

Factors influencing the success and failure of small and medium-sized enterprises in Tembisa Township, South Africa.

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Abstract

The overall purpose of the study was to investigate and establish some of the motivating factors responsible for the failure or success of Small and Medium-sized Enterprises (SMEs) in the Township of Tembisa. A secondary purpose that follows on the first one is to establish to what extent management skills and training skills have an influence on the success or failure of small businesses in Tembisa. The study identified and outlined the business and management skills required for the management of small enterprises in the township of Tembisa. The primary objective of the study is to identify those managerial and business skills that have contributed to the success and or survival of small enterprises. The population for the study was made up of SMEs in Tembisa, which were identified from the overall population of Tembisa Township small business enterprises. The study used a quantitative research method, and questionnaires were completed by 160 small business owners in Tembisa Township. The investigation revealed that it is important for small business owners to have financial management, marketing, time management, technical and interpersonal communication skills to bring success in the business. It was also discovered that small business owners

had challenges in accessing credit facilities from financial institutions and individuals. The researcher strongly recommends that those aspiring small business owners must improve on their management skills, attend workshops and seminars in business management in order to reduce the risk of failure. It is also important that financial institutions extend credit facilities to small businesses to support their initiatives.

Key words

Small and Medium- sized Enterprises (SME), Township, Tembisa, Business Management, Risk Failure, Business Operations, and Entrepreneurship, Gross Domestic Product (GDP)

1. Introduction

The research study investigated and uncovered the skills required by small and medium -sized enterprise owners to effectively run and manage their business venture. According to the European Commission (2005), there are four criteria are considered when in order for a business to qualify as an SME, as shown in Table 1.1 below.

Table 1.1: Criteria for an enterprise to qualify as an SME

Company Classification	Staff headcount	Total Gross Assets Value (Excluding fixed property)	Total Turnover
Medium-sized	<250	€5 million – €23 million	€50 million
Small	<50	€1 million - €6 million	€10 million
Micro	<10	€0.10 million - €2 million	€2 million

Source: European Commission (2005)

Table 1.1 Indicates the four criteria that is used to identify whether a company is an SME or not and, if it is, which category they fall into. The segmentation of these companies is identified by company category (which includes micro, small or medium-sized); staff headcount (the number of staff members of the company); and lastly turnover (the amount of money a company makes in a year). For example, if a company has 200 employees and if its turnover is also less than 50 million Euros (R 7993200 .00) but more than 10 million Euros, (R167173000 .00) then it is defined as a medium-sized company and the total gross assets value (Excluding fixed property)

Small medium enterprises contribute a significant amount of revenue in countries across the globe. They are responsible for a substantial contribution to the Gross domestic product of all countries globally. They play a vital role in the elevation of poverty through job creation for local communities in each country and the world at large.

According to the European Commission (2005) For a business to be considered a small medium- sized enterprise it must have a staff head count of more the 250 and must bring in a turnover of more than 50 million per annum.

South Africa is one of the countries that benefit significantly because of SMEs because they play a critical role in the economic and social development of the country.

According to Niemand and Nieuwenhuizen (2014) 30 to 80 percent of all new businesses fail with the first two years being in operation. Research has shown that managerial skills of the SME owner play a great role on how the operation does holistically. It is also noted that the training and educational background of the owners has an impact on whether that venture fails or succeeds.

The success of a SME depend greatly on its management and head which is the owner.

SMEs make an approximate figure of 62 per cent of all businesses in South Africa and about 32 per cent on the gross domestic product of South Africa. These figures give a clear indication that SMEs are important and benefit the economy of a country significantly if nurtured and developed well. Bedi (2009)

2. Review of literature

2.1 Introduction

According to Gibbs (2016) the basic yet crucial skills required to effectively manage and operate successfully a small business enterprise include the following:

- 1 – Financial management skills
- 2 – Marketing skills
- 3 – Entrepreneurial skills and,
- 4 - Time management skills

Some skills that management require in order to succeed in operating a SME include:

- 1 – Conceptual and decision making skills
- 2 - Technical skills and,
- 3 - Creativity skills

According to the business dictionary business success is defined as a business that is grounded both ethically and legally yet also still creating significant value and making considerable profits. These skills mentioned include the ability to work and manage people. To be able to communicate effectively as a manager and or business owner. The ability to physically perform the required job/task and that kind of knowledge one can only acquire by actually having direct experience working and doing the job or through educational means that the owner would have acquire from educational institutions and or training establishments. These also include the ability to be innovative and creative, to make your product different SME owners must be able to innovative and out of the box ideas that will help their business prosper. Appleby (1992)

2.1.1 Financial Management Skills

According to Bedi (2009) the financial management skills are one of the crucial skills required for any business to operate and function effectively. The business owner is required to at least have a basic knowledge of financial management so that the business does not over spend, fail to break-even, fail to pay employee and or liquidate. The department of finance in all businesses large or small is the backbone of the company thus it is imperative to acquire such skills as they, amongst others if not acquired could influence the business in the direction of failure and if acquired influence the business in the direction of success.

2.1.2 Marketing skills

Marketing is defined as the process of teaching consumers why they should buy a product and not buy another from the business's competitor. Gibbs (2016). According to Bedi (2009) marketing is far more than mere selling a product

to the target market. Small and medium-sized enterprises struggle compared to large enterprises with regards to advertising and distribution mainly because the costs to advertise and distribute effectively are significantly high and small enterprises cannot afford it as opposed to large enterprises who can afford.

2.1.3 Entrepreneurial skills

Entrepreneurs are people who recognise opportunities and create companies to pursue it. Grave and Zacharakis (2011). According to Appleby entrepreneurial skills are a combination of both creative and innovative skills and are fundamental in daily operation and management of the company. Entrepreneurs are leaders and should possess abilities that are able to motivate their employees while concurrently managing the business and the production and selling of their goods and or services.

2.1.4 Time management skills

According to Bateman and Snell (2009) the business world by its nature and fast and rapid. There is no time to accomplish tasks, meeting and management of the business all at the same time unless the enterprise owner plans and manages his/her time effectively. Managing time effectively includes listing tasks aimed to complete for the day and auctioning them following a dairy and as listed. Being organized is imperative because time moves so quickly and if the manager or business owner is not organized then it is not possible to manage time. Time management issues arise more especially when the business

2.1.5 Conceptual and decision making skills

Conceptual and decision making skills are defined as the ability to recognize and derive and solutions to organizational problems. These solutions should be of benefit to both the organization and to all employees. Van Aardt et al (2008). Conceptual and decision making skills assist the company's management team interact with the in different departments. Fleisher and Bensoussan (2007) argues that majority of the business nowadays have a completely incorrect / improper structure in order to make good decisions that assist in out performing their competitors.

2.1.6 Technical skills

According to Watson (2009) technical skills are the ability to undertake specialized tasks that require particular skills to be able to perform them. Managers are required to be able to perform the job that their subordinates perform on a daily basis because this gives them insight on how the job can be performed more effectively and less time consuming. Managers are required to have an understanding of how the job should be performed for daily execution and operation of the business so that when employee make mistakes they can be corrected by the manager who has full knowledge and understanding of the job and performance standards.

2.1.7 Creativity skills

According to Druker (2015) creativity skills are skills that enable the entrepreneur to find a gap in the market and also discover ways to fill those gaps and make profits or financial gain in the process. Creativity skills are essential and should be acquired if business owner does not naturally possess these skills because they are crucial in causing the business to be different than the ones of their competitors.

3. What causes failure of small medium enterprises

According to Bateman and Snell (2009) the rate in which SME's fail is the highest when compared with any other businesses. The failure of these enterprises has a detrimental effect on the country's GDP and the overall economic status of the country and the world at large. SME's fail for various reasons and each reason or influence that causes the SME to fail must be prohibited and monitored closely to ensure that it does not transpire and cause the business venture to fail as many have failed. SME's have a positive and significant role they play in the economic status of a country and therefore such be preserved, protected and nurtured closely so that they do not fail. Collins and Hussey (2009)

When SMEs fail there is a rise in unemployment and subsequently a direct rise on crime in the country. When SMEs succeed on the other hand there is job creation and a boost on the economy which brings positivity on all ends especially on the consumer side because they have more buying power. This is some of the reasons why it is so important to maintain SMEs operating and growing.

According to Niemand and Nieuwenhuizen (2014) some of the major influences that cause SMEs to fail include lack of owner operational skills, lack of managerial skills, lack of financial control, lack of capacity and facility planning, lack of critical thinking, poor preparation, lack of communication, lack of experience, lack of marketing and lack of preparation.

4. Findings / Results

The research study was completed using survey questionnaires that were sent out throughout the township of Tembisa because the research was focusing on Tembisa Township as its limitation. Respondents were selected using random and convenience sampling methods due to the busy schedules of business owner and managers it was not possible to always find them so convenience sampling was used and 160 (one hundred and sixty) respondents completed the survey questionnaire. These were business owners and managers in the enterprise.

The findings were as follows:

4.1 Respondents

Table 4.1.1

DESCRIPTIVES	FREQUENCY	PERCENTAGE
Gender		
Male	22	13.8
Female	138	86.3
Total	160	100.0

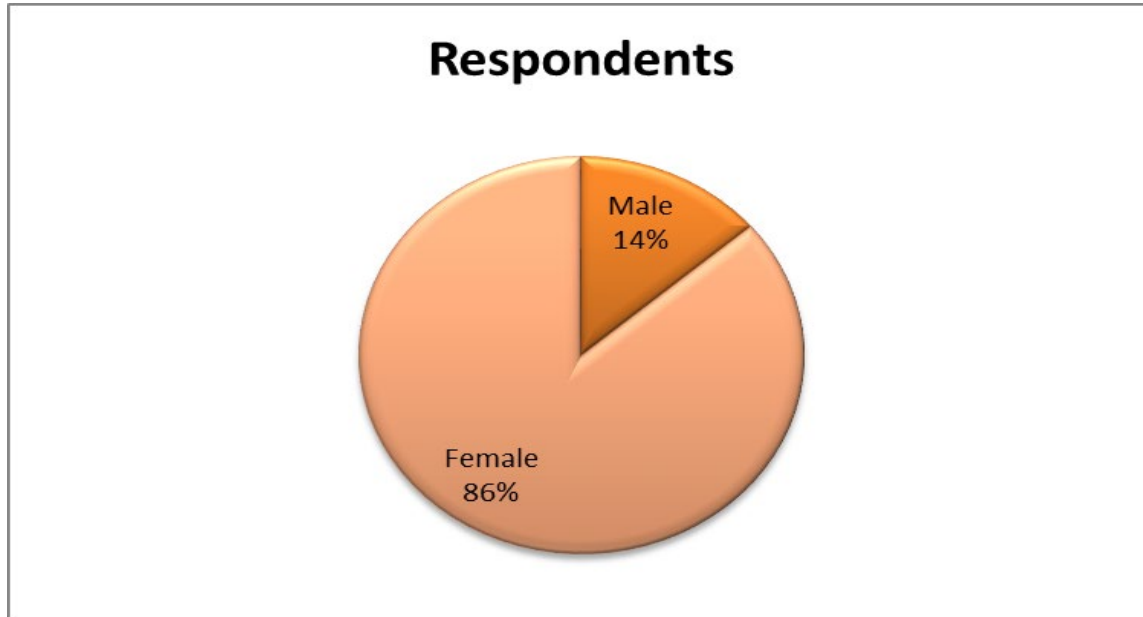


Figure 4.1

The research study findings indicate that 86 per cent of females are business owners in Tembisa while only 14 per cent are male. This means the businesses are dominated by female owners and managers.

4.2 Home language

Table 4.2.1

DESCRIPTIVES	FREQUENCY	PERCENTAGE
HOME LANGUAGE		
Afrikaans	4	2.5
English	9	5.6
Zulu	72	45.0
Pedi	48	30.0
Other	27	16.9
Total	160	100.0

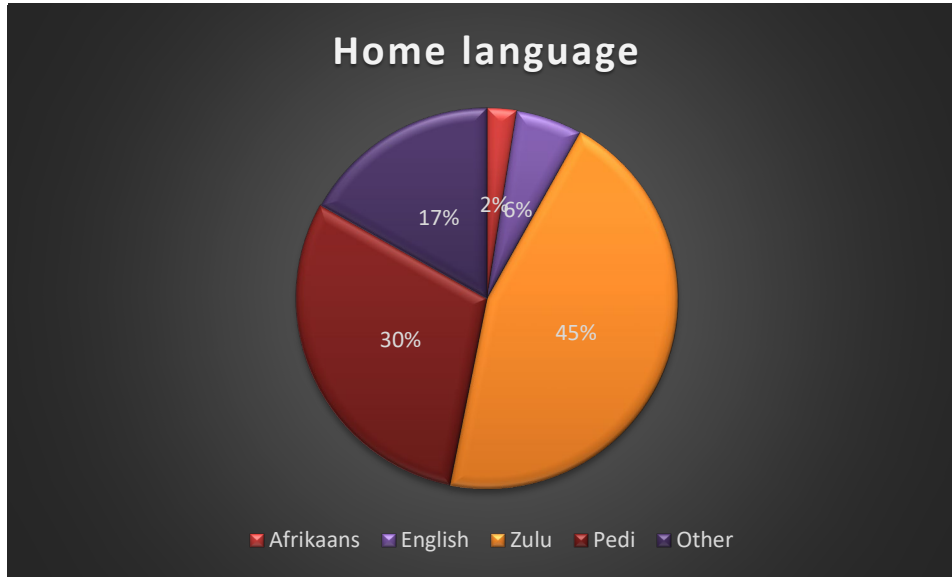


Figure 4.2

The graph above indicate that the home language of most business owners in Tembisa is Zulu which means 45 per cent of the population of business owners in Tembisa are Zulu speaking. 30 per cent is Pedi speaking and followed by 17 percent which is English speaking and then 6 per cent other and 2 per cent Afrikaans. The segment that is indicated as other are the section of people whose home language are not any of the ones mentioned above because of various factors some include the fact that they are of foreign origin.

4.3 Country of origin

Table 4.31

DESCRIPTIVES	FREQUENCY	PERCENTAGE
COUNTRY OF ORIGIN		
South Africa	94	58.8
Botswana	14	8.8
Zimbabwe	39	24.4
Pakistan	8	5.0
Other	5	3.1
Total	160	100.0

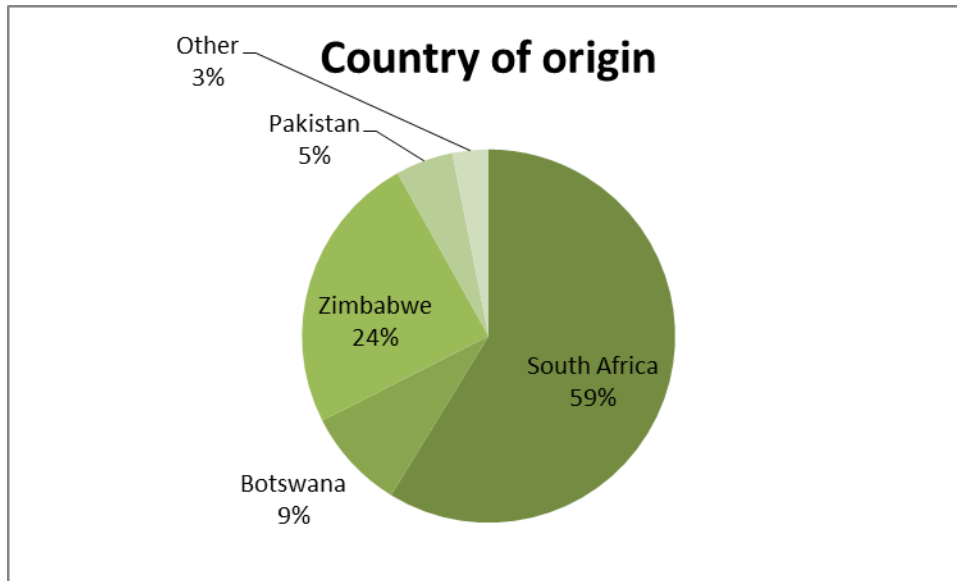


Figure 4.3

The graph above indicates that the country of origin of business owners in Tembisa are as follows: 59 per cent is South African followed by 24 per cent which is Zimbabwean, 9 per cent which is business owners who originate from Botswana and 5 per cent is from Pakistan and 3 per cent is indicated as other.

4.4 Highest educational qualification

Table 4.4.1

DESCRIPTIVES	FREQUENCY	PERCENTAGE
HIGHEST EDUCATIONAL QUALIFICATION		
None	108	67.5
Matric	37	23.1
Certificate or diploma	6	3.8
Bachelor's degree	5	3.1
Post graduate degree	4	2.5
Total	160	100.0

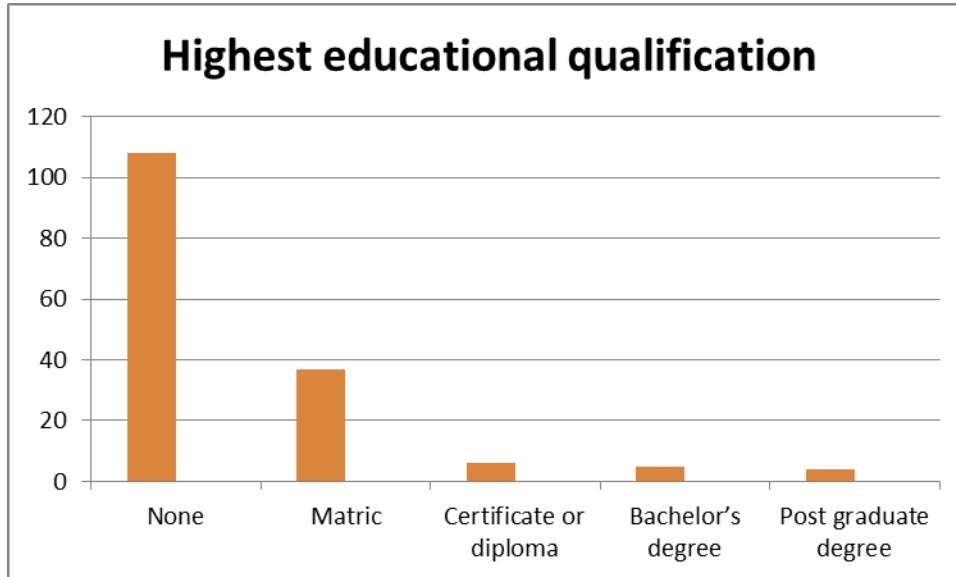


Figure 4.4

The graph above indicate the educational qualification of business owners in Tembisa. The graph indicates that 108 business owners in Tembisa have no formal education at all. 37 business owners have Matric level pass (Grade 12) and not more than that. 6 business owners in Tembisa have a certificate or formal diploma followed by 5 business owners indicated that they have acquired higher education and training and they obtained bachelor's degrees and 4 business owners stated they have post graduate degrees.

4.5 Year of experience in business

Table 4.5.1

DESCRIPTIVES	FREQUENCY	PERCENTAGE
YEARS IN BUSINESS		
0-5 years	149	93.1
6-10 years	8	5.0
11-15 years	1	0.6
16-20 years	2	1.3
Total	160	100.0

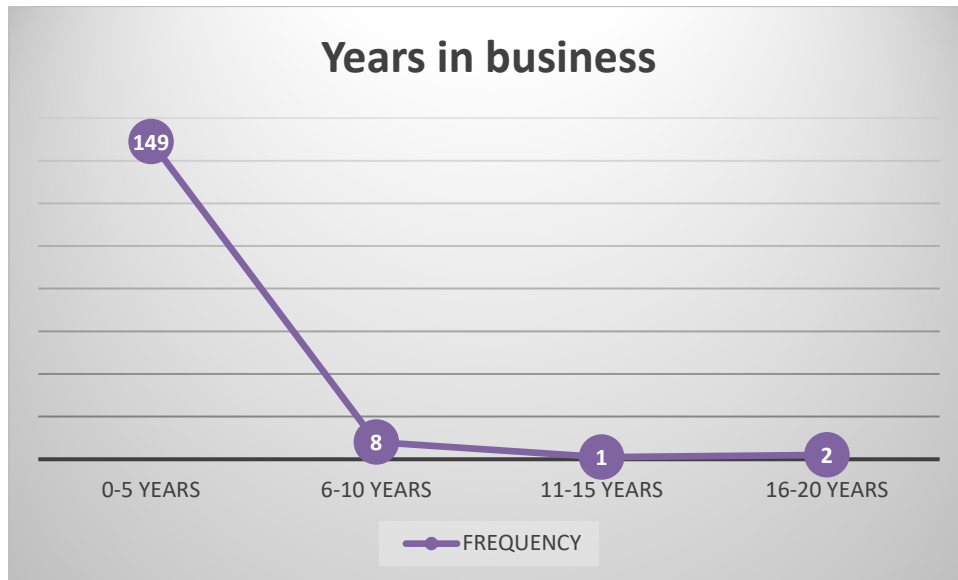


Figure 4.5 the graph above indicates that 149 business owners in Tembisa have between 0 – 5 years’ experience doing business in Tembisa. 8 business owners reflected business experience of 6 – 10 years, 1 person stated that they were between 11 – 15 years doing business in Tembisa and 2 indicated that they have between 16 – 20 years doing business in Tembisa.

4.6 Management and Business skills required to operate a business in Tembisa

Table 4.6.1

DESCRIPTIVES	FREQUENCY	PERCENTAGE
Management and Business skills required to operate a business in Tembisa		
Interpersonal and communication skills	153	95.6
Conceptual and decision making skills	154	96.2
Technical skills	154	96.2
Creativity skills	153	95.6
Time- Management skills	154	96.2
Entrepreneurial skills	152	95
Marketing management skills	152	95
Financial management skills	159	99.3
Total	160	100

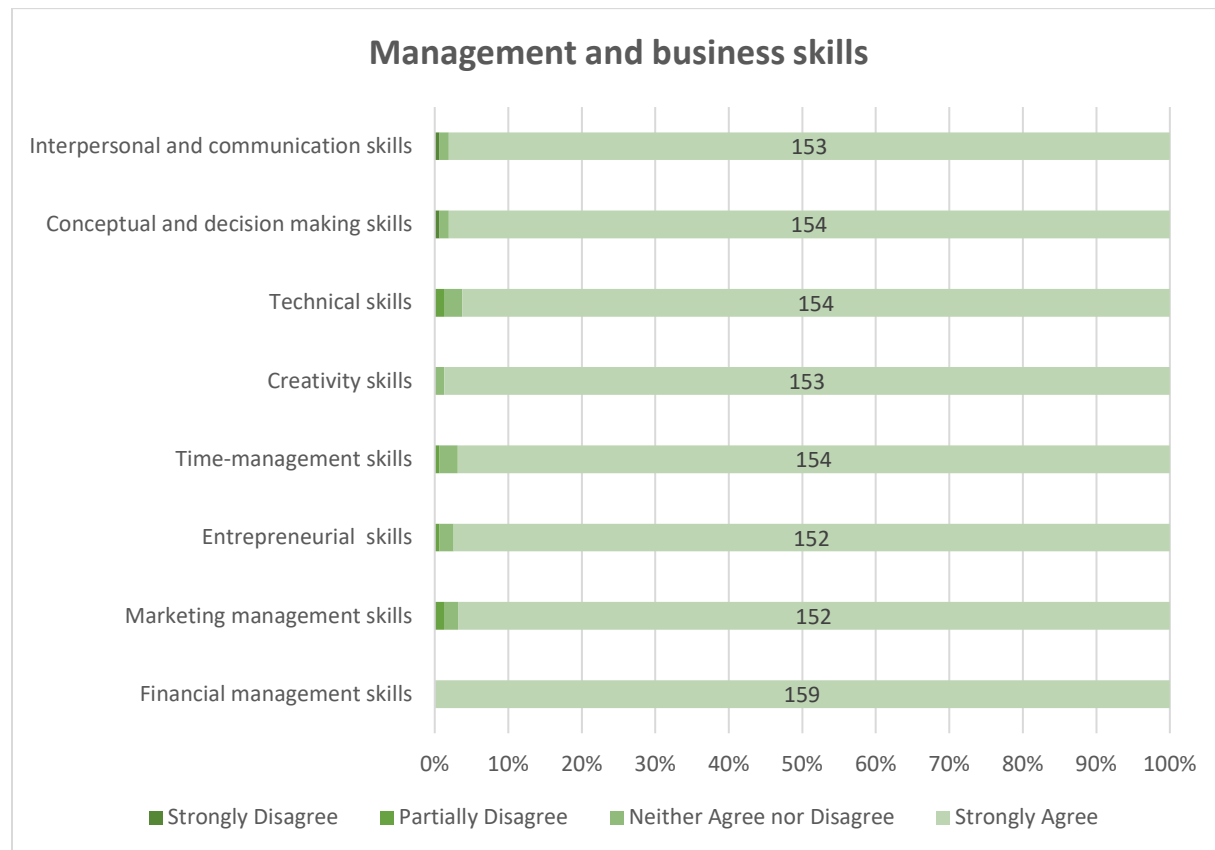


Figure 4.6

The graph above indicates that 153 business owners in Tembisa indicated that they strongly agree that interpersonal and communications skills and creativity skills were essential when doing business in Tembisa while 7 business owners in Tembisa disagreed. 154 business owners strongly agreed that conceptual and decision making skills, Technical skills and Time- management skills were essential when doing business in Tembisa while 6 business owners disagreed. 152 business owners in Tembisa strongly agreed that entrepreneurial skills and marketing management skills were essential when doing business in Tembisa while 8 disagreed

5. Conclusion and recommendations

SMEs play a crucial role in boosting the economy of a country and have significant impact on the GDP and yet these enterprises still have a high failure rate that is increasing on a yearly basis. Immediate government interventions are encouraged and not just interventions of training and teaching SME owners and management but measures of going the extra mile and actually doing day-to-day operational visits and implementation of theoretical knowledge learnt in the classroom into practical day-to-day operational implementations.

Financial management skills, marketing skills, entrepreneurial skills, time management skills, conceptual and decision making skills, technical skills and, creativity skills are some of the critical skills needed to successfully operate a SME and therefore more investment must be put in place to ensure that training for SME owners and their management is done on to improve skills.

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7. Acknowledgements

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