CHAPTER 3

CONCEPTUAL FRAMEWORK FOR THE RESEARCH

3.1 INTRODUCTION

3.2 GROUNDING RESEARCH IN LOCAL CONTEXT

3.3 CONVENTIONAL CAUSES OF FAILURE BY CATEGORY

3.4 THE CATALYTIC ACTIVITY OF SYSTEMS AS CONSTRAINING AND ENABLING STRUCTURES

3.5 CONCLUSION

Figure 3.1: Layout of Chapter 3

CHAPTER 3

CONCEPTUAL FRAMEWORK FOR THE RESEARCH

3.1 INTRODUCTION

Chapter 2 ended on the note that certain lessons could be learnt from the existing small business failure theories to serve as important input in developing a conceptual framework for this research. These inputs relate to concepts which this research will now consider as essential building blocks necessary for addressing the objectives of this research.

This chapter will elaborate on those issues under the following broad headings:

- The need to recognise the importance of grounding business failure research and the corresponding explanatory theories in the context of local realities.
- The importance of the business owner adhering to certain basic business management principles or rules (causal factors) as a way of avoiding business failure.
- Recognising and conceptualising the failure factors (causality) as sets of inter-related elements with inherent powers or tendencies to close down businesses.
- The role of critical realism in addressing the above issues.
- At the end of the above discussions, the conceptual framework for this research would have been specified for data collection in Chapter 4.
- Using research findings as frameworks for owner positive change.

3.2 GROUNDING RESEARCH IN THE LOCAL CONTEXT

3.2.1 The statistical situation as evidence of small business failure

The importance of grounding social research in local circumstances has been addressed from a number of South African perspectives. Ojala (2002:1), Kiggundu (2002:254), Mellahi & Wilkinson (2004:21) and Arinaitwe (2006:1670), for example, have discussed why the wholesale adoption in developing countries of explanatory models from developed countries would not carry that much relevance. Dockel & Ligthelm (2002:20) and Crutzen & Van Caillie (2007:10) emphasise that no meaningful use can be made of research results and statistics if they are not related to local issues. Sayer (2000:15), Mouton (2002:168) and Fleetwood & Ackroyd (2004:13) make similar statements from the perspective of the critical realist method.

The importance of recognising local statistical realities in business activities has also been discussed by Henderson (1999:281) from the business competitive perspective. Kaplan & Norton (2000:65), Junor (2001:30) and Kam (2005:399) are among others who have stressed the importance of using the grounded theory idea in undertaking and measuring performance in empirical research. From the South African perspective, the reports by the Department of Trade and Industry (**dti** 2004:4) and Sunter (2000:10), among others, highlight the importance of taking account of issues emanating from local statistics in the conceptualisation of the objects of the research. As has emerged from the literature review, people are constrained and enabled by their local circumstances. This chapter will therefore discuss the relevance of this statement as the backdrop to the conceptual framework for this research.

3.2.2 The number of small businesses in South Africa

As indicated above, one contribution which this research intends to make in terms of the relevant failure causes is to demonstrate how important it is to base the failure explanations on local social and economic conditions. This idea of ensuring that research on the business failure problems needs to be locally-grounded is undertaken by first providing some important statistical information on SMMEs.

Statistical information has been gathered to provide background data regarding the particular position, contributions, challenges, problems and prospects of SMMEs and how such realities should influence research on their failures. It needs to be noted that the discussions in this sub-section of the chapter will focus on the disclosure of the small business-related statistical situation, in view of its importance. This is supplemented by other forms of information to indicate the grounds for ensuring that the explanatory factors reflect local conditions.

The statistical discussion commences with Table 3.1 which gives a summary of the small business sectoral distribution in the provinces of South Africa to appreciate the significance and magnitude of the small business industry.

Table 3.1: Distribution of South African small businesses by province, 2002

Province	Number of SMMEs	Percentage of total number of SMMEs in South Africa (%)
Gauteng	414 166	38.3
Kwazulu-Natal	198 749	18.4
Western Cape	144 594	13.4
Eastern Cape	94 253	8.7
North West	56 117	5.2
Mpumalanga	53 636	5.0
Limpopo	49 985	4.6
Free State	49 335	4.6
Northern Cape	19 791	1.8
RSA	1 080 626	100.0

Source: Distribution of South African SMMEs by province (**dti** 2002:43).

Table 3.1 indicates that there were 1 080 626 formal SMMEs alone in South Africa during 2002. This is quite a large number by all indications.

Table 3.2 is further reason that SMME failures cannot continue unabated. For purposes of this part of the research, it should be noted that the SMMEs studied comprise those businesses employing fewer than 5 people each. Table 3.2 provides information on the sizes and turnover of the businesses across the various sectors.

Table 3.2: Threshold for classification as micro, very small or medium enterprises

Sector or sub-sector in accordance with the standard industrial classification	Size or class	Total full-time equivalent of paid employees	Total annual turnover (Rm)	Total gross asset value (excluding fixed property) (Rm)
Agriculture	Medium	100	5.0	5.0
	Small	50	3.0	3.0
	Very small	10	0.5	0.5
	Micro	5	0.2	0.1
Mining and quarrying	Medium	200	39.0	23.0
	Small	50	10.0	6.0
	Very small	20	4.0	2.0
	Micro	5	0.2	0.1
Manufacturing	Medium	200	51.0	19.0
	Small	50	13.0	5.0
	Very small	20	5.0	2.0
	Micro	5	0.2	0.1
Electricity, gas and water	Medium	200	51.0	19.0
	Small	50	13.0	5.0
	Very small	20	5.1	1.9
	Micro	5	0.2	0.1
Construction	Medium	200	26.0	5.0
	Small	50	6.0	1.0
	Very small	20	3.0	0.5
	Micro	5	0.2	0.1

Sector or sub-sector in accordance with the standard industrial classification	Size or class	Total full-time equivalent of paid employees	Total annual turnover (Rm)	Total gross asset value (excluding fixed property) (Rm)
Retail and motor trade and repair services	Medium	200	39.0	6.0
	Small	50	19.0	3.0
	Very small	20	4.0	0.6
	Micro	5	0.2	0.1
Wholesale trade, commercial agents and allied services	Medium	200	64.0	10.0
	Small	50	32.0	5.0
	Very small	20	6.0	0.6
	Micro	5	0.2	0.1
Catering, accommodation and other trade	Medium	200	13.0	3.0
	Small	50	6.0	1.0
	Very small	20	5.1	1.9
	Micro	5	0.2	0.1
Transportation, storage, and communications	Medium	200	26.0	6.0
	Small	50	13.0	3.0
	Very small	20	3.0	0.6
	Micro	5	0.2	0.1
Finance and business services	Medium	200	26.0	5.0
	Small	50	13.0	3.0
	Very small	20	3.0	0.5
	Micro	5	0.2	0.1
Community, social and personal services	Medium	200	13.0	6.0
	Small	50	6.0	3.0
	Very small	20	1.0	0.6
	Micro	5	0.2	0.1

Source: Schedule 1 to the National Small Business Act of 1996, as revised by the National Small Business Amendment Act, Act 26 of 2003 (RSA 2003).

3.2.3 Job creation by South African small businesses

One sector which creates jobs in South Africa is SMMEs. Table 3.3 provides information about the number jobs being created by SMMEs in South Africa and their contribution to the national economy in the context of the unemployment situation.

Table 3.3: SMMEs in the context of the South African employment situation, 2004

Province	Number of employed people	Number of unemployed people	Working age population (15 to 65 years)	Number of formal SMMEs	Number of informal SMMEs
Mpumalanga	788 674	260 011	1 943 577	14 879	206 000
Western Cape	1 691 129	386 616	3 147 046	76 876	126 000
Eastern Cape	1 277 582	536 474	4 005 226	21 772	224 000
Northern Cape	228 792	74 045	576 527	4 759	32 000
Free State	777 074	311 427	1 909 446	12 524	144 000
KwaZulu-Natal	2 092 406	840 551	5 930 954	53 045	595 000
North-West	384 824	324 639	2 399 174	10 971	190 000
Gauteng	3 069 516	1 062 496	6 267 459	196 715	631 000
Limpopo	882 734	339 122	3 134 202	9 493	281 000
Total for South Africa	**11 192 731**	**4 135 381**	**29 313 611**	**401 034**	**2 429 000**

Source: Statistics South Africa (Stats SA) (Stats SA 2005:16).

With a population of some 45 million, and an unemployment figure of some 4 135 381 in 2004, Table 3.14 paints a bleak picture of the challenge of job creation in South Africa. There are limited job prospects in the formal sector, a high output of secondary school leavers and also high numbers of retrenched workers, all of which justify a programme of job creation through the SMMEs. Table 3.14 indicates that there are about 3 000 000 formal and informal SMMEs in the country which are an important resource for national development.

From the above statistical information, it can be asserted that any analysis of small business failures needs to take account of the problems facing the SMMEs; their potential to create jobs in the South African economy, as well as the necessity of getting access to the owners of small businesses regarding what they think needs to be done about the fate of their ventures. Since the global meltdown of 2008/2009 the shedding of jobs has been increasing in the formal sector. This reality needs to turn attention to small businesses as a key driver to the development of the South African economy.

3.3 CONVENTIONAL CAUSES OF FAILURE BY CATEGORY

The reviewed literature indicates that failure may be categorised as discussed below

3.3.1 Management-related causes of failure

The evidence of small business failure is now presented in terms of management-related causes, administrative-related causes, operational-related causes, strategic causes as well as the owner-managers' perceptions-related causes of business failures in both developed and developing countries. Table 3.4 shows the management-related causes of failure.

Table 3.4: Management-related causes of failure by category in developed and developing countries

Failure category	Percentage failure (%)	Developed / developing countries	Failure description	Source
Managerial incompetence	>85 %	Developed countries	General managerial incompetence	Knotts (2003:2) Scarborough & Zimmerer (2003:9) Wiklund & Shepherd (2005:71)
Management weaknesses	89 %	Developed countries	Going into business for wrong reasons	Holland (1998:2)
			Start-up cognitive orientations	Gatewood, Shaver & Gartner (1995:371)
			Factors for business start-up	Lee & Osteryoung (2001:193)
			Entrepreneur falls in love with the product/-business	Holland (1998:2)
			Lack of financial responsibility and awareness	Holland (1998:2)
			Lack of clear focus	Holland (1998:2)
			Living too high for the business	Holland (1998:2)
		Developing countries	Entrepreneur falls in love with the product/-business	Tushabomwe-Kazooba (2006:30)
	26 %	Developing countries	Poor management of workers	Wright (1995:48) Tushabomwe-Kazooba (2006:30)
	78 %	Developed countries	Poor work relationships	Longenecker, Neubert & Fink (2007:148)

Failure category	Percentage failure (%)	Developed / developing countries	Failure description	Source
Incompetence	46 %	Developed countries	Lack of planning and control	Holland (1998:2) Chittenden, Poutziouris & Michaelas (1999:5)
			No knowledge about pricing	Laitinen & Gin Chong (1999:89)
			Little effort to market the business Lack of know-how	Grünhagen & Mishra 2008:1 Littunen, Storhammar & Nenonen (1998:199)
		Developing countries	Emotional pricing	van Aardt *et al* (2000:250)
			Living too high for the business	Tushabomwe-Kazooba (2006:30)
			Poor management skills	Baard (2004:1)
			No experience in record keeping	Wright (1995:48)
Poor business planning and control	78 %	Developed countries	Poor planning and control	Monk (2000:12) Perry (2001:201) Khan (2006:2)
		Developing countries	Poor planning and control	Wright (1995:48)
Poor financial planning	82 %	Developed countries	Poor cash flow	Stancill (1987:38) Monk (2000:12) FEE (2004:7) Khan (2006:2)
		Developing countries	Poor cash flow	Wright (1995:48) Nieman (1999:8) Baard (2004:1)
Inadequate revenue	65 %	Developed countries	Business not earning enough money	Watson, Hogarth-Scott & Wilson (1998:229)

Failure category	Percentage failure (%)	Developed / developing countries	Failure description	Source
Unbalanced experience/ lack of managerial experience/ lack of start-up experience	30 %	Developed countries	Poor credit-granting practices	Sexton *et al* (1997:1)
			Excessive bad debts	Holland (1998:2)
			Expansion too rapid	Longenecker *et al* (2007:148)
			Ineffective communication skills/practices	Cressy (1996:1254)
			Poor work relationships/interpersonal skills	Shepherd (2003:318)
			Person-job mismatch	Cooper *et al* (1994:371)
			Delegation and empowerment	Khan (2006:2)
		Developing countries	Inadequate borrowing practices breakdown	van Aardt *et al* (2000:250)
			Failing to adapt and break old habits quickly	Baard (2004:1)
Lack of experience in line of goods or services	11 %	Developed countries	Carry inadequate inventory	Holland (1998:2)
			No knowledge of suppliers	Holland (1998:2)
		Developing countries	Wasted advertising budget	Maasdorp (2002:733)
Combined human factor	92 %	Developing countries	Incompetence	Moolman (2003:34)
			Inadequate experience	Moolman (2003:34)
			Lack of managerial experience	Moolman (2003:34)
Neglect/fraud	1 %	Developed countries	Poor monetary control	Holland (1998:2)
Lack of action	3 %	Developing countries	Lack of problem solving	Maasdorp (2002:733)

Failure category	Percentage failure (%)	Developed / developing countries	Failure description	Source
Managerial failure	81 %	Developed countries	Ineffective communication skills/practices	Longenecker *et al* (2007:148)
	78 %		Poor work relationships	Longenecker *et al* (2007:148)
	69 %		Person-job mismatch	Longenecker *et al* (2007:148)
	64 %		Failure to clarify directions/performance expectations	Longenecker *et al* (2007:148)
	57 %		Failing to adapt and break old habits quickly	Longenecker *et al* (2007:148)
	56 %		Delegation and empowerment breakdown	Longenecker *et al* (2007:148)
	52 %		Lack of personal integrity and trustworthiness	Longenecker *et al* (2007:148)
	50 %		Unable to develop co-operative/teamwork	Longenecker *et al* (2007:148)
	47 %		Unable to lead/motivate others	Burke (2006:93) Longenecker *et al* (2007:148)
	45 %		Poor planning practices/reactionary behaviour	Longenecker *et al* (2007:148)
	40 %		Failure to monitor actual performance and provide feedback	Longenecker *et al* (2007:148)
	37 %		Failing to remove performance barriers/roadblocks	Longenecker *et al* (2007:148)
	36 %		Ego, attitude and indifference problems	Longenecker *et al* (2007:148)
	33 %		Fail to select, promote, and develop talented people	Longenecker *et al* (2007:148)
	31 %		Lack of or misuse of critical resources	Longenecker *et al* (2007:148)

Failure category	Percentage failure (%)	Developed / developing countries	Failure description	Source
Internal administrative management	Not available	Developed countries	Financial	Sheldon (1994:534) Cooper *et al* (1994:375) Gaskill, van Auken & Manning (1993:19) Mudambi & Treichel (2005:543)
			Organisational	Sheldon (1994:534) Cooper *et al* (1994:375) Gaskill, van Auken & Manning (1993:19) Mudambi & Treichel (2005:543)
	Not available	Developing countries	Human resources	Tushabomwe-Kazooba (2006:30)
Internal strategic management	36 %	Developed countries	Human resources	Carter *et al* (1994:21)
			Marketing	Sheldon (1994:534)
			Planning	Jennings & Beaver (1995:185)
			Inadequate competitive strategies	Jennings & Beaver (1995:185)
			Strategic persistence	Greening, Barringer & Macy (1996:233) Tezuka (1997:83)
			Failure to handle growth	Kisfalvi (2000:611) Weitzel & Jonsson (1991:7)
		Developing countries	Inaction and lack of corrective actions	Tushabomwe-Kazooba (2006:30)
External administrative management	36 %	Developed countries	High rent charges	Sheldon (1994:534)
		Developing countries	High rent charges	Tushabomwe-Kazooba (2006:30)
External strategic management	Not available	Developed countries	Marketing	Sheldon (1994:534)
			Economic	Tezuka (1997:83)
			Ineffective marketing	English *et al* (1996:17)

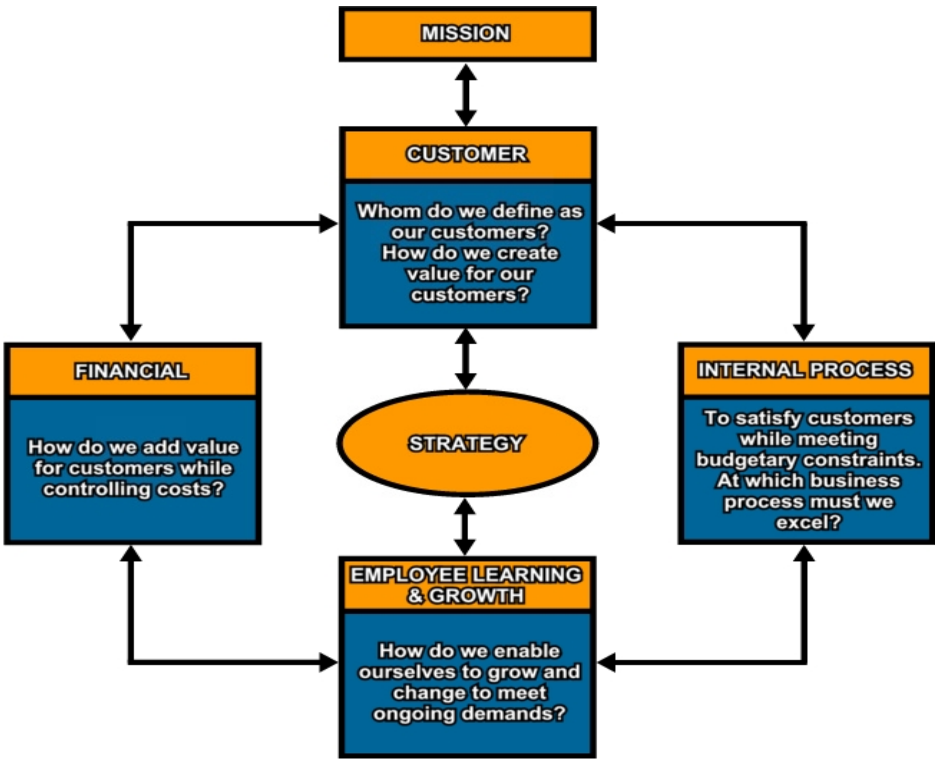
Failure category	Percentage failure (%)	Developed / developing countries	Failure description	Source
Poor management	70 %	Developed countries	Not recognising what they do not do well and not seeking help, followed by insufficient business experience and poor delegation	Monk (2000:12) Perry (2002:417) Beaver & Jennings (2005:9) Khan (2006:2) Burke (2006:91)
Weaknesses in marketing	82 %	Developed countries	Inadequate sales distribution and advertising	Wu & Young (2002:8) Song *et al* (2008:7)
Cash flow	34 %	Developing countries	Negative cash flow	Tushabomwe-Kazooba (2006:30)
Record keeping	33 %	Developing countries	Poor record keeping	Tushabomwe-Kazooba (2006:30)
Management	26 %	Developed countries	Poor management Ineffective financial controls	English *et al* (1996:17) Collin & Jarvis (2002:100) Pratten (2004:248)
		Developing countries	Ineffective financial controls	Tushabomwe-Kazooba (2006:30)
Corporate governance	Not available	Developed countries	Weak corporate governance	Mardjono (2005:272)
Cash burn	48 %	Developed countries	Inadequate cash Using cash too fast	Stokes & Blackburn (2002:21) Mudambi & Treichel (2005:543, 552)
Turnaround	Not available	Developed countries	Failure to turn venture around until it is too late	Lorke, Bedeian & Palmer (2004:65) Sheppard & Chowdhury (2005:239) Rasheed (2005:239) Salazar (2006:1)
Personal reasons and cash flow	42 %	Developed countries	Personal reasons (ill-heath; family succession	Watson *et al* (1998:229)
Misunderstanding the changing external environment	Not available	Developed countries	Neglect or ignoring changing external environment until it is too late	Cannon & Edmondson (2005:26)

Failure category	Percentage failure (%)	Developed / developing countries	Failure description	Source
Top team weaknesses	Not available	Developed countries	Top team deterioration Shortage of good judgement and understanding at the very top	Hambrick & D'Aveni (1988:2) Hambrick & D'Aveni (1992:1445) Posner (1993:1) Barker III (2006:9)
Organisational inertia	Not available	Developed countries	Resistance to environmental change due to lack of innovation when organisations age	Van Witteloostuijn (1998:501)
Business culture	Not available	Developed countries	Lack of knowledge about business partners	Elenkov & Fileva (2006:140)
Performance threshold	Not available	Developed countries	Performance below economic and performance threshold	Gimeno-Gascon *et al* (1997:751)
Attribution error	Not available	Developed countries	Venture owners blame others for their failures	Zacharakis *et al* (1999:1) Riquelme & Watson (2002:400) Rogoff *et al* (2004:365)
Goal dissonance	Not available	Developed countries	Entrepreneur-organisation goal dissonance	Seshadri (2007:55)
Hubris error	Not available	Developed countries	Overconfident entrepreneur	Hayward *et al* (2006:160)
Cesspool syndrome	Not available	Developed countries	Losing good employees due to incorrect downsizing	Bedeian & Armenakis (1998:58)
Partnership and proprietorship	Not available	Developed countries	Weaker partnerships	Watson (2003:264)
Undercapitalisation	Not available	Developed countries	Insufficient start-up capital	English *et al* (1996:17)

Source: Own compilation based on literature review.

Table 3.5 highlights that the majority of causes for small business failure emanate from management-related causes. The table gives a breakdown of the administrative or management causes as percentages of overall causes of small business failure.

The model in Figure 3.2 indicates an example of the four business administrative/management principles that need to be adhered to by small businesses including South African SMMEs. The model is used here as a normative tool to guide business owners to success. It gives an idea about some of the conditions that business owners need to address in order to achieve success.



Source: Kaplan & Norton (2000:65)

Figure 3.2: The balanced scorecard model

Figure 3.2, therefore, demonstrates that running a small business is a balancing act between internal and external factors (Timmons & Spinelli 2003:261, 2007:91, 2009:561). These assertions make Figure 3.2 even more important in explaining failure in small businesses. Specifically, the owners of small businesses need to strike a balance between the four factors: internal processes, finance, customers, and innovation or development.

Any imbalances, according to Kaplan & Norton (2000:65), predispose small businesses to failure. As confirmation of Kaplan & Norton's position, Table 3.5 provides evidence on the areas of poor performance that lead to failure in small business and their percentages. For example, according to Burt, Dawson & Sparks (2003:358) underperformance equals failure.

3.3.2 Administration-related causes of failure

Table 3.5 represents administrative causes of failure in developing countries.

Table 3.5: Administration-related causes of small business failure in developing countries

Failure category	Percentage failure (%)	Source
Financial factors	37 %	Maasdorp (2002:733)
Management experience	11 %	Maasdorp (2002:733) van Scheers & Radipere (2007:87)
Limited experience	7 % 96 % 70 %	van Aardt *et al* (2000:250) Okpara & Wynn (2007:27) van Scheers & Radipere (2007:87)
No experience	8 %	Al-Shaikh (1998:81)
Lack of financing	16 %	Al-Shaikh (1998:81)
Poor recordkeeping/accounting	Major	Okpara & Wynn (2007:27)
Lack basic business skills	Major	Okpara & Wynn (2007:27)
Finance	Major	Okpara & Wynn (2007:27)
Personnel unskilled	Major	Arinaitwe (2006:177)
Negative cash flow	34 %	Tushabomwe-Kazooba (2006:30)
Management problems	26 %	Tushabomwe-Kazooba (2006:30)
Lack of planning	17 %	Tushabomwe-Kazooba (2006:30)
Trouble among partners	14 %	Tushabomwe-Kazooba (2006:30)
Domestic and family situations	32 %	Tushabomwe-Kazooba (2006:30)

Source: Own compilation based on literature review.

Table 3.5 indicates that, when administrative causes of business failure in developing countries (including South Africa) are considered for their contribution to small businesses failure, a large portion of the blame is attributed to:

- Owner inexperience
- Financial factors
- Inadequate basic business skills
- Negative cash flow.

Table 3.6 illustrates the causes of failure emanating from operational issues in developing countries.

Table 3.6: Operational causes of small business failure in developing countries

Failure category	Percentage failure (%)	Source
Lack of action	3	Maasdorp (2002:733)
Poor management	14	Al-Shaikh (1998:81) van Scheers & Radipere (2007:87)
Marketing	Major	Okpara & Wynn (2007:26)
Inventory	Major	Okpara & Wynn (2007:26)
Production	Major	Okpara & Wynn (2007:26)
Operations	Major	Okpara & Wynn (2007:26)
Delays in processing applications	31	Tushabomwe-Kazooba (2006:30)

Source: Own compilation based on literature review.

Table 3.6 indicates that the major areas of the operations contributing to small business failure are:

- Marketing issues (that is, sales demand forecasting; customer service)
- Inventory issues (that is, stock control or stock taking)
- Production issues (that is, quality management)

- Overall operation issues (that is, cost control; budgeting; planning).

The above possible causes of small business failure are largely under the control of the owner of the business, making them strategic in nature. Strategic causes of failure are discussed in the next section.

3.3.3 Strategic causes of failure

According to Okpara & Wynn (2007:25), the strategic causes of failure involve the ability of the owners of small businesses to match their products or service with the demands of the external environment. The areas covered under their strategic causes of small business failure are: financial analysis, uncontrolled growth, wrong pricing and planning. Rates of strategic causes of failure in developing countries are presented in Table 3.7.

Table 3.7: Strategic causes of small business failure in developing countries

Failure category	Percentage failure (%)	Source
Neglect	3 %	van Aardt *et al* (2000:250)
No response	6 %	Al-shaikh (1998:81)
Poor planning	21 %	Al-shaikh (1998:81)
Financial analysis	Major	Okpara & Wynn (2007:26)
Uncontrolled growth	Major	Nieman *et al* (2003:278)
Wrong pricing	35 %	Tushabomwe-Kazooba (2006:30)

Source: Own compilation based on the literature review.

From Table 3.7 the following strategic issues contribute disproportionately to small business failure in South Africa:

- Financial analysis (that is, reading and interpreting financial statements);

- Uncontrolled growth (that is, overtrading issues and lack of adequate refinancing capital);
- Wrong pricing (that is, setting too low or too high prices for particular product ranges); and
- Poor planning (that is, inability to anticipate technological and competitive forces in the business environment).

3.3.4 Organisational causes of failure

As noted in Section 3.2.1, the running of a small business, then, is a balancing act (Timmons & Spinelli 2003:261; 2009:561) between internal strategy and external environmental issues. The organisational causes of failure in developed countries are presented in Table 3.8.

Table 3.8: Organisational causes of small business failure in developed countries

Failure category	Percentage failure (%)	Failure description	Source
Systems failure	80 %	Lack of franchise protocol No systems	Gerber (2001:91) Roberts & Bea (2001:180)
Size of business	80 %	Liability of smallness (lack of innovativeness) Absolute plant size, difference between plant size and industry mean plant size	Southard & Swenseth (2003:578) Laitinen (1992:324) Hall (1994:737) Thornhill & Amit (2003a:497) Pratten (2004:247) Strotmann (2007:84) Audretsch (2003:6) Buehler, Kaiser & Jaeger (2005:5) Winker (1999:181) Tveterås & Eide (2000:77) Rutherford, McMullen & Oswald (2001:64) Disney *et al* (2003:91) Medway & Byrom (2006:527) Doyle, Ge & McVay (2007:201)

Failure category	Percentage failure (%)	Failure description	Source
Age of business	80 %	Failure due to young age	Nucci (1999:31) Perry (2002:417) Medway & Byrom (2006:527)
		Liability of newness	Buehler *et al* (2005:7) Agarwal & Gort (1996:492) Thornhill & Amit (2003a:497) Pratten (2004:247) Wood (2006:441) Strotmann (2007:84)
		Liability of adolescence	Jensen, Webster & Buddelmeyer (2006:19) Disney *et al* (2003:91) Strotmann (2007:84)
		Liability of obsolescence	Strotmann (2007:84) Doyle *et al* (2007:201)
Minimum efficient scale		The larger the industry's minimum efficient scale, the greater the risk for venture failure	Strotmann (2007:84)

Failure category	Percentage failure (%)	Failure description	Source
Entrance barrier		The lower the entrance barrier, the higher the failure rate (for example, the retail industry) Absolute barriers terminate a venture High entrance barriers result in high infant mortality	Geroski (1995:427) Agarwal & Gort (1996:489) English *et al* (1996:18) Robertson *et al* (2003:308) Kouriloff (2000:62) Eriksson & Kuhn (2006:1022) Mata & Portugal (2002:340)
Location		Poor location	Stearns *et al* (1995:23) English *et al* (1996:17) Fotopoulos & Louri (2000:319)
Non-franchise businesses	77 % to 88 % within 5 to 10 years	Conventional businesses have higher failure rates than franchised businesses	English *et al* (1996:18)
Density		Mortality rate increases when density reaches carrying capacity and competition in a population becomes fierce	Petersen & Koput (1991:399)
Source: Own compilation based on literature review.			

Table 3.8 indicates that when considering the causes of failure in small businesses in the developed world, organisational systems, business size, business age, business locality and small business density (or overcrowding) are the greatest contributors to failure.

3.3.5 Environment-related causes of failure

If acquired resources are not properly maintained or deployed, a symbiotic relationship between the environment and the organisation can turn into a negative outcome, culminating in small business failure emanating from environmental influences. These environmentally derived influences are presented first for developed countries (Table 3.9) followed by the situation in developing countries including South Africa (Table 3.10).

Table 3.9: Environmentally related causes of small business failure in developed countries

Failure category	Percentage failure (%)	Failure description	Source
Economic factors	75 %	Lack of profits	Holland (1998:2)
	65 %	Business not earning money	Watson *et al* (1998:229)
	30 % to 50 %	Interest rate	Everett & Watson (1998:371)
Strategic perseverance		Lack turnaround	Lorke *et al* (2004:63)
Marketing	64 %	Ignoring competition and inadequate business promotion	Khan (2006:2)
Poor trading conditions			Watson *et al* (1998:229)
Environmental complexity heterogeneous task uncertainty)		Complexity, for example, due to more product lines	Anderson & Tushman (2001:675)

Failure category	Percentage failure (%)	Failure description	Source
Environmental uncertainty (unpredictability)/ dynamism/ turbulence (demand uncertainty, technology uncertainty)		Turbulent environments catalyse failure among firms with high customer dependence	Venkataraman *et al* (1990:277)
		Failure due to a lack of balancing between capital structure and the competitive environment	Dean & Meyer (1996:107); Simerly & Li (2001:38)
		Failure due to changing environment. The higher the uncertainty, the higher the exit rate	Richardson *et al* (1994:9) Anderson & Tushman (2001:675)
		Environmental turbulence causing internal instability (for example, government legislation supporting birth and development of ventures, large companies, and society)	Meyer (1982:515) Slevin & Covin (1997:55) Venkataraman & van de Ven (1998:231)
Low environmental munificence (resource abundance or scarcity)		Supportive environment	Castrogiovanni (1991:542) Maggioni, Sorrentino & Williams (1999:287) Anderson & Tushman (2001:675) Kodithuwakku & Rosa (2002:461).
Founding conditions		Organisations founded in adverse environments experience higher mortality rate	Swaminathan (1996:1350)

Source: Own compilation based on literature review.

In developing countries (including South Africa), external causes of failure involve a lack of vigilance by the owner-manager over the external environmental factors or changes (Mambula 2002:58; Kiggundu 2002:239; van Eeden *et al* 2003:45; Maas & Herrington 2006:35; Tushabomwe-Kazooba 2006:30; Okpara & Wynn 2007:26; van Scheers & Radipere 2007:86). The external causes of failure elements are discussed under infrastructure issues, economic issues, corruption, disasters, new technology, and low demand or sales. In this model, small business failure stems from the entrepreneur's inability to overcome internal weaknesses when faced with rapid environmental changes or turbulences that cause uncertainties. The external uncertainties can emerge from competitive intensities, high interest rates, high government taxes, load shedding as well as high petrol prices. Due to smallness and newness small business ventures may be perceived as not legitimate, resulting in failure to access funds from financial institutions. Finally, acute cash shortage may create a state of no performance. Stressing the aforegoing, Nieman *et al* (2003:111) note:

> Resources are the fuel needed to start and operate a business, just as petrol or diesel is the fuel for vehicles. If a business has insufficient resources or an inappropriate mix of resources, it cannot start or will operate just as poorly as the car with not enough or the wrong kind of fuel.

Table 3.10 summarises small business failures from the external environment that arise in developing countries.

Table 3.10: Environmentally related causes of small business failure in developing countries

Failure category	Percentage failure (%)	Source
Economic	45.0 % 47.7 %	Maasdorp (2002:733) van Scheers & Radipere (2007:87) van Aardt *et al* (2000:250)
Disaster	1.6 %	Maasdorp (2002:733)
Fraud	1.4 %	Maasdorp (2002:733)
Other	3.7 % 24.5 %	van Aardt *et al* (2000:250) Al-shaikh (1998:81)
Competition from large firms	12.0 %	Al-shaikh (1998:81)
Infrastructure issues	Major	Okpara & Wynn (2007:26)
Corruption	Major	Okpara & Wynn (2007:26)
Technology	Mentioned	Okpara & Wynn (2007:26)
Low demand	Mentioned	Okpara & Wynn (2007:26)
High interest rates/charges	36.0 %	Tushabomwe-Kazooba (2006:30)
High inflation	Mentioned	Tushabomwe-Kazooba (2006:30)
Fluctuating exchange rates	Mentioned	Tushabomwe-Kazooba (2006:30)
High taxation	53.0 %	Tushabomwe-Kazooba (2006:30)
Load shedding	50.0 %	Tushabomwe-Kazooba (2006:30)

Source: Own compilation based on literature review.

3.3.6 Increasing awareness of small businesses as a source of investment

Research on business failures also needs to be grounded on the increasing awareness of the general South African public about the important role played by small business in the nation's economy and political stability. This positive mindset is an asset that cannot be ignored in any research on the failure of small businesses. With each passing day, potential small-scale entrepreneurs in South Africa see SMMEs as the avenue for them. The unemployed eye the SMME sector as the most expedient route for employment (Carter *et al* 1994:21; van Scheers & Radipere 2007:85). The relationship between the unemployment problem and the job creation potential of SMMEs places SMMEs in a unique position. Any mention of deaths of SMMEs should create concern among would-be entrepreneurs (van Scheers & Radipere 2007:85). This concern has already been noted in previous chapters.

Failure of small businesses is generally treated with some cognitive dissonance as they are anticipated to succeed around the world as well as in South Africa. Small businesses are regarded as a panacea for all ills. Table 3.11 confirms these widely held positions.

As discussed in Chapter 1, since 1994, the government of South Africa has attempted to improve its economic landscape by countering the idea that corporate South Africa is the key engine for growth via the promulgation of the National Small Business Act, Act 102 of 1996 of the Republic of South Africa (RSA) (RSA 1996). Simultaneously, in a bid to improve its efficiencies and embark on low-cost leadership through automation, corporate South Africa has been shedding employment in huge numbers. Consequently, the South African government is faced with numerous challenges from escalating unemployment (measured in 2007 at 25.5 % (strict definition) and 38.3 % (expanded definition); and high interest rates; high inflation figures; low foreign direct investment earnings; fluctuating Rand to US Dollar exchange rates, increasing petrol prices, and load shedding (Roodt 2008:211). Illustrating further the South African plight, the South African Global Entrepreneurial Monitoring (Foxcroft *et al* 2002:13) reports that there are only six entrepreneurs for every 100 adults that are surveyed.

Table 3.11: Public awareness of the usefulness of the small business sector in South Africa

Increased public awareness	Source
The SMME sector is globally regarded as the driving force in economic growth and job creation	Baron (1998:1) van Eeden *et al* (2003:13)
Worldwide, entrepreneurship is seen as one of the most important solutions to unemployment, poverty and low economic growth. The creation of new ventures and the growth of existing businesses are vital contributing factors to any economy	Botha *et al* (2007:163)
South Africa is a country of growing business opportunity in which the spirit of free enterprise is evident. The small business sector is an essential factor in promoting and achieving economic growth and development and the widespread creation of wealth and employment. Small business undertakings create about 80 % of all new job opportunities and more than 70 % of all South Africans are employed in the small business sector.	van Scheers & Radipere (2007:85)
Source: Own compilation based on the literature review.	

As compared with the rest of the 35 developing countries sampled, South Africa's formal sector entrepreneurial activities rank lowest (von Broembsen *et al* 2005:21) (Table 3.12) which is a worrying scenario for the country's economy and political stability.

Table 3.12: Ratio and ranking by country of established business owners to early-stage entrepreneurs

Country	Established business owners : early-stage entrepreneurs	
	Ratio	**Global rank**
Brazil	0.89	14
Thailand	0.68	24
Jamaica	0.56	28
Argentina	0.52	29
Venezuela	0.34	32
Chile	0.34	33
Mexico	0.32	34
South Africa	0.25	35
Average	**0.48**	

Source: Adapted from von Broembsen *et al* (2005:21).

The following information was obtained from the survey:

- Only five out of every 100 adults owned or managed a business younger than 3.5 years (an improvement on the position reported by Foxcroft *et al* 2002:13);
- Only 1.3 out of every 100 adults had a business older than 3.5 years;
- South Africa's start-ups were among the least likely to survive;
- Small start-ups employed few, if any, staff;
- Businesses did not differentiate themselves from their competitors through their products, consumer orientation or use of technology;
- Entrepreneurial education and skills were lacking;
- The number of entrepreneurs remained steady and was not growing;
- Complicated government regulation and taxation existed; and
- Only three out of every 100 adults were opportunistic entrepreneurs, while three out of every 100 were necessity entrepreneurs.

3.3.7 Roles of government organisations in supporting small business

The South African government has recognised the need to assist SMMEs and has invested large amounts of resources to support the growth of the small businesses (RSA, 1996). The government has instituted organisations such as Khula, Ntsika and Seda to assist them to implement their SMME policy. Although government interventions have not had the maximum intended goals, the general South African public is aware that the government has genuine intentions to support SMMEs as a key engine of economic growth. This is another reason research into SMME failures needs to take account of the enormous resources that the government is committing to the growth of SMMEs (Ladzani & van Vuuren 2002:154) (Table 1.5).

3.4 CATALYTIC ACTIVITY OF SYSTEMS AS CONSTRAINING AND ENABLING STUCTURES

From the critical realist perspective, stakeholders can be conceptualised as sets of catalytic activity systems/mechanisms that can either support or threaten (catalyse) the existence, and finally accelerate the closing down, of businesses.

These systems thus have their own causal powers to affect small businesses in specific ways (Harre & Madden 1975:10; Lukacks 1978:34; Fleetwood & Ackroyd 2004:13). Their impacts on the businesses are, however, not deterministic but contingent on the interpretations given by the owners of the businesses.

The basic difference between the business success and failure factors then is that they represent opposing forces, dialectics of power or power struggles as mentioned previously. The business owner who is confronted with failure factors will naturally develop anxieties and, depending upon his make-up and coping skills, may be overwhelmed by the possibilities of failure and give up. It is in this connection that the role of meanings and perceptions about the situations that people face is an important element in this research. There is the need for one to understand and disclose the meanings which the people concerned attach to situations of uncertainty and stress and how they ultimately cope (Hill *et al* 2002:363; Krohne *et al* 2002:220; Shook *et al* 2003:392; Bouchard, Guillemette &

Landry-Léger 2004:222; Singh, Corner & Pavlovich 2007:333; Shepherd *et al* 2009a:590). From such understanding solutions can be found for the problems concerned (Yirenkyi-Boateng 1997:153; Danermark *et al* 2006:200).

From the above discussions, the critical realist method stands out as an approach which can justifiably be used as the conceptual framework for this research. The various discussions have indicated that the research problem translates basically into one of disclosing how the owners of the failed businesses have interpreted the business management principles and problems to create particular outcomes. The conceptual framework, as modelled in Figure 3.3, indicates the key processes involved to demonstrate the relations between the mechanisms and structures in the real level (the business management principles in their social context) and how they are interpreted by the agents (the owners of the businesses) located in the actual levels to produce the outcomes (business failures) at the empirical level. This type of conceptualisation can be better understood in terms of the following statement:

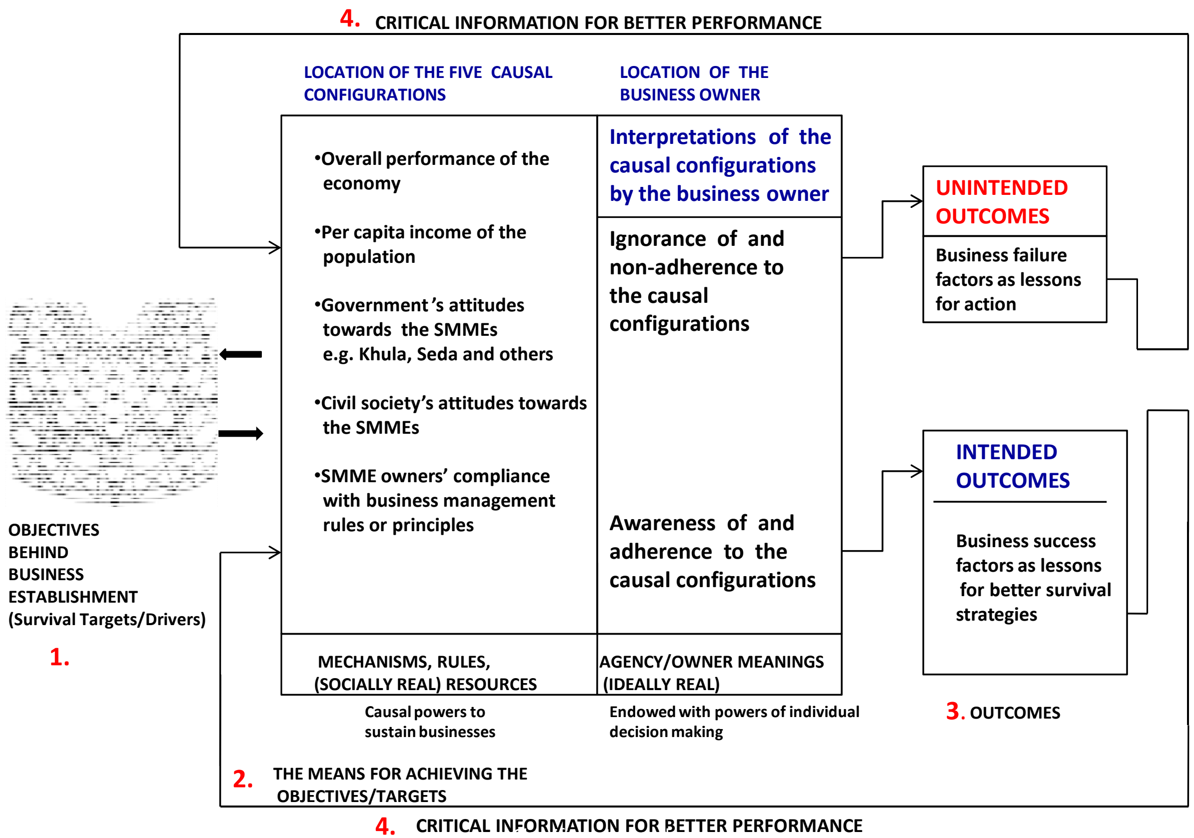
> Organisations are structures that are reproduced by the participants in them, but they have emergent properties that bind participants into a particular pattern of relationship (Fleetwood & Ackroyd 2004:148).

The model (Figure 3.3) indicates that the owners of businesses establish their ventures in order to succeed (Wickham 2006:193). According to him, "entrepreneurs aim to be successful". They set up their objectives with the aim of succeeding. Then comes the means to be employed to achieve the set goals. Figure 3.3 indicates that the means refer to some basic business management principles which need to be followed (Beaver & Jennings 2005:9; Nieman 2006b:19). It is such normative principles that were touched upon in Figure 3.2. These principles appear in Figure 3.3 as several related variables or business success elements with causal powers to ensure success (Thorne 2000:2). Next to the business management principles in Figure 3.3 is the location of agency in which the business owner interprets the principles to give rise to either success or failure. The outcomes, in turn, become the conditions for future events. This link between the outcomes and future processes is what is termed the causal relations between output and input or the dialectic relations in realist research (Wickham 2006:193).

Another issue which emerged from the above is that the mechanisms behind the business operations are constituted by particular materials responsible for their manifest properties as objects with the tendencies or potentials to ensure business success (Fleetwood & Ackroyd 2004:56;. Beaver & Jennings 2005:10). This concept is noteworthy and has been incorporated into this research as an element of critical realist research which can be located at the real level in the critical realist stratification model (Figure 3.3). The task of the business owner then is to establish these critical business success variables and the necessary conditions for their existence. This highlights one key feature of realism – its imputation of necessity to objects.

The business key success factors could thus, from this perspective, be described as having certain causal powers to ensure survival and sustainability by virtue of their inherent qualities (Mouton 1994:79; Macleod 1995:22; Fleetwood & Ackroyd 2004:12; Danermark *et al* 2006:54). In the critical realist method, causation is treated as based on causal powers or liabilities (susceptibilities) possessed by objects by virtue of the connections between the elements involved. Causal powers are seen as lying in the entire web of relations between the success variables or business management principles. A particular form of causal power will thus be possessed by the sets of variables concerned by virtue of their internal make-up. The business success causal powers are thus related directly to the nature of the objects or structures of which they are properties. Figure 3.3 is also linked conceptually to Figure 2.5 which indicated how failure to take account of certain business principles related to resources and opportunities, metaphors and other multiple feedback mechanisms could cause businesses to close down.

Figure 3.3 depicts the conceptual framework for the research. It summarises much of what was discussed in Chapter 2 and also what is going to be discussed in Chapters 4 and 5. The relations indicated in the model can be described from a number of perspectives.



Source: Own compilation based on Fleetwood & Ackroyd (2004:148), Beaver & Jennings (2005:9), Mardjono (2005:272) and Nieman (2006b:19).

Figure 3.3: Proposed small business management conceptual framework

Figure 3.3 is based on the three-tiered ontology of the critical realist research approach. The model relates three steps to the three levels in the real, actual and empirical, together with a fourth level – the feedback loop mechanism. The following explanations are provided for Figure 3.3:

1 Objectives behind business establishment

A study in the business management principles (structure) which are necessary for sustaining the small businesses. These are followed by the key success factors necessary for success, only when adhered to, but failure can ensue if the key success factors are not strictly adhered to (Beaver & Jennings 2005:9). By adherence or non-adherence, the outcomes can indicate who fails and who succeeds. Here all owners of businesses start a business with the intention to succeed by following business management principles.

2 The means for achieving the objectives or targets

Flowing from the first step is the study in structure-agency (business-to-owner fit) relations, the way individual owners of businesses (agency) interpret processes occurring within the real level. Decision making by the owners of businesses is involved at this step. The owners of businesses can decide to succeed or inadvertently to fail. This step distinguishes those who fail from those who succeed. The decision-making mechanism involves how different owners use their value judgements or perceptions to influence the small business' end results.

3 Outcomes

Directly from the second step follows the causal link between perceptions and failure, the meanings owners of businesses put on their business realities, the dialectic relations between outcomes and inputs for decision making. Here, the outcomes can be intended (success) or unintended (failure) as, in the beginning, all the owners of businesses are aiming for success.

4 Critical information for better performance

Lastly, there follows a critical feedback loop, either from intended consequences or unintended outcomes (failure) which improves, modifies, revises or revolutionises the current reality in the key success factors. The feedback loop mechanism becomes a study in the dialectics of power between small business failure and the business owner's belief systems (Neely 2002:120; Netswera 2001:31).

3.5 CONCLUSION

This chapter has highlighted some pertinent issues that need to be taken into account in relating the business failure causes to the meanings connected with the practices of the owners of the failed businesses and other stakeholders. It has demonstrated that one cannot analyse the existence of business failure problems outside of the broader environment of business management principles.

This chapter has thus supplied the conceptual framework needed for resolving the research objectives. The next chapter indicates how the issues addressed in this chapter were implemented in terms of data collection and analysis.