

## THE IMPACT OF ENTREPRENEURIAL SKILLS ON THE VIABILITY AND LONG-TERM SURVIVAL OF SMALL BUSINESSES: A CASE OF THE CITY OF TSHWANE, SOUTH AFRICA

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### ABSTRACT

Small businesses operating in the City of Tshwane are characterized by shortage of entrepreneurial skills. The purpose of the study was to highlight the impact of shortage of entrepreneurial skills on the long-term survival and economic viability of small, micro and medium-sized enterprises (SMMEs) that operate in and around the City of Tshwane in Gauteng Province, South Africa. The research was based on a 5-year follow-up study (2007 to 2012) of a random sample of 349 small and medium-sized business enterprises that operate in and around the City of Tshwane in South Africa. Data was gathered from each of the businesses on socioeconomic factors that are known to affect the long-term survival of small, micro and medium-sized businesses. The objective of the study was to identify and quantify key predictors of viability and long term survival. The design of the study was descriptive and longitudinal. Econometric methods such as panel data analysis, Kaplan-Meier survival probability curves, life tables, and logit regression analysis were used for data analyses. Hazard ratios estimated from the Cox Proportional Hazards Model were used as an econometric measure of effect. The study found that 188 of the 349 businesses that took part in the study (54%) were not viable. Based on hazard ratios estimated from the Cox Proportional Hazards Model, the long-term survival and viability of SMMEs was significantly and adversely affected by lack of entrepreneurial skills, lack of supervisory support to newly established businesses, and inability of operators running newly established businesses to acquire relevant vocational skills.

**Keywords:** SMMEs, Entrepreneurial skills, Vocational skills, Panel data analysis, Odds ratio, Hazard ratio.

### INTRODUCTION

SMMEs are regarded as the major GDP contributors and usually create more jobs quantified at about 60% by Business Partners Limited (Bharadwaj, 2013: 169-196). Countries classified as emerging economies, namely Brazil, Israel, India, Ireland and South Africa have realized that it is essential to support and promote the development of SMMEs as a means of growing the national economy and alleviating unemployment and poverty among the masses. Several studies have pointed out the strategic importance of SMMEs to the national economy and GDP (Adams & Mehran, 2003: 123-142). The growth of SMMEs is closely linked to the growth of national economies and GDPs. Job creation in the formal sector frequently takes place at a far lower rate than growth in the labour force (Ligthelm & Van Wyk, 2004:1-4). South African SMME environment is not unique to this assertion. Many reasons are given for business failure, *inter alia with*, lack of managerial planning skills, ineffective working capital management, inability

to manage the competitive environment and growth over-expansion (Rankhumise, 2009; Netswera and Ladzani, 2009).

The South African Government strives to create a conducive environment for SMMEs to participate in the mainstream of the economy and growth through job creation and introduction of innovative products and services. They created DTI Agents to focus on SMME development. Table 1 illustrates how the South African Government has prioritised the SMME development through support programmes.

**Table 1: Prioritisation of support programmes for SMMEs**

Market segment	Support programme	Degree of significance
Pre-formation	Co-operatives Promotion and Awareness Support Programme	Highest significance
Survivalist co-operatives (Revenue <R300 000)	Micro Finance (through SAMAF) Start-Up Grant (Through Co-operatives Incentive Scheme by TEO)	Highest significance
Micro co-operatives (Revenue between R300 000 and R5 million)	Micro Finance (through SAMAF)  Start-Up Grant (Through Co-operatives Incentive Scheme by TEO)  Infrastructure Support Programme (Through Municipalities)	Higher significance
Small co-operatives (Revenue between R5 million and R35 million)	Start-Up Grant (Through Co-operatives Incentive Scheme by TEO)  Co-operatives Special Projects Fund (through Khula)  Khula Direct Retail Funding Enterprise Networks Programme (through SEDA)  Infrastructure Support Programme (Through Municipalities)	High significance

Medium Co-operatives (Revenue between R35 million and R50 million)	Co-operatives Special Projects Fund (through Khula)  Start-Up Grant (Through Co-operatives Incentive Scheme by TEO) Khula Direct Retail Funding  Enterprise Networks Programme (through SEDA)	Lowest significance
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SMMEs have their perception about the South African Government support systems. See the table 2 below depicting the situation.

**Table 2. Perception by SMMEs on Government programmes for supporting SMMEs**

<b>Government programme</b>	<b>Degree of utilization of programme</b>	<b>Perception about programme</b>
BBBEEE	Low response	Not aware. Do not see value adding to their businesses. Interpreted to be for the wealthy or educated
Training	Low response	Affect income generating business activities
Business registration processing	High response	Red – tape coupled with administration inefficiencies affect the turnaround time
Business linkage	Low response	Tend to benefit a few. Regulatory restrictions make it impossible to be accessible
Incentives	Low response	Not binding to comply in Tax returns and VAT Registration and see no benefit to their business operations
Tender Participation	High response	Positive hope to be considered for job opportunities
Data base registration	High response	Positive hope to be considered for job opportunities

Vulnerable	High response	Government does not provide protection and training
Stakeholder facilitation for deregulating access to finance	Low response	Government does not assist to make the private sector understand the language of SMME financing. Financing model suitable to Large Corporate and SMEs
SMME Conditions	Low response	Government reluctant to assist. Administration corrupt and inefficient.

SMME operational needs are often misinterpreted by the important stakeholders in the SMME sector. Hence a study was undertaken to review the factors that affect the survival and growth of this sector, which to large extent is said to be informal. The study was based on a 5-year long follow-up (2007 to 2012) of a random sample of 349 small, micro and medium-sized enterprises (SMMEs) conducting business in and around the City of Tshwane in which factors responsible for failure in small businesses were investigated by using panel data analysis. At the end of the study, 188 of the 349 small businesses were not financially viable. The purpose of the study was to identify and quantify key variables that were responsible for failure in the 188 businesses that were not viable

### **THEORETICAL ISSUES ABOUT SMMEs in a South African Context**

Several studies have been undertaken on SMMEs as they are said to be the biggest creators of jobs with ease and contribute more to the GDP yet 75% fail within their 3yr of operation (Ladzani, Ligthelm & Brilal, 2012: 43-46). Majority of survivalist businesses are said to be necessity driven entities as well as lack the necessary basic business skills and entrepreneurship, capacity and resources needed for business growth and expansion, access to markets amongst others. Rankhumise (2010) also cited lessons and challenges faced by Small Business Owners in running their Businesses linked to lack of skills, capacity constraint, access to finance amongst others.

According to the South African Small Enterprise Development Agency (2013), 60% of South African small businesses fail within their first year of operation. The agency has found that although the South African Department of Trade and Industry provides incentives and support to small and medium sized enterprises, the degree of support provided to newly established small businesses is grossly inadequate. As a result, small and medium sized enterprises are seen failing in a number of areas of specialization (South African Chamber of Commerce and Industry, 2013: 1-7; South African Department of Trade and Industry, 2013: 2-5; South African Small Enterprise Development Agency, 2013: 2-5; Ladzani & Netswera, 2009: 11-13).

Sustained growth in the SMME sector resulted in employment opportunities in most of the world's developed economies. The growth of SMMEs is closely linked to the growth of national economies and GDPs. South African SMME environment is not unique to this assertion. SMMEs in South Africa are characterized by shortage of technical and entrepreneurial skills. The study by Barney (2012: 99-120) has shown that the presence of an economically enabling environment is a key requirement for the sustained growth of the SMME sector of the economy.

The industry environment in which a business operates has a strong influence on its economic performance (Ghemawat, 1999:19). The growth of SMMEs depends on economic and administrative policies of national governments. The South African Government has established DTI Agents to support the growth of the SMME sector through financial and non-financial programmes, amongst others - *SEDA, Khula, Sefa, etc.* Their mandate are categorized as financial and non-financial support programmes, where SEDA focuses on no-financial programmes and financial programmes are facilitated by Khula .

### *Definition of SMMEs*

According to the National Small Business Act of South Africa (the South African Department of Trade and Industry, 2013), small, micro and medium-sized enterprises are defined as follows:

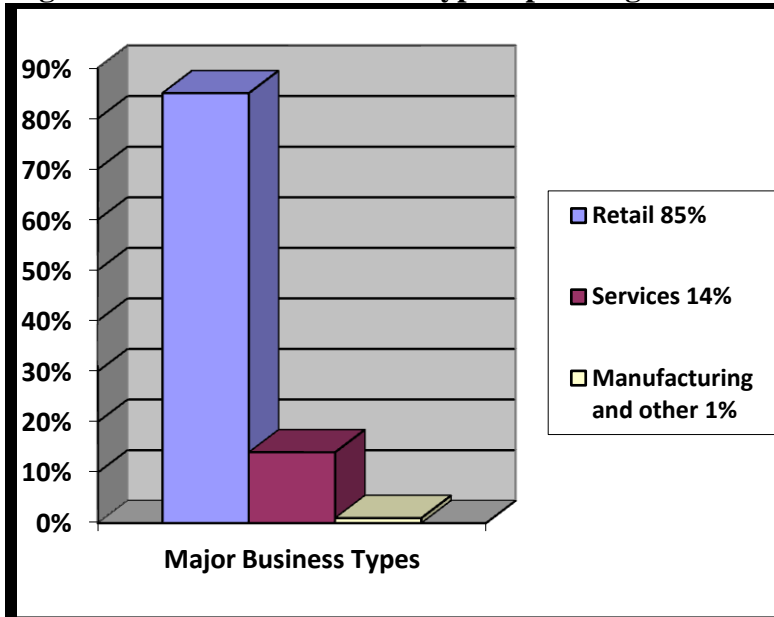
- *Micro enterprises:* With growth potential that involves the owner and family members or at the most four employees and whose turnover is below 150, 000 Rand, the threshold for VAT registration;
- *Small enterprises:* With 5 to 100 employees and are owner-managed and fulfill all the trappings associated with formality.
- *Medium-sized enterprises:* With 100 to 200 employees which are still owner-managed and fulfill all the trappings associated with formality.
- *Small, Micro, Medium-scale Enterprises (SMMEs)* are also defined as enterprises with a minimum asset base of 25 million Rand excluding the cost of land and working capital by the South African Department of Trade and Industry (2013).

### *SMME Environmental challenges*

In South Africa, a series of procedures need to be followed in order to set up a small business. Government regulatory policies created an environment that hampers early- stage entrepreneurial activity within the SMME sector. (Herrington & Kelley, 2012: 15). Newly established businesses must be registered with the South African Department of Trade and Industry (DTI) and the South African Receiver of Revenues (SARS, 2004). The registration of closed corporations (CC companies) is governed by the Closed Corporations Act. The Act is administered by the Companies and Intellectual Property Registration Office (CIPRO). The establishment of private companies (PTY) or Limited Companies (Ltd) is also governed by an Act in South Africa. Such companies need to be audited annually. For this reason, auditing skills are essential in setting up PTY or Ltd companies.

Predominantly there are three main types of businesses operating in a typical township in South Africa, namely:- retail ( $\pm$  85%), services ( $\pm$  14%) , manufacturing and other ( $\pm$  1%). The following figure 1 depicts the township environment of the City of Tshwane Townships.

**Figure 1. Three main business types operating in the townships (n=349)**



According to Herrington and Kelley (2012: 8-12), the following factors are well known obstacles to the growth and development of SMMEs, namely:-

- Lack of Basic Business Skills including innovation, training and education
- Legal and Regulatory challenges
- Lack of conducive environment for Business Operations
- Challenges of access to financial services and Government Support Services
- Cash flow management
- Capacity for expansion,
- Crime and vulnerability, etc

According to Herrington and Kelley (2012), SMMEs operating in South Africa are confronted with a myriad of socioeconomic and developmental factors that affect their survival.

### *Entrepreneurship*

SMMEs are more innovative and entrepreneurial in nature. Ligthelm (2004) states that the South Government approach should be supportive and create an enabling environment. This will lead to growth and long term survival. Lack of formal entrepreneurship training hampers their survival and growth. Entrepreneurial skills are the most important and essential Basic Business Skills requirement for steering small businesses in a manner that leads to profitable and viability of the organization. Table 3 shows a summary of such factors.

**Table 3. Mean score of the entrepreneurial environment**

Category	Mean Score
Access to physical infrastructure and services	2.89
Access to professional and commercial infrastructure	2.95
Internal market dynamics	2.81
Concrete government policies, entrepreneurship priority and support	2.63
Cultural and social norms	2.57
Vocational, professional and tertiary level entrepreneurship education	2.53
Internal market openness	2.31
Financial environment and support	2.49
Government policies: taxes, bureaucracy	1.88
Government programmes	2.10
Research and development transfer	2.16
Primary and secondary level entrepreneurship education	1.81

**Source:** Herrington and Kelley (2012:24)

Entrepreneurial skills are needed for implementing strategic decisions in an effective manner, leading to the long term survival of the small businesses. Hence, majority are profitable and viable and even survive over a long term. A good entrepreneur has good leadership skills. Table 4 provides comparable definitions of entrepreneurship by different scholars.

**Table 4. Definition of entrepreneurship**

Author	Definition
Schumpeter (1934)	<ul style="list-style-type: none"> <li>• Entrepreneurship is seen as new combinations, including the doing of new things that are already being done in a new way. New combinations include:</li> <li>• Introduction of new goods</li> <li>• New method of production</li> <li>• Opening of new markets</li> <li>• New source of supply</li> <li>• New organizations</li> </ul>
Kirzner (1973)	Entrepreneurship is the ability to perceive new opportunities. This recognition and seizing of the opportunity will tend to “correct” the market and bring back to equilibrium.
Drucker (1985)	Entrepreneurship is the act of innovation that involves endowing existing resources with new wealth capacity
Stevenson, Roberts & Grousbeck (1985)	Entrepreneurship is the pursuit of an opportunity without concern for current resources or capabilities
Rumelt (1987)	Entrepreneurship is the creation of new business: a new business meaning that they do not exactly duplicate existing business but have some element of



	novelty
Low & MacMillan (1988)	Entrepreneurship is the creation of new enterprise
Gartner (1988)	Entrepreneurship is the creation of organisations: the process by which new organisations come into existence
Timmons (1997)	Entrepreneurship is a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced
Venkataraman (1997)	Entrepreneurship research seeks to understand how opportunities bring into existence future goods and services are discovered. Created, and exploited, by whom and with what consequences
Morris (1998)	Entrepreneurship is the process through which individuals and teams create value by bringing together unique packages of resource inputs to exploit opportunities in the environment. It can occur in any organizational context and can result in a variety of possible outcomes, including new ventures, products, services, processes, markets, and technologies.
Sharma & Chrisman (1999)	Entrepreneurship encompasses acts of organizational creation, renewal, or innovation that occur within or outside an existing organization

**Source:** Herrington and Kelley (2012: 21-23)

Judge and Piccolo (2004:756 – 758) have found that good entrepreneurs have good business leadership skills. Effective leadership provides the building block for organizational performance. Such leadership skills and the ability to make the right choices enable small businesses to thrive under difficult circumstances. Leadership skills are key attributes of successful companies locally and globally (Tarabishy, Solomon, Fernald and Sashkin, 2005: 24). Yuki (2002: 102). It was also found that superior leadership skills and entrepreneurial success are inseparable internationally. This is also applicable to the South African SMME environment. GEM (2004) report also highlighted the importance of entrepreneurship in the South African environment.

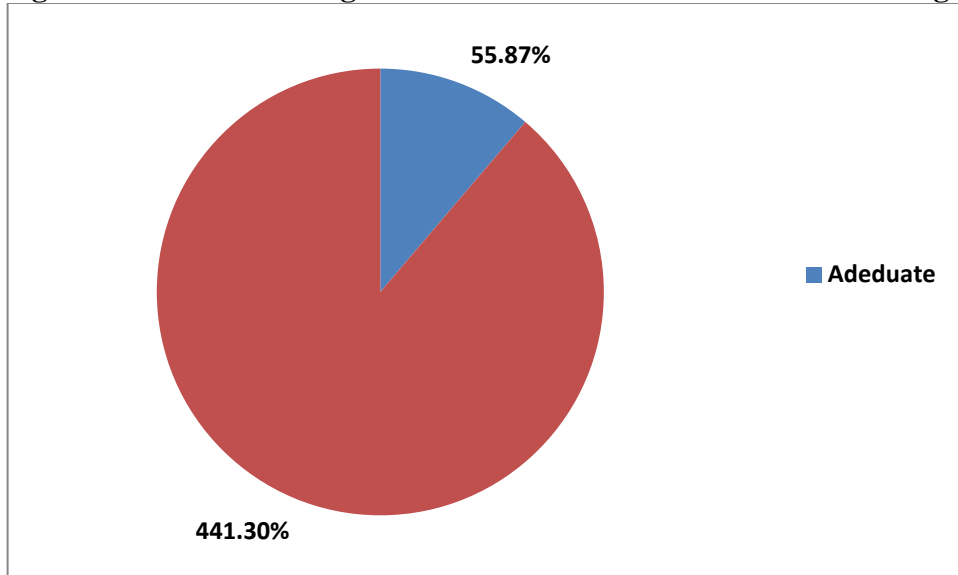
### *Education*

A skills labour force is more productive. A business owned and managed by a skilled owner is likely to survive over a longer period. Educational Institutions Planners and Managers are aware that SMME Development is critical for making a meaningful contribution to GDP. Hence, SMME Development Programmes must enable SMMEs to grow and develop on a sustainable basis. In a South Africa, the Government has established institutions such as SEDA, NTSIKA, the National Youth Development Agency (NYDA) and KHULA Enterprises with a view to promote the growth and development of SMMEs in all economic sectors. In addition to address skills shortage the South African Government established the Sector of Education and Training Authority (SETA).



The study found that 55.87% of the 349 businesses that took part in the study were run by operators who possessed adequate formal education for the businesses they were operating. 44.13% had collapsed. Figure 2 shows a graphical depiction of this finding.

**Figure 2. Owner – Manager Business with formal education Training**



Distribution of operators with adequate formal education (n = 349)

### *Cashflow management*

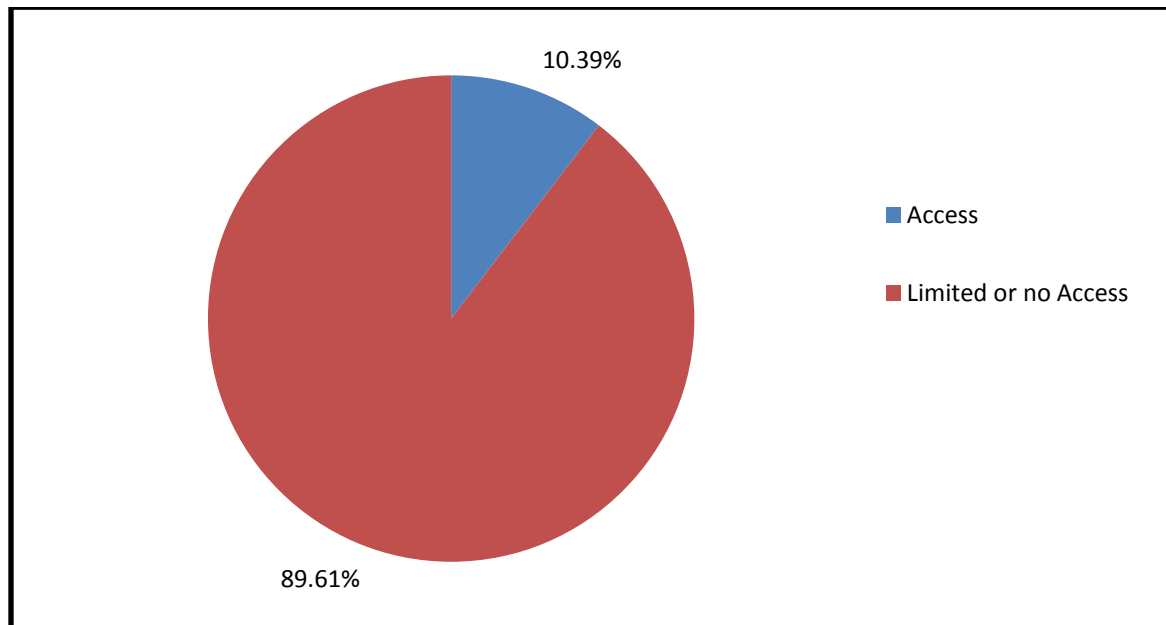
Newly established small businesses often do not have the skills to manage their cash flow and perform auditing exercises. The study conducted by McGrath and Macmillan (2000: 43-44) indicates that auditing and accounting skills are essential for viability in small and medium-sized enterprises. According to the researchers, newly established firms are often characterized by over-spending, wastage of scarce resources such as time, failure to take stock and inventory, failure to order items that are needed in time and in good quantity, and lack of skills in welcoming constructive suggestions from potential customers. Lynn (2003: 4-5) has reported that failure to manage or control finances according to approved business plans is a differential factor that adversely affects business processes in newly established firms globally, and that such problems are rampant in the world's poorly developed economies. Poor cash flow is one of the major causes of failure in small businesses. Businesses may be profitable. However, if they fail to manage cash flow issues efficiently, they could easily go bankrupt. The ability to manage cash flow enables business owners and operators to forecast their cash flow. Cash flow problems are abundant in South African small and medium-sized enterprises due to lack of formal education in the preparation of business plans, forecasting, auditing and accounting among business owners and operators. In this regard, the problem in the Tshwane region of Gauteng Province is not so different from the problem in all South African metropolitan cities.

### *Access to information*

Information empowers the Small Business owners to identify business opportunities needed for business operations, strategic planning and manage their business effectively. Access to

information also assists the SMMEs to compete on an informed footing hence effective resources utilization for business growth, management and long term survival. All SMMEs interviewed experienced limited access to business information as they have to belong to an association and pay a nominal fee to access such information or participate in such organization to access information. 89.61% stated that they cannot afford membership that requires annual subscription for accessing business information. Figure 3. Depicts access to information.

**Figure 3. Access to information**



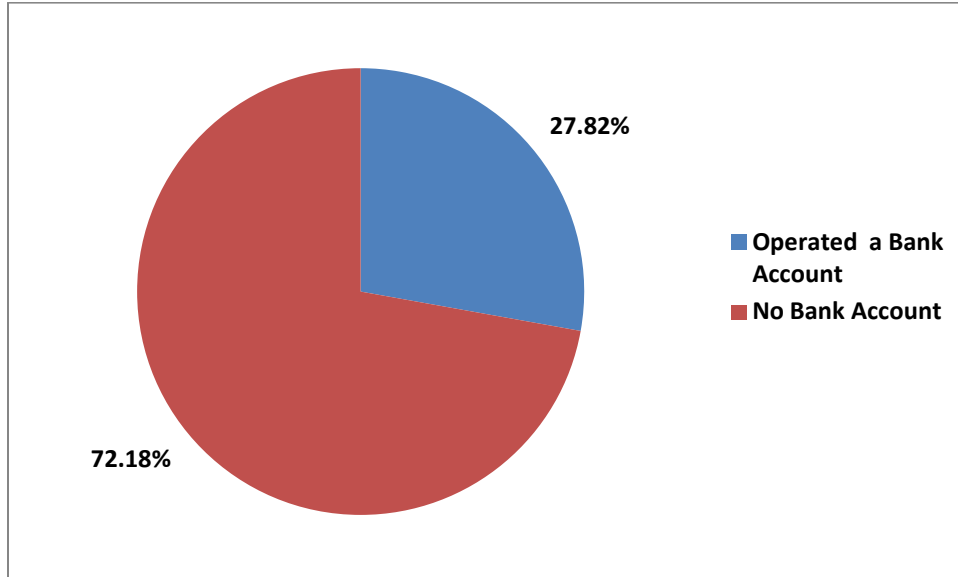
*Access to information challenges of the sample size (n=349)*

Free information is usually not valued and is often misinterpreted to be not useful for operations and strategic planning by the SMMEs interviewed.

### *Vulnerability*

97.83% of the 349 SMMEs interviewed said they are vulnerable to crime, exploitation due to lack of knowledge and skills. Theft from staff comprise more than 77.29% as compared to 22.71% of customers.. Usually financial theft and losses arise due to lack of policies, systems and controls. Optimal resources utilization and controls was lacking from the SMMEs interviewed. Lack of formal training was contributory factor and majority of the 349 SMMEs interviewed operated informally and never received training during the 5yr study.

**Figure 4. Vulnerability**

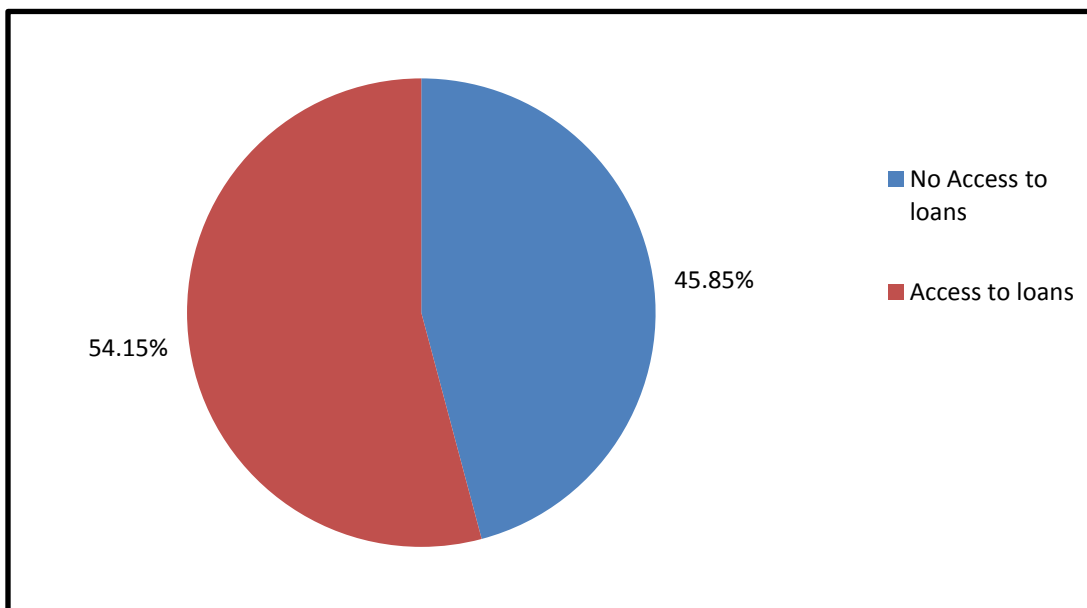


*Vulnerability challenges of the sample size (n=349)*

*Access to finance*

The study found that 54.15% of the 349 businesses that took part in the study were able to secure loans needed for routine business operation. Figure 5 shows a graphical depiction of this finding. 54.15% of the 349 interviewed accessed finance that was used for business operations.

**Figure 5. Access to finance**

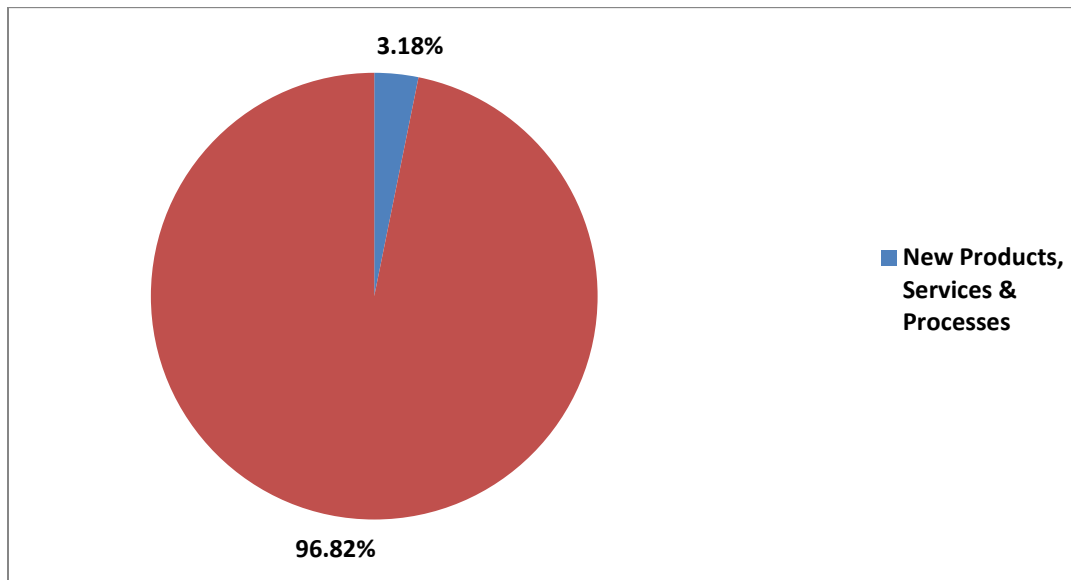


*Access to finance challenges of the sample size (n=349)*

*Commercial Bank Products usage*

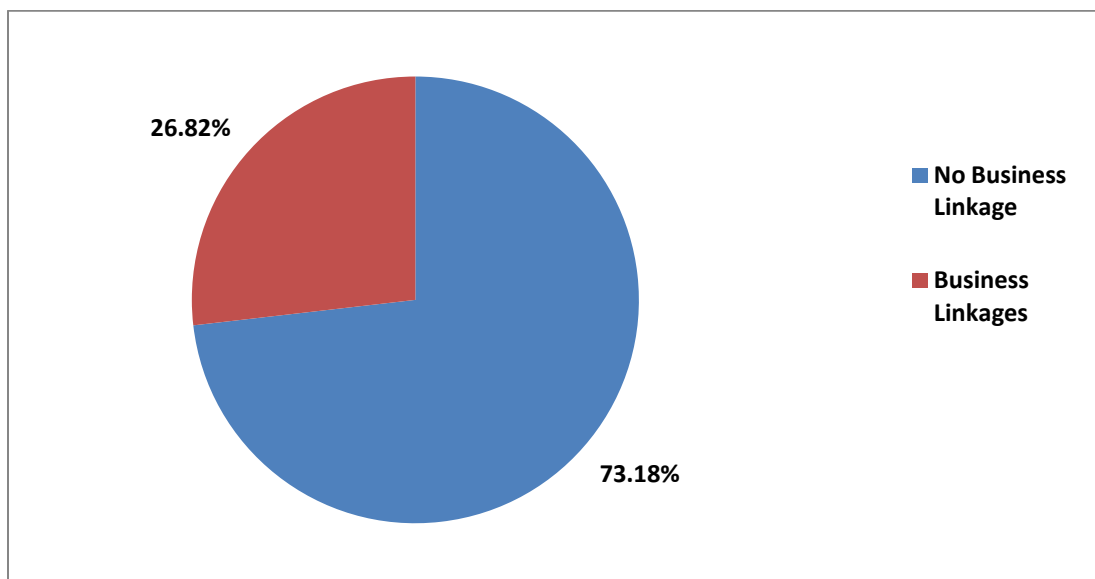
80.19% out of the 349 interviewed used a savings account to transact in business operations and have operated this account over the period of 5yr study. Cheque account and Business credit card was least used as they are cash based business transistors'. Figure 6 depicts the Commercial Bank Usage

**Figure 6. Commercial Bank Products usage**



*Commercial Bank Product usage challenges of the sample size (n=349)*

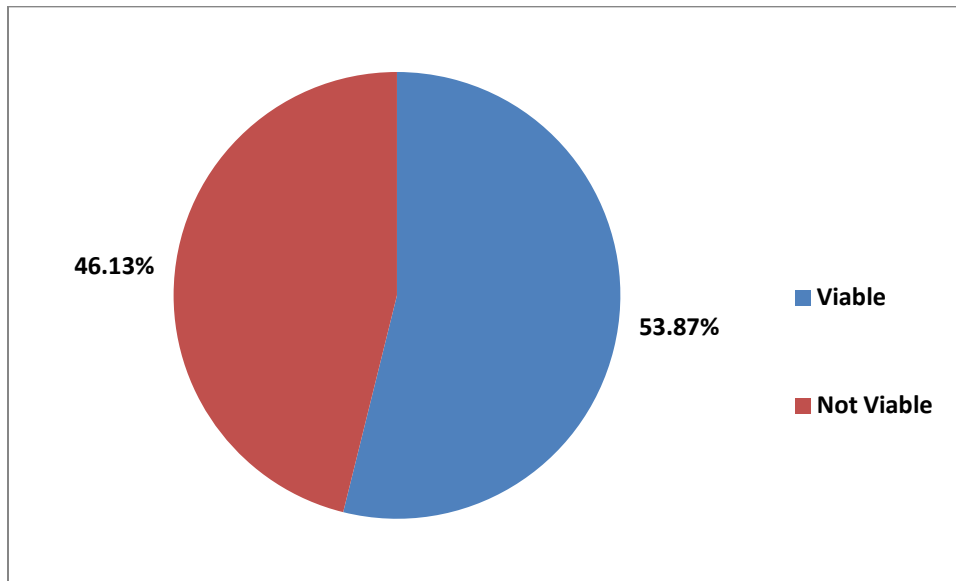
**Figure 7. Access to Market and Business Linkages**



*Access to Market and Business Linkage challenges of the sample size (n=349)*

### *Viable businesses*

At the end of the study, 188 of the 349 small businesses were not financially viable. Hence 53.87% were viable and 46.13% were not viable. Figure 8 depicts the situation of the small business viability.



*Figure 8. Financial viability challenges of small businesses for the sample size (n=349)*

## **RESEARCH DESIGN AND METHOD**

A sample size of 349 SMMEs was selected at the beginning of the study in 2007. Variables for understanding the longterm survival of the business entities were dichotomous, namely viable and non – viable.

### **Dependent variable of study (Y)**

The dependent variable of the study is viability. Viability of SMMEs is defined by Gmur, Bartlet and Kissling (2010). Viable businesses pay VAT bi-monthly to SARS on a regular basis. This dichotomous variable has only 2 possible values (Viable, or not viable). The viability of the 349 SMMEs in the study was assessed regularly during the 5yr study period.

### **Independent variables of study**

Independent variables of study are known to affect viability in SMMEs. Examples: Type of business, Amount of start-up capital, monthly net income, monthly profit, ownership of assets, cost of goods and services, monthly rent, ability to borrow money needed for business, ability to acquire assistance from DTI or SEDA, level of education, level of entrepreneurial skills, ownership of premises, level of entrepreneurial skills, level of managerial skills, training, access

to finance, cost of labour, geographical location, ability to retain loyal customers, ability to draw up business plan, competition from rivals, etc

### *Research Method*

Two research methods were used for data collection namely quantitative and qualitative. The quantitative data collection methods included survey – electronic, face to face interview, telephone interview. The qualitative data collection method used a focus group in – depth interviews with 4 groups of 8 members each totalling 32

### *Participants*

A stratified sample of 349 were selected for the study. The selected area for the research study is townships in and around the City of Tshwane (COT). The areas were divided into four quadrants namely East, West, South, North and the CBD. The selected areas are depicted in the following table 3 below. The stratified areas selected are Atteridgeville (West) , Mamelodi (East) , Olivenhoutbosch ( South) , Hammanskraal (North) and the CBD including Marabastad

**Table 4. Selection of SMMEs from the City of Tshwane**

<b>Geographical zone</b>	<b>Township</b>	<b>Number of SMMEs in sample (15.04%)</b>	<b>Number of SMMEs in population</b>
West	Atteridgeville	64	329
South	Olivenhoutbosch	62	244
East	Mamelodi	68	461
North	Hammanskraal	66	427
Central	CBD	89	859
Total		n=349	N = 2, 320

### **ANALYSIS**

A combination of quantitative and qualitative methods of data collection and analyses were used for the study. Frequency tables for categorical variables of study and graphical depictions were also used to analyze the collected data from the sample size of 349 SMMEs. This included cross-tab analyses among pairs of categorical variables as well as binary logistic regression analysis

(On last set of recorded data of 31 December 2012). A Cox Proportional Hazards Model was used it is a longitudinal study design on data collected from all 5 years of study from 20 columns of raw data. Qualitative focus group in-depth interviews with 4 groups of 8 members each totaling 32 interviewees was used

## RESULTS AND DISCUSSION

The study has found that 188 of the 349 businesses that took part in the study (54%) were not viable, and that the long-term survival and viability of small businesses was adversely affected by lack of entrepreneurial skills, lack of supervisory support to newly established businesses, and inability to operators running newly established businesses to acquire relevant vocational skills. The 188 non-viable businesses in the study (46%) were characterized by low level of entrepreneurial skills, low level of supervisory support, lack of relevant vocational skills, difficulty in securing loans, low level of formal education, and a past history of bankruptcy. The study has shown that businesses that were run by operators with adequate entrepreneurial skills have survived much better than those that were run by operators who did not possess adequate entrepreneurial skills.

### *Formal education*

The study found that 55.87% of the 349 businesses that took part in the study were run by operators who possessed adequate formal education for the businesses they were operating. 44.13% had collapsed.

### *Entrepreneurship*

The study found that 44,99 % of the 349 businesses that took part in the study had entrepreneurial skills that could run the business over a long term. 55.01% had no adequate entrepreneurial skills that would enable the owner – manager to operate their business over a long term.

### *Cashflow management*

The study found that 73.14% of the 349 businesses that took part in the study had no controls, policies, systems and tools to manage their cashflow. They were not trained on financial management. 26.86% managed their cashflow efficiently and received various basic financial management training for non-financial managers

### *Access to market & Business Linkages*

The study found that 26.82 % of the 349 businesses that took part in the study had access to market and business linkages. 73.18% had no access due to a range of challenges, amongst others - capacity, management skills, ability to raise finance, operations' readiness to service the market requirements, resources capability to sustain the business and service the customer efficiently, lack of control tools, poor record management system and a strategic plan.



*Vulnerability – crime related*

The study found that 97.83% of the 349 businesses that took part in the study were vulnerable to crime, mostly armed robbery. 2.17% were not vulnerable

*Vulnerability – theft related*

The study found that 77.29% of the 349 businesses that took part in the study experienced theft from their staff members and 22.79% was from their customers.

*Access to finance*

The study found that 54.15% of the 349 businesses that took part in the study were able to access business loans and 45.85% did not have bankable business plans that could assist them to access loans needed for their business operations.

*Commercial bank product usage*

The study found that 19.81% of the 349 businesses that took part in the study used Cheques account for transacting and 80.19% used savings account as well as were run by operators who possessed adequate formal education for the businesses they were operating. 44.13% had collapsed.

The key findings of this study are in agreement with results reported by Jiang & Peng (2011), Globerman, Peng & Shapiro (2011), Zoogah, Vora, Richard & Peng (2011), Peng, Rabi & Sea-Jin (2010) and Daley-Harris (2011).

**RELIABILITY ANALYSIS**

Results obtained from Pearson's chi-square tests of associations ( $P < 0.05$ ) showed that businesses fail due to lack of initial capital, failure to utilize finance in accordance with business plan, high labour cost, shortage of entrepreneurial skills that are needed for operating business, adverse market conditions, difficulty in securing loans needed for business, inability to pay fees that are required for renting business premises, inability to draw up business plans, inability to do bookkeeping, the practice of selling on credit, the status of business being operated, and lack of training opportunities that are relevant to the business being operated. Businesses that failed were characterized by loss of money, inability to draw up business plans, inability to do book-keeping, inability to acquire technical and vocational skills due to shortage of finance. This failure constitutes a major obstacle to the growth and development in small and medium-sized businesses and enterprises in South Africa

**Underlying theories tested by study for the survival and long term survival**

The main reason and motive for establishing an SMME is necessity linked to hunger, lack of jobs, poverty, lack of skills as well as training and education among other factors (Smallbone,

2010). This is also linked to Maslow's hierarchy of needs. This is the case prevalent in the developing countries.

### *Viability*

The viability of SMMEs is not inherently linked to the external factors such as the Government support programmes. Their innovativeness enables them to survive over a period with little growth prospects. SMME viability was also not dependent on Government schemes such as BBBEE, though the South African Government had already set up good Regulations, Policies, Systems, Support Programmes and Incentives aimed at SMMEs Growth and Development (Herrington, 2013). DTI's Growth and Development Strategy (GDS) does not assist SMMEs to grow and sustain their businesses over a long term (DTI, 2013).

### *Basic Business operating skills*

SMMEs lack basic business skills and the required capacity to operate and manage their business (SEDA, 2013). The study found that 55.87% of the 349 businesses that took part in the study were run by operators who possessed adequate formal education for the businesses they were operating. 44.13% had collapsed. This is depicted in figure 1 above. Management skills are important in sustaining the business over a long term (Bureau of Market Research at UNISA, 2013).

### *Access to information*

Access to information is important for strategic planning, entrepreneurship, innovation and efficient business management especially if there are policies, systems, controls and procedures for the long term survival of the business. SMMEs interviewed did not have the skills to identify the right information needed for their strategic planning that enable them to survive over a long term

### *Entrepreneurship*

Entrepreneurship culture and skills is low due to the education system as well as the support system that makes SMMEs to operate informally

### *Finance*

Access to finance is still a challenge to SMMEs as they are still regarded to be high risk by the commercial banks and financial institutions

## **INFERRAL ANALYSIS**

Summary of key factors that affect viability based on results from in-depth interviews with 4 focus groups of 8 members each (n=32)

1. Lack of entrepreneurial skills

2. Difficulty in obtaining loan from commercial banks and money-lending institutions
3. Lack of skills-based training opportunities
4. Too much bureaucracy
5. Lack of supervisory support by SEDA and DTI .

Table 5 summarizes the Cox regression (survival analysis)

**Table 5 Summary of results from Cox regression (survival analysis)**

Variable of the study affecting the long-term viability of SMMEs	Hazard Ratio	95% Confidence Interval	P-Value
Lack of entrepreneurial skills	5.15	(2.98, 8.09)	0.0000
Lack of supervisory support to newly established businesses	4.26	(2.46, 6.88)	0.0000
Inability of operators running newly established businesses to acquire relevant vocational skills	3.27	(1.78, 3.81)	0.0000

Table 6 below explains the group proportions with regards to the viability of small businesses

**Table 6 Group proportions with regards to the viability of small businesses**

Predictor variable	Viable (n=161)	Not viable (n=188)
Level of entrepreneurial skills	Adequate: 68% Inadequate: 32%	Adequate: 26% Inadequate: 74%
Acquisition of supervisory support by newly established small businesses	Adequate: 51% Inadequate: 49%	Adequate: 27% Inadequate: 73%
Level of relevant vocational skills acquired by business operator	Adequate: 77% Inadequate: 33%	Adequate: 38% Inadequate: 62%
Ability to secure loan needed for operation	Easy: 74% Difficult: 26%	Easy: 37% Difficult: 63%
Level of formal education acquired by business operator	College level or above: 71% Below college level: 29%	College level or above: 43% Below college level: 57%
Past history of bankruptcy	Yes: 11% No: 89%	Yes: 58% No: 42%

## LIMITATION OF THE STUDY

The study was geographically limited to the City of Tshwane (COT) area due to time and lack of resources. The SMME environment is said to have similar physical and infrastructural business characteristics locally, provincially and nationally in South Africa.

## CONCLUSION AND RECOMMENDATION

*Cashflow management:* There is an acute need for training newly established businesses on auditing, accounting, business plan preparation, report writing, policies and procedures & financial control tools drafting, oral presentations, stock taking and inventory.

*Education and training:* The South African educational curriculum does not prepare potential entrepreneurs adequately for the task of operating newly established businesses. The content of the curriculum for vocational training at the high school and undergraduate level is vastly inadequate and irrelevant to the specific needs of young graduates who aspire to thrive in business. It is necessary to design relevant and tailor-made skills based training programmes on vocational and entrepreneurial activities in which young matric graduates can be equipped with the skills they need to run businesses successfully. It is vital to encourage academic and research institutions to create academic programmes in which trainees can acquire experiential training by working for businesses and industries as part of their academic training in South African institutions of higher learning. Such programmes should be jointly coordinated and funded by the South African Department of Higher Education and Training, the South African Department of Trade and Industry, and the South African Chamber of Commerce. Doing so has the potential for producing graduates who possess skills that are relevant to the actual needs of business, industry and government.

*Mentorship:* It is necessary to provide mentorship and supervisory assistance to newly established small and medium-sized enterprises for a period of at least three years or more. It is necessary to monitor and evaluate the viability of newly established small businesses on a monthly basis. This task falls under the ambit of the South African Department of Trade and Industry. Such an intervention has the potential for minimizing the rate at which newly established small businesses fail in and around the city of Pretoria.

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