

# Small Business problems in South Africa: priorities for entrepreneurial education

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## ABSTRACT

The objective of this paper is to establish to what extent owners/managers of small businesses in a typical South African setting, experience selected problems or issues with a negative impact on the success of the small business. Problems encountered are numerous, and mostly related to, amongst others, environmental, financial, marketing, human resource, social or managerial issues. The aim is also to investigate whether these problem categories are related to the possession of management qualifications. An awareness of the impact of a wide variety of issues on business success, will enable SMEs to be fore warned and proactive in their decision-making to avoid the main causes for business failure. The results of this study will also enhance the development of management and entrepreneurial training syllabi to ensure coverage of those issues impacting negatively on business success. Starting a business is at best a risky venture but the chances of success are enhanced if the anticipated problems are understood and addressed prior to launching the business.

## INTRODUCTION

The important contribution that SMEs (small and medium-sized enterprises) can make to employment and income generation is increasingly being recognized all over the world. In South Africa, this contribution is of particular importance since the nonagricultural formal sectors shed more than a million employment opportunities between 1990 and 2001. Employment in these sectors decreased with 18.2%, in the last decade, from 5 694 924 in 1990 to 4 659 330 in 2001 (SARB 2002:S132). During the same period the South African economy experienced an average annual GDP growth of 2.2%. This phenomenon, coupled with relatively high population growth, has resulted in an unemployment rate of 30.5% in September 2003 (Stats SA 2003). The rising rates of unemployment are structural in nature, rather than the result of deficient aggregate demand (Hodge 2002:440). Factors such as

the low employment elasticity of the South African economy as well as the high rate of labour force growth can be regarded as some of the main causes of the growing unemployment rate.

It is acknowledged that the SME sector is labour intensive and has vast potential for creating employment opportunities. However, this sector has experienced a high degree of business mortality, impacting negatively on the ability to create long-term sustainable employment opportunities.

Surveys on business failure suggest that SME entrepreneurs often have good ideas and are competent people but 'they do not have a clue of how to run a business and have no underlying appreciation of business fundamentals' (Barron 2000:1). This article attempts to identify and analyse the reasons for business failure, to enable training and support programmes to be designed in order to equip SME entrepreneurs to survive

the ever-increasing competitive and global business environment.

## OBJECTIVE

The objective of the article is to establish to what extent owners/managers of SMEs in a selected area of South Africa (the Gauteng Province) experience selected problems or issues with a negative impact on the success of their businesses. Furthermore, the aim is to investigate whether there is any relationship between these problems and the possession of management qualifications.

The problem categories identified in the study ranged from macroeconomic and marketing issues to management, human resource, financial and social issues. An awareness of the impact on business success of this wide variety of issues will enable SMEs (existing and planned) to be forewarned and proactive in their decision-making to avoid main causes for business failure. The results of the study may also enhance the construction of management training syllabi to ensure coverage of those issues with a negative impact on small business success.

## PROBLEMS EXPERIENCED

Small and medium-sized businesses form an integral part of the national economy and, as such, are therefore influenced by various factors. In this context, the problems that SMEs face in conducting a successful business can be classified into various categories, namely (Dockel & Ligthelm 2002:2):

- (a) Economy-based problems that are associated with national economic factors related to the state of the economy such as specific phases in the business cycle and the exchange value of the national currency.
- (b) Industry-based problems that are associated with the industry in which the firm operates and can relate to, among others, the degree of competitiveness, demand and supply

factors within the industry and barriers of entry.

- (c) Firm-based problems that refer to internal factors such as the availability of resources, including finance and entrepreneurship, and the effective use of such resources.

It is sometimes useful to consider the problems caused by factors outside the firm by combining economy-based and industry-based problems as macroenvironmental or exogenous problems and to distinguish these from problems over which the individual owner has some control, which can be regarded as firm-based problems and classified as internal-micro or endogenous.

This classification is relevant for targeting policy and specific problem areas and training needs. If, for instance, the problem is predominantly endogenous in nature, then policy measures should be directed at the firm level, such as providing training and education and small business support structures. If the causes of failure are predominantly exogenous, then policy should be directed towards changing the economic environment in which the firm operates (Dockel & Ligthelm 2002:2).

An investigation into business problems according to the above two categories, by Everett and Watson (1998), serves as a good example. It focused on economy-based factors as causes of small business failure in Australia. Macroeconomic variables such as interest rates, unemployment and inflation rates were considered. However, firm-based problems were found to be associated with 65% of small business failures. In another study by Peterson et al (1983) it was found that internal-micro factors were responsible for approximately 70% of small business failures.

The rest of this article highlights the type of exogenous and endogenous problems experienced by SMEs. Note that the list of problems experienced by SMEs is contained in Tables 1 to 8. Limited space

precludes a separate discussion of the problems encountered by SMEs.

## **RESEARCH DESIGN**

### *Research Instrument*

In order to fully understand the problems encountered by SMEs and the extent to which they impact negatively on the success of small businesses, an empirical survey was conducted in selected areas of South Africa, focusing on the personal experiences of entrepreneurs concerning their business. In the absence of a comprehensive sample frame of SMEs in the study area, a judgemental sampling procedure was followed according to the certain specified criteria. The business had to

- compile an annual budget
- operate from a demarcated business area
- occupy a permanent structure
- cover the following economic sectors, namely retailers, personal services, manufacturers, wholesalers, construction and transportation
- employ fewer than 50 full-time workers

The above criteria ensured the inclusion of businesses with a reasonable level of sophistication and understanding of concepts such as exchange and inflation rates. In total, 301 of these businesses were interviewed.

### *Analysis*

The analysis of the results of the survey is based on two statistical procedures. Descriptive data are presented by means of frequency tables and cross tabulations. The opinions of respondents are provided according to the qualifications of management as part of the descriptive statistics. This is followed by the presentation of indices calculated according to an analytical hierarchical procedure. The latter calculations are based on the opinions expressed by the respondents as well as the opinions of experts in terms of the relative importance of each variable that may influence the success of

a business. The relative importance of each variable (eg inflation versus interest rates, or crime versus exchange rates, or financial issues versus market-related problems) is determined by expert opinion in order to establish a hierarchy of importance of all variables in the questionnaire.

The analysis is based on problems related to macroenvironmental, marketing-related, social, human resource and financial issues. It also covers management views on perceived success and the application of management actions.

## **SURVEY POPULATION**

Prior to a presentation of the results of the survey, it is necessary to present a profile of the survey population. This will establish the background against which responses on issues influencing the success of businesses should be interpreted.

The survey population portrays the following characteristics:

- Businesses with a reasonable level of sophistication were included in the sample. Only businesses operating from demarcated business premises, occupying a permanent structure and compiling an annual budget were selected.
- Only business owners or managers were selected as respondents. Almost two-thirds (64.5%) of the respondents acted as managers or had owned their businesses for more than three years.
- One in every four (23.6%) respondents had a management qualification. However, almost half of those with a management qualification were in possession of only a basic business certificate, while only more than a third were in possession of a diploma or degree.
- Exactly half (50.8%) of the businesses operated as sole ownership enterprises, while the rest were partnerships (12.8%), private companies (16.2%) and close corporations (19.9%).
- The average employment of respondent businesses was 3.8 full-time employees in 2001.

- Almost four in every five businesses (79.1%) reported a turnover of less than R500 000 (approximately. €60 000) for 2001. Only 7.1% generated a turnover in excess of R1 million (approximately €120 000).

The above composition confirms that, although an effort was made to select a relatively sophisticated business sample, respondent businesses were generally small to medium enterprises, mainly owned or managed by Africans (70.3%) with the overwhelming majority located in township areas.

### *Descriptive data*

Table 1 reflects the perceptions of business owners/managers of the possible impact of the macroenvironmental problems on the

success of their businesses, by management qualification. The respondents were requested to indicate their experience of macroenvironmental variables with a possible negative influence on the success of their businesses, on a five-point scale, ranging from 'strongly disagree' to 'strongly agree'. For purposes of this article 'strongly disagree' ('strongly agree') and 'disagree' ('agree') are grouped together.

The table clearly shows that managers/owners with management qualifications are far less uncertain (neutral) about the perceived impact of macroenvironmental factors on the success of their businesses. They also tend to be more in agreement with the statement that variables such as high interest rates, inflation, crime, HIV/AIDS and new government legislation would negatively impact on the success

**Table 1:** Environmental variables that impact negatively on the success of businesses by respondents with and without a management qualification

Environmental variable	Management qualification	Disagree/Agree			
		Strongly disagree and disagree %	Neutral %	Agree and strongly agree %	Total %
Interest rates	With	15.3	9.7	75.0	100.0
	Without	11.9	18.1	70.0	100.0
Exchange rate	With	16.7	13.9	69.5	100.0
	Without	11.9	22.5	65.7	100.0
Inflation	With	9.7	4.2	86.1	100.0
	Without	9.2	17.2	73.6	100.0
Unemployment	With	11.0	11.0	78.1	100.0
	Without	9.7	14.6	75.7	100.0
Crime	With	9.8	5.6	84.7	100.0
	Without	12.3	6.6	81.1	100.0
HIV/AIDS	With	30.2	31.5	38.4	100.0
	Without	34.7	40.4	24.9	100.0
Rapidly changing technology	With	40.3	20.8	38.8	100.0
	Without	42.5	17.7	39.8	100.0
New legislation	With	24.4	25.7	50.0	100.0
	Without	33.9	30.8	35.3	100.0

of their businesses. It can be deduced that conceptual know-how of the functioning of the macroeconomic environment allows better insight into the impact of exogenous factors on the functioning of businesses within a particular macroeconomic setting, especially in an environment subject to rapid change.

### **Marketing-related issues**

Table 2 reflects the influence of marketing-related variables on the success of businesses, by management qualification. Businesses regard marketing-related issues such as increased competition, limited market size, low demand for products and ineffective marketing as having the most marked negative influence on the success of their businesses. Table 2 confirms that increased competition is singled out as the

major marketing-related issue faced by the respondent businesses. Almost two-thirds of the businesses (71.3% with, and 67.3% without a management qualification) agreed or strongly agreed with this. Although there is little divergence in the perceptions of those with and those without management qualifications regarding the influence of the various marketing-related issues on the success of their businesses, respondents with management qualifications tend to be more in agreement with the negative impact of issues such as increased competition, lack of knowledge of competitors and ineffective marketing, on the success of their businesses. This may suggest that better insight into marketing-related issues is an important factor impacting on business success.

**Table 2:** Marketing-related issues that impact negatively on the success of businesses by respondents with and without a management qualification

Marketing-related variable	Management qualification	Disagree/Agree			Total %
		Strongly disagree and disagree %	Neutral %	Agree and strongly agree %	
Limited market size	With	24.6	26.0	49.3	100.0
	Without	37.3	14.7	48.0	100.0
Increased competition	With	13.7	15.1	71.3	100.0
	Without	19.3	13.2	67.3	100.0
Low demand for product	With	41.7	13.9	44.4	100.0
	Without	37.3	19.6	43.1	100.0
Lack of knowledge of competition	With	28.4	36.5	35.1	100.0
	Without	37.1	31.0	31.9	100.0
Lack of knowledge of market	With	43.8	24.7	31.5	100.0
	Without	46.7	23.1	30.2	100.0
Inability to identify target market	With	46.5	27.4	26.0	100.0
	Without	43.5	25.8	30.7	100.0
Ineffective marketing	With	28.8	28.8	42.4	100.0
	Without	31.7	28.6	39.6	100.0
Poor location	With	55.4	16.2	28.4	100.0
	Without	49.3	18.1	32.6	100.0

## BUSINESS SKILLS

A lack of business skills and training is often cited in literature as a major cause of business failure (Viviers, Van Eeden & Venter 2001:11). However, table 3 shows that the majority of respondents did not regard management training as lacking, and thus negatively influencing their businesses. This response was also recorded in other similar studies and can be explained as a form of response bias where respondents seek social approval in the eyes of the interviewer (Aaker, Kumar & Day 1995:204). A further possible reason for the survey result was that the screening question only allowed the inclusion of businesses that compiled annual financial statements. Budgeting implies activities such as planning and prioritising, suggesting that respondents

already exercise some important business management function. They may, therefore, not regard management skills as lacking in their businesses.

Table 3 reflects the views of respondents on the importance of business training, by management qualification. Although the majority of respondents with and without a formal management qualification maintain that a lack of business skills does not impact negatively on their businesses, a larger percentage of those without management qualifications agree that the lack of management training and skills impact negatively on the success of their businesses.

## MANAGEMENT FUNCTIONS

Management functions (as described in

**Table 3:** Issues related to business skills that impact negatively on the success of businesses by respondents with and without a management qualification

Business skills	Management qualification	Disagree/Agree			Total %
		Strongly disagree and disagree %	Neutral %	Agree and strongly agree %	
Lack of technical skills	With	63.0	12.3	24.7	100.0
	Without	68.0	12.4	29.7	100.0
Insufficient experience and knowledge of the field of business in which I operate	With	54.0	10.8	35.2	100.0
	Without	65.1	12.8	22.1	100.0
A lack of management training	With	66.2	8.1	25.7	100.0
	Without	54.9	15.0	30.1	100.0
A lack of management skills	With	64.9	9.5	25.7	100.0
	Without	57.6	12.4	30.1	100.0
Crime	With	9.8	5.6	84.7	100.0
	Without	12.3	6.6	81.1	100.0
HIV/AIDS	With	30.2	31.5	38.4	100.0
	Without	34.7	40.4	24.9	100.0
Rapidly changing technology	With	40.3	20.8	38.8	100.0
	Without	42.5	17.7	39.8	100.0
New legislation	With	24.4	25.7	50.0	100.0
	Without	33.9	30.8	35.3	100.0

the questionnaire) generally refer to the tasks of planning, organising, leading, coordinating and control. Table 4 confirms the importance of implementing effective management functions as a means of improving the success of SMEs.

Respondents in the possession of management qualifications generally attach higher priority to the execution of management functions. Of particular

importance in this regard are sensitivity towards change as an integral part of running a business, effective planning, organising, leading and control. The importance of this finding is that it affirms that management training not only transfers management skills to learners but also reinforces the lateral perception that the application of skills contributes to business success.

**Table 4:** Management function issues that impact negatively on the success of businesses by respondents with and without a management qualification

Management functions	Management qualification	Disagree/Agree			
		Strongly disagree and disagree %	Neutral %	Agree and strongly agree %	Total %
I set time apart each day/week to plan and prioritise activities for the day/week	With	17.8	13.7	68.5	100.0
	Without	16.9	15.2	67.9	100.0
I tend to neglect planning due to time Pressure	With	48.6	20.3	31.1	100.0
	Without	52.9	24.9	22.2	100.0
Daily routine/ operational tasks tend to take up most of my time	With	33.8	12.2	54.1	100.0
	Without	36.0	17.3	46.7	100.0
Long-term goals and objectives are not meaningful considering the pace of change in my industry	With	32.0	26.4	41.7	100.0
	Without	40.2	29.2	30.6	100.0
I am able to spend my time more effectively if I plan better	With	12.3	11.0	76.7	100.0
	Without	16.0	13.7	70.4	100.0
I view failure as a valuable learning experience	With	12.9	14.3	72.8	100.0
	Without	13.2	14.1	72.7	100.0
I constantly try to involve employees in planning and decision making	With	22.2	8.3	69.5	100.0
	Without	18.3	13.8	68.0	100.0
I prefer to do most of the work as I want to be in control of what is happening in my business	With	32.5	5.4	62.1	100.0
	Without	25.4	14.2	60.4	100.0
I regard change as an integral part of running a business	With	6.8	8.1	85.1	100.0
	Without	6.7	13.3	80.1	100.0

## SOCIAL PROBLEMS

Social issues refer to the problems experienced by SME owners, where work tends to pervade their personal life. Long hours spent at the workplace put pressure on relationships with family members and friends. Pressure stems mainly from the dual roles that have to be performed by many owners as both diligent income providers and caring spouses.

Table 5 reflects that slightly fewer respondents in possession of a management qualification experience a negative impact of their business activities on their family/social life (see 'Agree and Strongly agree' column).

## HUMAN RESOURCE PROBLEMS

The human resource problem category reflected the extent to which SME owners experienced certain human resource issues as negatively influencing the success of their businesses. Generally, human resource issues are not regarded by respondents as a serious problem jeopardising the profitability of their businesses. The two most serious human resource problems, mentioned by approximately one in every

three respondents (38.9% of those with and 34.5% of those without a management qualifications), were the introduction of the new labour laws and the inability to attract and find suitable staff (28.2 % and 34.1%). Least important of the human resource issues are poor labour relations (15.0% and 21.4%), poor staff planning (15.5% and 22.2%), high labour turnover (19.5% and 23.9%) and low labour productivity (23.6% and 27.8% respectively).

Table 6 confirms that the impact of human resource problems is more severe in businesses managed or owned by persons without management experience. Between 4% and 6% more businesses managed/owned by persons without management qualifications indicated human resource problems as a cause of failure. The largest divergence is in relation to issues such as staff planning, labour relations and inability to appoint suitable staff.

## FINANCIAL PROBLEMS

Financial problems with the most widespread impact on business success are difficulties in obtaining finance/credit (48.6% with and 55.5% without management

**Table 5:** Social issues that impact negatively on family life and the success of businesses by respondents with and without management qualification

Social variables	Management qualification	Disagree/Agree			Total %
		Strongly disagree and disagree %	Neutral %	Agree and strongly agree %	
My family/friends regularly complain that I spend too much time at work	With	32.4	21.6	46.0	100.0
	Without	36.8	11.1	52.2	100.0
Since having my own business, my social and family life has suffered due to time pressure	With	39.2	18.9	41.9	100.0
	Without	37.6	15.5	46.9	100.0
My business consumes my whole life	With	29.7	27.0	43.2	100.0
	Without	35.8	19.5	44.6	100.0
I regularly suffer from ill health	With	72.6	11.0	16.4	100.0
	Without	68.6	18.6	12.8	100.0



**Table 6:** Human resource issues that impact negatively on the success of businesses by respondents with and without a management qualification

Human resource issues	Management qualification	Disagree/Agree			
		Strongly disagree and disagree %	Neutral %	Agree and strongly agree %	Total %
An inability to attract and find suitable staff	With	53.6	18.3	28.2	100.0
	Without	52.9	13.0	34.1	100.0
Low labour productivity	With	45.8	30.6	23.6	100.0
	Without	43.5	28.7	27.8	100.0
New labour laws	With	40.2	20.8	38.9	100.0
	Without	35.4	30.0	34.5	100.0
High labour turnover	With	45.8	34.7	19.5	100.0
	Without	35.6	40.5	23.9	100.0
Poor labour relations	With	54.8	30.1	15.0	100.0
	Without	46.4	32.3	21.4	100.0
Poor staff planning	With	63.4	21.1	15.5	100.0
	Without	57.9	19.9	22.2	100.0
Poorly trained employees	With	59.5	14.9	25.7	100.0
	Without	54.0	20.7	25.3	100.0

qualification) followed by large operating expenses (61.1% and 48.8%) (Table 7). As highlighted in literature, the granting of consumer credit also presents significant challenges for small businesses. No less than 36.5% of respondents with and 43.6% without management qualifications agree that bad debts pose a serious problem to their businesses. The following financial problems were highlighted as the least serious problems (mentioned by approximately one in every four businesses): overinvestment in inventories (24.0% and 21.6%) and failure to analyse financial information (24.7% and 22.7%). Problems agreed upon by approximately one in every three respondents were: inadequate credit management (27.4 % 28.5%), insufficient knowledge of bookkeeping (37.8% and 26.3%), failure to do financial planning (27.1% and 32.0%) and poor cash flow management (31.1% and 36.0%).

The table confirms that owners/managers with a management qualification

experienced fewer financial problems than those without management qualifications. However, with regard to some issues, such as the burden of heavy operating expenses and insufficient knowledge of book-keeping, respondents without qualifications reported a less severe impact.

### **BUSINESS SUCCESS**

Selected factors were used to establish whether small business owners perceived their businesses as being successful. Respondents were requested to indicate how they view their businesses in terms of growth in turnover, profits and employees. In general, almost half the owners were of the opinion that their businesses were successful in terms of turnover and profits.

Table 8 shows a slightly higher success rate in businesses with owners/managers possessing management qualifications compared with those without. Half the owners/managers with management qualifications rate their businesses as very

**Table 7:** Financial issues that impact negatively on the success of businesses by respondents with and without a management qualification

Financial issues	Management qualification	Disagree/Agree			
		Strongly disagree and disagree %	Neutral %	Agree and strongly agree %	Total %
Difficulty in obtaining finance/credit	With	36.5	14.9	48.6	100.0
	Without	30.5	13.8	55.5	100.0
Failure to do financial planning/budgeting	With	60.8	12.2	27.1	100.0
	Without	49.8	18.2	32.0	100.0
Failure to analyse financial information	With	64.3	11.0	24.7	100.0
	Without	52.2	25.0	22.7	100.0
Inadequate bookkeeping	With	58.9	13.7	27.4	100.0
	Without	57.9	14.8	27.3	100.0
Insufficient knowledge of bookkeeping	With	54.1	8.1	37.8	100.0
	Without	54.5	19.2	26.3	100.0
Overinvestment in inventory	With	46.6	29.6	24.0	100.0
	Without	43.7	34.7	21.6	100.0
Heavy operating expenses	With	25.0	13.9	61.1	100.0
	Without	33.8	17.3	48.8	100.0
Burdensome debt	With	50.0	19.4	30.6	100.0
	Without	34.7	23.0	42.4	100.0
Poor cash flow management	With	44.6	24.3	31.1	100.0
	Without	42.2	21.8	36.0	100.0
Poor credit management	With	50.7	21.9	27.4	100.0
	Without	45.8	25.8	28.5	100.0
Bad debts	With	47.3	16.2	36.5	100.0
	Without	42.7	13.8	43.6	100.0

**Table 8:** Success factors in businesses by respondents with and without a management qualification

Success factor	Management qualification	Disagree/Agree			
		Strongly disagree and disagree %	Neutral %	Agree and strongly agree %	Total %
My business has experienced growth in turnover in the last two years	With	32.9	27.1	40.0	100.0
	Without	29.1	30.9	40.0	100.0
My business has experienced growth in employees in the last two years	With	48.6	18.6	32.9	100.0
	Without	43.2	29.5	27.2	100.0
My business is very profitable	With	20.3	39.9	39.9	100.0
	Without	21.5	35.9	42.6	100.0
I regard my business as very successful	With	13.5	36.5	50.0	100.0
	Without	16.0	36.0	48.0	100.0

successful compared to 48.0% without management qualifications.

## RELATIVE IMPORTANCE OF BUSINESS MANAGEMENT FUNCTIONS OF SMEs

### *The analytical hierarchical procedure*

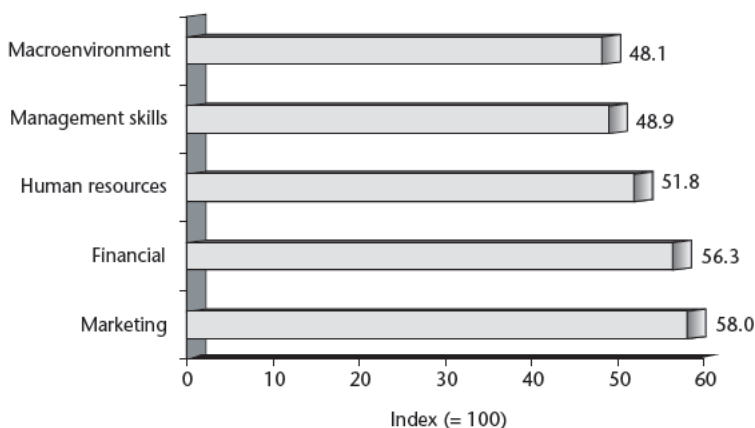
The relative importance of the various business functions is established by considering the opinions of the business owners/managers as well as the opinions of business management experts in terms of the relative importance of each variable that may influence the success of a business. The latter is determined through the analytical hierarchical procedure. This procedure was developed by Saaty (1980). It allows a systematic evaluation of qualitative variables by assigning numerical values to subjective judgements about the relative importance of items. The result of the analytical hierarchical procedure is a mathematical weighting that reflects the relative importance of each of the variables, when compared to all other variables (Ghyoot 2002:33). The relative weighting is then expressed as an index (out of a 100). Space limitations preclude a full exposition of the applied methodology [see Saaty (1980) for an exposition of the model, and Ghyoot (2002:33), and Ligthelm and Cant (2002) for an application of the model].

### *Findings*

By combining the rating by business management experts of the relative importance of business management functions through the analytical hierarchical method with the Likert rating of the business survey, an index is constructed, portraying the relative importance of the various business management functions (eg marketing, human resources, general management etc). The index is expressed out of 100, implying that the higher the index the greater the importance of a specific function.

Figure 1 shows the importance of the various business management functions as perceived by respondents and weighted according to expert opinion. Marketing, with an index of 58.0 is regarded as the most important business management function contributing to the success of businesses. Problems such as a lack of demand for products and services, increased competition, lack of knowledge of the market, inability to identify the correct target market, ineffective marketing and poor location of businesses are perceived as major problems that have to be addressed to ensure a profitable endeavour. This is to be expected, especially due to the severe competition and the continuous establishment of new businesses in the survey areas. New business operators often

Figure 1: Indices of relative importance of business management functions



establish businesses at a poor location, utilising family as employees and own finance, frequently creating a situation of overtrading in a limited market. This implies that financial and human resource issues are less of a problem than limited demand for products and services in a limited market.

The figure also indicates that marketing-related issues are followed by financial (index 56.3) and human resource problems (51.8) as important areas to be addressed. Macroenvironmental issues (48.1), such as inflation, unemployment and interest rate levels, that fall outside the direct sphere of influence of entrepreneurs, are perceived as the least important for ensuring business success.

By differentiating the relative importance attached to business management

functions by sociodemographic characteristics of owners/managers the following materialises:

- The relative importance of the various business functions by management status (ie owner only or manager only or both) shows no significant variation, implying that management status does not significantly alter the relative importance attached to the various business functions as shown in Figure 1. The only exception is that owners attach greater importance to financial issues than managers (indices of 60.2 and 51.9 respectively). This is to be expected since owners would naturally regard the financial outcome of their businesses as more important than a person who only acts as manager. Profitability enhances an owner's income while managers of SMEs are often entitled to a more fixed remuneration.
- Period of experience as owner/manager of an SME shows that owners/managers with less than two years' experience tend to attach greater importance to all management functions than the average index shown in Figure 1. The relative importance of the various functions in terms of contributing to business success

remains the same, notwithstanding the period of experience – marketing remains the top priority followed by financial issues.

- Some minor variations are evident regarding the importance attached to the various management functions by type of enterprise. Sole traders emphasised financial issues as being of particular importance for business success while private companies attached less importance to financial issues. Marketing and macroenvironmental issues are of particular concern for private companies. Human resource issues are rated relatively high by partnerships and close corporations.
- The human resource function is of less concern to small businesses with no employees while all management functions are regarded as relatively important to medium-sized businesses (ie the largest category in the survey).
- SMEs with an annual turnover of R5 million plus (approximately €300 000) (the largest category in the survey) attached greater importance to management functions being instrumental in success than the smaller enterprises. Particular emphasis was placed on marketing, general management and human resource issues by the larger firms.

## SUMMARY

The sample population, consisting of relatively small yet sophisticated businesses in selected areas of South Africa, emphasised that the following issues were of particular concern for the success of their businesses:

- Marketing-related issues
  - Increased competition (overtrading of the market)
  - Limited market size
  - Ineffective marketing
  - Lack of knowledge of competitors
  - Poor location
- Financial issues
  - Difficulty in obtaining finance/credit
  - Heavy operating expenses
  - Management of consumer credit

- Poor cash flow management
- Lack of financial planning
- Human resource issues
  - New labour laws
  - Inability to attract and maintain suitable staff
  - Low labour productivity
  - Poorly trained employees
  - High labour turnover
- Management functions
  - Adapting to changing business environment
  - Time management
  - Delegation and cooperative management
  - Planning and prioritising
  - Effective control
- Microenvironmental issues
  - Crime and corruption
  - Inflation
  - Unemployment (limited market)
  - Interest rates
  - Exchange rates

The respondents confirm that they regard all management functions as important for the success of their businesses. Slight variation was detected in the importance attached to problem areas. Marketing-related issues are singled out as the most important for business success, followed closely by financial issues, general management functions and lastly the impact of macroenvironmental aspects on business activities.

Training programmes in business management and entrepreneurship should endeavour to accommodate the above problem areas in their syllabi. Addressing the various issues in general in training material is not sufficient. The contents should be focused on the specific problems experienced by SMEs and allow for the practical application of concepts and procedures. This is the challenge for management and entrepreneurship training.

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