



RETROSPECTIVE ANALYSIS OF FAILURE CAUSES IN SOUTH AFRICAN SMALL BUSINESSES

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DECLARATION

I declare that the thesis,

“RETROSPECTIVE ANALYSIS OF FAILURE CAUSES IN
SOUTH AFRICAN SMALL BUSINESSES”,

is my own work, that all the sources used or quoted have been indicated and acknowledged by means of complete references, and that this thesis was not previously submitted by me for a degree at another university.

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September 2010

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ABSTRACT

One of the major development problems in the southern African region and South Africa in particular relates to the phenomenon of high failure rates among Small Medium and Micro Enterprises (SMMEs). The important role of SMMEs in creating jobs and incomes is widely acknowledged. SMMEs are relatively inexpensive to establish and have the potential to generate economic growth in the southern African region. One major dilemma of this sector, however, is the short lifespans of SMMEs.

Past research has focused on understanding failure of small businesses by mainly identifying factors of failure without subjecting them to step-wise causality testing. This research closes that gap and uses a retrospective study, coupled with the critical realist approach, to understand the causes of the high failure rates of SMMEs. The merit of this approach lies in the attention it gives to an historical understanding of past processes and how a determined effort could be initiated to change the current “historical reality” of the factors behind the failures, specifically in South Africa.

A sample comprising 254 owner-managers of SMMEs from the Gauteng, Limpopo and Mpumalanga provinces in the Republic of South Africa as well as from Gaborone in Botswana was subjected to an interview between January 2007 and December 2007. Data were collected by means of a semi-structured research instrument which probed the failure of the interviewees’ businesses across a period spanning seven years between 2000 to 2006. The analysis of the data involved the use of both quantitative and qualitative research methodologies. The findings indicate that four explanatory factors were paramount: “monitoring and control” (factor 1); “experience and planning in finance and marketing” (factor 2); “income constraints” (factor 3), and “cash control” (factor 4). Based on the findings,

the following recommendations, if implemented, may assist with lowering the high failure rates:

First, the mindsets of the owners of the failed businesses were found to be a fundamental factor in the closure of the businesses. Radical programmes for changing these mindsets are therefore critical.

Second, with the mindsets changed, venture skills training programmes could then be introduced involving learning and training. By so doing, it is hoped that the void left by low levels of education and business experiences in the SMME sector would be reduced.

Finally, at the policy-making level, the required assistance should be tilted more towards government-corporate involvement, in assisting the SMME sector in the form of financial subsidies for start-up capital, small business-builder programmes, and business mentoring programmes, among others.

KEYWORDS: causes of small business failure in South Africa, failure of small businesses in South Africa, failure of SMMEs.

I dedicate this thesis to my wife, Angelina,
and my four children
for the forbearance shown when denied quality time
often enjoyed by many families



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ABBREVIATIONS, ACRONYMS AND GLOSSARY

ANOVA	Analysis of variance
dti	Department of Trade and Industry
Khula	Khula Enterprise Finance
Ntsika	Ntsika Enterprise Promotion Agency
RSA	Republic of South Africa
SADC	Southern African Development Community
Seda	Small Enterprise Development Agency (superseded Ntsika in December 2004)
SMME(s)	Small, medium and micro enterprise(s) (used interchangeably with “small business/venture” in this research) This definition is in accordance with dti (2004:33) and dti (2008:4)
Start-up	A small business/venture that has been in existence for less than two years