlation matrix in this study showed that several pairs of variables had correlations exceeding 0.3, thereby showing that factor analysis was appropriate. In this study, a cutoff point of 0.3 was used as is recommended by Field (2010:138). The variables found to be highly significant with viability were as follows:

- Difficulty in securing loans needed for business
- Lack of training opportunities
- Lack of entrepreneurial skills

The Cronbach Alpha test for internal consistency was used for testing the suitability of the 20-item structured questionnaire of study. The test gave a value of 0.792 and an associated level of significance that was smaller than 0.001. Furthermore, Bartlett's test of Sphericity was used for testing the adequacy of the correlation matrix, and gave an estimate of 0.811, a figure that was greater than the cut-off point of 0.5, thereby confirming the suitability of factor analysis.

**Table 4.3.1: Estimates obtained from the Kaiser-Meyer-Olkin and Bartlett's test**

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.811
Observed value of chi-square statistic for KMO test	1049.48
Bartlett's Test of sphericity degrees of freedom	212
P-value for Bartlett's Test of sphericity degrees of freedom	0.000

The factor analysis shows in Table 4.3.1 a Total Variance Explained output. This presents the number of common factors computed, the Eigen values associated with the factors, the percentage of total variance accounted for by each factor, and the cumulative percentage of total variance accounted for by the factors. Using a criterion of retaining only factors with Eigen values of 1 or greater, the first 3 factors were retained.

The total variance explained by these 3 factors is shown below as follows:

**Table 4.3.2: Total variance explained by the extraction of 3 factors**

Extracted factor	Eigen value	Percentage of explained variance in viability	Cumulative percentage of explained variance
Difficulty in securing loan needed for business	4.371	47.267	47.267
Lack of training opportunities	3.586	25.361	72.628
Lack of entrepreneurial skills	2.856	16.132	88.760

The results in Table 4.3.2 provide estimates for the percentage of variance explained by the 3 factors that were extracted by using the principal axis factoring method. Each of the 3 extracted factors has an Eigen value of magnitude greater than 1, thereby indicating its level of importance in terms of accounting for viability in business. The 3 extracted factors collectively account for 88.760% of the total variability in viability (the dependent variable of study). Based on the estimates shown in Table 4.3.2 above, it can be concluded that viability in small businesses operating in the Vaal Triangle region of Gauteng Province is significantly and adversely affected by the following 3 factors. These three factors were: difficulty in securing loans, lack of training opportunities, and shortage of entrepreneurial skills, in a decreasing order of strength.

The 3 factors listed above accounted for 88.76% of total variability. This figure is above 75%.

### Results obtained from in-depth interviews

*Qualitative interviews were conducted with 5 respondents (one from each of the 5 strata of the study) by using 1-hour interviews. Interviews were tape-recorded and transcribed later. Results obtained from in-depth interviews showed that difficulty in securing loans on favourable terms from micro lending institutions was a key obstacle among SMMEs operating in the Vaal Triangle region of Gauteng Province.*

*The key results obtained from in-depth interviews are summarized as follows:*

### ***Lack of access to finance***

The difficulty in accessing finances for the business was a major problem cited by many of the respondents. The majority of the respondents complained about the long procedures of getting sufficient loans from well-established financial institutions. The challenges faced by small enterprises in securing access to finance are described as being severe.

### ***Lack of entrepreneurial skills***

The actual shortage of entrepreneurial skills was also identified as a major factor. The majority of the respondents admitted not to have initial experience or training business management but had the urge to take part in tourism related activities. It was evident that their poor entrepreneurial skills put them at a disadvantage. Kaplan (2010) has pointed out that shortage of entrepreneurial skills in SMMEs pose a real threat to the survival of small enterprises in South Africa, and has emphasized that the National Skills Development System should be implemented with vigour as a means of alleviating this major problem.

### **Lack of mentorship, monitoring and evaluation programmes**

The respondents indicated that there is a dire need for mentorship, monitoring and evaluation programmes from the South African National Department of Trade and Industry as a means of supporting and promoting small enterprises. Coltman (2013) argues that mentorship programmes are essential for ensuring long-term viability in small enterprises. Rogerson (2012) has also pointed out that skills-related mentorship programmes are essential for ensuring viability in small enterprises. One key area of need is auditing and financial management. Financial management and marketing are specialised skills that require a particular level of education. If local communities are left to acquire these skills and operate small businesses on their own, their competitive level will remain low, as is currently the case.

## **DISCUSSION OF RESULTS**

This is a study based on a random sample of n=133 small and medium-sized enterprises conducting business in the Vaal Triangle region of Gauteng Province. The purpose of the study was to identify key predictors of financial loss in small and medium-sized enterprises operating in the Vaal Triangle region. Four sets of results were obtained from data analysis. Results obtained from frequency tables showed that non-viable businesses were characterized by low level of initial capital, low level of entrepreneurial skills, low level of net monthly income, low level of formal education, the habit of selling on credit, poor access to loan grants, operating under adverse market conditions, poor auditing skills, high labour cost, failure to draw up business plans, and lack of opportunities with regards to acquiring training on entrepreneurial skills that are valuable for conducting business. Results obtained from Pearson's chi-square tests of associations ( $P < 0.05$ ) showed that businesses fail due to lack of initial capital, high labour cost, shortage of entrepreneurial skills that are needed for operating business, adverse market conditions, difficulty in securing loans needed for business, inability to pay fees that are required for renting business premises, inability to draw up business plans, inability to do bookkeeping, the practice of selling on credit, the status of business being operated, and lack of training opportunities that are relevant to the business being operated.

Results obtained from factor analysis showed that the loss of money in small and medium-sized enterprises was significantly influenced by lack of entrepreneurial skills and lack of access to finance on favourable terms.

Results obtained from in-depth interviews showed that the loss of money in small and medium-sized enterprises was significantly influenced by lack of entrepreneurial skills and lack of access to finance on favourable terms.

The study has shown that viability in small and medium-sized enterprises operating in the Vaal Triangle region of Gauteng Province is adversely influenced by lack of entrepreneurial skills and lack of access to finance. The study has also shown that non-viable businesses have difficulties and structural challenges such as low level of initial capital, low level of entrepreneurial skills, low level of net monthly income, low level of formal education, the habit of selling on credit, poor access to loan grants, operating under adverse market conditions, poor auditing skills, high labour cost, failure to draw up business plans, and lack of opportunities with regards to acquiring training on entrepreneurial skills that are valuable for conducting business. The study has managed to reveal challenges that persist to deny small and medium-sized enterprises room towards sustainable development and prosperity in the Vaal Triangle region. Results obtained from Pearson's chi-square tests of associations have shown that the viability of small and medium-sized enterprises in the SMME sector of Vaal Triangle is adversely affected by an acute shortage of entrepreneurial skills and lack of access to finance from micro lending institutions. Non-viable small enterprises lack vision for business. They also lack clear strategy for business. They are synonymous with poor productivity or inefficiency, lack of project management skills and lack of entrepreneurial skills. Socioeconomic factors such as adverse political environment and lack of transparency in tender processes are known to affect small and medium-sized enterprises.

Based on the key findings of the study, feasible measures should be taken in order to improve the plight of small and medium-sized enterprises operating in the Vaal Triangle region of Gauteng Province. The South African Department of Trade and Industry needs to support newly established small businesses by providing them with training and supervision on business skills. The current regulatory framework governing operations conducted by small enterprises allows the South African Government to provide such assistance to small enterprises. It is also equally important to create an economically enabling environment for newly established businesses.

The roll out of capacity building programmes directed at small and medium-sized enterprises must be intensified. The study has found that small and medium-sized enterprises are in dire need of entrepreneurial and technical skills. Enough resources must be made available for training and capacity building programmes so that small and medium-sized enterprises can be assisted better. The study has found that agencies that are established for providing assistance to small and medium-sized enterprises are seriously underfunded. As a result, they are not providing small and medium-sized enterprises with the assistance they require in order to compete more favourably with well established businesses. It is necessary for the South African Department of Trade and Industry to make more resources available for supporting agencies that are established for assisting SMMEs.

The study has found that the curriculum used in South African tertiary level academic institutions does not educate small and medium-sized entrepreneurs on how to acquire and improve their entrepreneurial skills. The curriculum must be revised so that small and

medium-sized entrepreneurs can be educated on how to develop business plans, how to grow their business, how to formulate long-term strategy for business, how to conduct audits, and how to write progress reports. It is essential to encourage potential entrepreneurs to enter the SMME sector by providing clear incentives. One method in which this can be done is by promoting openness and transparency in the procedures and regulations governing tender processes. Government tenders should be conducted in a transparent manner so that projects are awarded to the most deserving competitors. In order to ensure transparency, feedbacks should be provided to participants at the different stages of the tender assessment procedure. Failure to address this will require a holistic approach to ensure that government objectives are met.

Supervisory assistance should be provided to newly established businesses in their first three years of operation. Newly established firms often lack the capacity to do inventory, take stock, utilize their finance appropriately and prudently, and refrain from selling items on credit. By providing small enterprises with supervisory assistance, it will be possible to reduce the current high failure rate of failure in newly established business enterprises in the Vaal Triangle region. Unemployed youth should be encouraged to attend vocational training programmes at tertiary level academic institutions. Such programmes can easily be offered by the Vaal University of Triangle (VUT) in collaboration with the South African Department of Trade and Industry. The curriculum for training can easily be worked out by the two institutions. Such collaboration has the potential for reducing the current unemployment rate among the youth who have been unable to find jobs.

Although there is an understanding that the SMME sector has the potential for contributing to the growth of the national economy, the sector needs to be supported by the national Government. The study conducted by Kumar, Antony, Madu, Montgomery and Park (2008: 878) has shown that the sustained growth of the national economy depends on the sustained growth of the SMME sector. This is especially true in developing economies such as South Africa. Klotz, Horman, Bi and Bechtel (2008: 623) have found that all tender procedures that might benefit small businesses and enterprises must be administered with adequate transparency as a means of supporting the SMME sector. Joseph (2005: 11-12) has reported that strategic partnerships between national and provincial Governments as well as academic institutions benefit the SMME sector in terms of producing workable plans of actions. Rumiller and Brache (2004: 2-3) have reported that business processes that aim to benefit small, micro and medium enterprises must be free from bureaucratic procedures and bottlenecks in order to enable small businesses to reach their full potential in the SMME sector of the economy. In Vaal Triangle, black-owned enterprises need tangible support in order to grow and make a sustainable contribution to job creation and the alleviation of poverty among the masses.

The strategic benefit of entrepreneurial and managerial skills for the long term survival of small and medium-sized enterprises has been Rummler and Brache (2004: 2-3) and Smith and Fingar (2003: 12-19). Both authors have found that the lack of entrepreneurial and managerial skills constitutes a major obstacle to the development of SMMEs. These findings have been corroborated by Yuki (2002: 19-21) in which it has been found that the acute shortage of entrepreneurial and technical skills has become one of the key reasons why newly established small and medium-sized enterprises fail to grow on a sustainable basis.

The constant shortage of entrepreneurial skills in small and small and medium-sized enterprises is further exacerbating the plight of emerging firms in Vaal Triangle. The shortage

of such skills is responsible for the high rate of failure of newly established companies. According to Clemens (2006: 494), it is strategically important to have access to skills-based programmes of training if newly established companies are to bridge the skills gap in the SMME sector. Business programmes that are offered by South African universities are not relevant to the survival needs of small and medium-sized enterprises. The absence of accredited training programmes in this regard has aggravated problems that arise from the lack of technical skills.

Due to the nature of the SMME sector, access to finance remains vital because projects can get delayed in cases where contractors fail to raise adequate working capital for the project being done. Since contractors are expected to utilize initial capital before claiming for work done, the extent to which they are able to access financial backing is fundamental. Under financial constraints, small and small and medium-sized enterprises are likely to perform poorly on a contract. According to Curran and Blackburn (2001: 78), the key reason why the majority of newly established firms go out of business in the first three years following establishment is their inability to raise the finance needed for the completion of projects.

There are a few financial institutions operating in Vaal Triangle. Examples of such institutions are the Industrial Development Computation (IDC), Business Partners Limited (BPL), Khula Enterprise Finance Limited (KFL), as well as the big four South African commercial banks (Amalgamated Bank of South Africa (ABSA), First National Bank (FNB), Standard Bank and Nedbank). Although the commercial banks have adequate funds to lend, their lending policies are quite stringent, and are based on collateral. The other microfinance institutions do not have adequate funds to satisfy the needs of newly established firms. Also, their lending rates are quite high, and are not affordable to small enterprises. Clemens (2006: 495) has reported that it is quite difficult and unaffordable for the majority of small enterprises to borrow money on unfavourable terms from financial institutions conducting business. Basically, these financial institutions have limited resources, and impose rather stringent repayment conditions on borrowers. This condition exacerbates the plight of newly established firms in the Vaal Triangle. The authors have also reported that newly established firms often lack the ability to utilize borrowed money wisely and according to plan. They have poor auditing, managerial and entrepreneurial skills. They do not report their progress at the workplace regularly to financial institutions that choose to lend them money. As a result, the majority of commercial banks and micro-lending financial institutions are often reluctant to lend monies to newly established small and medium-sized enterprises conducting business in the Vaal Triangle region of Gauteng Province.

## **RECOMMENDATIONS**

Based on findings obtained from the study, the following recommendations are made to the South African National Department of Trade and Industry with a view to improve viability in small and medium-sized enterprises operating in the Vaal Triangle region of Gauteng Province. The recommendations have the potential for improving the plight of struggling small and medium-sized enterprises in the region.

- The provision of tailor-made skills based training programmes on vocational and entrepreneurial activities in which young matric graduates are targeted specifically;
- The provision of supervisory and monitoring and evaluation assistance to small and medium-sized enterprises;
- Involving Vaal University of Triangle in the creation of an academic programme in which tangible assistance is offered to young matric level graduates who have failed

to find employment opportunities in the Vaal Triangle region of Gauteng Province; and

- The provision of financial support to newly established small enterprises in the Vaal Triangle region of Gauteng Province.

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