ENHANCING SUSTAINABILITY
OF SMALL BLACK BUSINESSES
IN THE
BUFFALO CITY MUNICIPALITY

BY

MZIKHAYA WELCOME DIDI

Submitted in partial fulfillment of the requirements for the degree of Masters in Business Administration at the Nelson Mandela Metropolitan University.

PROMOTER: Dr. Alan Weimann

January 2013
DECLARATION

I, Mzikhaya Welcome Didi, hereby declare that:

- All sources used or referred to have been acknowledged and recognised.

- The work has not previously been submitted in substance for any degree at any other recognised educational institution.

- The study is the result of my own independent work/investigation, except where otherwise stated.

SIGNED: ..............................................................................................................................

DATE: ....................................................................................................................................
ACKNOWLEDGEMENTS

Firstly, I would like to express a sincere gratitude to my supervisor, Dr Alan Weimann, for his support, patience, guidance and encouragement which has made the research possible.

Secondly, to the following:

- To Ms Mona Lisa Mbebe, a friend for the encouragement and inspiration;

- To Ms Ayanda Qomfo, my sister for her assistance;

- To my family for their support;

- And to my friends for their encouragement and understanding.
Governments all over the world cannot downplay the economic role of small businesses. It is accepted world-wide that this sector of the economy alleviates unemployment, creates wealth, encourages innovation and the entrepreneurial spirit.

Various factors, both internal and external, make it difficult for small businesses to reach their true potential or realise their objectives. Internal factors would refer to areas such as lack of financial acumen, operational management expertise and marketing skills. External factors such as the business environment, competition, legislation, commercial institutions, amongst others, also contribute to the downfall of small businesses. The support that small businesses require is vital at the start-up phase of the business as it lays a solid base from which to proceed.

The research emanates from a high failure of Small Black Businesses in the country, with the focus being on the Buffalo City Municipality (BCM). This section of the business community has a vital role to play in the well-being of this region. According to the South African Cities Network, BCM has a high rate of unemployment. The success of Small Black businesses in the area could offer many opportunities for productive people who would otherwise be condemned to unemployment.

The literature review revealed a plethora of factors that hinder the success and development of small businesses. It has therefore become important to research these factors and come up with recommendations that are going to assist small businesses and society at large. There is an outcry against insufficient government support in assisting small businesses.

Due to the research being qualitative in nature, date collection was by means of a structured questionnaire. The questionnaire was designed in such a manner as to provide responses that would assist in addressing the challenges faced by small businesses.
Data analysis entailed its transcription in order to allow the researcher to make notes. The next step was to do a preliminary data analysis in order to highlight emerging issues, identify relevant data and to give direction for seeking more data. A summary all the issues was subsequently prepared for interpretation.

The study revealed that the problems experienced by small businesses are both internally and externally influenced. Small businesses have it within themselves to manage and control the internally influenced problems, contrary to the externally influenced factors. The study recommends additional governmental support in terms of providing skills development, financial support, removal of red tape, eradication of corruption and so on. Commercial financial institutions also have a vital role to play by removing some of the requirements that make it difficult for small businesses to access funding.
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CHAPTER ONE

1. INTRODUCTION

1.1 BACKGROUND AND MAIN PROBLEM

Governments all over the globe appreciate and acknowledge the vital role played by small business in their economies. Small businesses make a meaningful contribution to society. Cohen (2006:4) states that many people speak about big business and corporate in the creation of jobs, whereas most new jobs come from small businesses and not giant corporations. Small businesses are making a meaningful contribution to the alleviation of unemployment and not only present an opportunity for one to be wealthy but assist in building economies of countries (Cohen, 2006:5).

According to Bamford and Bruton (2006:3), “The World Bank estimates that one of the strongest factors in the growth in any nation’s GNP is the presence of small and medium enterprises.”

Birch in Barrow (2006:1) states that it was fledging enterprises, employing fewer than twenty employees that were responsible for over two thirds of the increase in employment in the United States (US). It is further stated that these statistics are not only true for the US, but were found to be true for much of the developed world. It means then that Governments all over the world should put in place programmes to assist small businesses.

The growth and development of small businesses should be in the forefront of Government economic planning all over the world. The spin-offs in doing so are demonstrated by the authors mentioned above. The trillions of dollars generated by the small business sector in the US has led to it being one of the greatest economic powers in the world, according to Megginson, Byrd and Megginson (2006:6).

The South African (SA) government is not immune to the trends identified in the studies mentioned above. It is no different to recognise its important role in the growth, encouragement and development of small businesses.
Nieman (2006:12) states that these enterprises are responsible for many innovations and job creation. He further states that the SA Government is involved in efforts to bolster and support SMME’s in numerous ways as it tends to also give them more support and attention than big business. Bamford and Bruton (2006:6) maintain that governments around the world are making an effort to develop small business, with some activities being small but making a huge impact whilst preparing a full range of programmes.

The reasons why the SA Government needs the small business sector to grow are well espoused above. This sector as such has been identified by the Government as a priority in creating jobs in order to solve the high unemployment rate in the country (Nieman and Pretorius, 2004:2). They further state that the Government sees the promotion of entrepreneurship as a way of addressing the generic development of goals listed below:

- Job creation
- Poverty alleviation
- Equity and participation
- Wealth creation
- Social stability

A report of the South African Cities Network (2009) indicates Buffalo City Municipality as one of the worst performing municipalities economically, with a high unemployment rate.

The Municipality faces a number of challenges. These include the Council dragging its feet in taking decisions, key strategic positions headed by personnel in acting capacities, political in-fighting and seemingly understaffed departments (Van Onselen 2012). These are just some of the issues that were to be covered in this research.

The objective was to bring to the fore the challenges that are impeding or slowing the establishment and growth of small black businesses. Emphasis was on coming up with strategies that would assist small black businesses in the Municipality.
1.2 THE PROBLEM STATEMENT

In SA we live in a country where retrenchments are the order of the day. One of the challenges facing the country is unemployment.

Though the Government states that the country’s economy is growing, the problem is that the growth is jobless. This is exacerbated by the fact that some of the sectors of our economy have been shedding jobs whilst students enter the job market, according to the Economist (2010).

It is accepted worldwide that the development and growth of small, micro and medium enterprises can play an important role in turning the situation around according to Cohen (2006:05). Though the focus of this research was on Small Black businesses, it does not mean that White businesses have no role to play. The reason for focusing on the former was due to their “vulnerability to failure as they lack the ability to manage their finances”, according to the Business Day, (19 November 2003). The management of finances is but one aspect leading to the high failure rate. Small Black businesses need to work hand-in-hand with their White counterparts in making a meaningful impact in turning the situation in the country around. Small Black businesses find it difficult to withstand the pressure of the modern-day business world. This is the problem the whole country is encountering, but the focus for purposes of this research will be in the Buffalo City Municipality (BCM) area.

The opinions mentioned above thus directed the research to the main problem of this study:

**What challenges exist and what strategies can be put in place for enhancing the sustainability of small black businesses in the Buffalo City Municipality?**

In order to develop a research strategy and solve the main problem, the sub problems discussed below were identified.

Small businesses face challenges in accessing and obtaining finance, more importantly at the start-up phase. There is a gap regarding the skills required to successfully manage and operate a business. It is difficult for small business owners to recognise the signs of failure and to turn the situation around.

In its endeavour to assist small businesses, government has embarked on initiatives to alleviate the challenges, but these do not appear to be sufficient. Some of the regulatory requirements set up by the Legislators in fact appear to be an impediment for small businesses as espoused by Eldis (2013).
1.3 RESEARCH OBJECTIVES

The objective of the study was to establish the challenges faced by small black businesses, and what strategies can be put in place for the sustainability of these businesses.

As mentioned earlier, this sector of the economy plays a pivotal role in bringing down unemployment.

In order for the study to be a success, it needed to put emphasis on:

- Accuracy and reliability of data
- Addressing of ethical issues with the participants, including acquiring informed consent, ensuring anonymity, etc.
- Reaching out to all stakeholders, e.g., BCM, banking institutions, businesses, etc.
- Easy access in gathering information.

1.3.1 Research Design

The purpose of the research was to get to the underlying variables leading to the challenges faced in their sustainability by Small Black businesses in the BCM area.

These inner workings needed to be addressed with emphasis towards a working solution. The research methodology lay within a qualitative paradigm.

This section relates to the approach and methodology selected, data collection, interpretation techniques and tools, as well as motivation for the chosen methodology.

1.3.1.1 The Qualitative Research Method

This was appropriate for the research as the aim was to seek an in-depth knowledge of the problem. It focused on finding a solution to the problem in a local setting.

This method was chosen for four reasons.

Firstly, the bulk of primary data would not be of a numerical nature. Numerical data for this research was minimal.

Secondly, the research pertained to discovering the meanings as seen by participants who were going to be involved in the research.

Thirdly, some activities were going to be studied in their natural settings.
Lastly, the focus was on taking an interpretive, naturalistic approach to the subject matter.

(a) The Research Technique: Survey

According to Cooper and Schindler (2003:262), when one considers the scope of qualitative research, several approaches are adaptable for exploratory investigations of management questions. For the purposes of this research the survey method was used.

The method was appropriate for this research as a questionnaire was developed in order to get the participants’ ideas about important issues. The design of the questionnaire is such that the responses provide the intended information.

(b) Data Collection Method

The aim was to choose a data collection method that would yield extensive probing. For the purposes of this research it was important to choose a method which will be effective in monitoring impact. According to QISS (2013:01), that would be a questionnaire.

(c) Data Gathering Approach

The approach adopted was that of a structured questionnaire.

A set of pre-arranged questions was formulated and recorded in writing.

A neutral approach with the participants was adopted. Participants were not influenced to respond in a particular manner or direction.

Explanations to questions were done where appropriate in order to get the participants to respond more fully and in a relevant manner. Responses were recorded in writing.

(d) Data Storage

Data collected from the Respondents was stored in a database according to categories in order to be easily accessible for retrieval, interpretation and sorting. Ideas and thoughts were recorded throughout the study and subsequently analysed.
1.4 SIGNIFICANCE OF THE STUDY

The Small Business sector is vital to the growth of the SA economy. The growth in this sector contributes to a large extent to the alleviation of poverty and unemployment. In a survey by Men’s Health Magazine (2008:1), in its poll of the best and the worst eight major cities across the country, East London (which is the heart of the BCM) was rated sixth due to its high rate of unemployment. Small Black businesses could play a vital role in alleviating this problem.

The development, encouragement and support of this sector of the economy would bring much needed relief.

The research sought to expose the challenges faced by this Sector of the economy, and attempted to come up with strategies to counter such challenges. The results acquired from the research will be made available to all relevant stakeholders, such as BCM, business associations, banking institutions and businesses.

Aspiring entrepreneurs in the area would be aware of the pitfalls of getting into business, and what strategies are available to avoid them. Businesses in existence would be made aware of the tools available to sustain or even grow their ventures. Those businesses that are in turmoil would be made aware of the strategies in place to turn the situation around. The Municipality and banking institutions would have information readily available for them in assisting in the development and growth of these entities.

1.5 DELIMITATIONS OF THE STUDY

This section constitutes definitions, limitations and the scope of the research. The limitations entail the geographical area, business sector, industry sector and age criteria.

1.5.1 Geographical Area

This was not a national study as it was conducted in the BCM area. East London being the main engine of this area, the bulk of the research was done in the city. Rural areas were not part of the study.

1.5.2 Business Sector

The National Small Business Act divides Small, Micro and Medium Enterprises (SMMEs) into different categories. They are survivalist, micro, very small, small and medium enterprises. For the purpose of this research the focus was on very small enterprises, which comprise of less than ten employees each.
Due to complexities and difficulties in dealing with the informal sector, this sector was not part of the study. The research was conducted only on legal entities.

1.5.3 Industry Sector

The manufacturing sector was not part of the study. The reason for the exclusion is due to the fact that there are not many Small Black businessmen in this sector. The focus of the study was on the services, wholesale and retail industries.

1.5.4 Age Criteria

The study was conducted on those businesses that were founded within the past ten years. Businessmen who had been non-operational for the previous two years and less were also be consulted. The reason for consulting those that had not been operating for the last two years was to get to the underlying causes that made them close down.

1.6 STRUCTURE OF THE DISSERTATION

The research report comprises the following chapters:

Chapter 1: Introduction, problem statement, objectives and definition of terms

Chapter 2: In-depth literature review, challenges and strategies for the sustainability of small black businesses. This chapter entails issues such as financing, management, small business failures, government regulations and support.

Chapter 3: This chapter covers the Research Methodology including research design.

Chapter 4: Results, questions, analysis and interpretation of the research findings

Chapter 5: Conclusions and Recommendations
1.7 SUMMARY

In this chapter the problem statement, objectives, research design and methodology and the outline of the subsequent chapters have been addressed.
CHAPTER TWO

CHALLENGES AND STRATEGIES FOR THE SUSTAINABILITY OF SMALL BUSINESSES

2.1 INTRODUCTION

In the previous chapter the problem statement, research objectives, significance and delimitations of the study were discussed.

Chapter Two will give an overview of the following:

- Entrepreneurship and the Small Business Sector
- Challenges facing small businesses
- Government and Private Sector Initiatives
- Regulatory Factors

Strategies that will assist in the sustainability and development of the small businesses are also discussed.

2.2 ENTREPRENEURSHIP AND THE SMALL BUSINESS SECTOR

In Chapter One the role, benefits, impact on society and importance of this sector of business was clearly defined. The unfortunate part is that this sector does not get the exposure it deserves, outlining its importance to society and the economy.

Barrow (2006:21) states that responsibilities that rest on the shoulder of this sector of the economy are different to those that face large corporations. They are different in the sense that the overall smooth running of the business is dependent on the small business owner, unlike in large corporations, where responsibilities are shared and delegated.
2.2.1 Entrepreneurship

Many definitions of an entrepreneur or entrepreneurship are in existence but there is a common aspect in them; i.e. risk taking and recognition of opportunities. Nieman (2006:4) describes an entrepreneur as an individual who establishes and manages a business for the principal purpose of profit and growth, and is distinguished by being innovative, recognising opportunities and growth. Lines, Marcouse and Martin (2000:88) concur with this description by stating that it’s an individual with a flair for business opportunities and risk taking. In evaluating their entrepreneurial potential, those thinking of starting businesses must first ascertain certain important aspects about themselves before entering the business world (Bamford and Bruton, 2006:24). It is further stated that they must possess risk tolerance and have prior experience. Megginson et al. (2006:9) also agree that an entrepreneurial venture is characterised principally by an innovative behaviour and will implement strategic management practices.

Megginson et al. (2006:19) list the characteristics of a successful entrepreneur as:

- Desire for independence: freedom to make own choices and decisions.
- Strong sense of initiative: ability to put plans into action.
- Motivated by personal and family considerations.
- Expectation of quick and concrete results: quick return on capital.
- Quick reaction: can react quickly to changes in the business.
- Dedication to the business: ensures nothing harms the business.

A new term has since emerged in South Africa since 1994. It refers to those groups, that were previously disadvantaged, that is Emerging Entrepreneurs, according to Nieman (2006:8). This group of people is given preference and support by the Government in order to develop and make them entrepreneurs. The Government has come up with mechanisms such as The Preferential Procurement Act 2001 as part of its effort to use public sector procurement to support these entrepreneurs (Nieman, 2006:8).
2.2.2 The Small Business Sector

No uniformly acceptable definition of a small business exists, according to Nieman (2006:4). The National Small Business Act 102 of 1996 (as amended) provides an official definition of the term in South Africa. All sectors of the economy are covered as well as the enterprise types. The Act consists of two parts, namely:

- Qualitative criteria: ownership structure
  - separate and distinct entity
  - not part of a group of companies
  - to include subsidiaries and branches
  - to be managed by owners
  - can be a natural person, sole proprietorship or a legal person

- Quantitative criteria: classifies entities into micro, very small, small and medium considering:
  - total of full-time paid employees
  - total annual turnover
  - total gross asset value (excluding fixed property)

The table below lists the different industry classification thresholds to determine the size or class, informed by the quantitative criteria.

Table 2.1

Small business as defined in the National Small Business Amendment Act

<table>
<thead>
<tr>
<th>Sector or subsectors in accordance with the Standard Industrial Classification</th>
<th>Size class</th>
<th>Total full-time equivalent of paid employees Less than</th>
<th>Total annual turnover Less than m = million</th>
<th>Total gross asset value (fixed property excluded) Less than m = million</th>
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<td>Community</td>
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2.2.2.1 Classification of Small Enterprises

According to Nieman (2006:8), the Integrated Small Business Development Strategy (ISBDS) classifies small enterprises into three, such as MICRO, SMALL and MEDIUM.

(a) Micro Enterprises

They are the smallest in the small business sector and are an entry to the business world. They range from self-employed with no employees to entrepreneurs with up to five employees. They are both in the formal and informal economies, and are often referred to as ‘Survivalist Enterprises’.

(b) Very Small Enterprises

These are entities with less than ten employees (except for certain sectors), but operate in the formal economy.

(c) Small Enterprises

These are entities that employ between eleven to fifty paid employees and have outgrown direct supervision by the entrepreneur.

For the purposes of this research, small businesses will include all of the above classifications.
2.3 CHALLENGES FACING SMALL BUSINESSES

Megginson et al. (2006:12) state that some of problems facing small businesses are special and mostly affect them rather than affecting large businesses. These problems can have dire consequences for the small business. The challenges according to Megginson et al. (2006:12) are listed, but not limited to those below:

- Recession/economic issues
- Retirement or transition
- Capital or financing issues
- Unexpected growth
- Succession
- Inadequate management
- Government red tape

There are a full range of challenges that relate to and affect all types of businesses, large and small. Wynarczyk et al, in Nieman (2006:12) state that small and large firms are different from each other, as it is argued that there are three aspects in which small and large firms are different, namely:

- Uncertainty: relating to pricing, diversity of objectives and the environment in which businesses operate
- Innovation: ability to provide something different
- Evolution: change more likely to happen in smaller businesses

Small businesses should show an eagerness to change in the manner of doing things, and be prepared to cope with current trends.

This chapter identifies three areas that are going to be of focus in addressing the challenges facing small businesses, namely financing, management and causes of failure.
2.3.1 Financing

Financing is one of those challenges that does not relate only to small businesses, but to large corporations as well. There is no denying the fact that starting a business needs money. In order for a business to succeed, the business owner should ensure that sufficient money is available up to the point where income continually exceeds expenditure (Barrow, 2006:239). It is further stated by Barrow (2006:239) that more businesses fail due to lack of sufficient day-to-day cash and financial management than for any other reason.

This view is supported by Abiola (2011:217) who states that lack of access to finance is one of the main constraints on the growth and expansion of small businesses.

According to Timmons and Spinelli in Abiola (2011:217) the most serious causes of bankruptcy in small enterprises could be condensed into three categories:

- Lack of vital business skills or knowledge
- Lack of access to finance
- Unfavourable economic conditions

Meggison et al (2006:12) maintain that insufficient financing is the primary cause of new business failure as it is needed to acquire and maintain facilities, hire and reward employees, produce and market products or do any other activity necessary to successfully run a business.

2.3.1.1 Factors that determine financing

Nieman (2006:112) lists four basic factors that determine how an enterprise is financed:

- Earning potential: an entity with prospects of growth and big profits stands better chances of acquiring finance.
- Assets: a business with large physical and intangible assets with some serving as security makes its chances of obtaining finance favourable.
- Size and age of the business: the financial strength and establishment will determine the chances of acquiring finance.
• Preference for debt or equity: owners have options. What option to take also has a role.

Axman (2003:215) claims that a business entity must have sufficient working capital, together with some cash reserves to cover those unforeseen expenses in order to increase its chances of success.

2.3.1.2 Challenges in obtaining finance

The factors listed below according to Nieman (2006: 118) are associated with problems in obtaining finance, as small businesses often find it difficult to access finance from financial institutions:

• Own capital contribution is insufficient. Owners often make use of their savings or investments to start businesses, but as it grows this money becomes insufficient and pressure is exerted on the business.
• Inexperience in financial management. Very few business owners possess experience in financial management.
• Collateral needed by financial institutions. Emphasis is put by banks and other financial institutions on collateral, which business owners are unable to provide. Banks have been criticised for this.
• Creditworthiness. The strengths and weaknesses of small businesses are analysed by financial institutions. Business owners are therefore required to have readily available financial information for perusal.

2.3.1.3 Addressing Finance

Finance is a matter that should be addressed by both start-up and existing businesses. More effort is needed on the part of the new business owner or entity than on the part of an existing business. Many a start-up entity fails through undercapitalisation rather than any other problem, according to Axman (2003:215).

The size and strength of the business is one of the important aspects that finance institutions look at as a determining factor in financing businesses, as mentioned in 2.3.1.1 above.
Poor finance decisions and planning may have a disastrous impact on the business. Key steps need to be taken by the business owner in order to afford the entity better chances of survival.

I. Financing Decisions

All types of businesses, start-ups and existing ones need to consider many factors before deciding on sourcing funding.

According to Nieman and Pretorius (2004:173), business owners need to consider the following:

- What assets will have to be financed (fixed and/or current)?
- The appropriate term for the financing of these assets (short, medium or long term)?
- How can the cash be raised to finance these assets?
- Which sources of finance will be used to finance these assets (internal or external)?
- What is the most appropriate mix of finance?

It is further alleged by Nieman and Pretorius (2004:173) that it is important to match the term of finance to the expected lifespan of the asset.

<table>
<thead>
<tr>
<th>Assets to be financed</th>
<th>Appropriate term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors</td>
<td>Short term</td>
</tr>
<tr>
<td>Stock (Inventory)</td>
<td></td>
</tr>
<tr>
<td>Work-in-progress</td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>Medium term</td>
</tr>
<tr>
<td>Office equipment</td>
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<tr>
<td>Computers</td>
<td></td>
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<tr>
<td>Print and machinery</td>
<td></td>
</tr>
<tr>
<td>Buying a business</td>
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<tr>
<td>Buying a franchise</td>
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<tr>
<td>Renovation of premises</td>
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</tbody>
</table>
II. How much finance or capital is needed?

Business owners should make every endeavour to look at or cover every possible cost before determining how much funding is needed. This is the first step according to Barrow (2006:239) that owners should embark on, and categorise costs into:

- once-off
- fixed
- variable

He further states that in determining how much money is needed, a cash flow forecast indicating monthly requirements would play a vital role. Nieman (2006:223) states that a cash flow is the final key to a business’ success, as financial institutions and investors would never support an entity that doesn’t have proper cash flow projections. It is further stated that financiers shy away from entrepreneurs who have negative cash flows. According to Bamford and Bruton (2006:105) when embarking on the due diligence process, one of the critical steps is the development of an actionable financial plan.

III. Sources of funding

There are two types of capital available, according to Axman (2003:173), internal and external capital and it is advisable to source funding from internal resources. It is further stated that for start-up entities the most common source of debt financing is families and friends. Cohen (2006:41) agrees that the best source of capital for any new business is one’s own money, one of the reasons being that it is easily accessible and with no interest paid on it. He rates monies from friends and family as the second best source of capital and also easier to access, cheaper and with fewer legal problems. It is recommended though, that finance sourced in this manner should be formalised with written agreements so as to do away with doubts.
As mentioned in the preceding paragraph, the second source of funding is external resources. These include financial institutions such as banks, government established institutions, etc. According to Nieman (2006:256), acquiring finance from financial institutions can be very difficult for many small business owners as they need to have sufficient collateral and a proven track record.

Some of the institutions listed below are state established in order to assist the Small Business Sector with access to finance (Nieman, 2006: 259).

(a) Khula Enterprise Finance

This was established in 1996 to facilitate access to credit for SMMEs. It provides assistance through various mechanisms such as banks, retail financial intermediaries and micro credit outlets. Khula also provides mentorship programmes in various aspects of managing the business. Khula acts as a guarantor in transactions between banks and SMMES but it does not provide financial loans.

Khula, according to Nieman (2006:259) enables applicants to qualify for business finance where there is no, or insufficient, security available. “In most cases, however, the only exception being ABSA, banks use Khula’s guarantees to cover themselves on business they would have been doing anyway and thus do not expand in the markets as they are supposed to” (Nieman, 2006:259).

(b) Industrial Development Corporation

This is a self financing state-owned national development finance institution that provides financing to entrepreneurs engaged in competitive industries. It promotes entrepreneurship through building competitive industries and enterprises based on sound business principles.

(c) Business Partners Limited

It is an unlisted public company that offers debt and equity investment, property management services and mentorship to small and medium enterprises. It invests capital, skill and knowledge into viable entrepreneurial enterprises by investing in
formal small and medium enterprises in all sectors of the economy, excluding on-lending activities, farming operations and non-profit organisations.

“Applications for investments of between R250 000 and R15 million are considered.” A maximum repayment period of ten years is in place, according to Nieman (2006:259).

Another exciting aspect of their funding is the initiative of the youth (18 – 35 years) through the Business Partners Umsobomvu Franchise Fund.

(d) Commercial banks

“It is a well known sentiment that even though banks advertise their support for small businesses, it is very difficult to access financing in the start-up phase and early years of the business”, as stated by Nieman (2006:259). Nieman further claims that it only becomes easier once the business has proven itself to be viable. Pressure from government has contributed to most of the banks opening up divisions that focus on small businesses (Nieman, 2006:262).

The products and services of the major banking groups such as Nedbank, Standard Bank, Absa and FNB are almost the same and include the following:

- **ASSET FINANCE**

  This is a facility through an instalment sale to finance movable, durable assets such as vehicles, machinery, computers and office equipment over a determined period.

- **CALL ACCOUNTS**

  Clients can interest on funds whilst having funds available for different call periods.

- **CREDIT AND DEBIT CARDS**

  These cards are applied for at the bank, and based on the outcome of the evaluation and the conduct of the business account. A credit limit is assigned if successful.
- ELECTRONIC BANKING
  Facility that enables clients to make financial transactions to third parties, or view daily balances.

- GUARANTEES
  Guarantees to third parties in favour of client to insure against risk of default.

- LETTERS OF CREDIT
  Primarily used by business in international trading.

- MORTGAGE BONDS
  Provide finance for commercial or industrial property depending on creditworthiness.

- OVERDRAFTS
  Application for an overdraft to bridge cash shortages.

- REVOLVING CREDIT
  Usually available over a 12 month period, subject to review after that period.

- TERM LOANS
  Financing of equipment, working capital with no deposits paid. Adequate security is needed to qualify for such a loan.

Each of the banking groups has special programmes for SME clients and more information is available on their websites or branches. The branches sometimes are insufficiently informed or equipped to assist the entrepreneur with information. The recommendation is for the entrepreneurs to do their own research in terms of different products and determine their specific needs before they go to the bank for more information and assistance.

IV. Choosing a banking institution
Choosing a banking institution is much more complex than people anticipate, according to Bamford and Bruton (2006:156). It is stated that it’s not just about choosing the nearest ones.

Kennedy (2005:223) agrees, stating that choosing a bank is one of the most important business decisions that must be undertaken. He further states that a business-oriented bank will provide needed service quickly and will never be more than a phone call away. Also, it is further stated by Kennedy (2005:223) that a bank that specialises in working with small businesses will assign an officer as a personal representative and ask detailed questions about the business.

Bamford and Bruton (2005:223) state that the business owner should be on the lookout for:

- Banks that work well with, or specialise in, working with small businesses.
- The various packages that different banks offer.
- The incentives offered.
- A bank that has expertise in working with small businesses.

Kennedy (2005: 223) lists various factors that small businesses should consider when choosing a bank, stating that it should not only be about the fee structure that banks charge. Small Business owners should weigh the various factors listed below in meeting their needs:

- **Convenience.** A bank that is within walking distance is more convenient than one that is across town, as time is valuable. After taking into consideration the location of the bank, one should look at whether that bank has branches, parking, ATMs, on-line banking, and so on. An entrepreneur does not want to spend time driving across town in order to save on costs, as time is very important.
- **Relationships.** How banks relate to their clients is vital and can be the difference in marginal situations. Banks are not expected to bend their own rules in the process in order to satisfy their clients.
• **Fees.** Entrepreneurs should ask up front for fees related to the most-needed services. Not too much emphasis should be put on fees as banks merely charge for the services which they provide. There is a problem when the profitability of the business is seriously affected by the bank charges or fees. Business-oriented banks will normally analyse and recommend a particular group of products and services, along with an estimate of fees.

• **Line of Credit Needed.** Some form of revolving line of credit would be offered by most business-oriented banks as many small businesses would often require cash from time to time.

• **On-line Services.** Access to account details and other services over the internet, without any special software or connections, are offered more and more by most banks.

Listed below are some of the special features that a small businessman can ask about:

- Details of money market and loan accounts
- Execution of on-line transfers between accounts
- Can one request stop payments or wire transfers on-line?
- Are there levels to the security?

Choosing a banking institution entails some researching on the part of the small business owner, and should not be taken for granted.

V. Financial control and management

Reider (2007:208) states that for small businesses the most important result of the accounting function is the production of periodic financial reports, usually on a monthly basis. These reports, it is stated, will be meaningless to the small business owner if he or she is not well versed in their meaning. These are not reports to be filed away, not understanding their meaning and impact on the operations of the business. The financial reports provide an indication of the direction in which a business is heading. Without financial reporting or information, the small business
owner is sailing in very dangerous waters. Cohen (2006:136) agrees, stating that record-keeping is vital to the success of any business as it gives direction to the entity. He further states that even if a business is successful, it would be difficult to sustain its success without record-keeping as the owner won’t be able to tell what is making it successful.

Small businesses depend on reliable and useful financial information in order to make decisions, according to Reider (2007:232). He further states that such information won’t be available if all the operating transactions are not recorded in the books and records of the business. Also, it is suggested that the tendency for small businesses is to leave every financial aspect of the business in the hands of their accountants, who are not the decision-makers of the business.

According to Cohen (2006:137) there are four basic requirements that must be implemented for a record system:

- It should be simple to use and understand.
- It should be accurate and relevant.
- It should be consistent throughout.
- Records are to be kept in a timely fashion.

Also, it is further stated that there are four records that need to be kept:

- Sales records
- Cash receipts
- Cash disbursements
- Accounts receivable

VI. Tracking finances and bookkeeping system

Cohen (2006:139) lists some of the steps that should be taken by small businesses in tracking their finances and bookkeeping systems:

- Payments for the business should never be taken out of cash receipts. Instead cheques or the petty cash should be used.
- Records of all cash received and paid should be kept.
• Business owners should make a provision for themselves to draw salaries and not to remunerate themselves out of the daily proceeds.
• Daily banking of cash received or transactions should be done.
• The business account should be kept separate from any personal account or cash.
• Services of a professional should be enlisted to check on the records of the business.

VII. Prevention of robbery

Steps need to be taken by small businesses to prevent or alleviate the chances of being robbed. A robbery can take a small business backwards as compared to a large corporation. The business might not even be able to recover from such robbery. Cohen (2006:137) states that frequent cash deposits discourage some of the motivation for robbery. He further advises that cash should not be carried in obvious money bags or containers, and also times and routes of banking should be inconsistent. Also, it is stated that an armoured car service could be of use as well, including making use of the dual control safes.

2.3.2 Poor Management

In research conducted by Birch in Barrow (2006:1) the fragility of small businesses is revealed, where it is estimated that 8 million enterprises close every year in America, and these findings have been shown in study after study throughout the world. This view is supported by Stokes and Blackburn (2001: 01) as between 350 000 to 400 000 businesses close each year in the United Kingdom There is a general agreement in the studies that the main reasons for small business failure are the lack of management expertise and under-capitalisation. In this section the focus will be on the lack of management expertise. Limited business knowledge, poor management, inadequate planning and inexperience entail poor management and this is one of the problems facing small businesses, (Megginson et al, (2006:12). Reider (2007:376) states that small business owners or managers fail in their bid to manage the business for various reasons and also according to the circumstances
faced at a particular time. He claims that sometimes they fail through no fault of their own. According to Nieman (2006: 17) managing and operating a small business is different to a large firm as managers have to concentrate on all the management tasks, multiple functions and access to resources and yet still try to grow the business. It is further stated that in large corporations different levels of management exist and share the responsibility.

Listed below are factors that make managing the small business difficult (Nieman, 2006:22):

- **Multiple functions or tasks.** Business owners tend to loose focus on strategic issues and concentrate on short-term ones due to having to deal with multiple tasks and the lack of extensive resources.

- **Transfer from Founder to Manager.** As the firm grows, the founder becomes more of a manager and less of a doer.

- **Constraints that hamper management.** This problem can be categorised as:
  - Economy based, relating to the state of the economy and is not controllable.
  - Industry based, relating to the industry and environment under which the firm operates and is more controllable.
  - Firm based, relating to the availability of resources.

- **Access to Resources.** These entail the availability of capital, personnel, equipment and machinery, etc. The lack of resources is the reason for many business failures and also the limiting factor in the growth of the business.

- **Managing of growth.** Lack of management of growth has caused many businesses to fail. Growth is a factor that can be controlled by the owner/manager. Growth however cannot occur due to market limitations.
2.3.2.1 Successful small business management

Small business owners are no longer required to do everything by themselves. Those days have passed, according to Reider (2007:5). He further suggests that the prerequisites for a successful small business include decision-making, internal operations, managerial and problem-solving skills. Also, they need somebody in the form of a business manager as an advisor or mentor.

Though there is no definite answers to what leads to a successful small business, the factors listed below according to Megginson et al (2006:21-22) are important:

- Serving an adequate and well-defined market for the product.
- Acquiring sufficient capital.
- Recruiting and using human resources effectively.
- Obtaining and using timely information.
- Coping effectively with government regulations.
- Having experience in the field on the part of the owner and the employees.
- Being flexible.

The factors leading to the successful management of a small business are not limited to the ones listed above.

2.3.2.2 Skills needed for small business management

General business management entails planning, leading, organising and controlling an entity. The importance of planning should not be underestimated according to Nieman (2006:197-198) as it forces small business entrepreneurs to look ahead and by doing so reduces uncertainty. It is further stated that in the planning process goal setting is the starting point.

I. Planning
The core reason why planning is an important step for the business is because it sets the future course of action for all aspects of the business, especially at start-up, according to Megginsson, et al. (2006:104). Also, it responds to some of the questions such as:

- What kind of business?
- What finances are needed?
- What strategies should be in place?
- The right personnel.
- How much profit to expect?

It is further alleged by Megginson, et al. (2006) that the criteria listed below have been identified in assisting with the planning phase:

- Be prepared.
- Be patient,
- Know when to get help.
- Form own support system.
- Never rest on laurels.

In Megginson et al (2006:105) it is postulated that, though planning is important, it is one of the most difficult managerial activities to perform. It is claimed that business owners neglect it due to various reasons, with some listed below:

- Day-to-day activities leave them little or no time for planning.
- The fear of the problems and weaknesses that planning may reveal.
- The lack of knowledge on how to plan.
- The feeling that future changes cannot be planned for.

Planning might be a tedious and complex thing to do, but it assists the business owner greatly in preparing for the unexpected.

According to Nieman (2006:30), for small business owners to increase their chances of success, they need to look ahead to the future through planning. He further states that what makes business sense today might not necessarily be the case tomorrow, so planning therefore involves amongst other things forecasting costs, inputs, output, sales, profits and cash flow.
II. Managing the most valuable resource: People

The most important and valuable resource in a business is people, as they play a vital role in the well-being of the business, according to Axman (2003:353). It is further stated that the process begins with finding and hiring the right people for the business. Bamford and Bruton (2006:192) agree by maintaining that the hiring of employees is a critical role in the running of a small business as it might have disastrous ramifications when compared to a large corporation. These authors further suggest that an unhappy employee not working at full capacity can result in much time spent trying to deal with problems caused by this employee and this might have a triple effect on the business as: the owner’s time is lost, the business does not fully benefit from the employee and the problems may carry over to other employees.

Business owners need to be very careful and serious about the process of hiring employees.

As an important resource in the business, employees need to be motivated and dealt with in an appropriate manner. Cohen (2006:362) suggests some of the important aspects that small business owners must practise in dealing with employees. These include:

- Staff working for the business should be cared for, their problems attended to and be given recognition.
- Responsibility must be taken for actions.
- Staff should be treated with respect and tact.
- Appreciate those that deserve it in front of all to see.
- Encourage independence, authority and responsibility and be willing to learn from the employees.
- Give a sense of trust, enthusiasm and keep lines of communication open.
- Give assistance and counselling to those who under-perform.
- Offer clear communication about the company objectives and set standards.
• Always provide feedback regarding happiness or unhappiness and avoid leaving them guessing.
• Make them aware of the future plans of the business.
• Create an environment of innovation and ingenuity amongst staff.
• Take recognition of prejudices and biases toward some employees and be flexible.

These are some of the practices that Cohen (2006:362) alludes to, in dealing with employees. Compensation of employees is one of the difficult things to determine. According to Cohen (2006:354), if the payment is too little the likelihood is they’ll leave for a better job and the business will end up being left with the less motivated and less able employees working for it. It is further mentioned that overpaying them on the other hand has a drawback in the sense that it can affect the pricing, or leave less financial resources for other areas or cut into the profits. Also, it is stated that it takes more than money to compensate employees, e.g. the working environment, terms of employment status, fringe benefits, etc.

Though it is mentioned that determining the compensation of employees is one of the difficult tasks for a small business owner, certain principles should be taken cognisance of in determining their salaries. Cohen (2006:355) lists some of the principles that should be taken into consideration:

• Work requiring more expertise, skill or physical exertion should be given a higher pay.
• Benchmarking for similar work in other companies should be done.
• Employees’ earnings should reflect their contribution to the company’s performance.
• An effort should be made as far as possible to make all employees aware of the pay scales.
• Secrecy should be avoided as it might lead to erroneous speculation and hard feelings.
• Overqualified and fully qualified employees doing the same work and in the same position should be paid equally.
Small Business owners should make every effort to exercise fairness in the determination of salaries for their employees.

III. Internal Controls

According to Reider (2007:263), business owners regard the establishment and implementing of internal controls as a costly exercise and an impediment to getting things done. Listed below are some of the reasons that can be used in attempting to convince business owners to implement effective internal controls:

- The possibilities of higher profits would be increased by more efficient and effective operations.
- More accurate operating and financial data for effective decision-making would be realised.
- Confidence levels in the business would increase, thereby realising greater possibilities for growth and prosperity.
- The owners and managers of the business will let go of their need to control as there will be an assurance that operations are working in a controlled environment, as alleged by Reider (2007:263).

Reider (2007:269) further states that internal control can be expected to provide reasonable assurance, but not absolute assurance to the small business owners and management that operations are moving in the desired direction toward the achievement of the small business’ goals and objectives. Also, internal controls cannot just work on their own without adequate management and efficient operations. They must work hand-in-hand.

The internal control process starts at the top, with the owner and management as they should be exemplary. Failure to do so will lead to employees following suit, according to Reider (2007:270). It is pointed out that internal controls should be monitored in order to ensure compliance and adherence.

IV. Customer Service
Customer service is the business that the small business owner is in. Without it he has no business, according to Reider (2007:73). It is further claimed that customer service can always be improved whether it is good, bad or indifferent. The most important aspect about customer service is the perception of the customer, whether it is justified or not. Reider (2007:74) further alleges that the first port of call for an excellent customer service is a pep talk to staff, reminding them what the direction is and also what customer service entails. The author purports that the focus should be on who’s doing it right and who's doing it wrong and formulate a plan to improve it, as it also less costly to increase sales through existing clients than looking for new ones.

Any policies and procedures that small businesses formulate should be for the benefit of their customers. Reider (2007:90) suggests that the question that should be asked is, “Will the policies and procedures formulated make it easier for my customers?” It is further claimed that if an attempt is made all the time to answer this question, the business owner is more likely to make the correct customer service choices and will hardly go wrong.

Reider (2007: 90) further states the top ten things that customers expect from a business:

- Making it easy for them to do business.
- Having easily accessible employees.
- Having knowledgeable employees.
- Having well trained employees.
- Taking ownership of problems.
- Valuing their business.
- Delivering on what is promised.
- Meeting their expectations, and hopefully exceeding them.
- Meeting their needs.
- Making it easy on the customer.

Small business owners are much closer to their customers compared to large corporations. This is one of the areas that gives them an edge over their large corporation counterparts.
V. Time management

One of the important tools in small business management is time management. As the saying goes, ‘time is money’. In order to be successful, one of the aspects that small business owners need to take seriously is time management, according to Bamford and Bruton (2006:163). They further suggest some of the steps that can be taken in order to ensure efficient time management:

- Write down what has to be accomplished in all of the various activities.
- Prioritise which are critical and which would be helpful.
- Segment items in the time frame in which they need to be accomplished.
- Allocate time that is strictly for dealing with operational issues.
- Write down tasks and mark them off when accomplished.

Time management doesn’t only relate to business owners and managers, but to staff members as well. It should be practised right through the organisation.

Various kinds of training and skills development courses are available to assist business owners and managers. There are also various entities, including tertiary institutions, private institutions and others, that provide short courses in small business management related offerings. Small business owners should make an endeavour to attend these courses in order to improve their chances of running their businesses successfully.

VI. Management of family owned businesses

Running and managing a family owned small business is different to operating and managing an ordinary small business. At times members of the family or family related issues interfere in the smooth running of the business, sometimes resulting in undesired outcomes for the business. Megginson et al (2006:36) agree that
problems with family members that are involved in the business can unfortunately spread to non-family members as well

When family members break the rules, that should be immediately sorted out and should not be allowed to continue because when left unattended to, the issue could create a climate of mistrust among non-family members, according to Burke (2006:67). It is also stated that family members should also be subjected to performance review and should be made aware of what level of skill is required from them before they are eligible for pay rises and promotions. If this is unattended to, family members could develop an unrealistic expectation with respect to fast-track promotion and top-end salaries. Also, family member complaints should be handled in the same manner as any other complaint from an ordinary employee of the business.

(a) Dealing with incompetent family members

As previously stated, the involvement of family members in the business could be problematic to the smooth running of the business.

Megginson et al (2006:36) advise that as a starting point family and non-members should be convinced that their interests would best be served by a profitable business with strong leadership. It is further stated that some family members might want to be the head of the business whilst they lack the talent and training needed, whilst on the other hand some might have the talent but due to their youth or inexperience their talents might not be recognised by other family members.

It is also stated that those family members with little ability to contribute to the business can be placed in areas in which they do not disturb other employees as they can demoralise the business by loafing on the job, avoiding unpleasant tasks and so on.

(b) Compensation of family members

The compensation and division of profits among family members could be problematic in that some might feel that they contributed more to the success of the business than others, according to Megginson et al (2006:36). It is stated that compensation should be based on job performance, not family position. Further,
fringe benefits can also be used as financial rewards but should conform to those given to non-family members.

(c) Succession in family businesses

Family owned businesses face challenges that at times relate only to those types of businesses. These include internal family issues and succession problems. When the founder owner retires or passes away, the business would retire or die with him if there’s no succession plan in place, or sometimes a family battle ensues, according to Bamford and Bruton (2006:203). It is stated that in order to try to avoid this situation the parent needs to choose a successor and prepare that person for the position by ensuring that all the contacts and understanding necessary for success are in place. Further, the parent might decide to leave the business early, in which case he/she needs to step back and let the child lead the business as he/she sees fit. Also, a problem might occur where one child has a problem with not being chosen. In this case external assistance in the form of professional family counsellors might be sought, the intention being to help the family see the rationale for the choices and how to deal with them positively.

Meggisson et al (2006:42) concur that management succession in the business will occur when the family leader dies, becomes incapacitated, leaves the company (voluntarily or otherwise) or retires. In order to avoid succession problems, it is stated that entrepreneurs should start planning early for their replacements, with a comprehensive succession plan in place, yet also flexible enough to include both a sudden and planned departure.

(d) Family business advice

Reider (2007:15) offers the following advice to family businesses:

- Family issues should be separated from business issues.
- Strategic and operational plans should be developed and accepted by all.
- Succession issues should be objectively dealt with on a fair basis, including family and non-family members.
- Operating systems and procedures should be developed in order to enable the business to continue being successful whether the parent is there or not.
- Authority and responsibility relationships should be developed for all members of the business with an objective relationship to the levels of compensations.

Nieman (2006: 33) states that besides being unable to grow the business, owners also find it difficult to separate their time for businesses from time for their families. It is further mentioned that in order to ensure that family time is kept separate from the time of the business, the steps listed below are necessary:

- The endless workload of the business should be controlled. Family time should not be interfered with by creating a plan and setting a schedule.
- Goals should be the focus. Owners should avoid to get side-tracked by irrelevant matters that take up time.
- Avoid taking every client and job as this can be detrimental to the business. It can be costly both financially and personally. Care should be taken before having a relationship with a new client, by asking the following:
  - Will it be enjoyable working with this client?
  - Will this project be fulfilling?
  - Is it going to be able to charge enough to make it worth the effort put in?
  - Is there time/room/space for the client right now?
  - Is this person dangerous? Is he/she trustworthy?
- Is this person going to demand more than what he/she is given?

If the answer to any of the above is “No”, then politely decline or refer the client on.

The business owner should try to stick to the set working hours in order to fit his family in and not make the mistake of multi-tasking his family.

2.4 FAILURE IN SMALL BUSINESSES

The Department of Trade and Industries in Nieman (2006:218) states that venture failures vary and range between 30 and 80% of all new ventures within the first two years after establishment and that the lower than 33% success rate is alarming. It is further stated though that failure is not unique to small businesses but may strike mature ones as well. According to Nieman (2006:219) the reason for small businesses’ vulnerability to possible failure is due to the lack of back-up extra finances and resources of large corporations, and includes the lesser ability of accessing finance from financial institutions.

2.4.1 Causes of failure in small businesses

The detection of the causes of failure is the first step in coming up with a solution. The causes need to be investigated in order to establish the underlying factors. Nieman (2006:232) lists the under-mentioned causes of failure:

- Strategic Issues

These issues are concerned with the effectiveness of the venture within its environment. Several issues that are considered, Timmons, in Nieman (2006:232) suggests the following:

- Misunderstood positioning. Targeting an insufficient market with no growth potential.
- An unhealthy relationship with suppliers and customers regarding payments and delivery agreements.
- Loosing focus and diversifying in an unrelated business area.
- Failure to convert a brilliant business idea into an opportunity.
- Cash flow problems induced by focusing on big projects that require high outflow and low inflow.

- Non-existence of a contingency plan in the event something in the business goes wrong.

- No specific sectoral experience and knowledge.

- Miscalculated market potential.

Nieman (2006:233) lists these as the strategic issues that might lead to the failure of the business if one or more of them exists.

- Management Issues

Nieman further states some of the issues that are pertinent to the management aspect of the business. The mentioned issues contribute to the failure of the business:

- If the owner has lost interest in the business. This could be through being disillusioned or the owner has found other things to do.

- Underestimating the importance of the financial aspects of the venture. This is the function of the bookkeeper. Quality should be considered above cost when making the appointment.

- Turnover in key personnel.

- Wrong management focus. Aiming for asset accrual instead of cash. Focusing on cash generation is important.

- Having no proper management structure.

- Poor planning and financial systems, practices and controls

This is the second cause for failure that Nieman refers to. These have to do with the decision-making and governing of the venture. Several factors are relevant:

- Pricing. The correct price setting is important. A price that is too high or too low might result in customers losing interest, leading to a drop in demand.
- A poor policy regarding granting of credit may deter customers, or encourage irrecoverable debt.

- Poor use of debt. Too high a debt places unnecessary strain on the business.

- Non existence of cash budgets and projections.

- Poor management reporting

- Incorrect standard costing. The inability to cost items in the right manner.

- Misunderstood cost behaviour regarding the economic model of the venture.

Lack of or poor business systems, practices and internal control mechanisms are some of the factors that lead to causes of trouble for business owners, as alluded to by Nieman (2006:233).

**Environmental Issues**

These issues, as Nieman purports include suppliers, customers, competitors and intermediaries from the business environment. They would include political, economic, social, technological, globalisation and physical factors from the macro environment. One factor on its own will hardly have an impact, but a change is several interrelated ones might have an impact.

There are those factors such as the economic ones like interest rates and exchange rates that might impact on the economic model.

2.4.1.1 Signs of failure for small businesses

Barrow (2007:11) states that the failure rate in the early years is much higher than in later years, and by the fifth year of a businesses’ life the failure curve flattens. It is further stated that failure generally comes from the following:

- **Nothing new to say.** The moment the business looses the edge, there won’t be a reason for people to buy from that entity.

- **Lack of expertise.** Those people venturing into business often lack the expertise that is required. These people have to learn at a price, making errors that consume the scarce cash resources. This explains why the failure rate is often steeper at the beginning.
• **Cash Flow crisis.** Miscalculations of cash flow projections at the beginning of the business incorrectly lead to many believing that they are futile.

• **No Management accounts.** Poor financial control is the major reason that leads to business failure. Business owners often do not understand or are unable to read the financial statements and leave everything in the hands of their accountants.

• **Falling Out.** One of the hidden reasons for business failure is lack of trust and honesty among the partners.

The issues are not only limited to the ones pointed out above by Barrow, as these are the ones that generally cause the failure of small businesses.

Nieman (2006:229) lists below the symptoms of a venture in trouble:

• **Decline in gross margin**

This is the first sign that must be looked for. Comparison of the current gross margin with those of the previous three consecutive months should be done. If there’s a decrease, it signals that start of a trend which will need further investigation.

• **Decrease in net margin**

This is the second sign to look for, after the decrease in the gross margin. The current net margin with those of previous three consecutive months needs to be compared and considered. If there’s a decrease, it signals the start of a trend that will also need investigation into the reasons and analysis of the factors.

• **Irregular cash flows**

This is a sign that is difficult to notice and that follows the decrease in the net margin during the early stages of failure. Cash flow can become erratic.

• **Negative cash levels for long periods**

When irregular cash flow turn into cash shortages for long periods, the problem is more serious.

• **Faltering value proposition and sustainable competitive advantage**

When competition catches up or even improves on what they offer and customers start to value their offering more. Sales volumes would come under pressure,
tending to lower the selling price to generate more sales with a result in the drop in the margin. The economic model comes under pressure resulting in the venture sliding down the failure scale.

- Sales decrease and decline in market share

The Sales variable has an impact on the other variables in the economic model and cash flow. The entrepreneur should monitor sales and be able to give reasons for any deviations from the projected sales figures. A drop in the market share means a lower number of customers support the venture, probably supporting the competition or they may have found a different product to meet their needs.

- Cash flow issues

An irregular cash flow indicates underperformance, which is one of the signs on the continuum of failure. The problem gets more pronounced when irregular cash flow turns into regular negative cash flow as the venture moves into distress mode. When these negative cash flows continue for prolonged periods, the venture moves into crisis mode, where turnaround is very difficult, if not impossible. The problem is that the signs are not easy to observe. There are underlying factors that contribute to the unhealthy situation or problematic cash flow. The underlying factors are:

i) Creditor days. This refers to the time it takes to collect money for credit sales.
   Creditor days that are longer than 1 month could spell disaster for the venture and could lead to a cash flow shortage. There are three reasons for slow creditor days: poor collection mechanisms, slack credit policy and bad debts.

ii) Inventory turnover (stock turnover). Stock that stays for longer periods.
   It is paid for but sells slowly, resulting in cash locked into inventory.

iii) Debtor days. The time it takes for the business to pay its suppliers.
    Stock is normally paid for or bought for cash whilst sold on credit.

- Decline in confidence levels

Lost confidence in the venture by the entrepreneur usually means the venture has reached crisis level and is very difficult to rectify.

- Resignation of core employees

The employees will pick up on the problem as they are not fools. They are aware of the extent of the crisis. They start looking around, with the good ones finding other
jobs, leaving the business with the weaker ones. Customers start to wonder, posing questions and go to the competitors for supply.

- Non-measurable signs

These signs particularly relate to the ventures of suppliers and especially credit customers. It is better to be among the first to identify these signs. Typical signs identified by Nieman (2006:230) include the following:

- When an unknown person replaces the one who usually signs the payment cheque, as it may indicate that an external body is now in control. This goes for the absence of the signatory for long periods, or messages that are not returned. This is normally a problem when suddenly the customer can’t be contacted by telephone when in the past it was not a problem.

- An unexplained change in the financer or the creditors or suppliers.

- A change in the order patterns.

- A change in payment patterns.

- Sudden change in director or key financial person.

- Irregular supply of certain products.

- Low stock levels or disarray in the yard or premises of the supplier or customer may be a sign of trouble.

- Empty shelves. A particular line of product which is not available for longer periods on the shelves.

- A change in payment beneficiary may indicate that the supplier wants to channel funds out of an ailing business. Even a change in address must be noted and questioned.

- Sudden unwillingness on the part of the customer to resolve queries reasonably is a warning sign.

- Suppliers requesting urgent payments and offering discounts for quick payments can be an indication of trouble.

- There are rumours in the industry from sales representatives, other creditors and even staff.
It is further stated that it is best to investigate any of these signs if they are observed. The best thing to do would be to ask the business owner directly in order to be in a position to assess matters and see what impact it will have on one's own business.

2.4.1.2 Levels of failure in business

According to Nieman (2006:227), there are five different levels of failure in the business environment. He lists them as follows:

- The venture that is performing well

There are no obvious problems at this level. Business goals are achieved. This is the level that every business aspires to. Shareholders are satisfied with the performance of the business and external ones want to pump in more money into the business and share in its prosperity.

- The underperforming business

Not all the goals are achieved at this level, and there are no glaring differences between the well-performing and the underperforming ventures. A person will have to delve more into the figures and make comparisons in order to establish the difference. Underperformance would usually be seen when one starts to compare the financial statements over a period of time.

The underperforming venture gets a warning signal that something bad may be coming and needs to be rectified. At the end of each month, financial statements should be made available as soon as possible.

- The venture is in distress

When a venture is in distress, it needs the entrepreneur to stop and evaluate the situation immediately before taking corrective action. The signs of trouble are clear at this stage but the entrepreneur does not want to acknowledge that something is wrong. The entrepreneur tends to work harder, hoping that the problems would disappear. More often than not, things only worsen and before long the business moves toward a crisis. The liabilities start to exceed the assets, as the business moves towards insolvency. There is still hope at this stage to turn the situation around, but the situation becomes problematic and difficult when it reaches the crisis stage.

- The venture in crisis

At this stage, irregular cash flows become worse and are constantly negative for longer periods and are affecting the business more severely. It becomes evident through the rapid decline in sales and market share that were identified in the trouble/distress stage.
Also, equally as serious as the cash flow problem, is the loss of confidence by the shareholders and even employees start to look around wanting to abandon ship.

- A venture that has failed

The moment it is under bankruptcy, the entrepreneur loses control of the venture. A plan may be hatched to salvage what is left, depending on the specific situation. It is almost impossible to rescue a venture at this stage.

2.4.2 Turning a failing small business around

Depending on the level at which the business is in, the situation can still be salvaged, and turned around.

Barrow (2006:12) states that all the reasons that lead to business failure can be anticipated and avoided, and that steps can be taken to give the business a chance at being successful and prospering again.

2.4.2.1 Ingredients for success

Barrow (2006:9) maintains that although there are no guarantees for success in business, two things stand out in order to grow and make a success of a business. It is further stated that although it calls for a particular type of person, the two things that stand out are; the business idea must be right and the timing must be spot on.

Also, sometimes hard work and luck have a role to play. Barrow also states that there are no hard and fast rules, but the ones listed below are generally accepted as being desirable, if not mandatory:

- **Total commitment.** Have faith coupled with a sound strategy.
  - **Hard work.** Be prepared to put in long hours when necessary. It must be the norm.
  - **Acceptance of uncertainty.** Be able to calculate what risks to take and when to take them.
  - **Good health.** Be able to manage and run the enterprise every day.
  - **Self-discipline.** Strong personal discipline in keeping the business on the right track.
  - **Innovator/originator characteristics.** Doing things in a new and unknown way, tackling the unknown.
- **Good all-rounder.** Though they might not be experts in every aspect of the business, entrepreneurs must be willing to turn their hands to anything that has to be done.
- **Planner/organiser characteristics.** Set goals and work towards their achievement.

These are some of the traits that an entrepreneur should possess, according to Barrow, as they are regarded as ingredients for success in a business (2006:9).

Nieman (2006:219) lists core business factors that drive success as follows:

- **Attitude and Motivation**
  The entrepreneur must have an attitude of success and be motivated to achieve. There must be a positive outlook and feeling about being successful. The focus should be on how to make things work rather than on why they can't. A positive frame of mind needs to be kept in approaching tasks and problems. If the entrepreneur thinks positively the negatives will disappear. Perseverance must be an integral part of the entrepreneur through refusing to give up and letting go of objectives, especially when facing discouragement and obstacles. This does not mean a business owner must be stubborn or stupid about things that can't work.

- **Positioning**
  There should be an understanding of the target market to be served as misunderstanding it will make it very difficult to run a successful venture.

- **Economic Model**
  This is the relationship between the selling price, cost, volume and fixed expenses. If this economic model is not sound, there is just no basis for the business to exist or proceed. Nieman lists three key questions that need to be answered in order to determine the economic viability of the business.

  i) **Is the business model economically sound?**
  This question according to Nieman is simply answered by knowing what the margin is, for each unit sold. This is the difference between the selling price (S) and the variable cost (C) per unit of each product or service sold. The easiest part in this equation is finding the selling price, but it is more difficult to determine the variable cost of each unit. It is calculated as follows:

  \[
  \text{Gross Profit} = \text{Total Sales} - \text{Total cost of goods sold}.
  \]

  A negative gross profit spells disaster for the business as there is no call for it to proceed.
If the economic model is sound or viable, then the following questions need to be addressed.

ii) How many concept offerings (products) can be sold in the market?

For the economic model to be sound or viable, one has to determine whether there is enough market for the product or service and whether enough people are willing to pay for it. The business owner will need to know how many items (N) can be sold.

iii) How many fixed expenses are required to produce the required number of products?

This is the last of the three questions that Nieman (2006:221) feels should be answered in order to determine the economic viability of a business. Fixed expenses involve and include facilities, equipment, salaries and overhead costs such as telephone, rent and repayments. These expenses are not part of the cost of sales, and must be considered separately. The combination of the costs gives the following formula, in order to determine the Profit (P).

\[ P = \sum N (S - C) - F. \]

This formula indicates the importance of the number of items to be sold in order to realise a profit.

- Sales and Market Share

Deducing from the formula \( P = \sum N (S - C) - F \), in determining profit, profit can then be improved in three ways only, as follows:

- Increase the sale volume (N)
- Increase the margin, which can be done by:
  - increasing the selling price (S)
  - decrease the cost price (C)
- decrease the fixed costs (F)

Any one variable can’t be changed independently in the formula, without affecting some of the others. It is important for entrepreneurs to know the relationship between these variables. Prospective entrepreneurs often overestimate the number of products that they will sell as it makes the venture a viable one. It is much better to be conservative than to over-estimate, though it is best to be as accurate as possible. This begs a question; How can one accurately determine the number of products to be sold? No one can be 100% accurate in determining N, but entrepreneurs should attempt to be as accurate as possible without spending too much money in trying to ascertain this figure. Nowadays, it is also possible to buy
market research from institutions like Market Research Africa and others. One other solution would be to try to meet some mentors; a few businessmen who are trusted, respected and have the expertise. The entrepreneur could pay them some visits, looking for information and asking for advice. It is extremely important to have such people to turn to for general ideas and suggestions.

- Cash Flow

A businesses’ positive cash flow is the final key to its success. This needs to be well understood by entrepreneurs. It is important to note the two important issues about cash flow; that is the ‘flow’ and ‘timing’. There are two kinds of flows. Firstly, inflows that relate to payments received from customers and capital from different sources. Secondly, there are payments for stock and fixed expenses, known as outflows.

These flows sometimes happen at the start of the business (timing) and regularly during and mostly at the end of the month (timing).

2.4.2.2 Turnaround of the business

The turnaround process for a business is not an easy one. Various reasons could have led to the failure of the business. Some can be controlled and others could be uncontrollable. The process gets more complex and difficult for small businesses as they don’t have sufficient access to resources that can assist them.

According to Nieman (2006:238), turnaround is difficult to achieve though recovery is possible. It is further stated that the smaller the business the more the owner is involved, and at times it is discovered the owner is part of the problem and this makes it difficult for the person who is supposed to be assisting with the turning around of the business.

Bamford and Bruton (2006:265) state that for a small business to turn the situation around, substantive steps need to be taken. These would include the following:

- Seek to retrench.
- Debts to be collected quicker.
- Delay payments to creditors.
- Renegotiate with Suppliers so that they are not paid cash.
- Owner to be prepared to work with employees.

These are but some of the steps that need to taken, but not limited to them. The difference between recovery and turnaround for a business venture is dependent on the level of failure that the venture is experiencing, according to Nieman (2006:240). It is further stated that a business might recover from underperformance and some
troubled situations but might need a turnaround if it is in some serious trouble. According to Nieman (2006:), an integrated turnaround process is as follows:

I. Diagnoses (problem identification)

An evaluation of the the status quo of the trouble or failure should be done, gaining an understanding of the level of failure and whether the situation can be turned around. A clear understanding of the causes of the problem should be attained. As earlier explained, turnarounds become more difficult during the distress stage and very difficult in the crisis mode. When a business reaches the complete failure stage it will disappear and there is almost no chance to recover or turn around, but it is not impossible. It is rather a case of saving what could be saved or minimising the damage.

There are three zones that are identified by Nieman (2006:240) indicating the areas with progressive difficulty in the recovery/turnaround process. These are called Zones A, B and C. These zones also indicate areas where recovery/turnaround is more or less risky and probable, according to Nieman.

ZONE A – low risk with high probability to recover.

In this zone it is fairly easy to recover and even change the direction of the venture towards new growth possibilities. As the entrepreneur is under little or no pressure, it is easier to determine the future strategy and making of contingency plans. The unfortunate part is that most entrepreneurs wait until the business reaches the next zone (B) before they realise that they should act.

ZONE B – medium risk with medium probability to recover and turn around.

Recovery is still likely and there is a reasonable probability to turn the business around at an acceptable risk.

ZONE C – high risk and low probability to turn around.

The probability of turning the venture back to its former level is low and very risky. Very few businesses survive a turnaround from this zone to their original state. However, despite being unlikely, Nieman suggests that it is possible.

II. Intervention decision

Subsequent to the diagnosis of the failure level, a decision has to be taken on whether or not to attempt a turnaround process. The decision will be based on the diagnosis, which determines the level of failure and the risk zone. This is a difficult time for the process and decision-making as it might be possible that some key elements responsible for the failure cannot be changed. Disinvestment might then be the only recourse.
It is advisable to contact an outsider who is a specialist in the process or at least a mentor to assist with the decision. The business owner, when left alone, will often not acknowledge the seriousness of the situation because it may reflect on him or her as a personal failure.

There might also be sufficient grounds for a turnaround, but the owner could not or was not willing to acknowledge the problem.

If the turnaround is not viable, there are also other options to pursue. These options are aimed at minimising the damage. It is ideal that the entrepreneur accepts the status quo and commits to the plan of the turnaround specialist. Also, a close working relationship between the two is important.

It is vital to answer the question as to whether the opportunity is still a good one or not. A quick analysis of the opportunity should be done. Nieman (2006:241) identifies six elements that should be considered:

- The market demand (consumer)
- The concept offering (product/service)
- The economic model
- The team and resource fit
- The competitive environment
- The financing required to give positive cash flow

This analysis is much similar to the one done when starting a new business venture and would also form part of the business plan.

III. Stabilising the venture

In Management, finance and systems are key components for stabilising the business. Stabilisation is drive by a cost and cash focus after the creation of a proper management team. It should be accepted during stabilisation that cost is enemy number one, and the immediate evaluation of the economic model is required. Any turnaround strategy should have cost as its base and serious cost cuts should be implemented as soon as possible. The evaluation may lead to possible decisions of restructuring and possible reengineering of the business model.

In order to reduce costs it means the entrepreneur will have to pinch every possible cent, be it fixed expenses (F) or variable costs (C). This first port of call would be to cut relentlessly on large cost items, then smaller ones. A priority list for such cuts will contain the following:
i) Fixed expenses

Nieman (2006:242) further lists some of the fixed expenses that could be cut in order to assist in cost reduction.

- Management salaries should be reduced through selecting core staff without creating an overtrading situation.
- Unproductive workers could be set up in their own venture to service the business.
- Reduction in rent could be negotiated.
- Interest could be decreased by reducing debt.
- Inefficient marketing costs should be avoided, but with care as this is an important area.
- Unnecessary consulting fees should be eliminated.
- Steps should be taken to detect theft, pilferage, fraud, etc.
- Unnecessary overhead costs such as fuel and entertainment benefits that are unrelated to the business should be cut.
- Uncontrolled pocketing from the cash register must be eliminated.

ii) Variable costs

Variable costs are not limited to but include those listed by Nieman (2006:243) below:

- An investigation and analysis might be required in the cost price of items and suppliers used.
- Inventory levels should occasionally be reduced to minimum levels.
- Volume rebates should be leveraged optimally.
- Improving economic quantities and delivery time should reduce distribution costs.
- Discontinuation of low margin items should be effected unless they contribute to covering certain expenses.
- Current cost recovery systems should be investigated in order to pass them on to the customer.
Nieman (2006:244) maintains that fixed and variable costs should be cut in an effort to stabilise the business. The second task that should be done simultaneously with cost cutting is that of improving the cash flow situation as quickly as possible. This can be done in the following manner.

Creditor days should be reduced through:
- Optimisation of cost recovery through improved collection and billing.
- A strict credit advancement policy.
- Negotiation of better terms with suppliers by stretching debtor days.
- Cash sales should be encouraged and increased.
- Just-in-time delivery principles should be implemented.
- Debt reduction and associated interest through disposal of old inventory, unproductive assets and equipment and non-core business units.

IV. Strategic opportunity analysis

This analysis focuses on the sales and positioning aspects of the business. Some questions are asked pertaining the business fit with the environment, the market and demand, the core business of the venture and more. There are other drivers of a successful turnaround process, namely, focus and repositioning, management team, time and speed.

The intended outcome of the strategic analysis is to determine the core business of the venture and where it should focus. Anything shown as non-core business should be outsourced.

When the strategic analysis is completed, it must spell out how the income side of the venture is going to be approached, according to Nieman (2006:244).

V. Identification of the core issues

Those core issues that should be focused on will emerge from the strategic opportunity analysis.

Every business venture will have one or two core elements that make it work. It needs to be answered whether the venture serves an opportunity or not. If the response is in the affirmative, the turnaround will be supported and could be refined by restructuring and re-engineering. If the response is negative, then a focus should be elected. It should be indicated by the analysis as to where the turnaround would take the venture in the next five years.
VI. Restructure decisions

Decisions on the core issues assist the business to focus and direct the application of funds, whether own or borrowed. Priorities must be set and listed for immediate implementation, noting that time is still crucial. The cash flow situation is normally negative and clear priorities should be set. Funds are not sufficient to do everything, so choices must be made.

VII. Action

Action plans should be implemented, so as to keep a record of the intervention.

2.4.2.3 Key principles of a turnaround process

The road to the complete recovery of a business is not an easy one. The process will vary depending on the size and structure of the business. A turnaround process relating to small business will be different to those of large corporations. The bulk of the decisions that have to be taken by small businesses rest on the shoulders of the owners. In large corporations decisions could be taken by a collective, shared or delegated. The turnaround process for small businesses could be quicker because there are not too many parties that the owner has to consult or get authority from, before implementing change.

Nieman (2006:245) identifies five key restructuring principles of the turnaround process:

I. Management Focus

In the micro business environment the management team, which consists of the entrepreneur only, and at times the financial controller, is crucial. The entrepreneur is the key decision-maker, with the turnaround specialist playing a supportive role.

Also, of importance is the motivation and attitude of the entrepreneur.

Cardon and Mcgrath (1999) in Nieman (2006:246) suggest that to overcome failure an entrepreneur should be able to:

- Have an understanding of the situation that caused the failure.
- Have a positive outlook on failure, seeing it as a new beginning not as an end.
- Be able to set up new goals and objectives and the willingness to achieve them.
This is a daunting task in the small business as the owner usually has to shoulder all the burden, as there’s no support staff in place with whom to share the load and thinking.

II. Cost and Cash

Cost pertains to all the expenses of the business and includes all control issues. Total efforts should be made to reduce costs at all levels (Nieman 2006:246).

Cost is the driver of a turnaround strategy regardless of the business strategy pursued later on. Without costs being controlled first, there is no room for a new strategy. It is important to keep the following in mind as well:

- Fraud, theft and corruption are major problems and are weakly understood by management.
- Family members in the business are a threat as well, especially if they have access to the cash register.
- Small businesses with poor administration and control systems in particular are excellent targets for fraud.

Where cost is a problem, one of the things to consider is to remove family members from key positions or to install a new system to control cash disbursements and receivables. It is key to replace people working at the cash registers. One of the best ways to check for signs of missing cash is to man a cash register for the whole day and compare takings of the previous days.

III. Focusing on the core business

According to Nieman (2003:246) diversification could be problematic in that the entrepreneur can be distracted from the core business and easily get derailed. Diversification can be regarded as the last straw with the hope that by diversifying income will be increased. However diversification comes with its own expenditure, which is often underestimated.

i) Strategy
The moment the core business has been established, there should be a clear strategy. Strategy entails the application of funds, manpower, time and energy of everyone within the venture. When the strategy determines that specialist people be appointed, employing under-qualified people will not effect a cost saving. There are basically three broad strategies in pursuing growth: operational excellence, customer intimacy and product leadership.

IV. Time and timing factor

Consideration should be given as to whether it is the right time to attempt a turnaround for the business. The thing to consider for instance is the life cycle of the product because if it has run out and there are many other similar products then the timing is wrong and the strategy should be adjusted (Nieman 2003:247).

V. Speed

Unfortunately time is not something that is available for a business in trouble. The sooner it takes for the process to be completed, the better it is for the business, shareholders, stakeholders and personnel, according to Nieman (2003:247). Also important is the timing of actions that are taken.

2.5 GOVERNMENT SUPPORT FOR SMALL BUSINESSES

Small businesses require support and resources that can be called upon to assist. The support of course does not ensure the success of the entity but increases the chances of survival and success.

The 1995 White Paper on National Strategy for the Development and Promotion of Small Business in South Africa which was established for the development of SMMEs, states that local authorities are the most effective level for their development, according to the Department of Trade and Industries (1995:98).

The Department of Trade and Industries (DTI) under which SMMEs fall, established institutions and agencies for their development. The support offered varies and ranges from regulatory matters, finance, mentorship, training, etc.

Figure 2.1 Institutional Make-up
Source: Small Business Act (1996:98)

a) Department of Trade and Industry (DTI)

Small business falls under the Minister of Trade and Industry, Rob Davies, and specifically under two of the Department’s units:

- The Enterprise Organisation,
- Enterprise Development Division

The department has various entities under it, namely:

i) Small Enterprise Development Agency (Seda)

An agency of the Department of Trade and Industry mandated to support small enterprises, Seda, was formed out of a merger between Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (Namac) and the Community Public Private Partnership Programme (CPPP). The Godisa Trust and the Technology Programmes were integrated into Seda in 2006, becoming Seda Technology Programme (STP), according to the DTI (2011).

ii) National Empowerment Fund (NEF)

Set up in 1998 and operational in 2004, the NEF aims to fund black-owned and empowered (both big and small) businesses. Between 2003, and March 31 2010, the fund made 208 disbursements of over R1.5 billion. Of these 156 worth R457 million went to small black-owned businesses or franchisees (through the Imbewu Fund), according to the DTI (2011).

iii) National Small Business Advisory Council (NSBAC)

The National Small Business Advisory Council, launched in 2006, falls under the Department of Trade and Industry and reports to its chair, Trade and Industry Minister. The council has eight members and serves to advise the minister on ways
to boost support to small businesses. The first council collapsed after two years in 1998 amid allegations of mismanagement, DTI (2011).

b) Department of Economic Development (DED)

DED was set up in 2009 to co-ordinate the South African Government’s economic policy. It oversees Khula, the IDC, Samaf, as well as the Competition Commission. The department oversees various entities, namely:

i) Khula Finance Limited

The government’s small business finance organisation was set up in 1996 to help fund small businesses. As of 2009, Khula fell under the Department of Economic Development. It has various schemes to assist business owners, such as a credit guarantee scheme, a reverse factoring facility, a land-reform facility and a network of retail financial intermediaries to which it advances, which they then lend this to business owners, according to the DED (2011).

ii) Industrial Development Corporation (IDC)

The government’s development finance institution was set up in 1940, and the funding of small businesses forms a large part of its mandate. The IDC falls under the Department of Economic Development. The IDC financed 159 small enterprises to the tune of R2.13 billion (from a total of R10.9 billion) in 2008/2009. This compares to 94 dispersals the year before, valued at R933 million (out of a total of R8.4 billion. Altogether 142 of the net approvals during 2010 (67% of the total number of approvals) were for SMEs. R2 103 million (more than 23% of the total value of approvals) were for these SMEs (companies with fewer than 200 employees, turnover less than R51 million and/or less than R55 million total assets), states the National Credit Regulator (2011).

iii) SA Micro Finance Apex Fund (Samaf)
Samaf was set up in 2005 as a micro-finance organisation and began operating in 2006. It provides loans to entrepreneurs of up to R10 000, DTI (2011).

c) Department of Science and Technology

Technology Innovation Agency (TIA)

A new umbrella body, launched in 2010, for funding innovation set up in 2009, includes the Tshumisano Trust which housed the technology transfer stations, the Innovation Fund, the Council for Scientific and Industrial Research (CSIR)’s Advanced Manufacturing Technology Strategy, published by the SPII (2013).

d) The Presidency

National Youth Development Agency (NYDA)

Born in 2009 out of a merger between the National Youth Commission and the Umsobomvu Youth Fund, the NYDA aims to assist youth with career skills and to help start their own businesses. It funds training and gives out loans. The agency disbursed 7 500 micro loans to value of R23 million and a further R4 million in loans in 2009/10, according to the DTI (2011).

The institutions and agencies that government provides in support of small businesses are most welcome and very useful. One of the biggest problems with this support though is the lack of exposure or awareness. Not everyone in the small business environment is aware of these institutions and agencies.

Also, accessibility to these institutions is difficult for entities that are situated in rural areas and some of the townships across the country. The government needs to work on these aspects so that more small business owners can be aware and access this valuable support.

2.6 GOVERNMENT REGULATIONS
Small business associations always criticise Governments for being too bureaucratic and for over-regulating the economy with unnecessary rules and regulations that stifle development, according to Burke (2006:138). Megginson et al (2006:13) state that government regulations are sometimes burdensome, complex and contradictory, leading to small businesses finding it difficult to comply with the requirements. It is further stated that sometimes small businesses are completely unaware of all pertinent regulations.

In research done by the World Bank (June, 2012), measuring the procedures, time and cost for a small business to start up and operate formally, amongst 185 countries, South Africa ranked 53rd. In South Africa registration of a business takes an average of 19 days, which is a far cry from the first ranked country, New Zealand where it takes a day to register and operate. South Africa is not doing badly though, compared to other developing BRICS (Brazil, India, China and South Africa) countries, as they rate 121,101,173 and 151 respectively.

There is still a lot of ground for the country to cover.

2.7 SUMMARY

This chapter outlined some of the major challenges and hindrances faced by small businesses. Strategies and solutions to assist in the development, sustainability and growth of small entities are also discussed. Government support initiatives and regulations are highlighted, with the various institutions and agencies listed.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The purpose and intention of the research was to acquire in-depth information on the challenges that small businesses are faced with. This was done by delving more into the operational and strategic factors that impact on the growth and success of small businesses. Subsequent to establishing and exploring these factors, strategies that will assist small businesses were discussed. This chapter focuses on and discusses the research process.

3.2 THE RESEARCH PROCESS: SURVEY

Crotty (2003:2) suggests that in putting together a research proposal, considerable effort should be put in answering two questions in particular. Firstly, what method and methodologies will be employed in the research? Secondly, what is the justification for choosing and making use of such method and methodologies? Surveys are widely used, acknowledged, and a familiar research tool across the developed world, according to Rea and Parker (2012:1). It is further stated that they have a broad appeal because they are perceived to be a reflection of the attitudes and opinions of society. This research analysed responses from the participants, therefore making it a descriptive research. Saris and Gallhafer (2007:4) state that for descriptive studies, survey research is often made use of.
3.3 THE QUALITATIVE RESEARCH PARADIGM

According to Maxwell (2005:36) a paradigm refers to a set of very general assumptions about the nature of the world and how we can understand it. The author further states that paradigms that are relevant to qualitative research include interpretivism, critical theory, feminism, postmodernism, and phenomenology. Cresswell (1994:2) defines a qualitative study as an enquiry process of understanding a social or human problem based on building a complex, holistic picture, formed with words, reporting detailed views of informants and conducted in a natural setting. A qualitative study is ideal for this research as the intention is to observe patterns that will emerge from the data collected.

3.4 DATA COLLECTION

Monsen and Van Horn (2008:68) state that for qualitative data collection, there are two primary methods available, observations and interviews. A structured questionnaire was designed. According to Johnson and Christansen (2011:64), in designing a questionnaire 15 key principles should be considered:

- The research objectives should be met.
- Participants to be understood.
- Natural and familiar language should be made use of.
- Items should be clear, precise and relatively short.
- Leading or loaded questions should be avoided.
- No double barrelled questions to be used.
- No double negatives to be made use of.
- A decision on whether to use closed-ended or open-ended questions should be made.
- Usage of mutually exclusive and exhaustive response for closed-ended questions is preferred.
- For closed-ended questions, different types of response categories available should be considered.
- Multiple items should be used to measure abstract constructs.
- Caution to be exercised in the event of reversing the wording in some of the items.
- It should be properly organised in order to be user friendly.
- It should always be piloted.

The questionnaire was designed in such a manner as to provide responses that would assist in addressing the challenges faced by small businesses as identified in the literature review. The questionnaire adhered to the relevant principles, as listed above.

a) Types of questions
The main type of questioning for this study was open-ended, as opposed to closed-ended questions. Primarily, qualitative data is provided through open-ended questioning, according to Johnson and Christansen (2011:169). Questions were spread over three sections as follows, A (Background and Training), B (Activities) and C (Financial), (See appendix B).

b) The Length and wording of the questionnaire
Although there is no hard and fast rules about how long a questionnaire should be, the longer it is, the more the respondents find it hard to complete, according to McCormack and Hill (1997:78). The wording and grammar of the questionnaire was easy to understand, clear and precise. There are no double negatives, double barrelled or leading line of wording the questions, taking into consideration the principles outlined in Johnson and Christiansen (2011:64). (See Annexure 2)

3.5 THE PILOT STUDY
Two respondents who were not part of the survey were consulted as a means of a pre-test. The intention was to check if the questionnaire was clear, concise and not cumbersome. Minor problems, such as giving further explanations to one or two questions and assessing the amount of time it took to complete the questionnaire were identified and subsequently attended to.

3.6 THE SAMPLING TECHNIQUE
Due to the inability to collect data from all the relevant participants pertaining to the research topic, as time and other resources would not allow, a sample of 16 was acquired. Non-probability sampling was used in which a purposeful sampling approach was adopted, emanating from the qualitative nature of the study. This is unlike the probability sampling technique often used in quantitative studies. The fundamental principle in the purposeful approach is the gaining of rich and in-depth information that guides the sampling strategies for qualitative researchers (Daymon and Holloway, 2011:212). The study made use of two purposeful sampling strategies: snowball and convenience sampling. Some of the participants in the study were asked to provide businesses that had to be part of the research, hence the snowball strategy. The convenience strategy was chosen in order to save time and other scarce resources. The implemented criteria for the study were (a) small business as defined in the National Small Business Act of 1996; (b) black owned business; and (c) to be located in BCM.

The Mdantsane Chamber of Commerce (Mdacoc) was approached to provide contact details of small black businesses that would be part of the study. Contacts of the researcher, who subsequently provided the names of other small business owners, were part of the study.

3.7 DATA ANALYSIS
Data was noted in writing. The purpose was to allow the researcher to make some notes and reflect on the data obtained. The subsequent step was to do a preliminary data analysis. Regardless of where data emanates from, this step is necessary in order for emerging issues to be highlighted, relevant data to be identified and give direction for seeking more data, according to Grbch (2013:21). A summary of emerging issues was then prepared in order to allow the researcher to interpret it.

a) RELIABILITY, VALIDITY AND TRIANGULATION

According to Silverman (2011:366) reliability and validy refer to the objectivity and credibility of the research. In qualitative research, reliability and validity are defined and handled differently to quantitative research (Rubin and Babbie, 2010:91). It is further alleged that there is a disagreement among qualitative researchers about the
definition and criteria for reliability and validity, with some arguing that it is not applicable at all to qualitative research. Cohen, Manion, Morrison and Morrison (2007:133) state that in qualitative research, data validity might be addressed through the honesty, depth, richness and scope of the data achieved, the participants approached or objectivity of the researcher. On the other hand, it is impossible for qualitative research to be 100 per cent valid, according to Cohen et al. (2007:133). For the purposes of the study some of the data collected from participants was checked and verified through newspaper articles and other documents. Some of the institutions that participants claim to have received training and financing from were checked, as well some of the clients the participants mentioned.

3.7.1 ETHICAL REQUIREMENTS

For the purposes of the study, business owners were contacted and constituted the source of information for the data collected. These business owners were accessed through Mdacoc and other contacts as indicated above in 3.6. Each was firstly contacted via telephone and introduced to the researcher. The researcher stated how the contact number was obtained, the reason for the call and subsequently requested an appointment. The researcher provided the participants with a copy of the covering letter before completion of the questionnaire, informing them of the nature of the study and its objective. The covering letter entails matters of confidentiality, honesty in responding, access to the study findings and the anticipated duration of the questionnaire (See Annexure 1).

To ensure that the business was eligible for the questionnaire, it was checked if it was black-owned, was a small business employing less than 50 people and was located in BCM.

3.7.2 CONCLUSION

The research methodology process in conducting the study was outlined in this chapter. The survey research embarked on in the study was explained and its use
justified by the researcher. Questionnaire design and administration were discussed, subsequently addressing issues of validity, reliability and data objectivity. The chapter finally discussed and explained ethical matters that were taken cognisance of.

CHAPTER FOUR

RESEARCH FINDINGS

4.1 INTRODUCTION

Chapter Three discussed the research methodology and entailed the process to be implemented in collecting data. The study conducted looked at the challenges that Black small businesses in the Buffalo City Municipality are faced with, also focusing on the strategies to counter these challenges. The data collection instrument in Chapter Three was designed with the purpose and objective of addressing the challenges and strategies entailed in the study. A summary and analysis of the responses are presented in this chapter. The impact that the research findings have are also explained in relation to the literature review in Chapter Two.

The data is analysed and interpreted in relation to the questionnaire:

Section A :  1. Background and Training
               2. Activities
               3. Financial
               4. General

Section B : General Information
4.2 ANALYSIS AND INTERPRETATION OF DATA

4.2.1 Background and Training

(a) Year business was started
Respondents were questioned on the number of years their businesses have been in existence.

Table 4.1 Length of existence of business.

<table>
<thead>
<tr>
<th>Year of Establishment</th>
<th>Age of Business</th>
<th>No of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>2004</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>2005</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>2006</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>2007</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>2008</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>2009</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2010</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total number of Respondents</strong></td>
<td></td>
<td><strong>16</strong></td>
</tr>
</tbody>
</table>

The above table illustrates the length of time the businesses of the respondents have been in operation from the period of inception to 2012.
(b) What prompted owners to get into business?

Cohen (2006:06) suggests that in order to stand a better chance of success, an entrepreneur must choose a business that he or she has expertise in and preferably a passion for. Only three of the respondents in the survey satisfied what the author points out. The three have experience and knowledge in the industry that they are currently operating in, in addition to the passion and dedication they allege to have. The three represent 18.75% of the respondents. The reasons for being in business for thirteen (81.25%) of the respondents varied from being able to support family and self, seven (43.25%), three (18.75%) being unable to find work or disillusioned at previous employment and the rest (18.75%) being for varying circumstances. Bamford and Bruton (2006:33) mention that that the greatest contributor to any businesses’ success is the passion that the entrepreneur has for the business and that he or she is doing something that is enjoyable.

(c) What were the owners doing before venturing into business?

Before venturing into business half the respondents (50%) were employed in sectors that were unrelated to the business environment they operated in. This group according to Burke (2006:12) does not enjoy greater chances of success as the author advises that people should stick to the type of work they know best so that they can be able to avoid learning new trade whilst they still have to manage the business. Only three (18.75%) ventured into the same type of business they had expertise and knowledge in. This trait of course does not guarantee success on its own. One has to be dedicated, work hard and have passion as pointed out in 4.2.1 (b) above. The rest of the respondents (31.25%), were involved in various activities such as being a housewife, helping out in the family business, still employed, and so on.

(d) Any formal business training?

The respondents were asked to provide information on any formal business training that they could have attended.
Table 4.2 Respondents with formal business training.

<table>
<thead>
<tr>
<th>Attended Training</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>8</td>
<td>50</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total Respondents</strong></td>
<td><strong>16</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Jamieson (1984:19), in Henry, Hill and Leitch (2003:93), claims that training offers people an opportunity to create their own futures and solve problems through the skills acquired in training. This statement stands true for both the social and business environment. Entrepreneurs would stand better chances of succeeding and growing in business with the right training and development. The figures presented above point out that half the respondents in the survey attended formal business training. Those that attended the training acquired it from institutions of higher learning such as Rhodes, Fort Hare, University of South Africa, Peninsula Technikon, etc. Table 4.2 also indicates that half the respondents in the survey never attended any form of formal business training. Some respondents in this group actually attended training courses that have no relevance to the running and management of a business, such as Health and Safety courses.

(e) Business plan for the business?
It was determined whether the respondents had any business plan before venturing into business.

Figure 4.1 Existence of a business plan.
Six (37.50%) of the 16 respondents had business plans before venturing in business. These respondents are also part of those who had formal business training, as illustrated in Figure 4.1 above. This consistency indicates the value of having attended business training. Two of the respondents prepared and drew the business plans themselves, whilst the other four made use of professionals. The rest of the respondents (62.50%) didn’t have business plans. Axman (2003:75) states that a business plan does not only assist in giving direction to the business, but is also a tool to source funding and avoid bumps. This author further maintains that time spent in making an accurate business plan is an investment that will pay big dividends in the long term.

(f) Location of the business.

The respondents were asked to provide information as to where their businesses operate from.

**Figure 4.2 Location of the respondents' businesses.**
The bulk of the respondents 13 (81.25%) are located in East London, 2 (12.50%) in Mdantsane and one (6.25%) in King William’s Town. These are the biggest areas in the Buffalo City Municipality.

4.2.2 Activities

(a) Core business activity

The respondents were asked what their core business activities were. Only seven (43.75%) of them operated in the same sector they had gained expertise in. The other nine (56.25%) respondents operated in various sectors that they didn’t have exposure to. According to Bamford and Bruton (2006:25) a person’s previous experience, history and values will assist in how to set up the business and will greatly influence decision making in the business.

(b) Main Clientele base

Respondents were questioned on their main clientele, whether it is the public sector, or private sector.

**Table 4.3: Main clientele of the respondents**

<table>
<thead>
<tr>
<th>Clientele</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>9</td>
<td>56.25</td>
</tr>
</tbody>
</table>
More than 56% of the respondents have the Government as the main clientele base. Survival for these businesses is limited due to the problems associated with Government’s slow pace in processing payments. Corp (2012) states that depending on a single client for more than 50% of the income makes that entity more of an independent contractor than a business.

(a) Number of employees

The average number of employees working for the respondents is just over five per respondent. They vary between 0 and 40, both part-time and full-time.

(d) Past obstacles of the business

Questions were asked pertaining to what obstacles the respondents faced in the past and whether they succeeded or not in overcoming them.

**Table 4.4 Past obstacles**

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Number of Times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of business</td>
<td>5</td>
</tr>
<tr>
<td>Cash Flow/Late Payments</td>
<td>5</td>
</tr>
<tr>
<td>Marketing</td>
<td>3</td>
</tr>
<tr>
<td>Various/Other</td>
<td>10</td>
</tr>
</tbody>
</table>

The table above indicates the number of times obstacles have been brought up by the respondents. The most prominent are lack of business and cash flow related...
problems due to late payments by the Government. Lack of, and insufficient marketing of the ventures rated second. Among the various other obstacles are lack of support from government, dishonest government employees, legislation, staff turnover and space. In the above table some respondents identified more than a single obstacle.

(e) Current obstacles

Respondents were also asked to shed light on those obstacles that they are currently faced with.

**Table 4.5 Current obstacles**

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Number of Times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow/Late Payments</td>
<td>3</td>
</tr>
<tr>
<td>Lack of Business</td>
<td>2</td>
</tr>
<tr>
<td>Lack of space</td>
<td>2</td>
</tr>
<tr>
<td>Various/Other</td>
<td>9</td>
</tr>
</tbody>
</table>

In this table what comes out prominently are the cash flow problems caused by late payments and lack of business. Insufficient business space is also part of the current obstacles that some of the respondents face. New challenges include those such as competition with Government employees, government red tape, robberies and fraud. What also emerged from some of the respondents was that the lack of business is caused by the inability to have contacts within government.

4.2.3 Financial

(a) Start-up finance

Information regarding sources of funding for starting the business was required from the respondents.

**Table 4.6 Sources of funding for business start-up.**

<table>
<thead>
<tr>
<th>Source of Funding</th>
<th>Number of Times</th>
<th>Percentage</th>
</tr>
</thead>
</table>

71
<table>
<thead>
<tr>
<th>Source of Funding</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Funding</td>
<td>6</td>
<td>37.50</td>
</tr>
<tr>
<td>Family</td>
<td>2</td>
<td>12.50</td>
</tr>
<tr>
<td>Friends and Family</td>
<td>1</td>
<td>6.25</td>
</tr>
<tr>
<td>ABSA</td>
<td>2</td>
<td>12.50</td>
</tr>
<tr>
<td>Capitec Bank</td>
<td>2</td>
<td>12.50</td>
</tr>
<tr>
<td>Standard Bank</td>
<td>1</td>
<td>6.25</td>
</tr>
<tr>
<td>ECDC</td>
<td>1</td>
<td>6.25</td>
</tr>
<tr>
<td>Never Funded</td>
<td>1</td>
<td>6.25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16</td>
<td>100</td>
</tr>
</tbody>
</table>

Out of the available sources of funding for start-up business, own or internal money is most recommended, according to Axman (2003:173). The author further alleges that the most common source of funding other than commercial institutions are family and friends. Cohen (2006:41) agrees that for a new business start-up, the best source is own money.

The combined internal funding, as shown in Table 4.6 above, is 56.25%, that is from own funding, family and friends. It needs to be stated that though this is the recommended source of funding for start-up entities, only one of the nine respondents who used internal funding voluntarily used their own money. The other eight were forced to source internal funds due to inaccessibility of capital from external institutions. The use of own, family or family funds came out of no choice of their own.

(b) Financial records?

The respondents were asked to provide information on whether they kept financial records or not.

**Figure 4.3 Keeping of financial records.**
Ten out of the 16 respondents kept financial records for their businesses, with six not keeping any. Three of the ten did their own bookkeeping, with seven doing them with the assistance of a professional. Record keeping gives direction to an entity and is vital to the success of any business, according to Cohen (2006:136).

(c) Average turnover in the last three years.

The average individual annual turnover for the 16 entities over three years was just over R 329 000. Four out of the 16 respondents were not prepared to divulge what was generated. The average turnover mentioned is for 12 respondents. The turnover ranges between R14 000 and R2 000 000 over three years.

(d) Was the business at any stage profitable?

12 of the businesses were at some stage profitable. The latest periods in which the businesses showed profits are listed below.

- 2012: 4
- 2011: 3
- 2010: 4
- 2009: 1

(e) Proceeds from business
The table below shows how often the respondents drew from the proceeds of the business in terms of their remuneration to themselves.

**Table 4.7 Drawing from proceeds of the business**

<table>
<thead>
<tr>
<th>Details</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>2</td>
</tr>
<tr>
<td>When the business does well</td>
<td>2</td>
</tr>
<tr>
<td>Paid Bond with the proceeds</td>
<td>1</td>
</tr>
<tr>
<td>On receipt of payment</td>
<td>6</td>
</tr>
<tr>
<td>Bi monthly</td>
<td>1</td>
</tr>
<tr>
<td>End of the year</td>
<td>1</td>
</tr>
<tr>
<td>None</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16</td>
</tr>
</tbody>
</table>

The researcher identified six different ways in which the respondents drew salaries from the businesses. Two respondents drew a monthly salary regardless of how the business performed, whether it did well or badly. Another two only paid themselves when the business did well in that particular period. One respondent, who is in the property sector, made use of the proceeds to increase bond repayments. Six respondents drew a salary on receipt of payment from a client. One respondent’s remuneration was done after every two months. Another one received remuneration at the end of each year. This respondent is a full-time employee at another entity and is a part-timer in business, so can afford to wait until the end of the year. Three respondents did not realise any proceeds from the businesses. One of these respondents is also a full-time employee and finances the business through a salary, but maintained that the business has the potential to be profitable, hence not giving up on it. This entity has been in existence for three years, so it’s fairly new.

Cohen (2006:139), in stating the rules for tracking finances and the bookkeeping system, advises that entrepreneurs should pay themselves salaries and never take cash out of the daily cash receipts. Only 6 (37.5%) of the respondents drew a salary on receipt of a payment, meaning that they received a salary every time they received payments. Seven (43.75%) of the respondents drew salaries at various intervals. The other three that did not realise any profits. Generally most of the respondents were aware of the benefits of drawing a salary from the business.
4.2.4 General

(a) Awareness of Government funded institutions that assist small businesses

Respondents were checked for their awareness of agencies and institutions that are funded by the Government to assist small businesses.

**Figure 4.4 Awareness of government funded institutions.**

![Awareness of Government Institutions](image)

Thirteen respondents are aware of Government funded institutions that assist small businesses, and three were not. The respondents mentioned the ECDC (10), SEDA (4), NYDA (3), NEF (2), BPL (2) and KHULA (2). The following were each mentioned only once, DEDEA, IDZ, BCM, ECPTA, IDC, ECPACC, NAC, Umsobomvu Youth Fund, PIC and the Department of Social Development.

(b) What the Government should do to assist small businesses?

Respondents were asked what they thought the Government should do to assist small businesses. Various opinions and suggestions were received, and grouped (see Table 4.8 below).

**Table 4.8 Government assistance areas.**

<table>
<thead>
<tr>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td>Financial</td>
<td></td>
</tr>
<tr>
<td>- Funding</td>
<td>20*</td>
</tr>
</tbody>
</table>

75
These are the opinions and suggestions of the respondents, with the financial matters coming out tops. This is indicative of how the respondents view this aspect of the business. Financial matters ranged from late payments by government, too much red tape on accessing finance and insufficient funding. Other matters like training and development and corruption were also of importance.

### 4.2.5 SECTION B

(a) General Information

Nine of the 16 respondents were female business owners, which represents 56.25% of the respondents. Seven are male, representing 43.75% of the respondents. All the respondents are over 35 years old, save for one who is in 28 – 30 age bracket.

### 4.3 FINDINGS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay on time, impose penalties on late payments</td>
<td></td>
</tr>
<tr>
<td>Revise financing model</td>
<td></td>
</tr>
<tr>
<td>Too much red tape on finance requirements</td>
<td></td>
</tr>
<tr>
<td>Training and Skills Development</td>
<td>9</td>
</tr>
<tr>
<td>Training workshops</td>
<td></td>
</tr>
<tr>
<td>Coaching and Mentoring</td>
<td></td>
</tr>
<tr>
<td>Government Staff</td>
<td>6</td>
</tr>
<tr>
<td>Knowledgeable staff in the business sector</td>
<td></td>
</tr>
<tr>
<td>Staff competing for government tenders</td>
<td></td>
</tr>
<tr>
<td>Stop corruption</td>
<td></td>
</tr>
<tr>
<td>Have clear reporting lines</td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>10</td>
</tr>
<tr>
<td>Provide resources for sustainability</td>
<td></td>
</tr>
<tr>
<td>Do research on SMME challenges/satisfaction level</td>
<td></td>
</tr>
<tr>
<td>Provide business premises</td>
<td></td>
</tr>
<tr>
<td>Stop BBBEE Status certification payments</td>
<td></td>
</tr>
<tr>
<td>Encourage new concepts/innovation</td>
<td></td>
</tr>
<tr>
<td>Stop treatment of black entities as a last resort</td>
<td></td>
</tr>
<tr>
<td>Have public indabas</td>
<td></td>
</tr>
</tbody>
</table>

(* The figure represents the number of times that financial assistance was mentioned by the respondents. It does not represent the number of respondents.*)
4.3.1 Background and Training

The average age of the respondents’ businesses is 5 years. Two of the respondents have since stopped operating due to their businesses being deregistered. These entities were deregistered for failure on the part of the owners to submit annual returns to the South African Revenue Service (SARS).

Entrepreneurs in the study entered the business environment for various reasons. Some got into business due to the passion and dedication they had for business, whilst others looked for independence, being able to live a better life for themselves and their families or being caught by the entrepreneurial bug. Only three respondents had the required traits for business and actually concentrated in the sectors they had expertise and knowledge of. Also, some respondents operated the businesses on a part-time basis as they still had full-time employment and did not entirely rely on the business for a living. As far as having attended formal business training is concerned, this was not alarming as half the respondents indicated in the affirmative. Some of those that did not have formal business training had attended training that was unrelated to operating and managing a business. What was alarming though is the fact that 62.50% of the respondents did not have business plans before venturing into business.

Out of the six respondents that had business plans, four of them were able to be financed by commercial institutions when starting their businesses. This is indicative of the role a business plan plays. Of course, it is not just on the financing aspect but on other operational and strategic matters of the entity. From the eight respondents that had attended some form of formal business training, only two of them did not have a business plan. This is also indicative of the fact that a business plan forms an integral part of any business training.

4.3.2 Activities

There is a wide spread of the activities of the entities. It must be stressed though that some of the respondents actually diversified from the core activities under which the entities were registered. For instance, one respondent had to diversify from being a logistics entity to a stationery and printing supplier due to difficulties
experienced in the logistics sector. This respondent had to shift focus and look for a different market. One respondent had a concept of supplying synthetic grass to the government, claiming that the idea got stolen by dishonest government employees subsequently leading to him having to close shop.

All the respondents had the public sector as their main clientele base. This is a worrying factor due to the problems associated with the slow wheels of government in processing payments. The reliance on government as the main client weighed heavily on the cash flows of the entities.

The average number of employees is 5 per respondent, with the cleaning and catering sectors being the major contributors.

Some of the past and current obstacles faced by small businesses are beyond their control and have a huge impact on their businesses. For instance, the practice of processing payments late by the government is beyond their control. This is a very serious matter as it impacts negatively on the cash flow. On the other hand, an obstacle such as marketing, which also came up, can be addressed internally as it is within their control.

Funding, corruption involving Government employees and lack of business opportunities are some of the past and current obstacles that emerged. Two other matters that were raised were lack of affordable space or premises for conducting business, as well as the annual payments for BBBEE verification certificates.

4.3.3 Financial

Six of the 16 respondents made use of external resources to raise funds for business start-ups, the other ten sourcing from their own resources or families and friends. The main reason that emerged for internal sourcing of capital is due to the inaccessibility of funding from commercial and governmental institutions. Respondents allege that issues such as too much red tape, high interest rates, and equity requests stood in the way of accessing funding. Ten out of the 16 respondents kept financial records for the business and out of the six that did not, only one of them had formal business training.
Only three businesses did not portray profitability, at any stage of their existence. One of the entities was fairly new and the owner realised that it had potential to be profitable and big, hence not giving up on the venture. Only one entity had an average annual turnover of over a million rands in the last three years.

Four respondents drew standing salaries from the entities. Two drew them on a monthly basis, one on a bi-monthly basis and the last one on an annual basis. The fourth respondent is in full-time employment and operated the business on a part-time basis.

4.3.4 General - Government support

It was surprising there were business owners who were not aware of any government funded institution offering assistance to small businesses. To the researcher this indicated failure on the part of the government to market and expose these agencies. Three of the respondents indicated a complete unawareness of government funded institutions that assist small businesses in accessing funding. The ECDC came out as the most prominent government institution that the respondents were aware of, with ten out of the 16 respondents mentioning it.

Respondents came out clearly that they needed financial support from government as the commercial institutions are unable to assist in this regard. It also emerged that the state funded institutions were not doing enough to assist small businesses. The introduction by government of the BBBE Status Level Certificate for those entities doing business with the State was also a concern for small businesses. The certificates have to be paid for and renewed on an annual basis. Entailed in the financial support was the slow processing of payments by government. Total eradication of corruption in government and the provision of training for small businesses were also mentioned.

4.4 CONCLUSION

The chapter discussed and analysed the responses of the survey. These responses were then linked to the literature review in Chapter Two. The chapter also dealt with a detailed discussion of the findings where it emerged that some of the respondents
were engaging in business best practices to make a success of the entities. It emerged that there was much room for improvement and the vital support role that government should play.

Chapter Five of the study pertains to the conclusions and recommendations.
The problem statement of the study has been discussed in the previous chapters to a great detail. The main problem of the study, that is “What challenges exist and what strategies can be put in place for enhancing sustainability of small black businesses in the Buffalo City Municipality” is mentioned in Chapter Four. Chapter Five will discuss the major conclusions emanating from the study and relating to the findings in Chapter Four. Other possible research ideas that are derived from this study will be mentioned. The researcher will present recommendations relating to the findings. In conclusion, an overall summary of what has been done and the main conclusions will be presented.

5.2 CONCLUSIONS OF THE STUDY

The research findings bring to the fore those factors that small businesses are faced with in their daily business life. It also emerged that some of these factors were externally influenced, and therefore could not be controlled, whilst some were internally influenced and could be controlled. Government has a vital role to play in assisting small businesses to overcome those externally influenced challenges. The small business owners will need to address those issues that are within their control.

Firstly, in addressing the controllable, internal challenges that businesses are faced with, it is clear that business owners play a major role in contributing to the growth, success or failure of an entity. The overall lack of business management to successfully guide, operate and grow the business leads to the failure or demise of small businesses. Reider (2007:5) agrees that for a successful small business, there needs to be expertise in operational and financial management.

Secondly, government needs to play a supportive role in assisting small businesses achieve growth and success. Nieman (2006:258) purports that national, provincial and local authorities should form part of institutions that should work towards the promotion and development of small businesses. Government alone can’t address the challenges facing the country. Small businesses have an economic role to play, assisting in alleviating some of the problems that the country is faced with, such as unemployment, poverty, and so on. It should be mentioned though, that government is making endeavours to assist small businesses by establishing
institutions and agencies that are supposed to assist. What has emerged is that the existence of these institutions does little to alleviate the challenges facing small businesses. The state needs to take note of the funding model, as well as take the initiative in providing business management training and skills development. A vigorous and sustained effort from government is needed to uproot corruption as it is one of the impediments to the success of small businesses, including the role of government employees in bidding for government tenders.

The research has exposed that some effort on the part of both the small business owner and government has been made. On the other hand the study highlights areas that need further attention on the part of all the role players.

5.3 SUGGESTIONS FOR FURTHER RESEARCH

The study revealed some areas pertaining to small businesses that need further research. The areas are as follows:

a) A study on the satisfaction level of small business owners. 

b) The impact of the government founded agencies in assisting small businesses.

5.4 RECOMMENDATIONS

This is the final step in the study, as the aim was to come up with strategies that can be put in place for the success and sustainability of small businesses. The recommendations presented are aimed at both the small business owner and the government.

(a) Recommendations for the small business owners.

(i) Entrepreneurs should make an effort to do research on the type, size, the market, and so on, of the enterprise they want to venture into, before getting to establish the business. Potential entrepreneurs must make every endeavour to be involved in ventures they have expertise in and knowledge of.
(ii) Business owners should attend formal business training courses. Part of the skills development is to identify coaches and mentors.

(iii) It is imperative that a business plan must be part of the entrepreneur's toolkit. It is advisable to enlist the assistance of a professional in drawing up the business plan.

(iv) Financial records of the entity must be kept and the entrepreneur should be able to understand and interpret them.

(v) Entrepreneurs must implement marketing management practices, including non-reliance on a single client.

(vi) Business owners must draw monthly salaries, and keep away from drawing from the proceeds of the entity in an ad hoc manner.

(vii) Effort should be made to make use of internal sources of funding the business. The second resort should be government funded institutions, with the commercial banks being the last resort.

(viii) Business owners must be innovative and entrepreneurial in nature, along with being strategic in thinking.

Mybusiness (2010) lists systematic business processes, getting quality work, having a reputable customer, understanding customers and having a plan as some of the recommendations for small businesses to grow.

(b) Recommendations for the Government

(i) Review of the funding model for small businesses. This is a necessity as the current models do not sufficiently address the challenges facing small businesses. Access to finance is still a problem for small
businesses, partly due to pre-qualification requirements that are stringent for small businesses.

(ii) Improve accessibility to government funded institutions and agencies. Government should make these institutions accessible to businesses in rural areas as well. Awareness campaigns should be run by government in exposing these institutions.

(iii) Training and skills development initiatives must be provided and made accessible to small business owners.

(iv) Effort must be made to uproot corruption, including the unfair situation of having to compete with government employees for state bids.

(v) Supply chain and finance practitioners in government departments must be knowledgeable and have expertise in the business environment, especially the small business sector. Some of these practitioners are not aware of the impact of their actions on small businesses. Slow processing of payments for a small business affects cash flow and can subsequently lead to its closure.

(vi) Government must encourage innovation and an entrepreneurial spirit amongst small businesses.

(vii) The payment for BBBEE Status Level certificate on an annual basis is hard for some of the small businesses as they have to pay for certificates whilst on the other hand there’s no work coming their way. Payment for these certificates should be abolished. This should also apply to association membership certificates.
According to WSJ (2012) website, some of the best things that the government can do to assist small businesses are providing more finance, lowering of taxes, setting aside more contracts and cutting the red tape.

5.5 CONCLUSION

Small business owners and the government play a vital role in addressing the recommendations mentioned in paragraphs 5.4 (a) and 5.4 (b) above. These recommendations will assist in responding to the main problem question of the study, which was to look at the challenges that exist and the strategies that can be implemented for enhancing the sustainability of small black businesses in the buffalo City Municipality.

It is a worldwide accepted phenomenon that at the forefront of the development and growth of any country’s economy, is the support and enhancement of small businesses. The Government of South Africa is not immune or exonerated from the principles of supporting small businesses. Through the Government's support of this sector of the economy, the unemployment rate figures would be alleviated.

The Chapter discussed the major conclusions that arose from the research findings in Chapter Four. Topics for further research also emanated from the findings. The most prominent that emerged as the cause of failure is the lack of management skills to successfully operate the business. The research was directed at those factors that are within the control of the respondents. External factors such as sources of finance, government initiatives and so on, were not the main focus of the research. The study exposed areas that are lacking in the development and support of small businesses. Areas in which the government can play a role also emerged from the study. Recommendations for both the small business owners and the government are presented in the chapter. The recommendations strongly stress that both need each other for the benefit of society and the country.
REFERENCE LIST


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Van Onselen, G 2012. *How Buffalo city was brought to its knees.* Available from http://politicsweb/view...en/page71619?... [accessed on 17 april 2013].


ANNEXURE 1: THE QUESTIONNAIRE COVERING LETTER
Dear Respondent,

You are cordially invited to participate in a research survey.

I am a post-graduate student from Nelson Mandela Metropolitan University towards a Masters in Business Administration (MBA) qualification. My research project, which is a qualification requirement, entails an investigation into the challenges and strategies for the sustainability of Small Black Businesses in the Buffalo City Metropolitan Municipality (BCM). The belief is that the results of the research would contribute to providing an in-depth understanding of these challenges and subsequent strategies in alleviating the problems faced by Small Black Businesses in the BCM.

You also have the right to review the results of the research if you wish to do so.

You are part of our selected sample of respondents whose views/responses we seek on the above-mentioned matter. We would appreciate it if you could answer a few questions in this regard, which should not take more than 20 minutes of your time.

Please note that the information gathered will not be used against any organization in any way and that all your responses will be strictly confidential.

There are no correct or incorrect answers. The responses should be answered with honesty as they will be used to analyse the over all data.

Thank you very much.

Mr M W Didi

Research Supervisor: Dr A Weimann (Tel. 043-7038505 or 082 200 6191)

ANNEXURE 2

QUESTIONNAIRE

SECTION A
A. **BACKGROUND AND TRAINING**

1. When did you start the business?

   ____________________________________________

   - If closed down, when did it close down?

   ____________________________________________

2. What prompted you to get into business?

   ____________________________________________

   ____________________________________________

   ____________________________________________

3. What were you doing before you got into business?

   ____________________________________________

4. Do you have any formal business training?

   ____________________________________________

   If yes, which Institution conducted the training for you?

   ____________________________________________

5. Did you have a Business Plan for the business?

   ____________________________________________

   If yes, who did the Business Plan?

   ____________________________________________

6. Where is/was the business located?

   ____________________________________________

B. **ACTIVITIES**

1. What is/was the main business activity

   ____________________________________________

2. Who is/was the main clientele base (Government, Private Sector, etc.)?

   ____________________________________________

3. How many employees do/did you have (part time and full time)?

   ____________________________________________
4. What are the past obstacles that the business faced?

How did you overcome them (failed/succeed)?

If succeeded, how?

5. What are the current obstacles facing the business?

How do you plan to overcome them, if any?

C. FINANCIAL

1. How was the business financed, when starting?

If financed through external funding, what institution and how did you choose it?

2. Did you keep any financial records for the business?

If yes, who did the records for the business?

3. What was the average turnover for the business in the last 3 years?
4. Was the business at any stage profitable?
________________________________________________________
If yes, what was the last year it was profitable?
________________________________________________________

5. How did you pay yourself (from the proceeds of the business)?
________________________________________________________

D. GENERAL

1. Are you aware of Government Funded Institutions that assist Small Businesses?
________________________________________________________
If yes, which one(s) are you aware of?
________________________________________________________
If yes, how did you get to know about them?
________________________________________________________

2. How do you think the Government should assist Small Businesses?
________________________________________________________

3. Any other comments?
________________________________________________________
________________________________________________________
SECTION B

GENERAL INFORMATION

Please make a cross (X) or enter relevant information in the blocks

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<th></th>
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</table>

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<td></td>
</tr>
<tr>
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</table>

<table>
<thead>
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