

The Factors Influencing SME Failure in South Africa

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by

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Abstract

Like many developing countries, South Africa faces a great development problem relating to the high failure rate that is present among Small and Medium Enterprises (SMEs), this is due to the fact that entrepreneurs are not able to turn their businesses into sustainable venture. SMEs play a significant role in a number of economic development issues that face South Africa as a nation. The SME sector has contributed immensely to job creation, poverty alleviation and assisting in the prosperity of the nation. In addition to the above, SMEs are generally inexpensive to start and have the potential to generate massive economic growth in South Africa. Although the SME sector has many positive attributes, there are persisting challenges that plague South African SMEs.

Fatoki and Garwe (2010) state that in the South African context, new SMES do not usually move from the existence stage, which is the first stage of growth, to the subsequent stages such as survival, success, take off and resources maturity. As such, it is believed that many of these SMEs do not survive in their first years of operation and thus, do not provide their benefits to society.

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TABLE OF ACRONYMS

Table of Acronyms	
Acronym	Acronym stands for
SMEs	Small and Medium Enterprises
GDP	Gross Domestic Product
SARB	South African Reserve Bank
GTM	Grounded Theory Methodology
NDP	National Development Plan
GDP	Gross Domestic Product

Acknowledgements

To my beautiful family – Daddy, Mummy, Monkie, Makhethe and Moremoholo,
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Tom, my supervisor, Thank you for bearing with me and pushing me when I was very
close to the edge!

To God be all the Glory

Chapter 1 Introduction and Overview

1.1 Background of the study

In recent years, there has been an increase in the acknowledgment of the important role that small and medium enterprises (SMEs) play in the growth of developing countries, such as South Africa, and the great contribution SMEs make in the economic development of such nations. SMEs are often described as efficient, in comparison to their larger corporate counterparts and also can be seen as prolific in job creation. In addition, SMEs are seen as the stream that feeds into big business, keeps big business going, and is the fuel which South Africa's economic engine uses to grow.

Millinoux (1997) says that the SME sector is contributing more to the employment of the population than the multinationals in any nation. It goes on further to say that this is the case even in developed, industrial economies, not just developing economies (Millinoux, 1997). The significant role of the SME sector in the economy and its development has seen it becoming the central discussion of policy debates in many countries'. Given the new emphasis on the SME sector, governments at all levels have started to formulate initiatives' and policies that promote the sustained growth of the sector.

The estimation of the contribution that SMEs make to the South African economy varies quite significantly, from source to source. SME firms in South Africa contribute to a great part of gross domestic product (GDP). According to a paper published by the South African Reserve Bank (SARB) in 2015, it estimated that 91 per cent of formal business entities in South Africa are responsible for 52 – 57 per cent of GDP (The South African Reserve Bank , 2015).

The South African Department of Trade and Industry classifies enterprise size according to their annual turnover in terms of the National Small Business Amendment Bill. The categories and cut-offs differ from sector to sector.

The below table depicts the annual turnover that a company makes if it is classified as a small and medium enterprise in South Africa. The businesses that fall within the range of small and medium are the businesses that we have a particular interest in this study.

Indicators	South Africa	Brazil	Russia	India
HDI	0.666	0.755	0.798	0.609
GDI	0.948	0.997	1.019	0.795
GII	0.407	0.457	0.276	0.563
MPI	0.041	0.011	N/A	0.282
HDI	0.666	0.755	0.798	0.609
GDI	0.948	0.997	1.019	0.795
GII	0.407	0.457	0.276	0.563

Table 1: Department of Trade and Industry lower-boundaries on enterprise size

Source: StatsSA (2015)

The National Small Business Act 102 of 1996 is the framework that is most used in South Africa and this framework defines five categories of business in South Africa. The definition outlined in the Act uses the number of employees (the most common mode of definition) per enterprise size category combined with the above annual turnover categories, the gross assets excluding fixed property. The definitions for the various enterprise categories are given as follows:

- Survivalist enterprise: the income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers.

- **Micro enterprise:** The turnover is less than the VAT registration limit (that is, R150 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, spaza shops, minibus taxis and household industries. They employ no more than 5 people.
- **Very small enterprise:** these are enterprises employing fewer than 10 paid employees, except mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology.
- **Small enterprises:** The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.
- **Medium enterprises:** the maximum number of employees is 100, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterized by the decentralization of power to an additional management layer.

The National Small Business Acts' definitions of the different categories of business may be summarized as set out in Table 2 below.

Enterprise Size	Number of Employees	Annual Turnover (in South African Rand)	Gross Assets, Excluding Fixed Property
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to R50 million, depending upon industry	Less than R2 million to R18 million, depending on industry
Small	Fewer than 50	Less than R2 million to R25 million, depending on	Less than R2 million to 4.5 million, depending on

		industry	industry
Very Small	Fewer than 10 to 20, depending on industry	Less than 200 000 to R500 000, depending on industry	Less than R150 000 to R500 000, depending on industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Table 2: Definition of SMMEs given in the National Small Business Act

Source: (Falkena , et al., 2015)

1.2 Introducing the concern Variable

The research problem is focused on the challenges that small and medium enterprises in South Africa face that drive up the failure rate of these businesses. As it stands, South Africa faces one of the highest SME failure rate in comparison to its developing counterparts. As SMEs are the cornerstone of the South African economy and are the answer to poverty and unemployment, it is pivotal that the root causes of failure be identified and rectified. The research seeks to achieve a fuller understanding of what the challenges are and how to correct these persisting problems in the SME sector in South Africa.

The concern variable for this study is the failure rate of small and medium enterprises in the South African context.

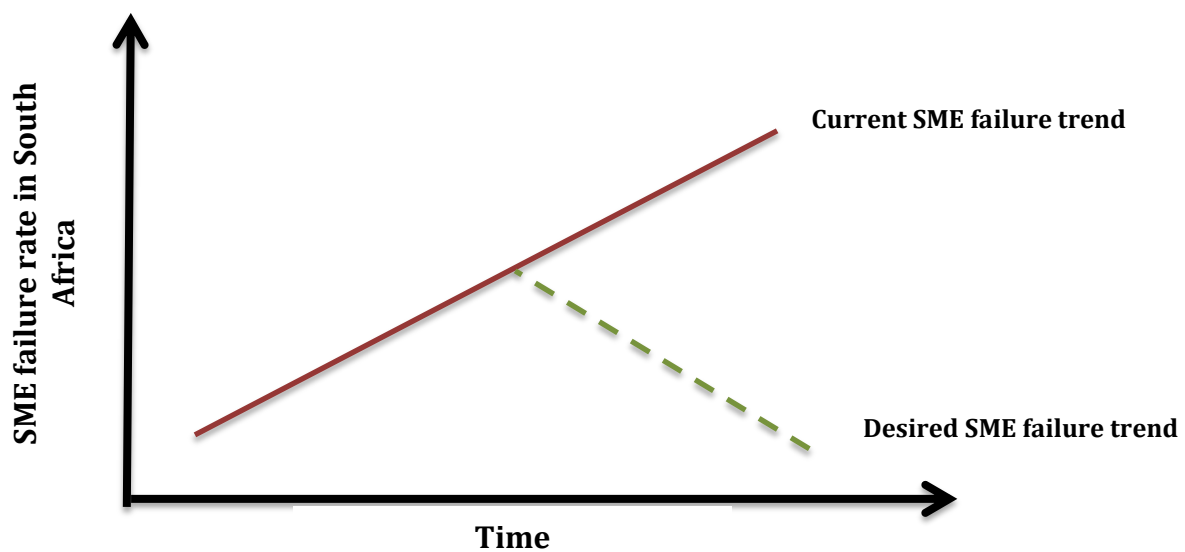


Figure 1: Graphical depiction of the SME failure rate trend in South Africa

Figure 1 above serves to show how the concern variable, the failure rate of SMEs in South Africa, moves and changes over a time period. If the concern variable is left to its own devices, and no interventions are put in place, this trend will continue until very few SMEs are left operational in South Africa.

The green dotted line depicts the desired state of affairs or ideal results if there are to be policies and interventions put in place that address the challenges that this study will uncover. This study aims to understand the factors that lead to SMEs failing in South Africa. The subsequent subsections that follow will discuss the study research goals, the research question and the conceptual framework that has been used for this research study.

1.3 Development of the Research Goals

The main objective of research goals is to ascertain clarity regarding exactly what the researcher wants to derive from the research paper (Maxwell , J, 2008). The aim is to have a better understanding of the behavior of the concern variable.

Intellectual Goals
To fully understand the factors that lead to the high failure rate for Small and Medium Enterprises face in South Africa
To understand why the factors identified are persisting in the South African context
Practical Goals
Use the findings from this research paper my own career development
The findings from this paper will allow for there to be an depth solution formulation for use in the SME sector
Personal Goals
As I work in a SME, this will give me an opportunity to learn more about the problems that plague the sector as a whole
It will also enable me to become a better entrepreneur one day. I will know what the challenges are generally and I will be able to preempt them

Table 3: Intellectual, practical and personal goals of the research

1.4 Conceptual Framework

Miles, Huberman and Saldana (1994) describe a conceptual framework as a visual or written product, one that “explains, either graphically or in narrative form, the main things to be studied—the key factors, concepts, or variables—and the presumed relationships among them”. This is done in order to give a tentative theory of what is going on and why this phenomenon is taking place (Maxwell , J, 2008).

Maxwell (2008) states that the conceptual framework of a research study is the relationship that is present between the concern variable, goals and beliefs. The conceptual framework is the tentative theory which guides the research. The primary role of the conceptual framework is a model of what there currently is out there relating what the research area. The function of this is to inform the rest of the research design – to help assess and refine the goals, develop realistic and relevant

research question/s select that most appropriate methods and to identify potential validity threats to the conceptual framework.

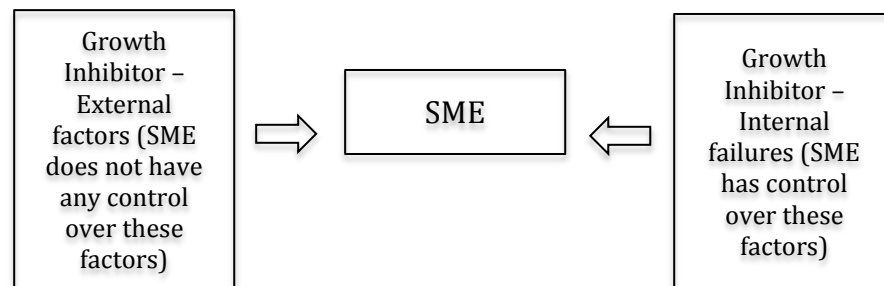


Figure 2: Conceptual framework for SME Failure

The conceptual framework of this research study is shown in Figure 3. The figure illustrates the general growth inhibitors that need to be present in order for failure in SMEs to occur. To begin with, there will be macro-economic factors which any business faces in South Africa. If the SME is not well equipped to deal with these factors, it will result in the failure of the business. In addition to external factors, there would also be internal shortfalls which would hamper the success of a SME.

1.5 Research question

In this section there will be a brief discussion regarding the research question and the role of the research questions. The main aim of the research question in this study is to focus the study – “what the researcher wants to achieve”.

The concern variable of the study is the failure rate of small and medium enterprises in the South African context. The concern is best framed as a research question in order to ensure that the research stays relevant to the area of study. The research question for this study is:

What factors influence the failure of South African SMEs within the first three years of starting?

The research question seeks to gather a full understanding of what constraints the success of SMEs in South Africa within the first three years from inception. In other words, what factors contribute to the failure of SMEs in South Africa within the first three years?

1.6 Justification of the study

Currently global trends are such that the SME sector shows sustained growth and are consistently being the largest employer in both the developed and developing world. This is contrary to the reality in South Africa – currently small and medium enterprises are experiencing stagnation the turnover generated and in the employment growth. These two measures of SME success are important and very relevant in the South African context. Turnover a good measure because the turnover that is being generated by SMEs shows the wealth and activity created in the South African economy. The employment measure is vitally important, especially in the South African environment, as it is a gauge at South Africa’s social stability (Business Environment Specialists, 2015).

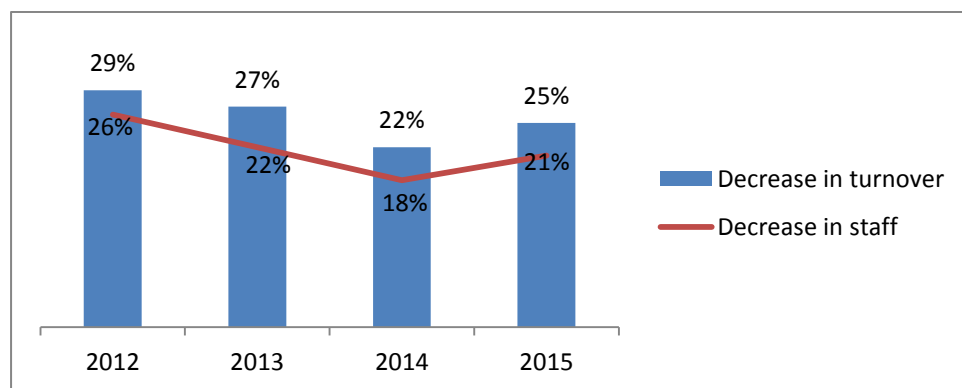


Figure 2: Percentage of Firms reporting a decrease in staff number and turnover

Source: (Business Environment Specialists, 2015)

SMEs form the very backbone of a thriving economy. The growth and flourishing of the SME sector is fundamental for the future economic development of the South African economy.

1.7 Structure of the study

This research paper consists of a further five chapters, the layout of which is as follows. Chapter two will unpacks the research methodology used in this research paper. The next section, chapter three, details the empirical results uncovered during the research. A review of the existing literature is presented in Chapter four and Chapter five details the process used to build the final proposed theory. Lastly, Chapter six provides a conclusion based on the research findings and a discussion of their implications.

Chapter 2 Research Methodology

2.1 Introduction

This chapter introduces the research methodology used for this study and how this method design has guided the data collection, analysis and development of theory. Initially, the background and fundamentals of grounded theory will be unpacked; following which, the key attributes of this methodology will be discussed. Thereafter, the following sections go through the data collection methods and cycles.

2.2 Grounded Theory

Grounded theory started in the 1960s at the School of nursing at the University of California in San Francisco. The concept of grounded theory was pioneered and developed by Barney Glaser and Anselm Strauss. Their book named “The Discovery of Grounded Theory” was very influential in forging grounded theory as a reliable research tool. Grounded theory is a systematic methodology involving the discovery of theory through data analysis. It involves collecting data, coding and categorising the data and creating a theory using those categories (Strauss & Corbin, 1990).

"If someone wanted to know whether one drug is more effective than another, then a double blind clinical trial would be more appropriate than grounded theory study. However, if someone wanted to know what it was like to be a participant in a drug study [...], then he or she might sensibly engage in a grounded theory project or some other type of qualitative study." (Strauss & Corbin, Basic of qualitative research: Techniques and procedures for developing grounded theory, 2nd ed, 1998)

This abstract from Strauss and Corbin, perfectly explains the context in which it is most beneficial to use grounded theory methodology for a research project. In specific reference to this research paper, this quote explains the appropriateness of using grounded theory in seeking to develop a theory regarding the factors that influence the

failure of South African SMEs. The research paper seeks not to formulate a theory concerning the degree or extend to which these factors influence the success rate of SMEs in South Africa, but rather, which factors affect participants in the South African SME environment. In general, grounded theory methodology (GTM) gives the researcher a useful tool to use in order to ascertain and reach a deeper understanding of individuals' perceptions on certain matters and their experiences and feelings towards a particular area of study. The study applied a grounded theory methodology using documentary research. These two methodologies are discussed in further detail below.

2.2.1 Key Attributes of Grounded Theory

Charmaz (1990) identifies a number of key features of grounded theory:

1. Simultaneous collection and analysis of data

The simultaneous collection and analysis of data is a key attribute in grounded theory. This iterative process is unique to this specific method of research. Grounded theory methodology relies on data collection and analysis done concurrently. The analytical work conducted in the formative stages assist the researcher in which direction to go, namely, it serves as a guide as to which additional data to collect and what are the emerging themes and questions (Charmaz, *Qualitative Psychology: A Practical Guide to research Methods*, 2015).

Grounded theory uses coding as a means to analyse the data that is collected. Coding is the method from which the researcher originates and grows concepts for the data collect. Strauss and Corbin define the process of coding as “the analytical processes through which data are fractured, conceptualised and integrated to form theory” (Strauss & Corbin, *Basics of Qualitative Research: Techniques and Procedures of Developing Grounded Theory* , 2008). From the raw data, researchers can identify activities, events or significant happenings or ideas which are seen as an indicator of some phenomenon, these phenomena are then coded.

2. Creation of analytic codes and categories developed from data and not by pre-existing conceptualisations

A main feature of grounded theory is that, unlike other methods where there's a pre-conceived theory or hypothesis, the theory in this case is developed through the research process. The researcher develops the categories' which are created through the constant comparison and the constant analysis of the data collected.

3. Discovery of basic social processes in the data

The discovery and development of a basic social process is created around the core categories.

4. Inductive construction of abstract categories

One of the key characteristics of grounded theory is its inductive nature. Simply stated, it is the qualitative approach that the researcher uses to uncover a phenomenon by setting aside any predetermined notions about that phenomenon and developing a theory about it. In grounded theory, the theory that is developed is not tested, only formulated.

5. Theoretical sampling to refine categories

Theoretical sampling is merely the process of sampling data which is theoretically oriented. The main objective of the theoretical sampling in grounded theory is to come up with categories and develop those categories into a conceptual theory. The process of theoretical sampling is driven by the theory that is emerging from the data collected and analysed, following up leads as they arise in the data and progressively focusing data collection to refine and integrate the theory.

Theoretical sampling is a classic feature of grounded theory and it is essential to the development and refinement of any theory which is 'grounded' in data (Breckenridge & Jones, 2009). With theoretical sampling, instead of your research question being fixed from the beginning, sampling is amended according to what theory is emerging from the data.

6. Theoretical saturation

Theoretical sampling occurs when, after several cycles of qualitative data collection and analysis, no new insights, dimensions or data can be added to categories and all concepts in the theory are well developed.

2.2.2 *The Grounded Theory Process*

The process of grounded theory building consists of four analytical phases, which are not strictly sequential (Pandit, 1996). As stated before, the researcher conducts iterative cycles in an effort to ‘ground’ the analysis conducted in the data. Because of this fact, there are no prescriptive steps or order of steps in grounded theory; instead the researcher is encouraged to ‘follow the data and the emerging theory’. This includes constantly reviewing data and results in each cycle and if necessary, change the direction of the research (Willig, 2013). This chapter will go through the different phases/steps of grounded theory.

2.2.2.1 Phase 1: Research Design

The purpose of the research design is to assist the researcher to attain a better understanding of the structure of the study that they are doing (Maxwell, J, 2008). Maxwell (2008) states that in a qualitative study, “the activities of collecting and analysing data, developing and modifying theory, elaborating or refocusing the research questions, and identifying and dealing with validity threats” usually happen simultaneously – and each one influences all of the others. Additionally, the researcher may change the research design in response to new developments, whereas traditional approaches prescribe a model for conducting research, this approach treats the search design as a dynamic entity rather than a static plan.

2.2.2.2 Phase 2: Data Collection

In grounded theory, the collection and analysis happens at the same time. The theory is developed and refined from the data as it is collected over the four data collection cycles. Analysis of the data happens from the first cycle of data collection, up until the last cycle, which is cycle four.

In this study, secondary data or documentary research was the main source of data to analyse. Secondary data analysis is the act of re-analysing data which was initially collected for another purpose other than the study. Secondary analysis is described as “A research strategy which makes use of pre-existing quantitative data or pre-existing qualitative data for the purpose of investigating new questions” (Heaton, 1998).

In grounded theory, the data collection and analysis in the early cycles are intended to reveal matters that need further exploration. This is the reason why the data collecting process and cycles are guided by the theory development that happens throughout the entire process.

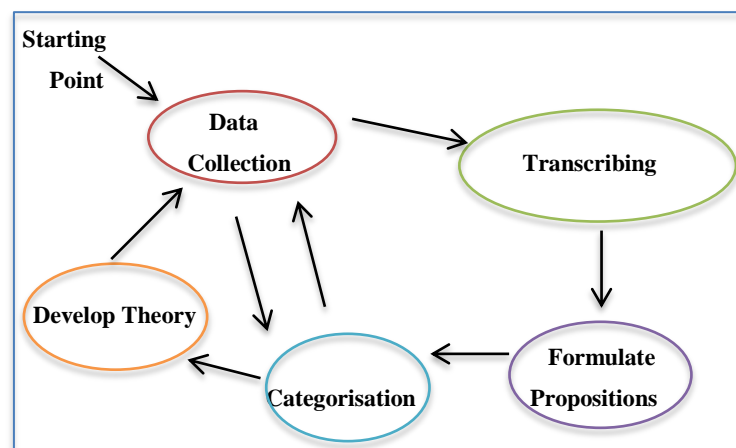


Figure 3: Steps in developing a grounded theory

The process of data collection and data analysis happens in alternating sequences or cycles (See figure 4). The process of alternating sequences can also be explained as an iterative cycle of induction and deductive, which entails the process of collecting data and the on-going evaluation between the cycle outcomes and new findings in order to drive and guide the subsequent data collecting cycles (Strauss & Corbin, Basic of qualitative research: Techniques and procedures for developing grounded theory, 2nd ed, 1998).

Part of the grounded theory methodology is to identify and develop variables as the cycle's progress. The identification and developing of these variables does not happen before data collection but rather, forms part of the data collection phase. As a result of this, the concern variable is formed by the data collected and then refined, advanced and conceptualised by the researcher.

After four data collections and data analysis cycles, *saturation* can potentially be reached. Data saturation happens when there are no new propositions and no new and relevant data for the categories.

2.2.2.3 Phase 3: Data Ordering

In the third stage of the research, the data is ordered in a chronological fashion. This is done for the purpose of allowing the data analysis process to be simpler and easier and also allows for the examination of the process.

2.2.2.4 Phase 4: Data Analysis

Data analysis consists of coding, theoretical sampling and saturation. Coding the data is the process which is taken in grounded theory in order to create the categories. During the beginning stages of the data analysis, the data is largely descriptive – descriptive labels are attached to discrete instances of phenomena (MHEducation , 2012).

Strauss and Corbin (2008) lay out the procedure of coding in the following way:

1. Build rather than test theory
2. Provide researchers with analytic tools for handling masses of raw data
3. Help analysts to consider alternative meanings of phenomena
4. Be systematic and creative simultaneously
5. Identify, develop and relate the concepts that are building blocks of theory

Coding helps raise questions and provide tentative answers about categories and their causal relation to each other. There are three type of coding discussed below:

- (i) Open coding. This is the process through which the researcher identifies names, categorises and describes the phenomena found in the data collected. The research labels the data and categorises it depending on the attributes that content possesses. Open coding compares recurring phenomena and begins with the process of constant comparison that is so important in GTM.
- (ii) Axial coding. This coding is done when the open coding process is complete. The main objective of this coding is to identify further relationships between the categories which have already been recognized. Usually at this point of the study, the research will have a fuller understanding of the identified categories due to the fact that they have more theoretical and empirical understanding of the area in which they are conducting the research. During the axial coding, a process known as sample reduction takes place. Sample reduction is when the researcher combines categories into other categories in order to reduce them in numbers.
- (iii) Selective coding. This process assists in reducing the number of categories that have been identified by the researcher, thus making the sample size smaller, additionally; he propositions are coded for these categories (Douglas , 2003). From the core categories form, the researcher will be able to put together a theoretical interrelation model. During the selective coding process, saturation may be reached. Saturation is merely the state when the researcher is no longer able to find additional categories or propositions to fit into the already existing categories.

2.2.3 Developing Categories

The general process of creating propositions from data collected or coding the data and then developing a theory is represented in basic form the figure below.

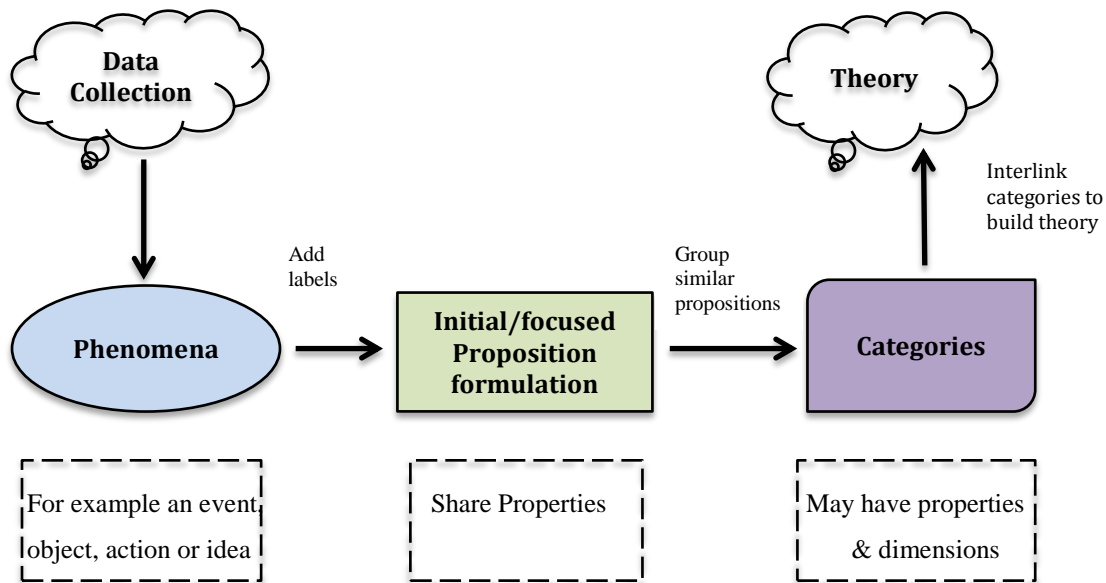


Figure 4: Steps in Grounded Theory (Strauss & Corbin, Basic of qualitative research: Techniques and procedures for developing grounded theory, 2nd ed, 1998)

Subsequent to collecting data from different secondary sources and primary sources, such as interviews and journals, propositions or codes are created and a researcher can identify many issues which are important to the area of research and are important to the interview respondent. Strauss and Corbin (1998) refer to these conceptual labels “concepts”. These concepts are formed from issues and phenomena that the research extracts from the data collected. Some concepts will have common themes and share similar characteristics. The proposition which have the same features can be pulled together to form categories. The categories which are pulled together are generally interlinked and these are used as the foundation of theory building

The categories developed, which are sometimes referred to as concepts, are generated from the raw data collected by the research rather than directed by the researchers hypothesis and preconceived notions. Every category that is analysed, must be done

so by merit and earn its way into the analysis. The categories identified must be grounded in the data and not generated from the researcher (Hallberg , 2006).

2.2.4 Miniature Literature Review

The methodology of grounded theory involves a process of coding or creations of meaningful propositions and the process of developing categories from the formulated propositions. The processes of grounded theory are supported by writing of memos or mini literature reviews after each data collection cycle and data analysis cycle. The mini literature reviews and memo-taking are simply a set of transcripts or notes which the researcher keeps throughout the whole grounded theory process. These memos provide the research with a detailed record of thoughts and ideas. The memo writing process enables the researcher to reflect on the data collected and the given propositions and write informal analytical notes.

According to Charmaz (2006), the process of literary comparison and memo writing is a pivotal intermediate step between data collection and writing of draft papers. The phase of the data analysis is critical to the GTM because it prompts the researcher to analyse the data and codes early in the research process.

2.2.5 Substantive and Formal Theory

There are two types of theories in grounded theory methodology, namely, substantive and formal theory. A substantive grounded theory is a tailor-made theory that is used to give details regarding a specific matter in a specific area. Substantive grounded theory brings with it limitations, if constant comparative methods are not used. In contrast to substantive grounded theory, formal theory is more generalised and is transferable across research areas and can be used in other different scenarios. Formal grounded theory is a generic theoretical tool, which can be applied to a board range concerns and problems (Strauss & Corbin, Basic of qualitative research: Techniques and procedures for developing grounded theory, 2nd ed, 1998).

This research study has developed a substantive grounded theory as the collected data focuses on a particular area and seeks to bring a fuller appreciation of that particular area of study, that is, the challenges facing small and medium enterprises in South

Africa. This thesis does not give an allowance to take this specific, substantive theory to a formal theory that could be generalised across a wider area, such as challenges faced by small and medium enterprises in North America or obstacles faced small and medium enterprises in Hong Kong.

2.3 Documentary Research

Documentary research method refers to the analysis of documents that contain information about the phenomenon we wish to study (Ahmed , 2010). Simply put, a document is a written text. Documents are produced by individuals and groups in the course of their everyday practices and are geared exclusively for their own immediate practical needs (Scott, 1990).

When doing a documentary research study, there are two types of documents that a research can use, namely primary documents and secondary documents. Primary documents are first-hand accounts or eye-witness account by people who have experienced what is being studied. Secondary documents are compiled by people who were not present but received an account of the events (Bailey , 1994).

2.3.1 Key Attributes of Documentary Research

In documentary research the researcher is responsible for the entire process from the design of the study, to collecting and analysing the research data (Ahmed , 2010).

There are three common characteristics of the documentary research method:

1. They rely entirely on the analysis of the data collected for the purposes other than those of particular studies in social relation
2. Documentary research studies call for ingenuity in translating existing records into quantifiable indices of some general concepts
3. Documentary studies are particularly susceptible to alternative interpretations for the natural event and their effects

Advantages	Disadvantages
Data readily available	Limited by the availability of data
Inexpensive and economical form of data	Inaccuracies in original material
Save time	Bias – selective deposit
“Non-reactivity” – records unbiased by data collection process	Bias – selective survival – missing or incomplete data
Researcher does not have to be present during data collection	Data studied out of context
Useful for hypothesis/problem formulation	Preparation before analysis

Table 4: Advantages and disadvantages of using documentary method

Source: (Appleton & Cowley , 1997), *Journal of Advance Nursing*

One of the key advantages of documentary research is that the researcher has the data readily available and can access this data and information easily. Another advantage that occurs when using the documentary research method is that collecting secondary data is usually cost effective.

Although there are many advantages to using the documentary research method, this method does not come without its own shortfalls. Much of the time, the secondary data used was not originally intended for the researchers use and so this information may be idiosyncratic or incomplete. In addition to this, the data may contain inaccuracies and be biased.

2.3.2 The Documentary Research Process

The various aspects of the documentary research process are discussed below

2.3.2.1 Conceptualising Documents

A researcher has numerous methods in which they can conceptualise the secondary documents in which they use for their research and frame their research question accordingly.

2.3.2.2 Assessing Documents

There are four criteria for assessing the quality of the evidence available from documentary sources – Authenticity, credibility, representativeness and meaning – these four assessment criteria will be discussed in further detail in the section of quality control

2.3.2.3 Analysing Documents

The context and content of documents collected do not have any significant meaning when standing alone. The documents have to be in reference to the theoretical framework in order to be fully understood. In order to do this, the research will have to apply a three-stage analysis of the documents. The three stages comprise of the following; (i) stating the research problem, (ii) retrieving the text and employing sampling methods' and (iii) interpreting and analysing.

For the purposes of this study, the documents that were used were retrieved from publically available information that has been published online by various stakeholders. As data is analysed and coded, theoretical sampling is used to determine what kind of data needs to be searched for next. Search engines are used in order to extract the relevant information. The raw data is interpreted by forming propositions that state the relevance of the data piece to the concern variable, and its effect on the concern variable. These propositions are then captured in a proposition log, after which they are compared and categorised.

2.3.3 *Quality Control of Documentary Research*

Scott (1990) outlined quality control criteria that should be used when handling documentary sources:

1. **Authenticity.** The truthfulness of origins; is the evidence genuine, attributions, commitments, sincerity, devotion, intentions and from an impeccable sources
2. **Credibility.** The objectivity and subjective components of the believability of a source or message. The source must be free from error and distortion.
3. **Representativeness.** The documents consulted must be representative of the totality of the relevant documents.
4. **Meaning.** The evidence must be clear and comprehensible.

2.4 Integrated Research Process

This section will offer a comprehensive description of the four cycles of data collection.

2.4.1 Cycle One

The inputs in the first cycle are many different sources of data that are analyzed and studied in order to extract the information which is pertinent to the study. Every piece of data that is collected in this cycle is then added to the proposition log. The objective of the proposition log is to record each piece of data, explain its relevance and its impact on the concern variable. From the relevance and impact of the data, the final result will be a proposition. The proposition should then be sorted into their relevant categories.

2.4.2 Cycle Two

The main objective of cycle two is to build further on the propositions and categories that were collected and identified in cycle one. The inputs of cycle two are invariably the proposition log (output of cycle one). An emphasis is put in this cycle to collect data from sources that were not represented in the first cycle. After collecting the relevant data, the same process as in cycle one is followed – the propositions that are formulated from this cycle are then added to the proposition log. The new propositions are categorized by either being added to an existing category or creating a completely new category to accommodate the new propositions.

2.4.3 Cycle Three

Cycle 3 is another data collection cycle and the researcher must collect additional propositions. At this stage, a process called sample reduction takes place. Sample reduction is the process in which the number of categories is reduced to a few core categories' that will be used in the theory building stage of the research study. The reduction is done through an interrelationship diagrams which assists in identifying the relationships that exist within the different categories. The first interrelationship diagram is constructed based on the question "Is A a kind/type of B?".

The second interrelationship diagram is constructed by asking "Is A a part of B?"

Once the interrelationship diagram is completed, the researcher would have identified approximately seven categories which will become the seven core categories. After the determination of the seven core categories, a mini-literature review is conducted on each category. The purpose of the mini-literature review is to understand what research has already been done relating to each of the categories and to widen the researcher's own understanding of each concept.

2.4.2 Cycle Four

The aim of the last cycle is to reach saturation of the core categories. Saturation is when the researcher adds only information that fits into one of the core categories identified in cycle 3, until such a point that no new and relevant data or insight can be added to the categories. A final interrelationship diagram is then constructed based on the question "Does A influence/affect B?"

2.5 Validity

2.5.1 Keys Threats to Validity

Maxwell (1992) states that by its mere essence, qualitative research cannot account for every possible factor in the area which is being studied, nor can a researcher simply generalise about the validity of the research being conducted. The onus is on each researcher to independently prove the validity of the research and study that they are conducting.

Lincoln and Guba (1985) suggest that trustworthiness or validity of a research study is important to evaluating its worth. In this 1985 book, four attributes are given to help assess the validity of a study.

Credibility: The confidence in the 'truth' of the findings.

Transferability: Showing that the findings have applicability in other contexts

Dependability: Showing that the findings are consistent and could be repeated

Confirmability: A degree of neutrality or the extent to which the findings of a study are shaped by the respondents and not researcher bias, motivation, or interest.

Charmaz (2006) gives the following criteria that grounded theory studies should aim for. She highlights that a combination of credibility and originality enhances the other two criteria resonance and usefulness.

Credibility - Are there strong links between gathered data and argument? - Are data sufficient to merit claims - Do categories offer a wide range of empirical observations? - Has the research provided enough evidence for the researcher's claims to allow the reader to form an independent assessment?

Originality - Do the categories offer new insights? - What is the social and theoretical significance of this work? - How does grounded theory challenge, extend, and refine current ideas, concepts and practices?

Resonance - Do categories portray fullness of the studied experience? - Does the GTM make sense to the participants? - Does analysis offer them deeper insights about their lives and worlds?

Usefulness - Can the analysis spark further research in other substantive areas? - How does the work contribute to knowledge - Does the analysis offer interpretations that people can use in their everyday lives/worlds? (Charmaz, Constructing Grounded Theory: A Practical Guide Through Qualitative Analysis, 2006).

2.5.2 Handling the Threats to Validity

Lincoln and Guba (1985) describe a series of techniques that can be used to conduct qualitative research that achieves the criteria they outline.

2.5.2.1 Techniques for Establishing Credibility

1. Prolonged Engagement:

The research must spend enough time in the field to learn or understand the culture, social setting or the phenomenon of interest. This involves spending adequate time observing various aspects of a setting, speaking with a range of people, and developing relationships and rapport with members of the culture (Robert Wood Johnston foundation , 2008)

The researcher should be there long enough to:

- Become oriented to the situation so that the context is appreciated and understood
- Be able to detect and account for distortions that might be in the data (e.g. researcher begins to blend in; respondents feel comfortable disclosing information that no longer 'tows the party-line')
- The researcher can rise above his or her own preconceptions
- The researcher builds trust

2. Persistent Observation

"If the purpose of prolonged engagement is to render the inquirer open to the multiple influences - the mutual shapers and contextual factors - that impinge upon the phenomenon being studied, the purpose of persistent observation is to identify those characteristics and elements in the situation that are most relevant to the problem or issue being pursued and focusing on them in detail. If prolonged engagement provides scope, persistent observation provides depth" (Lincoln & Guba, 1985).

3. Triangulation

Triangulation involves getting several data sources in a research study in order to produce fuller understanding. Triangulation can be seen as a method of corroborating

the researcher's findings and as a test for the researcher to use in order to test of the validity of the study. A single method can never adequately shed light on a phenomenon. Using multiple methods can help facilitate deeper understanding (Robert Wood Johnston foundation , 2008).

4. Referential adequacy

This involves identifying a portion of data to be archived, but not analyzed. The researcher then conducts the data analysis on the remaining data and develops preliminary findings. The researcher then returns to this archived data and analyzes it as a way to test the validity of his or her findings (Robert Wood Johnston foundation , 2008).

2.5.2.2 Techniques for Establishing Transferability

1. Thick description

Thick description is described by Lincoln and Guba (1985) as a way of achieving a type of external validity. By describing a phenomenon in sufficient detail one can begin to evaluate the extent to which the conclusions drawn are transferable to other times, settings, situations, and people.

2.5.2.3 Techniques for Establishing Dependability

1. Internal inquiry

External audits involve having a researcher not involved in the research process examine both the process and product of the research study. The purpose is to evaluate the accuracy and evaluate whether or not the findings, interpretations and conclusions are supported by the data.

2.5.2.4 Techniques for Establishing Confirmability

1. Confirmability audit

External audits involve having a researcher not involved in the research process examine both the process and product of the research study. The purpose is to evaluate the accuracy and evaluate whether or not the findings, interpretations and conclusions are supported by the data.

2. Reflexivity is an attitude of attending systematically to the context of knowledge construction, especially to the effect of the researcher, at every step of the research process (Robert Wood Johnston foundation , 2008).

"A researchers' background and position will affect what they choose to investigate, the angle of investigation, the methods judged most adequate for this purpose, the findings considered most appropriate, and the framing and communication of conclusions" (Malterud, 2001)

2.6 Conclusion

This chapter gave detail on how the study was conducted using grounded theory and documentary research. The Grounded Theory Methodology and the documentary research used in this research study were discussed in depth. There was an introduction to the intricacies of the different analysis elements that the research methods call for. In addition, it discussed the integrated framework of how the research process will be followed and evaluated the threats to validity and the techniques that can be employed to ensure that those threats do not occur.

Chapter 3 Research Results

3.1 Introduction

The objective of this section in the study is to go through the method and fashion in which the research paper was conducted. In addition to the giving a comprehensive explanation of how the study was carried out, this chapter will also provide the insights that were identified from the research conducted.

3.2 Cycle One

Cycle one took the form of what is known as open coding in grounded theory. The process of open coding is analysing the textual content. This includes labelling concepts, defining and developing categories based on what properties they have.

Cycle one is where the first batch of data information was collected. In this cycle, a total of 29 propositions were collected. From the first cycle of data collection, 17 categories emerged from this cycle of data collection. The table below provides a brief synopsis on the 17 categories that were defined and will be developed in the coming cycles (Complete proposition log in Appendix A). As can be seen, some categories had multiple propositions, whilst had only one.

Categories from cycle one	Number of propositions in each category
Technological capabilities	2
Lack of access to rural areas	1
SME support	2
Marketing skills	2
Employee satisfaction	1
High crime rate	1
Low levels of education among entrepreneurs	1

Access to external financing	2
South Africa's historical economic background	1
Lack of skilled labour	1
Human resources management	3
Inability to take advantage of economies of scale	2
Government law, regulations and policies	3
Lack of negotiation power	1
Major competition in the SME sector	2
Corruption in South Africa	2
Lack of infrastructure	2
Total Propositions	29

Table 5: Categories from cycle one

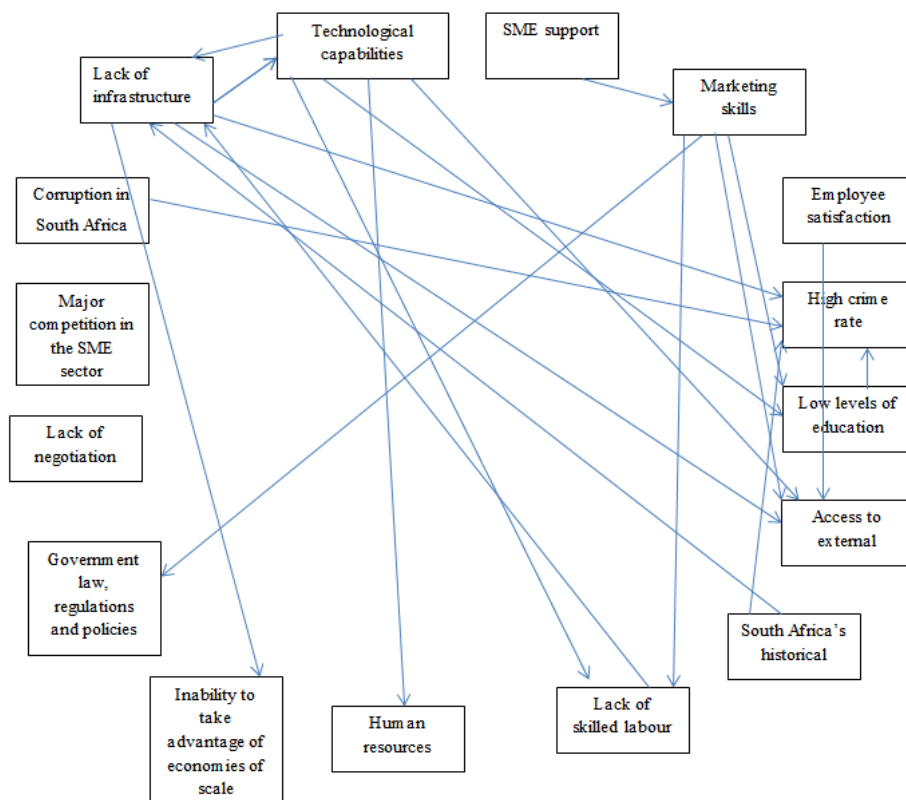


Figure 5: Interrelationship diagram developed in Cycle One

In cycle one; an interrelationship diagram was developed from the categories which were identified in this cycle. The diagram depicts which categories drive which. From the first cycle, it can be seen that “low levels of education” is one of the key drivers as it feeds into several categories, including lack of infrastructure, technological capabilities and high crime rates. Low levels of education drives lack of infrastructure and uncompetitive advancement levels of technological capabilities as one must be adequately educated in order to attain any level of technological advancement or infrastructure development.

Moreover, during this first cycle, the categories “lack of negotiation power” and “Major competition in the SME sector” did not have any driving factors to account for the categories presence. None of the categories that were developed in cycle one, contribute or feed into the abovementioned categories’.

Further understanding gained from cycle one is that South African entrepreneurs experience a wide range of issues, some which are specific to South Africa as a country, such as corruption, lack of infrastructure, high levels of crime and the inability to access the rural areas of the country. The other issues, such as major competition in the SME sector, lack of negotiation power and lack of access to external funding are factors which plague the SME industry worldwide. In addition to this, it became clear to see that the data collected showed that the factors affecting South African SMEs fell into two categories – factors that the company has control over and can influence or factors which a firm has no effect on but can merely react to the factors in the most appropriate manner possible.

There were no significant difficulties that were experienced in research cycle one as the data from publically available sources was sufficient and easily accessible. Cycle one laid the foundation from which the theory building process could grow from in the subsequent cycles.

At the end of each cycle, a review of the research goals, conceptual framework and research question was conducted to ascertain if any changes were necessary to any of the three elements given the new data and insights gained. In the first cycle, a review was conducted and no amendments are made to the research goal, conceptual framework or the research question.

3.3 Cycle Two

In cycle two, there were an additional 24 propositions which were collected, bring the total tally to 53 propositions at the end of cycle two. The output of this cycle was an additional 6 categories, bringing the total tally if the to 23 categories. The six new identified categories were globalisation, foreign direct investment, SMEs producing inferior products, incorrect SME intervention, entrepreneurs' characteristics and macro-economic factors.

Categories from cycle one	Number of propositions in each category
Technological capabilities	3
Lack of access to rural areas	1
SME support	2
Marketing skills	2
Employee satisfaction	1
High crime rate	1
Low levels of education among entrepreneurs	1
Access to external financing	4
South Africa's historical economic background	1
Lack of skilled labour	1
Human resources management	7
Inability to take advantage of economies of	5

scale	
Government law, regulations and policies	6
Lack of negotiation power	1
Major competition in the SME sector	2
Corruption in South Africa	2
Lack of infrastructure	2
Globalisation	3
Foreign direct investment	2
SMEs producing inferior goods	1
Incorrect SME interventions	1
Entrepreneurship characteristics	3
Macro-environmental factors	1
Total Propositions	53

Table 6: Categories from cycle two

During cycle two, all the categories that were developed in cycle one were still relevant to the area of study and the research area. In this cycle, there was an increase in the range of factors identified as inhibitors to the success of SMEs in South Africa. One of the new categories developed from this cycle was the macro-environmental factors. This is validation of the insight gained in cycle one. It continued the trend of SMEs in South Africa being negatively affected by the macro-environmental factors such as the exchange rate, interest rates and inflation but not having the knowhow in order to successfully navigate the company through these factors.

Again a review of the research goals, conceptual framework and research question was conducted and it was not necessary for changes as the data did not show a need to change the direction or focus of the study.

3.4 Cycle Three

An additional 73 propositions were collected in cycle three of the research process. This brought the total number of propositions collected to 126. In addition, the third cycle brought with it the identification of a further six categories, which brought the total number of categories resulting from the three cycles to 29. The new categories that were identified in this cycle were the following; lack of financial acumen, insufficient research done, no access to networks and mentorship, incorrect motivation of starting the SME, poor planning and the non-collaboration culture.

Macro-environmental factors	<ul style="list-style-type: none"> • High crime rate • Corruption in South Africa • South Africa's historical economic background
Lack of skilled labour	<ul style="list-style-type: none"> • Marketing skills • Human resource management • Employee satisfaction • Insufficient research done • Poor planning
Characteristics of entrepreneurs	<ul style="list-style-type: none"> • Incorrect motivation of starting the business • Non-collaborative culture • Low levels of education amongst entrepreneurs
Access to external financing	<ul style="list-style-type: none"> • SME support • Lack of financial acumen
Globalisation	<ul style="list-style-type: none"> • Foreign direct investment • Major competition in the SME sector • Lack of negotiation power
Government laws, regulations and policies	<ul style="list-style-type: none"> • Incorrect interventions • No access to networks and mentorships
Technological capabilities	<ul style="list-style-type: none"> • Operational inefficiency • Inability to take advantage of economies of scale • SMEs producing inferior products
Lack of infrastructure	<ul style="list-style-type: none"> • Lack of access to rural areas

Figure 6: Reduction in the number of categories

A process of sample reduction was used in cycle three to reduce the number of categories. In order to sample reduce, one had to ask themselves if “category A was

part of category B, or vice versa". From the cycle three abstraction and sample reduction, the 29 categories were reduced to 8 core categories.

The categories were reduced using the two interrelationship diagrams. Using the two interrelationship diagrams, the top eight categories, which were the strongest, were identified as the core categories. The remaining categories were subsumed into the core categories. The sub-categories that were subsumed and the core categories are shown in the diagram above.

In addition, in this cycle, several miniature literature reviews was written up on each of the categories. The mini literate reviews were written for the objective of ascertaining what literature was already out there and what about the categories were known previously. These literature review were used to form part of the main

3.5 Cycle Four

Cycle 4 resulted in the addition of 80 propositions, bringing the total number 226. The table below shows the eight core categories and the final number of propositions for each.

Category	Number of Propositions
Macro-environmental factors	36
Lack of skilled labour	50
Characteristics of entrepreneurs	26
Access to external financing	22
Globalisation	21
Government laws, regulations and policies	24
Technological capabilities	22
Lack of infrastructure	25
Total	226

Table 7: Final core categories

In cycle four the researcher will attempt to, as far as possible, reach a point of saturation in each of the eight core categories above. From the eight core categories, a final interrelationship diagram is completed. This diagram below was constructed based on the question “Does A influence/affect B?”.

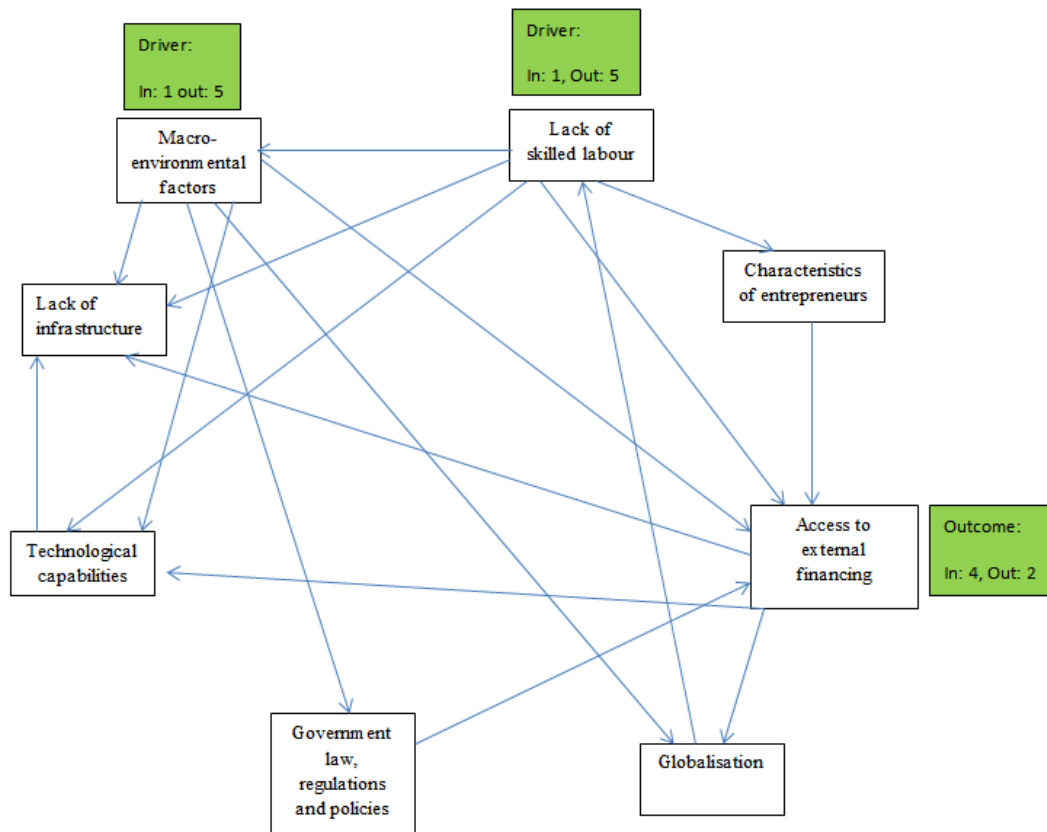


Figure 7: Interrelationship diagram developed in Cycle Four

The arrows represent the hypothesised relationships between the core categories. In terms of these hypothesised relationships, the main drivers of failure in the SME sector come out as Macro-environmental factors and lack of skilled labour. The main outcome from this interrelationship diagram is access to finance.

3.6 Discussion of the Research Results

The outcome of the constant process of data collection, analysis and then categorisation in the cycles was the identification of eight core categories which are pertinent to the failure of SMEs in South Africa. Each of the eight core categories identified will be discussed; the brief discussion will include how the category impacts the concern variable and its relation to the concern variable.

Profitability of a SME determines the growth prospect and success possibilities of the company. Profitability is not only determined internal factors but also affected by external, macro factors. The macroeconomic factors that will impact the concern variable – the failure rate of SMEs in South Africa- include the macroeconomic indicators such as foreign direct invest, gross domestic product, unemployment, inflation, taxes paid, exchange rate, inflation rate inter alia. When the macroeconomic indications are not favorable, this will result in the increase of the failure rate of South African SMEs.

For any company, attracting the right talent is a war; this is the reality with both SMEs and their larger counterparts. Human resources as a function in SMEs is a vital department and the strategic execution of the company rely heavily on the management of their resources – attracting the right talent with the skill set necessary to move the company forward. When SMEs do not have the right talent mix and skill set level, the result on the concern variable is negative.

The notion of an entrepreneurial individual who possess characteristics which are distinguishable is a concept which is very central to entrepreneurial theory. A division is based on psychological and non-psychological motivation factors that determine entrepreneurs' personal characteristics which are pivotal to the growth and success of a business. With that said, there are key psychological and non-psychological factors, that will be discussed later, which will result in the growth in the SME, growth in terms of employees, sales and assets.

Inability to secure external financial is the conditions where SMEs are unable borrow funds for expansion and growth strategies from the traditional avenues in South Africa. The traditional institutions, such as commercial banks, have opted not to lend to SMEs for a number of reasons. Commercial banks see SMEs as very high risk and they are unable to accommodate SMEs as they are difficult to accommodate with the current business model. Lending constraints include issues relating to the availability of credit information, the registration and enforcement of collateral, verification of documents and identification and low levels of business skills and training. When SMEs are not able to borrow and secure external funding, their growth prospects tend to be very low and the failure rate high.

Globalisation can be defined as a closer economic integration as a result of rapid advances in technology, growth of the world trade and completion and policy changes towards economic liberalisation (Mutalemwe, 2010). If South African SMEs are to survive this transformation, they need to brace themselves to respond to the changes and carve an appropriate position in the global competitive economy. Globalisation has great impact on the concern variable as it increases competitive pressures and the rate at which technological changes take place will increase. that the SMEs have to put in place the right strategies in order to embrace the changing circumstances in the world market place, if not, failure of the SME sector in South African is bound to persist.

3.7 Conclusion

Chapter three went through the research process and noted all highlights which results from the four cycles, which resulted in eight core categories. In addition, it went through the process it took to get to the eight core categories. The qualitative research process can be quite fluid, and certain adaptations were required along the way which were also discussed. The purpose of all adaptations was no more than to enhance the validity of the research results.

Chapter 4 Three Level Grounded Theory Literature Review

4.1 Introduction

The framework that is used to conduct the literature review is the three-level grounded theory review approach. This three level review can be considered as the ‘how’, ‘what’ and ‘why’ of the study. The ‘What’ speaks to the context and situation of the concern and the focus of the study. The ‘why’ is the parent discipline and offers the boarder context in which the concern of the study is part of. The ‘how’ speaks directly to the categories develop in chapter 3 of the paper.

Level zero is a representation of the parent discipline and the context in which the concern variable operates. Level one shows the focus of the core concepts in that area, the parent discipline. Level two examines the core concepts that were derived from chapter three, these core categories are discussed in detail in relation to Level 1 and 0.

Literature review level	Area of Focus	
Parent Discipline (Level Zero)	Economic role/contribution of Small and medium enterprises in South Africa	Why – this level seeks to describes why this particular area of research is important. It provides a justification for the research paper
Focus Discipline (Level One)	The failure of small and medium enterprises in South Africa	What – this level speaks to the concern variable.
Core Categories (Level Two)	<ul style="list-style-type: none"> -Macro-environmental factors - Lack of skilled labour -Characteristics of entrepreneurs -Access to external financing -Globalisation -Government laws, regulations and policies -Technological capabilities 	How – this level seeks to explain our concern variable that was identified in level one

	-Lack of infrastructure	
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Table 8: Outline of the three-level grounded theory review

The parent discipline in the literature review is economic role and contribution small and medium enterprises have in South Africa. The focus discipline is the failure of small and medium enterprises in South Africa (level two). Level three consists of the core categories discussed in chapter three.

Chapter four will discuss the relevant issues that are intrinsic to the parent discipline, concern variable and core categories. The process allows for a deeper understanding of each area of focus, to increase my theoretical sensitivity for theory building.

4.2 Level Zero: Economic Role and Contribution of Small and Medium Enterprises Have in South Africa

There has been a number of overarching characteristics that have been identified. These characteristics can be attributed to SMEs operating in developing countries. Fisher and Reuber (2000) uncovered the following characteristics under the broad headings: labour characteristics, sector of activity, gender of owner and efficiency.

4.2.1 Contribution of SMEs to the South African Economy

The contribution of small and medium enterprises is extensive in the economic development of South Africa and also plays a significant role in advancing national and individual prosperity. Farming, investors and SMEs, which form a big part of the private sector, have been responsible for the journey from poverty to prosperity for many a nations. It is imperative that developing countries, such as South Africa, encourage and grow their SME sector in order to alleviate poverty and decrease the unemployment rate. Because of its massive contributions to economic growth, poverty alleviation and employment creation, the government of South Africa have had increased interest in the development of SME policy. Mahadea (2008) highlights that SMEs are seen to be vital to any economy as they are an imperative source of innovation and development of products, services and technologies. (Mahadea, 2008).

4.2.1.1 Gross Domestic Product

At a global level, the SME sector accounts for a great portion of gross domestic product, this is contrary to the reality in South Africa. Currently SMEs contribution to gross domestic product in South Africa is relatively small. According to Fatoki and Van Aardt Smith (2011), South African SMEs contribute only 36% of the gross domestic product. South Africa's SME contribution towards GDP is relatively low compared to other developing countries such as Brazil (59%) and Chile (57%) and developed countries such as Japan (55%), China (60%) and Germany (87%). In addition to that, the Organisation for Economic Cooperation and Development (OECD) (2010) also confirm this fact as they report that currently in South Africa, large corporates contribute more to the nations GDP than SMEs. According to OECD, the main reason behind the low contribution of SMEs to GDP could be attributed to the low growth rate and high failure rate of SMEs in South Africa as the majority of the SME owners/managers lack sufficient professional skills and are poorly motivated. Table 4 below shows the contribution of SMEs to GDP in some African countries and developed countries in the world.

Developing countries	GDP Contribution (%)	Developed Countries	GDP Contribution (%)
Cameroon	20	Poland	63
South Africa	36	Canada	57
Tanzania	33	USA	60
Ivory Coast	19	Australia	51

Table 9: The contribution of SMEs to GDP in some African and developed countries

Source: Beck, Levine, Demirguc-Kunt (2005)

SMEs are able to contribute to productivity and growth of GDP through the restructuring of existing markets and the creation of new markets (Organisation for Economic Co-operation and Development (OECD), 2010). By assisting in the creation of innovation and the development of new, additional markets, SMEs act as

agents for change. Whilst other SMEs contribute to productivity and growth of GDP through the role of testing new business ideas and by this means challenges established ways of doing business. However, the contributions of SMEs to GDP can only be improved provided they operate to their full capacity and this can only come about if they have sufficient resources and the challenges they face are addressed and corrected.

4.2.2 Contribution to Employment

The South African unemployment rate is very high and is seen as one of the most pressing socio-economic and political problem that the nation is facing currently (Statistic South African, 2011).

SMEs in South Africa generally use more labour intensive methods of production than larger firms and currently contribute to 65% of the private sector employment (Statistic South African, 2011). This indicates that SMEs have a very high labour absorption capacity and can play a major role in the reduction of the unemployment rate in South Africa, which is currently sitting at 25.7%.

The World Bank (2010) yet again echoes the same sentiment that high levels of unemployment in developing countries, such as South Africa, can be addressed by developing the SME sector of that country. The World Bank sees the creation of SMEs as a breeding ground for innovation and advancements on technology.

4.2.4 Poverty Reduction

Poverty is one of the biggest problems that are present on a global scale, for both developed and developing countries. Although this is the reality, poverty in developing countries is still more prominent and still persists as one of the main issues to be addressed. There was a millennium development goal to reduce poverty and the South African economy recognises how critical it is to develop the domestic private sector as a way to drive growth, and therefore addressing the matter of poverty.

Kufuor (2008) identifies that research that has been done in the area of poverty had a central theme. The recurring theme is that unemployment is the chief cause of poverty among those of working age. South Africa has experienced some growth in recent year, but despite this fact, the rate of poverty has not declined. The table below shows the poverty levels in developing countries (including South African) versus the poverty rate in developed countries.

Developing Countries	Poverty rate (%)	Developed Countries	Poverty Rate (%)
Cameroon	48	France	6
South African	57	UK	14
Senegal	54	USA	12
Zambia	86	Australia	8

Table 10: Poverty levels in developing countries and developed countries

Source: World Bank (2010)

There are many challenges that are faced by SMEs in South Africa, but despite these constraints, SMEs which are growing and have become successful are seen as a vital contribution to the government's policy objectives of poverty alleviation, employment creation and the promotion of economic growth (Rogerson, 2008). The World Bank (2010) has a massively pro-SME policy and this is based on three fundamental pillars. Firstly, SMEs have benefits to the economy such as efficiency, innovation and productivity growth; this is due to the enhanced competition and entrepreneurship that the SME sector brings with it. Secondly, SMEs are more productive than larger companies, despite this fact, the financial market and other institutional failure obstruct SME development.

4.2.5 Equity and Participation

SMEs in previously disadvantaged communities have been the main focus of the governments SME strategy. The previously disadvantaged areas are those communities which have which was disadvantaged by the apartheid regime and segregated from economic participation by law. These SMEs have been the focus as they are the main source of employment for the community members and allow the general members of the community to actively participate in the economy. Income inequality between population groups in South Africa is still believed to be high and SMEs are expected to assist in reducing the gap.

4.3 Level One: The Failure of Small and Medium enterprise in South Africa

SMEs play a very important role in the progression of both historically and in the present for developing nations. This is so because the SME sector contributes significantly to the spurring of innovation and thus contributing to economic growth (Kim, 2011). As a developing country, South Africa should not overlook the imperative nature of the SME sector and should attempt to promote, nurture and support SMEs as best as possible.

Currently, the South African SME survival rate statistics are dismal – at present, five out of seven new small businesses in South African fail within their first year (Entrepreneur, 2014). From the current state of affairs, it can be seen that small and medium enterprises in South Africa are experiencing inhibitors that limit their growth potential.

4.4 Level Two: The Core Considerations that Affect the Failure of SMEs in South Africa

Eight core categories emerged from the research process discussed in Chapter 3. Each of these categories has its own underlying concepts that have a causal impact on the other categories. The attributes, antecedents and consequences of each category will be developed to gain a richer understanding of these causal relationships.

4.4.1 Technological Capabilities of SMEs

SMEs in South Africa and in the developing world in general, tend to face a bigger challenge than their counterparts in regards to gaining access to appropriate technologies and gathering information on the relevant and available techniques (Aryeetey, Baah-Nuakoh, Duggleby, Hettige, & Steel, 1994). In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

SMEs in South Africa have a tendency of being businesses with a low productivity rate and because of these SMEs making use of technologies which are not advanced, this results in the SMEs being uncompetitive in relation to the larger firms. According to the Office of Small and Medium Enterprises Promotion (OSMEP) (2007), SMEs do not maximize their machinery utility and in addition to that, these businesses have great limitations in regards to improving technology. SMEs are mainly users of technology rather than adaptors of technology (Office of Small and Medium Enterprises Promotion, 2007). Not only are SMEs in South Africa not innovative with their technology due to financial restraints, but also these business owners have limited knowhow in the deployment of the technology. SME owners and managers currently do not have the correct knowledge and ability to choose the right technology for their business needs.

According to reports by the World Bank (2010), African entrepreneurs need to start investing in relevant technology in order to increase the capacity that their SME currently has and to also improve the quality and productivity of production, which in the long run, will increase competitiveness. As identified by Courseault Trumbach, Payne and Kongthon (2006), it is important that SMEs engage government for their support regarding technology initiatives and networks in order to reach strategic business goals. Innovation relies heavily on research and development; this is especially true for SMEs in the manufacturing sector. If SMEs cannot carry out extensive R&D, they are at great risk of falling behind competitors in innovation and

technology. On average, countries that are developed spend approximately 3% of the overall GDP on research and development initiatives. Some developing countries such as China, India and Brazil have in recent years built up their research and development expenditure to the levels of most developed countries (Morrison , 2006).

SMEs face a number of stumbling blocks and barriers which make it tough for them to advance their technological capabilities. According to Ngwenyama and Morawczynski (2009) the following are categories of barriers that prevent SMEs from adopting and advancing its technological capacity:

1. Lack of knowledge about the strategic use of technology
2. Lack of necessary skills-base
3. Perceived high setup cost
4. Ever-changing technological environment
5. Geographical factors

As can be deduced from the above literature, it is critical that SMEs invest in technology as it is becoming progressively imperative to everyone and to all businesses in today's world. Technology plays a very crucial role in the development of businesses. The presence of technology in a SME will assist a business to maximize the opportunities that it is presented with and it's also seen as a critical enabler to the improvement of sales.

4.4.2 Skilled Labour

The impact and importance of a skilled labour force on a company's performance and intricate involvement in developing the business strategies are becoming ever more so important, especially in the South African and Africa economic environment and SME sector. Given this, there has been a debate in regards to the relationship between human resource management and human resource capabilities and the firms' overall performance, particularly in SMEs (Karami , 2013).

The labour market in South Africa is highly regulated with a high level of labour market rigidity. In this regard problems experienced include the inability to attract and retain suitable staff, loss of key employees, low productivity and inadequate training and development of employees (Brink & Cant, 2003).

South African SMEs currently are facing great pressures in securing the right skills. They are facing a skills shortage. ‘Skills shortages’ is a vague notion, which in itself bears several specific components. Although as mentioned skills shortage has many different concepts attached to it, the essence of the issue is the notion that currently in the SME sector in South Africa, the demand for certain skills far exceeds the supply. In South Africa, there is currently an overflow of unskilled labour. It is outlined in the National Development Plan (NDP) that South Africa is currently experiencing a high level of skills shortage due to the low education rate in South Africa. The SME sector is affected adversely due to the skilled labour shortage. This shortage is mostly true for business services such as accounting and sales capabilities. The Department of Trade and Industry (2016) acknowledges that a shortage of skills act as a constraint to SME growth.

In order to fully understand lack of skilled labour really affects SME sector, it is critical to define what skill shortage really is and the components thereof. It is to be noted that there is a difference in the definition of ‘skill shortage’ between the economist and the government. The critical aspect for economists is the relationship between skills and the productivity of the SME (Daniels, 2007). On the contrary, the government defined skills shortages without taking the relationship between the skills shortage and firms productivity into account. When referring to the skills shortage in the SME sector in the South African context, this is understood to be both the qualification and the experience. The South African Department of Labour and the Sectorial Education and Training Authorities (SETA) have defined scarce skills as “a scarcity of qualified and experienced people, currently and anticipated in the future,

either (a) because such skilled people are not available, or (b) because they are available but do not meet the employment criteria” (Food & Beverage SETA, 2005).

The scarcity of skilled labour in the South African SME sector can be attributed to an absolute scarcity or a relative scarcity (Daniels, 2007). The definition of absolute scarcity refers to the suitably skilled people who are not available. A prime example of absolute scarcity is in a new or emerging occupation (e.g. biotechnology or information technology), an insufficient number of workers who possess that specific skill or insufficient numbers to satisfy the replacement demand (Food & Beverage SETA, 2005). Contrary to absolute scarcity, relative scarcity is the situation where suitably skilled people do exist, but they do not meet other employment criteria such as not meeting the Black economic Empowerment criteria or not residing in the same geographical area (Food & Beverage SETA, 2005). One factor that could explain the continued lack in skills that South African SMEs face is the low quality of education that the great majority of South African receives. At times, it is not even just the lack of quality, but the mere lack of education. This lack of education places significant barriers to entrepreneurial activities (Nieman & Neuwenhuizen, 2009). In addition to this, Nieman and Neuwenhuizen (2009) also highlight the positive relationship between entrepreneurial activity and education. This is to say, the higher the education in South Africa, the higher the entrepreneurial activity that will take place.

In addition to the lack of basic skills, South African SMEs also have a lack in the skills required for a management level. This deficiency in management skills amongst SME owners and managers can be explained great by the insufficient education and on-going training. Managerial competencies are defined as s set of emotional, social and cognitive intelligence which can be used to predict the effectiveness in professional management and leadership roles (Boyatzis, 2011). The ability for managers and business owners to effectively navigate through these competencies is critical to the growth and success of any business venture. As was pointed out by Herrington and Wood (2003), that there is a clear gap in the South African education

system and training and this has greatly reduced the management capabilities in the SME sector. Lack of education and training is one of the reasons why there is a very high failure rate of SMEs (especially the newly established) and low level of entrepreneurial creation.

The challenge is not merely with the lack of skilled labour, the issue is compounded by the inability of the SMEs to attract the skilled labour that does exist in South Africa. In order for SMEs to have a good financial performance and sustain growth, these businesses need to be able to access the pool of qualified, skilled and motivated employee which they are not. One of the main reasons why SMEs are unable to attract the right talent is owned to the fact that they cannot afford the high qualified individuals. Fatoki and Garwe (2010) echo this point as they noted in their research that labour can only be hired at a cost and within the confines of the South African labour regulations, such as the Employment Act and the Minimum Wage policies and regulations.

4.4.3 Characteristics of Entrepreneurs

The success and growth of small and medium enterprises' in South Africa largely depend on the human capital of their owner-manager. The issue of "what characteristics and traits make for a successful entrepreneur" is a matter that has been extensively researched over the years. The study of entrepreneurs' traits is one that has great relevance, not only in the South African context, but in the world at large. Research into the entrepreneurial personalities has shown that most successful entrepreneurs share a definite group of personality trait. Many researchers and institutions have agreed that the success and growth potential of a small and medium enterprise lays greatly in the traits that the entrepreneur possess, but the bone of contention has been the degree of importance among these identified entrepreneurial characteristics.

The five most important entrepreneurial factors that have been identified relating to successful entrepreneurs' were the following; innovation, futuristic mindset, risk taking ability, adaptability and commitment (Singh & Rahman, 2013). In a 1986 paper, Carland, Hoy and Boulton extended on the work previously done by Schumpeter in 1934, their research suggests that entrepreneurs are not all the same, and are indeed not homogenous. In the study, the authors identify the following traits to be which that characterizes entrepreneurs as a whole – the need for achievement, preference for innovation and risk taking propensity (James, Boulton, Carland, & Hoy, 1986).

Many academics' have researched the characteristics that an entrepreneur should possess in order to operate a successful SME. The objectives of these studies have been to develop a typical personality profile that identifies the key characteristics of a successful entrepreneur. Chell (2008) notes the following “We do not believe there is any single set of characteristics that every entrepreneur must have for every venture opportunity. Significantly, among the growth- minded entrepreneurs with whom we have worked, not one possessed all of the highly desirable characteristics... to a high degree”. From this view, it can be said the entrepreneurs' chances of being successful can be enhanced and qualities such as skills and behavior can be acquired by mentorship and nurturing. This premise is furthermore validated by Nieuwenhuizen (2004) where it is suggested that characteristics of entrepreneurs can be acquired by birth, through the individuals' life experiences and through the process of being an entrepreneur.

Individual characteristics of entrepreneurs comprise of ascribed characteristics, achieved characteristics, learnable characteristics and requirement characteristics of being a successful entrepreneur. Ascribed characteristics are traits one is born with and has done nothing to earn. These are attributes people have at birth; develop over time or possess through no efforts of their own, such as age; race; ethnicity; gender and socio- economic origin of the entrepreneur. Achieved characteristics are acquired

through some combination of personal choices, efforts and abilities and they include ones level of education; occupation; work experiences (Ferrante, 2008). Learnable characteristics are qualities that are highly desired in people with whom entrepreneurs want to surround themselves in building a high potential business.

Types of characteristics	Attributes
Learnable characteristics	Need for achievement; Need for power; Calculated risk taking; Commitment and determination; creative tendency; Leader ^o self-confidence; Innovativeness; Tolerance of risk, ambiguity and uncertainty; Recognizing and taking advantage of opportunities; Resourcefulness; Creativity; Visionary; Independent thinker; Hard worker; Optimistic; Creativity, self-reliance and the ability to adapt; Motivation to excel; persistence in problem solving; taking initiative and personal responsibility
Ascribed characteristics	Race; ethnicity; gender; socio- economic origin; age, family influence
Achieved characteristics	Education, Experience
Demand and requirement characteristics	Accommodation to the venture; stress; Economic and professional values, Ethics, Team building and creativity; knowledge and experience of the business environment

Table 11: Characteristics of entrepreneurs

Source: Neneh (2011)

The figure below represents a general model that describes factors that feed into entrepreneurial success. The Giessen Amsterdam model of entrepreneurial success is

not one dimensional but rather is a model that is interdisciplinary, meaning that it factors in almost all the area which has been studied in the entrepreneurial field. Although this is a useful tool to analyse the areas of entrepreneurship which affect the success of SMEs, it is limited and has controversial implications. If one looks at the model, it can be seen that there are no direct linkages and arrows that stem from personality, human capital or environment to success, although these relationships have been studied often (Martinelli, 2001). The model in this regard makes a rather simplified assumption which says that: there is no success without actions and an entrepreneurs' action are more often than not dictated by the goals and strategies that they intend to achieve. The notion of action is very central to the Giessen Amsterdam model of entrepreneurial success and strategies and tactics of actions is the bottleneck through which all entrepreneurial success is either achieved or not achieved.

A SME owner or manager having actionable goals and strategies does not guarantee success, both the goals and strategies could be wrong, inefficient or misplaced in certain environments. One of the main attributes that makes an SME owner successful over another is the fact that they have goals, at least rudimentary strategies, and ideas about how to precede with their business. For these abovementioned reasons, all the influences of personality, human capital and environment on success have to be interceded by strategies and tactics of actions. This concept is in stark contrast to the theoretical stance of the ecological approach which assumes that essentially a random process of actions is shaped and selected by the environment, including the function of the environment to produce certain failure and success rates. The Giessen Amsterdam model of entrepreneurial success can be used on several different levels of analysis. That is to say, that one can use this model to analyse from an organizational level, as well as an individual level of the SME owner. According to Klein and Sorra (1996), the level of analysis issues has slightly different function in the area of entrepreneurship because the SME size determines which level is adequate. In SMEs, the owner of the business typically is the source of action of the firm. When there are only four or five employees in a firm, the owner usually has a

much stronger impact on company policy, company culture and the company's actions than in larger firms. Thus, the potential differences between individual and organizational level variables are larger in bigger organizations and become increasingly smaller with SMEs. Consequently, an individual level of analysis - using personality, human capital, goals, strategies and environment of the individual owner - can be used profitably to study success in these firms (Frese, Van Gelderen , & Ombach, 1998). In small and medium sized companies, the level of analysis issue is of major importance and it really needs to be empirically determined to which extent data from the owner/manager are useful as predictors of success or not.

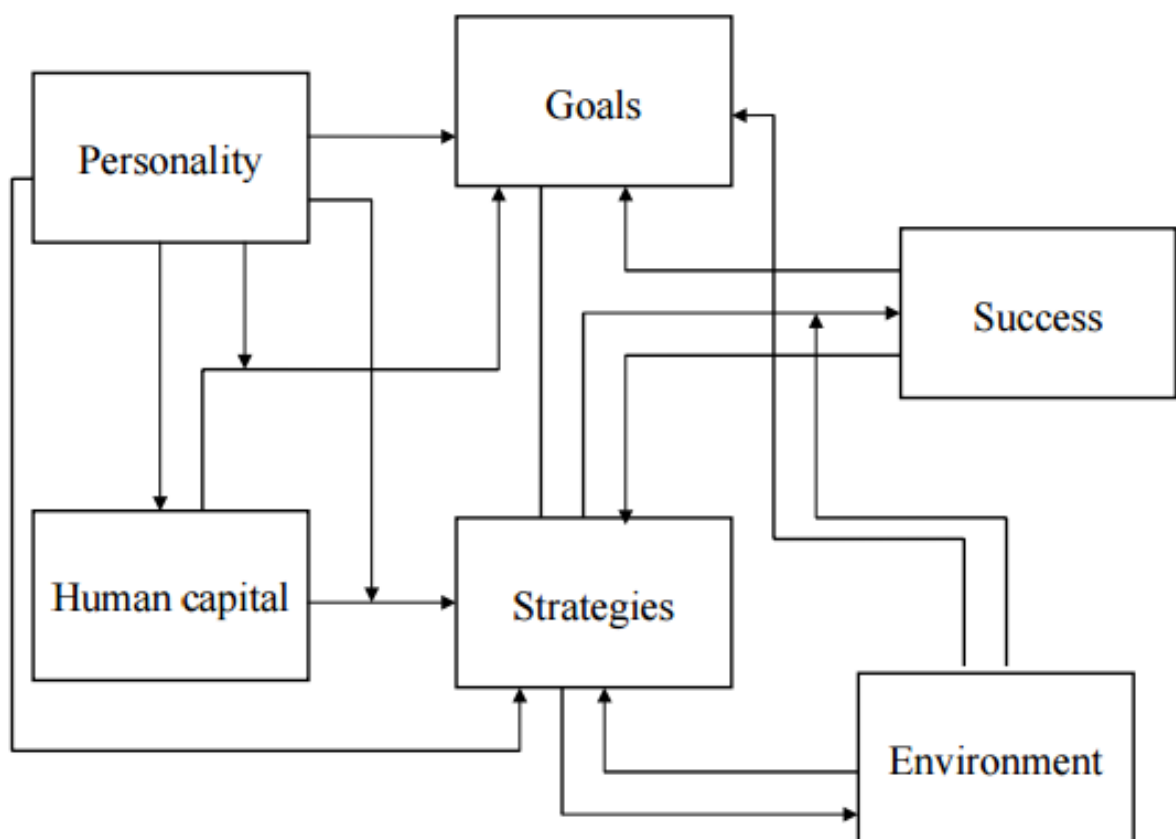


Figure 8: "The Giessen-Amsterdam Model" of small business owners' success

Source: (Martinelli, 2001)

4.4.4 Globalisation

Globalisation has made the world more connected and with this increased connectedness that globalization has brought about, it has resulted in some challenges that face the SME sector in South Africa. Globalisation brings with it the pressure for SMEs to reduce production costs, increase productivity and become more knowledge intensive (Organisation for Economic Co-operation and Development, 2000). The most distinctive attribute of globalisation has been the deep-seated change in the economic landscape which has shifted economic activity away from a local focus, to more international and global. As was noted in the report produced by the Organisation for Economic Co-operation and Development (2000), the shift has been supported by the evidence shown by its impact on trade flows (which include import and exports, foreign direct investment, international capital flows and inter-country labour mobility).

A challenge that globalization has created is in regards to the economies of scales and research and development. These two factors are of utmost importance in order for a firm to be competitive in the global economy. It may seem as though SMEs are at a great disadvantage for both of these instruments of competitiveness, and many experts have predicted the demise of SME competitiveness as globalization increases as the years go by (Organisation for Economic Co-operation and Development, 2000).

Globalisation increases the competition in the industry in which they are operating in. In order for SMEs in South Africa to survive, thrive and achieve success, the owners and management have to reach a place where they have full understanding of the dynamics at play, develop the skills and competencies that will give them a competitive edge.

In order for SMEs to combat the increased competition that is brought about by globalization, SME owners need to be able to interpret environmental changes which

are any current competition and any future competition. This will assist the firm in maintaining its viability and competitiveness.

David (2009) highlights that in each sector and industry, the intensity of competition varies significantly. The intensity of this competition affects the SME in regards to the market potential and the growth opportunities that the firm may have. Porter's five forces can be used to explain the industry competition which is a result of globalization. SMEs fail because they cannot keep up with the competitiveness of the international firms.

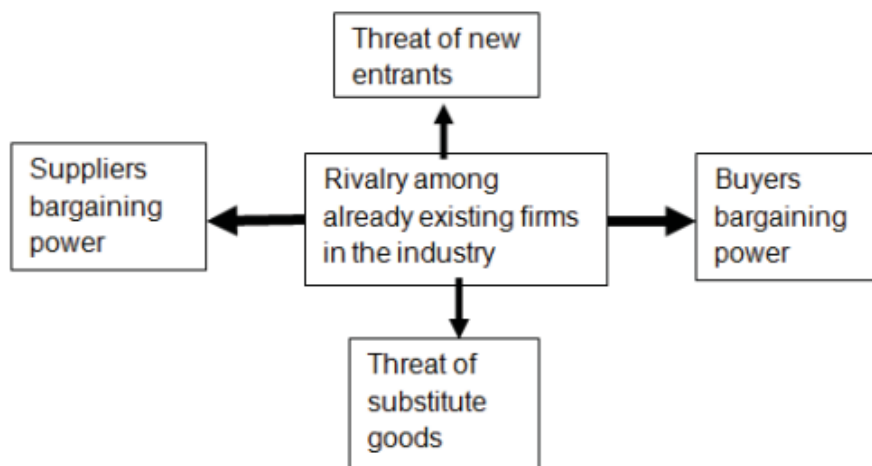


Figure 9: Competitive forces model

Source: (Hellriegel, et al., 2008)

The sources of competition that globalization brings with it will be discussed in the following section.

1a. Rivalry among Already Existing Firms in the Industry

The figure above shows the different competitive forces that SMEs encounter on a daily basis. The rivalry between competing businesses is the most powerful of the mentioned five forces (David, 2009). David (2009) noted that the intensity of rivalry among competing firms tends to increase as the number of competitors increases, as

competitors become more equal, as the demand of industry's commodities declines and as price cutting becomes common. Rivalry among competitors can also increase when customers can easily switch brands, when exit barriers are high and when the fixed costs are high. Competitors are arguably the most important element of the micro-environment when it is contemplated on from a strategic viewpoint. Rivalry among competitors produces strategies like price cutting, advertising promotions, enhanced customer services and improvements in service or product quality (Hellriegel, et al., 2008). Competitors often use these strategies to improve their relative industry or market positions or to respond to others' actions. As rivalry intensifies, industry profits decline and the industry becomes unattractive (David, 2009). SMEs usually find it difficult to fight competition with well-established larger, multinational businesses. Larger businesses cut prices as a calculated strategy to remove other businesses from the industry.

1b. Threats of New Entrants

The threat of increased competition in an industry depends on how easy new firms can compete with already existing ones (McGee, Thomas , & Wilson, 2005). In industries where there are no barriers to entry, competition will usually be severe. Davis (2009) mentioned that, despite the barriers to entry, new firms can enter industries with high quality products, lower prices and market resources. Large, existing multinational firms usually take advantage of barriers to entry in the industry and block new SMEs from competing. Whenever a new firm enters a particular market or industry, the intensity of competition will increase.

1c. Threats of Substitute Commodities

All competitors produce substitute commodities (Hellriegel, et al., 2008). The introduction of substitute products in the market by another firm can affect the demand of already existing commodities that serve the same purpose. With the extent of competition today, new products are always introduced into the market, more so by the international firms that come to South Africa due to the interconnectedness of the global economy.

1d. Customers' Bargaining Power

Customers always try to force prices down, obtain more and higher quality products, and increase competition among sellers (McGee, Thomas , & Wilson, 2005). Customers' bargaining power is usually higher when there are many suppliers and fewer buyers.

1e. Suppliers Bargaining Power

The bargaining power of suppliers control the extent to which they can raise prices above their costs (make profits), or at least reduce the quality of commodities they provide before losing customers (Hellriegel, et al., 2008) (McGee, Thomas , & Wilson, 2005).

The combined force of all these five forces can affect the long term profitability of the business and calls for the owners and management to carefully monitor and diagnose each one of them, as well as their combined effect before making decisions. A mistake that an entrepreneur should never make is to assume that there is no competitor for a product or service that he or she offers.

4.4.5 Macro-environmental Factors

Small and medium enterprises' in South Africa, much like the rest of the world, are exposed to systemic factors. These systemic factors include contractual and informational frameworks and macroeconomic environment, social factors such as crime, corruption and ethics, technology and the regulatory environment. High interest rates, low growth rates (which results in low consumption), high inflation rates and declining exchange rates are but a few macros economic factors that are currently affecting the South African economic environmental climate. General investor confidence and consumer consumption have both decreased, resulting in firms getting reduced sales. In addition to this, the current South African unemployment rate is at an all-time high. These abovementioned macro environmental factors will adversely affect sales, revenues, market potential and any expansion plans of new and existing SMEs (Economist, 2012).

The macro-environment is an economy or situation that encompasses factors that are external to the company that are situation variables and these variables play a major role in encouraging entrepreneurship or acting as restrainers any start-up and during the lifecycle of any SME (Simpson , Tuck , & Bellamy, 2004). This definition of the macro-environment was reiterated by Dahlqvist et al (2005) where they explained macro environmental factors as external factors that present opportunities, threats and information that would have an impact on all entrepreneurs and SMEs within that environment. The entrepreneurs' background, education, business concept or personality does not exempt them from being impacted by these variables.

Macroeconomics factors cannot be controlled by SME managers and the very growth and success of the SME hinges heavily on how well management navigates through these factors (Mazzarol , Thierry , Noelle, & Vicki , 1999). This literature review groups external factors into two categories: macroeconomics and market environment issues. Macro-economic variables include all economic, socio-cultural, and political-institutional factors, whereas market environment includes all productive opportunities and market attractiveness factors.

2a. Economic Factors

The growth and success of SMEs in South Africa rely on the current status and state of the South African economy at the point which the new venture was launched (Cant & Ligthelm, 2002). Economic factor examples will be discussed briefly below:

2b. Enterprise Density

Enterprise density I defined as the number of businesses per 1000 people in a population at a given period in time, the definition also extends to the percentage of existing and possible entrepreneurs (Ying , 2004). According to the World Banks (2014), South Africa's enterprise density has experienced some ups and downs over the past couple years. The enterprise density in South Africa was 6.54 as of 2012. Its highest value over the past 8 years was 9.18 in 2008, while its lowest value was 1.82 in 2011 (World Bank , 2014). It is currently sitting at 2%, this means that there is

major room for expanding active enterprises and this low density acts as a disincentive to firms to exit the market (Van Vuuren & Nieman , 1999)

2c. Inflation

The rate of inflation has an impact on the success rate of SMEs (Cant & Ligthelm, 2002). South Africa's inflation rate is currently 5.3% in 2017 (South african Reserve Bank, 2017), this means that real value of consumers wealth decreases, as a result, consumers tighten their belts and this leaves very small growth and success possibilities and opportunities for entrepreneurs'.

2d. Interest Rates

Interest rates affect a business access to financing. The lower the interest rate is in South Africa, the better it is for SMEs as this facilitates access to capital and thus resources required for entrepreneurs to succeed (Cant & Ligthelm, 2002). As of March 2016, the South African prime interest rate was at 10.50% (South african Reserve Bank, 2017), this relatively high prime interest rate limits both the consumption rates of consumers and the amount of capital that can be raised by SMEs (Viviers, 2004).

2e. Unemployment

A high unemployment rate, much like the unemployment rate in South Africa, will negatively impact the entrepreneurial process (Viviers, 2004). Wickham (2001) states that in a nation where there is a high unemployment rate, a lot more individuals for pushed into starting SMEs as a matter of survival. In addition to this, as a result of high unemployment and limited earnings, markets are naturally limited (Cant & Ligthelm, 2002). South Africa's high unemployment rates mean that there is more people opting for self-employment yet spending power is limited.

2f. Exchange Rates

Exchange rates are a major factor in entrepreneurship (Cant & Ligthelm, 2002). South Africa's weak rand means that there are more opportunities in the export market but that there is less capital for investing in local SMEs.

2g. Taxation

Tax is one of the major inhibitors for the development of SMEs. The higher the taxation rate that the government implements for SMEs, the greater the reduction in profit incentives (Ahwireng-Obeng & Piaray, 1999). The costs associated with VAT and corporate tax is among the highest in the world (Viviers, 2004). The complexity of the tax system further raises the cost of doing business, as many SME do not have the capacity to administer tax returns and thus need to consult experts for a fee in order to meet these legal requirements.

2h. Change

In South Africa, most SMEs do not have the ability to deal with change. The ability to deal with change is critical and is also a key success factor of SMEs (Viviers, 2004). Post-apartheid, South Africa gained entry into the global economy after many years of international trade sanctions that had been placed on South Africa due to the political climate, this opened up South African SMEs for trade (Morris & Zahra, 2000). Unfortunately, for majority of South African SMEs, they do not have the correct capacity to deal with the ever changing environment of business and this does not put them in good stead to success in the long term.

4.4.6 Political-institutional Factors

Themba et al (1999) highlights the important impact that the political institutional aspects of an economy such as the political climate and the regulations and laws have on the development of entrepreneurship in developing nations. Below is a brief discussion of the political institutional factors that affect the SME environment:

4.4.6.1 Macro-economic Policies

Macro-economic policies include governmental legislation, frameworks, regulations and laws which either encourage or hinder the development and progression of entrepreneurial SMEs (Dockel & Ligthelm, 2005). In South Africa some of the government regulatory laws are considered a threat to the SME sector (Viviers, 2004). Unavoidably, the challenge facing the new South African government is to institute

enforceable rules, regulations and policies with the aim of promoting a national interest that includes the vibrancy of business enterprise (Ahwireng-Obeng & Piaray, 1999). Overregulation is still an issue in South Africa and significant deregulation has to take place in order for SME success to be supported.

4.4.6.2 The Judiciary

The judiciary is a critical component that enables SMEs to succeed. The judiciary is vital to the development as it offers SMEs the legal protection that it may require against any breaches of intellectual property rights, enforcement of contractual obligations between parties, implementation of the competition laws and also, the administration of company law (Ahwireng-Obeng & Piaray, 1999). The South African judiciary system is considered to be advanced and strong enough to offer all different types of businesses protection.

4.4.6.3 Bureaucracy

The presence of massive amounts of government corruption and red tape will significantly increase the cost of starting a business and conducting business in South Africa. This, along with the wasted time negotiating with corrupt officials, makes the products and services in the SME sector to become uncompetitive (Ahwireng-Obeng & Piaray, 1999). The level of bureaucracy in South Africa is incredibly high.

4.4.6.4 Political Instability

Regional political instability such as the war in the Congo, the political unrest in Zimbabwe, South Africa's political predominance in the region, a disintegrated regional economy and the instability of emerging markets all negatively affect the business environment, with many SMEs from the region flooding into SA and increasing competition for the local SMEs (Ahwireng-Obeng & Piaray, 1999).

4.4.7 Socio-cultural Factors

A good indicator of the stage of development in which a country is at, is to look at their socio-cultural conditions. Examples of socio-cultural factors will be discussed briefly below:

4.4.7.1 Crime

Ahwireng-Obeng and Piaray (1999) say that a low level of crime and a high level of security are both preconditions for the survival and growth of any business, whether large, medium or small. As the crime rate in South Africa increase, the impact on

SMEs becomes increasingly more negative on the level of investment, sales, business success and the general cost of operating a business (Cant & Ligthelm, 2002). In the South African SME sector, entrepreneurs view crime as the biggest threat they face regarding the long term sustainability and success of their business (Viviers, 2004).

4.4.7.2 Health

Availability of quality health care is an important influence on entrepreneurship and the ability of entrepreneurs to work efficiently. In South Africa, the high prevalence of HIV/AIDS is a serious threat to SMEs (Viviers, 2004) and negatively affects business success (Cant & Ligthelm, 2002).

4.4.8 Access to External Financing

Access to finance is one of the major obstacles and challenges that the SME sector in South Africa faces. Access to finance not only hinders SMEs growth, but this challenge also decreases SMEs chances of survival in South Africa. Not only will the lack of access to finance result in the abovementioned outcomes, additionally, this lack will impede the realization of the full potential of SMEs as engines of poverty alleviation, employment creation and economic growth at large (Mazanai & Fatoki, 2012).

Stiglitz and Weiss (1981) study about credit rationing in markets with imperfect information gives some context regarding the gaps SME financing face. The gaps of SMEs financing are discussed in relation to the credit rationing theory. This theory states that the main reason for credit rationing behavior exhibited by traditional credit providers, such as bank, is due to the agency problem and asymmetric information (Stiglitz & Weiss, 1981). As previously stated, credit rationing behaviours by

financial institutions has been resulted in SMEs having limited access to external financing, which has had an adverse impact on previously disadvantaged groups who have limited access to resources (Mazanai & Fatoki, 2012).

As defined in Mazanai & Fatoki (2012) report, financing gap is merely the difference between the demand of funds by SMEs and the supply of funds by financial institutions, this occurs for a variety of different reasons. Some authors suggest that the peculiar characteristics of SMEs in South Africa is the chief reason behind the lack of access to external financing, whereas other authors have a different school of thought which they argue that SMEs suffer from financing gaps due to the fact that market imperfections exist in on the supply side.

The access and general availability of finances and appropriate economic resources is central to the development of SMEs, and business in general, in South Africa (Czinkota & Ronkainen , 2003). When businesses have readily access to economic resources, it will enable the firm to attract and retain the expertise that they require, secure the inputs that are necessary to operate the business, which as a result, will allow the business to be competitive and survive during periods of unfavourable economic conditions (Wickham, 2001).

The lack of capital and limited access to financing through traditional institutions is a massive barrier to entrepreneurship and negatively impacts the growth of existing SMEs; this is because it hinders the advancement that comes from the application of resources in a manner that is timeous (Cant & Ligthelm, 2002). In south Africa, SMEs that are operate in or are founded by individuals who are from disadvantaged societies bear the majority of the financing burden as their access is more limited than other businesses as traditional financial institutions such as banks are still considerably conservative and very risk averse. These traditional financing avenues avoid lending to SMEs as these types of businesses are considered to be high risk, have no collateral and they cannot produce dependable financial track records (Mughan , Lloyd-Reason

, & Zimmerman , 2004). Majority of the SMEs that are able to secure start-up finance find the cost of capital is too high.

4.4.9 Government Laws, Regulations and Policies

SBP has formulated a SME Growth Index in which they have, time and time again, identified the regulatory burden as a major issue currently facing South African small and medium businesses (SBP: Business Environment Specialists , 2014). In this

periodical article, SBP identified the following specific factors as the main contributors to this already heavy regulatory burden faced by SMEs in South Africa; “the frequent changes in the regulatory environment, the need to keep track of overlapping and sometimes conflicting regulatory requirements across multiple departments and levels of government, poor communication and access to information, and administrative inefficiencies in government departments and municipalities”. All the regulatory matters above simply mean that SME owners and managers are spending a disproportionate amount of time dealing with regulatory compliance. The SME Growth Index that was created by SBP, indicated that SMEs spend on average, eight working days a month dealing with governmental, compliance, legal and regulatory red tape. Every one of those days spent dealing with regulations and not focusing on income generating activities, represent income lost.

The Davis Tax Committee Interim Report on Small Business indicates a median cost of R20 500 to comply with all tax requirements (Davis Tax Committee, 2014). Using the same hourly rate used in the Davis report it is estimate that the cost of regulatory compliance (75 hours a month) to SMEs equates to roughly R18 000 a month or R216 000 a year (SBP: Business Environment Specialists , 2014).

Most SMEs feel they lack capacity to deal with government requirements in general (Strydom & Tustin, 2003). In South Africa the cost of compliance with legislation is high and is seen as a threat to the SME sector and entrepreneurship (Viviers, 2004).

4.4.10 Lack of Infrastructure

Infrastructure is a basic physical and organisational structure that is needed for the operation of a society or enterprise or the services and facilities necessary for an economy to function. Quality of infrastructure is a great challenge for most developing countries, and South Africa is different. The quality of infrastructure in a country can heavily affect the growth prospects for SMEs. Infrastructure in this context includes telecommunication, electricity and transportation, which in is unacceptable conditions in South Africa.

Access to public, physical infrastructure such as water, electricity, serviceable roads, telephones, electronic media and postal services are all crucial for business start-up, development and growth (Ahwireng-Obeng & Piaray, 1999). Limited access to public infrastructure services is a major constraint to SME survival and growth as it limits the operations and restricts access to markets and raw materials.

4.5 Conclusion

Chapter 4 has provided an in-depth discussion of the parent discipline, the research focus area and the core categories that were identified and developed in the previous chapter. The theoretical sensitivity obtained provides a foundation for the theory-building process, which is detailed in the following chapter.

Chapter 5 Theory Building

5.1 Introduction

The objective of this chapter is to employ the scientific process on the empirical results in order to obtain a different and new understanding on the factors that influence the failure of SMEs in South Africa. This will be done using the information and core variables that were developed in the previous chapters, as well as the sensitivity gained from the literature review and through the application of the information to a scientific modeling process, construct a theory. The modeling process that is used is from the work of Stafford Beer (Beer, Decision and control, 1994).

5.2 Key Concepts of the Analogy Process

Stafford Beer (1994) defined the model process that was used to build the theory for this study. A modeling process that is described by Beer is to build a theoretical managerial theory by integrating it into a well-established and accepted scientific model.

Tsoukas (1991) developed and adopted the work that had been already done by Beers (1984) in the area of the analogy reasoning process in his paper about the use of metaphors in organisational science. Metaphors and analogical reasoning is used to assist in the process of constructing a scientific model that gives insights into the factors that influence the failure of South African SMEs. The various steps required to complete the scientific model-building process using analogy are illustrated in the figure 10 below.

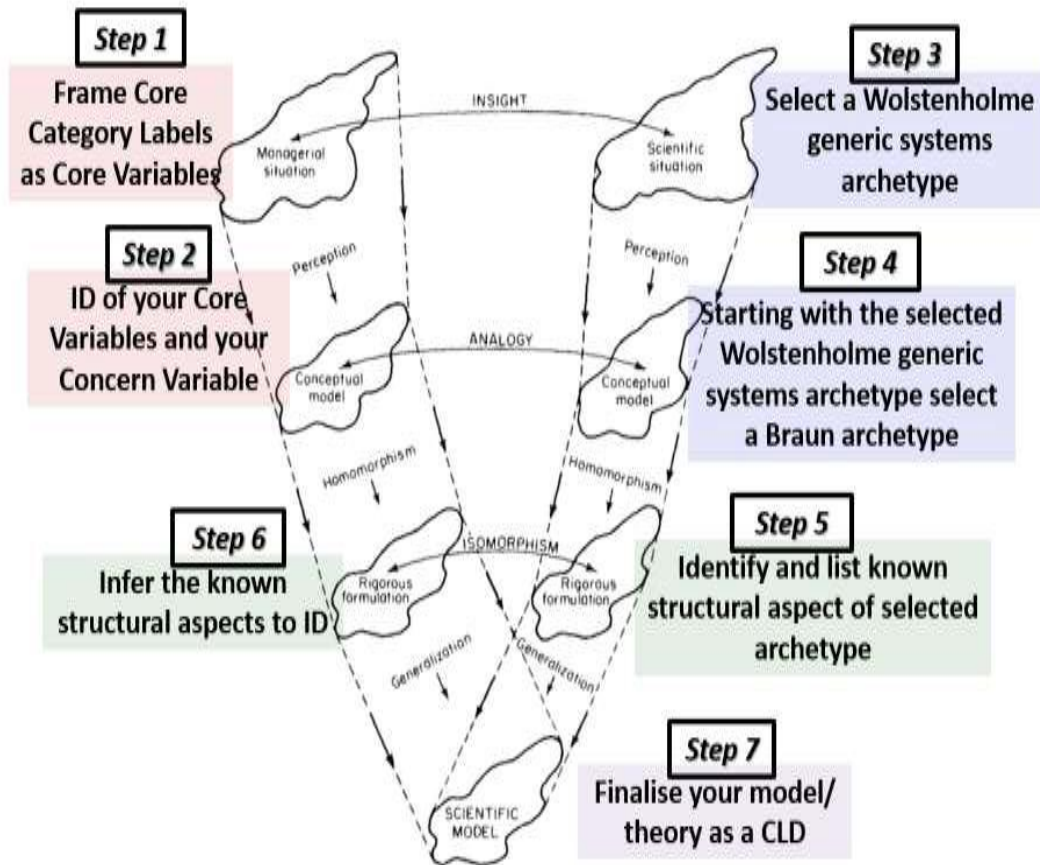


Figure 10: The transformation of metaphorical insights into scientific models, adapted from Beer (1984)

5.3 Description of the Theory Building Process

Figure 10 depicts the 7 steps that make up the theory building process. Step one and three are the insight steps, two and four are the analogy steps, six and five are the isomorphism steps, finally resulting in the scientific model that will be developed through this process. The theory building process will be detailed in the next section.

Step 1: Framing the core Level Two Categories as Variables

In the literature review section in the previous chapter, the eight core categories that were identified were subjected to a concept analysis. The concept analysis was to further understand the core categories in deeper depth. In this step, using the

information gained in chapter, a variable is chosen for each core category based on its importance within the context of the study.

Step 2: Interrelationship Diagram of the Core Variables and the Concern Variable

In step 1, variables are formed from the eight core categories, these variables together with the concern variable identified earlier, are used to create an interrelationship diagram and to explain the relationship between core variables.

Step 3: Selecting a Wolstenholme Generic System Archetype

In this step an appropriate archetype is selected based on the information and insights gained from the Wolstenholme on generic archetypes and Braun’s flowchart (Flowchart will follow in the application subsections) in order to identify the process in selecting an archetype by starting with the concern variable.

Step 4: Selecting a Braun Archetype

The diagram below can help in a more specific system archetype (Braun, The System Archetypes, 2002).

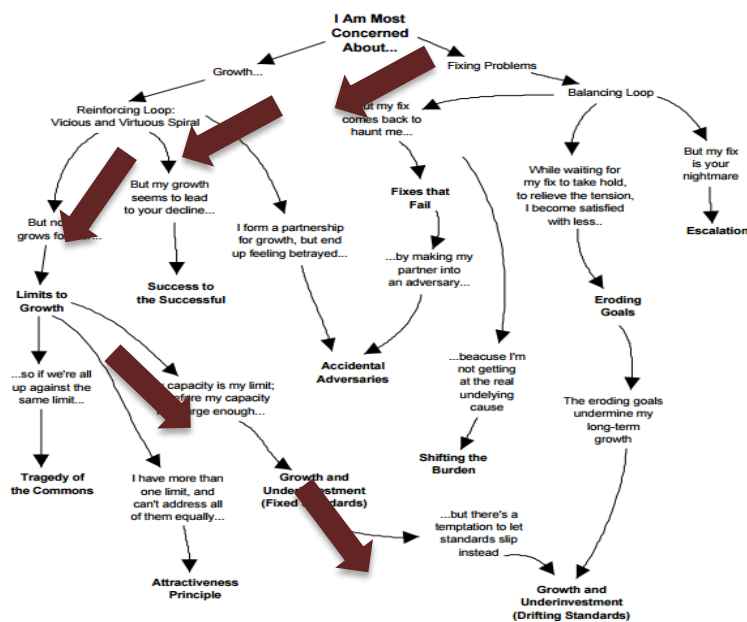


Figure 11: Braun’s (2002) Flowchart for Selecting Systems Archetypes

Step 5: Identify and List Known Structural Aspects of Archetype

This step of the process includes identifying the known structural aspects of the chosen archetype and documenting this. This includes the casual loop feedback, how they interact with each other and the external environment.

Step 6: Infer Known Structural Aspects to the Interrelationship Diagram

This step involves taking the variables from the interrelationship diagram in Step 2, and inferring them to appropriate parts of the chosen systems archetype in a manner that their relationships make sense once plugged into the systems archetype. Discuss insights and new findings from presenting research in a structured causal loop diagram. Hopefully gaining a causal loop diagram that speaks to the concern variable.

Step 7: Finalise the Model as a Casual Loop Diagram

Once the structural aspects of the chosen systems archetype have been inferred to the interrelationship diagram, the final model can then be represented as a causal loop diagram that speaks specifically to the research problem.

5.4 Application of the Theory Building Process

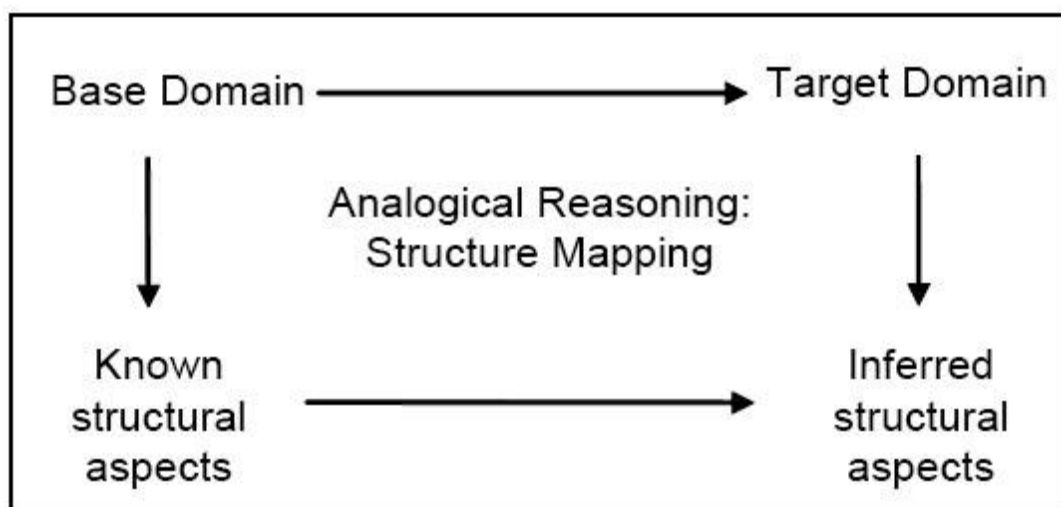


Figure 12: Graphic representation of the structure mapping process that explains analogical reasoning

Source: (Gavetti & Rivkin, 2005)

Figure 12 was used in the theory building process. The structure mapping is said to be a theory explaining analogical reasoning (Gavetti & Rivkin, 2005). An analogy is identifying a specific aspect of an item, known as the base domain. The base domain and the target domain are not always similar in very instant. By using the structure mapping process in the theory building process, a new theory can be constructed based on the conclusions made.

Analogical reasoning is an intricate part of the theory building process. Researchers have found that there are two different forms of analogical reasoning. The first form is the analogical reasoning that is used to better understand the operation of two devices. Stored knowledge of how a device operates is used to reason about how an analogous device might operate or understanding how to operate a device can be inferred from knowing how the larger system works (Kieras & Bovair, 1984). The second form is the knowledge that is already stored and is used to reason, infer or predict information to solve a problem. This is the new domain of knowledge (Kieras & Bovair, 1984).

In the theory building process, the base domain transforms into the Wolstenholme generic archetypes and the target domain identified becomes the interrelationship diagram and the variables. In the next section, the theory building process previously discussed is applied.

5.4.1 Step 1: Framing the Core Level Two Categories as Variables

During the grounded theory methodology that this study used, there were eight core categories that were identified and later developed through the various chapters. The eight core categories that were identified were the following; macro-environmental factors, lack of skilled labour, characteristics of entrepreneurs, access to external financing, globalization, government laws, regulations and policies, technological capabilities and lack of infrastructure.

The table below shows each core category, and the variable selected for it. The variables have been named in such a way as to reflect the fact that they are dynamic, rather than static.

Core Category	Variable
Macro-environmental factors	Level of external factor risk
Lack of skilled labour	Amount of skilled labour
Characteristics of entrepreneurs	Character suitability of the entrepreneur
Access to external financing	Accessibility of finances
Globalisation	Rate of globalisation
Government laws regulations and policies	Appropriateness of implemented policies
Technological capabilities	Level of technological advancement
Lack of infrastructure	Quality of infrastructure

Figure 13: Framing Core Categories as Variable

5.4.2 Step 2: Interrelationship Diagram

Below is a figure of the interrelationship graph which includes all the eight variables and the concern variable too. The interrelationship diagram above takes into account the direct relationships between the variables, while ignoring indirect relationships in order to avoid double counting.

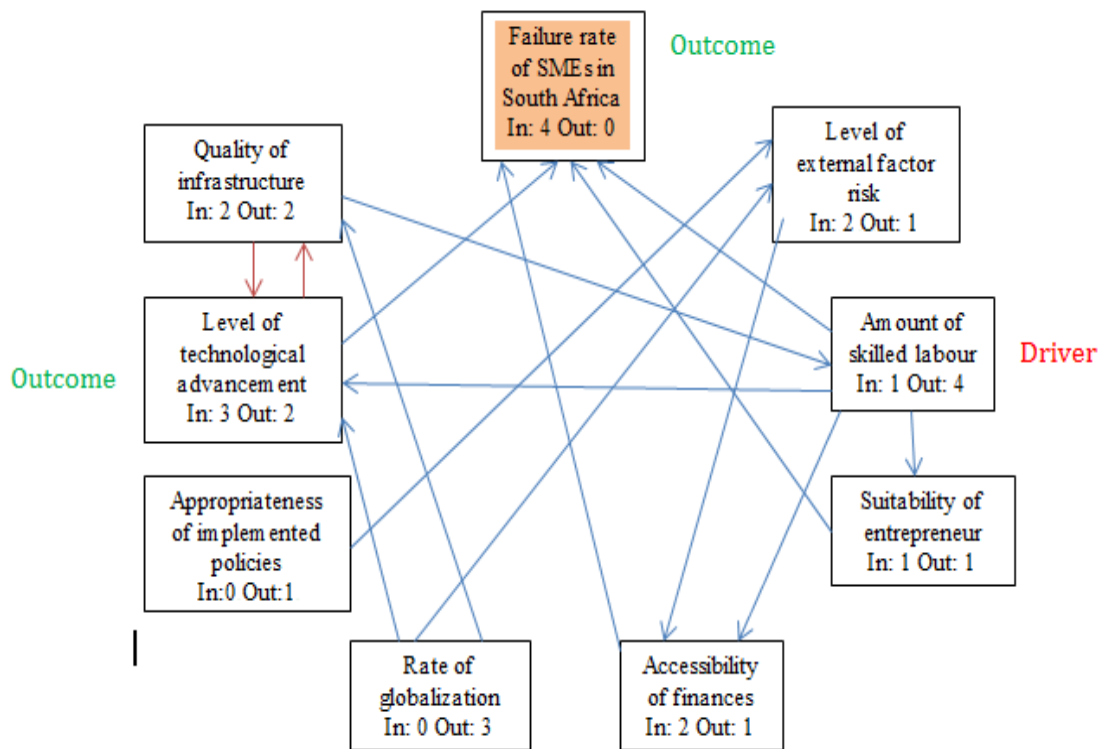


Figure 14: Interrelationship diagram of eight variables and the concern variable

The level of technological advancement affects the quality of infrastructure that SMEs have because, the more advance the technology of a nation, the better the infrastructure will be. This includes the quality of the telecommunication systems available, the constant supply of electricity and transportation. The two variables “quality of infrastructure’ and ‘level of technological advancement” have a circular relationship, meaning that the higher the level of technology, the better the quality of infrastructure, and vice versa, and a higher quality of infrastructure fosters a better environment for a higher level of technological advancement. The circular relationship mentioned above is depicted by the red arrows. The level of technological advancement also directly affects the failure rate of SMEs in South Africa, which is the concern variable. The lower the level of technological advancement is, the less

competitive the business is and this will result in limited success and growth opportunities.

The amount of skilled labour has a direct impact on the failure rate of SMEs in South Africa. If skilled labour is not readily available and SMEs cannot attract and retain skilled employees, this will have a detrimental effect on the success of the SME and drive up the failure rate. The amount of skilled labour also affected the level of technological advancement. This is because when the labour force pool has a great number of unskilled labourers, this stifles technology advancement as in order to achieve this, one needs to be skilled and educated. The amount of skilled labours also affects the accessibility to finance due to the fact that if SME manager is not skilled and financial savvy, they will not have the knowhow regarding securing financing. Finally, the amount of skilled labour impacts the character suitability of the entrepreneur.

The inference that can be made from the interrelationship diagram is that is shows that the main driver in the conceptual model is the amount of skilled labour. The conceptual model also identifies two main outcomes which are failure rate of SMEs in South Africa and level of technological advancement.

5.4.3 Step 3: Selecting a Wolstenholme Generic System Archetype

The underachievement archetype is when the intended achievement fails to be realised (Wolstenholme, 2003) and it is for this reason why the underachievement archetype was selected. This specific problem archetype, which exhibits a net behaviour over time that is far from the intended, consists of a reinforcing intended consequence loop that has the intention to achieve a successful outcome from an initiative in one sector of an organisation (Wolstenholme, 2003).

The figure below shows that the closed loop solution to an underachievement archetype is attempting to use some element of achievement action to minimise the

reaction in other parts of the organisation, usually by unblocking the resource constraint (Wolstenholme, 2003).

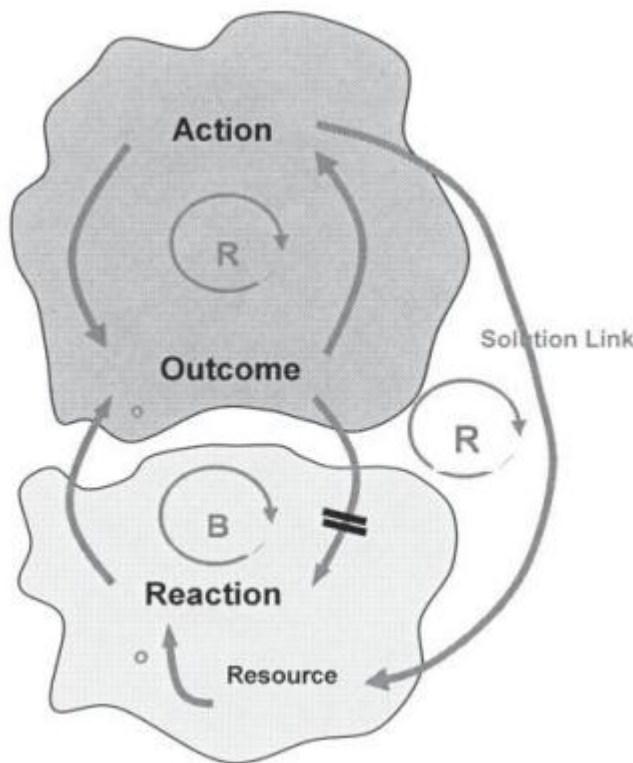


Figure 15: Underachievement archetype (Wolstenholme, 2003)

5.4.4 Step 4: Selecting a Braun archetype

A growth and underinvestment archetype structure can be explained as an elaborated limit to growth structure where the growth inhibitor forms part of the balancing loop (Bellinger, Growth and Underinvestment Archetypes, 2015). The adapted diagram below shows how the growth and underinvestment archetype was selected based using the Braun’s (2002) flowchart.

5.4.5 Step 5: Identify and List Known Structural Aspects of Archetypes

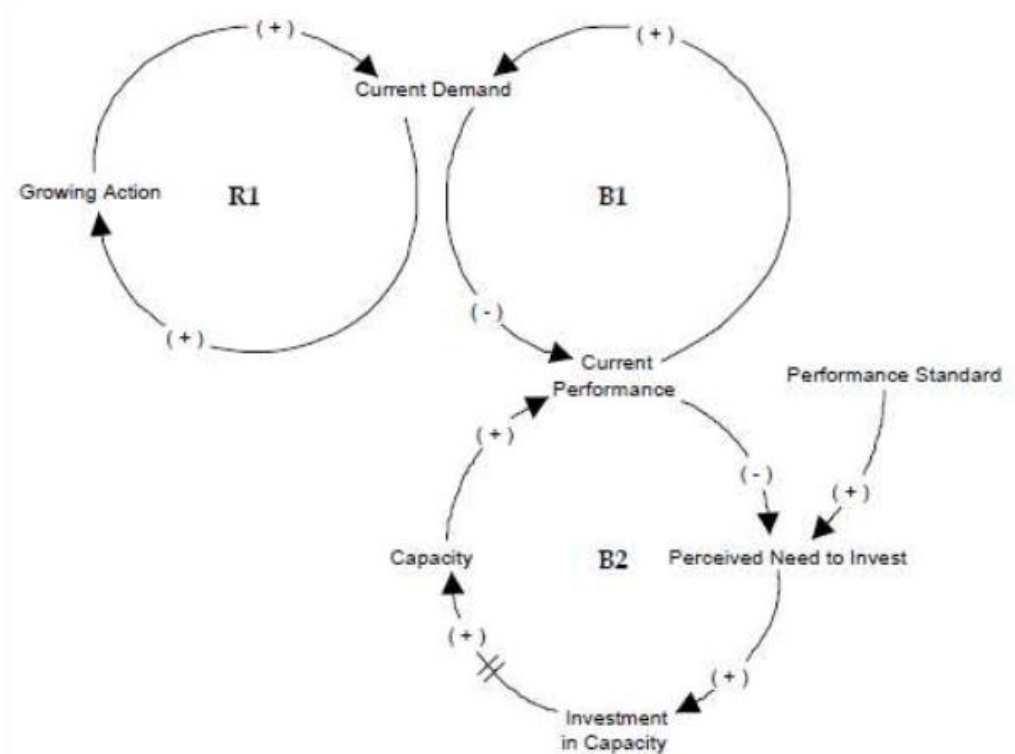


Figure 17: The growth and underinvestment archetype (Braun, 2002)

The growing action which initiates this structure influences an increase in the growth. The resultant growth, then simply influences more of the same growing action, producing the reinforcing growth characteristic (Bellinger, Growth and Underinvestment with a Drifting Standard, 2004).

As can be seen in the balancing loop area of concern, growth is not something which happens forever. Sooner or later, there will be an effect that growth produces that limits the amount of growth in the future. It goes to say that, as growth increases in the direction that is desired, the result is an increase in some growth inhibitor. This growth inhibitor will eventually hinder growth (Bellinger, Growth and Underinvestment with a Drifting Standard, 2004).

The only solution for the system to grow is for the inhibitor of growth to be reduced. As the growth inhibitor interacts with a defined standard it develops a perceived need for action to develop some sort of inhibitor avoidance. This inhibitor avoidance will, after some delay, reduce the growth inhibitor. The one criticism that this structure has is the fact that there is a delay with the inhibitor avoidance interaction with the growth inhibitor (Bellinger, Growth and Underinvestment with a Drifting Standard, 2004). The result of the inhibitor avoidance is that the growth inhibitor itself is in effect for a shorter period, thus reducing growth for a significantly shorter time. The only effective strategy for dealing with this structure is foresight.

5.4.6 Step 6: Infer Known Structural Aspects to the Interrelationship Diagram

The transformation of the various elements of the growth and underinvestment archetype into elements specific to the study is shown in the table below. An explanation of the rationale behind the mapping used follows.

Element from the growth and underinvestment archetype	Corresponding element from the social investment interrelationship diagram
Growing action	Amount of skilled labour
Current Demand	Level of technological advancement
Current Performance	Failure rate of SMEs in South Africa
Performance standard	Rate of globalisation
Perceived need to invest	Accessibility of finances
Investment in capacity	Quality of infrastructure
Capacity	Level of external factor risk

Table 12: Transforming elements from the growth and underinvestment archetype to those relevant to a the study

As there is a reinforcing loop between the growing action and current demand in the growth and underinvestment archetype, so there is a reinforcing loop between the amount of skilled labour on the failure rate of SMEs and on the level of technological advancement. The more skilled labour there is in South Africa, the higher the level of

technological advancement there will be, not only in South Africa, but also in SMEs in general.

In the growth and underinvestment archetype, an increasing amount of demand adversely affects the company's ability to perform as resources become overstretched, while a higher performance level attracts more customers, resulting in increased demand. If a company is currently performing well relative to its performance standards, the perceived need to invest in further resources declines. The interaction between the two elements results in lower investment in further capacity, which after a period of time, will result in lower actual capacity and a decreased ability to perform. There is a similar mechanism in SMEs; when the failure rate of SMEs in South Africa is low relative to the high rate of globalisation, this decreases the perceived need to access external funding. The decrease in the perceived need to access external funding means that there is less money to invest in capacity which in this case is the quality of infrastructure. After a period of time, the impact that the level of external factor risk has on the SME increases as the business is not able to navigate their way through these macroeconomic risks efficiently due to lack of funds. The outcome is an increase in the failure rate of SMEs in South Africa.

5.4.7 Step 7: Finalise the Model as a Causal Loop Diagram

The causal loop diagram shown below illustrates how the principles of the growth and underinvestment archetype apply to the SME failure rate.

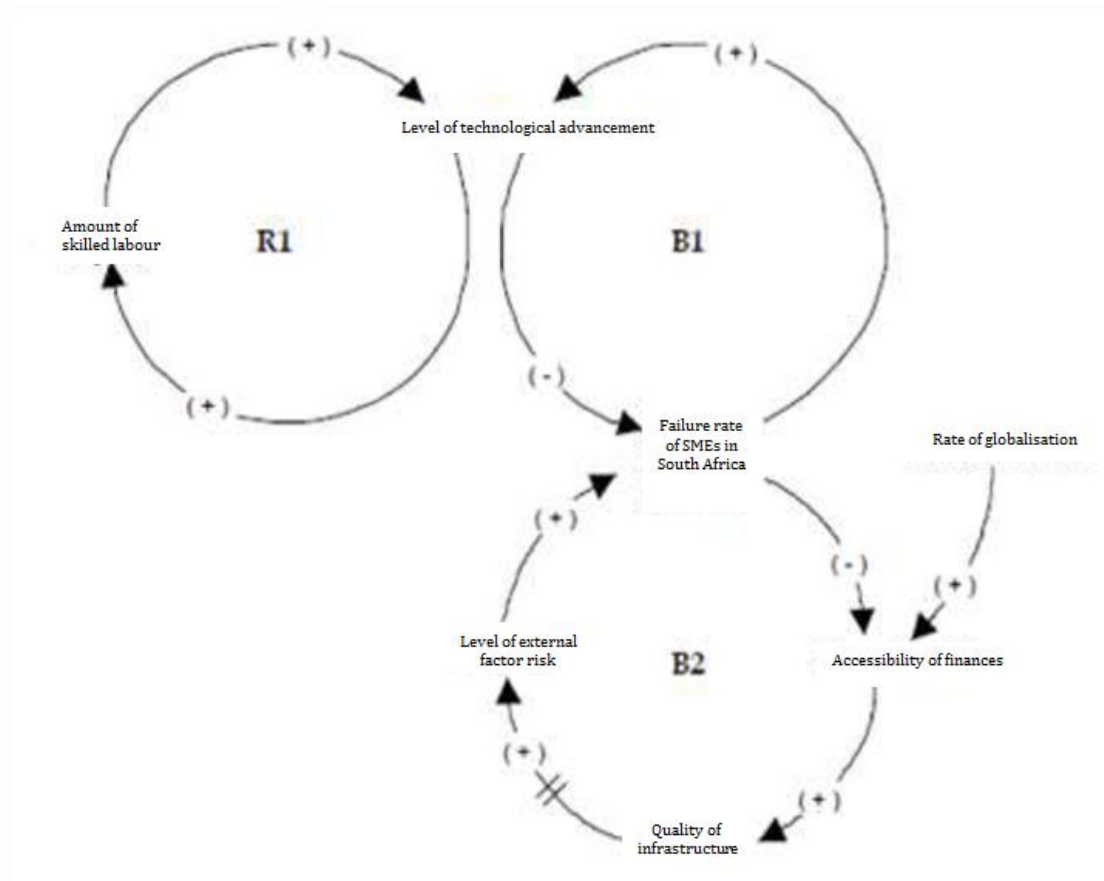


Figure 18: Scientific model

5.5 Conclusion

In this chapter, a theory was constructed about SMEs in South Africa using the information and knowledge that was collected over the previous chapters. The theory was constructed using analogical reasoning process, the result of which being a casual loop diagram which explains the possible reasons for the high failure rate of SMEs in South Africa. A solution loop was also proposed as a potential avenue to address the constraints identified.

Chapter 6 Conclusions and Evaluations

6.1 Introduction

This chapter provides an overview of the research findings. The implications and consequences of the research results are presented, followed by an evaluation of the overall research process, a brief discussion of the limitations of the study, and concluding remarks.

6.2 Implications and Consequences of the Research Results

6.2.1 *For the Research Problem, Concern Variable and Research Goals*

The focus of the research problem zeroed in on the factors that influence the failure of South African SMEs. The concern variable is the failure rate of SMEs in South Africa, which was developed from the research question. One of the intellectual goals was to gain a richer understanding of the factors that influence the failure of SMEs in South Africa. Based on the research results, the reasons can be summarised as follows:

6.3 Evaluation of the Research

6.3.1 *Utility of the Research Findings*

The researchers' intellectual and practical goals were focused respectively on attaining a fuller understanding of the factors that lead to SME failure and how to combat these factors. The research was able to achieve these goals.

With the intellectual and practical goals achieved, the researcher now has a starting point from which to pursue their personal goal of examining these factors and creating solution for them in the SME where she works.

6.3.2 *Validity of the Research Findings*

The nature of a qualitative research process is not static. This fluid nature of qualitative research is because of the simultaneous process that takes place; data collection, data synthesis, theory building, theory modification, refocusing of the research question, identifying and addressing the validity threats happen at the same time. A result of this is also that the research design must constantly change as new

developments arise. However, such alterations to the research design are necessary in order to maintain or enhance validity.

The following steps were followed in order to enhance the validity of the study;

1. For the external validity to occur, the conceptual framework was defined for the beginning of the study
2. In order to attain internal validity, open, axial and selective coding was employed in the study.
3. To increase the reliability of the data collected, a thorough and demanding process was put in place in order to achieve reliability.
4. To increase the internal validity the study used the literature review. All the literature used in the study is from reputable journals and sources that were written by individuals who are seen as the authority in their space.
5. Theoretical sampling was used to test developing ideas by selecting phenomena crucial to their validity.
6. Several data sources were used; this assisted in improving the internal validity and generalisability of the theory developed.

6.4 Ethicalness of the Research Findings

This study used the documentary method as the source of its data. This means that during the data collection period, there was no great risk of ethical breaches as only sources that are publically available were used. In addition to this, no harm is anticipated as a result of using the authors' materials.

6.5 Limitations of the study

As previously stated, this study developed a substantive grounded theory as the collected data focuses on a particular area and seeks to bring a fuller understanding of a particular area of study, that is, the challenges facing small and medium enterprises in South Africa. This thesis does not give an allowance to take this specific, substantive theory to a formal theory that could be generalised across a wider area.

The model developed is a simplified version of reality. That is to say, the specific nature of this model presents a limitation to the study.

The theory that has been developed in this study has not been tested and so this also presents a limitation as the theory is not proven. The theory does however present a hypothesis which would be worthwhile to research further. Additional research would be needed to determine how best to reduce the failure rate faced by SMEs in South Africa.

6.6 Conclusion

The success of SMEs in the developing world context is and will continue to be one of the most critical methods of moving nations forward in terms of unemployment, economic participation and rectifying an unequal and unjust society.

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Appendix A

Data	Relevance	Impact (Driver/Restrainer)	Proposition
<p>Due to financial constraints, it is difficult for SMEs to upgrade production facilities and keep up with new technology.</p>	<p>Lack of modern facilities and dated equipment and technology increases the cost of production and thus reducing a SMEs competitiveness</p>	<p>Increases failure rate due to lack of competitiveness(D)</p>	<p>Dated technology drive up the cost of production and therefore drive up the failure rate of SMEs</p>
<p>SMEs are suffering from a shortage of skilled labour. This becomes more serious when they try to expand business in the global market.</p>	<p>Inability of SMEs to attract the required skilled labour inhibits firms from growth and innovation due to a low skills base within their staff complement</p>	<p>Skilled labour shortage increases the failure rate of SMEs (D)</p>	<p>Shortage in skilled labour will cause SME firms to be less able to compete in the market, leading to failure</p>
<p>Human resources of SMEs are often insufficient to meet their business needs</p>	<p>Internal human resource function cannot fully serve the requirements of a SME</p>	<p>Inadequate internal human resources will limit a firm’s ability to deal properly with their employees and thus leads to failure (D)</p>	<p>Inadequate internal human resources function will increase the failure rate of SMEs</p>

<p>SMEs are too small to benefit from economies of scale and this has a direct and negative effect on their productivity</p>	<p>SMEs do not have the capacity to take advantage of scaling up production thus cannot benefit from the decrease in production costs that comes with economies of scale</p>	<p>Not being able to exploit economies of scale will drive up SME failure rate (D)</p>	<p>Inability to take advantage of economies of scale leads to high production cost, therefore driving up the SME failure rate</p>
<p>It is difficult for SMEs to upgrade production facilities and keep up with new technology because SMEs have limited financial resources</p>	<p>Lack of new and innovative technology increases the cost of production and thus reducing a SMEs competitiveness</p>	<p>Increases failure rate due to lack of competitiveness (High production costs) (D)</p>	<p>Lack of new technologies leads to high production costs, therefore driving up the failure rate of SMEs</p>
<p>The government's policy for SMEs, however, has been criticised because an intervention by the government results in a distortion of the market mechanism</p>	<p>Government policy interventions have been counterproductive due to the fact that they distort market prices, by decreasing them thus smaller SME entity cannot compete with these lowered prices</p>	<p>Inability for SMEs to compete with low market prices increases the failure rate of SMEs (D)</p>	<p>Government policy and regulatory interventions drive up the failure rate of SMEs by distorting the market</p>
<p>The other criticism is about the trade-off between the positive and negative effects of the policy. The government has diversified economic objectives to be achieved and these are sometimes mutually incompatible</p>	<p>By the government attempting to cover all of its economic objectives, some policy and laws may at times, have an undesired effect on the SME sector</p>	<p>Negative effects of government policy does not assist in reducing the failure rate of SMEs in South Africa (D)</p>	<p>When the government participates in the South African economy's economic objectives, their actions are sometimes incompatible with the growth of SMEs</p>
<p>When SMEs trade goods and services with large enterprises, SMEs sometimes have unfair or unacceptable terms of trade imposed on them by the large enterprises in the market due to a difference of negotiating power</p>	<p>SMEs by their definition are small to medium sized entities with little to no negotiation powers when put against the bigger corporates. SMEs will at times accept unfavourable trading conditions</p>	<p>Undesirable terms of trade can lead to failure of SMEs (D)</p>	<p>Little negotiation power leads SME to become price takers. The impact of this is that SMEs are forced to price their offerings as dictated by larger firms, this is often at the expense of the wellbeing of the business thus increasing rate of failure</p>

<p>SMEs have to compete with their rivals whereas only one large enterprise may be a buyer in a market, enjoying a monopsony and making SMEs business severely difficult</p>	<p>Large companies enjoy the benefit of being a monopsony. On the other hand, there are many SMEs competing for the same business. Increased competition can be the demise of a SME</p>	<p>Increase competition translates to market condition becoming increasing more difficult to operate in and so resulting in many SMEs falling by the wayside (D)</p>	<p>There are many SMEs in the same or similar industry with which a business has to compete with. This makes it increasingly more difficult to not only operate a business but to operate a very successful business that has expansion capabilities in South Africa</p>
<p>In terms of work force, SMEs face difficulties in hiring well-qualified labour in spite of a labour shortage. The younger generation tend to prefer to work for large enterprises because working conditions of SMEs are relatively worse than that of larger companies</p>	<p>SMEs cannot offer well-skilled employees the same benefits and working environment as larger enterprises thus making it difficult to attract well able individuals into the SME space</p>	<p>When a company does not have employee who are skilled, the SME is no longer sustainable (D)</p>	<p>There is a brain drain in the SME sector as the talent is opting for bigger, well established companies and so decreasing the sustainability of the company</p>
<p>Corruption is negatively associated with small business failure</p>	<p>Due to corruption, SMEs are not able to conduct "business as usual". Matters such as regulations and compliance take longer than is should due to a corrupt system. In addition, monetary compensation is sometimes required in order to bypass these long timelines, further increasing the burden of conducting business as a SME in South Africa</p>	<p>Corruption increases the failure rate of SMEs (D)</p>	<p>In South Africa, there is a culture of corruption where financial incentives are given out in order to fast track businesses success and bypass regulatory red tape. This negatively impacts SME as their chances of success are diminished based on this corrupt culture</p>
<p>One of the most demoralising consequences of corruption for small businesses is its impact on business development and performance</p>	<p>Due to corruption, SMEs are not able to conduct "business as usual". Matters such as regulations and compliance take longer than is should due to a corrupt system. In addition, monetary compensation is sometimes required in order to bypass these long timelines, further increasing the burden of conducting business as a SME in South Africa</p>	<p>Corruption increases the failure rate of SMEs (D)</p>	<p>In South Africa, there is a culture of corruption where financial incentives are given out in order to fast track businesses success and bypass regulatory red tape. This negatively impacts SME as their chances of success are diminished based on this corrupt culture</p>

<p>Poor infrastructure, services such as electricity, transportation and water sanitation play a critical role in a countrys development and are directly linked to SME success and economic growth</p>	<p>Poor service delivery of electricity, water, inadequate infrastructure and undeveloped roads leads to conducting business becoming harder for SMEs. At times this may lead to SMEs having to use additional money to overcome these problems thus making them less profitable</p>	<p>Increased difficulty in the business market leads to the increase in the failure rate of SMEs (D)</p>	<p>Where are is a lack of infrastructure, unreliable water and electricity generation causes SMEs to suffer most because they cannot procure adequate transportation, sanitation, building and electricity to efficiently run the business and so failure will occur</p>
<p>Power failure affects the production of goods and services and inaccessible roads affect the distribution of goods and services and increase transport costs</p>	<p>inconsistent electricity supply and underdeveloped roads negatively affects distribution and production of products</p>	<p>SMEs are not able to regularly supply to their clients due to no electricity and underdeveloped roads (D)</p>	<p>Power failures and inaccessible roads have a profound effect on the SME sector. Business and production cannot take place for days on end and the ability of business to expand to rural areas is limited because of these reasons. With limited production and expansion possibilities, SMEs may fail</p>
<p>Businesses may find it problematic to operate in rural areas that are not accessible, even though the rural areas may have high demand for their products. This limits the ability of businesses to expand and the opportunity to generate profit in order to remain in business</p>	<p>limited access to rural areas, affecting possible profits</p>	<p>Inability of SMEs to access rural areas effectively, limits their revenue making potential (D)</p>	<p>Inability to access rural areas limits SMEs ability to generate additional revenue and thus affecting their profits</p>
<p>In terms of support interventions, a huge information gap has been identified between local business service providers and entrepreneurs</p>	<p>There is currently a gap between SMEs and support structures. SMEs do not have much information regarding these support structure and thus cannot seek assistance when they face certain issues</p>	<p>When a SME faces challenges but does not know where to seek the help, this can have a detrimental effect on the business, leading to business failure (D)</p>	<p>SMEs owners do not know about the support structures that have been put in place by government and private sector. This creates issues when SMEs face challenges and do not have the correct support</p>

<p>There is a lack of government support agencies which could fill the gap left by the small number of private business service providers</p>	<p>There is not enough assistance offered by government to guide SMEs. And so many SMEs conduct trial and error which is very costly</p>	<p>SMEs not having adequate support with certain matters, has negative results on a business (D)</p>	<p>SMEs spend valuable time and resources navigating through business issues alone. Without the support their need, businesses face very hard times</p>
<p>SMEs face barriers to market orientation. Barriers to market orientation often lead to negative effects on customer satisfaction and customer loyalty, resulting in poor organisational performance.</p>	<p>SMEs do not know the market in which they deal in thoroughly enough to meet customer expectations</p>	<p>leads to failure to due not knowing the market and clientele and so not meeting their needs (D)</p>	<p>SMEs do not possess the correct skills to have sufficient market orientation. No market orientation leads to customers not being satisfied thus affecting the performance of the SME negatively</p>
<p>An organisation that is not market orientated results in employee dissatisfaction</p>	<p>A business which does not know its position in the market has a negative effect on employee morale</p>	<p>Low employee morale is not sustainable for growth of SMEs (D)</p>	<p>Lack of employee morale and satisfaction is positively related to failure of a SME</p>
<p>Another serious factor is the high levels of crime in South Africa. Due to the high incidents of crimes, businesses are incurring huge costs to safeguard not only goods but customers as well</p>	<p>The high rate of crime in South Africa results in businesses spending more money on securing their goods and premises. This is monies that could be spent on revenue generating activities</p>	<p>Reallocating monies from income generating activities to spending it on securing goods and premises drives up the failure rate of SMEs (D)</p>	<p>High rate of crime negatively affects SMEs as they spend a great proportion of income attempting to overcome this.</p>

<p>SMEs in South Africa, as is the case all over the world, have to pay registration and licenses fees and pay taxes as a part of government legislation which has an impact on its growth</p>	<p>Government regulation and laws create a very expensive and time consuming system in which to conduct business as a SME in South Africa</p>	<p>Conducting business and complying with government regulations and laws in South Africa is time consuming and expensive thus drives the failure rate of SMEs (D)</p>	<p>Conducting a formal business in South Africa costs money as there is registration and tax costs that are incurred. The impact of this is that running a successful business whilst abiding by regulation can, at times, be a financial burden and adversely affect the business</p>
<p>A higher level of entrepreneur education has a positive effect on productivity, which subsequently leads to higher profitability</p>	<p>South Africa has a low level of education generally, which translates to entrepreneurs having a low level of education. Low levels of education leads to low productivity levels and thus lower profitability</p>	<p>Low productivity and lower profitability levels due to low levels of education leads to unsuccessful business ventures (D)</p>	<p>South Africa is a nation known for its low levels of education and so this affects the profitability of businesses when low educated entrepreneurs attempt to navigate the SME sector in South Africa</p>
<p>Many small firms fail within the first year because of the lack of product demand and customer support</p>	<p>Many SMEs do not thoroughly know their market and so their offerings do not meet the needs of customers. This leads to low demand of their products and services</p>	<p>Low demand for the products due to insufficient knowledge of their customers and market leads to failure (D)</p>	<p>Lack of knowledge of customers and market leads to low levels of product and service demand, if not addressed drives failure in SMEs</p>
<p>Small firms tend to suffer from a limited customer base and smaller market share, which could mean a lower profit</p>	<p>Because of the high competition in the SME sector in South Africa, businesses have very low market share and this translates into low profits</p>	<p>Low profits as a result of high competition and low market share drives failure of SMEs (D)</p>	<p>High competition in the SME sectors results in low market share for businesses</p>

<p>Because a small firm has a smaller output than its larger competitors, it is particularly vulnerable to the decline or loss of an important customer</p>	<p>Because of the high competition in the SME sector in South Africa, businesses have very low market share and this translates into low profits</p>	<p>Low profits as a result of high competition and low market share drives failure of SMEs (D)</p>	<p>SMEs cannot meet the demand like the larger firms, this causes company to lose client base and thus decreasing their success rate</p>
<p>SMEs are excluded from some financial sources (E.g stock exchange), and find raising finance, such as long term loans difficult because of the higher risk associated with firms who have little equity in the form of share capital</p>	<p>Because SMEs are seen to be higher risk, this makes getting external financing difficult. This slows down any growth prospective for SMEs</p>	<p>Inability to secure financing because of SMEs being seen as too risky may lead to the failure of the business (D)</p>	<p>Limited access to financing channels limits the ability to operate the firm and/or expand</p>
<p>Internally, SMEs are limited by a shortage of financial resources, which reduces their potential growth</p>	<p>SMEs do not have adequate finances and access to external financing to sustain the SME</p>	<p>Lack of finances and limit channels to access external funding drive up the failure rate (D)</p>	<p>SMEs do not have adequate funding and funding options. This could lead to business becoming difficult to conduct</p>

<p>SMEs do not have the benefit of functional specialists but must rely on generalist "jack-of-all trades" individuals, usually the owner or the manager</p>	<p>Specialist roles cannot be filled as this is an expensive exercise. Owners or managers have to fulfil roles which they are not qualified to do. This mismatch of skills can be detrimental to a SME</p>	<p>With owners and managers taking on roles that they are not qualified to do, this poses an additional hurdle to the survival of SMEs (D)</p>	<p>Employees tend to do jobs that they do not have the expertise in, critical business areas go without the much needed functional specialist leading to a breakdown in those areas, which ultimately results in the breakdown of the SME</p>
<p>SMEs in general face three sets of constraints that prevent them from achieving and maintaining competitiveness within and beyond national border. The first set of constraints comes from the historical evolution of a country's economic development</p>	<p>The nations historical economic construct plays a major role in constraining the growth of the SME sector in South Africa</p>	<p>unfavourable economic landscape restrict potential SMEs (D)</p>	<p>Historical economic has a massive, negative bearing on the current SME situation in the South African context. It is one of the major constraints preventing SMEs from achieving and maintaining competitiveness</p>
<p>The second set relates to the disadvantages of small size firms. Empirical evidence is clear on the fact that small firms indeed tend to export less. Exporting firms are more productive, bigger, more capital intensive, pay higher wages and survive longer than non-exporting firms</p>	<p>SMEs tend to not export their products. This is due to the fact that they are unable to scale their businesses to that magnitude. This means that their cost of production is higher and they are generally less competitive than larger firms that are benefiting from economies of scale</p>	<p>Higher production costs and less competitiveness leads to an increase in the failure rate of SMEs in South Africa (D)</p>	<p>Higher production costs and thus becoming less competitive due to SMEs inability to scale up production is unfavourable for SME survival</p>

<p>The third set of constraints is concerned with institutions and policies that can be biased against SMEs</p>	<p>Government laws and regulations are very onus on SMEs in terms of time and money. Thus SMEs spend time and money on this area rather than spending it on income generating activities</p>	<p>Not spending valuable time and money on legal, regulatory and compliance drives up failure rate of SMEs in South Africa (D)</p>	<p>SMEs are held to the same legal and regulatory laws as large corporates. This puts them at a disadvantage as these laws in some cases are not helpful in facilitating SME growth thus leading to possible failure on venture</p>
<p>Globalisation, through its various features may shape, facilitate and/or impede the spread and conduct of SMEs activities and operations in Africa and elsewhere</p>	<p>Globalisation brings with it increased competition and a higher quality of products and services, which SMEs cannot keep up with</p>	<p>inability to keep up with increased competition and higher quality of goods drives up the SME failure rate</p>	<p>With may Multinational corporations expanding into Africa, specifically South Africa, this increases the competition that SME face and higher quality of products. Because SMEs cannot expand operations and cannot operate as efficiently as these multination's, their growth projections are stunted</p>
<p>Foreign Direct Investment (FDI) is welcomed and indeed sought by virtually all African countries. It is credited to have important positive spill over effects on local SMEs through supply and distribution chains, trading and outsourcing.</p>		<p>(D)</p>	<p>South Africa not getting the amount of FDI they desire/require in order to realise these positive spill overs??</p>

<p>The benefits of FDI are frequently challenged, both on ideological and empirical grounds, as SMEs can miss opportunities for linkages with foreign direct investors. There is a common critique the foreign investors crowd out local SMEs and other firms cannot compete because of size, financing, marketing power or other unfair advantages.</p>		(D)	<p>Increase of the competition that SME face. Because SMEs cannot expand operations and cannot operate as efficiently, their growth projections are stunted due to FDI</p>
<p>Closely related to the weakness of the SME sector is the issue of technology. Many African counties lag in the development of indigenous technologies and technological advancement. It is the failure to develop technological capabilities that underlies the failure of the manufacturing and SME sectors generally</p>	<p>Dated technologies result in productions methods being too costly and SMEs losing competitiveness</p>	<p>Loss in competitiveness drives failure rate of SMEs (D)</p>	<p>Dated technology decreases how competitive a SME is. SMEs then become unsustainable due to comparatively higher prices</p>
<p>The process of liberalisation and globalisation has made non-price competition increasingly important. These encompass all those factors, other than price, that effect market performance. Successful SMEs are going to be the ones that respond rapidly to non-price competition</p>	<p>Globalisation has resulted in SMEs facing non-price pressures, such as more efficient methods of production and better technology, from larger companies. Globalisation has made SMEs less competitive in the market</p>	<p>Loss in competitiveness drives failure rate of SMEs (D)</p>	<p>Globalisation has brought non-price competition. SMEs are not able to keep up with the larger multinational companies and this results in failure</p>

<p>There is evidence from literature on SMEs that local firms are increasingly forced to perform by global standards not just in matters of costs but also quality, speed of response and flexibility</p>	<p>Introduction of multinational corporations into South Africa (globalisation) has lifted the standard in which SME have to perform. Many SMEs are unable to keep up with these higher standard of quality, costs, response times and flexibility</p>	<p>SMEs are not able to produce at the standards of multinational companies and so lose large amounts of customers (D)</p>	<p>Globalisation had brought higher standards in productions, costs and quality which SMEs are not able to keep up with thus failing</p>
<p>African SMEs have traditionally tended to focus attention on production, sometimes at the expense of quality. These businesses will need to pay more attention to non-price elements such as packaging, quality, international standardisation and timely delivery of products</p>	<p>SME focus on production rather than quality will lead to inferior goods and a loss of demand</p>	<p>Inferior goods and a loss of demand drive up failure rate (D)</p>	<p>Inferior quality goods decrease the demand for SMEs products therefore resulting in failure</p>
<p>Small scale production may not only be local in character. There is widespread evidence that exporters are more productive than non-exporters</p>	<p>Inability for SMEs to increase product will result in customer demand not being met therefore missing an income opportunity</p>	<p>SMEs that do not increase production do not benefit from economies of scales and this drives up failure in SMEs (D)</p>	<p>Because SMEs are on a small scale, production will not meet customer demand and benefits of economies of scale are not realised</p>
<p>The participation of SMEs in export markets also benefits from pre-existing private networks that lower the transaction costs of linking into export markets regardless of firm size</p>	<p>Because of the high competition in the SME sector in South Africa, businesses have very low market share and this translates into low profits</p>	<p>Low profits as a result of high competition and low market share drives failure of SMEs (D)</p>	<p>SMEs cannot meet the demand like the larger firms, this causes company to lose client base and thus decreasing their success rate</p>

<p>The venture capital investors Albion Venture published their Albion Growth Report 2013. It warned that the country's skills gap was a barrier to economic recovery and in particular was hindering the growth of small and medium sized enterprises. The report, which was based on an analysis that included 450 SMEs, found that 36% of SMEs felt that a shortage of skilled staff was hindering their growth</p>	<p>With limited skilled labour available in South Africa, SMEs cannot secure the right employees and this hinders their growth and survival</p>	<p>Growth and survival that is hindered due to lack of skilled labour increases the rate of SME failure in South Africa (D)</p>	<p>Accessing skilled labour is an obstacle for SMEs. The affect this has on SMEs is that they cannot expand or efficiently continue business as they do not have the skill set</p>
<p>"It is a real concern that so many small firms are running into skills shortages at a time when the economy is picking up and recruitment is heading back up the agenda. These findings provide a clear guidance as to where the biggest skills gaps reside and its vital these are addressed"</p>	<p>There are major skills gaps in SMEs in South Africa currently. This leaves many areas of the business exposed and vulnerable to failure</p>	<p>Exposed and vulnerable business areas push up the chances of failure (D)</p>	<p>Exposed business units due to lack of relevant skills, negatively affects a SMEs survival</p>
<p>Policies, incentives and support structures need to be designed on the understanding that the businesses that fall within the broad 'SME' category differ vastly from one another in their ambitions, their potential for growth and their stage of development</p>	<p>Government regulation and laws create a very expensive and time consuming system in which to conduct business as a SME in South Africa</p>	<p>Conducting business and complying with government regulations and laws in South Africa is time consuming and expensive thus drives the failure rate of SMEs (D)</p>	<p>if policies, incentives and support structures are not put in place in order to better understand the different types of SMEs, their needs will not be met</p>

<p>One of the critical challenges facing policy makers is the dearth of information about the growth cycle and the dynamics that affect SMEs at each stage of the firm's development, from survivalist businesses to potential high growth entrepreneurial firms. The lack of empirical information has led to policy decisions that rely on anecdotes, theory or ideology- shaky foundation at best</p>	<p>Little is really known about the fundamentals of SMEs such as growth cycle and dynamics that affect SMEs at each stage. This has resulted in improper interventions by both private and government institutions</p>	<p>Incorrect interventions have massively negative impacts on the survival prospects of SMEs (D)</p>	<p>Not much is known regarding the requirements of SMEs throughout the growth cycle. This poses a major challenge as the correct reforms cannot be put in place in order to remedy any problems and fill any gaps</p>
<p>Survivalist micro-enterprises, motivated by a lack of other employment options, seldom turn into successful, larger firms. For the most part, these business owners would prefer to give up their businesses and become an employee, if the opportunity arose. They are not hiring or growing their businesses. Most of South African SMEs fall into the latter category</p>	<p>Entrepreneurs characteristics that are set on the business staying a survivalist micro-enterprise do not lead to growth and foster an environment suitable for a venture to succeed</p>	<p>Negative entrepreneurial characteristics lead to negative impacts on SMEs growth and success rates (D)</p>	<p>A great proportion of SMEs are started with the wrong motivation (to just survive) and so when difficulties arise and other opportunities come their way, business owners are very quick to jump ship</p>

<p>Regulatory burden is a critical challenge facing small businesses. Frequent changes in the regulatory environment, the need to keep track of overlapping and sometimes conflicting regulatory requirements across multiple departments and levels of government, poor communication and access to information, and administrative inefficiencies in government departments and municipalities, mean that SME owners spend a disproportionate amount of time dealing with regulatory compliance</p>	<p>There are many shortfalls concerning laws and regulations such as frequent changes, lack of communication and administrative inefficiencies. These result in SME owners and managers spending a disproportionate amount of time and money on regulatory compliance</p>	<p>Spending a great deal of time and money on regulatory compliance rather than on income generating activities can drive up the failure rate of SMEs in South Africa (D)</p>	<p>An increase in legal and regulatory requirement creates a burden for SMEs in South Africa, creating a need to channel their time and resources more into complying with these regulations instead of driving business</p>
<p>Across the globe, experience has shown that small business are more likely to succeed in supporting SME growth and sustainability when they are run by people with a deep understanding of the sector, and are built on robust partnership with industry</p>	<p>Owners/managers of SMEs do not have a deep understanding of the sector in which they are operating in. This results in incorrect decisions and offering products that are not in demand</p>	<p>Owners/managers inability to fully understand their sector inhibits all growth potential (D)</p>	<p>SMEs not having management that fully understands their industry poses a massive barrier to making that SME survive and ultimately grow</p>

<p>While the small business sector is widely considered to be a vital source of job creation and local economic growth, its potential has yet to be reached. This is largely due to some key obstacles these businesses face, namely a lack of access to the right kind of finance coupled with appropriate support</p>	<p>Lack of access to the right kind of finance is a challenge as the SME will not be able to grow and it can limit its ability to continue with current operations</p>	<p>Limitations on growth and ability to continue current operations due to lack of access to funds speaks directly to the failure rate of SMEs (D)</p>	<p>Financial access hinders the ability of SMEs to reach their full growth potential.</p>
<p>SME businesses have real growth potential but are perceived as too risky by traditional financiers</p>	<p>SMEs are perceived as risky and so are unable to access finance from traditional institutions</p>	<p>No access to financing will result in the failure rate of SMEs increasing (D)</p>	<p>SMEs cannot secure traditional financing as they are seen to be too risky, this limits their financing options and ultimately limit their expansion options and their survival</p>
<p>Deficiencies in the internal environment are the major cause of SME failures, revolve around management skills, financial knowledge, lack of expertise in the functional areas such as marketing, human resource management</p>	<p>Lack of expertise in functional areas such as marketing and HR management result in operational deficiencies</p>	<p>Operational deficiencies due to lack of internal expertise drive the failure rate of SMEs (D)</p>	<p>Lack of internal market capacity, these internal market inadequacies lead to failure of SMEs</p>
<p>Entrepreneurial mind-set is defined as a way of thinking about business and its opportunities in a way that captures uncertainty. It is also an important success factor for SMEs without which a business will fail</p>	<p>Entrepreneurial mind-set is a characteristic that, if negative and unable to process business opportunities, will lead to the business failing</p>	<p>A mind-set that is unable to capture uncertainty, will have detrimental impact on any SME (D)</p>	<p>When entrepreneurs do not have the correct mind-set to be successful in the business world, this affects the performance of the SME negatively</p>

<p>What defines a successful and potential of an entrepreneur from other individuals are those characteristics that are distinctive to them. Numerous studies on the characteristics of successful entrepreneurs have placed extensive attention to the particular features or traits that make a person act entrepreneurially, and a list of very important characteristics have been discussed in an attempt to develop a typical personality profile</p>	<p>As studies have shown, that if a SME owner does not exhibit characteristics and profile of a successful entrepreneur, the likelihood of the business venture succeeding diminishes</p>	<p>Not having the characteristics of a successful entrepreneur can result in failure of the business (D)</p>	<p>Entrepreneurial characteristic and having these characteristics is vital to the success of any SME in South Africa</p>
<p>The major variables that impact South African SMEs include interest and exchange rates, inflation, unemployment, crime, HIV/AIDS, technology advancements and government legislation</p>	<p>Unfavourable macro-economic factors such as high interest rates (makes borrowing money more expensive), high inflation (cost of production becomes higher) etc. makes conducting business as a SME in South Africa more expensive and thus makes SMEs less competitive</p>	<p>Higher interest rates and inflation makes SMEs less competitive and so drives the failure rate (D)</p>	<p>When macro-economic factors such as interest rates and inflation become unfavourable to SMEs, this makes them less competitive and creates an environment in which it is difficult to conduct business</p>
<p>As with all businesses, SMEs face challenges posed by the economic climate in a country as the economic factors have a direct impact on the consumption patterns of consumers and significantly affects all business in all sectors</p>	<p>A gloomy economic climate can result in the demand of certain products decreasing. This decrease in demand can be due to inflation</p>	<p>Decrease in demand of any SMEs product will increase the failure rate in the SME sector (D)</p>	<p>Economic climate of South Africa will have a direct impact on the growth trend and success rate of South African SMEs. If the economic climate is not factored into the decision making of SMEs, it will have a detrimental effect on the wellbeing of the business</p>

<p>Economic variables include interest rates, exchange rates and inflation, all of which influences the demand for goods and services</p>	<p>When the economic variables which SMEs face are negative, this has a unwanted impact on demand</p>	<p>Decrease in demand of any SMEs product will increase the failure rate in the SME sector (D)</p>	<p>Economic variables have an impact on the purchasing power of consumers and the firm's ability to access finance. If these variables are negative, SMEs will fail</p>
<p>Another serious macro environmental factor is the high levels of crime in South Africa. Due to high incidents of crime, businesses are incurring huge costs to safeguard not only goods but customers as well</p>	<p>High levels of crime results in higher expenses for SMEs (i.e. safeguarding their premises) which has a direct effect on price of goods (increases the price of goods)</p>	<p>Higher price of goods means that SMEs are no longer as competitive thus more SMEs fail (D)</p>	<p>Macro environmental factors such as crime have serious consequences on the sustainability of SMEs in South Africa. If factors such as crime are not eradicated by both private and state, it will deter SME owners in investing in South Africa</p>
<p>The most prominent problems influencing SME success in this environment are the state of the economy, compliance with legislation, resource scarcity, HIV/AIDS, crime, corruption and rapidly changing technology</p>	<p>Unfavourable macro-economic factors such as high interest rates (makes borrowing money more expensive), high inflation (cost of production becomes higher) etc. makes conducting business as a SME in South Africa more expensive and thus makes SMEs less competitive</p>	<p>Higher interest rates and inflation makes SMEs less competitive and so drives the failure rate (D)</p>	<p>When macro-economic factors such as interest rates and inflation become unfavourable to SMEs, this makes them less competitive and creates an environment in which it is difficult to conduct business</p>
<p>Environments characterized by weak institutions and high levels of political and civil violence directly affect new venture survival. This suggests that the failure of new SMEs may be affected by factors such as crime, corruption, weak property rights and contract enforcements and an education system that does not promote entrepreneurship</p>	<p>Unfavourable macro-economic factors such as high interest rates (makes borrowing money more expensive), high inflation (cost of production becomes higher) etc. makes conducting business as a SME in South Africa more expensive and thus makes SMEs less competitive</p>	<p>Higher interest rates and inflation makes SMEs less competitive and so drives the failure rate (D)</p>	<p>When macro-economic factors such as interest rates and inflation become unfavourable to SMEs, this makes them less competitive and creates an environment in which it is difficult to conduct business</p>

<p>SMEs in South Africa have to pay registration and licenses fees and pay taxes as part of government legislation which has an impact on growth of SMEs</p>	<p>Increase in fees and taxes impacts on SMEs bottom line and profits</p>	<p>Increase in the failure rate as the profits of SMEs decrease, making this serve as a disincentive to continue business (D)</p>	<p>Government regulations have become an inhibitor in SME progression. Government regulations serve as a barrier to entry in the SME sector</p>
<p>Insufficient management skills, expertise in financial areas such as marketing, human resources and financial knowledge are the major causes of SME failure</p>	<p>Lack of required skills results in a negative impact on the running of SMEs</p>	<p>Bad running of the business will increase the failure rate of SMEs (D)</p>	<p>Internal incapacity of SMEs lead to failure of business. Businesses that do not have sufficient knowledge on internal matters such as management skills, financial knowledge, human resources and marketing will face major obstacles</p>
<p>The most prominent problems influencing SME success in this environment are the state of the economy, compliance with legislation, resource scarcity, HIV/AIDS, crime, corruption and rapidly changing technology</p>	<p>Negative macro environmental factors contribute to the decline in the success of SMEs</p>	<p>unfavourable economic landscape restrict potential SMEs (D)</p>	<p>Macro environmental/economic factors are exogenous and the correct management of these will determine the success or failure of a business. Mismanagement of these macroeconomic factors will lead to an unsuccessful venture</p>
<p>In previously disadvantaged townships, the entrepreneurs experienced problems with low demand and not enough knowledge of competitors, which was also due to the fact that they hardly ever conducted any marketing research on their competitors and the needs of their customers</p>	<p>Due to limitations in HR resources, many SMEs in the South African context do not have the correct information of the market they are operating in and so the venture has difficulty taking off</p>	<p>limitations in skills and HR management is a driver of the failure rate of SMEs</p>	<p>It is vital for SMEs to know their market environment such as market size, competitors, low demand and intermediary accessibility in order to maximize the potential of success. If management is not able to command the market environment – customer and competitor analysis – the business will not survive long-term</p>

<p>Problems emanating from these factors include specific management issues such as lack of business management training and skills, as well as a limited family business culture in South African.</p>	<p>Lack of training of employees sets them and the company on the back foot, making the SMEs less competitive</p>	<p>Decrease in competitiveness results in the failure rate of SMEs going up</p>	<p>Lack of internal market capacity – specifically business management training and skills will lead to SMEs failure in South Africa</p>
<p>Other reasons for failure include the inability to act as an entrepreneur, to control business growth and overemphasis on financial rewards. Management actions and behaviours which are lacking are inability to set strategic goals, plan forward, reluctance to seek advice, lack of management commitment and unwillingness to adapt to change</p>	<p>Lack of required skills results in a negative impact on the running of SMEs</p>	<p>Bad running of the business will due to the internal market increases the failure rate of SMEs (D)</p>	<p>These internal market inadequacies lead to failure of SMEs</p>
<p>Marketing factors such as poor location, insufficient marketing, inability to conduct marketing research, misreading the market, poor products or services, misreading customer trends and needs also impact on the success of the SMEs</p>	<p>Inability for SMEs to conduct proper market research due to lack of skills results in the SME coming to the market with services and products that the market does not want</p>	<p>drives the failure rate up (D)</p>	<p>Lack of ability to navigate through marketing factors due to lack of skills - This obstacle will lead to failure as the SME will not know their target market, trends etc.</p>

<p>The South African labour market is highly regulated and so problems experienced include inability to attract and retain suitable staff, loss of key employees, low productivity and inadequate training and development for employees</p>	<p>With South Africa's highly regulated labour market, employees cannot retain skilled key personnel, resulting in reduced productivity</p>	<p>Reduced productivity drives up the rate of failure in SMEs (D)</p>	<p>Having the wrong people in an organization, due to strict government labour regulations will sink it.</p>
<p>Lack of proper quality control in the production process; lack of capacity planning, problems with suppliers of resources and limited attention to developing suitable products or services</p>	<p>Poor quality control in the product production makes SMEs less competitive</p>	<p>When SMEs are not competitive, this drives up the failure rate (D)</p>	<p>Lack of operational and production efficiency in SMEs will lead to inferior products and services</p>
<p>Lack of financial resources</p>	<p>SMEs do not have adequate finances and access to external financing to sustain the SME</p>	<p>Lack of finances and limit channels to access external funding drive up the failure rate (D)</p>	<p>Financial knowledge and resources are the foundation of any SME and without either, success will prove elusive</p>
<p>Many small businesses fail because of fundamental shortcomings in their planning. To be successful, you need a sound idea, a purpose (your product must fulfil a real need in the marketplace) and a plan that outlines where you are going and how you are going to get there. Thorough research is crucial to ensure that you have all the ingredients of success.</p>	<p>Limited skilled employees to conduct proper market research leads to SMEs offering products with low demand</p>	<p>When SMEs have low demand for their products, due to improper skills, this increases the failure rate of SMEs in South Africa (D)</p>	<p>Lack of research and knowledge will pose a hindrance in the success potential of SMEs in South Africa</p>

<p>The wrong skill set and lack of knowledge</p>	<p>Lack of required skills results in a negative impact on the running of SMEs</p>	<p>Bad running of the business will due to the internal market increases the failure rate of SMEs (D)</p>	<p>These internal market inadequacies lead to failure of SMEs</p>
<p>Not all of entrepreneurs can succeed in entrepreneurial business. They need specific characteristics to enable them to success.</p>	<p>When entrepreneurs do not have the right characteristics and business acumen, it causes the quality of the business to decline</p>	<p>Decline in quality of business increases the failure rate of SMEs (D)</p>	<p>Entrepreneurial characteristics that do not lend to business success results in the failure of the business</p>
<p>The result of the study shows that the entrepreneurs' characteristics have positive impact on small business success. This result is supported by most of the previous studies</p>	<p>When entrepreneurs do not have the right characteristics and business acumen, it causes the quality of the business to decline</p>	<p>Decline in quality of business increases the failure rate of SMEs (D)</p>	<p>Entrepreneurial characteristics that do not lend to business success results in the failure of the business</p>
<p>Lack of cash flow management – South African SMEs need to learn how to match their capitalization and growth in order to have enough working capital to fulfill obligations</p>	<p>Lack of financial acumen leads to cash flow issues</p>	<p>Cash flow issues that arise due to lack of financial acumen drives the failure rate of SMEs (D)</p>	<p>SME employees and owners/managers lack of financial insight will cause the business to fail</p>
<p>Management capabilities such as knowledge, skills and competencies can make a firm more efficient</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>

<p>A lack of market research, ineffective demand forecasting and analysis, bad customer service and a lack of training or sales staff are the most significant factors leading to failure of SMEs. Bad business planning easily leads to failure. The investment analysis and working capital management factors are rated second. Customer relationship is rated third. Management action and external environment factors are rated fourth</p>	<p>SME management do not have the marketing skills to properly evaluate the business environment in which they are conducting business</p>	<p>This inability leads to the increase in the failure rate (D)</p>	<p>Lack of marketing skills results in failure</p>
<p>In the competitive business environment, companies must become more innovative in order to compete in the global competition. Organizations that can survive are those who have the ability to innovate and create changes</p>	<p>SMEs in South Africa are restricted in terms of technological advancements and so cannot innovate, resulting in decreased competitiveness</p>	<p>Increases failure rate due to lack of competitiveness(D)</p>	<p>Dated technology and lack of innovation drive up the cost of production and therefore drive up the failure rate of SMEs</p>
<p>Suppliers of capital such as banks and venture capitalist believe that poor management is the most important factor contributing to small firm failures</p>	<p>Due to limitations in HR resources, many SMEs in the South African context do not have the correct information of the market they are operating in and so the venture has difficulty taking off</p>	<p>limitations in skills and HR management is a driver of the failure rate of SMEs</p>	<p>It is vital for SMEs to know their market environment such as market size, competitors, low demand and intermediary accessibility in order to maximize the potential of success. If management is not able to command the market environment – customer and competitor analysis – the business will not survive long- term</p>

<p>Most entrepreneurs claim that finance is the key cause of failure, banks contend that they are willing to lend to SMEs that are investment ready. Lack of finance may be a direct cause of business failure but the indirect cause which is often more important but seldom recognized by entrepreneurs is the lack of management</p>	<p>SMEs do not have adequate finances and access to external financing to sustain the SME</p>	<p>Lack of finances and limit channels to access external funding drive up the failure rate (D)</p>	<p>Financial knowledge and resources are the foundation of any SME and without either, success will prove elusive</p>
<p>Boeker and Wiltbank find that to entrepreneurs, the four most important factors causing failure are poor market conditions, poor management strategy and key people incompetence</p>	<p>Internal human resource function cannot fully serve the requirements of a SME</p>	<p>Inadequate internal human resources will limit a firm's ability to deal properly with their employees and thus leads to failure (D)</p>	<p>Inadequate internal human resources function will increase the failure rate of SMEs</p>
<p>To fund providers, however, the four primary causes of SME failure are the lack of management skills, poor product design, the lack of technical skills and lastly, inadequate capitalization</p>	<p>Due to limitations in HR resources, many SMEs in the South African context do not have the correct information of the market they are operating in and so the venture has difficulty taking off</p>	<p>limitations in skills and HR management is a driver of the failure rate of SMEs</p>	<p>It is vital for SMEs to know their market environment such as market size, competitors, low demand and intermediary accessibility in order to maximize the potential of success. If management is not able to command the market environment – customer and competitor analysis – the business will not survive long- term</p>
<p>A lack of skill was the reason why many small, medium - sized and micro enterprises (SMMEs) failed</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>Many new small business owners require motivational, entrepreneurial and business skills which they do not possess</p>	<p>Motivation, entrepreneurial skills and business skills are vital in the success of any venture</p>	<p>entrepreneurs who do not possess these skills and characteristics will not lead a successful business (D)</p>	<p>Motivation, entrepreneurial skills and business skills are required for growth and success of SME in South Africa</p>

<p>Keeping small businesses 'alive' with tenders is not sustainable and a contributing factor in business failures</p>	<p>Tenders cannot be the only source of business because it will soon run out</p>	<p>If the business no longer has tenders or any other means of demand for their good or service, this drives up the failure rate (D)</p>	<p>Tenders being the only source of demand for a SMEs product is not sustainable as it will soon not always be there, thus leading to failure of the business</p>
<p>Companies undertaking tender work tended to skip the start-up, early growth, rapid growth steps and move straight into the maturity stage</p>	<p>When companies rely on tenders for business, this leads to inefficiencies in their business as they have skipped important stages in the business life cycle</p>	<p>Inefficiency leads to customers opting for a different service provider, thus decreasing demand and driving up the failure rate (D)</p>	<p>SMEs that skip the life stages of a business tend to become inefficient and SME does not become successful</p>
<p>The development of a start-up was an essential experience that added the skills and knowledge required to move the forward</p>	<p>If a start-up does not go through the development stages, it will not acquire the skills and knowledge to be successful</p>	<p>A SME that does not have the correct skills and knowledge will fail (D)</p>	<p>SME require skills and knowledge that they get during the development stages of a business, with these skills and knowledge, the business will not be sustainable</p>
<p>A successful landscape of a sustainable businesses could not be built without the business working through the life cycle of the venture</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>Skills are also required for the management of finance</p>	<p>Lack of financial management skills leads to a financial department which is not able to keep up with the demands of it responsibilities</p>	<p>Employees and owners of SMEs who do not have financial acumen will lead the business onto the path of failure (D)</p>	<p>Lack of financial management skills and financial acumen is unhealthy for a SMEs sustainability</p>
<p>Many SMEs do not know how to handle funds, leading to waste of funds that could have been distributed elsewhere</p>	<p>Mishandling of fund due to the fact they the people do not have the skills will lead any SME to a place where there is no funds to continue the business due to no funds</p>	<p>No funds as a result of misuse of fund due to lack of financial acumen will drive up the failure rate of SMEs in South Africa (D)</p>	<p>Lack of financial management skills and financial acumen is unhealthy for a SMEs sustainability</p>

Not everyone is entrepreneurial and able to push the business to the next growth phase, which is to create jobs	When people who do not possess the right characteristics of an entrepreneur, start a SME, this results in a business that the market will not receive well	SME owners need to have the right characteristics or the business not be successful in the long run (D)	Without the correct characteristics, a SME owner will not lead the business to become unsustainable and successful
South Africa is not an entrepreneurial nation	Motivation, entrepreneurial skills and business skills are vital in the success of any venture	Driver	Without the correct characteristics, a SME owner will not lead the business to become unsustainable and successful
It usually comes down to one of four factors: starting for the wrong reasons	When people who do not possess the right characteristics of an entrepreneur, start a SME, this results in a business that the market will not receive well	Driver	Without the correct characteristics, a SME owner will not lead the business to become unsustainable and successful
Not enough research	When SMEs do not do enough research, the company will not make the correct decisions	Driver	Incorrect decisions made by the SMEs due to lack of research will drive the failure rate of SMEs up
Lack of knowledge or skills	Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company	When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)	Lack of skilled management leads to failure in business
Insufficient access to networks and mentorship	No mentorship for SME owners	Driver	No mentorship for SME owners and therefore this drives the SME failure rate
Good management and marketing are essential when starting up	SME management do not have the marketing skills to properly evaluate the business environment in which they are conducting business	This inability leads to the increase in the failure rate (D)	Lack of marketing skills results in failure
Business started by desperate people who have lost their jobs and need to make money fast, are also at risk of failure	It will take time to gain some return on your effort, so you need to be committed for the long-term and have the heart	Driver	Many South African entrepreneurs start SMEs based on incorrect motivation, causing the failure rate of SMEs to increase

<p>Many small businesses fail because of fundamental shortcomings in their planning. To be successful, you need to have a sound idea, a purpose, and a plan that outlines where you are going and how you are going to get there</p>	<p>Failing to correctly plan and manage the businesses short and long term strategies will simply lead to errors and business failure</p>	<p>Driver</p>	<p>Poor planning will lead to the increase in the failure rate of SMEs</p>
<p>Thorough research is crucial to ensure that you have all the ingredients for success</p>	<p>SMEs do not know the market in which they deal in thoroughly enough to meet customer expectations</p>	<p>leads to failure to due not knowing the market and clientele and so not meeting their needs (D)</p>	<p>SMEs do not possess the correct skills to have sufficient market orientation. No market orientation leads to customers not being satisfied thus affecting the performance of the SME negatively</p>
<p>Illiteracy is business is another reason for small business failure</p>	<p>South Africa has a low level of education generally, which translates to entrepreneurs having a low level of education. Low levels of education leads to low productivity levels and thus lower profitability</p>	<p>Driver</p>	<p>South Africa is a nation known for its low levels of education and so this effects the profitability of businesses when low educated entrepreneurs attempt to navigate the SME sector in South Africa</p>
<p>A lack of information can also contribute or lead to failure - lack of knowledge and skills</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>South African business owners don't have a culture of working together, but would rather suffer in silence</p>	<p>When there is no collaboration in the SME sector, this leads a culture of non-assistance</p>	<p>Driver</p>	<p>A culture of non-assistance between SMEs will lead to the drive in SME failure</p>
<p>Overtrading is a main reason for failure in SME companies.</p>	<p>Because of the high competition in the SME sector in South Africa, businesses have very low market share and this translates into low profits</p>	<p>Low profits as a result of high competition and low market share drives failure of SMEs (D)</p>	<p>High competition in the SME sectors results in low market share for businesses</p>
<p>Cash flow management is crucial when growing. This is where SME owners become unstuck, particularly when money is tied up in stock when cash is needed</p>	<p>Mishandling of fund due to the fact they the people do not have the skills will lead any SME to a place where there is no funds to continue the business due to no funds</p>	<p>No funds as a result of misuse of fund due to lack of financial acumen will drive up the failure rate of SMEs in South Africa (D)</p>	<p>Lack of financial management skills and financial acumen is unhealthy for a SMEs sustainability</p>

<p>One of the main reasons for the premature failure of small businesses in south Africa is that they are started as survivalist ventures. It is almost inevitable for them to fail because their owners do not have the skills, experience or resources to build a sustainable business</p>	<p>It will take time to gain some return on your effort, so you need to be committed for the long-term and have the heart</p>	<p>Driver</p>	<p>Many South African entrepreneurs start SMEs based on incorrect motivation, causing the failure rate of SMEs to increase</p>
<p>Many potential entrepreneurs have no formal business training, and tend to ignore the vital step of developing a business plan</p>	<p>As a result, they do not have a realistic grasp on the costs, responsibilities and medium - long term requirements of a business</p>	<p>Driver</p>	<p>Poor planning will lead to the increase in the failure rate of SMEs</p>
<p>Costly trial and error in the use of capital often results in business failure</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>A lack of management experience and training</p>	<p>This results in the new entrepreneurs not fully coping with the range of responsibilities with the business</p>	<p>Driver</p>	
<p>Many entrants do not understand the financial requirements of a business or the VAT, Tax, costing, financial controls and other obligations that are part of the business mix</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>

<p>The link between stock on the shelves and the costs attached to having too much, too little or incorrect stock on hand is not appreciated as proper controls do not exist. Poor calculations of margins and cash flow often lead to failure</p>	<p>The result of poor stock and cash flow management often leads to crippling pressures impacting on the business</p>	<p>Driver</p>	
<p>Filling in the knowledge gaps, and then taking steps to keep operating costs down, controlling payment terms and tight control of credit can go a long way to reversing the current business failure rate</p>		<p>Driver</p>	
<p>“A venture fails when it involuntarily becomes unable to attract new debt or equity funding to reverse decline; consequently, it cannot continue to operate under the current ownership and management. Failure is the endpoint at discontinuance (bankruptcy) and when it is reached, operations cease and judicial proceedings take effect”</p>	<p>SMEs are perceived as risky and so are unable to access finance from traditional institutions</p>	<p>No access to financing will result in the failure rate of SMEs increasing (D)</p>	<p>SMEs cannot secure traditional financing as they are seen to be too risky, this limits their financing options and ultimately limit their expansion options and their survival</p>

<p>External and institutional environments impact on organisational outcomes. Political institutions play a fundamental role in constituting the environment in which new firms are born.</p>	<p>When the economic variables which SMEs face are negative, this has a unwanted impact on demand</p>	<p>Decrease in demand of any SMEs product will increase the failure rate in the SME sector (D)</p>	<p>Economic variables have an impact on the purchasing power of consumers and the firm's ability to access finance. If these variables are negative, SMEs will fail</p>
<p>Failure of new SMEs may be affected by factors such as crime, corruption, weak property rights and contract enforcements and an education system that does not promote entrepreneurship.</p>	<p>Unfavourable macro-economic factors such as high interest rates (makes borrowing money more expensive), high inflation (cost of production becomes higher) etc. makes conducting business as a SME in South Africa more expensive and thus makes SMEs less competitive</p>	<p>Higher interest rates and inflation makes SMEs less competitive and so drives the failure rate (D)</p>	<p>When macro-economic factors such as interest rates and inflation become unfavourable to SMEs, this makes them less competitive and creates an environment in which it is difficult to conduct business</p>
<p>A critical factor in the success of a new SME is the ability of its initial leadership to continue to meet new challenges as the business evolves</p>	<p>Internal human resource function cannot fully serve the requirements of a SME</p>	<p>Inadequate internal human resources will limit a firm's ability to deal properly with their employees and thus leads to failure (D)</p>	<p>Inadequate internal human resources function will increase the failure rate of SMEs</p>
<p>Some of the leading leadership mistakes that lead to business failures are: going into business for the wrong reasons, underestimating business time requirements, family pressure on time and funds, lack of market awareness, lack of financial responsibility and lack of a clear focus.</p>	<p>Motivation, entrepreneurial skills and business skills are vital in the success of any venture</p>	<p>Driver</p>	<p>Without the correct characteristics, a SME owner will not lead the business to become unsustainable and successful</p>

<p>One of the primary reasons why new SMEs fail is their abnormal rate of creation. New SMEs are formed at a rate that is far higher than is needed by the economy.</p>	<p>Because of the high competition in the SME sector in South Africa, businesses have very low market share and this translates into low profits</p>	<p>Low profits as a result of high competition and low market share drives failure of SMEs (D)</p>	<p>High competition in the SME sectors results in low market share for businesses</p>
<p>Also, individuals have complex motivations for starting a business and achieving a financial return is but one of them. Over-optimism fuels the process causing business founders to overestimate the returns and underestimate the risks involved. The resulting oversupply of new SMEs creates a necessity for a high business failure rate</p>	<p>It will take time to gain some return on your effort, so you need to be committed for the long-term and have the heart</p>	<p>Driver</p>	<p>Many South African entrepreneurs start SMEs based on incorrect motivation, causing the failure rate of SMEs to increase</p>
<p>SMEs like any other business entity need to be aware of changes in the external environment, which includes changes taking place in the economic, social, political, technological and international environment. The major variables that impact South African SMEs include interest and exchange rates, inflation, unemployment, crime, HIV/Aids, technological advancements and government legislation</p>	<p>A gloomy economic climate can result in the demand of certain products decreasing. This decrease in demand can be due to inflation</p>	<p>Decrease in demand of any SMEs product will increase the failure rate in the SME sector (D)</p>	<p>Economic climate of South Africa will have a direct impact on the growth trend and success rate of South African SMEs. If the economic climate is not factored into the decision making of SMEs, it will have a detrimental effect on the wellbeing of the business</p>

<p>A few years ago the interest rate was more than 18 per cent which had a significant impact on consumers and businesses alike in terms of spending power. Since the economic slowdown from 2008, interest rates worldwide has dropped with some countries having a 1 per cent interest rate and South Africa standing at a prime rate of 7 per cent - the lowest in decades.</p>	<p>Economic variables include interest and exchange rates and inflation, all of which influences the demand for goods and services. If the variables are unfavourable, this will have a negative impact on the demand for goods and services (the demand will decrease)</p>	<p>Driver</p>	<p>Economic climate of South Africa will have a direct impact on the growth trend and success rate of South African SMEs. If the economic climate is not factored into the decision making of SMEs, it will have a detrimental effect on the wellbeing of the business</p>
<p>SMEs in South Africa, as is the case all over the world, have to pay registration and licenses fees and pay taxes as part of government legislation which has an impact on its growth</p>	<p>Government regulation and laws create a very expensive and time consuming system in which to conduct business as a SME in South Africa</p>	<p>Conducting business and complying with government regulations and laws in South Africa is time consuming and expensive thus drives the failure rate of SMEs (D)</p>	<p>Conducting a formal business in South Africa costs money as there is registration and tax costs that are incurred. The impact of this is that running a successful business whilst abiding by regulation can , at times, be a financial burden and adversely affect the business</p>
<p>A good knowledge of the market environment is also required for SMEs. They need to know who their customers are, what they buy, how they buy, where they buy and when they buy in order to be able to meet their needs and demands – and to survive.</p>	<p>Limited skilled employees to conduct proper market research leads to SMEs offering products with low demand</p>	<p>When SMEs have low demand for their products, due to improper skills, this increases the failure rate of SMEs in South Africa (D)</p>	<p>Lack of research and knowledge will pose a hindrance in the success potential of SMEs in South Africa</p>

<p>Insufficient management skills, expertise in functional areas such as marketing and human resources, and financial knowledge are the major causes of SME failures. The most relevant issue faced by most SMEs are marketing related problems.</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>Regulatory reform should be an immediate priority. SBP's SME Growth Index demonstrates that small firms continue to suffer direct and opportunity costs as a result of unnecessary red tape and burdensome regulations.</p>	<p>Government laws and regulations are very onus on SMEs in terms of time and money. Thus SMEs spend time and money on this area rather than spending it on income generating activities</p>	<p>Not spending valuable time and money on legal, regulatory and compliance drives up failure rate of SMEs in South Africa (D)</p>	<p>SMEs are held to the same legal and regulatory laws as large corporates. This puts them at a disadvantage as these laws in some cases are not helpful in facilitating SME growth thus leading to possible failure on venture</p>
<p>Labour regulations are a key concern. Hiring and firing needs to be procedurally easier</p>	<p>By the government attempting to cover all of its economic objectives, some policy and laws may at times, have an undesired effect on the SME sector</p>	<p>Negative effects of government policy does not assist in reducing the failure rate of SMEs in South Africa (D)</p>	<p>When the government participates in the South African economy's economic objectives, their actions are sometimes incompatible with the growth of SMEs</p>
<p>Urgent interventions are needed to address skill shortages, and to support and incentivise SMEs in up skilling their employees, while ensuring that these programmes are easy to access with little bureaucracy.</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>

<p>Implementation of a separate tax incentive to encourage angel investors to support micro businesses that are too small to receive financial aid from government or commercial banks.</p>	<p>Government regulation and laws create a very expensive and time consuming system in which to conduct business as a SME in South Africa</p>	<p>Conducting business and complying with government regulations and laws in South Africa is time consuming and expensive thus drives the failure rate of SMEs (D)</p>	<p>Conducting a formal business in South Africa costs money as there is registration and tax costs that are incurred. The impact of this is that running a successful business whilst abiding by regulation can , at times, be a financial burden and adversely affect the business</p>
<p>Infrastructure is one of the most critical factors for economic development because it interacts with the economy through the production processes and changes in the quality of infrastructure available for production will greatly impact the production and performance of an organisation's levels of output, income, profits and employment creation in the economy</p>	<p>Poor service delivery of electricity, water, inadequate infrastructure and undeveloped roads leads to conducting business becoming harder for SMEs. At times this may lead to SMEs having to use additional money to overcome these problems thus making them less profitable</p>	<p>Increased difficulty in the business market leads to the increase in the failure rate of SMEs (D)</p>	<p>Where are is a lack of infrastructure, unreliable water and electricity generation causes SMEs to suffer most because they cannot procure adequate transportation, sanitation, building and electricity to efficiently run the business and so failure will occur</p>
<p>Despite the direct link between the availability and quality of infrastructure – electricity, portable water and poor road maintenance to economic development (Oseni & Pollitt 2013) – the availability of infrastructure in most developing countries especially in the sub-Saharan African region leaves much to be desired</p>		<p>Driver</p>	

<p>The gap in the availability of infrastructure has greatly impacted on the production processes in the manufacturing sector, especially the ability of the SMEs to compete in the global market.</p>	<p>Poor service delivery of electricity, water, inadequate infrastructure and undeveloped roads leads to conducting business becoming harder for SMEs. At times this may lead to SMEs having to use additional money to overcome these problems thus making them less profitable</p>	<p>Increased difficulty in the business market leads to the increase in the failure rate of SMEs (D)</p>	<p>Where are is a lack of infrastructure, unreliable water and electricity generation causes SMEs to suffer most because they cannot procure adequate transportation, sanitation, building and electricity to efficiently run the business and so failure will occur</p>
<p>The inadequate provision of infrastructure is part of the reasons for the poor performance of Nigeria and other SSA countries in attracting foreign direct investments</p>	<p>Poor service delivery of electricity, water, inadequate infrastructure and undeveloped roads leads to conducting business becoming harder for SMEs. At times this may lead to SMEs having to use additional money to overcome these problems thus making them less profitable</p>	<p>Increased difficulty in the business market leads to the increase in the failure rate of SMEs (D)</p>	<p>Where are is a lack of infrastructure, unreliable water and electricity generation causes SMEs to suffer most because they cannot procure adequate transportation, sanitation, building and electricity to efficiently run the business and so failure will occur</p>
<p>Specifically, the level of infrastructure available to firms generates spill over externalities, with resultant higher industrial manufacturing cost of production.</p>		<p>Driver</p>	

<p>In developing countries such as Nigeria, road and poor electricity supply are the twin major infrastructure problems confronting the business sector, including SMEs. In recent times, the introduction of the global system of the mobile communication helped in reducing to some extent the problem of communication in Nigeria, though at a great cost to subscribers.</p>	<p>inconsistent electricity supply and underdeveloped roads negatively affects distribution and production of products</p>	<p>SMEs are not able to regularly supply to their clients due to no electricity and underdeveloped roads (D)</p>	<p>Power failures and inaccessible roads has a profound effect on the SME sector. Business and production cannot take place for days on end and the ability of business to expand to rural areas is limited because of these reasons. With limited production and expansion possibilities, SMEs may fail</p>
<p>Government has not done enough to create the best conducive environment for the striving of SMEs, the problem of infrastructures ranges from shortage of water supply, inadequate transport systems, lack of electricity to improper solid waste management.</p>	<p>Poor service delivery of electricity, water, inadequate infrastructure and undeveloped roads leads to conducting business becoming harder for SMEs. At times this may lead to SMEs having to use additional money to overcome these problems thus making them less profitable</p>	<p>Increased difficulty in the business market leads to the increase in the failure rate of SMEs (D)</p>	<p>Where are is a lack of infrastructure, unreliable water and electricity generation causes SMEs to suffer most because they cannot procure adequate transportation, sanitation, building and electricity to efficiently run the business and so failure will occur</p>
<p>Underdeveloped physical and social infrastructures create a binding constraint to SMEs growth, since; they heavily rely on the inefficiently provided state infrastructures and cannot afford the cost of developing alternatives</p>	<p>Poor service delivery of electricity, water, inadequate infrastructure and undeveloped roads leads to conducting business becoming harder for SMEs. At times this may lead to SMEs having to use additional money to overcome these problems thus making them less profitable</p>	<p>Increased difficulty in the business market leads to the increase in the failure rate of SMEs (D)</p>	<p>Where are is a lack of infrastructure, unreliable water and electricity generation causes SMEs to suffer most because they cannot procure adequate transportation, sanitation, building and electricity to efficiently run the business and so failure will occur</p>

<p>The quality of infrastructure can affect the growth prospects of new SMEs especially in developing countries such as South Africa.</p>		<p>Driver</p>	
<p>Many developing countries suffer from deplorable state of basic infrastructure like transportation, telecommunication and electricity. Electricity supply in South Africa does not meet the demand leading to power cuts which can affect the production and turnover of new SMEs</p>		<p>Driver</p>	
<p>You cannot separate Infrastructure from Small and Medium-scale Enterprises (SMEs). Simply because without infrastructure, SMEs or even large companies will find it hard to survive.</p>	<p>inconsistent electricity supply and underdeveloped roads negatively affects distribution and production of products</p>	<p>SMEs are not able to regularly supply to their clients due to no electricity and underdeveloped roads (D)</p>	<p>Power failures and inaccessible roads has a profound effect on the SME sector. Buisness and production cannot take place for days on end and the ability of business to expand to rural areas is limited because of these reasons. With limited production and expansion possibilities, SMEs may fail</p>
<p>New SMEs require access to a pool of suitably-skilled and suitably motivated labour in order to sustain growth. Mahadea (2008) finds that it is difficult and expensive for SMEs to hire skilled labour in South Africa</p>	<p>Inability of SMEs to attract the required skilled labour inhibits firms from growth and innovation due to a low skills base within their staff complement</p>	<p>Skilled labour shortage increases the failure rate of SMEs (D)</p>	<p>Shortage in skilled labour will cause SME firms to be less able to compete in the market, leading to failure</p>

<p>Labour can only be hired at a cost and within the confines of the labour regulations such as the Employment and Minimum Wage Regulations</p>	<p>Inability of SMEs to attract the required skilled labour inhibits firms from growth and innovation due to a low skills base within their staff complement</p>	<p>Skilled labour shortage increases the failure rate of SMEs (D)</p>	<p>Shortage in skilled labour will cause SME firms to be less able to compete in the market, leading to failure</p>
<p>When employers were asked why they had difficulty filling jobs, the survey found 52% of them cited environmental or market factors, 47% mentioned a lack of technical competencies or hard skills and 46% cited a lack of available applicant</p>	<p>Inability of SMEs to attract the required skilled labour inhibits firms from growth and innovation due to a low skills base within their staff complement</p>	<p>Skilled labour shortage increases the failure rate of SMEs (D)</p>	<p>Shortage in skilled labour will cause SME firms to be less able to compete in the market, leading to failure</p>
<p>South Africa's continued skills deficit is being compounded by a lack of technical skills, which is having a negative impact on employment across many sectors of the country's economy</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>Reduction in demand is hurting businesses, but the shortage of skills remains the single most important constraint on business growth in South Africa</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>Privately held businesses in every market needed to be proactive, take time to understand the specific issues affecting their business, and develop strategies that allowed them to respond quickly to changes in the marketplace</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>

<p>Lack of skills and onerous regulatory burden are two constraints that [the] government can do a great deal to mitigate</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>There is currently an overflow of unskilled workers in South Africa as opposed to a critical shortage of skilled workers</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>There is a shortage of “entrepreneurial” or self-employed small businesses being created which could stimulate job creation. This shortage could be due to legislation regulations and the lack of available finance.</p>	<p>Management lack of business competencies result in an inefficient business and therefore effects the competitiveness of the company</p>	<p>When a business is uncompetitive due to inefficiencies, this increases the failure rate of SMEs (D)</p>	<p>Lack of skilled management leads to failure in business</p>
<p>It is Governments aim to create 6 million job opportunities by creating an environment that promotes economic growth. There is encouragement needed for new entrants such as SMME’s to enter into the market. There is a general consensus that job creation especially for low skilled workers is desperately needed and hopefully sooner than later.</p>	<p>Business requires the skills they get from the different life cycles of the business. Without which, they will most certainly fail</p>	<p>A SME that does not have the correct skills and knowledge will fail (D)</p>	<p>Without the correct skills, a SME become unsustainable</p>