



Title:

**Challenges to the sustainability of small, medium and micro-enterprises in the
Western Cape, South Africa.**

By

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Declaration

I, Ndutu Aka Akpo Martin, declare that the contents of this thesis represent my own work, and that this is the first submission of this thesis for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

Signed: MN

Date: 20 September 2021

Abstract

Small, micro and medium enterprises (SMMEs) play many significant roles in the South African economy, amongst which job creation and increased income stand out. New SMMEs are established frequently because they are relatively cheap to create but possess great potential to generate economic growth and improve the life of the owner. However, South Africa faces a major problem with the very high unsustainability rate amongst new SMMEs.

Furthermore, understanding and identifying the main causes for the unsustainability of SMMEs has been the focus of past research projects. There has been a lack of an in-depth, face-to-face and historical review of this specific issue, which is the gap that this research study seeks to bridge.

For the purposes of this study, a random sample comprising 14 entrepreneurs within the Cape Town area, who managed their own SMMEs, was selected. These participants were interviewed using an interview guide that contains 15 open-ended questions. The data obtained from this process was analysed using qualitative research methodologies. The researcher believed that the revised approach to this study that involved a detailed review of the issue, making use of a retrospective approach would afford an in-depth understanding of the historical causes of SMMEs' unsustainability and provide recommendations that would help reduce this problem.

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Dedication

I dedicate this study to the Almighty God and Father of all creation. To Him be all the glory and honour for taking me this far.

Abbreviations and acronyms

ACCA -- Association of Chartered Certified Accountants

ARNSA – Anti-Racism Network South Africa

BBBEE – Broad-Based Black Economic Empowerment

BDO – Binder, Dijker and Otte

CANRAD – Centre for the Advancement of Non-Racialism and Democracy

CIMA – Chartered Institute of Management Accountants

CIPC – Companies and Intellectual Property Commission

DTI – Department of Trade and Industry

GDP – Gross Domestic Product

ILDLP – International Leadership Development Program

IT – Information technology

KEF (SA) - Khula Enterprise Finance SA

NCR – National Credit Regulator

NDP – National Development Plan

NEPA (SA) – Ntskia Enterprise Promotion Agency SA

NSB – National Bureau for Statistics

OECD – Organisation for Economic Co-operation and Development

PCT – Participant

SAIBA – South African Institute of Business Accountants

SAICA – South African Institute of Chartered Accountants

SAIPA – South African Institute of Professional Accountants

SEDA – Small Enterprise Development Agency

SME – Small and Medium Sized Enterprises

SMME – Small, Medium and Micro Enterprises

SWOT – Strengths, Weaknesses, Opportunities, and Threats

US – United States

USA – United States of America

VAT – Value Added Tax

WOM – Word-of-mouth

Glossary

- 1. Challenges:** “Challenges” refer to something or a situation which by its very nature requires a special effort, or a difficulty during an undertaking that requires a stimulation to the person or organisation engaged in it, (Neeta, 2020).
- 2. Sustainability:** “Sustainability” refers to the ability to maintain or avoid the depletion of resources in order to be able to maintain financial balance and focus on meeting current needs of an entity without compromising the ability to meet the entity’s future needs or financial responsibilities, (Neeta, 2020).
- 3. Unsustainability:** “Unsustainability” refers to not being able to be prolonged or persistent and avoid maintaining depletion, (Neeta, 2020).
- 4. Business failure:** “Business failure” as defined in the context of this study refers to ‘any small, medium or micro business (SMME), whose owner or owners have lost control, or the business has lost its ability to make a profit or bring in enough revenue to cover its expenses. The small business voluntarily or involuntarily closes down and the business ceases all its transactions and operations.
- 5. Small, Medium and Micro Enterprises (SMME):** In the context of this study, an SMME would be defined as a business that employs fewer than 200 employees, has an annual turnover of less than R64 million, has capital assets of less than R10 million and it is owner-managed, (National Small Business Amendment Act 2004).
- 6. Entrepreneur:** In the context of this study, “entrepreneur” refers to a person who sets up a business or businesses, thereby taking on financial risks in the hope of making a profit in the future.
- 7. Business:** In the context of this study, “business” refers to a commercial activity.
- 8. Cause:** In the context of this study, “cause” refers to a person, thing or circumstance that gives rise to an action, condition or phenomenon.
- 9. Failure:** This term refers to the absence or lack of success.

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Appendix 4: Consent letter from organisation

CHAPTER ONE: INTRODUCTION

1.1 Introduction

The inability to remain sustainable or stay in business has in recent years become a plague that is devouring Small, Medium and Micro enterprises (SMME) globally and, in particular, in South Africa (David & Eyo, 2013). This problem, therefore, has become a major concern and matter of interest to every economy, government and other stakeholders. The incapacity of a business to remain sustainable may be considered the result of an SMME's inability to conform to some specific paths of growth and development in order to attain its financial and economic objectives, as well as to fulfil its commercial and legal obligations (David & Eyo, 2013). The result, therefore, of the aforementioned inability amounts to either closure or a significant drop in the SMMEs' operating activities, has been a recent negative issue within the South African economy (Mardjono, 2005).

Reports from the Small Enterprise Development Agency (SEDA) on SMMEs indicate a reduction in the number of SMMEs in South Africa "from 2017 quarter 3 to 2018 quarter 1" (SEDA, July 2018).

The number of SMMEs in South Africa declined from 2.48 to 2.44, hence a 1.4% drop. In this regard, the employment provided by SMMEs declined from 8 million people to 6.44 million people within a period of 6 months, (SEDA, July 2018).

Furthermore, at least "70% of small, micro and medium enterprises (SMMEs) in South Africa close down within their first 5 to 7 years of operation" (Bushe, 2019). Lings (2014) further explained that an estimated 40% of all newly started businesses in South Africa close down within their first year of operation, 60% close down in the second year and 90% within the first 10 years of operation. The issue of the lack of sustainability suffered by SMMEs in South Africa (as mentioned above) has been a subject of research for several years, even though the challenges persist even at a higher rate according to International Leadership Development Program, 2014 (ILDP, 2014). On the global platform, challenges to the sustainability of businesses have been a subject of vigorous research and examination by academics, entrepreneurs, bankers, auditors, marketers, economists, accountants, as well as finance and management experts (David & Eyo, 2013). This issue does not only affect the entrepreneur whose business has failed, but the topic has also drawn the interest of

international business analysts, as well as local business analysts on several occasions. The principal rationale for such great attention is that once a business fails, it destabilises an economic system in many ways, leading to unemployment, increased poverty, crime, as well as economic recession. Based upon the aforementioned figures and findings of other scholars, it is evident that South Africa has seen many young entrepreneurs, as well as thriving SMMEs, rise and fall, making this topic imperative for the nation (Bushe, 2019).

1.2 Background

Small businesses play a major role in every economy around the globe. To demonstrate this fact the following section will lay emphasis on the impact of small businesses in an economy, with specific focus on areas such as growth and employment in terms of creating jobs. The aforementioned analysis ranges from large, developed economies to developing economies.

1.2.1 The United States of America

In the United States of America (USA), small businesses play a key role in the economy. Small businesses account for over two-thirds of job creation and employment in the nation (Rutherford, McMullen & Oswald 2001:64). Furthermore, studies in the USA have indicated that, notwithstanding the existence of large businesses in the nation, SMMEs stand out as the main driver of the economy (Edison, 2012). According to the Office of Advocacy, United States (US) Small Business Administration, over twenty-seven million small and medium businesses in the nation account for about 50 percent of the nation's GDP (Office of Advocacy, 2010). These small businesses play a key role to the vitality and growth of the economy and socioeconomic development of the nation, hence the importance of small businesses in the USA economy (Office of Advocacy, 2010). Small businesses in the USA are a locomotive for job creation, a trigger for innovation and pave the way for many people, including minority groups, immigrants and women to be able to achieve reasonable levels of independence through financial success (Edison, 2012).

1.2.2 The People's Republic of China

China, which has in recent times become one of the world's economic giants, is a typical example of how successful small businesses are within the country's economy. In China's 2005 Development Report, up to 99.3% of the national enterprises in 2004 were SMMEs. These numbers accounted for:

55.6% of the nation's GDP, 58.9% of the nation's public sales, 74.7% of the nation's industrial value added, 46.2% of the nation's taxation, 0.3% of national exports and accounted for over 75% of job creation and employment within the nation's metropolis, (SMEs Development Report, 2005).

The vitality of SMEs in the Chinese economy, therefore, cannot be overemphasised, because small businesses have proven to be an engine of growth in the Chinese economy. In 2016, SMEs accounted for over 97% of registered companies in China (OECD, 2016). This high rate of registered SMEs in the nation acted as a trigger for rapid economic growth, job creation, increased export, rapid growth in science and technological innovation, as well as high tax revenue paid to the government (National Bureau of Statistics, NSB, 2016). The importance of SMEs in the Chinese economy cannot be overemphasised because SMEs form the backbone of this economy. Hence, because SMEs are so important to China's economic growth, it is necessary, therefore, for these entities to remain sustainable in order for the nation to reap the future benefits that emerge from having a sustainable SMME sector.

1.2.3 The continent of Africa

In Africa, SMMEs comprise over 90% of businesses ventures and account for approximately 50% of the continent's GDP (Kamunge, Njeru & Tirimba, 2014). In Kenya, small businesses contribute to over 40% of the nation's GDP, constitute 80% of the nation's labour force and account for about 50% of all new jobs created in the nation (Mwarari & Ngugi, 2013). In Nigeria SMMEs account for over 84% of the nation's jobs in the industrial sector, over 95% in the nation's manufacturing sector, 96% of all businesses in the nation and 48% of the nation's national GDP (PWC Nigeria SME Survey, 2020). Furthermore, in Zambia, SMMEs accounted for 97% of all businesses in the nation and comprised 18% of the labour force in 1996 (Parker, 1996). SMMEs are involved in almost all sectors of the economy, including mining, agriculture, fishing, manufacturing, commerce and industrial development (Kamunge, Njeru & Tirimba, 2014). SMMEs play an intermediary role between large corporates and complex industries and provide a foundation for the 'take-off point' for most African economies (Fjose, Grunfeld & Green, 2010). Hence, in Africa SMMEs have over the years acted as a trigger for economic growth, as well as sustainable development (Fjose, *et al.*, 2010). The importance of SMMEs in the continent of Africa is clear. However, this sector faces enormous challenges that result in the winding up of many entities, hence making this study imperative, because SMMEs form the basis of many African economies and, thus, need to be sustainable.

1.2.4 South Africa

SMMEs play a major role in this nation's economy by contributing an average of 40 to 41% of South Africa's GDP and account for up to 61% of the nation's overall employment figure (Bvuma & Marnewick, 2020). According to Neiman and Nieuwenhuizen (2009), most entrepreneurial activities in South Africa happen within the SMMEs sector, confirming the reason SMMEs constitute over 97% of all businesses in this country. SMMEs serve as the route which the lowest and no-income earners use to obtain access to economic prospects. Tendai (2013) states that some of the benefits that South Africa has reaped and currently reaps from the existence of SMMEs in the nation's economy include employment, economic growth, sustainable development, social stability, equity, participation, poverty alleviation and job creation.

SMMEs, therefore, are at the centre of the nation's economic growth and are a vital tool for tackling major societal challenges, with unemployment being the principal challenge (Segal, Borgia & Schoenfeld, 2005). It, therefore, is vital for South African SMMEs to be sustainable because of the critical role they play in the nation due to their potential for providing economic growth. However, this sector of the economy is often faced with numerous challenges that often result in the closure of hundreds of SMMEs.

1.3 Challenges faced by SMMEs in South Africa

Much information has been researched regarding the impact, success and usefulness of SMMEs in many economies throughout the world. However, very little attention and effort has been invested in identifying the challenges faced by small businesses. Many owners of small businesses are deficient of the vital information and guidance that could grow their businesses and make them sustainable (Nikolić, Dharmo, Schulte, Mihajlović & Kume, 2015). In fact, studies have shown that most of the challenges faced by small businesses are identical in both developed and developing countries and that South Africa is not an exception to this assertion (Nikolić, *et al.*, 2015). Kamunge, Njeru and Tirimba (2014) state that even though SMMEs play a key role in the development of many nations, these entities are often faced with many challenges that hamper their future survival and South Africa is not an exception to this challenge. In the work of Niemann and Niewenhuizen (2009) the following challenges were identified as fundamental to the sustainability of SMMEs in South Africa: the absence of training and education, inadequate access to financing, limited access to markets, the absence of sustenance structures and lack of appropriate technology.

1.3.1 Lack of training and education

One of the major setbacks of many South African SMMEs is the lack of appropriate education amongst entrepreneurs and aspiring business owners. Shumba, Zindiye and Donga (2017) opine that the level of success of an SMME or any entrepreneurial activity is directly proportional to the business owner's education level. Asah, Fatoki and Rungani (2015) point out that the absence of skilful management in many South African SMMEs (the main reason for their collapse) is due to the lack of education. Hence, the lack of education is one of the primary reasons for the high-rate failure of newly established SMMEs in South Africa (Asah, *et al.*, 2015).

1.3.2 Inadequate access to financing

Finance is the foundation for the existence and running of any business venture, both at start-up point and for continuity. Fatoki and Garwe (2010) are of the opinion that in South Africa, the absence of adequate access to financing is a major challenge to the growth and sustainability of SMMEs. According to data from the Reports South African Reserve Bank, in 2017, only a total of R 617 billion was advanced as credit to SMMEs. This fact accounts for only 28% of the total amount provided as loans to businesses in South Africa in 2017 (OECDiLibrary, 2020). Hence small business owners turn to other sources for finance, which eventually amounts to a major limiting factor with regard to the sum they need and/or receive to 'kick off' off their businesses and remain sustainable in the long run. According to Tendai, (2013), most SMMEs in South Africa struggle to access finance from the banks due to lack of appropriate collateral or security and initial deposits as well as a proper credit history. Furthermore, due to lack of education and skills, they are unable to provide standard business plans as required by most South African banks. The above information, together with other facts result in the lack of finance provided by the banks to SMMEs.

1.3.2 The absence of sustenance structures

In South Africa, most small business owners and entrepreneurs are of the opinion that the support they receive from the government is inefficient for their growth and sustenance (Tendai, 2013). However, Fatoki (2012) is of the opinion that the issue could be that SMME owners are unaware of many of the government efforts and projects put in place to assist them. Fatoki (2012) further states that if the owners of small businesses have no knowledge of the existence of government institutions placed at their disposal for support, they will not be able to utilise them. Hence government should find ways of sensitizing small businesses

owners of the existence of such institutions. The South African government has in recent years focused its efforts towards reducing the wide gap that exists between micro-enterprises and large corporations by adopting an environment in which both micro-enterprises and large corporations flourish concurrently (Nehen, 2012). In South Africa, 2004 saw the dawn of the new day for SMMEs when the government founded the Small Enterprise Development Agency (SEDA). The main mission of SEDA was to develop, support and promote small enterprises in order to guarantee their sustainability, growth, diversification and relationship with other role players (SEDA, 2013). SEDA also aimed at focusing on nurturing inventions, customer services, as well as fostering ethical behaviour with all the SMMEs that the institution encounters (SEDA, 2013). However, SEDA's overriding goal, as well as its 'New Growth Path' is the creation of at least 5 million jobs in South Africa by 2020. Looking at the above facts, South Africa as a nation has institutions in place to look after the wellbeing of SMMEs operating in the nation. The accomplishment of the goals and objectives of these institutions remains the subject of another research study.

1.3.4 Lack of appropriate technology

In the modern business world, keeping up with technological advancement costs businesses enormous sums of money. Hence, businesses that cannot keep-up with technological advancements tend to lag behind and often suffer. It is, therefore, without doubt that many SMMEs in South Africa that do not have access to finance will be unable to obtain modern information technological appliances, which include both hardware and software (Niemann & Niewenhuizen, 2009). This absence of technology will limit their clientele and access to the market.

1.4 Rationale and significance of the study:

In South Africa, if an individual succeeds in starting a small business, this practice presents great 'hope' for future economic stability for millions of unemployed people in the nation. However, the limited duration of this 'hope' and lifespan of these businesses is worrying. Research has shown that over 70% of SMMEs in South Africa close their doors after operating for at the most five years (Bushe, 2019). The aforementioned phenomenon of extremely high failure rates for SMMEs in South Africa has emerged as a "hot" subject of debate amongst academics and experts (Bushe, 2019).

An examination of past studies on the above issue indicates that research on the issue focused mostly on understanding why small businesses are unsustainable, by seeking to identify factors that result in SMMEs' failure without exposing the root causes or engaging with actual casualties of the lack of sustainability (Olawale, 2014). Bushe (2019) carried out an in-depth review of various literature on the subject matter with the goal of finding out the attendant perspectives, root causes and effects of SMMEs' inability to remain sustainable within the South African context and recommended that the challenges faced by SMMEs should be addressed at infancy (that is their root causes). David and Eyo (2013) expanded further on the issue by classifying the challenges to the sustainability of businesses into the following groupings: managerial incompetence and ineffectiveness, socio-cultural aspects, economic instability and public policy and then made some high-level recommendations to help curb the issue of corporates' business failure.

The above paragraph insinuates that research on the issue of challenges to the sustainability of businesses in South Africa has focused on high-level corporates who are already well established. Furthermore, even in the event that small businesses were being investigated, the study concentrated on either secondary data analysis or analysis of existing literature in order to provide recommendations to help reduce failure of SMMEs in South Africa. Hence, past researcher have not taken time to engage with entrepreneurs at the grass-root level, in order to carry out a systematic historical scrutiny of the main challenges that resulted to small businesses not being sustainable, beginning from the basic business struggles to actual closure of the business. Brown (2007) recommends that one of the best techniques for solving business challenges, is finding the historical root cause through a retrospective analysis. This study, therefore, seeks to bridge the gap of previous research by looking at past events that slowly built up, leading to the business failure of SMMEs in the context of South Africa. One of the principal advantages of this methodology is that it would help provide an understanding of events that lead to SMMEs' failure and be able to learn from the errors of the past, thus helping to provide recommendations that will assist in reducing these causes of failure at infancy to help provide an answer to the issue of SMMEs' failure in South Africa.

1.5 Problem statement

In South Africa, only about 9% of small businesses manage to survive to a 10-year mark and between 70% to 80% of SMMEs barely survive their first year of operation (SEDA, July 2018). Given the potential and role that SMMEs contribute towards job creation and growth in South

Africa, the ability to remain sustainable is of enormous importance to the economy. Therefore, the aim of this study is to explore the challenges to the sustainability of SMMEs in the Cape Town Metropolis, identify probable solutions as to how these problems could be addressed to safeguard the SMMEs' sustainability.

The importance of SMMEs cannot be overemphasised, particularly because it is forecast that by 2030, they are expected to be the source of approximately 90% of jobs in South Africa (Zeenat, 2018).

According to the International Finance Corporation (IFC, 2018) report, the wholesale and retail sectors, which is predominantly made up of SMMEs, contribute up to 34% in South Africa's GDP. Furthermore, SMMEs employ more than 50% of the workforce in South Africa and, as such, failure of these institutions will have substantial impact on employment, socio-economic activities, crime and increased poverty (SEDA, July 2018). In view of these problems, it is important, therefore, to identify what could be the main cause of SMMEs' failure and how this difficulty could be addressed in the short- or long run.

The CEO (Mashimbye) of Proudly South Africa is of the opinion that most small businesses in South Africa do not survive as a result of the non-existence of funding or admission to the markets (Proudly SA Annual Report, 2017/2018). He further stressed that without funding, businesses cannot be sustained and that even when some businesses have funding, lack of access to the markets could catch-up with them (Proudly SA Annual Report, 2017/2018). However, Mateus and Robertson (2016) argue that businesses lack sustainability because of operational mistakes that are not given timeous remedial attention. Despite the fact that opinions may differ regarding the incapacity of small businesses to remain sustainable; challenges to the sustainability of businesses, however, remain a socio-economic issue in South Africa and, therefore, need urgent attention.

1.6 Aims and objectives of the study:

SMMEs, as stated already, contribute enormously to a country's economic growth and development. Therefore, it is clear that entrepreneurs and entrepreneurship are an incentive for job creation, better living standards, poverty reduction and a general economic growth for the nation (Titus, 2005). South Africa, in recent years has experienced either the down-sizing or total closure of hundreds of SMMEs due to challenges which may be attributed to their inability to sustain their businesses. Therefore, the main aim of this research is to:

- Conduct an in-depth study to identify the challenges to the sustainability of SMMEs in South Africa. This result will be achieved through the collection of empirical data from entrepreneurs whose businesses were not sustainable in order to identify the root causes of this problem.

1.7 Research questions:

The main question that the researcher seeks to answer in this study is:

- What are the challenges to the sustainability of SMMEs in the Cape Metropolis?

The main question is distilled into the following sub-questions:

- What are the primary causes of non-sustainability identified by the business owners that resulted in the closure of their businesses during infancy?
- Why are SMMEs in the Cape Metropolis not sustainable during infancy?
- What are the various models that could assist researchers and SMME owners/managers to better understand the reasons why SMMEs are unsustainable during infancy?

1.8 Definition of key terms and concepts.

Challenges:

“Challenges” refer to something or a situation in which by its very nature requires a special effort, or a difficulty during an undertaking that requires a stimulation to the person or organisation engaged in it (Neeta, 2020).

Sustainability:

“Sustainability” refers to the ability to maintain or avoid the depletion of resources in order to be able to maintain financial balance and focus on meeting current needs of an entity without compromising the ability to meet the entity’s future needs or financial responsibilities (Neeta, 2020).

Unsustainability:

“Unsustainability” refers to not being able to be prolonged or persistent and avoid maintaining depletion (Neeta, 2020).

Business failure:

Business failure as defined in the context of this study refers to 'any small, medium or micro business, whose owner or owners have lost control, or the business has lost its ability to make profit or bring in enough revenue to cover its expenses. The small business voluntarily or involuntarily close down and the business ceases all its transactions and operations (Dias, & Teixeira, 2017)

Small, Medium and Micro Enterprises (SMME):

In the context of this research, an SMME would be defined as a business that employs fewer than 200 employees, has an annual turnover of less than R64 million, has capital assets of less than R10 million and it is owner managed. (National Small Business Amendment Act 2004).

Entrepreneur:

In the context of this research, this would refer to a person who sets up a business of businesses, there by taking on financial risks in the hope of making a profit in the future (Dias, & Teixeira, 2017).

Business:

This would simply refer to a commercial activity (Dias, & Teixeira, 2017).

Cause: In the context of this research, this refers to a person, thing or circumstance that gives rise to an action, condition, or phenomenon (Oxford English dictionary,1989).

Failure: This refers to the absence or lack of success (Oxford English dictionary,1989).

1.9 Deimitation of the study

This study will focus on entrepreneurs or people who have owned SMMEs that were unsustainable. All the participants were selected from within the Cape Town Metropolis. The Cape Metropolis has a population of over 5,823 million people covering a space of 129,462 square kilometres, including six districts (Statistics South Africa, 2011). This study is very broad, therefore, the researcher made use of the case study research paradigm, where respondents were interviewed via direct telephone calls, zoom and Microsoft teams or WhatsApp calls, using an interview guide. This research study is qualitative in nature,

allowing the researcher to obtain actual or first-hand data upon which the conclusions were based.

1.10 Structure of the study

Below is the breakdown of this research study in sequential order:

Chapter 1: Introduction

This chapter addressed the key issues that users or any reader of the research study would like to know and, thus, triggered the research. Items such as the following were discussed in this chapter.

- Background to the study.
- Statement of the problem.
- Justification for the study.
- Explain all the terminologies used within this study.

Chapter 2: Analysis of previous literature

This chapter took a detailed look at what other researchers have written in relation to the topic of this study. It analysed the findings of other researchers, investigated the methods they employed and the conclusions they drew and tried to bridge the gap regarding issues that were not addressed in past studies on the topic. This chapter includes the following sections:

- Some theories on unsustainability of small businesses.
- Theoretical framework.
- Research aims and objectives.
- Research questions.

Chapter 3: Research methodology

This chapter addresses 'how' the issues stated in Chapter 1 above would be investigated. All the propositions aimed at being conducted during the fieldwork presented in this chapter. The chapter includes the following sections:

- Research design.
- Sample and sampling methods.
- Tools and methods of data collection.
- Ethical statement.
- Interview.

Chapter 4: Data presentation and analysis

Data collected during the interview were transcribed and coded for analysis, also conclusions and recommendations were discussed in this chapter and these include the followings.

- Data transcription and coding
- Data analysis
- Data presentation
- Data interpretation

Chapter 5: Conclusion, recommendations and ethical statement

This section stated the general conclusion pertaining to the entire research project. It helped to provide some recommendations based on the work conducted and finally provided an ethical statement on the research. This chapter included the following sections:

- Conclusion
- Recommendation

1.12 Summary of the chapter

Chapter 1 gave the reader an introductory knowledge of what the study topic. It provided a background to the study, stated the main problem of the study, research questions, main objective of the study and the relevant methods that were employed to address these objectives. The chapter further laid emphasis on the importance of understanding the challenges to the sustainability of SMMEs in the Cape Metropolis given the role that SMMEs play in the South Africa's economy. The next chapter of this study will provide a wider perspective of the theoretical synopsis of challenges faced by SMMEs that result in the final closure of the businesses.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

SMMEs can be considered as:

Companies that have a turnover that is below R5 million per annum, and include a broad range of entities ranging from established traditional family businesses (medium-sized enterprises) to survivalist self-employed, grass root businesses in local communities (informal micro enterprises), (Bvuma & Marnewick 2020).

The SMME sector provides employment to over 47% of South Africa's workforce and contributes over 20% of the nation's gross domestic product and contributes about 6% of South Africa's corporates taxes annually (SEDA, July 2018). The importance of SMMEs in the South African economy cannot be overemphasised; however, their lack of sustainability cannot go unnoticed because of the adverse impact it tends to have on the South African economy (Bushe, 2019). This problem is the main reason why scholars have tried to find the reasons for the lack of success of SMMEs both at global and local levels.

Identifying the reason why most SMMEs are not sustainable can become a very helpful tool that could assist in identifying a decline in a business and finding a solution before the final death of the business (Silas, 2017). In this regard, studies have been carried out and their results presented in the form of article publications, conference papers, theses, as well as government reports in order to identify and prevent the failure of small businesses (Pretorius, 2009). Fredman, 2018, Silas, 2017, David and Eyo, 2013 and other researchers have taken time to study specifically small businesses and have used a variety of approaches in order to get a grasp of why some of these are sustainable and others are not. On a general note, the non-professional would attribute the lack of sustainability of SMMEs to: economic problems suffered by a nation, fire, fraud, burglary, mismanagement, as well as natural disasters (Fredman, 2018).

Silas (2017) in his study on key reasons why some businesses are not sustainable, iterates that about 88.7% of the causes of the lack of sustainability of these enterprises can be attributed to management errors. He went further to mention that other issues preventing the sustainability of businesses are:

financial irresponsibility and knowhow, not having a defined goal in the business venture, family pressures and responsibilities, the entrepreneur underestimates the business requirement and then gets worn out; starting the business with incorrect motives; pride; very little or no awareness of the market; as well as insufficient funds and business knowledge, Silas (2017:4-9).

In his paper, Silas (2017) begins by identifying the significant role of small businesses in an economy as far as job creation is concerned and the contribution they present to the gross national product of the nation (GDP). He continues by defining what a small business is and then goes straight into the diagnosis of what he considers as factors that result to the lack of sustainability of small businesses. Silas (2017) concludes that firms and entrepreneurs need the assistance of experts in order to escape the pitfalls of business failure. The main aim resolve of his work was to identify the reason why most small businesses are not sustainable and to find out how these reasons can be evaded by making use of a universal framework through professional and expert advice. One issue, however, that stands out in Silas's work is that the mismanagement of funds is the main reason for lack of sustainability of many SMMEs. Despite the fact that his work was detailed, there was no encounter or face-to-face meeting with an entrepreneur whose business was not sustainable. This current study adopted a qualitative approach, whereby the researcher met entrepreneurs whose businesses were not sustainable and spoke to them in order to gain an insider's perspective of the challenges they faced. This practice created an avenue to bridge that gap of desk or office research and, hence, added value to what has already been conducted as far as curbing the challenges to the sustainability of SMMEs.

According to Fredman (2018), the availability of money constitutes a major part in the administration of a business venture, no matter the size or age of the business. He believes that businesses exist and operate with money and if that money cannot be controlled, there is no control of the business. Furthermore, Collins (2012) asserts that proper accounting, business advisory and compliance as far as the income and expenses of a business is concerned, could direct the course and future of that business.

David and Eyo (2013:19) defined corporate failure as:

the inability of a corporate organisation to conform itself with its strategic path of growth and development to attain its economic and financial objectives as well as legal obligations”.

They iterate that failure could also be regarded as the inability of the business to attain its legal obligations. Although, other writers mostly consider a business's inability to remain sustainable or business failure to be synonymous to financial failure (Xiangping, 2012). Most of the key causes of business unsustainability as identified by David and Eyo (2013) are broadly classified into four sectors and include the following: management incompetence; social and cultural aspects; volatility in the economy and national policies. While Fredman, (2018) considers the shortage and lack of control of money in the business as the main cause of business unsustainability. Meanwhile, Bhattacharjee, Higson, Holly, and Kattuman (2009), consider management incompetence as the principal source of the unsustainability of a business.

To further explain the lack of sustainability of SMMEs, David and Eyo (2013) began with the conceptualisation of non-sustainable businesses and went on to examine the nature of non-sustainable businesses. They discussed also the causes and effects of non-sustainable businesses, next, they examined some aspects that could help to minimise the lack of sustainability of small businesses. This non-sustainability occurs because of problems that occur both within and outside the organisation. These issues, therefore, give rise to negative effects on the economy locally and internationally, despite the fact that the local economy suffers more (David & Eyo, 2013). They concluded their research by recommending that supervisory agencies should be established to reduce the issue of non-sustainability of businesses. These agencies would oversee the operation of small businesses with the goal of making sure they comply with companies acts and other commercial law and obligations of a nation. Most of the literature on SMMEs' non-sustainability only provides high-level information, which did not point specifically to how the challenges to the sustainability of SMMEs in the Cape Metropolis could be addressed. Hence the gap that this study seeks to bridge.

Kotler and Philip (2014) are of the opinion that in order for an SMME to be sustainable, the entity must clearly define its target market, identify the needs of that market and devise an appropriate plan on how the business will meet the needs of that target market. They further state that the SMME must also identify its rivals, study what they have provided to potential customers in the past and seek to bridge the identified gap that existing rivals have not been able to cover. Smit (1999) is of the opinion that many SMMEs have failed to be sustainable in the past because of inadequate market research and appropriate marketing strategies at star-up stages of the business. However, Smit (1999) did not reach the crux of the matter

which is to ascertain the reasons why most SMMEs in South Africa failed to develop adequate marketing strategies that could assist them to be more sustainable.

According to Tendai and Mandipaka (2013), one of the key aspects regarding the lack of sustainability of SMMEs in South Africa is the aspect of the skilful management of the business. Other studies have recognized certain key factors that have regularly come up as impediments to the sustainability of SMMEs in South Africa (Omerzel & Antonic, 2008; Mbonyane & Ladzani, 2010). These factors range from lack of experience in the specific business area that has been ventured, lack of technical skill, lack of managerial skills, lack of proper planning skills and lack of appropriate market research are amongst the most recurrent aspects that hinder the sustainability of SMMEs in most developing nations (Baron & Shane, 2007; Schwartz & Hornych, 2010). Further research has identified that some entrepreneurs could possess the technical skill required to operate their businesses, however they are lacking managerial skills to run the day-to-day operations of the business (Omerzel & Antonic, 2008; Mbonyane & Ladzani, 2010). Tushabomwe-Kazooba (2006) is in agreement with this assertion and noted in their study that inadequate accounting, bookkeeping and record-keeping practices often make it difficult for a business to be sustainable because financial management is the backbone of any institution.

Tendai and Mandipaka (2013) further opine that environmental challenges, including government regulations, competition, a hostile business environment and an unstable economy could also stand as major challenges to the sustainability of SMMEs. Meanwhile, Urban and Naidoo (2012) are of the opinion that the key challenges to the sustainability of SMMEs in South Africa is competitiveness and inadequate access to finance. This belief implies that most newly formed SMMEs are unable to stand competition from well-established local and international businesses that are in the same line of business and, therefore, are forced out of the market in the short run (Urban & Naidoo, 2012). In addition to competitiveness and lack of finance, Fumo and Jabbour (2011) add that most SMMEs in developing nations face challenges with adherence to regulatory and legal issues which are often costly to finance. Most owners of SMMEs who are generally not educated do not often understand the laws and regulations governing companies and, as a result, they find themselves defaulting basic regulations that often result in large or small penalties and fines from the government.

2.2 Background of SMMEs in South Africa

The history of South Africa is one that was characterised by conflicts and instability. Some years before the 1990s, the nation was characterised by a system of social and economic exclusion of some population groups (Mmboswobeni, 2010). These groups included the Blacks, Coloured and Indians. However, in February 1990, the then president of South Africa made an announcement in parliament that marked a major turning point for the nation's economic and social climate (Mmboswobeni, 2010). President FW de Klerk announced the release of political prisoners, unbanned the creation of other political parties and made a request to update the nation's constitution at the time. These proposals gave birth to a democratic constitution that allowed for "one man, one vote". This announcement led to South Africa's first democratic elections in 1994 (Mmboswobeni, 2010). Hetherington, (1994) pointed out that, even though political freedom is important, alone it does not "put food on the table", economic freedom, however, does. Economic freedom allows for everyone in the nation to be able to create wealth, generate an income to cater for their families and educate their children. However, political freedom often precedes economic freedom and the two work together for the growth of any nation.

Considering the above comments, the new government that came into power in 1994 was faced with the big challenge of creating employment for millions of underemployed and unemployed South Africans that formed the majority of the nation's population (Hetherington, 1994). The government, therefore, tasked itself with the goal of creating sustainable economic growth in order to address the issue of mass unemployment and underemployment it had just inherited. In this regard, SMMEs were identified as one of the most vital vehicles to help address the problem of unemployment, social equity and in the new future, reduce the gap between the rich and the poor in South Africa (Hetherington, 1994). October 1994 also saw the dawn of a new day for SMMEs in South Africa. The Department of Trade and Industry (DTI) made public their discussion paper entitled "Strategies for the development of an integrated policy and support programme for small, medium and micro enterprises in South Africa". This paper was followed in 1995 by the "White Paper on the National Strategy for the Development and Promotion of Small Businesses in South Africa". Both documents were aimed at empowering SMMEs and addressing the legacy of the previous government in terms of constraints and challenges that were suffered by small businesses (Kirsten, 1995).

In the government's continued quest toward the aim of making SMMEs in South Africa viable and sustainable, in 2014 a new ministry was created to cater exclusively for SMMEs. The aim of this ministry was to create a more micro attention to SMMEs in South Africa, through the creation of enhanced policies, programmes and policies towards the creation and sustainability of small businesses, hence, all entities that meet the definition of an SMME in terms of the definition of the DTI in 2008.

2.3 Definition of a Small, Medium, and Micro-Enterprise within the South African context

There is no standard or global definition or description for an SMME, which suits every nation. The definition for an SMME is determined by every nation based on the nature and size of its economy. In South Africa, the definition of SMMEs covers a very wide variety of entities including both formal and informal entities that may not be registered for value added tax (VAT) (The DTI, 2008). Small businesses in South Africa encompass medium-sized enterprises that may include family businesses with an employment rate of up to a hundred people and other micro-enterprises that operate in the informal sector. The aforementioned micro-enterprises operating in the informal sector include self-employed people, from lowest class in the society, trying to run survivalist business ventures. Berry (2002) attest to the fact that in South Africa, a vast majority of SMMEs fall in the category of survivalist business ventures, which accounts for their short life span. These entities include the following:

Street trading businesses, courtyard manufacturing and sporadic jobs that come from time to time. The South African SMME sector is unfortunately dominated by the aforementioned category of entities (survivalist enterprises) which makes their growth and sustainability very blurry, (The DTI, 2008).

In South Africa, the department of Trade and Industry (DTI), in its National Small Business Amendment Bill has classified business entities according to their annual turnover in order to determine the category in which they fall. Table 2.1 below provides details of the aforementioned classification as per March 2015:

Table 2.1: DTI's lower limits on entity sizes (adjusted by StatsSA)

Industry Turnover	Large > Rm	Medium > Rm	Small > Rm	Very small > Rm
SIC2 Mining and quarrying	370.5	95.0	38.0	2.0
SIC3 Manufacturing	456.3	123.5	47.5	2.0
SIC4 Electricity, gas and water	456.3	123.5	48.5	2.0
SIC5 Construction	247.0	57.0	28.5	2.0
SIC61 Wholesale trade	608.0	304.0	57.0	2.0
SIC62 Retail trade	370.5	180.5	42.5	2.0
SIC63 Motor trade	370.5	180.5	42.5	2.0
SIC64 Accommodation and catering	123.5	57.0	48.5	2.0
SIC7 Transport	247.0	123.5	28.5	2.0
SIC8 Real estate and business services	247.0	123.5	28.5	2.0
SIC9 Community, social and personal	123.5	57.0	8.5	2.0

Source: StatsSA, July 2018

Most SMMEs in South Africa fall within the last category of “very small > Rm”, which is part of the reason why they struggle to remain sustainable.

2.3 Statistical summary of SMMEs in South Africa

The above section has made mention of some figures in relation to the definition of SMMEs in the South African context. However, this section will provide a more detailed breakdown and discussion of some statistical realities. According to Henderson (1999), it is very important to discuss and recognise statistical facts in business from a retrospective and competitive standpoint. Hahn and Doganaksoy (2011) state that the use of statistical summaries in business analysis and services is not necessarily an end in itself. However, the

principal role of statistical analysis and summaries is to aid in the handling of uncertainty in business and to enhance the way to improvement for an entity or industry (Hahn and Doganaksoy 2011).

Table 2.2 below provides details of the number of SMMSs in South Africa, further broken down in terms of ownership, employment, progression and regression.

Table 2.2 Number of SMMEs

Indicator	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distri b.	Number	Distri b.	Number	%	Number	%
Employer	951 220	5.8%	874 778	5.3%	843 253	5.1%	-31 525	-3.6%	-107 967	-11.4%
Own account worker	1 527 657	9.3%	1 532 662	9.4%	1 599 910	9.6%	67 248	4.4%	72 253	4.7%
SMME owners	2 478 877	15.1%	2 407 440	14.7%	2 443 163	14.7%	35 722	1.5%	-35 714	-1.4%
Working for someone	13 859 949	84.4%	13 880 597	84.7%	14 066 897	84.8%	186 300	1.3%	206 948	1.5%
Helping in household business	80 327	0.5%	90 958	0.6%	69 954	0.4%	-21 004	23.1%	-10 374	-12.9%
Total employed	16 419 153	100.0%	16 378 995	100.0%	16 580 013	100.0%	201 018	1.2%	160 860	1.0%

Source: QLFS of Stats SA, July 2018

Looking at Table 2.2 above, from 2017Q1 to 2018Q1, there was a decline of 1.4% in total SMMEs in the nation, amounting to the closure of 35 714 SMMEs within a 12 month period. However, the total number of people employed by SMMEs during the same period increased by 1.0%, amounting to 160 860 people. A close look at Table 2.2 above indicates that the number of employers dropped by 11.4%, which implies that most SMMEs struggled to survive during that period and, therefore, had to close. However, even though there were fewer employers during the period, the employment rate increased by 1.5%. This fact is a clear indication that the larger SMMEs grew at the expense of the existence of the smaller SMMEs. Amongst all those people who were employed by the SMMEs in the 2018Q1, 5.1% were employed by others, meanwhile those who were self-employed comprised 9.6%. On a general note, if there had not been a 1.4% drop, the employment rate would have been higher. Table 2.2 above also indicates that SMMEs, which are one of the main sources of employment in South Africa, struggle with sustainability.

Table 2.3 SMMEs employment provided

Indicator	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	6 092 354	57.6%	5 307 175	57.6%	4 972 307	56.0%	-344 868	-6.3%	-1 120 047	-18.4%
Informal sector	1 200 400	11.4%	1 117 066	12.1%	1 053 129	11.9%	-63 937	-5.7%	-147 271	-12.3%
Agriculture	794 673	7.5%	372 013	4.0%	417 417	4.7%	45 404	12.2%	-377 256	-47.5%
Private households	2 398	0.0%	3 946	0.0%	0	0.0%	-3 946	-100.0%	-2 398	-100.0%
Provided to others	8 089 824	76.5%	6 800 200	73.9%	6 442 852	72.5%	-357 348	-5.3%	-1 646 972	-20.4%
% female*		38.1%		36.7%		37.7%		1%pts		-0.5%
Employer	951 220	9.0%	874 778	9.5%	843 253	9.5%	-31 525	-3.6%	-107 967	-11.4%
Own account worker	1 527 657	14.5%	1 532 662	16.6%	1 599 910	18.0%	67 248	4.4%	72 253	4.7%
Total	10 568 701	100.0%	9 207 641	100.0%	8 886 015	100.0%	-321 625	-3.5%	- 1 682 686	-15.9%

Source: QLFS of Stats SA, July 2018 * of all people working for private enterprises, of which 38% worked for SMMEs over the last 5 years.

Over 8.8 million people in South Africa were employed by the SMME sector during the first quarter of 2018. Out of these 8.8 million people, 2.4 million represent the owners of the SMMEs while 6.4 million represent others who were employed by the SMMEs. Furthermore, Table 2.3 above indicates that majority of the SMMEs in South Africa are included in the formal sector (56%), while only 11.9% are in the information sector. What is of great concern from the information provided in Table 2.3 above is the decrease of 18% of employees in the formal sector and 47% decrease in employees in the agricultural sector. These figures have resulted, therefore, in a significant drop of up to 20.4% in the total extent of employment provided to others. Over 1.6 million people lost their jobs within the 12-month period from 2017Q1 to 2018Q1 which is a great cause of concern for South Africa. An estimated 38% of all jobs provided by SMMEs in South Africa was filled by female staff and the remaining 62% was filled by male staff members. There is also an age variance in terms of ownership of SMMEs that also plays a significant role in organisation's ability to remain sustainable.

Table 2.4 Ownership of SMMEs by age distribution

Years	2017Q1		2017Q4		2018Q1		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%
0-1	97 673	3.9%	364 640	14.7%	111 611	4.6%	13 938	14.3%
1-2	381 668	15.4%	266 238	11.1%	383 214	15.7%	1 547	0.4%
2-3	241 100	9.7%	206 052	8.6%	203 799	8.3%	-37 301	-15.5%
3-5	381 156	15.4%	296 433	12.3%	371 315	15.2%	-9 841	-2.6%
6-10	572 494	23.1%	494 400	20.5%	543 874	22.3%	-28 620	-5.0%
11-20	516 882	20.9%	517 076	21.5%	552 905	22.6%	36 024	7.0%
21-50	284 877	11.5%	266 971	11.1%	271 954	11.1%	-12 923	-4.5%
>50	3 027	0.1%	5 631	0.2%	4 489	0.2%	1 462	48.3%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	-35 714	-1.4%

Source: QLFS of Stats SA, July 2018

Table 2.4 above indicates a significant increase of up to 14% in the number of SMMEs, with the total number moving from 97 673 in 2017Q1 to 111 611 in 2018Q1 period. SMMEs that were between 1 to 2 years old increased within these 12 months period. However, there was a significant decline in the number of SMMEs when they reach their third year of operation. The above table indicates a drop of 15.5% amounting to over 37 301 SMMEs that were not sustainable after three years and had to close down. At this point, the entrepreneurs are at their working age (below 60 or 65 years) and labour to keep the business alive and then the numbers of sustainable SMMEs drop again after 20 years because some of the entrepreneurs begin to retire without a continuity plan for the businesses. In summary, there is a 1.4% drop in the number of SMMEs amounting to a total of up to 35 714 SMMEs that completely closed within a 12-month period. This fact is worth noticing because the effect on the South African economy would be glaring.

Table 2.5 SMME ownership by province

Province	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Western Cape	281 062	11.3%	268 477	11.2%	269 256	11.0%	778	0.3%	-11 807	-4.2
Eastern Cape	236 608	9.5%	194 060	8.1%	212 292	8.7%	18 232	9.4%	-24 316	-10.3
Northern Cape	23 569	1.0%	21 344	0.9%	23 904	1.0%	2 559	12.0%	335	1.4
Free State	117 145	4.7%	114 035	4.7%	114 584	4.7%	549	0.5%	-2 560	-2.2
KwaZulu-Natal	384 675	15.5%	330 551	13.7%	333 461	13.6%	2 910	0.9%	-51 214	-13.3
North West	130 883	5.3%	131 280	5.5%	125 535	5.1%	-5 745	-4.4%	-5 348	-4.1
Gauteng	830 923	33.5%	807 787	33.6%	847 329	34.7%	39 542	4.9%	16 406	2.0
Mpumalanga	192 178	7.8%	222 369	9.2%	201 922	8.3%	-20 447	-9.2%	9 744	5.1
Limpopo	281 835	11.4%	317 537	13.2%	314 880	12.9%	-2 657	-0.8%	33 045	11.7
Total	2 478 887	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5%	-35 714	-1.4

Source: QLFS of Stats SA, July 2018

Table 2.5 above indicates that the Western Cape province was the home of over 281 062 SMMEs in the first quarter of 2017, accounting for 11.3% of the total number of SMMEs in South Africa. The Cape Metropolis, which is the largest city in the Western Cape, represents the focus of this study, therefore, making the study vital. Within the 12 months period from 2017Q1 to 2018Q1, there was a significant reduction in the number of SMMEs in this particular province. 11 807 (4.2%) SMMEs completely closed their doors and during the same period, there was a national drop of 1.4% amounting to a total of 35 714 entities that were no longer sustainable during that period.

Table 2.6 SMME ownership by race/population group

Race	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Indian/Asian	100 846	4.1%	103 439	4.3%	98 136	4.0%	-5 303	-5.1%	-2 711	-2.7%
Coloured	116 983	4.7%	90 081	3.7%	94 252	3.9%	4 171	4.6%	-22 731	-19.4%
White	436 041	17.6%	401 432	16.7%	421 967	17.3%	20 535	5.1%	-14 073	-3.2%
Black	1 825 007	73.6%	1 812 488	75.3%	1 828 808	74.9%	16 320	0.9%	3 801	0.2%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5%	-35 714	-1.4%

Source: QLFS of Stats SA, July 2018

The schedule provided in Table 2.6 above, indicates that there was minimal growth in the number of Black owned SMMEs, meanwhile all the rest of the cultural groups experienced significant decreases during the 12-month period. The highest decrease during the period was from the Coloured population (19.4%), and this group of people mostly reside in the Cape Metropole which is the area in which this case study was undertaken. Out of the total number of 35 714 SMMEs that were not sustainable during the 12 month period, 22, 731 were owned by Coloured people. The above statistics makes the Cape Metropol a ‘hot spot’ for the apparent ‘death’ of thousands of SMMEs.

Table 2.7 SMME ownership by education group

Schooling	2017Q1		2017Q4		2018Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
No schooling	94 799	3.8%	98 757	4.1%	87 822	3.6%	-10 935	-11.1	-6 977	-7.4%
Less than primary completed	238 124	9.6%	222 620	9.2%	210 446	8.6%	-12 174	-5.5	-27 678	-11.6%
Primary completed	117 820	4.8%	94 800	3.9%	106 477	4.4%	11 677	12.3	-11 342	-9.6%
Secondary not completed	819 086	33.0%	855 819	35.5%	864 020	35.4%	8 201	1.0	44 934	5.5%
Secondary completed	667 850	26.9%	631 984	26.3%	618 897	25.3%	-13 087	-2.1	-48 953	-7.3%
Tertiary	504 519	20.4%	466 109	19.4%	518 545	21.2%	52 437	11.2	14 027	2.8%
Other	36 679	1.5%	37 351	1.6%	36 955	1.5%	-396	-1.1	276	0.8%
Total	2 478 877	100.0%	2 407 440	100.0%	2 443 163	100.0%	35 722	1.5	-35 714	-1.4%

Source: QLFS of Stats SA, July 2018

The figures in Table 2/7 above indicate that the SMMEs that were owned by people with a higher level of education have the propensity to survive more than those whose owners are less educated. There was a contraction (11.6% and 9.6%) in the number of SMMEs owned by people without any form of secondary education, meanwhile there was an expansion (2.8%) in the number of SMMEs owned by people with tertiary qualifications. The above figures indicate that the higher the level of education of the owner of the SMME, the more likely is the SMME to be sustainable.

In summary, the analysis of the statistics provided in Tables 2.1 to 2.7 above indicated that there was a general decline in the number of SMMEs during the 12 months from 2017Q1 to 2018Q1, a fact that has helped to lay emphasis on the importance of this research study.

2.6 Theories on small business failure

In assessing the challenges to the sustainability of SMME that often result to failure, theories have been used by different scholars to provide implicit support to their views and opinions. From these theories, entrepreneurs and business owners have over the years developed rules and modus operandi through which to run their businesses to remain sustainable.

Furthermore, research that focuses on the causes of failure are limited to providing prescriptive results that will provide entrepreneurs and owners of SMMEs with information to avoid the failure of their businesses (Shepherd and Wiklund (2006), . Shepherd and Wiklund (2006) are of the opinion that business failure is a separate event that does not necessarily generate from a specific causality but could emanate from an inherent theory. Hence this section focuses on some theories pertaining to business failure.

2.6.1 Some theories pertaining to business failure

2.6.1.1 Liability of newness

The theory of *liability of newness* dates back to 1965. This notion is used to describe the liabilities or obstacles to survival that a new organisation faces when it wants to enter the market (Stinchcombe, 1965). According to Stinchcombe (1965), these liabilities include both internal and external aspects of an organisation or company. The internal aspects include the following: costs that are incurred by the entity in order to study new tasks, the necessity to learn the most profitable or cost saving methods of running the SMME, the need to establish the presence or absence of structures in the SMME which can either be formal or informal (Aldrich & Auster, 1986; Stinchcombe, 1965). The external aspects include: blockades to entry, such as larger companies or SMMEs that are fully established, the lack of recognition of the new brand and the capacity to be accepted in the market, unlawful acts carried out by competitors, obtaining the appropriate licence to operate in the sector and adherence to regulations (Aldrich & Auster, 1986). Stinchcombe (1965) further posits that the *liability of newness* relates to a summary of the actions and knowledge that the young entrepreneur or

new business owner needs to acquire in order to overcome the major challenges to the sustainability of the new business venture. He also stated that very often, the extent these liabilities often results in the failure of many SMMEs despite the owner's attempt to adapt to the new business environment and to curb the challenges of the *liability of newness* (Stinchombe, 1965).

In addition to the above views on liabilities of newness, Hannan and Freeman (1984) state that it refers to the immaturity stage of a business organisation. In their opinion, these new businesses are deficient of the beneficial features that more established companies have acquired over time by being in the market. These features include reliability, accountability, efficiency and trust (Hannan & Freeman, 1984). The aforementioned features generally stand out as the main attributes that stakeholders require in order to support or become involved with a business; hence the possession of such features becomes a major challenge to the sustainability of a new businesses (Chio & Shepherd, 2005). In the same way, stakeholders assess entrepreneurs for favourable attributes, entrepreneurs/new business owners on the other hand equally make assessments of stakeholders before becoming involved with them. Hence these assessments could end up being biased or erroneous, especially on the part of the new business owner who is suffering from *liability of newness*. Unfortunately, most entry level entrepreneurs tend to be overconfident, not knowing that this mindset could lead to the liability of newness. The analysis of the data for this study took this theory into consideration.

2.6.1.2 Cognitive biases: overconfidence

To define cognitive biases, it is necessary to study the quotation below and build on it.

'Looking back on it, my judgment was often terribly wrong' said one entrepreneur who had burned through more than \$20 million trying to launch a Web-based business. *'Unfortunately, I was never in doubt'*, (Kramer, 2006:63).

The above quotation contains the words of an entrepreneur who was acknowledging that his 'overconfidence' had led him to falter in many of his decisions as far as his new business venture was concerned. As a result of his wrong judgements, he had already lost over \$20 million. This situation was pathetic, but it too late to rescue the failed business that could not be sustained because of the great loss resulting from the entrepreneur's *cognitive biases*.

According to Shepherd and Wiklund (2006), *cognitive biases* simply refer to overconfidence and, generally, could amount to either positive or negative results as far as the sustainability

of a business is concerned. Research has been carried out that indicates that many entrepreneurs display greater cognitive biases than many professional business owners/managers. Busenitz and Barney (1997) conducted a study in which they compared 124 entrepreneurs who had founded their own businesses with 95 managers who were at the mid-level of their careers. The research was based on issues such as death rates in relation to different kinds of diseases, as well as other forms of accidents. These aspects may not be necessarily business related, yet the entrepreneurs were found to be significantly overconfident in their responses, hence, the findings of this study confirmed that entrepreneurs can be inherently overconfident and that their overconfidence is not limited to their business decisions (Busenitz & Barney, 1997).

In addition to the above study, Cooper, Woo and Dunkelberg (1988) carried out a study in which 2,994 founding entrepreneurs participated – 81% of these participants believed their business venture would be over 70% successful, while remaining 19% were positive that their businesses would be 100% successful – thereby confirming the overconfidence of founding entrepreneurs. In order to prove that these founding entrepreneurs were being over optimistic, the same study revealed that the actual percentage of profitable businesses fell within the range of 30 to 70% (Cooper, *et al.*, 1988). In agreement with the above named scholars, Hayward, Shepherd and Griffin (2006) define overconfidence as ‘the degree of confidence to which entrepreneurs who founded their own businesses believe that their businesses will generate wealth’. Hayward, *et al.* (2006) explain when creating their businesses, most entrepreneurs possess the following characteristics:

- They often possess very little experience in relation to the business they are creating.
- They venture into businesses that have more complex tasks than those for which they already have knowledge and/or experience.

In the face of the challenges faced by ‘entry’ entrepreneurs, their overconfidence pushes them to overcommit their limited resources without proper planning. This overcommitment of their limited resources at the early stage of their businesses increases the likelihood that their business ventures will struggle to achieve sustainability and hence fail. Consequently, overconfidence mostly results in bias that, when implemented by founding entrepreneurs, often endangers the sustainability of their newly formed business ventures (Hayward, *et al.*, 2006). This situation means that the more human capital an entrepreneur possesses, the more likely it is that the business venture will be sustainable.

2.6.1.1 Human capital

According to the literature reviewed thus far, there are many different aspects that could hamper the sustainability of an SMME. However, Shepherd, Douglas and Shanley (2000) are of the opinion that the most recurring aspect is the founding entrepreneur's lack of knowledge and/or experience, (also known as human capital). Human capital has been defined in different fields of studies based on the focus of the specific field. In the field of entrepreneurship and business, human capital denotes the stock of skills, knowledge, social customs, habits and personality features that the entrepreneur requires to assist him with the successful running of his venture in order to secure its sustainability (Marvel, Davis & Sproul, 2016). In addition to the characteristics of human capital, education and professional experience are also important factors that the founding entrepreneur requires for ensuring the sustainability of his venture (Marvel, *et al.*, 2016).

In agreement with the above assertion, Gimeno. *et al.* (1997) are of the opinion that more experienced entrepreneurs are likely to be able to run sustainable businesses. Hence, in order for a SMME founder to assure the success of his/her venture, emphasis should be laid on the importance of learning and acquiring the necessary skills pertaining to the chosen business (Shepherd, *et al.*, 2000). Hence the human capital theory hypothesises that entrepreneurs who possess higher and more relevant experience are likely to carry out complex tasks that will help overcome the challenges preventing the sustainability of their businesses. In contrast to the opinion of human capital theorists, Van der Sluis, De Jong and Van der Leij (2004) believe that education and/or experience have neither a positive nor negative impact on the sustainability of a new business.

The human capital theory comprises two parts: *general human capital* and *specific human capital* (Marvel, *et al.*, 2016). *General human capital* refers to all other knowledge that an entrepreneur acquires that does not relate specifically to the technical domain of his business. For example: an accountant learns life-skills to be able to relate with people. General human capital, therefore, includes characteristics such as.

- Skills required to adapt to new situations.
- Problem solving skills.
- Client/people relation skills.
- Managerial and leadership skills.

General human capital is mainly linked to life-skills and education (Rauch & Frese, 2000). On the other hand, *specific human capital* in the context of entrepreneurship, relates to the an entrepreneur's education, experience and training that relates directly to the start-up and sustainability of the new business (Gimeno, *et al.*, 1997). Wright, Aron, McLaughlin and Ropp (1997) are of the opinion that *specific human capital* provides an entrepreneur with the proficiency necessary for operating an autonomous business. Meanwhile, Cooper, Folta and Woo (1995) opine that *specific human capital* helps provide a standard for evaluating the weight of information, that may help the entrepreneur to have a better understanding of the factual worth of start-up opportunities. Thereby, fast-tracking the process of the creation of the new business, as well as enhancing the performance and providing a good foundation for sustainability (Davidson & Honig, 2003).

In summary, human capital theorists have identified *human capital* as being invaluable to founding entrepreneurs, with regard to decision making, planning, setting up, running and ensuring the sustainability of a small business. Theories, however, are very often broad and subjective, thus, other researchers have investigated the problems preventing the sustainability of SMMEs by breaking down some of these challenges into themes to ensure a more comprehensive understanding by the readers/users of their studies.

2.7 Some themes on SMMEs challenges

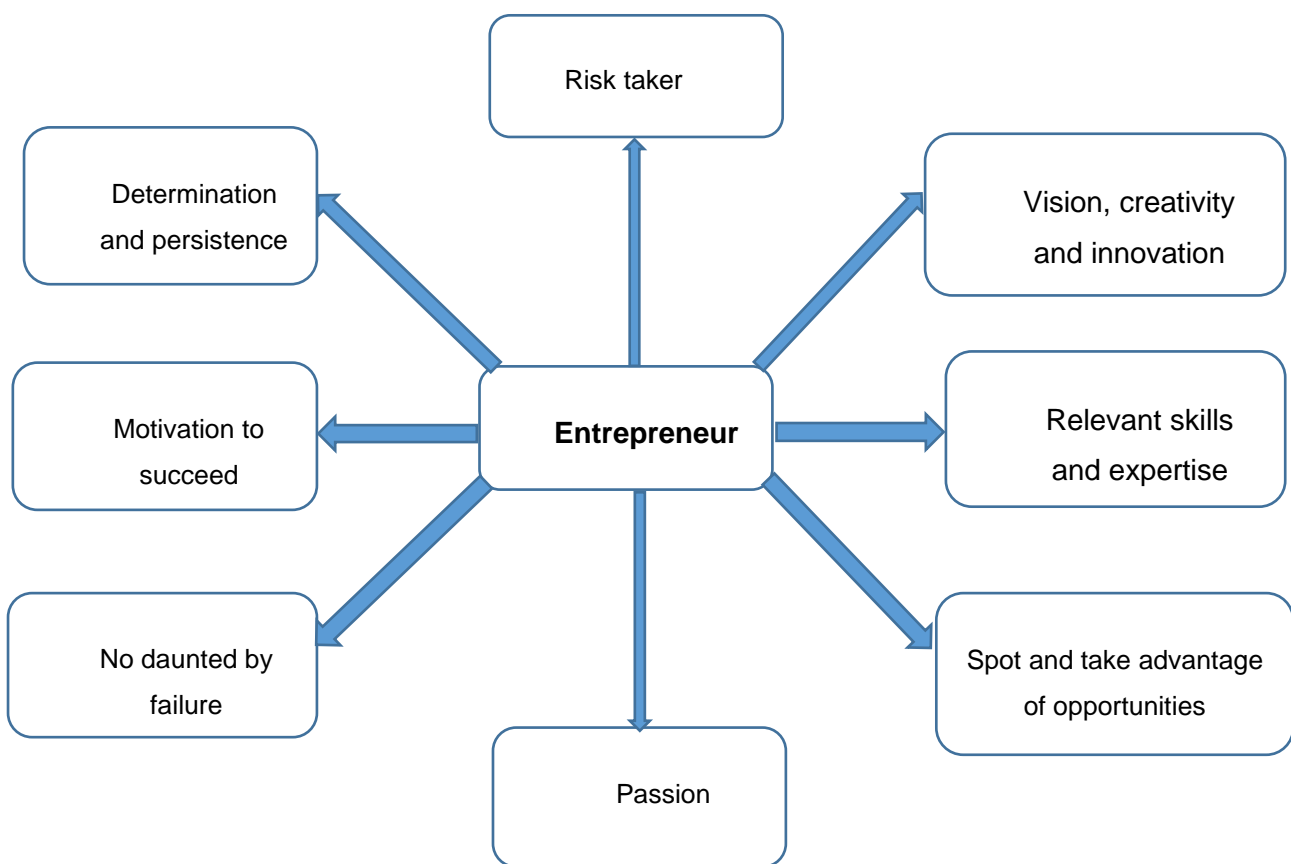
To facilitate the comprehensiveness of their studies, most scholars have opted to use themes for a better understanding of their work. Hence, scholars who have investigated issues related to challenges faced by SMMEs that hamper their capacity to become and remain sustainable have used some of the themes that will be expanded upon in this section.

2.7.1 Entrepreneurship physiognomies

The entrepreneurship theory concept holds that entrepreneurs generally possess common characteristics such as risk bearing, vision, creativity, leadership, allocation and reallocation of resources, decisiveness, self-worth, persuasiveness and flexibility (Schumpeter, 1983). According to McClelland and Winter (1971) entrepreneurs are the only people who have what it takes to make decisions in the face of doubt. Further studies assert that entrepreneurs' possess some common characteristics such as innovativeness, self-discipline, decision-making and personal motivation, and that these traits help them to remain buoyant when they are faced with difficult or demanding circumstances (Paweta, 2015). Paweta (2015) further

explains that SMME owners ought to possess the characteristics of entrepreneurs to overcome the uncertainties that running an SMME entails in order for their businesses to be sustainable. Hence, according to Paweta (2015) entrepreneurship physiognomies are the solutions to the challenges to the sustainability of SMMEs. Diagram 1 below provides details of these entrepreneurship physiognomies/characteristics.

Diagram 1: Entrepreneurship physiognomies/characteristics (own developed diagram)



2.7.2 Level of education and managerial skills

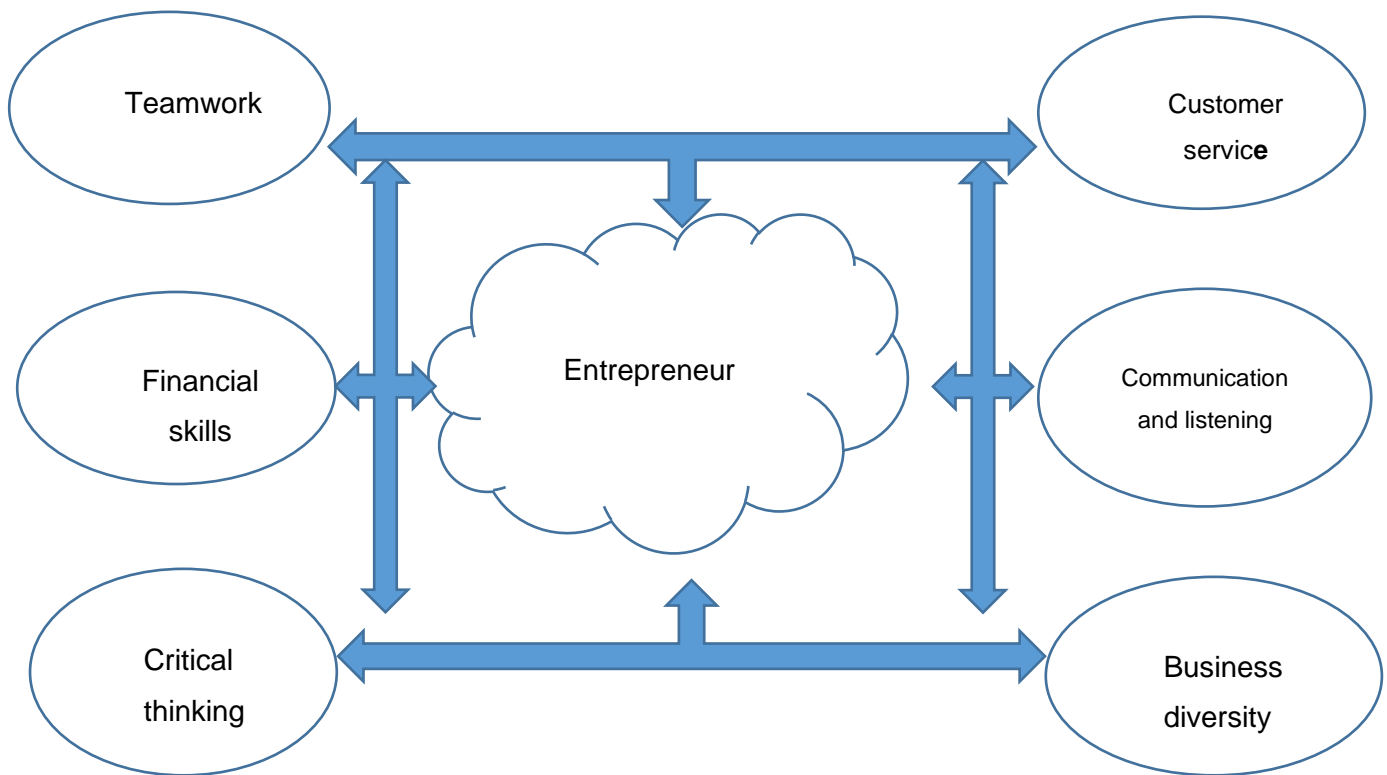
According to the conceptual framework of entrepreneurship, entrepreneurs need to possess managerial skills and the ability to create jobs and productivity in the business environment (Wani, 2018, Say, 1855). Furthermore, entrepreneurs also need to be knowledgeable in areas such as the behaviour of consumers, initiation of novelties, expert allocation of resources and adjusting to a fluctuating business environment (Schumpeter, 1983). Lin and Nabergoj (2014) opine that self-employment and entrepreneurship are the incentives for the

creation of jobs, as well as the economic growth of a nation. In this regard there is a great need for emphasis to be laid on a well-organized educational structure that possesses the ability of tapping into the essential entrepreneurship skills required for problem solving and running a sustainable venture (Lin & Nabergoj, 2014). In addition to the aforesaid, the skills and experience that an entrepreneur has acquired over the years constitute a great stimulus for the sustainability of new business ventures (Hientanen & Jarvi, 2015). Most entrepreneurs who have managed to overcome the challenges preventing the sustainability of their businesses, have learnt how to adjust to diverse market conditions through their past failures (Hientanen & Jarvi, 2015).

Contrary to popular thought, Qureshi, Saeed and Wasti (2016) disagree that entrepreneurship is inborn and requires no training. They are of the opinion that entrepreneurs need appropriate educational systems to enable them to develop managerial skills, understand business opportunities and learn how to face and overcome challenges preventing the sustainability of SMMEs (Qureshi, *et al.*, 2016). Entrepreneurial skills such as self-confidence, teamwork, risk taking, critical thinking, problem solving, communication, business vision, staff recruitment and staff empowerment are not inherent (Lin & Nabergoj, 2014). These skills are acquired by entrepreneurs through education and are critical for the sustainability of SMMEs. Hence, many small business owners have failed to overcome the challenges that their businesses encountered because they were unaware of their lack of knowledge (Doris & Kusce, 2013). Furthermore, they lack the knowledge necessary for searching for business opportunities, increasing their productivity, becoming competitive in the market and diversifying and growing their newly formed businesses (Doris & Kusce, 2013).

The literature reviewed above unveils the importance of education and training for founding entrepreneurs as a means of empowerment for ensuring the sustainability of their newly formed small businesses. The absence of training and skills has been the downfall of many SMMEs and, therefore, has hampered their capacity to face the challenges preventing their sustainability (Lin & Nabergoj, 2014). Diagram 2 below shows some of the skills that an entrepreneur should acquire in order to ensure the successful running of his small business.

Diagram 2: Acquired entrepreneurial skills for business sustainability (own developed diagram).



2.7.3 Knowledge of financial matters and planning

Maximisation of financial returns and the equilibration of demand and supply in the marketplace are made possible only through proper allocation of financial resources by entrepreneurs (Hassan & Giouvriss, 2020). Therefore, proper financial planning is indispensable for the accomplishment and sustainability of the financial goals of a business (Albuquerque, Filho, Nagano & Philippsen, 2016). Many businesses have failed at infancy due to their owners/managers' lack of knowledge and capacity to properly manage start-up costs (Wani, 2018). Albuquerque. *et al.* (2016) states that at start-up level, SMME owners need to be able to forecast possible deficits through heavy start-up expenses and, therefore, make financial projections in order to avoid cash-flow problems during the early stages of the business. These projections may require the expertise of accounting and/or financial professionals to prepare projected Statements of Comprehensive Income, to cover the next two to five years, as well as Statements of Financial Position, Statements of Equity and Statements of Cash Flow (Albuquerque, *et al.*, 2016). In summary, a combination of the

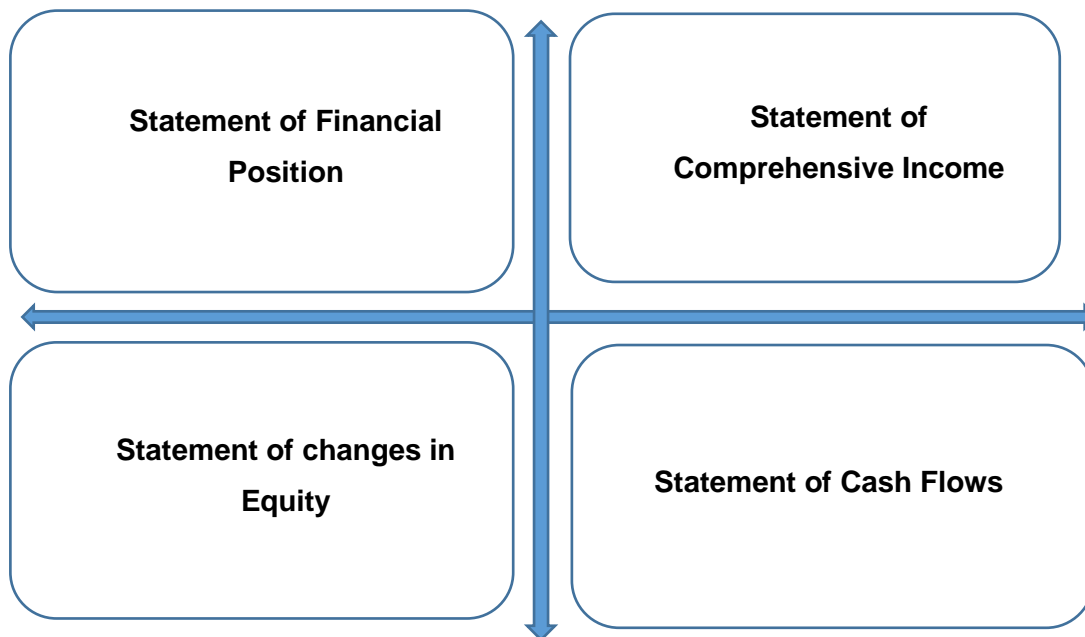
aforementioned projections is termed 'a set of financial statements' by an accountant and are exactly what third parties to any business are interested in, in order for them to gain confidence in the new venture.

Third parties to any business include investors, creditors, governments, trade unions as well as potential customers or clients. Third parties are often interested in obtaining vital information concerning a start-up business such as its business plan, as well as its financial projections, together with justifiable and realistic assumptions to support these projections (Xiang & Worthington, 2015). Hence, if the financial projections and business plans are either unconvincing or unrealistic to the third parties, SMME owners will struggle to acquire finance and this deficiency will be a setback to the future sustainability of the small business (Xiang & Worthington, 2015).

On a general note, most small businesses commence with the assumption of being successful and sustainable. However, after launching the business, entrepreneurs soon realise that business success can be very illusive if the financial aspect of the start-up procedure was not properly planned (Hayes, Chawla & Kathawata, 2015). Hence, for a small business to be sustainable during infancy, it is necessary to create an accompanying financial plan at start-up level (Hayes, *et al.*, 2015). Other researchers agree with this assertion, emphasizing that a financial plan for a start-up small business will help analyse the cost of production against the selling price of the products and determine profitability as compared to competitors in the same industry (Verstina, Akimova, Kisel, Chibisova & Lukinov, 2015). As a follow up, within the first year of the business, the entrepreneur will be able to monitor the actual results as compared to the initial business and financial plan. If there has been a significant deviation from the initial plan, the necessary steps can be taken timeously in order to help the small business get back on track (Verstina, *et al.*, 2015).

In summary, the above paragraphs point to the fact that knowledge of financial matters by a founding entrepreneur of a small business is very essential for ensuring its sustainability. Hence, their insinuating that financial knowledge and proper financial forecasting can be an essential tool to assist entrepreneurs face some challenges preventing the sustainability of their businesses. Diagram 3 below lists some of the standard financial planning reports essential for founding entrepreneurs of SMMEs and that also may be of interest to stakeholders of these small business.

Diagram 3: Essential Reports for small business forecasting (Financial Statement types) (own developed diagram)



2.7.4: Marketing and competition

An entrepreneur or small business owner is supposed to be someone who has a distinct ability to allocate scarce resources, acclimatize distinct strengths, weaknesses, overcome threats, and grab opportunities in a dynamic business environment (Schumpeter, 1983). Contrary to popular believe, marketing planning can take a very informal structure, readily available for small businesses to implement and appraise in the long run (Franco, Santos, Ramalho & Nunes, 2014). Therefore, entrepreneurs are encouraged to make use of marketing strategies to assist them with analysing the strengths, weaknesses, opportunities, and threats facing their businesses (Brooks, Heffner & Henderson, 2014). A proper analysis as aforementioned, will help a founding entrepreneur to realize competitive advantages over his peers and to secure business sustainability in the near future (Brooks, *et al.*, 2014). The corporate planning tool: strengths, weaknesses, opportunities and threats (SWOT) have been explained by Albuquerque, *et al.* (2016) as follows:

- **Strengths and weaknesses:** These concepts refer to the internal features of a small business that the entrepreneur has some control over and may include the quality of the product produced or the nature of services offered. Good quality products or

exceptional services will go a long way to secure a client and, therefore, act as a trigger for sustainability (Albuquerque, *et al.*, 2016).

- Opportunities and threats: These concepts refer to what is happening outside of the business, that is in the larger market. Examples of these include, the prices of competitors, customers' shopping trends, suppliers' prices and government regulations (Albuquerque, *et al.*, 2016).

Albuquerque, *et al.* (2016) state that the lack of the implementation of the SWOT analysis in relation to marketing by small business owners usually acts as a barrier to their sustainability in the long run. There is no excuse for not marketing a business's products, because marketing can be informal, as well as formal, through 'word of mouth' for the smallest business structures (SMMEs) (Franco, *et al.*, 2014). Hence, small business owners should have marketing plans that will specify potentials for growth and sustainability, as well as possibilities for business success (Franco, *et al.*, 2014). Marketing plans play the role of helping the entrepreneur to identify target markets, determine proper prices and channels of sale or distribution and methods of advancement for their products or services in a competitive environment (Osiri, 2013). Owners or managers of small businesses should make use of prices as a marketing tool to assist them to have control over the cost of goods or services rendered by competitors (Felzensztein & Gimmon, 2014). This practice will enable them to fix a lower, but profitable price for their goods or services and, therefore, gain a higher portion of the market shares, as well as profitability and sustainability (Felzensztein & Gimmon, 2014).

In summary, the main function of marketing for a small business according to Weerawardena, (2003) is to obtain a reasonable and acceptable knowledge of the market, use this knowledge to create and offer distinct and quality products and services to prospective customers. According to her, SWOT can be applied by all business, no matter how small, and SWOT properly applied will be a great therapy for growth and sustainability and the reverse will result in business failure (Weerawardena, 2003). Osiri (2013) agrees with this assertion by affirming that embracing a marketing strategy is a step towards being on the offensive against the challenge of probable sales that confronts every small business during its infancy (Osiri, 2013). Table 2.8 below gives a visual perception of a marketing strategy as broken down through the SWOT analysis.

Table 2.8: Examples of strengths, weaknesses, opportunities, and threats (SWOT) of an SMME

Strengths	Weaknesses	Opportunities	Threats
Capabilities	People	Market trends	Political effects
Resources	Cash flow	Competitor	Aging population
Experience	Size	weaknesses	New technology
People	Quality	Export markets	Environmental
Finances	Leadership	Vertical integration	issues
Technology	Reputation	Horizontal markets	Low cost entrants
Innovation	Age of workforce	Partnerships	Substitutions
capabilities	Technical ability	Global developments	Legislative changes

According to Albuquerque, *et al.* (2016), the degree to which a small business implements the SWOT analysis is directly proportional to the lifespan of the entity. Effective marketing requires the entrepreneur to build a social network through which information will flow.

2.7.5 Human capital and social network

The entrepreneurship theory opines that for an entrepreneur or small business owner to be successful, he or she must be able to build solid social networks and human relationships (Say, 1855). This network will help the small business owner to detect new opportunities and properly coordinate them (Say, 1855). Another scholar adds that small business owners make use of communication skills to persuade the public to buy their products, services and endorse the vision for their businesses to remain sustainable (Omri & Frikha, 2015). Furthermore, social networking if properly used enables entrepreneurs to interact and connect with people from different geographical localities with the aim of nurturing business development, growth and sustainability of their ventures (Omri & Frikha, 2015).

The concept of a social network refers to the small business owner making use of social media by means of the internet in order connect to family members, 'mates' from school, neighbours, childhood and adulthood friends, as well as existing and potential clients. The internet includes platforms such as Facebook, LinkedIn, Twitter, Instagram, Classmates.com as well as WhatsApp. Hence, entrepreneurs make use of the above social network platforms to communicate with business associates and search for potential clients (Kavir, 2014). Most successful small business owners have attested that building relationships with their team

members, clients, suppliers, investors, creditors and associates through social networking platforms was one of the building blocks to the sustainability of their businesses (Song, 2015), hence, making social networking a crucial tool for aiding the entrepreneur to meet the challenge of growth and building a solid business network.

On the other hand, human capital refers to both tangible and intangible features founding entrepreneurs of small businesses use during their first year of operation and basically during or after start-up (Baptista, Karaoz & Mendonca, 2014). These features include the knowhow of the entrepreneurs or their initial employees, that they use to make their products or services stand out amongst existing entities in the same line of business, to give them a competitive advantage and presence in the market (Hargis & Bradley, 2011). The possession of start-up skills by the founding entrepreneur and initial employees are key for the sustainability of a business. Any errors committed at this stage may result in the business not being able to face challenges during the early stages and leading to its eventual closure (Hargis & Bradley, 2011). Hence the widening of an entrepreneur's social network and human capital at start-up could facilitate sustainability. Social media, however, goes hand-in-hand with modern technology.

2.7.6: Innovation and modern technology

In addition to the above themes, the entrepreneurship theory further states that an entrepreneur must be able to convert novel ideas into achievable innovations (Schumpeter, 1983). Amongst the many essential inherent attributes of an entrepreneur, innovation and creativity stand out (Drucker, 1994). Therefore, entrepreneurs should have the capacity to overlook opportunities that are not necessarily novel and focus on innovations in order to birth something new in a dynamic and ever-growing environment (Senyard, Baker, Steffens & Davidson, 2014). Innovation is a very essential accompaniment to marketing through public advertising, raising funds, information technology (IT) and product diversification (Omri & Frikha, 2015). Innovation is, thus, very crucial for business start-up and sustenance at infancy and throughout the lifetime of the business. The world currently is experiencing an information age, during which the effective use of technology is vital for the global economy. For any small business to be able to remain competitive, innovation should be at the forefront of their business plan in order to secure sustainability (Hayter, 2013).

According to Wang, Kitvorametha and Wang, (2014), a small business that thrives in technological innovation will successfully attain advanced levels of economic growth, produce new products and exceptional services. However, most small businesses that struggled or paid little attention to innovation and technological advancement either stagnated or failed during their first few years of existence (Wang, *et al.*, 2014). Contemporary business is highly dependent on technology because payments are made electronically, as are other transactions such as sourcing new business, communicating with associates, holding meetings, marketing and even making sales to a certain extent (Hayter, 2013). Hence, the success, online presence and sustainability of a SMME is almost completely dependent upon its level of technological advancement. Any contemporary small business that does not operate at an acceptable level in technology and innovation is, therefore, on a collision course for disaster and its chances of sustainability and growth are bleak (Quero & Ventura, 2015).

2.7.7 State support and responsibility to the society

According to Schumpeter (1983), the entrepreneurship theory asserts that entrepreneurs are the core drivers of economic growth and the creation of social values in a nation. Upholding and creating social values are, therefore, the responsibility of the entrepreneur towards a government and its people (Schumpeter, 1983). Hence, entrepreneurial social responsibility stands out as a key factor for ensuring business sustainability (Andre & Pache, 2016). SMMEs start-ups are a spur for a nation's economic and social growth (Omar, 2014). Successful businesses, therefore, should not have a singular view which is that of profitability, all businesses must strive to strike the balance between regular commerce and the advancement of their social responsibility towards the state (Andre & Pache, 2016).

As a result, most government policies tend to encourage the financing of small businesses through their law makers (Wonglimpiyarat, 2015). The major issue at this point is whether or not government plays its role actively in terms of empowering SMMEs through policies and financing. Most small business that have failed at infancy were once confronted with the challenge of financing their business plan. Hence, many of the innovative ideas of entrepreneurs have never been materialised or were materialised for a few years and then vanished (Wonglimpiyarat, 2015). Generally, small businesses that benefit from government funding and support stand a greater chance of becoming sustainable than those that do not receive such help.

In summary, the above themes are basically the findings from the research studies academic have carried out. They are not conclusive in themselves in the sense that different scholars arrived at their findings after carrying out their studies under different circumstances and geographical locations. The next section will dwell more on researchers' beliefs and agreements arrived at based upon their scientific studies.

2.8 A critical evaluation of previous studies on the challenges to the sustainability of small businesses

The literature and paradigms discussed above point to the fact that any theory that predicts the lack of sustainability of a small business is based on some assumptions, or events that happened prior to the business completely closing, hence causality. Some of these assumptions include age, gender, race, place and other circumstance and these concepts are not sufficient to draw conclusions regarding the lack of sustainability of small businesses. For example, *Positivist or Determinists* elucidations mostly involve the explanation of events instead of the explanation of mechanisms and structures that causally produce the phenomena being observed (Danermark, *et al.*, 2006). In this regard, this study seeks to go beyond seemingly deterministic and positivist quantitative methods whereby there are specific 'X's' and 'Ys' aimed at and, instead, bring in the real meanings to situations and also value judgements to the X's (Danermark, *et al.*, 2006). Furthermore, positivistic theorists are of the viewpoint that an external object (social phenomenon) that an agent (founding entrepreneur or new business owner) has no control over issues that confront the agent, thus, resulting in the downfall of the business (Mouton, 1994).

Conversely, instead of holding such a closed viewpoint, contemporary scholars are of the viewpoint that social phenomenon faced by small businesses are events that built up based on different aspects. These aspects include the perceptions held by the business owners, the leadership styles in the different business ventures, perceptions held by other related parties to the business which can change suddenly to affect the future of the business adversely (Denemark, *et al*, 2006). Hence contemporary researchers have a viewpoint that is contrary to the closed ended view of the positivists whereby just age or size or race could result in the extinction of a small business, hence completely disagreeing with the 'one-size-fits-all' view (Denemark, *et al*, 2006).

As previously mentioned, attempting to explain an event based on a specific human perception is only one of the features of the critical realist notion (Clover & Darrock, 2005). Further research has found that to understand the causes of SMMEs' lack of sustainability or complete failure, it is necessary to make use of value judgement (Ekanem, 2010). Making use of critical value judgement will act as a spur for providing valuable information that small business owners could use to formulate and implement pertinent policies, education curriculums and specific plans of action to make more small businesses sustainable (Ekanem, 2010). However, this does not mean that in seeking to understand and analyse the challenges to the sustainability and failure of small business, one cannot draw ideas from the perception of critical realists (Seshadri, 2007). These challenges include the meanings and interpretation of the events that happen to small business owners leading to the complete closure of their businesses at infancy, as this knowledge could help prevent the failure of other small businesses (Danermark, *et al.*, 2006).

Looking at the above discussion, critical realists hold an open-ended value-judgement-based notion that will form the basis to be employed during this study.

2.10 Conclusion

This chapter started by defining the nature of small businesses (SMMEs), as well as their importance within an economy. Furthermore, it stated the fact that SMMEs in every nation face challenges daily that often act as a threat to their sustainability and in most cases premature extinction. The chapter further investigated the historical background of SMMEs in South Africa as a nation, from pre-apartheid to post-apartheid eras. In the process of looking into the challenges encountered daily by small businesses, SMME are clearly defined in the South African context while looking at the statistical summary and trends that led to the closure of SMMEs becoming a cause for concern.

Attention at this point was turned to some theories of small business failure, introducing these with the famous quote of John Maynard Keynes which states that "In the long run we are all dead". This section focused on theories such as the liability of newness that dates back to 1965, showing the split between the internal and external liabilities (Stinchcombe, 1965). Further theories such as cognitive biases and human capital were also discussed.

Subsequently, some themes as investigated and agreed upon by previous researchers were analysed. These included the entrepreneurship physiognomies as defined by Schumpeter, (1983) expanding upon the inherent characteristics of an entrepreneur. The other dominant

themes were level of education and management skills, knowledge of financial matters and planning, marketing and competition, human capital and social network, innovation and modern technology and finally state support and the responsibility of the small business owner/managers towards the wider society and not necessarily only to their clients.

The chapter ended with a critical evaluation of previous studies on the challenges threatening the sustainability of small businesses. At this point, the researcher realised that the positivist model that has been used by previous researchers to deal with the issue of lack of sustainability could have a short coming. Therefore, this study will make use of the critical judgement approach as propounded by researchers who are critical of the positivistic approach to business management research. The next chapter to this study will look at the methodology that will be employed in this study.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Creswell (2013) states that research methodology encompasses the data collection and analysis process that leads to the accomplishment of the aim of the study. Methodology, therefore, includes the theoretical set-up of the entire research process that leads to the result. This section of Chapter 3 will discuss the collection and analysis of the qualitative data used during the study. Qualitative data analysis refers to a method of empirical investigation aimed at gathering meaningful information (Creswell, 2013). Hence this section will investigate the research design and method that was employed during the study. Furthermore, it will examine the sample population, data collection, reliability and validity of the research test instrument, data analysis, as well as the delimitation and limitation of the study

3.2 Research design

The research design constitutes the layout of how the study will be conducted. In this research project a case study approach will be used because the subject of this investigation could vary from one entrepreneur to another. According to Yin (1984:13):

Case study research approach is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

The principal causes of failure in SMMEs could vary from one individual business to another based upon their different circumstances. Therefore, the researcher has decided to employ the case study approach in order to reduce the issue into researchable units and specified boundaries. This practice is appropriate since the researcher wishes to analyse each participant case-by-case to better understand the individual settings (Yin, 2009, 2012).

3.3 Research methods

According to Babbie and Mouton (2001), qualitative research is a process of naturalistic inquiry that seeks an in-depth understanding of social phenomena within their natural setting. Hence, qualitative research focuses on the “why” rather than the “what” of the social

phenomena and completely relies on the direct or actual experiences of human beings in their daily lives and tries to make sense of these (Babbie & Mouton, 2001; Creswell, 2014). The challenges faced by different business owners that caused their business to fail may vary from one entrepreneur to another, taking into consideration their culture, background, race, religious belief, as well as nationality. These differences, therefore, make the qualitative method a perfect fit for this research study, because it will provide tools that allow the researcher to have direct contact with the respondents and to listen to their experiences, based upon their individual circumstances, before arriving at a conclusion (Creswell, 2014).

3.4 Research population of the study

In this study, the population covered all SMMEs within the Cape Metropolis, with a focus upon those that are owner-managed and that were either not sustainable or closed down. The sample for this study comprised 20 respondents (10 male and 10 female), who are owner/managers of SMMEs within the Cape Metropolis that were either not sustainable or no longer operating. According to Creswell (2014:239) the sample size in the qualitative research method is usually dependent upon the type of research design to be adopted, therefore, in a case study approach, a sample size of between four to five cases is adjudged to be adequate for a study (Creswell, 2013:2014). Information and contact details of these SMME owner/managers were obtained from the following sources:

- 1) Department of Trade and Industry in Cape Town: The researcher requested a list of all owner-managed SMMEs within the Cape Metropolis that were not sustainable and had ceased operations between 2016 and 2018.
- 2) BDO South Africa: BDO South Africa is the leading mid-tier professional services firm in South Africa. BDO was approached to obtain a list of their former clients who were owner-managed SMMEs within the Cape Metropolis that were not sustainable and had ceased operations between 2016 and 2018.

3.5 Sampling method

Neuman (2011) described a sample as a portion of the entire population within a study area. The consideration of aspects such as money, time and restrictions may serve as a limiting factor, making it impossible to collect data from the entire study population (Saunders, Lewis

& Thornhill, 2016). To overcome this problem, sampling becomes important to help select a subset of the population that will be included in the study for the purpose of collecting data from the available cases.

Hence, for the purposes of this research project, from the lists of potential study participants obtained above, the researcher used the purposive sampling method to select 20 (10 male and 10 female) respondents who are owner/managers of SMMEs that were not sustainable and had ceased operations between 2016 and 2018. These individuals were approached and interviewed via direct phone calls, Zoom, Microsoft teams and/or WhatsApp calls, depending on the medium that was comfortable for each participant.

3.6 Research design

This study employed the qualitative research method and, therefore, the data collection included a qualitative instrument. The study made use of an interview guide that comprised the questions the researcher asked the research participants.

An interview is a data collection method that involves oral questioning of respondents (Babbie & Mouton, 2001). The answers to the questions posed during the interview were tape-recorded and, in some cases, also written down. 20 owner/managers of SMME were interviewed, these are owner/managers whose businesses had closed down within the first five years from the operation's starting date. The challenges that caused the non-sustainability of these SMMEs could be significantly different for each respondent and, hence, the interviewer used open-ended questions in order to cope with this situation and, thus, obtain sufficient data for the study. According to Creswell (2014: 7) "the more open-ended the questioning, the better, as the researcher listens carefully to what people say or do in their life settings". The interview guide took into consideration both the demographics and causes for the SMMEs' not being sustainable. An entirely new interview guide was developed for this study, because the aims and objectives of this research project are entirely different from what other researchers have examined previously in regard to this research topic.

3.5 Data collection/field work

Fieldwork is the process of conducting interviews with the respondents to collect relevant data for the study (Job, Day & Smyth, 1999). Data collection for this study was conducted via direct phone calls, Zoom, Microsoft teams and WhatsApp calls with the selected respondents who were either employed managers or owner/managers of the identified businesses within the Cape Metropolis that were not sustainable. This practice allowed the researcher to have a better grasp of the different aspects that had resulted in the non-sustainability of SMMEs in South Africa. A formal letter was sent to the selected respondents informing them that they had been chosen to take part in the study, this letter also included an explanation regarding the goal of the study and requesting their agreement to participate in the study. An interview guide was formulated with based in literature read and linked to the research questions.

3.8 Data coding and analysis

In order to analyse the collected data, the researcher firstly assembled all the recordings and manual notes made during the telephonic interviews. Secondly, he listened sequentially to all the interview recordings and then systematically transcribed the interviews in word format. After completing these first two steps, he analysed the data via the following manual data analysis process recommended by Creswell (2003).

- The researcher familiarised himself with the data by carefully reading the data contained in the transcripts and jotting down relevant ideas as they came to mind.
- The researcher then randomly chose the transcripts for closer examination by underlining meaningful information and thought patterns and determining the relevance of this information in terms of the research question.
- After the above practice was completed on all the transcripts, a list of themes was then compiled from the acquired information. The themes that were drawn from the data were clustered into columns labelled themes and emergent themes.
- The researcher then re-visited the data, taking into account the themes that were drawn from the data. Abbreviations of the themes were made through coding.

- Next the researcher created descriptive headings for the themes by combining them into categories and formulating abbreviations for these categories.
- All the collected information was then placed under main and emergent themes.
- Finally, the researcher recorded the research findings and supported them with direct quotes from the interviews, as well as comments from the reviewed academic literature delineated in Chapter 2 of this study.

3.9 Reliability and validity of instruments

Reliability refers to the extent to which a particular variable or a group of variables are consistent in relation to the issue they are intended to measure (Mohamad, Sulaiman, Sern, & Salleh, 2015). According to Mohamad *et al.* (2015), if a multiplicity of measures is utilised within a research study, the most reliable ones will end up being consistent with their values. The difference between reliability and validity is that reliability does not relate to the item that is to be measured, but rather indicates how the item should be measured (Heale & Twycross, 2015). However, reliability is considered as significant proof of validity, being that validity refers to the quality, logical or factual soundness of data (Heale & Twycross, 2015). The following concepts were considered in this study when assessing the reliability and validity of the data collection instruments:

3.9.1 Consistency

The same questions were posed to all the participants, making it possible to secure consistency in the researcher's approach to each participant. In some instances, sub-questions that arose as a result of the participants' response to the main question were posed. The researcher ensured this practice was consistent throughout all the interviews he conducted.

3.9.2 Practicality

The measure utilised in this study met the test of practicality because the researcher made use of cost effective and conveniently attainable methods to carry out the interviews and analyse the responses.

3.10 Ethical Consideration:

Ethics is the practice of ensuring that the process of conducting research gives due consideration for integrity and trustworthiness of the data and outcome of a study and that it will not cause harm to the stakeholders involved during the conducting of a study (Resnik, 2015). Hence, issues of ethics were given optimum consideration throughout this study.

Prior to conducting the study, ethical documents were submitted for approval to the ethics committee of the Faculty of Business and Management Sciences at the Cape Peninsula University of Technology. In addition, to these ethics documents, an informed consent letter was developed and given to participants to sign in order to confirm that they understood how the study will impact them and that they were free to withdraw their participation at any time during the study, and had given their consent to participate voluntarily in the study based upon these terms.

Furthermore, the researcher ensured that data collected from participants was handled with full confidentiality and that, if published, the information they provided would not be identifiable or easily linked to any of them and that no third party would have access to the collected data.

3.11 Delimitation of research

The delimitation of a study refers to the scope that the study seeks to explain (Fouché & Delpont, 2006). Delimitation includes the range throughout which the research area explores, including the specific parameters that encircled the research scope. Even though there are thousands of SMMEs within the Cape Metropol that faced similar challenges that led to their closing down, due to the time frame allowed for this study, only 20 participants were interviewed. The issue of SMME failure is a national problem for South Africa, however, due to time and financial restrains, the researcher opted to focus on the Cape Metropol only. He believed the interviews would have been more effective if they had been conducted done on a face-to-face bases, however, due to problem of global COVID-19 pandemic, he was forced to resort to phone interviews. In summary, the above information delineates the scope encompassing this study.

3.12 Limitation of the research

Even though research should and can be very well planned, numerous potential limitations are often present in every study (Fouché & Delpont, 2006). Some of the potential limitations of this research project include the following:

- The research aims at addressing an issue that plagues the entire South African economy, but all study respondents would be drawn solely from within the Cape Metropolis. Hence, there could be certain facts from other provinces that could cause failure of small businesses that might be omitted. In this case, the researcher will have to rely on the information provided by the respondents and then produce a generalisation.
- The researcher will have to rely on the information provided by the respondents despite the fact that some of their answers may not be objective, particularly if the principal cause of the SMMEs' the failure was of their own doing.
- Some respondents may be difficult to find, due to their phone numbers having changed after the closure of their businesses. In this case, the researcher will have to select other respondents from the population.
- Some of the respondents may not want to talk to a researcher, with the pretext that the police or a creditor could be investigating them. The researcher will have to reassure the participant that the interview process is purely for academic purposes and, thus, strictly confidential.

3.13 Research paradigm

In social research, every researcher has his or her own perception of what he/she considers knowledge and truth. These perceptions, therefore, guide researchers' ways of thinking, beliefs and the assumptions that they have vis a vis the world around them as well as about themselves, and, thus, frame their view of society (Schandt, 2001). The perception held and accepted by a researcher as 'knowledge' and 'truth' represents what a social scientist calls a research paradigm (Schandt, 2001). The following are a few common paradigms that scholars have employed in research over the past years.

3.13.1 Positivism paradigm

The word 'positivism' originated from the work of Auguste Comte (**1848**). He used this term to echo a firm empirical method whereby all views regarding what is considered as knowledge should be strictly founded on experience, while laying emphasis on actualities and the basis of what triggered a specific action or behaviour (cause and effect) (Bogdan & Biklen, 2003). Positivism strongly advocates that the only means through which an entity or idea can be accepted as true is by testing it through a scientific method. Positivism is also claims that only a scientific method can help ascertain objective reality. According to positivism, this paradigm employs the similar (and, thus the best) procedures, practices and processes that natural science employs to investigate phenomena in the social world.

3.13.2 Interpretivist paradigm

The interpretive methodology on the other hand requires that:

In order to understand a social phenomenon, the phenomenon has to be interpreted based on the views of the participants and not based on the views of the researcher” (Cohen, *et al.*, 2007:21).

According to interpretists, the concepts of truth and reality pose the same characteristics, namely both concepts cannot be discovered, they must be formed. Interpretists are also of a strong opinion that it is impossible to discern or perceive reality. According to interpretists, reality can only be perceived through the meditation of the human senses, a process that varies from one individual to another. Hence, the interpretive epistemology is subjective to the individual in question. Interpretists believe that it is impossible for an observer to understand reality directly without contaminating the facts through their own personal views, opinions, impressions and experiences (Flick, 2004:89). For the purposes of this study, the interpretist paradigm was employed.

3.11 Summary and conclusion of chapter

In this chapter, the design that was utilised during this study was explored. Furthermore, the chapter investigated the research method, stated the ethical considerations, the study's population as well as the method used to obtain the sample size. In addition to the above, the data collection instrument was discussed, and its reliability and validity stated, together with the delimitation and limitations of the study. Finally, the chapter discussed the process for data collection as well as how it was analysed, a summary of which will be presented in the next chapter.

CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

The principal aim of qualitative research is to collect relevant data, analyse the data in order to support the conceptual framework of a study (Silverman, 2013). In addition to the data collection is the coding of the data, discovering the results of the data analysis and finally identifying themes that will be organised into main and sub-themes with the aim to further buttress and study the phenomenon being researched (Silverman, 2013). Davidson, Paulus and Jackson (2016) are also of the opinion that data analysis includes examining and interpreting the data collected during the research process. The examination of the data guides the researcher towards identifying themes that lead to answering the principal research questions, as well as the existing concepts (Davidson, *et al.*, 2016). In addition to answering the questions pertaining to existing concepts, qualitative research also aims to examine, explore and discover a novel perceptive relating to the phenomena under investigation (Morse, 2015).

Hence, the aim of Chapter 4 is to present and discuss the principal findings of this research study. These findings will be presented in the form of themes and sub-themes that emerged during the data analysis and discussion.

The principal research question pertaining to this study was 'What are the challenges to the sustainability of SMMEs in the Cape Metropolis?' To answer this question, a qualitative research method was adopted from a retrospective perspective in order to explore and provide a clear perception of the research question. As mentioned earlier, comprehensive interviews were conducted with the participants and recorded with their permission and later these interviews were transcribed verbatim. The interview guide contained 15 open-ended questions (see Appendix 1 below). The participants were all former SMME owner/managers within the Cape Metropolis. Out of the 14 interviews undertaken, 11 were conducted via WhatsApp calls, 2 via direct phone calls and 1 was completed face-to-face with all COVID-19 protocols adhered to because it was undertaken during the heart of the nation's lockdown. In order to ensure the confidentiality and anonymity of the participants, as well as their businesses, the research opted to identify each participant with a specific alpha-numeric code, such as PCT-1, PCT-2 and PCT-3, based on the order in which the interviews were conducted and the data collected and analysed.

Since this study is focused on businesses that no longer exist, the data obtained for the research is historical in nature. Hence the reason for making use of the retrospective or historical method of data collection. According to Johnson and Christensen (2004:346), an identified dependent variable is a researcher's starting point in any retrospective research. From the identified dependent variable, the researcher moves back in time to locate other variables and information that directly relate to the dependent variable (Johnson & Christensen, 2004). In this research, the dependent variable is the participant (former owner/manager of the small business) and the other variables include the information that the participant will be able to provide to the researcher from as far back a period as they can remember. Therefore, the questionnaire was designed to include retrospective open-ended questions whereby the participants were required to answer questions pertaining to events that occurred during their past lives.

One of the major challenges the research faced during this data collection process was to secure an appointment with the participants. This process extended over more than two months due to the fact that the prospective participants had to consider discussing the inability of their business to remain sustainable with a complete 'stranger', hence resulting in a significant slowing down of the data collection process and the subsequent analysis conducted during this study. Out of the 20 participants approached, only 14 finally accepted to participate in the study, after the dissemination of several reminders to secure interview appointments. After all the interviews, as mentioned above, the researcher listened to the recordings several times and transcribed the interviews into word format.

With the use of the qualitative retrospective study design, I was able to understand the phenomena, the experiences and stories of the participants as described by Biezen, Ljungman, Oneto, Polge, Carmen, Elvira, Scholten and Witte (2015). According to Biezen, *et al.* (2015), a retrospective study is a project that is carried out posteriori, meaning that the information the researcher uses is based on past events, namely the information provided by the participants regarding their experiences that resulted in the non-sustainability of their small businesses. From the historical information received from the participants, the researcher was able to analyse and draw conclusions. In order to mitigate one of the key disadvantages of qualitative research, which is that of the researcher's bias, this study employed an interview protocol recommended by Harvey (2015) that involved 'participant checking' during the process of data collection and sensemaking. Participant checking as explained by Kolelsch (2013) helps the researcher to clarify the meaning of each research

participant's responses. Hence, participant checking helped this researcher to clarify and give proper meaning to each participant's account of the events that led to the unsustainability of their business. On the other hand, researchers also make use of sensemaking as a tool to help explain an identified phenomenon, analyse and interpret that phenomenon based on the study's context (Paull, Boudville & Sitlington, 2013). Furthermore, this study employed the triangulation approach during the data analysis process to lend credibility to the validity and reliability of the data. Official government documents and business websites were key sources for the triangulation data used during this study, in addition to the interviews carried out during the study.

For the purposes of the study, 14 former small business owner/managers formed the core of participants who accepted to be partake in the research. Table 4.1 below lists the demographic characteristics of the different participants.

Demography of participants: Table 4.1

Participant code	Race	Sex	Nature of business
PCT-1	White	Male	Photography
PCT-2	Coloured	Male	Tourism (Accommodation)
PCT-3	White	Male	Organic cosmetics
PCT-4	White	Male	Signage
PCT-5	White	Male	Tourism (Accommodation)
PCT-6	Indian	Female	Manufacturing (Batteries)
PCT-7	White	Male	Clothing
PCT-8	Black	Male	Manufacturing (Construction)
PCT-9	Black	Male	Construction
PCT-10	Black	Male	Construction
PCT-11	Black	Male	Cleaning Services
PCT-12	Indian	Female	Coffee shop/Restaurant
PCT-13	Black	Male	Transportation
PCT-14	Black	Male	Vending machines
PCT-15	Black	Male	Pie Franchise

Table 4.2: Replies received from the entrepreneurs contacted

Entrepreneurs (Business owners)	Number of responses received	Percentage
Number of participants who accepted to participate	14	41.18
Number of participants who refused to participate	8	23.53
Number of participants who ignored my messages/calls	12	35.29
Total number of participants contacted	34	100

After computing the statistics above, the themes were formed based on their frequency using the word dominant theme.

4.2 Data Analysis

4.2.1 Dominant Theme 1: Managerial skills and training in the specific business venture

The entrepreneurship conceptual framework requires that entrepreneurs or business owners possess the managerial skills and the ability to create jobs and productivity in the business environment (Say, 1855; Wani, 2018). Hence, Lin and Nabergoj (2014) are of the opinion that there is a great necessity for emphasis to be laid on a well-organized educational structure that possesses the ability of tapping the essential entrepreneurial skills required for problem solving and running a sustainable venture. This practice is essential because according to Lin and Nabergoj (2014), entrepreneurial skills, such as self-confidence, teamwork, risk taking, critical thinking, communication, business vision, staff recruitment and staff empowerment and problem solving are not inherent. The above thinking is in contrast with the opinions of Saeed and Wasti (2016) who state that the skills of an entrepreneur are inborn, thus making an entrepreneur invincible to challenges that affect business sustainability. However, absence of training and skills has been the downfall of many SMMEs and hampered their capacity to face the challenges preventing their sustainability (Lin & Nabergoj, 2014).

After the interviews with the participants, his researcher found that in the opinion of the participating entrepreneurs, the lack of appropriate managerial skills was one of the major and recurring problems that affected the sustainability of their businesses. **PCT-1** had owned and managed a small photography business. Even though PCT-1 had over 12 years of working in a larger photography business and had held a leadership role, PCT-1's work focused mainly on the technical part of the business and not on the daily operations of the business. Although the participant's business employed between 60 to 70 employees, PCT-1 confessed neither him nor his co-owner had any formal management or leadership training to employ in the operation of their business. Furthermore PCT-1 stated that it would have been necessary to have a specific management style, because there was no human resource department to assist with people management.

PCT-4 was the former owner of a small business that had focused on signage and branding. He was inspired to start the business in South Africa after travelling overseas and witnessing a new method of branding. He started the business alone whereby he carried out both the

work and managed the business records. However, in just a short period, the business had employed a total of 16 staff members. Being a professional in the designing of billboards and signage who also wanted personally to manage his growing business, he quickly realised his shortcomings in management skills. He stated as follows:

“I never studied business, I never studied economics, I never had any experience in running this kind of business. I have no understanding of managing people and complying with Broad-based Black Economic Empowerment (BBBEE) regulations. I therefore got myself into a lot of crises with some of my employees and had no specific managerial skills or knowledge on how to deal with this.”

The aforementioned scenario links closely with the assertion of Lin and Nabergoj (2014) that the absence of formal training and skills has been the downfall of many SMMEs because it hampered their ability to manage crises situations that arose in the business.

PCT-8 was the owner of a lucrative brick manufacturing business. This business was owned by PCT-8 and two co-owners, none of whom had any formal training in management or running a business of that nature. Only one person in the trio had some formal training in manufacturing bricks. His shareholding in the business was, therefore, his skills, meanwhile the PCT-8 and the other member brought in the cash component of the business's running capital. PCT-8 added that the business later employed 6 other staff members making it a number of 9 people in the business. Quoting PCT-8:

“There was no specific line of management and reporting. I had owned a human resource business before but had no experience in running or managing a construction business. I was new to this kind of business and only got into it because I saw the need.”

According to Chilya and Roberts-Lombard (2012), if the entrepreneur lacks the specific management skills or resourcefulness as far as a specific business is concerned, the business will not be sustainable and is doomed for failure.

PCT-12 was the sole owner of a specialised restaurant that also included a coffee-on-the-go shop on the side. PCT-12 had a passion for the kitchen and, as a housewife, from time-to-time earned some income through assisting with catering for functions that needed home-made specialised dishes. PCT-12's passion for the kitchen soon resulted to PCT-12 owning a formal restaurant at a shopping centre in Cape Town. The business soon grew and had over

5 employees, excluding PCT-12 and her relative who were the managers of the business.

Quoting PCT-12:

“Apart from my over 20 years of doing catering from home as an individual, I have never had any formal training on how to operate a formal restaurant. Even though I had a good relationship with my employees, I had no experience or training in managing people as ‘employees’ of mine. I only realised when I was in the business that home catering is totally different from operating a restaurant at a semi-large scale and facing the wider public.”

The above comments once again support to the assertion that should the entrepreneur lack the necessary management skills or resourcefulness required for the specific business, the business is on a collision course and is bound to be unsustainable (Chilya & Roberts-Lombard, 2012).

PCT-14 was the sole-proprietor of a small business that involved the running of several vending machines across the city of Cape Town. These vending machines were positioned in hospitals, tertiary academic institutions and other targeted residential areas as spotted by the owner. The owner of this business held a Master’s degree that was unrelated to any business field and also holds many other higher diplomas in other fields of study. PCT-14 started this business with the objective of increasing his portfolio of businesses within the city of Cape Town. Even though PCT-14 owned other very successful businesses, PCT-14 confessed that this particular business of vending machines required more than just experience in running other unrelated businesses. PCT-14 stated that:

“I did not have sufficient management skills to venture into this business. I did not realise that managing a business where you get the opportunity to speak to the customers is very different from managing a business where you have no contact whatsoever with the customers. The business was literally running on its own as the only contact point for the clients was the vending machine. Vending machines do not speak and cannot interact with the customers, vending machines do not worry about customer satisfaction. This business required very specialised management skills and not just some generalised management strategy. I must say that at the time I got into that business; I was completely unskilled to venture into that line of business.”

The words of the business owner quoted above reiterate the importance of specific management related training and skills. Qureshi, Saeed and Wasti (2016) opines that

entrepreneurs need specific skills and directional education programmes that will help empower them with managerial competencies that are specific to their line of business. Even though PCT-14 was well experienced in terms of managing the other businesses that he owned, he had no experience and skill in managing and operating a vending machine business.

The above discussed leads to the next theme which is very closely connected to the entrepreneur's level of education and managerial skills.

4.2.2: Theme 2 Marketing Strategies and identification of target market.

Marketing strategies help entrepreneurs to identify target markets suitable for their business, fix suitable prices to their goods or services, identify channels of sale or distribution and methods of advancement for their products or services in a competitive environment (Osiri, 2013). Marketing strategies for every small business is aimed at obtaining reasonable and acceptable knowledge of the market or area in which the business will operate, and then using this knowledge to create and offer distinct and quality products and services to prospective customers (Weerawardena, 2003). The absence of implementing a proper marketing strategy and identifying a suitable target market for a business during the start-up stage is a recipe for eventual business failure (Samli, 2012). Identifying the target market could be a tedious process because it may involve extensive market research and decision-making in terms of cultural characteristics, extent of the targeted area, its level of sophistication and safety, consumers' race, behaviour, and tastes (Samli, 2012). As a result of the effort, time, skills involved in mastering the cumbersome nature of marketing and identifying a suitable market for an entry business, many entrepreneurs tend to use their entrepreneurial instinct in order to skip what they consider to be a 'tedious marketing process' (Samli, 2012). From discussions with this study's participants, the following facts were revealed:

The business of **PCT-1** was in a relatively secluded area within the Cape Metropolis. The area being the home to one of Cape Town's the universities. PCT-1 operated a business that was a necessity to the university and, therefore, the institution became its major client. As a result of having the monopoly of the university community, which formed a significant portion of the population in that area, PCT-1 did not regard the marketing of the business as a major

concern for ensuring the sustainability of the business. During my discussion with PCT-1, the participant made the following remarks:

“I did not really focus on marketing since I had the university as my main customer during every graduation ceremony. We did very limited marketing, from time to time we printed out small flyers and attached them to the pictures that the students or parents ordered for. We relied on the parents to pass out the flyers to the next person as a marketing tool. We did no advert over the radio, no advert over the television, no advert over the internet. We tried advertising over the radio once, and it was so expensive for us to continue doing so we never advertised over the radio again since we really did not see the change that the advert brought to our business. Our marketing was limited to the community papers which costed us very little or nothing.”

The community mentioned above refers to a very small and very secluded community i.e. that of a specific university. In summary, the business was involved in no marketing processes that could sustain it and yield new clients. Hence the loss of the largest and most reliable client (the university) would result to the winding up of the business. Hence, as predicted by Osiri (2013) no marketing resulted in very limited advancement of the business that led to a regression and eventual closure of the SMME.

According to **PCT-3**, the business never did not engage in any form of organised marketing research or marketing. PCT-3 stated as follows:

“Our only mode of marketing was mostly on social media. From time to time, we made use of Facebook, Instagram, Twitter, WhatsApp and other platforms to market our products.”

Organic products are mostly used by a certain cluster of people who are on a diet, a doctor's recommendations, or personal commitment to healthy living, thus, making the clientele for organic products relatively limited (Besawada & Pauwels, 2013). This situation, therefore, stresses the importance of organised and targeted marketing whereby the seller can find potential clients who are in need of specific products (Besawada & Pauwels, 2013). Hence, focusing on general social media marketing was a shortcoming for PCT-3. As stated by Samli (2012), the absence of a proper marketing strategy that will help to identify a suitable target market for a business is a recipe for lack of sustainability and, subsequent, for many small businesses.

PCT-4 stated that he was only skilful in the production of professionally made signages and bands. He made it very clear that he had no formal learning in any form of business studies of marketing and, therefore, the existence and growth of PCT-4's business relied completely on 'word-of-mouth (WOM) marketing.' PCT-4 relied on the fact that 'a good word' from a satisfied customer will act as the marketing tool for the business. To transform the current consumers of a product into effective vehicles for marketing, necessity is laid upon a company to outperform its competitors who produce similar products in order to be able to earn the attributes that comprise the fundamental potentials for WOM marketing (Bughin, Doogan & Vetvik, 2010). According to Bughin, *et al.*, 2010), the beginning point for a proper understanding, managing and implementing of WOM marketing is the dimension of the equity of the product of service category: this concept includes the 'who', 'what' or 'where'. WOM marketing can be very complex because it involves communal relationships, as well as exceptional client services, hence, the absence of these phenomena will often result in negative WOM marketing that will contribute to the failure of the business rather than to its sustainability (Kosinets, De Valck, Wojnicki & Wilner, 2010).

PCT-7 was the owner of a clothing company that specialised in the production of ladies' cocktail clothing, in other words, specialised 'party dresses'. PCT-7 was a specialist in clothing manufacturing but had no formal training in any form of management or marketing. During the researcher's discussion with PCT-7, the participant stated that the business had no need for marketing because it already had trusted clients. According to PCT-7, the company was satisfied with its WPM marketing from its existing clientele. However, Kosinets, *et al.* (2010) are of the opinion that WOM marketing supposes 'a good word' from a satisfied customer to a third party. However, if that third party's supplier provides a better version of the same product or service, there will be no need for a change. WOM marketing can be complex because it involves exceptional client services which many SMMEs struggle to attain (Bughin, 2010). Hence the absence of an effective and well-coordinated marketing system eventually will result in the lack of business sustainability (Samli, 2012).

PCT 8' business was owned by PCT-8 and two co-owners, none of whom had any formal training in management or running a business of that nature. PCT-8 stated that marketing was not an integral part of their business strategy. Quoting PCT-8's words:

“The only marketing we did for the business was on Facebook, and from time-to-time printed flyers and distributed [them] in the community. I will rate our marketing 5 on 10.”

As stated by per PCT-8 above, the business also relied on uncoordinated WOM marketing which has proven to be ineffective if not properly understood and implemented as stated previously by Samli (2012).

PCT-9 asserted that the business engaged in no form of marketing, not even on social media which generally could be conducted without charge. PCT-9 explained that in the construction industry, sub-contractors only market themselves through physical contact at a building site where they have the opportunity to discuss their portfolio with the management of the larger construction company.

Two types of ‘touch’ or ‘physical’ contact related properties of product or services have been distinguished (Helena, Kim & Malaika, 2017). The first relates to the diagnostic nature of the product which refers to the shape, size, colour, weight and other diagnostic characteristics of the product, also known as ‘*geometric properties*’ (Helena, *et al.*, 2017). However, the aforementioned ‘*geometric properties*’ can be comfortably communicated in words via phone calls, on a website or other marketing means that are more flexible and will reach a wider number of potential clients (Helena, *et al.*, 2017). The second is ‘*material properties*’ which relate to the physical evaluation of certain categories of goods and includes for example softness, smoothness, weight, texture as well as temperature (Helena, *et al.*, 2017). When considering both the requirements and description of physical contact marketing, this process can be undertaken within a wider scale if the sub-contractor opts for an online system of marketing. Furthermore, the red tape that accompanies physical contact can be avoided. The absence of an effective and well-coordinated marketing strategy eventually will result in a lack of business sustainability (Samli, 2012).

PCT-10 shared the same predicament as PCT-9 and both of them offered the same responses regarding their marketing strategy and, hence, both of their businesses shared a similar demise.

PCT-12 had neither formal nor informal marketing skills and affirmed that marketing was not one of the main focuses of the business. According to PCT-12, because the business was a restaurant that specialised in Indian food, ‘lovers’ of Indian dishes will find it wherever it was located, therefore no marketing was needed. Quoting PCT-12:

“Our only marketing tool was the billboard by the roadside, the local community newspaper from time to time and word-of-mouth.”

PCT-12 had no knowledge of the market related SWOT analysis. Albuquerque *et al.* (2016), are of the opinion that not implementing a SWOT analysis in relation to marketing by small business owners will act as a barrier to their sustainability and could result in the business closing during its infancy.

PCT-13 said that the most relied upon mode of marketing that the business utilised was *“sticking of posters on the vehicles used by the driving school”*. The business made use of social media platforms such as WhatsApp and Facebook as well as flyers and posters in local shops within the neighbourhood. However, PCT-13 never took time to evaluate if these methods of marketing were incubators for the growth of the business. According to PCT-13, the business did not need or have any formal marketing because owning a driving licence is a need, thus, clients or driving students will look for driving schools.

However, Franco, *et al.* (2014) state that in order for small business owners to guarantee the sustainability of their businesses, they are required to have marketing plans that specify growth potentials and the critical marketing tools that they intend to use to attain these growth potentials. The absence of a specific marketing plan for PCT-13’s business, therefore, contributed to unsustainability and eventual demise.

Quoting **PC-14** with regards to the issue of marketing, PCT-14 had the following to say:

“I did not do any form of marketing research, no historical findings as to why the vending machines that used to be in the areas I choose to install my vending machines closed, no coordinated marketing approach to grow the business. I just went ahead and used my personal instinct that ended up in closing the business”.

PCT-14 further stated that one of the main reasons that he could identify as the source of unsustainability of his business was the absence of market research and identification of the correct target market. PCT-14 remarked that:

“It is not a guarantee that if shops are far away from a particular location, the people living there will use vending machines. The general notion in the minds of people is that goods from a vending machine are expensive. As a result, consumers will always make alternative arrangements or buy from the vending machine if that is the only and last option they have. It was only after I was in the business that I began to understand

it, but it was too late since I was already in the process of liquidation. With the current marketing strategies and identifying of a target market that I have acquired post ownership of that business; I believe I can venture into it again.”

PCT-14 stressed the fact that the absence of marketing and marketing research was the principal cause of the lack of sustainability of his vending machine business. PCT-14 further said that an understanding of the business came too late, so being in the ‘defensive’ to keep the business sustainable was a major challenge.

Osiri (2013) opines that embracing marketing is a step towards being on the offensive against the challenges of probable sales that confront every small business during its infancy. Furthermore, marketing plans assist the entrepreneur to identify target markets, determine appropriate market-related prices, channels of sale or distribution and methods of advancement for their products or services in a competitive environment (Osiri, 2013). The absence of a clear marketing plan was the undoing of PCT-14’s vending machines business venture.

The above discussion leads to another major issue raised by the participants.

4.2.3. Theme 3: Knowledge of financial planning and record keeping

Proper financial planning is vital for the achievement and sustainability of the financial goals of a business (Albuquerque, Filho, Nagano & Philippsen, 2016). Hassan and Gioucris (2020) are of the opinion that in order for a small business to maximise financial returns and the equilibration of demand and supply within the marketplace there needs to be proper allocation of financial resources by entrepreneurs or owners of the business. Albuquerque, *et al.* (2016) state that at start-up level, every SMME owner/manager needs to be able to forecast possible deficits resulting from heavy start-up expenses and, therefore, make financial projections in order to avoid cash flow problems during the infancy of the business. Hence, for a small business to be sustainable during infancy, it is necessary to create an accompanying financial plan at start-up level (Hayes, *et al.*, 2015). Most small businesses are owned by people who are novices in financial matters (Hayes, Chawla & Kathawata, 2015). At entry level the small business owner assumes that the entity will be successful and, thus, sustainable, but soon after realises that the success of a business is just an illusion if proper financial planning has not been implemented as the ‘foundation’ of the business (Hayes, *et al.*, 2015).

Discussions with most of the study participants revealed that they had very limited or no knowledge of financial matters, and that most of them fell into the category of business owners as opined above by Hayes, *et al.*, (2015). Below is a summary of the discussions held with participants relating to their financial expertise:

As indicated above, PCT1 asserted that there was no financial skill or resource (internal employee or outsourced finance staff) within the business, neither from PCT-1 as the owner/manager or from an employee at the time of start-up. PCT-1 said that the business struggled to bring in a staff member with financial experience after the business had been operating for a short while. During this period, PCT-1 carried out the task of keeping the accounting records of the business despite the fact that he had no financial training. At start-up, PCT-1's business included only a group of staff members specialised in handling the technical side of the business and coping with large events that needed their expertise in terms of providing professionally designed photos. However, initially the team of over 50 staff members did not include a single financial professional. PCT-1's situation aligns with Hayes *et al.*'s (2015) view that most small businesses are started by people without knowledge of financial matters. Without proper financial planning and record keeping, it is impossible for a business to accomplish its goals and remain sustainable (Albuquerque, *et al.*, 2016).

During discussions participant, PCT-8 stated:

'We managed everything by ourselves, all our payments were made via EFT. We kept our stock records by ourselves, I played the treasury role and reported monthly to the rest of the partners. We never reached the phase of looking for an accountant before the business closed down.'

From the above comments, it is obvious that PCT-8 had no training in accounting or bookkeeping. A study carried out on the importance of accounting and bookkeeping on the growth and sustainability of SMMEs in Chuka Town in Kenya found that most SMMEs fail to keep complete and accurate accounting records, either due to lack of training or the inability to hire a professional accountant or bookkeeper (Mutua, 2015). According to Ernest (2018), inefficient and incomplete accounting information cannot be used as a proper source for the measurement of the financial performance of an SMME. Hence the inability of entrepreneur to calculate or to know the profitability of their businesses at all times is a the major cause of the lack of sustainability of many SMMEs (Ernest, 2018). One of the major setbacks suffered

by PCT-8's business was the issue of the lack record keeping as revealed during the discussion with PCT-8.

It was admitted by PCT-9 that no records of the financial transactions of the business were kept. PCT-9's business could employ up to 10 staff members depending on the size of the project being dealt with. PCT-9 said:

'It is difficult to separate business from your personal life when you are running a very small business. Record keeping is problematic in the sense that the business money is not kept separate from personal money. I used the same bank account for my personal life issues and for the business, so it was difficult to determine how much profit or loss the business made.'

According to Ernest (2018) a knowledge of bookkeeping and other financial matters plays a vital role in the sustainability and subsequent survival of small businesses. A study carried out by Ademola, James and Olore (2012) in Ijumu local government area in Nigeria found that out of the 150 participants who were interviewed, more than half did not prepare records of their business transactions. Hence, the aforementioned fact complements the study of Akingbolu (2010) whereby he found that between 60 to 70 percent of SMMEs in Nigeria fail during their first three years of operation. Ernest (2018), in his study on the role of record keeping for SMMEs, recommends that small businesses keep accurate accounting records in order to be able to make informed and accurate decisions that will help to ensure the sustainability of their businesses.

During discussions PCT-10 admitted to having no knowledge of financial matters and also to not keeping any accounting records pertaining to the business. PCT-10 stated:

"I was poor in financial matters, I did not have time to manage my money. Once I paid my workers, the remainder of the money was mine and I used it as I wished. I never paid myself a specific salary, I just used the balance of my profit after paying my workers to meet any need in my house at the moment. I never kept the business capital separate for the future or keep the business capital in a separate account. That is where I went wrong and it has been affecting me."

It is evident from the above comments that PCT-10 kept no accounting records and literally had no knowledge of financial matters and did not seek for help because PCT-10 considered hiring an accountant too costly. Ajao, Oyeyemi & Moses (2016) consider bookkeeping as the

day-to-day process of recording business transactions and events in a methodical and logical manner. Hence businesses both small and large concerns benefit from accounting information that has been logically kept for the planning, organizing and day to day decision making in the business (Ernest, 2018). The absence of the knowledge of financial matters played a significant role in the lack of sustainability of PCT-10's business venture.

As per my discussion with PCT-11, the participant was a professional in national and international customs affairs. However, PCT-11 had no formal or informal training in financial matters, bookkeeping or accounting related. PCT-11 affirmed that me that there was no need for a finance professional since the business was still at infancy. PCT-11 who was not trained in any form in financial matters engaged in the financial management of the affairs of the business. According to PCT-11, it was costly for the business to engage a professional accountant being that at start up, the business was running on a very small capital. According to Wana (2018), many small business ventures have failed at infancy due to their lack of knowledge and lack of the capacity to properly manage start-up costs. PCT-11 on the other hand, due to the fact that the participant did not have a knowledge of financial matters assumed that the business did not need any professional financial intervention at start up and hence the business suffered for that decision. The demise of PCT-11 business agrees with the opinion of Hayes et al (2015) where they start that most small businesses start up with the supposition of being successful and build wealth. After the business has been operated for a few years, they soon realise that their illusive ambition of sustainability and growth is not materialised since the business start-up lacked proper financial planning (Hayes et al., 2015). As per my discussion with PCT-11, the participant said that 'before starting up my business, I did not even know that I will need an accountant or a bookkeeper.' 'I did not even know that I will need someone to represent my business at the Companies and Intellectual Property Commission (CIPC), I did not know that in order to operate a cleaning service business I would need a hygiene and sanitation certificate.' 'I did not know that that I will need a tax consultant to assist with my tax related matters with the South African Revenue Services (SARS).' 'All of these items of compliances required a lot of money and a financial planner to hold my hand through the process.' 'I had to try and do all of these by myself and as you know, I just could not keep up with the finance compliance issues. The is takes us back to the assertion that financial planning at the start up of a small business will help not only in the analysis of production, selling price and profitability, but also in financial compliance and sustainability (Verstina et al., 2015).

PCT-12 had neither formal nor informal skills in financial matters or daily bookkeeping of any sort. PCT-12 said that the day-to-day bookkeeping of the business was kept by herself. As aforementioned, PCT-12 was not trained in financial matters although she was a specialised chef. PCT-12 said that after keeping the records of the business throughout the year, at the end of the year, the records were given to a professional accountant for perusal and finalisation. The bookkeeping completed by PCT-12 is termed “informal” bookkeeping whereby entrepreneurs without accounting knowledge engage in a system that takes record of only one entry of the accounting transaction (Chelimo & Sophia, 2014). According to Chemilo & Sophia (2014) this system of financial record keeping is incomplete since it does not provide the entrepreneur with a complete picture of the business for daily decision making. Hence, PCT-12’s system was deficient in that daily decisions were based on incomplete accounting records that resulted in incorrect decision-making as far as the business is concerned. PCT-12 only sought professional accounting assistance at the end of the year, whereas business decisions are taken daily and not only at year end. Without proper daily record keeping, entrepreneurs and owners of small businesses run the risk of making wrong decisions resulting in the misallocation of funds, cash flow crises and business failure (Chemilo & Sophia, 2014). In addition to the above, it is very important to keep accurate and complete financial records because without such records, it is impossible to know if the business is breaking-even, profitable or losing money at any given point in time (Chepkemioi, 2013). The absence of accurate daily record keeping for any entrepreneur is a barrier to business growth and sustainability (Kenya National Bureau of Statistic, 2015). This lack of access to accurate financial records was the issue that caused PCT-12’s business to base their day-to-day decision-making on incomplete and incorrect financial information because the financial records were only subjected to professional scrutiny at the end of the year when it was too late to undo the effects of earlier unwise decisions.

During the discussion with PCT-13, the participant attested that:

‘I did not have any strategy for finance and record keeping, I will not lie to you, except that I will try to get students, keep some money for petrol for the cars, save some money for maintenance, license disc and everything else that the car required to be on the road. I handled all my finance and accounting issues myself.’

Once more the issue of a non-professional person trying to handle the financial matters of the business. The net effect of this practice will be the lack of sustainability of that business. A study carried out by Ezejiolor and Olise (2014) on the Relevance of Accounting Records in Small Scale Businesses in the Anambra State in Nigeria revealed the following.

- SMMEs whose accounting matters and records were managed by professional or public accountants were more sustainable than those that did not.
- Proper accounting record keeping plays a significant role towards the contribution of the performance, profitability and sustainability of an SMME.
- Accurate and timeous record keeping contributes significantly in facilitating the efficient and timely decision-making process that a business needs for growth, expansion and sustainability.

In summary, the absence of accurate and timeous record keeping in a small business will result in the eventual closure of the business.

As previously mentioned, PCT-13 shared the same views with PCT-11. PCT-13 said that many other entrepreneurs, predominantly those operating in Black 'townships' start their business without any knowledge of financial or compliance requirements. PCT-13 asserted that when he commenced his small business he had no knowledge of most finance compliance matters and was not aware of the extent to which the business has to comply with the Companies and Intellectual Property Commission (CIPC), or the regulations of the South African Revenue Services (SARS) and other bodies governing businesses in South Africa. PCT-13 discovered most of these challenges only while the business was already operating and tried to adhere to all these compliance issues without assistance because of the cost of engaging professional help. However, it was too late for PCT-13 to remedy the damages that had already been done by his trying to deal personally with financial planning. This the previously cited assertion that financial planning at the start-up of a small business will help not only in the analysis of production, selling price and profitability, but also in ensuring financial compliance and sustainability (Verstina, *et al.*, 2015).

PCT-14 had the following to say as far as the financial matter of PCT-14's business was concerned:

"As a result of the fact that I had no business partner in this particular business, I felt no obligation to keep proper accounting records. The business had no structured

bookkeeping and I believe this is one of the main reasons why the business failed. When you do not keep books properly, you cannot take basic operational decisions. Bookkeeping and financial planning were completely non-existent, and I kept no records of any form.”

The above statements confirms the work of Ademola, *et al.* (2012) regarding the importance of keeping proper accounting records for a small business. Ademola, *et al.* (2012) found that the reason for the lack of sustainability of most small business in Kogi State in Nigeria was the absence of record keeping and proper financial planning.

The theme discussed above is closely linked to the use of IT since in recent times, most financial planning and record keeping makes use of accounting software such as Sage Pastel and Xero Accounting, issues that constitute the next theme.

4.2.4: Theme 4: Modern technology and innovation

According to Hayter (2013), contemporary businesses are extremely dependent upon technology because numerous transactions are carried out electronically, such as making payments, sourcing new business, communicating with associates, holding meetings, marking, record keeping and financial decision-making as well as sales being executed with the use of modern technology. The majority of small businesses that successfully attain significant levels of economic growth, novel products in the market and exceptional services in recent times, are strongly grounded in the use of modern IT (Wang, *et al.*, 2014). Conversely, most small business that pay little or no attention to the use of modern IT in their business transactions tend to either stagnate or collapse in the face of challenges to the sustainability of their businesses (Wang, *et al.*, 2014). Hayter (2013), further asserts that in the current IT age, IT drives the global economy and competition is based on knowledge and innovation is the main driving force to the sustainability and competitive advantage of SMMEs globally. In recent times, IT and innovation have made a mark towards beneficial advertising, product development and novelty, financial planning and decision-making. as well as improving sales towards business growth and sustainability (Omri & Frikha, 2015). Discussions with the participants pertaining to the involvement of their businesses with IT and innovation produced the following findings:

PCT-1 said that the main area in which the business made use of IT was through internal networking via their inhouse computers. According to PCT-1, one of the major challenges that PCT-1's business faced was the fact that the business was limited to a small community in terms of physical presence. Therefore, the clientele of the business was limited to that small community within the Cape Metropolis. As per the findings of Moghavvemi and Salleh (2013), entrepreneurs and small business owners can use IT to explore and attain new horizons, obtain new opportunities, influence new areas as well as breaking new boundaries, sectors and industries. PCT-1's business failed to explore the advantages that IT could have brought to the business and break the barrier of physical limitation to one small community. Another major challenge that PCT-1 mentioned that his business faced was the absence of extensive marketing that goes beyond its small community. Marketing should not be limited to the physical location of a business, small business owners should make use of IT to carry out extensive market research in order to identify areas where their products are needed, current global and national taste that will help direct their product(s), identify consumers and expand their business (Schott & Sedaghat, 2014). Furthermore, PCT-1 made mention of the challenge of securing funding for the business. In recent times, many small business owners make use of IT and innovation to source financial assistance by accessing different funding through channels such as crowd funding or angel investors (Mayer, Harima & Freilling, 2015). The raising of money for a business venture by drawing many investors through social media and other internet channels is what is termed 'crowd funding', and this method can be used by anyone for their business (Quero & Ventura, 2015).

PCT-3 shared some similar challenges to those that faced by PCT-1 regarding the issue of marketing. PCT-3 whose shop was in a relatively commercial area still relied only on 'passer-by' clients. Organic products are mostly specialised and have a limited clientele because such products are usually very expensive. Hence, PCT-3 was required to use every channel possible to make the SMME's existence known throughout the Cape Metropole. Once more, Schott and Sadaghat (2014) reiterate the point that marketing should not be limited to the community or physical position of a business venture. Entrepreneurs or small business owners should make extensive use of IT to market their products to areas of need identified through their market research (Schott & Sadaghat, 2014). IT can take the product into the home of a potential client who is physically located hundreds of kilometres away and the client would either place an order to be delivered or drive to the shop's physical location.

PCT-4's business technically was one of the businesses that would require an extensive use of IT and innovation. However, PCT-4 mentioned that the cost of running the business from an IT perspective was the major factor that made the business to shy away from getting too involved with the IT requirements of the business. PCT-4 was an older person compared to most of the other participants and his comments confirms the assertion that most older people tend to be disinterested in modern technology and resist adaptability and change, hence confirming the believe that age is one of the factors that affect the success, growth and sustainability of small businesses (Huang, Nandialath, Alsayaghi & Karadenzi, 2013). Hence PCT-4 preferred to continue with his old methods of branding and signage, and this practice proved a major setback to the sustainability of the business. Wani (2018), opines that a small business can only remain sustainable by engaging in continuously transforming its existing methods, products and business services to meet contemporary requirements. Business owners are urged, therefore, to make use of modern technology and innovation, in order to maintain a comparative advantage over their peers or competitors in the same industry (Maritz & Donovan, 2015). Businesses that do not 'keep-up with the times' are bound to struggle in the face of competition and, hence, fail to remain sustainable (Wani, 2018).

During the discussions with PCT-7, he stated:

"The company faced enormous challenges from overseas competitors. Chinese party dresses are currently imported into South Africa at ridiculously low prices. Part of the problem is that South Africans began to be attracted to choosing foreign products as opposed to locally produced dresses due to their low prices."

PCT-7 further said that he was not trained in IT matters and, therefore, had to outsource these matters at some point. However, owing to the fact that PCT-7 was one of the older participants, his business was stereotyped because he preferred to continue to produce designs that were inherited, instead of making use of IT and innovation to search current markets trends and learn what products attracted contemporary consumers. For small businesses to remain sustainable, they must constantly transform their current methods, products and services in order to appeal to the modern consumers' requirements (Wani, 2018). Transformation is one of the dominant ingredients that was lacking in PCT-7's business and the outcome was its incapacity to remain sustainable in the face of foreign competition. In this regard, Martz and Donovan (2015) strongly recommend that in order for small businesses to maintain a comparative advantage over their peers, both nationally and

internationally, they should explore the numerous marketing research options made available through modern technology and innovation. This practice was completely absent from PCT-7's business with the eventual result being its inability to survive in the face of competition, leading to its eventual demise.

During the discussions, **PCT-8** intimated that the business relied very little on IT. The business was physically located within a small community and depended completely on the small community for its sales. All the marketing of the business revolved around the small community and, therefore, the business made no effort to spread its wings beyond its area of physical location. As mentioned previously, marketing should not be limited to the physical location of a business, small business owners should make use of IT to carry out extensive market research to identify areas in which their products are needed, identify potential consumers and expand their business (Schott & Sedaghat, 2014).

The businesses of **PCT-9** and **PCT-10** were identical and they both shared identical challenges in terms of IT and innovation. PCT-9's business was fully dependent on the large construction companies to provide him with sub-contracts. However, the city of Cape Town has many similar businesses that also depend on large construction companies to provide them with sub-contracts, hence all sub-contractors face heavy competition. PCT-9 and PCT-10 both confirmed they made absolutely no use of IT for the advancement of their businesses. According to Schumpeter's (1983) entrepreneurship theory, entrepreneurs are supposed to be people who think out of the box, transform ideas into inventions to be able to innovate products and services required by the public. Drucker (1994) agrees with the above-mentioned assertion by stating that creativity and innovation are key characteristics that an entrepreneur needs to be successful. The construction industry is an ever-changing industry, whereby modern infrastructure significantly differs from vintage infrastructure. Furthermore, entrepreneurs should be able to create opportunities for themselves and not be completely dependent upon a third party for the supply of sub-contracts. IT, in the form of search engines, allows a small business to source business opportunities and create the novelty that will appeal to the public and, therefore, grow its business towards sustainability (Wani, 2018).

During discussion, **PCT-11** stated that his business was still within its infancy stage and he had no mapped structure as to how he should use IT and innovation for advancing his business. PCT-11 attested that he had limited knowledge on IT matters. Furthermore, PCT-11 said that his business was created with the intention of obtaining contracts from

government departments throughout the Western Cape province. As previously mentioned regarding the construction industry, the Cape Metropolis has thousands of construction companies created for the same reason, hence PCT-11's company faced heavy competition. The onus was, therefore, on PCT-11 to create opportunities for the business through the use of IT and innovation and not wait solely for government departments to advertise contracts. IT in the form of search engines allows a small business to source business opportunities, create novelty that will appeal to the public and, therefore, grow its business towards sustainability (Wani, 2018). If any business does not create something new in the face of competition, it stands the chance of stagnation and failure. In this regard, Martz and Donovan (2015), strongly recommend that in order for a small business to have a comparative advantage over its peers, it should explore the marketing research options made available through modern technology and innovation. The absence of the use of modern technology and innovation in the face of competition was the major issue that accounted for the unsustainability of PCT-11's business. **PCT-12** and **PCT-13** shared the same predicament as PCT-11. Even though their businesses differed from each other, they both held the same negative ideology regarding the use of modern technology and innovation to promote business growth and sustainability.

During discussions **PCT-14** said that:

"I did not have enough IT knowledge or IT assistance as far as the business was concerned. When I was closing the business, I realised that there was an IT package, which I would have used to scan each of the products for easy control. Every item which goes into each machine would have been scanned and I would have been able to control the stock. A simple and very ancient technology like scanning, I did not have for the business. Another technology which I would have used was installing a camera system at the points where the vending machines were. So that when someone is buying, he/she is on camera and when my employee is taking cash or loading stock into the machine, he is on camera. I lost a lot of money from the dishonesty of my staff member because some of the vending machines were unable to count coins and from time to time, he would help himself with some of the coins. Most often some of the machines had breakdowns and were unable to either give correct change to clients or accept the money of the clients and there was no one there to assist."

From the words of PCT-14 quoted above, it was clear that the deficiency of the business in terms of its use of IT was the main cause for its businesses lack of sustainability. PCT-14 identified the solution to the challenges that the business faced when it was already too late to overcome them and he was already in the process of liquidation.

It is obvious from the participants' responses delineated above that the absence of the use of modern technology and innovation by small business owners hampers sustainable growth and this deficiency could result in eventual business failure (Hayter, 2013).

From PCT-14's use of the term 'vending machine' it is obvious that his SMME venture was supposed to be a business that is completely automated and operated via the use of modern technology. The use of vending machines dates to the late 1880s during which the first vending machines were used for the sale of cigarettes and postcards (Muyani & Hartono, 2019). Conventional vending machines are designed to automatically accept coins, bank notes, as well as debit and credit cards, the majority are designed to detect counterfeited notes and coins (Muyani & Hartono, 2019). However, the big challenge with operating a vending machine business is that it should be fully automated in terms of sales, customer services, daily operations, market research, business analysis and decision making, as well as record keeping and accounting (Soegoto, 2014) and anything short of this *modus operandi* will amount to the eventually failure of the business.

4.2.5: Theme 5: State support and responsibility to the society

On a general note, the assumption is that entrepreneurship activities are aimed at making personal profits (Andre & Pache, 2016). However, the entrepreneurship theory opines that entrepreneurs are supposed to be key drivers of economic growth, as well as generators of social value within a nation (Schumpeter, 1983). Therefore, the entrepreneur has the singular responsibility towards a government and its people to always uphold social values (Schumpeter, 1983). In summary, a responsible entrepreneur or owner/manager of a small business should not only have profitability in view but strive to strike the balance between profitability and the execution of their social responsibility towards the state and its citizens (Andre & Pache, 2016). In view of the aforementioned, in 2011 SMMEs contributed to the socio-economic development of South Africa through the creation of employment, thereby playing a critical role towards the achievement of the 2030 National Development Plan (NDP)

(NPC, 2011). The National Development Plan (NDP) aims at reducing unemployment in South Africa to 6% by 2030 by means of creating approximately 90% of jobs via SMMEs (NPC, 2011).

Governments on the other hand also has the responsibility to encourage and advance the interest of small businesses in the nation through favourable commercial laws that are meant to encourage growth in the SMME sector (Wonglimpiyarat, 2015). The question, therefore, has been ‘Do governments play their role in terms of empowering SMMEs towards sustainability?’ Wonglimpiyarat (2015), stated that the ideas of most entrepreneurs have either never materialised or materialised and died prematurely due to lack of government support or sufficient financial support. In South Africa, the current trend is that most banks are tightening credit facilities as a means of precautionary measures against losses on their operations (Agwa-Ejon & Mbohwa, 2015). The chain reaction of the precautionary measures taken by banks has been the closure of many SMMEs, employee layoffs, as well as business distress for many SMMEs in South Africa (Agwa-Ejon & Mbohwa, 2015). In an attempt to support SMMEs where standard commercial banks cannot help, in 2004, through the National Small Business Amendment Act, 29 of 2004, the government of South Africa created an agency called the Small Business Development Agency (SEDA). SEDA has the following objectives as listed below:

- Implementation of the South African government’s business strategy,
- The designing and implementation of a standard and public national delivery network for small enterprise development in South Africa, and
- To integrate government-funded small enterprise support agencies across all tiers of government.

Furthermore, SEDA seeks to:

Develop, support, and promote small enterprises throughout the country, ensuring their growth and sustainability in co-ordination and partnership with various role players, including global partners, who make international best practices available to local entrepreneurs, (SEDA, July 2018).

In addition to SEDA, the government of South African has other initiatives and funding programmes that have been created with the objective of promoting sustainability for SMMEs. The Khula Enterprise Finance is an agency created by the South African government to support existing medium-sized business ventures (Booyens, 2011). The Ntskia Enterprise

Promotion Agency is also another institution created by the South African government to support SMMEs in South Africa (Booyens, 2011). Both institutions were formed to operate under the supervision of the Department of Trade and Industry whereby they will assist SMMEs in South Africa both financially and in other aspects that are not necessarily finance related. (Mago & Toro, 2013). The Ntsikia Enterprise Promotion Agency had as an objective, the promotion of small business services, meanwhile the Khula Enterprise Finance was responsible for providing financial support for SMMEs in South Africa (Agwa-Ejon & Mbohwa, 2015).

Even though the government of South Africa has a variety of support systems through which it has committed itself to assist SMMEs, most small business owners are not aware of the existence of these agencies (NCR, 2011; Mago & Toro, 2013). A survey carried out in 2010 for small businesses indicated that over 75% of business owners are unaware of the existence of these government agencies (FinScope, 2010). As evidence through discussions with the study participants during the interviews, the following facts was ascertained.

Both **PCT-1** and PCT-1's business partner are professionals in the field of their business. However, the cost of running the business was the key sustainability challenge that PCT-1 faced during its period of the existence of the business. The running capital of the business of was internally generated through savings and other sources. However, as PCT-1's business grew and, therefore, required more sophisticated production equipment and that is where the major crises of the business began. The business was unable to acquire the required equipment, thus, they resorted to hiring the equipment and this practice pushed the business deeper into debt and only made the need for finance greater. PCT-1 approached the banks but could not obtain financing for the business. The above-mentioned dilemma of PCT-1 aligns with the views of Agwa-Ejon and Mbohwa (2015) who state that banks have in recent times tightened their criteria for providing credit facilities to small businesses. PCT-1 later exhausted the primary options suggested by SEDA which includes.

- Using his own personal savings to make the business survive.
- Borrowing from friends and family to make the business survive (SEDA, July 2018)

PCT-1 affirmed that it was only after he had exhausted all the available options known to him that he opted for liquidation to avoid deepening the level of debt incurred by the business.

As mentioned by SEDA (July 2018), most small businesses require capital to allow them to operate properly (SEDA, July 2018). Small business owners generally need start-up finance to purchase production equipment and materials as well as physical cash to take care of monthly rentals, bills, and salaries until such time as the business becomes profitable (SEDA, July 2018). Once he had exhausted all his options without even knowing about the existence of SEDA, PCT-1 opted for the liquidation of his business.

PCT-3 stated that the start-up capital for his business was internally generated. Even though PCT-3 did not stress that the lack of finance was the key issue that affected the sustainability of the business, he stated that he was unaware of the existence of government agencies that could help finance small businesses. This fact agrees with the 2010 Small Business Survey that showed that over 75% per small business owners in South Africa were unaware of the existence of government affiliated support agencies to SMMEs (FindScope, 2010). According to Mago and Toro (2013) even the few SMME owners who are aware of the existence of these government agencies do not understand how they operate. Hence, these government agencies should embark on marketing themselves to the public (Mago & Toro, 2013).

PCT-4 stated that in the quest for the survival of his business, both banks and individuals were approached, but no assistance was received. PCT-4 clearly mentioned that one of the major setbacks for the sustainability of his business was the shortage of cashflow. According to PCT-4, his business would still exist if there was sufficient financial resources to run the business. Many business deals came his way, but the lack of cashflow could not allow the business to take advantage of these deals. As quoted by PCT-4: *"I approached banks and even individuals but could not get financial support."* According to the National Credit Regulator (NCR) report (2011), the rejection rate for bank loans is very high and only about 25% of the applications are accepted by the banks. Out of these 25%, only about 18% finally actually receive financial loans from the banks (NCR, 2011). Hence, obtaining finance from banks has not been an easy experience for the SMME owners. The dilemma of PCT-4 supports the statement by Agwa-Ejon and Mbohwa (2015) that banks have in recent times tightened their credit facilities towards small businesses.

During discussions **PCT-7** stated that the company's method of meeting its social responsibility, was by employing more than 100 personnel and organising social events as a means of giving back to the society. Even though PCT-7 did not state that access to and availability of finance were key issues to the lack of sustainability of his business, he had no

idea that assistance for small businesses could be obtained from existing government agencies. This lack of knowledge aligns with the issue of awareness raised by Agwa-Ejon and Mbowa (2015) who stated that most small business owners are unaware of the existence of government initiatives for the financial support of small businesses.

PCT-8 stated that his business would have survived if it had received timely financial support. The business had reached a point at which either more capital must be 'pumped' into the business, or it would close. Furthermore, the business did not meet the minimum criteria banks required to secure a loan. According to Ejon and Mbowa (2015) most small businesses in South Africa find it difficult to obtain funding from banks because they do not meet the basic requirements outlined by the banks for accessing loans. Furthermore, PCT-8 attested that he did not know of any government institution that could help when it was established that the banks would not provide funds for the business. Even though the government of South Africa is committed to supporting SMMEs, most SMME owners are unaware of any government initiative or organisations that they can approach for financial support (Mago & Toro, 2013). Both PCT-9 and PCT-10 share the same dilemma as PCT-8.

PCT-9 said that he knew about the existence of government institutions that support small businesses. However, he did not know their names or whom to ask to provide him with more insight about the functioning of these institutions. **PCT-10** also stated he did not know about the existence of such institutions. The only other source of funding apart from personal savings or personal borrowing that PCT-9 and PCT-10 knew about was the banks and both emphasised that they did not meet the criteria necessary for qualifying for a bank loan because their businesses were still during the infancy stage and did not have company bank accounts. Furthermore PCT-9 also stated that even though he knew about the existence of government institutions that could support small businesses, his knowledge was very minimal. The NCR (2011) further re-iterates the fact that entrepreneurs' knowledge level of government's commitment to support SMMEs in South Africa is very low. Hence the reasons that many SMMEs that would have stood the chance of survival during infancy eventually close due to a combination of insufficient funding and their lack of knowledge of state support.

PCT-11 stated that because his business was still during its infancy he did not bother to open a bank account. He admitted that even though he applied only for small tenders from the government, his business lacked sufficient funds to meet the requirements of these tenders. PCT-11 further said that if the business had had sufficient funding, the business would not

have had to rely upon tender documents to support his application for bank funding. PCT-11 said although his businesses needed funds, he had limited knowledge of government assistance and, because he did not know how to request financial support, and lacked the time to do so, he did not bother to apply for government funding. Mago and Toro (2013) also affirmed that even though some entrepreneurs are aware of the existence of government institutions that support SMMEs, they do not know how they operate.

During discussions **PCT-12** stated that her start-up capital was internally generated and, thus, insufficient for her business requirements. She admitted being unaware of any government institutions that could be approached for funding, and also that she had approached the banks for a business loan but her applications were unsuccessful. She stated: "*the bank advised me to take out a personal loan to finance my business, but I did not because the rates were too high*". Even though Microfinance Intermediaries (MFI) aid small businesses with small loans, the interest rates are still very high for SMMEs. Hence, another SMME faced the ordeal of closing partly because the entrepreneur was aware of the existence of the state's willingness to support small businesses.

PCT-13 stated that he was fully aware of the existence of government initiatives aimed at supporting SMMEs in South Africa. During discussion he stated he had attended a few SEDA workshops regarding government's assistance to SMMEs. Based upon this knowledge PCT-13 approached SEDA for funds to support his business but, regrettably, was unsuccessful in his application. This unsuccessful attempt to obtain support from government caused PCT-13 to ask "*Who actually qualifies for government support*". Hence, knowledge about the existence of government support is not a guarantee that an SMME actually will receive financial support from the government institution (Booyens, 2011).

4.2.6. Emergent Theme 6: Influence of COVID-19

In the study, this theme stands out as the only emergent theme. All the other themes dealt with above have been suffered by SMMEs for several years. The COVID-19 pandemic has resulted to extensive economic and societal disruption in South African. A great number of South African companies have experienced and are currently experiencing profound adverse effects due to the existence of this pandemic within the nation. The experience of South African companies is not specific because there has been a global financial crisis as the pandemic spread, and continues to spread, across the globe. In order to limit the spread of the virus within South Africa, the government placed the nation on a national lockdown that

started officially on 27 March 2020. This national lockdown meant that all South African businesses that were not considered as essential services had to completely close their doors during the first lockdown period (initially 27 March for three weeks, and later extended to 30 April 2020 and beyond for certain businesses) (Rajagopaul, Magwentshu & Kalidas, 2020). As a result of this total lockdown, the following categories of companies (amongst others) were affected,

- Companies that dealt with the movement of goods and commodities (supply chain companies),
- Telecommunication companies,
- A great number of mining companies since there was a decrease in demand for their products,
- Companies involved in property letting, both commercial and residential,
- Tourism because of bans placed on travel,
- Construction companies,
- Roadside petty trading as well as many other service companies.

The above list is merely a summary of the broad category of sectors that were directly affected by the national lockdown in South Africa as a means of curbing the spread of the COVID-19 virus throughout the nation. The impact of the lockdown on most South African businesses has been the huge drop in revenue and, as a result, the affected companies have been compelled to cut down their business spending as a means of survival and sustainability (Rajagopaul, *et al.*, 2020). According to some statistics, the cutting down of business expenditure through the 'laying-off' of some staff members, postponement of staff socials and other non-essential costs is not sufficient to sustain SMMEs in South Africa (Craven, Liu, Mysore & Wilson, 2020). Rajagopaul, *et al.* (2020) agree with the analysis that predicts that before South Africa reaches the end of the COVID-19 pandemic, over 60% of South African SMMEs may have completely closed their doors.

According to a study carried out by Stats SA (2020) that covered the period between 30 March 2020 to 13 April 2020, in which 707 business owners participated, the following facts was found.

- The majority of the business owners (84%) stated that their turnover dropped below the normal turn-over level before lockdown.
- A significant number of the business owners (46.4%) stated that their businesses were either closed temporarily or that their business activities had come to a standstill.
- At least 36.8% of the business owners stated that their workforce will either decrease or have already been reduced because of the lockdown.
- Some of the business owners (19.1%) indicated that the prices for the materials, good and services utilised for the daily running of their businesses has increased significantly.
- At least 36.6% of the business owners stated that their businesses can only survive for less than a month without any turnover, while about 50.0% indicated that they can survive without turn over for between 1 to 3 months.
- At least 38.2% of the business owners indicated that they would need government support in order to remain sustainable in the face of the COVID-19 pandemic (Stats SA, 2020)

Another study carried out in the USA between 28 March and 4 April 2020, in which 5,800 small business owners were interviewed, indicated the following:

- From the total sample of businesses that were involved, 43% had been closed temporarily due to the impact of COVID-19.
- 39% of the businesses had experienced a significant reduction in their total number of employees since the outbreak of the pandemic in the nation (Bartik, Bertrand, Cullen, Glaeser, Luca & Stanton, 2020).
- In the mid-Atlantic region alone, at least 54% of the companies has closed permanently and the average rate of employment had dropped by 47%.
- The impact of the pandemic was most deeply experienced by the retail, arts, personal services, entertainment, hospitality as well as food services, all of which experienced over 50% drop in employment (Bartik, *et al.*, 2020).

During discussions with the participants, at least 42.8% of them stated that the lack of sustainability of their businesses was because of the challenges they faced due to the effect of the COVID-19 pandemic within South Africa.

During discussions **PCT-2** stated that the business was a tourism business and its viability depended entirely on the influx of tourists coming into South Africa and into Cape Town specifically. The travel ban imposed during the COVID-19 Lockdown, therefore, put the business in the category of businesses most hit by the Corona virus. PCT-2 stated:

“The business has cut their costs to the highest level, but for how long can we survive in that way. The business has opened its doors to the local residents to use the pools and pay minimal amounts, we use our laundry machines to serve the local communities for small amounts. We also entered into the sale of hand sanitizers to survive. ‘However, we did not last much with that.’”

The above comments agree with the statement by Rajagopaul, *et al.* (2020) that the impact of the lockdown on most South African businesses has resulted in a huge drop in revenue and, as a result, the affected companies have been compelled to cut down their business spending as a means of survival and sustainability. Even though SMME struggled-on in survival mode for some time, while drastically cutting down on costs, **PCT-2** stated that even cost cutting did not ensure its long-term survival. The statements by PCT-2 agree with those of Craven, *et al.* (2020) who (as stated above) argue that the cutting down of business spending through laying off some staff members, eliminating staff socials and other non-essential costs is insufficient to sustain SMMEs in South Africa. A survey carried out post the first lockdown (27 March initially for three weeks, and later extended to 30 April, and beyond for some businesses) indicated that at least 69% of businesses went into temporary closure with a very chance of sustainability (Rogerso & Rogerson, 2020). At least 58% of small businesses in South Africa downscaled their businesses significantly and more than half of these businesses either put their business activities on hold and/or completely negated all planned improvements, expansions or diversification of their businesses (Rogerson & Rogerson, 2020). These researchers further state that the industry with the largest share of temporary closure and sustainability risk was the tourism, accommodation and hospitality industry. This was exactly the case with PCT-2’s business because of the challenges to its sustainability due to the impact of the COVID-19 pandemic.

PCT-3 also stated that his business struggled-on in ‘survival mode’ during the first national lockdown in South Africa. PCT-3’s business focused on the production of party dresses and specialised ladies clothing, thus, his sales dropped to almost zero in one month since everyone was forced to remain at home and no one bothered to purchase dresses for parties

that they could neither hold nor attend. During discussions PCT-3 stated that although the business did not freeze entirely during the first lockdown period in South Africa, the business struggled to survive through a process of cost cutting by means of laying off staff and reducing in all non-essential expenditure. PCT-3 stated that the business finally went into complete liquidation after all the options for its survival had been exhausted. The South African textile and clothing industry experienced its worst deterioration in history during the year 2020 (Arndt, Davis, Gabriel, Harris, Makrelov, Modise, Robinson, Simbanegavi, Van Seventer & Anderson, 2020). A reduction in the public's need to purchase new clothing was one of the most practical methods of cost-cutting practiced by many households necessitated by reduced incomes and uncertainty about the future consequent upon the impact of the Corona-19 pandemic (Arndt, *et al.*, 2020). Hence the extremely negative impact on the pandemic on PCT-3's clothing the business.

PCT-5's business was one of the participating SMMEs most severely affected by the global pandemic. During discussions PCT-5 stated that his business (a hotel) involved purely commercial accommodation and, thus, froze just a few days after the first official lockdown in South Africa imposed as a means of attempting to reduce the spread of the Corona virus throughout the country. PCT-5 was extremely upset when he spoke about the sustainability challenges that the global pandemic had brought to his business and stated:

“Only 25% of the number of tourists that usually come to South Africa came into the nation in December 2020. The revenue that we got was only one third of what we received pre-COVID. In 2018 and 2018 a room that costs R1,000 was given out for R250 in December 2020. In December 2020 we had only a 25% occupancy, with the rooms costing 75% less than their normal prices, so no nobody made any money at all. All hotels that are still open are at survival mode and 50% of the capacities of hotels in Cape Town are closed and will remain closed for some time. Even though the borders have been opened slightly, the nation is still in lockdown and no one would want to come to a nation in lockdown and then go back to their country having not explored anything as tourism is about exploring. The tourism industry in [South Arica] seems to be completely dead and it will take a long time to recover.”

The above comments are key statements made by PCT-5 following the effects of the pandemic on the sustainability of his business. PCT-5's experience as recalled during the

interview correlates with the list of findings in Table 4.3 below based upon the Department of Tourism’s survey carried out in 2020.

Table 4.3 The impact of COVID-19 on the tourism enterprise in South Africa, April 2020 (Source: Based on the Department of Tourism’s 2020 survey).

Indicator	Findings from the survey
Revenue	At least 83% of participants reported a 50% decline in their revenue in March 2020 in comparison with revenue in March 2019; up to 34% stated that their revenues dropped by 100%.
Debt repayment	At least 58% of participants stated that they could not fulfil their debt repayment commitments from March 2020.
Occupancy of premises	At least 85% of participants stated that their businesses downsized by 50%, and 47% said their businesses downsized by 100%
Fixed Costs	At least 54% of participants stated that their businesses were unable to cover periodic fixed costs.
Forward bookings	At least 81% of participants stated that compared to March 2019, their bookings dropped by at least 50%; 36% stated they dropped by 100%.
Size of entity	All the participants confirmed that their businesses declined, though the worst declines were from SMMEs
Sub-sector of entity	All the participants confirmed that their businesses were affected, though the most impacted businesses were nature tourism and conservations.

Source: Department of Tourism, 2020)

PCT-8’s business is also one of the businesses that suffered from the impact of the COVID-19 pandemic in South Africa. The business comprised the manufacture of bricks for construction. During discussions PCT-8 stated that the manufacturing process ceased during South Africa’s first lockdown (27 March 2020 to 30 April 2020). All orders for bricks were put on hold because of the uncertainty arising due to the majority of South Africans being required to remain within their homes and concerns regarding the unpredictable future. PCT-5 confirmed that the sustainability of his business was already destroyed before South Africa reached the lockdown level during which construction businesses could open their doors and

continue with their existing projects. Hence, being a small business within its infancy it had limited reserves, thus, the business ran short of the required cashflow to enable it to 'pick-up' from the position at which the operation had been forced to stop at the commencement of the initial lockdown. Reports from the Construction Market Quarter 1 (Q1 2021) indicate that the construction industry in South Africa was one of the most adversely affected by the Corona virus pandemic.

According to the construction industry's current prognostics, the expectation is that the industry should grow by an average of 6.1% in the 2021 financial year, from the huge contraction of 16.5% that it experienced in the 2020 financial year (Construction in South Africa, Q1 2021). However, contrary results were experienced because the industry's output dropped significantly due the outbreak of the global that affected South Africa and compelled the nation to engage in a six-week complete lockdown as a rapid response in an attempt to reduce the spread of the virus (Construction in South Africa, Q1 2021). Furthermore, the construction industry value-added experienced a sharp drop of 33.3% in Q2 2020 and a 21.6% drop in Q3 2020 (Stats SA, 2020). The construction industry also suffered enormously compared to other industries in terms of job losses, whereby a total of 259,118 jobs were lost at the end of Q3 2020, as compared to Q3 2019 (Stats SA, 2020).

PCT-9 and PCT-10 who owned identical small businesses within the construction industry, that relied upon receiving sub-contracts from larger construction companies, also suffered heavily from the challenges resulting from COVID-19 pandemic. The businesses of both these participants ceased trading concurrently at the onset of the first lockdown in South Africa due the Corona virus, thus, joining the list of construction companies hit by the global pandemic.

4.2.7: Theme 7: Entrepreneurship physiognomies/characteristics

As mentioned above, the entrepreneurship theory concept opines that a successful entrepreneur should possess characteristics such as risk bearing, vision, creativity, leadership, allocation and reallocation of resources, decisiveness, self-worth, persuasiveness, proactiveness, diversification and flexibility (Frid, 2015). In addition to these characteristics, Paweta (2015) further affirms that in order for small business owners or entrepreneur to operate a small business venture successfully, it is imperative that they possess entrepreneurship characteristics as propounded by Shcumpeter (1983). In this

regard, Paweta (2015) is of the opinion that any business operated by an entrepreneur who is deficient of traits such as risk bearing, vision, creativity, leadership, allocation and reallocation of resources, decisiveness, self-worth, persuasiveness, and flexibility will not be sustainable. Some scholars believe that business owners who display entrepreneurship characteristics have a high propensity for operating a sustainable business (Leutner, Ahmetoglu, Akhatar & Chamorro-Premuzic, 2014; Rosenbusch, Rauch & Baus, 2013). During the researcher's discussions with the participants, the following aspects relating to premiership physiognomies were encountered:

PCT-1 stated his business was in a small community within the Cape Metropolis and its revenue was fully dependent on sales made within the small community. Hence, failure to obtain sales from that community, or the presence of any form of competition, would reduce the turnover of the business and, therefore, challenge its sustainability. PCT-1 stated that it was a challenge to diversify the business's horizon by taking the business out of that community. Hence, the deficiency of creativity presented a barrier to sustainability for PCT-1's small business.

PCT-3 stated that his business focused on the production of natural cosmetics. As per my discussion with PCT-3, even when the business started facing challenges such as staff turnover and a drop in sales due to the global pandemic (COVID-19), the business did not respond timeously to these challenges. Hence, the issue was this lack of decisiveness, as stated by Frid (2015), posed as a barrier to the sustainability of the business.

PCT-4's skill was novel in South Africa, thus, the business had an assured clientele because the business always provided what was required by its clientele. As a result, this entrepreneur saw no reason to change or diversify from its current manner of operation. Consequently, PCT-4's business was deficient of flexibility and, hence, its resistance to change and modernity stood as barriers to the business's sustainability.

PCT-7's business specialised in female clothing for parties and other special events. The company focused on producing 'proudly South African' garments. During discussions PCT-7 added that although the business had in recent years encountered heavy competition from cheaper party dresses imported from China, the business was not ready to change or adapt their costumes to consumer demands. PCT-7 said that the business preferred to retain its existing styles rather than 'dance to the tune of competition'. Hence the business suffered from a lack of flexibility that became a barrier to its continued sustainability.

During discussions, **PCT-9** stated that during the creation and registration of the business, its goal was to focus on obtaining sub-contracts from larger construction companies. However, PCT-9 acknowledged soon after the business had been registered, that the sustainability of the business would be endangered if it were to remain dependent solely upon sub-contracts from larger companies. PCT-9 stated that he later realised that there was massive competition for obtaining sub-contracts from large construction companies because the number of sub-contractors rapidly began to increase. With this knowledge, PCT-9's business should have sought for a means to create other business opportunities to avoid cash flow issues in the long run. Hence, a deficiency in the entrepreneurial characteristics of creativity and proactiveness have contributed to the lack of sustainability of PCT-9's business. Both **PCT-9** and **PCT-10** had the same experience as far the nature of their business and their approach towards the challenges they faced was concerned.

PCT-11's business was created for the sole purpose of providing various services such as cleaning and other associated services to government departments within the Cape Metropolis. However, just like PCT-9 and PCT-10, PCT-11 also realised that there was great competition as far as that line of business was concerned. Hence PCT-11 was required to be creative and approach the private sector businesses to find out if these services were required by them. In the same way, the deficiency of creativity and proactiveness played a major role in the lack of sustainability of PCT-11's business.

PCT-14 affirmed that the absence of proactiveness was one of the key ingredients to the lack of sustainability of his business. PCT-14 said that it was only during the liquidation phase of his business that he realised that there were many business decisions that he should have taken earlier that would have enabled the business to survive and remain sustainable. Once more the lack of the proactiveness and timeous decision-making expected of an entrepreneur played a role in the demise of the business.

4.2.8. Theme 8: Racism based on location (emergent theme)

This theme stands out as the second emergent theme because only one participant raised it as a challenge to the sustainability of her business. **PCT-12** was the owner of a restaurant that specialised in food that originates from a particular racial group in South Africa. PCT-12's restaurant was situated in the largest shopping centre within the community in which the business operated. The business was situated on the outskirts of the Cape Metropolis and

area that she maintained was still dominated by 'soft racial discrimination'. Her restaurant was situated within an area in which she belonged to a minority race in that community, thus, PCT-12 stated that her business suffered from racial discrimination. She said that frequently she received complaints from the shopping centre's manager that the smell of her food dominated the centre's food court and, as a result, made patrons eating at other restaurants uncomfortable. PCT-12 said that members of the community's dominant racial group rarely patronised her restaurant because she was from the minority race living and/or working in that specific community. According to Barghouti (2011), the issue about fundamental prejudices, hierarchies and injustice continues to influence food outlets in many nations. Hence PCT-12 said that one of the reasons why her turnover dropped significantly was because racial discrimination persisted in the area in which her business was situated. Hence her customer base was limited to either tourists coming into South Africa or people from her own race. Barghouti (2011) further states that the issue of racism is very often embedded within communities and its presence is often manifested in public spaces such as restaurants, banks and even schools, thus, affirming PCT-11's claim that the 'soft-boycott' of her restaurant played a major role in the lack of sustainability of her business.

4.4 Summary

The above chapter presented the research findings and an analysis of the data that was collected in the field during the research study. A total of 14 SMME owner/managers participated in the study. From the interview and summary of the data collected, eight themes emerged that were analyzed above. Some of the themes were identical for up to 6 or 7 participants. However, some related only to 1 or two participants. Based on the above analysis and summary, conclusions will be drawn in the next chapter.

CHAPER FIVE: CONCLUSION AND RECONMMENDATIONS

5.1 Introduction

This research study explored the challenges to the sustainability of SSMEs in the Cape Metropolis, South Africa. Qualitative methodology was adopted using an interview guide containing fifteen open-ended questions. The interview guide was used as a tool for data collection through interviews conducted with the 14 participants (11 men and 3 women) who were previous owners of small businesses within the Cape Metropolis. Most of the participants who did not indicate their intention to participate in the interview were women, their reason for this was that they are not comfortable speaking to a 'complete' stranger over the phone and it was not also possible to meet them physically due to the COVID-19 pandemic rules relating to social distancing in South Africa. The data was analysed using the qualitative data analysis method as propounded by Creswell (2013).

5.2 Summary of findings:

During the analysis, the following eight themes emerged:

- 1) Managerial skills and training in the specific business venture
- 2) Marketing strategies and identification of target market.
- 3) Knowledge of financial planning and record keeping
- 4) Modern technology and innovation
- 5) State support and responsibility to the society
- 6) Influence of the COVID-19 pandemic
- 7) Entrepreneurship physiognomies/characteristics
- 8) Racism based on location (emergent theme)

Based on the information obtained, most small businesses within the Cape Metropolis struggle with sustainability because of the above eight themes. The absence of appropriate training and the relevant skills has resulted to the lack of sustainability of many SMMEs during infancy when faced with the challenges relating to the lack of training and skills (Lin & Nabergoj, 2014). Findings from this study indicated that 9 out of the 14 participants were

deficient of relevant managerial skills as far as their businesses were concerned. In addition to the above, any business that fails to implement a proper marketing strategy during infancy that identifies a suitable market for the business is bound to be unsustainable once faced with challenges pertaining to sales because of lack of effective marketing (Samli, 2012). Findings from this study indicated that 11 out of the 14 small business owner/managers who participated in the study either had no marketing strategy or had one that was never implemented, and this was one of the reasons why the business was unsustainable. Furthermore, any business that does not have suitable financial planning and record keeping processes for all financial matters from its inception, will not know if the business is making a profit or loss and this deficiency will affect the businesses sustainability (Albuquerque, *et al.*, 2016). The absence of proper accounting, record keeping and financial planning for most SMMEs is due to their inability to afford these services (Mutua, 2015). As a result, SMMEs struggle to maintain sustainability in the long run because they are unable to manage their cash flows (Mutua, 2015). Findings from this study indicated that 7 out of the 14 participants had no idea how to manage the financial matters of their businesses and this fact posed a major challenge to the sustainability of their businesses.

In addition to the above, most small businesses that pay little or no attention to the use of modern IT in their businesses tend to stagnate or collapse in the face of challenges to the sustainability of their businesses (Wang, *et al.*, 2014). Wani (2018) stated that businesses that do keep abreast of technological developments are bound to struggle in the face of competition and, therefore, eventually fail to remain sustainable.

Findings from the study indicated that 11 out of the 14 participants had no knowledge of IT and their businesses did not make use of modern technology and innovation. Hence it was found that during infancy the business owners had very little or no knowledge on the use and importance of modern technology to their businesses and, therefore, invested very little effort or money in this regard.

Furthermore, even though the government of South Africa has a variety of support systems through which it is committed to assist SMMEs, most small business owners in South Africa are unaware of the existence of these agencies (NCR, 2011; Mago & Toro, 2013). A survey carried out in 2010 indicated that over 75% of SMME owners are unaware of the existence of these government agencies (FinScope, 2010) and, thus do not stand a chance of benefiting from such institutions.

Findings from the study indicated that none of the 14 participating businesses had benefited from any form of support from the South African government. Two participants indicated that they were aware of the existence of these government support agencies and one participant stated that he had applied for support from SEDA but failed to receive any funding.

In addition to the above findings, a study carried out by Stats SA (2020) revealed that during the first two months of South Africa’s initial COVID-19 lockdown up to 84% of companies experienced a drop in their sales, 46.4% closed either temporarily or permanently, 36.8% had a drop in their workforce, 19.1% experienced significant increases in their operating costs, 50% indicated that their businesses would only survive for 1 to 3 months without a turnover, 36.6% affirmed that their businesses would only survive for less than 1 month without turnover, and 38.2% indicated that they will need government support in order to continue trading.

Findings from this study indicated that 6 out of the 14 participating SMMEs ‘closed their doors’ exclusively due to South Africa’s COVID-19 lockdown restrictions that were implemented as a measure for reducing the spread of the virus. Table 5.1 below list the entities that were directly affected by the business challenges resulting from the global COVID-19 pandemic:

Table 5.1 Participants whose businesses were affected by COVID-19

Participant Code	Race	Gender	Industry/Sector
PCT-2	Coloured	Male	Tourism (Accommodation)
PCT-3	White	Male	Organic cosmetics
PCT-5	White	Male	Tourism (Accommodation)
PCT-8	Black	Male	Manufacturing (Construction)
PCT-9	Black	Male	Construction
PCT-10	Black	Male	Construction

All the above companies operated within the category of companies that were required to temporarily close their doors during the initial lockdown period in South Africa. Discussions with the participants revealed that some of the businesses could not remain sustainable for at most three months without any turnover. Therefore, they had to permanently close their businesses.

In addition to the above, Paweta (2015) opines that any business operated by an entrepreneur who is deficient of essential traits such as risk bearing, proactiveness, vision, creativity, leadership, allocation and reallocation of resources, decisiveness, self-worth, persuasiveness and flexibility will not be sustainable. Findings from the study show that 7 out of the 14 participants indicated that they were not sufficiently proactive when they realised that their businesses were running sustainability risks. When they eventually tried to address these challenges it was impossible to reverse the damage that the challenges had already imposed upon the business. This lack of action, therefore, resulted in the closure of their businesses during its infancy phase.

In addition to the above facts, Barghouti (2011) further states (as mentioned previously) that the issue of racism is very often embedded in many communities and its presence is manifested in public spaces such as restaurants, banks and even schools. Findings from the study indicated that one participant claimed to have suffered from the adverse effects of 'soft racism' and this practice was one of the key challenges that affected the sustainability of her business.

According to Bvuma and Marnewick, (2000) SMMEs play a major role in South Africa's economy by contributing an average of 40 to 41 % of South Africa's GDP and accounts for up to 61% of the nation's overall employment. Tendai (2013) states that South Africa as a nation currently benefits enormously from the existence of SMMEs through their capacity for employment, economic growth, sustainable development, social stability, equity, participation, poverty alleviation and job creation. It is vital for SMMEs in South Africa to be sustainable owing to the critical role they play within the nation and the potential they provide for economic growth.

Hence the knowledge that has been obtained from this study will help to enlighten current SMME owners regarding the challenges that resulted to the lack of sustainability of the companies of their predecessors owned and/or managed. This knowledge will also help to inform those entrepreneurs planning or in the process of creating an SMME about strategies for keeping their businesses sustainable and remaining in existence long after their date of incorporation and/or infancy phase. This knowledge will also help owners of SMMEs with strategies relating to how to face and overcome the challenges to the prolonged sustainability of their businesses. The Integrity and legacy of a small business is strengthened through the sustainability of the business and this practice results to job creation, provision of goods and

services, leadership, preservation of the environment and, above all, drives community development and economic growth (Chow & Dunkelberg, 2013). On the other hand, the lack of sustainability of a small business does not only affect the individual's capacity to contribute to the community, society and the nation at large, but it also results in general economic problems for the nation (Mitchell, Madill & Cherim, 2015).

5.3 Recommendations based on the identified problems on sustainability:

An appraisal of the literature obtained and reviewed during this study encompassed journal articles both local and international, government publications that relate to the failure rate of SMMEs in South Africa. The researcher, therefore, recommends that further studies be carried out based upon information obtained directly from the South Africa Department of Trade and Industry that relates to the closure of SMMEs in South Africa.

SMMEs play a vital role to every nation's economic growth through the provision of employment and poverty reduction, therefore, it is hypothesized that having a good understanding of the challenges that adversely affect their sustainability in South Africa marks a crucial step to overcoming the challenges that result to their high failure rate (Fakoti, 2014). It is imperative, therefore, that researchers who carry out studies relating to the issues that prevent the sustainability of SMMEs in South Africa should focus their recommendations towards short- and long-term action plans that trigger positive change (Bushe, 2019).

The main purpose of this section is to enumerate, discuss and justify the actions that could be considered and/or taken towards tackling the 8 main challenges that small businesses face on a daily basis as discussed in Chapter 4 of this study and, subsequently, examine these problems from a wider perspective. These recommendations are based on the fact that the lack of sustainability of small businesses in South Africa does not exist in a vacuum but are triggered by some historical root causes that have build-up over time. Furthermore, the recommendations proposed in this study are aimed at assisting existing SMME business owner/managers an understanding of contemporary challenges, in order for them to engage in self-examination and to make amends where needed in order to avoid the future demise of their businesses.

5.3.1 Recommendation 1: Managerial skills and training in the specific business venture

Lin and Nabergoj (2014) strongly believe that there is a great need for emphasis to be laid on a well-organized educational structure that is able to tap the essential entrepreneurial skills required for problem solving and running a sustainable venture. From this study, it has been found that the sustainability of an SMME is dependent on managerial skills and purposive training towards running a specific business. Hence to reduce the unsustainability of SMMEs in South Africa, small business owners should to educate themselves through specific training sessions, attending workshops and seminars that focus on business sustainability and growth. Small business owners should visit either the offices or websites of the following institutions put in place by the South African government that provide training free of charge or, in rare cases, at an affordable price.

- Ntskia Enterprise Promotion Agency SA
- Khula Enterprise Finance SA
- Small Enterprise Development Agency SA

5.3.2 Recommendation 2: Marketing strategies and identification of a target market.

Marketing strategies help entrepreneurs identify suitable target markets for their business, fix appropriate prices to their goods or services, identify channels of sale or distribution and methods of advancement for their products or services in a competitive environment (Osiri, 2013). Hence to reduce business failure and enhance small business sustainability during infancy, the identification of the target market for a business, together with subsequent marketing strategies, should be included as part of the groundwork necessary for the registration of a company.

5.3.3 Recommendation 3: Knowledge of financial planning and record keeping.

The absence of proper financial planning and record keeping of the financial matters of a business, makes it impossible to accomplish the goals of the business and remain sustainable (Albuquerque, *et al.*, 2016). South African has over 5 recognised accounting and professional bodies that are able to assist business owners with financial matters. The following are key accounting bodies recognised in South Africa that small businesses should approach for financial advice and support:

- South African Institute of Chartered Accountants (SAICA)
- South African Institute of Professional Accountants (SAIPA)
- Association of Chartered Certified Accountants (ACCA)
- Chartered Institute of Management Accountants (CIMA)
- South African Institute of Business Accountants (SAIBA)

The above bodies are registered accounting and professional bodies and operate at different levels within the economy whereby they can accommodate SMMEs JSE listed companies. Both existing small business owners and aspiring small business owners should approach these companies for professional advice on proper record keeping procedures. This advice will assist SMMEs to overcome their current challenges relating to record keeping and, therefore, help to reduce the issue of unsustainability.

5.3.4 Recommendation 4: Modern technology and innovation.

Modern technology, IT and innovation have made their mark towards achieving viable advertising, product development and novelty, financial planning and decision making as well as improving sales to ensure business growth and sustainability (Omri & Frikha, 2015). Hence contemporary businesses cannot survive for long without the aid of modern technology. Small business owners are encouraged, therefore, to utilise modern technology in the running of their businesses as recommended by Omri & Frikha, (2015).

5.3.5 Recommendation 5: State support and responsibility to the society.

Even though the government of South Africa has a variety of support systems through which it is committed to assist SMMEs, most small business owners are unaware of the existence of these agencies (NCR, 2011; Mago & Toro, 2013). Hence the government should create and implement action plans to take the knowledge of these institutions to the lowest levels within all South Africa communities, such as printing informative hand bills and distributing them at shopping malls, business centres and in townships. This process will help provide SMME owners with information regarding where possible help can be sought in the face of business challenges.

5.3.6 Recommendation 6: Influence of COVID-19

The effects of the global COVID-19 pandemic upon South African cannot be overemphasised. The first measure taken by the nation to curb the spread of the pandemic was a national lockdown which was similar to measures that had been applied by many

nations around the world. However, the consequences of South Africa's initial national lockdown was that all businesses that were not considered as essential services had to completely close down during the period of the lockdown (Rajagopaul, *et al.*, 2020). This temporary closure of many companies eventually became a permanent closure and, therefore, shortened the life span of most SMMEs.

As a rapid intervention action taken by the government of South Africa, the following state schemes amongst others have been created.

- **Small, Micro and Medium-Sized Enterprises (SMMEs) Support Intervention**

The SMMEs Support Intervention is a scheme introduced by the Department of Small Business Development to assist SMMEs with Debt Relief Funds and Business Growth/Resilience Facilities to help lessen the negative impact of the foreseen economic 'go-slow' that has plagued SMMEs in South Africa.

In addition to the above, the Department of Small Business Development has created a Debt Relief Fund of more than R500,000,000, with the goal of assisting qualifying SMMEs with 'soft' loans from 1 April 2020.

The tourism sector has been given special attention by the Department of Tourism that has made available an additional R200,000,000 to support SMMEs that are operating in the hospitality sector in South Africa.

- **Guaranteed Loan Scheme for Small and Medium-Sized Enterprises (SMEs)**

The above consists of a COVID-19 loan guarantee scheme working in partnership with some major banks, together with the South African Reserve Bank and the National Treasury. This scheme was announced by President Cyril Ramaphosa in his speech on 21 April 2020 and was accompanied by a media statement and a publication issued by National Treasury, the South African Research Bank and the Banking Association of South Africa, to confirm that the COVID-19 loan scheme would be effective from 12 May 2020.

In order to guarantee their sustainability in the face of the challenges resulting from the COVID-19 pandemic, SMMEs in South Africa are encouraged to approach the Department of Small Business Development to obtain further details on how they can benefit from the funds made available for their support.

5.3.7 Recommendation 7: Entrepreneurship physiognomies/characteristics

Paweta (2015) is of the opinion that any business operated by an entrepreneur who is deficient of traits such as risk bearing, vision, creativity, leadership, allocation and reallocation of resources, decisiveness, self-worth, persuasiveness, and flexibility will not be sustainable.

As stated in Recommendation 1 above, SMMEs should seek relevant training in these essential entrepreneurial skills from the institutions mentioned in Recommendation 1 above.

5.3.8 Recommendation 8: Racism based on location

As previously mentioned, Barghouti (2011) states that the issue of racism is very often embedded within communities and its presence is often manifested in public spaces such as restaurants, banks and even schools. To solve the issue of racism in South Africa, the Anti-Racism Network South Africa (ARNSA) was created by Ahmed Kathada, in collaboration with the Nelson Mandela Foundation in 2015. ARNSA works together with the Institute for Justice and Reconciliation (IJR), and the Centre for the Advancement of Non-Racialism and Democracy (CANRAD). ARNSA, in collaboration with its partners, aims at dealing with matters pertaining to racism within South African communities and, at the same time, works with both national and international initiatives to help deal with the plague of racism. SMMEs experiencing any form of racism should consult with the above institutions.

5.4 Recommendations for prospective research on the topic:

Further research should be conducted to include a larger sample and cover more geographical locations to further substantiate the findings from this research. The 14 participants who contributed to this study do not represent all the SMMEs in the Cape Metropolis and furthermore, 13 out of the 14 participants were interviewed via phone calls and only one was interviewed face-to-face. This practice occurred because interviews happened at the peak of the initial lockdown period in South Africa and, therefore, participants were not willing to engage in face-to-face interviews. Future researcher should consider conducting face-to-face interviews since there are unvoiced messages that the researcher could receive from the participants' facial expressions. The study was limited to the Cape Metropolis and employed only the qualitative research method. Future researcher should consider using a mixed method research process which combines qualitative and quantitative methods (Venkatesh, Brown & Bala, 2013). The mixed method will be advantageous in that

the shortcomings of both methods will be eliminated, and, thus, enhance the validity and reliability of the study.

5.5 Limitations:

The aim of this study was to explore the challenges to the sustainability of SMMEs within the Cape Metropolis, South Africa. This research was conceived before the COVID-19 pandemic arrived South Africa and was aimed at meeting the participants on a face-to-face basis for the interviews. However, after the pandemic hit South Africa in March 2020, the data collection method was changed from face-to-face interviews to phone calls, Zoom, Microsoft teams or WhatsApp calls based on the means that was comfortable for the participant. The research aimed at interviewing at least 20 participants. A list containing 34 owner/managers of small businesses was received from the institution that provided the researcher with owners of demised small businesses.

All the participants were contacted using the means of available communication, either email addresses or phone numbers. After contacting 34 people, only 3 responded within a period of 2 weeks. Most of the people contacted via email either did not respond at all or the emails addresses were closed because they were the work addresses of closed business. Some of the participants replied after a month. The researcher sent text messages to all the participants whose phone numbers were provided. Most of them either ignored the text messages or replied several days after numerous reminders. WhatsApp messages sent to participants were either ignored, blocked, or indicated they were not willing to participate in the research study. Those people who accepted to partake in the study did so after several approaches that resulted in their believing the research study was legitimate. Most of the participants who are currently employees of other companies cancelled or postponed the interview dates arranged due to work pressure or other personal commitments. On some of the days, the internet connection was unstable, and the calls were broken and had to be repeated several times. On other occasions participant's data was finished and the participant had to buy more data for the interview to be finalised. Since most of the interviews happened after working hours, some of the participants were distracted from time-to-time due to their family members needing their attention. As a result of the above, the data collection process took a minimum of 6 months to finalise.

Each of the interviews were scheduled to take a minimum of 25 and a maximum of 40 minutes. However, most of them took over one hour, because of the interruptions resulting from the unstable internet connection or other distractions that were beyond the participant's control.

The study aimed at interviewing 10 male entrepreneurs and 10 female entrepreneurs. However, the woman who were contacted were worried about responding to an email or text message from a stranger. Hence only two women were courageous enough to respond to the request. One of the female participants stated that she usually does not reply to text messages from people she does not know.

Finally, there was also the issue of the reliability on the memory of the participants. All the participants were talking about businesses that they had either closed recently or one or more years back. Hence the research relied on the participants' narration of their recollection of events that happened some years previously.

5.6 Research summary and conclusions

The study explored the challenges to the sustainability of SMMEs in the Cape Metropolis, South Africa. The participants for the study were small business owner/managers within the Cape Metropolis and they were interviewed making use of an interview guide containing open-ended questions. The data collected during the interviews was analysed and eight themes emerged in the process: (1) Managerial skills and training in the specific business venture, (2) Marketing strategies and identification of target market, (3) Knowledge of financial planning and record keeping, (4) Modern technology and innovation, (5) State support and responsibility to the society, (6) Influence of COVID-19 pandemic, (7) Entrepreneurship physiognomies/characteristics (8) Racism based on location.

In conclusion, each theme that emerged during the data analysis was linked to and supported by existing literature that was explored during the study's introduction and literature review. Conclusively, SMMEs in the Cape Metropolis should adhere to the 8 recommendations for action listed above for them to assist them to remain sustainable beyond their infancy phase.

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APPENDICES:

APPENDIX 1: LETTER TO SMALL, MEDIUM AND MICRO ENTITY (SMME) OWNER-MANAGERS

LETTER TO SMALL, MEDIUM AND MICRO ENTITY (SMME) OWNER-MANAGERS

Dear Participant,

I am a master student in the Department of entrepreneurship and business management at the cape peninsular university of technology, Cape Town. The title of my research is "*Challenges to the sustainability of small, medium and micro-enterprises in the Cape Metropolis, South Africa.*"

The research seeks to investigate the "Why" most small, medium and micro business fail in South Africa including your business.

For the purpose of this research, it is required to collect data through personal interview. This will not take too much of your time and should take approximately 20 minutes to complete.

All the information obtained during this research will be treated with confidentiality and used for academic purposes only.

It is anticipated that findings of this research will help to provide valuable input towards policy formulation, aimed at understanding and reducing the failure rate of small, medium and micro entities in South Africa.

Thank you for accepting to be part of this study.

Kind Regards

Martin Ndutu Aka Akpo

Master student

Department of Business Management

Cape Peninsular University of Technology

Tel: 072 823 2083

APENDIX 2: Consent Form

Consent Form

Researcher: Martin Ndotu Aka Akpo

Please initial box

1. I confirm that I have read and have understood the information sheet explaining the above research project and I have had the opportunity to ask questions about the project.
2. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason and without there being any negative consequences. In addition, should I not wish to answer any particular question or questions, I am free to decline. (If I wish to withdraw I may contact the lead researcher at any time)
3. I understand my responses and personal data will be kept strictly confidential. I give permission for members of the research team to have access to my anonymised responses. I understand that my name will not be linked with the research materials, and I will not be identified or identifiable in the reports or publications that result for the research.
4. I understand that I may decline to be audio-recorded at any point.
5. I agree that the data collected from me may be used in future research.
6. I agree to take part in the above research project.

Name of Participant
(or legal representative)

Date

Signature

Name of person taking consent
(If different from lead researcher)

Date

Signature

Lead Researcher
(To be signed and dated in presence of the participant)

Date

Signature

Researcher:

Cape Peninsula University of
Technology, Department of
Entrepreneurship and Business
Management.

M Ndotu Aka Akpo

Student number: 218316968

Phone number: 072 823 2083

Email: akpomart@yahoo.com

Supervisor:

Cape Peninsula University of
Technology, Department of
Entrepreneurship and Business
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Management.

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APENDIX 3: INTERVIEW GUIDE

INTERVIEW GUIDE TO SMALL, MEDIUM AND MICRO ENTITY (SMME) OWNER-MANAGERS, INVESTIGATING THE CHALLENGES TO THE SUSTAINABILITY OF SMALL, MEDIUM AND MICRO-ENTITIES IN CAPE METROPOLE.

Instructions for answers:

- Please answer all questions with honesty and integrity.
- Please feel free to say you do not want to discuss a particular question if you feel you do not want to.

PART 1: Demographic information

Name of owner-manager: MR / MRS

Name of Business:

Sector of business:

Address of business:

Date of registration of business.....

PART 2: Interview

QUALITATIVE QUESTIONNAIRE

The below questions will be asked the interviewees to help solicit for what may have led to their business failure.

	Questions
1	How was your business idea conceived, or what motivated you to start the business?
2	What was your main objective/goal for starting the business?
3	How was your target market identified?
4	Could you explain briefly the kind of relationship you had with your clients/customers?
5	How would you describe the level of service you provided to your clients/customers?
6	What was the mode of marketing you utilised in advertising your business to the public?
7	Could you explain the type of management strategy you employed in managing your business?
8	Experience is vital to any business. How would you describe your business experience in relationship to your daily operations and do you think this was adequate to sustain the business?
9	How many employees did you have and how would you describe your relationship with your staff?
10	What are the processes or procedures that were employed in the management of your record keeping or daily running of your business?
11	Do you think you had sufficient financial skills and Information Technology skills and resources required for your business?
12	What would be your advice to young entrepreneurs who may want to venture into your type of business in the future?
13	During and after the closure of your business, were you able to identify some of the challenges that may have led to the failure of your business?
14	In what way were you able to address those identified challenges?
15	How were you able to source for start-up capital for your business, in your understanding would you say that you had access to sufficient financial resources?

Appendix 4: Consent letter from organisation

31 May 2020

Re: Letter of approval to conduct study.

Dear Sirs/Madam,

This serves as our approval to the following student's application to conduct his study at our institution.

Name: Ndutu Aka Akpo Martin

Student number: 218316968

Research title: Challenges to the sustainability of small, medium and micro-enterprises in the Western Cape, South Africa.

Hope this letter serves the purpose for which it is intended.

Kind Regards

Hans Klopper National Head – Business Restructuring