

**CRITICAL FACTORS THAT INFLUENCE THE SUCCESS AND FAILURE OF  
SMEs IN NAMIBIA IN THE KHOMAS REGION:**

**By**

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**Assignment submitted in partial fulfilment of the requirements for the degree of  
Master of Commerce (Business Management)  
at the University of Stellenbosch**



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## DECLARATION

I, the undersigned, hereby declare that the work contained in this assignment is my original work and that I have not previously in it or in part, submitted it at any university for a degree.

Signature:.....

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Date:.....



## ABSTRACT

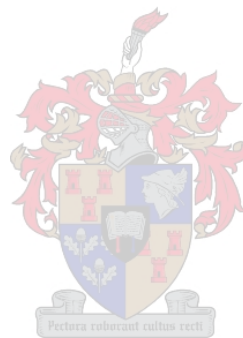
This study seeks to analyse the critical factors that influence the success and failure of Small Medium Enterprises (SMEs) in Namibia in the Khomas Region. To achieve this, the objectives of this study are to confirm whether there is a problem of business failure in Namibia in the Khomas Region. This will be done by identifying the causes of the problems and to search for practical solutions, given the causes of the problems. It is important that the problems associated with business success and failure be understood. Through an analysis of theoretical information and empirical results it is possible to establish how to facilitate more innovative and effective development that is much needed in developing countries, such as Namibia.

From the literature it became clear that there are numerous advantages and disadvantages associated with operating an SME. There will be always disadvantages for which we may never find solutions. Despite this, it is evident that SMEs are crucial for the development of any country, as they offer benefits such as subcontractors for larger organisations, economic growth and employment generation.

Data were collected from respondents by means of forty structured questionnaires (twenty for successful firms and twenty for unsuccessful firms) consisting of 23 questions (plus three open-ended questions). Nineteen of the questionnaires were returned of which twelve were from successful firms and nine from unsuccessful firms. The sample was drawn from a list of all the SME owners in Namibia in the Khomas Region.

Findings of the study indicate that there is a problem of business failure in the Khomas Region. Although business owners of successful and unsuccessful businesses recognise the support from the government, most unsuccessful business owners feel that the lack of proper governmental assistance is still one of the most critical factors that led to failure.

Finally the major recommendation of the study highlights the issue that the government should come up with strategic measures (such as business incubators) that will prolong the survival of SMEs.



## OPSOMMING

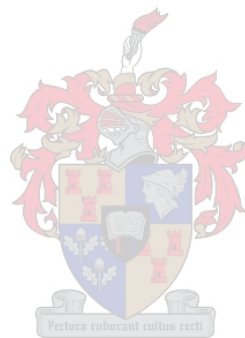
Hierdie studie is daarop gemik om die kritiese faktore wat die sukses, sowel mislukking, van Klein- en Medium Ondernemings (KMO's) in die Khomasstreek in Namibië beïnvloed, te ontleed. Ten einde dit te bereik, is die doelwitte van hierdie studie om te bepaal en te bevestig of daar wel 'n probleem van sakemislukkings in die Namibiese Khomasstreek bestaan. Dit sal gedoen word om, sodra 'n probleem geïdentifiseer is, die oorsake van sodanige probleme vas te stel, waarna met praktiese oplossings vorendag gekom moet word. Dit is belangrik dat die probleme wat met die sukses of mislukking van ondernemings te make het, verstaan word. Die wyse waarop meer innoverende en doeltreffende ontwikkeling, wat noodsaaklik is vir ontwikkelende lande soos Namibië, vergemaklik kan word, kan slegs bereik word deur die ontleding van teoretiese inligting en empiriese bevindinge.

Uit die bestudering van verwante literatuur is vasgestel dat daar verskeie voor- en nadele in die bedryf van KMO's is. Wat egter in gedagte gehou behoort te word, is dat daar sekere nadele is waarvoor geen oplossings bestaan nie. Ten spyte hiervan glo die navorser dat KMO's deurslaggewend vir enige land se ontwikkeling is, vanweë die feit dat dit aanleiding gee tot subkontraakteurs vir groot ondernemings en werkskepping.

Veertig gestruktureerde vraelyste (van twintig suksesvolle en twintig mislukte ondernemings), bestaande uit 23 vrae (sowel as drie (3) ope vrae) is aangewend om data by deelnemers te bekom. Hierdie steekproef is uit al die KMO's in die Khomasstreek geneem.

Die studie het bevind daar bestaan inderdaad 'n probleem van sakemislukking in die Khomasstreek (in Namibië). Alhoewel sakelui van suksesvolle sowel as onsuksesvolle ondernemings erkenning gee aan die ondersteuning wat die regering bied, wys die eienaars van mislukte ondernemings ordentlike regeringsbystand as die mees wesenlike probleem uit.

Ten slotte beveel die studie aan dat die regering met strategiese maatstawwe (soos “business incubators”) vorendag moet kom wat die oorlewing van KMO's teweeg kan bring.



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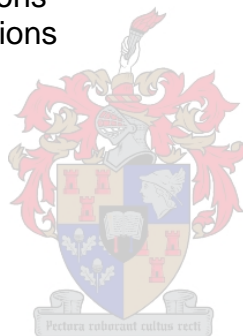
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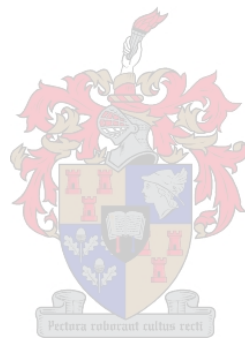
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## CHAPTER 1

### INTRODUCTION TO STUDY

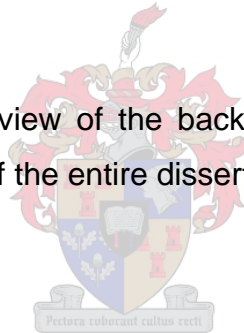
*“There is only one way to make a great deal of money; that is in a business of your own”  
J. Paul. Getty, Former business oils tycoon and once the richest man in America.*

#### 1.1 THEME

This study entails an investigation of the critical factors that influence the success and failure of small medium enterprises in Namibia in the Khomas Region.

#### 1.2 PREAMBLE

This chapter provides an overview of the background and the purpose of the study, and presents an outlay of the entire dissertation.



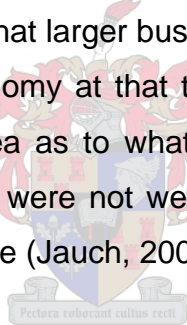
#### 1.3 BACKGROUND

Namibia is situated in the south-western part of Africa and has an estimated population of approximately 1.8 million people. Namibia gained independence on 21 March 1990, subsequent to the long South African rule and apartheid policies, which discriminated against the majority black population of the country. Many Africans (blacks) still live in the poor communities, to which they were confined during apartheid, such as the townships outside Windhoek. More recently many firms were forced to retrench some of their workers because of the improvements in technology and workers lacked the appropriate skills. Most of the larger firms that went through a process of restructuring and downsizing represent a common feature (Jauch, 2000).

Soon after Namibian independence, the Ministry of Trade and Industry and the National Development Corporation dealt with developing and operations of small medium enterprises in the country (P. Erwee, personal communication, 26 February 2004).

The primary reason why these two bodies took over the running of small medium enterprises was because they were assigned by government to deal with issues pertaining to development in the country. Although they are empowered and encouraged to engage in business, new black businesses and SMEs, however, often fail because of a lack of education and expertise in the business sector (Jauch, 2000).

Prior to independence, the country had no well-established small business sector. The primary reason was that larger businesses were white owned and the whites were also ruling the economy at that time. Secondly, the citizens of the country did not have a clear idea as to what a small medium enterprise was. Another reason was that people were not well informed as to how to go about running a small medium enterprise (Jauch, 2000).



The Namibian society faces continuous developments in the political, economic, technological, cultural and demographic environments. These changes have far reaching implications for the society in general and particularly for the efficient and effective management of businesses.

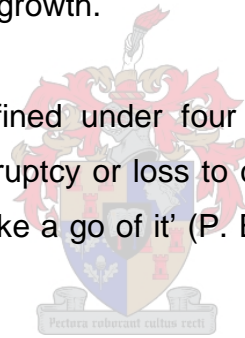
Businesses do not operate in a vacuum, but in an environment that is very dynamic and constantly changes, since wars, inflation and cultural value systems have an impact on the way people need to manage their businesses.

Competition between firms also plays a vital role in how businesses are operated. It is, therefore, of the utmost importance that businesses should be equipped with the knowledge in accordance with what is occurring in the external environment (P. Erwee, personal communication, 26 February 2004).

According to (Wickham, 1998) business success can be defined as something that is either visible or invisible in public, but is also experienced at a personal level. Four interacting aspects define success. These aspects are the performance of a business, the expectations of the people from the venture, the nature of those expectations and the actual outcomes of those expectations.

Business success can be attributed to a number of aspects. The following are some of the more important aspects: proper financial management and control, proper planning and controlled growth.

Business failure could be defined under four headings; discontinuance of a business for any reason, bankruptcy or loss to creditors, disposed of to prevent losses and finally failing to 'make a go of it' (P. Erwee, personal communication, 26 February 2004).



There are numerous reasons as to why businesses fail. These failures include poor business plans, poor preparation, poor management of people, lack of finance, lack of supporting institutions, poor location, lack of inventory control, uncontrolled growth, management incompetence, poor financial control, lack of experience, failure to develop a strategic plan, inability to make an entrepreneurial transition and poor planning (Van Aardt, 1997).

Poor business plans in terms of not adjusting the plans as the conditions within the marketing environment changes, lead to failure. Poor planning refers to a situation whereby a business fails to do inadequate contingency planning, and a business concentrating too much on short term goals instead of focusing on the long terms goals too (P. Erwee, personal communication, 26 February 2004).



In the light of the high rate of failure amongst small businesses, it is vital to investigate the problematic issues so as to find plausible solutions.

#### **1.4 PROBLEM STATEMENT**

Small and medium businesses are created to foster economic growth and development in the economy. The fact that so many of these businesses prove to be unsuccessful should be seriously considered because of the detrimental affect they have on the economy in the long run. For example, unemployment caused by small and medium enterprises closing down could have adverse effects, leading to poverty and crime in the country.

As many citizens are influenced by the failure of these businesses, it is the aim of this study to identify and investigate the specific causes of business failure. Plausible solutions to these problems could aid future owners of the small and medium businesses.

If the necessary interventions are put into place the success rate of many businesses would increase, which in turn may have a positive effect on the economy of the country. Small and medium businesses would utilise scarce resources, such as capital and labour, effectively and may even be able to compete on an international level if the issue of small business failure is addressed appropriately.

#### **1.5 OBJECTIVES OF THE STUDY**

##### **1.5.1 OVERALL OBJECTIVE OF THE STUDY**

The overall objective of the study is to analyse the reasons for success and failure of small medium enterprises in Namibia in the Khomas Region.

Given these various definitions of business failure, this study aims specifically at:

- Comparing at least forty Namibian small medium enterprises; namely twenty that are very successful and another twenty that are not so successful, in terms of service operations, profit, job opportunities and growth.
- Furthermore, the study aims to address the critical factors leading to success in small medium enterprises.
- The study also aims to address the critical factors that result in failure among small medium enterprises.
- Searching for practical solutions from existing businesses to solve the problems of less successful enterprises.

### **1.5.2 SPECIFIC OBJECTIVES OF THE STUDY**

Thus in recognition to address these problems of business success and failure in the country, the specific objectives of this study are:

- to confirm whether there is a problem of business failure in Namibia
- identify the causes of the problem
- propose remedial actions, given the causes of the problem

## **1.6 RESEARCH METHODOLOGY**

### **1.6.1 LITERATURE STUDY**

The study is descriptive and comparative in nature. Most of the sources that have been used in this study include books, academic journals, newspapers, the Internet, Government Gazettes and official and also unofficial documents from at least forty Namibian small medium enterprises. Questionnaires formed a major part of the measuring instruments.

## 1.6.2 EMPIRICAL STUDY

The measuring instruments were administered to forty small and medium enterprises in Namibia in the Khomas Region (twenty successful small medium enterprises and twenty SMEs that failed). To ensure that an effective comparison between success and failure could be made, both successful and not very successful small medium enterprises were compared in this study.

The names of the employees in the respective enterprises were treated as highly confidential. A detailed discussion of the empirical study will be provided in chapter five.

## 1.7 SCOPE AND LIMITATIONS OF THE STUDY

The research was based on forty small medium enterprises located in the Khomas Region. In order to conduct a study regarding the current approaches and strategies that should be employed in the small medium enterprises in the Khomas Region, a broad spectrum of small medium enterprise owners in Namibia would have been essential. A major shortcoming in this sample is that most of the employees are from the previously designated group. There was consequently no equal representation in terms of race and proper business skills that people may possess.

## 1.8 DEFINITION OF TERMS

- ***Small medium enterprises*** – The European Commission gave rise to the term small and medium enterprises (SME) in 1996 and defined the term as organisations employing fewer than 250 people. In order for a business to qualify as a SME, it should be subdivided into three parts; both the employee and the independence criteria have to be satisfied, plus either the turnover or the criteria for the balance sheet should be met (Burns, 2001).

- **Failure** – Failure implies to the absence of success and, like success, it can only be understood in relation to the expectations and goals of the people employed in the firm.

Failure usually results if expectations are not met, and thus this concept of failure may mean different things to different people (Wickham, 1998).

- **Success**- All entrepreneurs experience success. Success is visible both in public, and is also experienced at a very personal level. Success is not a simple matter, thus organisational, financial and strategic performance is only part of the wider picture.

Success is achieved if an organisation uses its performance to meet, or to exceed the financial, social and personal growth expectations of the persons who have an interest in the organisation (Wickham, 1998).

- **Entrepreneur** – According to (Burns, 2001) there is no universal definition of the term entrepreneur. The Oxford English dictionary defines the term entrepreneur as a person who attempts to make a profit by taking risk and initiative. By this it means that entrepreneurs exercise a very high degree of initiative and are willing to take risk to reach their goals.
- **Khomas Region** – This is the central region of the Republic of Namibia, where most business and financial institutions are situated. The capital city of Namibia, Windhoek is also located in this region. The study focuses specifically only on this region as the statistical data of the other regions of the country were difficult to obtain.

## 1.9 OUTLAY OF THE STUDY

**Chapter one** - The first chapter provides a background to the focus of the study within the Namibian context. The following description is followed: A brief history of the Namibian economy is provided; whereupon the problem statement is followed by the overall objectives of the study. Thereafter the specific objectives of the study, research methodology, definitions of terms and the limitations of the study are discussed.

**Chapter two** – This contains the theoretical background on entrepreneurship and reasons for business failure or success.

Furthermore, the chapter presents a broader spectrum about the theoretical background on entrepreneurship. A proper definition of entrepreneurship and its meaning is presented, followed by an in-depth theoretical discussion about the advantages and the disadvantages of entrepreneurship.

The section also outlines the various forms and the alternative forms of ownership for business organisations. Finally an analysis of the reasons for business failure and success will be discussed in this chapter.

**Chapter three** – Background on the Namibian economy

Chapter three narrows the literature review to the primary focus of this study. First the structure, importance and the global importance of small and medium enterprises will be discussed. Thereafter the study narrows down and analyses the Namibian economy and in particular the SME sector of the country.

**Chapter four** – This part of the paper will discuss the research methodology of the study. Specific topics to be discussed are the design of the research, research area, data and sampling design and the actual methods that were used to collect data for the study.

**Chapter five** –This chapter applies the findings from the research to introduce and provide a discussion of the results in terms of the theory and practice of SMEs in the Khomas Region.

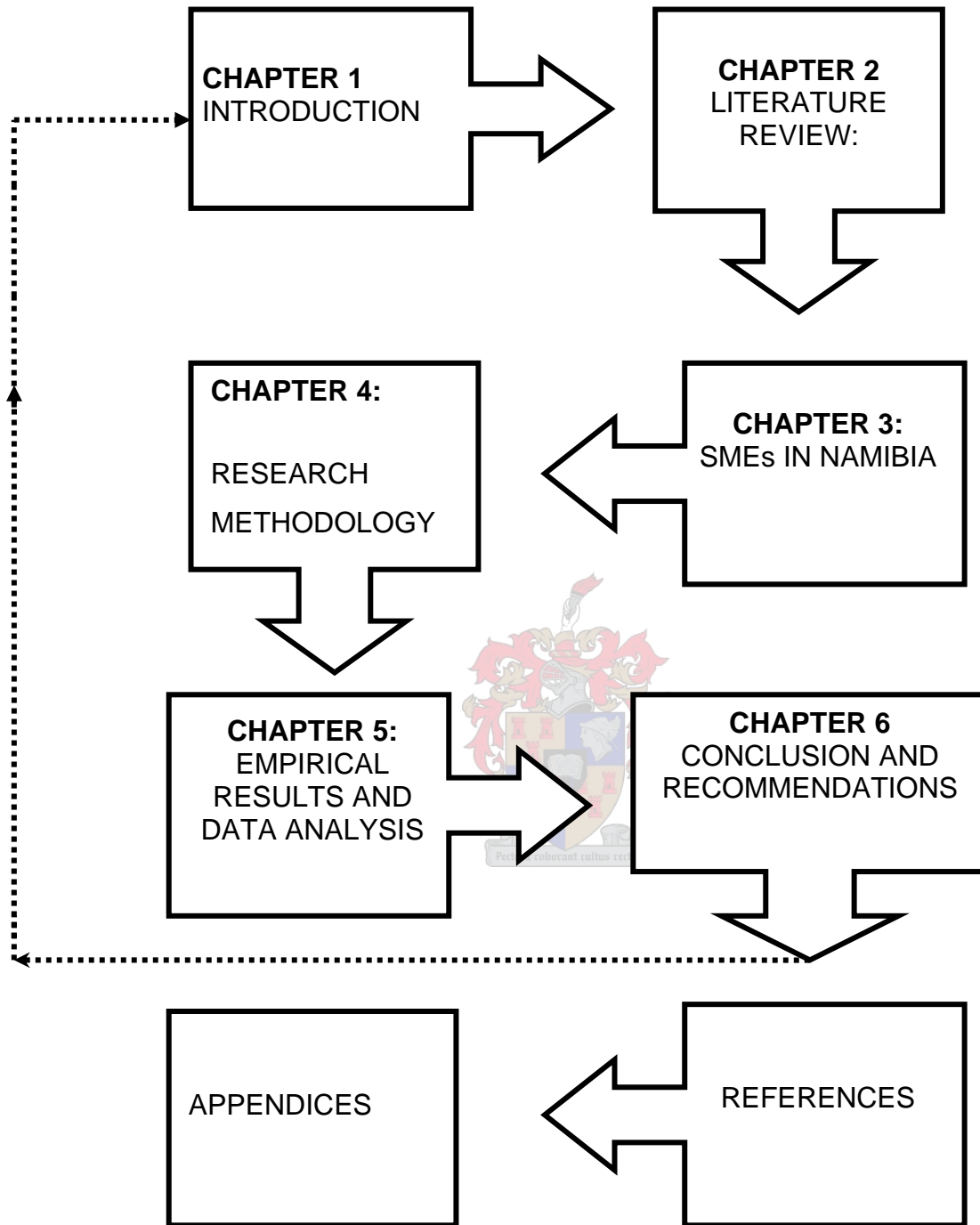
**Chapter six** – This chapter concludes the study. A summary of small medium enterprises in Namibia in the Khomas Region is provided, followed by a summary of the empirical results obtained from the study. Specific emphasis is placed on business success and failure.

To draw the chapter to a close overall recommendations and also specific recommendations and conclusions are outlined.

See Figure 1.1 for an illustrative model of structure of study.



Figure 1.1: Schematic diagram of study



## **CHAPTER 2 LITERATURE REVIEW THEORETICAL BACKGROUND ON ENTREPRENEURSHIP AND SMALL AND MEDIUM ENTERPRISES**

*“Nothing fails like success because we don’t learn from it. We only learn from failure –  
Kenneth Boulding”*

### **2.1 INTRODUCTION**

Business failure or success is not only common amongst newly established businesses (up to 3 months), but is also very prominent amongst businesses that have been in existence for up to three and a half years, regardless of how successful they are. It is the aim of this chapter to first explore the background of entrepreneurship, as the owners of small and medium enterprises are referred to as the entrepreneurs of their businesses. Thereafter the success and failure of small and medium enterprises are discussed.

In recent years, entrepreneurship and the nurturing of small medium enterprises have become one of the dominant themes in most developing countries. Entrepreneurship was and is often treated in theory as a vague and unquantifiable force that unifies labour and capital. The entire capitalist system is based on the risk of production and the distribution of resources (Nieman et al., 2003).

According to Schumpeter cited in (Nieman, et al., 2003) the entrepreneur is the focal point and the key to effective economic development and growth. It is the entrepreneurs who put together new combinations; whose actions have consequences on the basis of the organisational skills they possess and the creativity as decision makers in the organisations. Most of the entrepreneurial activities take place in small and medium enterprises.



It is the aim of this chapter to discuss the various roles of entrepreneurs or business owners, the importance of entrepreneurship, the stages of entrepreneurial growth and the various forms of entrepreneurship. Furthermore, the chapter will address specific issues that lead to the success or downfall of small medium enterprises within organisations.

## **2.2 ENTREPRENEURSHIP AND ITS MEANING**

Entrepreneurship is defined as the emergence and the growth of new businesses. Amongst many other motivational factors the maximisation of profits could be regarded as one of the most important elements as to why business owners indulge in entrepreneurial activities (Nieman et al., 2003). A widely held view of the term is that an entrepreneur is the person who brings about change and who possesses characteristics to implement ideas to benefit the society as a whole. Only comparatively few people are talented enough to manage this change. Apart from this definition a simple definition of the term 'entrepreneurship' is that it is the person who wants to work for him or herself.

According to the Austrian economist Schumpeter, entrepreneurship is an event that introduces a new product, a product method, new markets or a new form of organisation. Schumpeter states that in a perfect scenario these actions would help generate wealth by creating a demand in the market for a newly introduced innovation. A true entrepreneur is one who combines the input factors in such a manner that they will generate a much better output. This greater output will result in creating wealth for the society (Nieman et al., 2003).

During entrepreneurial activities, the owners of businesses have various important roles to play to ensure business success. These various roles are outlined in the next section of this study.

## 2.2.1 THE ROLES OF ENTREPRENEURS OR BUSINESS OWNERS

According to (Zimmerer & Scarborough, 2002) the entrepreneur should consider the following factors when managing an enterprise.

- *Entrepreneurs should have a very strong desire for responsibility:* This role is important, because as an owner one should have the passion and a deep sense of personal responsibility for the outcome of the venture the entrepreneur had started. There should be a strong preference to be in control of the resources and the efficient and effective use of those resources to achieve self-determined goals.
- *Entrepreneurs are not high-risks takers; instead they prefer to take moderate risks:* An entrepreneurial activity should be very different from a normal gambler; they should see every situation from a very different perspective and believe that their goals are realistic and attainable.
- *Another prominent role of entrepreneurs is that they should have a strong ability and a desire to succeed:* Most entrepreneurs have an abundance of confidence in their ability to succeed. They tend to be very optimistic and their chance for success and their optimism are based on reality. According to a study by the National Federation of Independent Businesses (NFIB) it was found that one third of the entrepreneurs rated their chances of success to be 100 percent. At times, some entrepreneurs are over-optimistic, and this may at times result in business failure before they eventually become successful.
- *Desire for immediate feedback:* An entrepreneur should enjoy the challenges that he/she faces in a business. Entrepreneurs would like to know how they are performing in the business. This is evident from their strong desire for feedback. Entrepreneurs love being told what and how they may improve in the overall functioning of the business.

- Another very important role of the entrepreneur is that he/she should have *high levels of energy*, as an entrepreneur can be very stressed at times: Entrepreneurs tend to be more energetic than the average person is. This energy is a very critical factor given the incredible effort required to launch and start up a company. Entrepreneurial ventures include tremendously long hours of hard work. These hours can stretch to sixty hours or more.
- *Future orientation*: Business owners or entrepreneurs should have a well-defined sense of searching for opportunities in the market to obtain a sustained competitive advantage. An entrepreneur should never look back on what might have happened yesterday, but rather be concerned about what can be done tomorrow.
- The latter mentioned role of future orientation is very crucial because where most people only see problems; the entrepreneur should be able to see the potential for success. Most of the traditional managers are more concerned with managing the available resources, but entrepreneurs are more concerned with spotting and capitalising on opportunities.
- *Skills in organising the resources of the organisation*: When establishing a business venture of one's own it is very important that the entrepreneur should manage his/her resources carefully. It is crucial that the entrepreneur manages the resources and combines effective people to transform their jobs into reality.

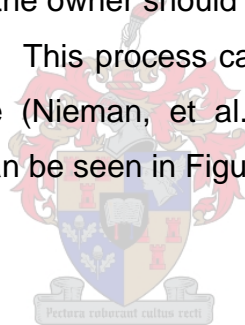
Other roles of entrepreneurs include a very high degree of commitment, as this is one of the key driving forces for a successful business. Thus it is common that most business founders often commit themselves completely to their businesses. Most, if not all, entrepreneurs have to overcome the inevitable barriers to launch a new business and to keep it growing. This requires 100% commitment to the business. An entrepreneur should also have a high degree of tolerance for ambiguity. This is mostly because businesses do not operate in a vacuum, but in a business environment in which many changes take place.

These changes are linked to a high degree of uncertainty, and decisions have to be made using new information, which may be conflicting and often emanates from sources that are not familiar. Linked with the tolerance for ambiguity, it is also important for the entrepreneur to be flexible in order to adapt to changing business conditions and also to the demands from customers. In today's rapidly changing global economy, rigid businesses are deemed to failure.

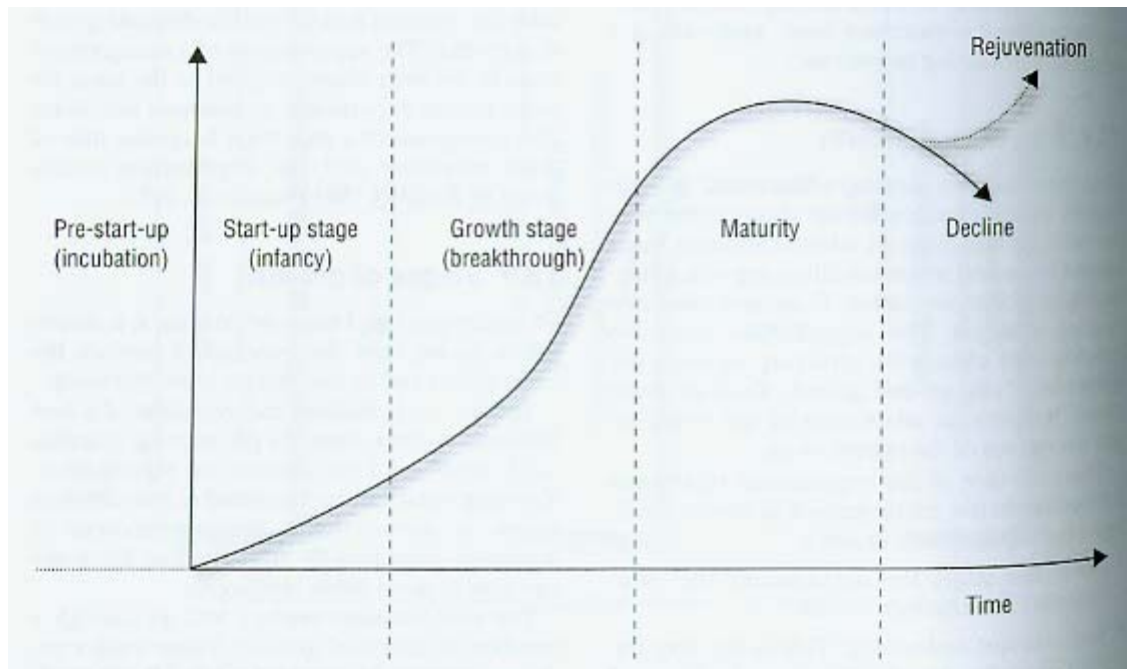
Having described the roles of the entrepreneur, the next section of the paper will explore the stages of entrepreneurial development (Zimmerer & Scarborough, 2002).

### **2.2.2 STAGES OF ENTREPRENEURIAL DEVELOPMENT**

When establishing a business, the owner should remember that the business has to pass through certain stages. This process can also be referred to as the life cycle of the business venture (Nieman, et al., 2003). The main stages of entrepreneurial development can be seen in Figure 2.1:



**Figure 2.1: Stages of entrepreneurial development**



Source: Nieman et. al., 2003. Entrepreneurship. A South African Perspective.

- **The incubation stage (pre-start up):** Normally the options for harvesting during this stage are usually limited. As the business is still in the conceptual phase, there are no great prospects of harvesting. Entrepreneurs can only harvest during this stage when their concept is a potential threat to another business or an industry that is very competitive. Entrepreneurs are able to eliminate threats for instance by buying the patent for protection of their own business (Nieman, et al., 2003).
- **Start up stage:** During this stage, harvesting does not enter into the mind of the entrepreneur, as this stage is associated with an increasing risk and potential for business failure. Market demand is usually not very certain at this stage and the ability to reap the benefits of profits are less certain (Nieman et al., 2003).

- **Growth stage:** This is usually a good time for the owner to think about harvesting, although it may not be a very important consideration for an average entrepreneur (Nieman et al., 2003).

The actual business growth and the demand for sales during this stage of the business venture are now becoming clearer. Potential competitors are on the outlook to gain access to markets that seem lucrative. Entrepreneurs will be able to sell the venture at this stage, based on the recent performance and also the projected performance for the immediate future (Nieman, et al., 2003).

- **Maturity stage:** This stage is characterised by tougher competition, with pressure in the distribution elements of the concept of offering. During this stage, sales start to decline and so do profits. Normally during the early maturity stage, some of the growth stage principles are very relevant, but during late maturity, selling becomes less favourable. Other options that become more desirable are mergers and alliances (Nieman, et al., 2003).
- **Decline stage:** Sales and profit decrease rapidly during this stage. Options for harvesting decline rapidly and only through creative application could harvesting be brought about. Entrepreneurs normally do not perceive this stage until it is too late. Poor strategic positioning is one of the causes of a declining business prospect during this stage (Nieman et al., 2003).

Each of these mentioned stages needs a different approach and thus it is important for the owner of the business to change the business plan of the firm at each stage. Many businesses fail because they move on to the next stage too early and consequently any actions may contribute to business failure. Each of these stages has primary areas of concern, namely planning, implementation and organisation. Thus it is crucial for the owner to acknowledge each of the stages of entrepreneurial development; otherwise the business could well experience failure.

### **2.2.3 THE ADVANTAGES AND DISADVANTAGES OF ENTREPRENEURSHIP**

In the previous part of the study it was seen that there are various stages of entrepreneurial development. Whenever a business goes through all these stages there are various advantages and disadvantages accompanying these stages. The next section of the study will highlight the advantages and the disadvantages of entrepreneurship.

#### **2.2.3.1 THE ADVANTAGES OF ENTREPRENEURSHIP**

When an owner of a business launches a new business, it is crucial to consider the benefits that such a business venture has to offer. A number of surveys have revealed that the owners of small medium enterprises believe that if they work harder and earn more money, they should be considerably happier than if they would have worked for a larger company (Zimmerer & Scarborough, 2002).

According to (Zimmerer & Scarborough, 2002), entrepreneurship has the following benefits to offer. Being an owner of a business enables the owner to create an opportunity for him/herself. This opportunity mainly occurs in the form of independence and the ability to achieve what is important to the entrepreneur as a person. When entrepreneurs have a passion for their business, they normally reap the benefits of intrinsic rewards knowing that they are the key driving forces behind their businesses.

Furthermore, entrepreneurship creates the benefit for the owner of a particular business to make a difference. This difference occurs through opportunities, which are important to the owner. Entrepreneurs typically find a way to preserve the limited natural resources of the earth efficiently and effectively, and combining their concerns with social issues, they earn the good living they desire (Zimmerer & Scarborough, 2002).

Entrepreneurship enables the owner of the business to reach his/her full potential. Many people find their daily work boring and unchallenging. However, this is not the case with the typical entrepreneur, since he/she would typically notice that there is a minute difference between work and play, as these two concepts often appear synonymous. Most entrepreneurs use their businesses as instruments for self-expression and self-actualisation (Zimmerer & Scarborough, 2002).

They are fully aware that the only boundaries for their success are those imposed by the creativity, enthusiasm and the vision they possess (Zimmerer & Scarborough, 2002).

One of the key driving factors for entrepreneurs is money. Although most of them do not necessarily become millionaires, they reap the benefits of the profits they earn. According to Thomas Stanley and William Danko cited in (Zimmerer and Scarborough, 2002) self employed people are four times more likely to become millionaires than people who work for others.

Entrepreneurship is a perfect opportunity for business owners to contribute to society. Small business owners appear to be the most respected and trusted members of their communities. Trust and respect is very important, as these are the hallmarks of many well-established small companies. When small business owners are aware that their businesses have a significant impact on the operations of the economy, they view this as another reward for their hard work (Zimmerer and Scarborough, 2002).

Finally, most business owners choose to establish a particular business enterprise because they have an interest in them and enjoy being in that particular business and having fun in the process.



It is consequently of crucial importance that owners of businesses should have a passion for the particular business activity they decide to establish. Engaging in any particular activity does not only involve benefits, but there are also drawbacks involved. The next section of this study analyses the potential drawbacks of entrepreneurship.

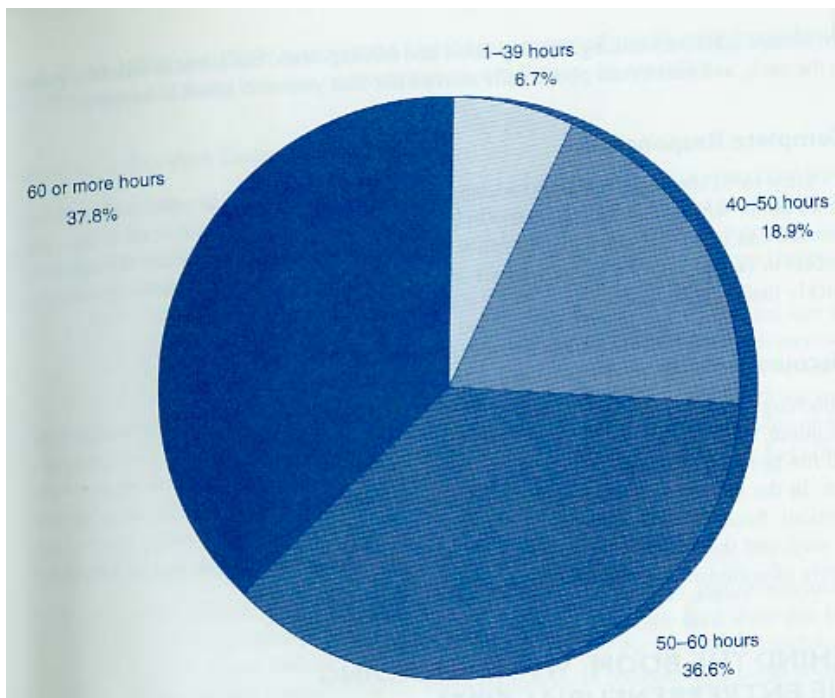
### **2.2.3.2 THE DISADVANTAGES OF ENTREPRENEURSHIP**

Owning a business normally enables the owner to reap numerous benefits, but these benefits are also coupled with problems. It is crucial for future growth and success that an entrepreneur should be aware of these drawbacks. These disadvantages – amongst many others – include the following (Zimmerer & Scarborough, 2002):

- *Uncertainty of Income:* Operating a business of one's own is not a 100% guarantee that the venture will necessarily be successful. This is mainly because some small businesses barely earn enough of a profit to provide the owner with a basic income. During the start up of business operations, the owner is faced with problems such as meeting his/her financial obligations and may be forced to live on savings. There is no assurance of a steady income, as would be the case when working for someone else. The owner of the business is usually the last one to be paid.
- *Risk of losing one's entire investment:* The rate at which small and medium enterprises fail is relatively high. Around 24% of new businesses fail within the first two years of start up and 51% shut down within four years, while within six years approximately 63% of small and medium enterprises would have failed. It is important that entrepreneurs have to be aware of the psychological consequences involved in business failure.

- *Long hours and hard work:* Starting up a business involves long hours, hard work and demanding schedules (Zimmerer & Scarborough, 2002). According to the survey conducted by the Medium Workforce for Small Businesses, owners increased their weekly working time to 56 hours from 51 hours in 1991. (See Figure 2.2).

**Figure 2.2: A profile of Small Businesses by Industry**



Source: Small Business Administration cited in Zimmerer and Scarborough, (2002).

As shown in Figure 2.2, three quarters of all entrepreneurs devote 50 or more hours per week to their companies. It is the norm in many businesses in the start up stage for employees to go without paid vacation for six to seven workdays. The primary reason for this is small business owners are too busy running their business and are worried about the revenue that might be lost when they take a vacation.

*Lower quality of life until the business gets established:* The long hours of work needed to launch a company can take their toll on the life of the entrepreneur. Normally the owners of a business replace their roles of husband or wife and of father or mother, since the founder of a company needs to devote his/her attention elsewhere (Zimmerer & Scarborough, 2002).

Another factor that also contributes; to a lower quality of life is that most entrepreneurs launch their businesses between the ages of 25 and 39, just as they start their families, which may well result in failed marriages and a lack of friendships.

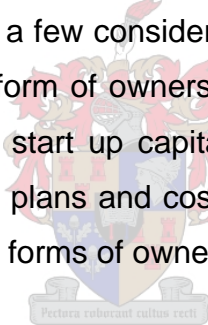
- *High levels of stress:* Although starting a business can be a rewarding experience, it could also be a highly stressful one. Entrepreneurs often make significant investments in their companies, and often sacrifice the safety and security of a steady pay cheque, as they have regular expenses, such as mortgage bonds to pay off. The failure of a business may cause total financial ruin, and create intense levels of stress and anxiety (Zimmerer & Scarborough, 2002).
- *Complete responsibility:* Being an owner of one's own business is a rewarding experience, but the challenge most entrepreneurs face is that they have to make decisions on their own. Normally this challenge occurs because there is no one else to consult on a particular question, and this would then cause pressure to build up quickly. Entrepreneurs realise that their decisions have a direct impact on whether the business may fail or be successful (Zimmerer & Scarborough, 2002).
- Another prominent factor that could be regarded as a drawback for entrepreneurship is *discouragement*. Starting up one's own business is a substantial undertaking and requires a great deal of dedication and discipline. Along the way to building a successful business, entrepreneurs would face many different obstacles, some of which appear to be insurmountable. Discouragement and disillusionment are common emotions in the face of such difficulties (Zimmerer & Scarborough, 2002).

Even the most successful entrepreneurs nowadays realise that every business encounters rough spots along the way, and they face these difficult times with a great deal of hard work and an abundant reserve of optimism.

## **2.2.4 VARIOUS FORMS OF OWNERSHIP IN ENTREPRENEURSHIP**

Choosing an appropriate form of ownership is one of the first decisions entrepreneurs have to make when they establish their own businesses.

However, too often entrepreneurs give little thought in choosing a form of ownership and simply opt for the most popular form, even if it is not best suited to their business. Quite often the change from one form of ownership to another is difficult and the financial obligations involved in such a movement could be costly for the entrepreneur. It is thus crucial for the entrepreneur to make the right choice at the outset. There are a few considerations entrepreneurs have to bear in mind prior to making a final form of ownership choice. These considerations relate to tax, liability exposure, start up capital requirements, control, business goals, management succession plans and cost information. The next section of the study will outline the various forms of ownership.



### **2.2.4.1 THE SOLE PROPRIETORSHIP**

One individual normally manages this form of business. This form of ownership is by far the most popular. Many individuals prefer sole proprietorship, as it is one of the least costly and simplest forms of ownership to create.

This form of business also brings about total decision-making authority, there is no legal restrictions and is a type of business ownership that is easy to discontinue (Zimmerer & Scarborough, 2002).

However, some people prefer not to go in a one-man business, as there is unlimited personal liability, limited skills and capabilities, feelings of isolation, limited access to capital and lack of continuity for the business. Some entrepreneurs rather form a partnership to avoid the drawbacks of sole proprietorship.

#### **2.2.4.2 THE PARTNERSHIP**

A partnership is an association of two or more people who co-own a business with the primary motive of earning a profit. During this form of ownership the partners share the business assets, liabilities, and profits according to those terms they established in the initial agreement. When two people go into a partnership there is normally a tremendous amount of strength and energy, but it is important that the focus should be in the same direction, otherwise it may well damage the relationship amongst the partners (Zimmerer & Scarborough, 2002).

A standard partnership agreement includes the following: name of the partnership, purpose of the business, domicile of the business, duration of partnership, name of partners and their legal addresses, how much each partner contributes, agreement of how profits and losses will be distributed, agreement on salaries, the procedures that should be used for expansion of new partners, sale of partnership interest, dissolution of partnership and alterations or modifications of partnership agreement.

Partnerships are also distinguishable in three groups namely (Zimmerer & Scarborough, 2002):

- *Limited Partnership*: This form of partnership is usually a modification of general partnership and consists of at least one general partner and at least one that is limited. During this form of partnerships the general partner is usually treated under the law as general partnership.

- *Limited Liability Partnership*: This form of partnership is recognised in many states, and usually all partnerships in this form of business are limited partners. Like any form of partnership, a limited liability partnership does not need to pay any taxes, as the income generated is passed to the limited partners, who generally have to pay taxes on their shares of the revenue generated by the company.
- *Master Limited Partnership (MLP)*: This is a relatively new form of business structure, similar to regular limited partnerships, except that its shares are traded just like common stock. The profits generated from the MLP have to be divided amongst multiple partners.

#### **2.2.4.3 PUBLIC COMPANY**

Public companies are sometimes called publicly owned companies in that any member of the general public may purchase a share or an actual piece of ownership in that company. Shares (also commonly known as stocks) are normally traded on a public exchange (Lewis & Kappes, 2005).

The three best known international exchanges are the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) and the NASDAQ, also refer to as the over the counter (Lewis & Kappes, 2005).

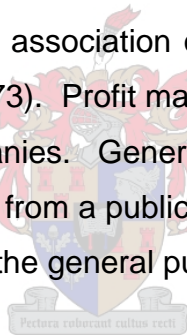
There are a number of regulations that govern how public companies operate and how their shares can be sold. In the U.S. the Securities and Exchange Commission (SEC) requires companies to provide transparent information about the operations and finances of their businesses. Public companies release a great deal of information about their activities and also have a vested interest in convincing potential investors to choose their particular stocks (Lewis & Kappes, 2005).

A public company enjoys numerous benefits, such as being in contact with a number of potential investors that could result in greater access to capital. With more capital the company will be able to develop which would not have been possible without outside investors. However, if a company should choose to go public, this would normally require a great deal of time, money, new legal obligations and liability issues. Gaining public shareholders may also reduce the control of the business owner over the company (Lewis & Kappes, 2005).

Any business owner considering going public should consider the advantages and disadvantages of doing so before committing him/herself to such a venture.

#### **2.2.4.4. A PRIVATE COMPANY**

In South Africa a company is an association of people incorporated in terms of the Companies Act (Act 61 of 1973). Profit making companies may take the form of either public or private companies. Generally a private company is used to form a small business and differs from a public company in that capital cannot be acquired by selling the shares to the general public.



A private company has to be registered with the Register of Companies and is normally identified by the words (“Proprietor Limited”).

There is usually a restriction on the transfer of shares and are limited to a minimum of one shareholder, one director and a maximum of fifty shareholders (Nieman et al., 2003).

One of the largest benefits that could be derived from a private company is that it is a legal entity separate from its shareholders; Members have limited liability and there is perpetual succession. A private company does not have the obligation to furnish internal or commercial information to the general public.

However, it has to prepare financial statements, which do not need to be published (Nieman et al., 2003).

#### **2.2.4.5 CLOSE CORPORATION**

A close corporation is a smaller corporation that elects close corporation status. It is free from the obligation to operate with strict formalities, which are normally required in the operation of standard corporations. This is an invaluable benefit to many small business owners (Spadaccini, 2005). The shareholders and the directors of a close corporation are entitled to operate much like a partnership. The close corporation cannot have more than a particular number of shareholders. The number of shareholders is generally 10 in most states.

There are numerous benefits that the owner of the business can generate by choosing close corporation as a form of ownership. These advantages are (Spadaccini, 2005):

- Close corporations require fewer formalities than standard corporations.
- The shareholders of a close corporation have a great deal of control over sales of shares to outsiders
- The liability protection for shareholders is strong in a close corporation.

Owners of small and medium enterprises may well be faced by a number of disadvantages when starting a close corporation. These disadvantages include (Spadaccini, 2005):

- Close corporations are normally expensive to organise.
- Close corporations are governed by both bylaws and a shareholder's agreement, which are a more complicated and restrictive set of governance rules.
- It is not possible to make a public offering of stock within a close corporation.

Starting a close corporation venture could be an exciting experience for the business owner, but it remains crucial to do a proper cost and benefit analysis before starting such an undertaking.



## **2.3 ALTERNATIVE ROUTES TO START A BUSINESS**

Apart from the various forms of ownership, there are also alternative routes that entrepreneurs may follow for a successful venture. This study will discuss three of these routes with their advantages, and also disadvantages.

These three routes are entering a family business, franchising, buying an existing business and starting a new business.

### **2.3.1 ENTERING A FAMILY BUSINESS**

Entering the business of a family member is one route to successful entrepreneurship. This is an option for those people who have relatives that own an operating business venture. This option has become very attractive in recent years, especially in countries such as South Africa and Namibia, where job opportunities after secondary education are limited. The importance of family businesses are recognised worldwide both in developed and developing countries.

In Western Europe, for example, it is estimated that family businesses contribute between 45 and 65 percent of the Gross National Product and they represent 75 to 95 percent of the registered companies. Based on the above, it could be assumed that family businesses are able to play a crucial and significant role in the development and growth of the third world countries (Nieman et al., 2003).

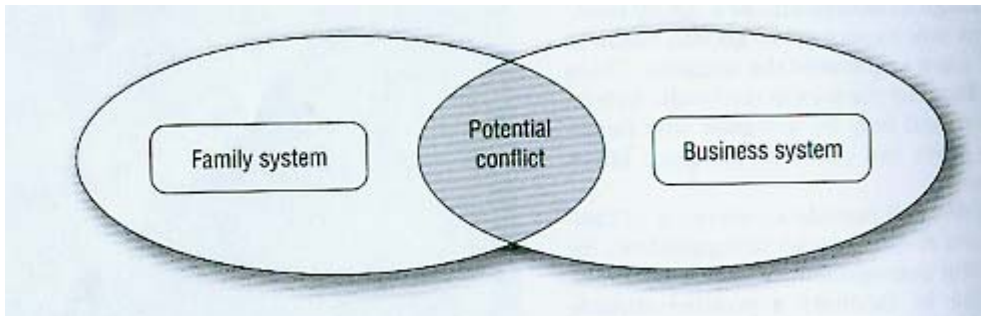
A family business is defined as one that is influenced by family ties in striving to achieve the vision of the family over potentially several generations. The following attributes constitute a family business (Nieman et al., 2003):

- The family (or a part thereof) is actively involved in a particular business.
- The members of a family have definite input into the strategic direction of the business.
- The number of family members involved in a business is more than one.

- Family businesses are established with the intention to continue the business over time.

Having looked at the definition of a family business this study will now discuss the business of a family as a system, with the aid of Figure 2.3:

**Figure 2.3: The two broad systems of a family business**



Source: Source: (Nieman et al., 2003). Entrepreneurship: A South African Perspective.

There are two broad systems in a family business namely the family and the business itself. The system of a family is a social system that places an emphasis on caring for the members of the family and may, therefore, be regarded as emotional. Prominent issues such as, *“What is good for the family?”* could result in decisions that may not be widely accepted (Nieman, et al., 2003).

The protection of the family name and reputation could become a primary issue in the business rather than the exploitation of new business ideas. This could be detrimental and could result in stagnation of the business. The main characteristic of a family business is usually task orientated.

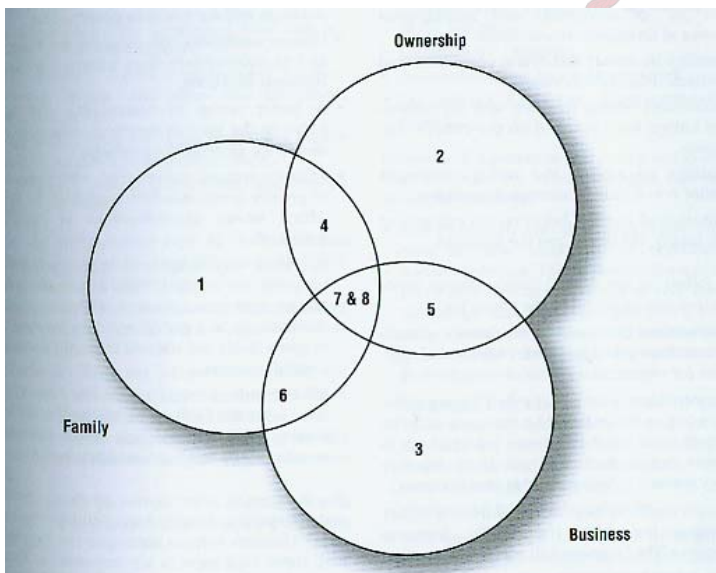
In order to survive the dynamic environment, new ideas have to be continually identified and turned into opportunities. Change, therefore, becomes a way of living in the family business. Success in a family business can only be achieved if the two broad systems (family and business) are balanced.

If one system dominates, conflict may well result in the family business. The two systems can further be subdivided into subsystems. The system of the family normally comprises the family, family by marriage, parents, brothers and sisters, family inside and outside the family business. It is crucial that all members of the family are aware of where they fit in and of their rights and privileges.

Furthermore, the business system consists of more subsystems such as managers, owners, employees and external networks (Nieman, et al., 2003).

The broad systems model of a family business could be further expanded to provide a clear reflection of the complexity of a family business. The different roles are reflected in Figure 2.4:

**Figure 2.4: The three-circle model**



Source: Murray, B. 2001. Travellers in time. Families in Business, Autumn. 37.

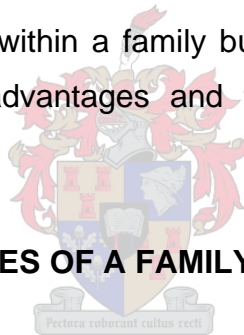
- 1) Family members
- 2) Non-family investors
- 3) Non-family employers
- 4) Family shareholders
- 5) Non-family working owners

- 6) Working family members
- 7) Working family owners
- 8) Family owners and business leaders

From Figure 2.4 it is clear that all the different roles should be managed in such a way that conflict is minimised in the family business. Thus it is crucial in the family business that all roles should be clarified and communicated effectively to each member in the business. For example, one would typically find that the owner of a family business, who is approaching his sixties, is more concerned with retirement than his thirty-year-old child who still wants to pursue new career opportunities. These conflicting expectations could thus have a significant impact on family businesses if not managed carefully.

Having observed the systems within a family business, the following section of the study will describe the advantages and the disadvantages of a family business.

### **2.3.1.1 THE ADVANTAGES OF A FAMILY BUSINESS**



Apart from macro-indicators, such as employment, contribution to the gross domestic product, there are numerous advantages that may be derived from a family business, namely (Nieman et al., 2003):

- When the culture of the family is strong, it can ensure the survival of the family business over several generations.
- Critical business decisions are minimised in a family business, as there is greater sensitivity for the business and its stakeholders.
- A better sense of community will exist between the various members of the family, which is crucial for the expansion and growth of the business.

- Jobs are created and ensured, which could result in greater social stability, especially in developing nations, such as South Africa and Namibia, where unemployment levels are high.
- Family businesses offer the benefits of specialised knowledge and experience of how the business has been created, which is normally transferred to the younger generations at the breakfast table.
- A family business creates more freedom, which develops the creative potential of the family, as family businesses are mostly small and medium sized.

### **2.3.1.2 THE DISADVANTAGES OF A FAMILY BUSINESS**

Having described the advantages of a family business, the disadvantages of a family business will be discussed in the following section. Analysing the systems model of a family business it is clear that if the systems of family business are not in harmony, then conflict could have a deleterious effect on the long-term survival and growth of the business. This is evident from the disadvantages of a family business as discussed below (Nieman et al., 2003):

- Family businesses often experience the problem of finding capital for growth without diluting the family's equity.
- Furthermore, family businesses find it difficult to optimally balance the needs of the family for liquidity and the need of the business for cash.
- Another prominent problem is poor estate planning and the inability of the next generation to pay inheritance taxes.
- Lack of willingness of the older generation to "let go" of ownership and management power at an appropriate period.
- Family businesses often fail to attract and retain competent and motivated family successors.

- In a Southern African context there are a lack of entrepreneurial initiatives because they are not needed in a stable environment, or members are not trained according to that mindset.

The next alternative route to the various forms of ownership to be discussed is franchising.

### 2.3.2 FRANCHISING

This form of ownership has come a long way from its beginnings in the 1850s, when a sewing machine company in Singapore began licensing distributors to sell its sewing machines. When a company operates as a franchise, a semi-independent business owner (franchisee) pays fees and royalties to the parent company, and in return, he/she obtains the right to become identified with a trademark, to sell its products and services, and often make use of its business and systems (Nieman et al., 2003).

Franchising occurs in different forms, namely: trade name franchising, which involves a brand name such as Western Auto. In *trade name franchising*, the franchisee purchases the exclusive right to use the franchiser's trade name when distributing particular products. Secondly, in *product distribution franchising*, the franchiser licenses a franchisee to sell a particular product under the franchiser's brand name and the trademark through a selective, limited distribution network. A further example is *pure franchising* whereby the franchisee is provided with a complete business format, including license or trade name, the products or services that have to be sold, the physical plant, the method of operation, a marketing strategy plan and a quality service control (Zimmerer & Scarborough, 2002):

Of the types of franchising discussed, pure franchising is growing at a faster pace than the other variants, as it is common amongst fast food restaurants, hotels, service firms, beauty and retailers and many other businesses (Zimmerer & Scarborough, 2002).

Most business owners prefer to buy a franchise, as a franchisee has the opportunity to own a small business quickly, as there is an established product and an identified brand name (Zimmerer & Scarborough, 2002).

### 2.3.2.1 THE ADVANTAGES OF BUYING A FRANCHISE

Numerous benefits are obtained when a person buys a franchise. These benefits are management training and support, brand name appeal, standardised quality of goods and services, national advertising programs, financial assistance, proven products and business formats, centralised buying power, site selection and territorial protection and an improved chance of success. For the purpose of this study, management training and support and an improved chance of success will be discussed in detail:



**Management Training and Support:** One of the primary reasons for business enterprise failure is incompetent management. Franchisors are well aware of this phenomenon and accordingly attempt to reduce the number of franchise failures, by extending the option of managerial training programmes to franchisees prior to the opening of a new outlet. These training programmes usually involve both classroom and on-site instruction to teach franchisees some basic business operations. A well-known example where managerial training takes place is at the so-called Hamburger University in Illinois, USA, where franchisees spend two weeks learning everything from how to scrape the grill correctly to how to manage a \$1.6 million business. Franchisors are motivated to offer training programmes because they are well aware that their overall success depends on the franchisee's success (Zimmerer & Scarborough, 2002).

**Improved Chance of Success:** When an owner invests in a franchise considerable risks are involved. The number of new franchise companies entering the market in the USA yearly is between 200 and 300, and not all of them succeed. However, the available statistics indicate that franchising is less risky than building a business from scratch.

Franchise experts argue that the safest way to "scratch" the metaphorical "entrepreneurial itch" is by becoming a franchise. Furthermore, approximately 24 percent of new businesses fail during their second year of operation; in contrast only 7 percent of franchises will fail during their second year of operation. When looking at the performance of franchises after a period of six years, on average some 85 percent of the franchises are still in operation compared to just over 50 percent of independent businesses (Zimmerer & Scarborough, 2002). The extent to which a franchise succeeds or fails depends on the entrepreneur's managerial skills and motivation and also his/her business experience and the systems in place. The benefits of franchising are also coupled with some drawbacks; and the next section of this study will briefly examine these disadvantages (Zimmerer & Scarborough, 2002).

### **2.3.2.2 THE DISADVANTAGES OF FRANCHISING**

As a prospective franchisee one should be well aware of the limitations of a franchise business. These limitations relate to franchise fees and profit sharing, strict adherence to standardised operations, restrictions on purchasing, limited product line, unsatisfactory training programmes, market saturation and less freedom. For the purpose of this study only market saturation and less freedom will be discussed briefly:

*Market Saturation:* Many owners in fast food businesses have realised that market saturation is a real threat to their businesses. Although some franchises offer territorial protection, others simply do not.



Territorial protection is one of the most controversial issues nowadays in the franchising industry, as prime locations have been exhausted by most of the growth seeking franchisers. (Zimmerer and Scarborough, 2002).

*Less Freedom:* When most franchisees sign an agreement, they agree to sell the product of the franchisor according to a prescribed formula.

This feature of franchising is the primary source of the systems success, but the franchisee may feel that he/she is reporting to a boss.

Franchisees frequently are of the opinion that there is too much uniformity and there is no independence that could enable them to use their knowledge, skills and competencies. Many entrepreneurs who would like to be their own boss have been disappointed by the way some franchisors operate their businesses (Zimmerer & Scarborough, 2002).

The next alternative route to business ownership, which will be discussed for the purpose of this study, is business buyout.

### **2.3.3 THE BUSINESS BUYOUT**

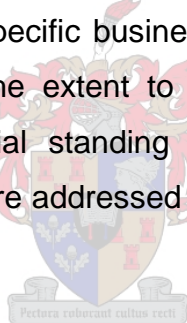
It is not always necessary to start one's own business from scratch or to join a business of a family member. Another alternative could be to buy an existing business, and this type of transaction is known as business buyout. According to Zimmerer & Scarborough 1998, (as cited in Nieman et al., 2003), in the late 1990s there was a hot trend in the United States to purchase existing businesses because of the ongoing boom in entrepreneurship. Although the primary reasons for a business buyout may not be markedly different from that of purchasing a franchise or joining a family business, the urge of doing one's own thing is a well-known phenomenon, but the means in this case are, however, different. Business buyouts may at times be a rather disappointing experience, so that before the entrepreneur enters into a deal, he/she needs to undertake some proper research and homework.

In this part of the study a brief description of evaluating the option of buying a business will be provided, and thereafter the advantages and disadvantages of a business buyout will be outlined.

### **2.3.3.1 EVALUATING THE OPTION OF BUYING AN EXISTING BUSINESS**

The option for buying a particular business may be evaluated by considering the reasons as to why one buys a specific business. First, it is very important that the buyer should determine the real reason as to why the business is for sale.

Sometimes this cannot be found in financial statements, or in the spreadsheets that are normally used to analyse the financial standing of the business. Extensive research thus becomes a necessity for the entrepreneur to ascertain the true reason as to why the specific business is for sale. Another prominent question that may emerge is the extent to which the business is profitable. Questions, such as the financial standing of the business and whether it generates a positive cash flow, are addressed in the evaluation process (Nieman et al., 2003).



Furthermore, businesses in different industries require different skills and competencies. A manufacturing business will require different skills and competencies than a retail business. As an entrepreneur, one has to ensure that one is skilled enough to meet the demands of the specific type of business. Other factors that play a very prominent role in evaluating the option for buying a business include (Nieman et al., 2003):

- The history of the business in terms of previous owners, and the way the public perceives the business.
- The physical condition of the business also plays a very important role, in terms of its facilities and other assets.

- An entrepreneur also has to identify his/her competitors as well. This is one of the strongest forces that will have an impact on the success of the business. Trend analysis in terms of competitors also plays a very important role, as this will provide a clear indication of what is happening in the industry.
- Finally, legal aspects and the existing size of the potential market are also issues of crucial importance for an entrepreneur when buying an existing business.

Having examined the option of buying an existing business, the following part of this study will discuss the advantages and disadvantages of buying an existing business.

### **2.3.3.2 THE ADVANTAGES OF BUYING AN EXISTING BUSINESS**

According to Lambing & Kuehl, 1997 (as cited in Nieman et al., 2003) buying an existing business involves a lower risk, and it is also easier to purchase the business at a bargain price.

Other notable scholars, such as Zimmerer & Scarborough, 1998 (as cited in Nieman et al., 2003) suggested the following advantages for a business buyout:

- The business is an ongoing concern, and this will save the new owner of the business time, money and energy, which are required when planning, or launching a new business.
- A successful existing business may have a better chance of continuing to be successful. This is possible because an established business has a well-established customer base that will help the new owner while he or she is learning the business.
- An existing business may have the advantage of an excellent location, as a new location may not draw the attention of customers. Thus location is a critical factor for the success of a business.

- An existing business also offers the benefit of well-established suppliers, and the owner does not need to make the effort of building new relationships with suppliers.
- The inventory and equipment of an existing business is already in place. This will provide the owner with a good idea of where the balance lies between the inventory and equipment as to whether there is too much or too little inventory. In terms of the equipment, it would be easy for the new owner to determine the condition and the capacity of the equipment.

Unfortunately, the coin has two sides. Having discussed the benefits of buying an existing business there are also disadvantages that need to be considered.

### **2.3.3.3 THE DISADVANTAGES OF BUYING AN EXISTING BUSINESS**

When describing the disadvantages there are external and internal problems that the entrepreneur should take into account. According to Zimmerer & Scarborough, 1998 (as cited in Nieman et al., 2003) these problems or limitations are:

- The business may not have been profitable, but the owner could have disguised it by employing a creative accounting technique. Entrepreneurs should be very much alert about this possibility, as the business owner may have more than one income statement.
- The business could have a very poor reputation or image. The performance of the business may be poor in terms of unethical and socially irresponsible business dealings, which would create ill-will for the business.
- The location of the business could have been favourable in the past, but because of new developments such as shopping malls and competitors, this once favourable location may now spell disaster for the business area in which the enterprise is located.

- Another significant disadvantage could be that the business may be overpriced, i.e. the price of the business could be higher than its value in terms of the assets on the balance sheet.
- According to Lambing and Kuehl, 1997 (as cited in Nieman et al., 2003) it is crucial to consider the disadvantage of operating in the shadow of the previous owner. This is especially relevant for service operating businesses where a great deal of trust and confidence were established between the previous owner and his or her clients. These elements are not easily transferable to the new owner.

Against the above background it becomes clear that it could be quite risky to purchase an existing business, and hence it is vital that the entrepreneur scrutinise all relevant information before engaging in any transaction. Having considered the advantages and the disadvantages of buying an existing business the fundamentals of starting a new business will be discussed in the next part of the study.

#### **2.3.4 STARTING UP A NEW BUSINESS**

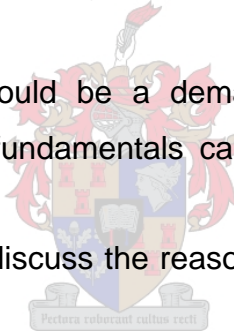
A number of new businesses and many new entrants to the job market start their first jobs with start-ups. From the preceding forms of ownership it is clear that when starting up any business, proper preparation and planning ensures business success (Nieman et al., 2003). The start-up process is based on the fundamentals of management, being: planning, organising, leading and control (Nieman et al., 2003).

- *Planning:* This action takes place during the idea generation and opportunity recognition process that culminates in the business plan. The business plan enables the entrepreneur to consider the marketing, production, operations, management and finances of the new business venture. The business plan acts as a roadmap to the owner of the business to minimise any risk that could be incurred in future.

- *Organising:* The requirements for organising a business involve gathering the necessary resources, meeting the legal requirements and finding a suitable location for the business. The development of organisational policies and procedures with respect to employment, ethics and quality assurance also plays a significant role when organising a venture,
- *Leading:* This process starts when the venture takes on the aspects of the business, and when the members of staff are appointed. These employees need to be motivated to perform their task in the most efficient and effective manner. The various functions of the business, such as marketing, finance, production and finance), need to be structured.
- *Control:* Control ensures that records are kept properly and issues such as risk management, quality, ethics and internal control are taken care of to ensure the smooth running of the business and the protection of business services.

The process of starting up could be a demanding task, so it is vital that entrepreneurs consider these fundamentals carefully when deciding to start a new business.

The next part of the study will discuss the reasons as to why small and medium enterprises succeed or fail.



## **2.4 SMALL AND MEDIUM ENTERPRISES**

Having discussed the various forms of ownership in the previous section, this section of the study will focus specifically as to why businesses are successful. There is no exact formula that needs to be applied for the success of any business, as there are a number of unforeseen circumstances and conditions, such as economic downturns, that could have a direct impact on business success.

## **2.4.1 WHY SMALL AND MEDIUM ENTERPRISES ARE SUCCESSFUL**

### **2.4.1.1 Expanding management skills**

In any small business it is important that the entrepreneurial skills of the business manager have to be constantly expanded or improved. This is very important because it leads the business manager to examine new ideas and means of running the business operations.

To ensure that the management skills of the business manager are expanded (Wright, 1995:49) proposes that the business manager or entrepreneur should read as much as possible in the field of small business, to acquire the knowledge, skills and competencies about management aspects.

However, should the entrepreneur not have the sufficient management skills, he or she can get a partner with good management skills. A partner not only ensures that the business manager adds management skills required for the success of the business, but that he or she would be relieved from the work pressure of the business and would inject money as working capital into the business. If the owner would not want to appoint a partner, he or she may also make use of consultants. Consultants are very useful in creating effective business structures and practices, such as effective accounting practices (Van Aardt, 1997).

### **2.4.1.2 Good Record Keeping**

The second reason that makes small business successful is *good record keeping*. Records of the business should entail all the day to day details of the business, but at the same time they should be kept as simple as possible. Records should provide the business manager or the entrepreneur with all the information that would enable him or her to run the business successfully.

In this regard, (Wright, 1995:50) has the notion that when the record keeping system is effective it enables the manager of the small business to evaluate the success of the business on a weekly and also a monthly basis. Detailed customer records also enable business managers to keep a diary for business appointments, issue detailed invoices to customers and file copies of such in an alphabetical order. Record keeping is not only important for financial, sales or administrative customer records, but will also enable the business manager to assess stock levels and also the value of the current stock in the business.

#### **2.4.1.3 Cash flow management**

Most of the successful small businesses ensure that they maintain a sound cash flow position for the business. Good cash flow management is essential because most of the small medium enterprises that have failed, failed due to poor cash flow management.

(Van Aardt, 1997) is of the opinion that even if a business has adequate stock and assets, these cannot easily be converted into cash within a relatively short period. According to (Wright, 1995:52-53) there are quite a number of reasons as to why businesses experience cash flow problems, namely:

- Credit terms are too generous, credit is too easily provided or continuous credit collection is not ensured: if credit terms are too generous this may result in payment not being received, leading to cash flow problems. This situation could usually be addressed by formulating an effective credit policy, spelling out the rules for granting credit to customers, credit limits or the procedures that need to be followed to collect credit. Entrepreneurs should ensure that that they have proper contingency planning measures in place so as to ensure that cash flow projections are made constantly.



- Cash is wasted on unprofitable products and services: This may cause the business to land in a financial dilemma. It is important that entrepreneurs conduct a proper cost and benefit analysis to shed those business activities not contributing to the bottom line of the business. This will ensure that the business focuses more directly on its core business activities, this will lead to a better cash flow and a more profitable organisation.
- A considerable amount of cash is spent on buildings, houses, machinery, even luxury cars or the owner's salary: On the other hand, a possible reason why some businesses may be successful, is that they lease or rent what is required. In addition, some owners of successful businesses drive a relatively inexpensive motor vehicle, and pay themselves a modest salary until such time as the business is well established, and becomes more profitable.

#### **2.4.1.4 Changing Roles**

As the business expands and enters its initial stages of growth, the entrepreneur or the business manager should be able to change his roles so as to enable the business to become more successful. In order to make this conversion, entrepreneurs should continuously hone their management skills to enable them to successfully manage the growing business (Van Aardt, 1997).

#### **2.4.1.5 An efficient and effective marketing strategy**

Most of the small medium enterprises that reap the benefits of success ensure that they have a very efficient and effective marketing strategy in place. This marketing strategy should be well formulated, and a proper market research and market analysis should also be conducted. The products and the services of the small medium enterprise should be evaluated continuously. (Wright, 1995:53) indicates that this could be

achieved by analysing the products or the services of the business, formulating a marketing plan, assessing the needs of the clients and doing a proper comparative analysis of both the business and the competitors.

#### **2.4.1.6 Proper Planning**

Most of the small medium enterprises are successful if they see to it that they have a system of good planning in place to ensure business success. This planning normally involves (Van Aardt, 1997):

- Setting objectives that are appropriate: this provides a clear indication as to what the business actually tries to achieve and where the business is heading.
- Indicating the resources that are required to achieve these objectives: When a business sets out the objectives outlined above, financial or physical resources are required to fulfil these objectives successfully.
- There should be exact guidelines as to how the firm intends to achieve its objectives. This usually refers to the strategic measures the firm needs to achieve its objectives.
- Exact target dates have to be set as to when the organisation intends to achieve its objectives
- Finally, measurement criteria are needed as to how the success is measured that the organisation wishes to achieve, and these have to be spelled out in detail.

#### **2.4.2 REASONS WHY SMALL AND MEDIUM ENTERPRISES FAIL**

Before considering the reasons why small and medium enterprises fail, it is important to reflect on the definition of the concept of business failure. Business failure occurs when a business reaches a point of insolvency, when it can no longer continue trading. It can be argued that by continuing to trade the owner may put him/herself into considerable trouble.

At this point, the business has approached total failure and the owner needs to accept that the business will be faced with ever increasing financial and legal problems, even if he/she should try to salvage the business (Burns, 2001).

In addition a general definition of business failure could be a condition whereby the business enterprise operates at a loss rather than generating profit. As outlined below, business failure may be caused by many factors, such as:

**2.4.2.1 Lack of Skills:** Whichever business an individual owns, and for the purpose of this study of small and medium enterprises, it is essential that the owner should dispose of the required fundamental skills to manage a business.

These core skills do not necessary refer to all the business skills, such as accountancy, required to run the business successfully. It is not a major obstacle for the owner of the business to move into areas where he/she possesses limited skills as long as he/she has certain other qualities that could compensate for the lack of skills and that he/she will remain dedicated to the business.

The time that the owner spends in preparing to start a new business is the most valuable time he/she will use and this has a direct bearing on the initial outcome of one's success (Van Aardt, 1997).

**2.4.2.2 Lack of Management Skills:** Most owners of small and medium enterprises think that the more cash they have, their problems will be solved. In doing so they negate the most critical element of business, which is “*good management*”. Entrepreneurs need to control a wide range of functions when controlling a business. These functions amongst many others include marketing, research and development, financial management, sales, purchasing, inventory control and production (Van Aardt, 1997). If an entrepreneur is unable to exercise these functions in the most appropriate and efficient manner his/her business may well be doomed to failure.

**2.4.2.3 Poor financial control and lack of accounting knowledge:** Many small and medium enterprises fail because the owners of these particular businesses do not integrate accounting and accounting practices to a reasonable level in their businesses. By failing to do so, they lack financial control and consequently cash flow problems may result in the failure of their businesses. Thus it is crucial for business owners to employ a competent bookkeeper if they have weak accountancy skills, in order to ensure that the accounts are managed regularly (P. Erwee, personal communication, 26 February 2004). A lack of financial capital is also one of the prominent reasons why businesses fail. The above reasons highlight some reasons why small and medium enterprises continue to fail after the first three years of their initial start-up.

**2.4.2.4 Credit Problems:** According to (Zimmerer & Scarborough, 2002) in order for a small and medium enterprise to survive in today's competitive market, sound management is one of the key determining factors.

Effective business managers realise that successful business ventures require proper financial planning. The two common financial pitfalls in small and medium enterprises are under-capitalisation and tax customer credit policies.

Small business owners often start off undercapitalised and never seem to catch up financially as their businesses consume increasing amounts of cash to fuel their growth. Many owners of small and medium enterprises commit the error of launching their businesses on a shoestring capital base, which could be fatal.

This is because entrepreneurs tend to be very optimistic and often make the mistake of misjudging the financial statements of the organisation. Small business persons often fail to recognise and deal with problems in the most effective manner (Abdelsamad & Kindling, 1978). It is a sound plan for owners of small businesses to consider three possible outcomes when making plans: the optimistic outlook, the less optimistic (perhaps realistic), and downright pessimistic view.

The owner should study the actual implications of events not going as planned. A typical question an owner of a business could ask is how long he/she should continue to operate if everything goes wrong, and what kind of alternative courses of action there are to be followed. This would provide a very clear indication for making suggestions and arrangements with bankers when the business is running well in the event of loans that may possibly be needed if conditions change (Zimmerer & Scarborough, 2002).

Furthermore, small business owners tend to sell their products on credit, because they are of the opinion that they could gain a competitive advantage over rivals when giving credit to their clients. However, it is very important that owners of small and medium enterprises exercise strict control over credit, because a failure to do so, could exercise a negative impact on the financial health of the company. Poor credit and collection practices have been identified as one of the core factors that result in business failure (Zimmerer & Scarborough, 2002).

#### **2.4.2.5 Inattention to Marketing and Sales Problem**

The secret that lies behind the success of any business is effective sales. However, most entrepreneurs have the notion that products of the business will sell themselves.

Whenever a business introduces a product or service, the initial demand may be minimal making it difficult for the business to survive. Regardless of how skilled the sales staff may be, customers have to be interested in the product to start off, otherwise they will not purchase the relevant product. Market competition also has an effect on the number of sales, and this is one of the primary reasons why businesses fail. If there is no room for the product or service to enter the market because of the amount of competition, then one's sales figures will in all likelihood be very low because of similar products or services that are available to which customers may already have become accustomed (Van Aardt, 1997).

A well-organised and vigorous marketing programme is an essential requirement that lies behind the success of any business. Many entrepreneurs view poor sales as an isolated problem, rather than a problem related to poor marketing. It is thus of crucial importance that business owners should realise that good sales go hand in hand with good marketing techniques and measures (Stegall, Steinmatz & Kline, 1976).

Entrepreneurs should realise that if sales growth for a particular period of time is poor they should try to resolve such issues through price-cutting, aggressive sales techniques or advertising gimmicks. But it is a fact that these short term measure will not be the most appropriate means to curb the problem, as reduced prices are not the solution for poor location and advertising will unfortunately not sell a product that is not marketable at all (Stegall, Steinmatz, & Kline, 1976).

Entrepreneurs need to realise that that if they would want to sell their products effectively an objective analysis of the firm's product and services, its present marketing effort, competitive situation, and the genuine needs of the customers will show the way to solve the problems that may be related to sales.

Small and medium enterprises may not dispose of the necessary finance to concentrate on the marketing function of the business. However, marketing should be implemented to a degree that is necessary for the product or the service not to be overlooked. Business owners often neglect the marketing aspect of their business because they think they do not have sufficient time to devote to this aspect. Consequently, their product or service fails where a few hours of marketing could have had the opposite effect (Stegall, Steinmatz & Kline, 1976).

#### **2.4.2.6 Ignoring the human factor**

Many small business owners have the notion that the businesses survive on their own, and thus encounter personnel problems. Such personnel problems retake inter alia to poor workmanship, absenteeism, long coffee breaks and the failure of employees to follow directions. Experience over the years has shown that dissatisfied workers not only waste time and materials of the organisation, but also tend to drive away customers. Many organisations lose customers because of poor customer service. Entrepreneurs spending most of their time concentrating on sales and finance, tend to solve problems related to personnel only on a crisis basis (Van Aardt, 1997 : 193).

Therefore, the foundation of efficient workforce is based on the extent to which entrepreneurs attend to hiring, training and managing employees (Van Aardt, 1997).

#### **2.4.2.7 Poor time Management**

Entrepreneurs have much to do in a limited time period. They typically spend around fifty to sixty hours per week on business activities. However, through experience and research conducted by various scholars, it has been proven that owners on the businesses spend a great deal of their time on trivial matters. The essence of good time management lies in learning to control the job rather than the job controlling the person. The primary objective is work smarter and not harder. Business owners should learn to manage time effectively through self-discipline. An effective manager will rank items in the most coherent manner in terms of their importance (Stegall, Steinmatz & Kline, 1976).

Delegating jobs appropriately to subordinates is also a critical aspect in time management. This is because if subordinates understand what is expected of them, they would be able to fulfil their roles effectively.

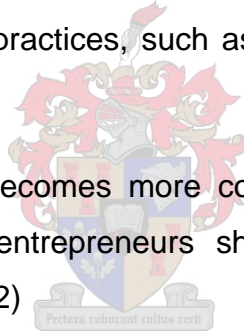
Poor delegation could have a negative impact on business success, because if the owner is also involved in the day-to-day operations of the enterprise, he/she may not leave sufficient time for planning (Stegall, Steinmatz & Kline, 1976).

#### **2.4.2.8 Uncontrolled Growth or Managing Growth**

Growth is a natural process to ensure the survival and success of any small medium enterprise, but a crucial part of growth is that it should be planned and controlled. According to the well-known management guru, Peter Drucker, start-up companies can expect to outgrow their capital basis each time the sales of the organisation rise from 40 to 50 percent.

Most of the changes in an organisation take place during the expansion phase, which require a considerable amount of changes in the structure of the organisation, and in business practices, such as inventory and financial control procedures.

As the business grows and becomes more complex, the problems may well increase in magnitude, and entrepreneurs should learn to deal with them (Zimmerer & Scarborough, 2002)



#### **2.4.2.9 Poor Location**

Choosing the right location is partly an art and partly a science to ensure the success of any small business.

Too often business owners choose the locality for their small medium enterprises without conducting a proper feasibility study for the particular enterprise. Some owners even go the extent of choosing a site for a business merely because they have spotted a vacant building. However, the question of location is critical and this cannot possibly be based on a trial and error method.



Location is especially important for retailing business concerns, because the lifeblood of such business is related closely to customers frequenting the business (Van Aardt, 1997).

#### **2.4.2.10 Incorrect Pricing**

If the price of the commodities sold is very high, the business will lose customers. This fact is reminiscent of the so-called first rule of business: “If you do not take care of your customers, somebody else will,” (Van Aardt, 1997). On the other hand, if the prices of the commodities are very low, they may attract more customers, but could have an impact on the business if costing is done incorrectly and the price is kept artificially low.

Establishing market related prices will generate profit, and thus it is essential that business owners have a clear understanding of how much it costs to manufacture, market and deliver their products and services. Too often entrepreneurs simply charge what their competitors do or sell their products based on the vague idea of selling the best product at the lowest price, both of which could be very dangerous. It is common amongst small business owners to under price their products and services (Van Aardt, 1997).

#### **2.4.2.11 The Entrepreneurs' inability to adapt to the changing demands of the business enterprise**

Entrepreneurs should at all time keep in mind that their roles as owners of their businesses also change as the life cycle of the businesses change. When starting up an enterprise it usually requires a handyman who can operate the cash register, buy stock, price the goods, do the marketing, produce goods and place the products on the shelves of the shop.

As the business expands, the owner would typically recruit new staff, and his/her role would change to that of manager. Instead of doing everything on his/her own, the manager should realise the objectives of the enterprise by managing other people (Van Aardt, 1997: 193).

This means that the original entrepreneur should be willing to become the chief executive officer over a particular period as the business grows. The entrepreneur should be able to control, delegate, organise and lead the enterprise to realise the aims and objectives of the company.

#### **2.4.2.12 Entrepreneurs fail to develop an effective strategic plan**

Many business owners assume that contingency planning is only applicable to large business organisations. However, they do not realise that failure to plan for contingencies usually results in their failure to survive. If a business does not have a clearly defined strategy, it does not have a sustainable basis for creating and maintaining a competitive edge in the marketplace. When an entrepreneur establishes a strategic plan, he/she is forced to realistically assess the potential of the business. This is usually in the form of looking into issues such as whether the customers are able to buy a particular products or service and in terms of whom their target customers are (Zimmerer & Scarborough, 2002).

### **2.5 Summary**

From the above discussion, it can be concluded that entrepreneurship plays a critical role in the growth and survival of developing economies. An entrepreneur may be defined as someone who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalise them. The advantages and the disadvantages of entrepreneurship also form an essential part of this study.

Various forms of entrepreneurship that include sole proprietorships, partnerships and private companies were discussed in this chapter. Alternative routes to own a business – such as a family business, franchising, buying an existing business and starting a new business – were also described.

Other issues outlined in this chapter relate to the reasons why small and medium enterprises are either a failure or a success. Poor planning and uncontrolled growth were amongst the key factors that result in the failure of businesses.

On the other hand proper planning and changing roles were amongst the roles that could result in business success. It is vital that an entrepreneur should choose the style of ownership that suites his business best, and by not doing so, this could result in substantial financial losses for the owner.

Having discussed the theoretical background to entrepreneurship, the next chapter will focus on the way small medium enterprises operate in Namibia.



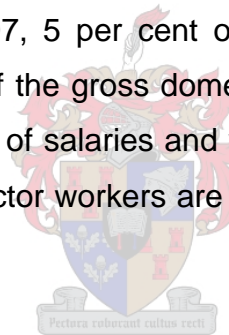
## CHAPTER 3

# SMALL AND MEDIUM ENTERPRISES IN THE REPUBLIC OF NAMIBIA

*“The small business sector can play a major role in creating jobs and wealth in any economy. Consequently this sector has drawn much attention from policy makers in both developed and developing countries” (Ntsika 1999: 16)*

### 3.1 INTRODUCTION

Small business organisations are not necessarily mini versions of large organisations, but they are nevertheless very important for economic development. SMMEs form 97, 5 per cent of all businesses in South Africa. They generate 34, 8 percent of the gross domestic product (GDP), contribute to 42, 7 percent of the total value of salaries and wages paid in South Africa. 54, 5 percent of all formal private sector workers are employed by SMMEs (Nieman et al., 2003).



The contribution of SMMEs to the growth of South Africa through economic participation is enormous. Official figures for people employed by the informal sector alone (those businesses that are not registered) amounts to 2, 171 million out of the employed population of 11 million (Peters - Scheepers, 2005). These figures point to a sleeping SMME giant as an essential force that will in future contribute to higher, sustainable shared growth, and employment that is so desperately needed in developing countries. Developing countries have also been called “Third World” countries during the last fifty years. When compared with developed, advanced, industrialised nations, developing countries have a very low level of socio-economic development, which is generally reflected by their lower standard of living and quality of life.

According to (Todaro, 1994: 28) developing countries share a set of common well-defined goals that they would like to achieve. These include a reduction of poverty, inequality, unemployment and minimum levels of education.

Although small organisations do have a resemblance with larger business organisations they possess characteristics and attributes that are different from large organisations in terms of the way they are managed or organised (Peters - Scheepers, 2005).

Developed, less developed and the countries in the process of development realise the importance of SMEs, and this importance is magnified by the employment they generate. The business policies of many countries – such as the United States, Dominican Republic, Chile and Taiwan amongst others –, include offices that handle small business affairs (Coplin, 2002).

In the previous chapter a detailed analysis was offered about the factors that lead to business success or failure. The literature in the previous chapter revealed the concept of SME from a general perspective. But the concept focused on small organisations globally, and not specifically on the Namibian context. Small businesses in Namibia are incorporated in the collective category of small, micro and medium enterprises (White, 1997)

This chapter will be discussing the structure, control and the importance of small organisations in the global economy and then a discussion on the structure of small organisations in Namibia will be provided.

### **3.2 STRUCTURE OF SMALL MEDIUM ENTERPRISES GLOBALLY**

The organisational design of small organisations is very different from the structure of large organisations. In small organisations few staff members are employed to perform multiple tasks, while large organisations tend to employ specialists to perform some specified activity. It may thus be deduced that many of the features of small organisations relate specifically to their size (Herbst, 2001).

According to (Ehlers, 2004:105) small organisations usually break down their tasks into functional subsections and assign employees to the selected tasks. On the other hand specialisation is only possible when the organisation is large enough. If individuals with some external expertise are found, certain jobs could be sourced out externally. However, employing professional people could be very expensive on either a full-time or part-time basis. If the volume of work does not require an expert's full-time employment, then this work needs to be performed by a non-expert, a consultant or by the owner personally.

Thus it is possible that non-experts may not be as effective and efficient as an expert, which in turn could be costly for a small organisation. Non-experts may not be as effective and efficient as experts, because they lack the necessary skills and competences required for a successful business. They have normally limited knowledge, especially in areas which are outside of their field of specialisation. After building a structure for an organisation, it becomes crucial for the owner to control the organisation, and to ensure that good systems and practices are in place. The next part of the study will discuss the control of small organisations from a global perspective (Herbst, 2001).

### 3.3 CONTROL OF SMALL ORGANISATIONS GLOBALLY

The owners of small medium enterprises often experience the tension between exercising the right to dictate the organisation policy and the goals and at the same time they have to respond to the needs of their employees.

Owners occupy a dominant position and there is always a possibility for tension, as the owner needs to exert a strong influence on events in the company, whilst simultaneously needing to empower employees (Ehlers, 2000:44).

Normally owners co-ordinate the daily activities within their organisations through direct and face to face supervision, but they also use one way communication. Decision-making is central to the owner or manager of the organisation (Ehlers, 2000:44).

Besides retaining a substantial element of power in decision-making, owners of small organisations should also seek to promote flexibility, innovation and problem solving amongst employees. As the number of people employed in the business is relatively small the owner has close contact and communication with the subordinates. Ultimately this ensures that the workers are more open and flexible to changes in the organisation (Herbst, 2001). Ideally owners of small organisations maintain the power of control in such a way that subordinates are innovative and flexible at the same time.

Creativity, adaptation, change, ambiguity, flexibility, problem solving and collaboration occur regularly in managing small organisations. These attributes are a result of the turbulent changing environment within which small organisations operate – an environment which is usually characterised by business orders which are at times difficult to obtain, whilst making predictions, and planning more difficult (Herbst, 2001).

### 3.4 THE IMPORTANCE OF SMALL ORGANISATIONS GLOBALLY

Small organisations comprise at least 95% of the European Community. Nevertheless financial and economic commentators seem to ignore the relevance of the small business sector in terms of economic development, despite its huge importance (Ehlers, 2000:44).

An international study was conducted to compare the performance of small organisations between France, Germany, Italy, the United States and the United Kingdom (Sengenberger, Loveman and Piore ( as cited in Ehlers, 2000). The empirical results from this study revealed that there was an increase in the share of total employment amongst small organisations. The latter are defined as those who employ fewer than 100 employees.

According to (Kroon & Moolman, 1992) small organisations are of great importance to any country for the following reasons:

- Small organisations are multitudinous, suppliers of employment, creators of many work opportunities, innovators and initiators.
- Furthermore small organisations also act as subcontractors for large organisations and are responsible for the manifestation of the free market system.
- Small organisations play an important socio-economic role when entering in the business world.
- Small organisations can have a multiplying effect on the economy.



Sexton and Karsada (1996) as (cited in Ehlers, 2000) the importance of small organisations in different global market economies:

- There has been a tremendous shift in the size distribution of organisations away from larger organisations towards smaller ones.
- There is a decline in growth rate with the size and age of the organisation.
- On an employee basis small organisations are at least as innovative as large ones and have an innovative advantage found in high-technology industries.
- When looking specifically at the goods producing sector, rather than the entire economy, small organisations' share of employment is growing at a faster rate.
- There is a positive relationship between the size and age of an organisation, when one considers the extend in which the organisation will stay in business.
- A small organisation plays a vital role, as there is a relatively proportionate share of new jobs created.

A deduction that could be made from the importance of small organisations in market global economies is that most people, (even if we draw it closer to this study of Namibia), prefer to start a business of their own. These are normally related to factors such as wanting to be one's own boss and also to have more control over one's own business organisation. Furthermore, people also prefer to work in smaller organisations, as the work structure and processes are more flexible. There is flexibility in terms of the organisation structure and all members of the business have close contact with co-workers. It is quite easy to operate a small business from home or any other locality.

When establishing small medium enterprises, the owners are not only creating employment for themselves, but employment opportunities are created for the nation at large.

Having described the global importance of small organisations, the next section of the study will discuss the advantages and the disadvantages of small medium enterprises.

### **3.5 THE ADVANTAGES AND DISADVANTAGES OF SMALL ORGANISATIONS**

As outlined in the previous sections of the study it is important to emphasise that small organisations are not an exact copy of large organisations. They are quite different in terms of their legal form, the way they position themselves in the market, management styles, organisational structure and financial resources.

#### **3.5.1 The advantages of small organisations**

According to Rothwell and Dodgson (cited in Andreassi, 2003) small organisations may be distinguished from large organisations with the following advantages they have to offer.

- *Management process* – With regard to the management processes, small organisations are much less bureaucratic, which allows the decision-making process to be much faster than in large organisations.
- *Better customer service* – A small organisation is able to be much more flexible than a larger organisation, which allows the organisation to tailor its products and services to the exact needs of potential and current customers.
- *Learning ability* – Small organisations are capable of learning at a faster pace than large organisations and adapting the most efficient routines and strategies.

- *Technical aspects* – As regards technical aspects, small organisations have a greater advantage because of governmental structures to support the small business, which subject them to fewer regulations compared to large companies.
- Filling of isolated niches – Because of their size, larger organisations could be excluded from some markets. This situation provides substantial opportunities for small organisations, which have a lower overhead cost.

Apart from the numerous benefits that could be derived from owning a business, there are also drawbacks by being the owner of an SMME. The disadvantages of SMMEs will be discussed in the next section.

### **3.5.2 The disadvantages of small organisations**

Even though there are distinct advantages, small organisations do have a number of disadvantages. These may include poor management, poor financial control, poor communication and governmental regulations.

According to (Andreassi, 2003), the most important disadvantages of small organisations are:

- *Poor management* – Many entrepreneurial managers lack formal management skills, and this is one of the reasons why small businesses fail. A lack of the most needed skills in business training often leads to bankruptcy. Relatively few owners of small organisations have the professional skills of a marketer or an attorney. In most cases professionals should be sourced externally when needed.
- *Poor financial control* – Many owners of small organisations mismanage funds. Furthermore many small organisations start without having adequate financial resources and run short of funds while still in the early stages of growth. They often lack resources to survive in turbulent economic conditions or even to expand if they should be successful.

- *Poor communication* – Small organisations often do not have adequate time and resources to forge suitable external networks. Consequently they forgo the advantage of establishing links and networks that could be of considerable value to the organisation.
- *Government regulations* – Small organisations across the globe cannot cope with the complex regulations and red tape. Small organisations are unable to cope with extensive paper work and they often have to make use of external resources to complete the necessary forms and reports. This places a tremendous burden on the financial position of the small organisation.

Amongst other problems, poor communication and too many government regulations make it difficult for owners of small organisations to run their businesses efficiently. Owners have to realise that communication networks are vital to sustain a competitive advantage for an enterprise. This is a crucial factor, because this will enable SMEs to establish linkages with larger organisations and also derive various sources of the national economy. A deduction that could also be made in terms of government regulations is that all governments have a central role of gearing the economy (White, 1997).



However, if we analyse Namibia in particular, such policies and regulations do not pay particular attention to the development of SMEs. Policies are normally designed with large-scale industrial establishments in mind. On the other hand even if there are certain regulations directed towards the promotion of SMEs, they are normally not properly implemented.

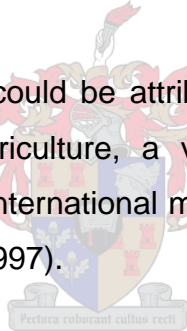
Having discussed the disadvantages of small medium enterprises the next section of the study will provide a closer look into the Namibian economy.

### 3.6 THE NAMIBIAN ECONOMY

The Republic of Namibia is situated along the Atlantic coast on the south-western part of Africa and extends over a land mass of 824. 268km<sup>2</sup>, bordering Angola in the north, Zambia to the north-east, Botswana and Zimbabwe to the east and South Africa to the south (Jauch, 2000).

Namibia's estimated population is 1,8 million and is growing 3% a year and 45% percent of this population is under the age of 15. Between 1970 and 2002 Namibia's population grew by 25-30%. This high fertility rate becomes a worrying factor when compared to the economic growth rate, which has tended to be below the rate of population growth since the mid 1990s. As a result the per capita incomes declined in the second half of the 1990s (Jauch 2000: 38-39).

This per capita income decline could be attributed to climatic conditions in the traditional sectors, such as agriculture, a very small manufacturing sector, declining prices for minerals on international markets and the continuous outflow of capital from Namibia (White, 1997).



It is also worth noting that 20% of the Namibian population has already been infected by HIV/AIDS and this has become a serious threat to the human resource development of the country. This epidemic is wiping out the development gains achieved so far and is also reducing further economic achievements. This will necessarily have a detrimental effect on the SME sector because the individuals and households who rely on this sector have no other means to sustain a living (Jauch 2000: 38-39).

The employment conditions in the SME sector are precarious and employees are uncertain about their next income or future employment. This make it impossible for employees to take out medical aid and pension schemes (Jauch, 2000).

Considering the inhabitants of the country according to race, 88% of the Namibian population are black, 5% are white and 7% are of mixed or other races. There is a heavy concentration of the population in the six northern regions of the country, where about 60% of the population live. Per capita income varies from a low of N\$ 6.439 in the poorest region, Ohangwena in the north, to a high of approximately N\$ 47.409 in the richest, namely Khomas, the central region, on which this study is based (Jauch 2000: 38-39).

Various economic activities are performed across the various sectors in Namibia, including agriculture, mining, fishing, wholesale, retail, imports, exports, food services, manufacturing, and trade services. The present structure of the Namibian economy is still largely a reflection of its colonial legacy. Every sector is a symmetrical reflection of the above-mentioned dichotomy, whether it is banking or manufacturing. Furthermore the Namibian economy is characterised by a low growth rate, high rates of inflation and a high rate of unemployment. The annual growth rate and inflation rate in 2004 were 4,2% and 3,9% respectively (www.state.gov).

According to (Jauch, 2000), the Namibian agricultural sector supports either directly or indirectly approximately 70% of the population, whilst 75% of the poor communities are dependent on subsistence agriculture for their basic household consumption needs. The overall contribution of the agricultural sector to the national economy is not decreasing, although one should consider uncertain climatic conditions and relatively low levels of productivity. 35.000 jobs are provided for farm workers in the agricultural sector, mainly through commercial agriculture.

This makes this sector the largest in terms of employment. The low wages and salaries and harsh working conditions to which employees are subjected in this sector, should not be overlooked.

The largest challenge for Namibia today is to overcome poverty and inequality whilst using its national resources effectively and efficiently. The SME sector, if explored to its fullest potential, is one of the sectors, which could contribute towards this goal (Jauch, 2000).

The SME sector has also strengthened womens' economic position and household income. The number of women who are establishing their own businesses in Namibia are increasing at a tremendous rate (currently 37 percent of SMEs are owned by women in Namibia), as the government is creating many opportunities for woman empowerment.

These opportunities include “The woman of the year prize” where women with the best business ideas are awarded a prize and some monetary reward (Tonin, et al., 1998).

The estimated growth rate of the Namibian economy was 3,3% fourteen years after the first democratic elections were held and the concomitant opening of global trading boundaries for importing and exporting of products.



### **3.7 THE NAMIBIAN SME SECTOR**

Within the Namibian SME sector enterprises are classified as formal or informal. The definition of this classification of a business as formal or informal differs from country to country. For instance in Thailand, formal businesses consist of organisations, which have defined administrative, and management systems, including agencies that are both governmental and privately owned, which employ 10 persons or more (Allal, 1999: 37).

In contrast the informal sector comprises of enterprises typically operating with a low level of organisation on a small scale, low wages that are uncertain, with no social welfare and security for employees.

However, there is a fundamental problem with this definition, since it does not distinguish in any way micro-enterprises in the formal sector from those in the informal sector.

Therefore, the ILO (International Labour Organization) proposed a general definition that 'any enterprise which is not registered with one authority or another should be considered as an informal sector enterprise, whatever its size' (Allal, 1999: 38). In Namibia, there are several names and definitions given to the SME sector, which some may term the informal sector (Hansohm, 1996: 5-7).

The multitude of definitions to define SMEs should not be seen as a problem, but rather as an indication of the challenges regarding the lack of clarity and consistency faced by all when dealing with this sector.

A widely used definition of the SME sector in Namibia is the one of the Ministry of Trade and Industry (See table 3.1).

Table 3.1: Definition of SMEs in Namibia

<b>Sector</b>	<b>Employment</b>	<b>Turnover (N\$)</b>	<b>Capital Employed N\$</b>
Manufacturing	Fewer than 10 persons	1,000,000	500,000
Service	Fewer than 5 persons	250,000	100,000

Source: S. White. (1997). Strategies for Small Business Development. SME Development Discussion Papers. No.8.

As can be seen in Table 3.1, the Namibian Ministry of Trade and Industry classifies its definition of SMMEs according to sectors. In the manufacturing sector the definition of SMMEs would be a firm where there are fewer than 10 people employed with a turnover of N\$1.000.000 and capital invested to the tune of N\$ 500.000.



On the other hand, in the service sector we could see that the criterion is that the number of people employed should be fewer than five, the turnover should not be higher than N\$250.000, while the capital employed should be N\$100.000.

The definitions of SMEs, according to Table 3.1, have some limitations. If one closely examines the rubric of capital investment, then it seems difficult to make an accurate measurement for the variable, because of the impact that inflation has on capital investment (White, 1997).

Normally the number of employees employed in a particular sector remains valid, but at times it is not easy to count the number of workers in a particular sector (Jauch, 2000). The majority of the small enterprises in Namibia are operating in the semi-formal or informal sector.

They are registered for industry specific purposes and they are not easily accessible for statistics in other ways.

Furthermore it is estimated that the SME services and trade contribute almost N\$ 2.000 million and the manufacturing sector almost N\$ 350million annually to the GDP (Gross Domestic Product) of Namibia.

The role and the significance of the SME sector were neglected in Namibia prior to independence. Priority was only given to the largest business sectors, which were regarded as the stimulus for economic growth. Although potential small businesses operated successfully, they were not provided with the necessary support. Small businesses operated mostly in the retail, trade and service sectors. Today the SME sector has been identified as the priority sector for reducing unemployment as well for its ability to reduce poverty (White, 1997).

Together with large enterprises, SMEs play a key role in the mobilisation of resources. They are also the main drivers behind the interrelated flows of trade, investment and technology, on which the strength and the dynamism of the economy depend (White, 1997).

### **3.7.1 STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) OF THE NAMIBIAN SME SECTOR**

An overview of the situation of the Namibian SME sector can be explained with the aid of a SWOT-analysis. A number of studies have pointed out the present weaknesses and emphasised the low level of development in this sector. However, this analysis will go a step further to reveal that there is a bright future awaiting Namibian SMEs (White, 1997).

#### **3.7.1.1 The current situation of the Namibian SME sector**

The small business sector is still relatively small, and has a very low level of development. Currently the weaknesses outnumber the strengths, but the future potential is great, as Namibia is in the phase of rapid transition.

Many of the current weaknesses are not absolute, but subject to the process of erosion and change. The low level of development of industrial activity presents in itself an opportunity for future development (White, 1997).

#### **3.7.1.2 Strengths**

The strong points of this sector are the the abundance of labour and the provision for free informal training. SMEs are regarded as the nucleus of creating business in any flourishing economy. A survey conducted on the OECD<sup>1</sup> countries showed that SMEs account for a large share of the private sector economy, representing approximately between 96 and 99 percent of the total number of enterprises in these economies (White, 1997).

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OECD<sup>1</sup>: Organization for Economic Co-operation and Development

SMEs enhance competition and entrepreneurship in Namibia, and hence the spill-over effects of innovation, efficiency and productivity growth could translate into an increase in value added output. The Namibian government also recognised the vital role which SMEs play in the socio-economic development of the country as indicated in the National Development Plan 2 and Vision 2030 that should aid in the eradication of poverty and inequality (White, 1997).

### **3.7.1.3 Weaknesses**

Firstly the industrial labour force is for the better part under-trained. There are also a number of deficiencies in the area of management know-how. It is common for entrepreneurs not being able to make a clear distinction between income, profit or turnover (White, 1997).

Secondly the general level of education is quite low, despite the high expenditure on education. In respect of the level of skills, labour costs are relatively high. At the same time, incomes in the formal sector are often higher compared to the income in most of the other activities in which workers in the formal and the informal are engaged (White, 1997).

Thirdly there is a lack of both management training institutions and vocational training adapted to the needs of the vocational training enterprises. There are very few vocational training institutions. Furthermore, the existing facilities do not meet the appropriate needs of small businesses and product innovation.

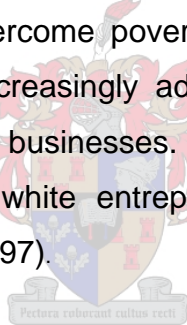
Finally, apart from training, the most important constraint is the lack of credit. Small enterprises simply do not have sufficient access to credit. The providers of credit for Small and medium enterprises in Namibia are the Commercial Bank of Namibia, First National Bank, Namibian Development Corporation, Development Fund of Namibia, Bank Windhoek, Standard Bank of Namibia and Namibian Post and Savings Bank (Tonin et al., 1998).

### 3.7.1.4 Opportunities and future outlook

There is still a very low level of development in the small enterprise sector. The prospects for the future are, however, bright as Namibia is passing through a process of rapid change.

In terms of South Africa, the new trade agreements in connection with the WTO<sup>2</sup> will lower protection of industries, decrease the market power of the South African industry and increase competition. Similarly the current SACU<sup>3</sup> negotiations aim to compensate the industries in the BLNS<sup>4</sup> countries for the polarisation effect in favour of South African industries, in contrast to the position in the past (Tonin et al., 1998).

Namibian government policy increasingly recognises the importance of small business growth in order to overcome poverty and create employment. It is expected that this policy will increasingly address this matter by creating an enabling environment for small businesses. The attitudes of the people are changing and both black and white entrepreneurs are positive about local business development (White, 1997).



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WTO<sup>2</sup>: World Trade Organization

SACU<sup>3</sup>: South African Customs Union

BLNS<sup>4</sup>: Botswana, Lesotho, Namibia and Swaziland

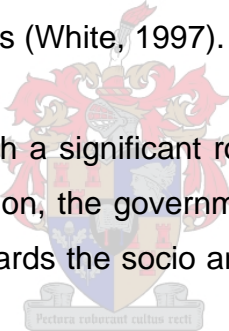
### **3.7.1.5 Threats**

There is a danger of an interventionist policy, with a well-meaning, but misguided intent, of government that may regard the slow pace of development as a sign of the private sector failing and hence a need for government to become more directly active in the productive sphere.

Parastatals pose another danger to the efficient and effective development of the SME sector. This is common amongst small enterprises in communal areas.

In most cases parastatals undermine the development of the private sector. However, the government is in the process of reconsidering and probably limiting the role of parastatals. Obstacles include institutional resistance to this policy, which may jeopardise its success (White, 1997).

As small organisations play such a significant role in the Namibian economy as described in the preceding section, the government developed a small business promotion strategy directed towards the socio and economic development of the country (White, 1997).



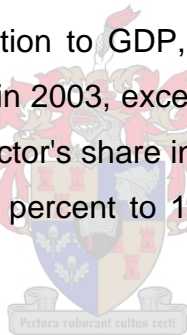
## **3.8 STRATEGIES FOR THE DEVELOPMENT OF SMEs IN NAMIBIA**

A milestone in the promotion of SMEs in Namibia was the launching of Namibia's "White Paper on Small Business Development" in September 1997. The primary objective of the subsequent Act on small business development is to regulate, stimulate and promote small business activities in Namibia. Furthermore, the Policy and Programme for the Development of Small and Medium Enterprises, approved by the Cabinet in 1997, provides the policy framework for the development of this sector as a key to the creation of employment and wealth (White, 1997).

Most of the initiatives are aimed at discussing issues that are favourable for SMEs in Namibia. The initiatives of the government mainly concentrated on the following areas: Deregulation<sup>5</sup> in terms of policy and legislative measures to create a favourable regulatory environment to serve as an incentive to SMEs, and programmes designed to overcome the constraints towards the development of the sector.

According to the survey conducted by the Namibian Economic Research Unit it is clear that SMEs are one of the key sectors in poverty alleviation and economic growth generation in Namibia. From this study it is evident that the sector has exceeded the targets set in the National Development Plan (NDP 2) (White, 1997).

In terms of the sector's contribution to GDP, it increased from 8,0 percent as recorded in 2000, to 11, percent in 2003, exceeding the target of 5 to 10 percent by 2006. When observing the sector's share in the labour force working full-time, its contribution increased by 4,8 percent to 19,8 percent in 2003 (Tonin et al., 1998).



Five key elements are constraints to the growth and development of the SME sector. These include finance, markets, purchasing, technology and training. Access to finance is seen as the greatest constraint both in the formal and informal sectors. Most of the emphasis used to be placed in respect of the informal sector and in the areas of seed and venture capital (Tonin et al., 1998)). Numerous challenges are facing the Namibian economy. Amongst many other challenges is the lessening of gender inequality and ensuring that the previously disadvantaged enter the mainstream of the economy.

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Deregulation<sup>4</sup>: Process whereby government removes selected regulations on business to ensure the efficient operation of markets.

It is encouraging to note that at least 37 percent of the businesses that were surveyed in Namibia are owned by women and 93,4 percent of the businesses can be classified as owned by previously disadvantaged Namibians (Tonin et al., 1998). SMEs in Namibia not only play a significant role in terms of their contribution to GDP, but equally in terms of addressing social issues such as poverty and inequality.

When discussing responses to unemployment, poverty and economic stagnation, local authorities tend to search elsewhere for relevant solutions; such as central government assistance. It is a fact that the government will unfortunately not be able to address the developmental problems of all communities.

This is because of the limited financial resources to address all needs. It is crucial that local communities understand that they cannot wait for outside solutions to their problems. Instead, they should be inspired from within to take immediate action (White, 1997).

According to (Tonin et al.,1998), building a healthy local economy involves developing a combination of incentives related to the competitive advantages of the community. International experiences of local and regional economic development strategies illustrate that there are at least six broad inter-related approaches that may be of great use to communities. These could also be employed as the strategies to be used for SME development in Namibia. These strategies are (Tonin et al., 1998):

- **Retaining and expanding local business:** This refers to the assistance that should be provided to local businesses to improve their productivity and market share.

- **Fostering new business**

This is a situation of encouraging and supporting the creation of new businesses and adding value to the existing products in these businesses to meet the demands of the customers.

- **Attracting outside business and resources**

This relates to attracting new investments, employers and funding to the community.

- **Plugging the leaks in the local economy**

Plugging leaks in the economy encourages greater loyalty in terms of purchasing by local residents and the businesses.

- **Enhancing the job linking capacity of the community**

This refers to the utilisation of the community development process and social networks to support the job search activities of unemployed people. Furthermore it aims to fill vacant job posts at a quicker pace, in order to discover hidden job opportunities. It also aims at improving the information flow regarding job creation assistance and to help counter additional reasons for some employers not increasing their workforce.

- **Marketing the community**

Marketing the community involves enhancing the appeal and the image of the community to potential investors.

Apart from the strategies relating to SME, the Namibian government also plays an essential role to ensure that the actual implementation of these strategies take place. The role of the government will be discussed in the next section of the study.



### 3.9 THE ROLE OF GOVERNMENT IN SME STRATEGY DEVELOPMENT

The policy framework of the White Paper will be outlined, which is aimed at unlocking the potential of Namibian small businesses. According to (White, 1997) it was found that there is no shortage of enterprising endeavour in the country; and that the present underdevelopment of the sector is the legacy of the past that has left small entrepreneurs poorly placed to take advantage of opportunities for growth and development.

Thus the role of the Namibian government in the sector's development will be one of a catalyst and enabler. In the initial stages, the government will need to intervene strongly to overcome the constraints to development imposed by the past. However, the intervention of the government will be in the form of improving conditions for business to flourish, rather than direct intervention (White, 1997).

Furthermore the Namibian government will devote particular attention to avoid a syndrome of dependency whereby entrepreneurs come to rely on government assistance for the profitable operation of their business. As mentioned above, the government not become the owner or the manager of the sector's business. Another role of the government is to establish business linkages, create business opportunities through advocacy professional advice, contacts and networks to larger corporations. The government also plays a very important role in enhancing the SMEs through training, advice, support, tender education and issues related to costing and pricing (Briscoe & Hempel, 1996).

Dissemination of the appropriate and right information is also crucial for the development of SMEs. Most people are not aware of the possibilities of establishing SMEs, the markets, the sources of raw materials and the technologies that are relevant to Namibia.

Thus the government plays an important role in approaching the Commonwealth Secretariat for developing such an information system. The government also has to approach friendly bilateral donors for the provision of funds to set up appropriate technology demonstration centres (Briscoe & Hempel, 1996).

It is true that there is no magic formula, which would ensure that the government would fulfil its roles in terms of SME development in Namibia,. However, the approaches mentioned above have some competitive advantages in terms of institutional setup and the coordination of the overall strategy. To ensure that the role of the government is fulfilled, Namibia enjoys the benefit of the JCC (Joint Consultative Committee), which coordinates and harmonises the relevant SME activities (Briscoe & Hempel, 1996).

### **3.10 SUMMARY**

From the above-mentioned one may conclude that the SME sector in Namibia has attained some of its expectations. However, as discussed in this chapter, issues such as access to capital, entrepreneurial development, and an enabling regulatory environment still pose serious challenges that require active governmental and private sector involvement if the huge potential for this sector is to be harnessed.

Furthermore the last 15 years in the Namibia SME sector has not been impressive with some of the programmes not being able to reach their target groups. Most of the programmes have suffered because of a lack of competence and corruption.

SMMEs with growth potential should be provided careful attention. The following chapter will discuss the research methodology of the study.

# CHAPTER 4

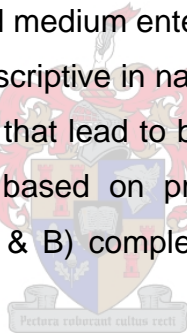
## RESEARCH METHODOLOGY

### 4.1 INTRODUCTION

The term methodology refers to “the system of methods and principles that are used in a particular discipline”, which – in the case of this study – are the methods and principles in the research (Ehlers, 2000: 126).

In Chapters two and three a detailed theoretical discussion and the role played by small and medium enterprises were discussed. The empirical study is with relevance to the principles and the concepts discussed in these chapters, regarding the Namibian small and medium enterprise sector.

The first part of the study was descriptive in nature, as mainly secondary sources were used to discuss the factors that lead to business success and failure. The second part of the study was based on primary data in a survey using a questionnaires (see Appendix A & B) completed by business owners in in the Khomas Region of Namibia.



According to (Mouton, 1996) research methodology is generally influenced by the type of data collection and the specific kind of research that is conducted. This can normally be grouped in two categories, namely:

- *Quantitative research*: Involves the collection of data from a large number of individuals, frequently with the intention of projecting results to the larger number of population (Martins, Loubser & Van Wyk, 1996 : 125).
- *Qualitative research*: This is an unstructured exploratory research method which is generally based on small samples intended to provide insight and understanding of the problem setting (Malhorta, 1996: 164).

The extent to which a study is qualitative or quantitative in nature is normally determined by the relevant research design.

## **4.2 RESEARCH DESIGN**

According to (McDaniel and Gates, 1996:41) research design is a systematic plan that has to be followed in order to reach the objectives of the study. This means that the researcher has to design a framework that is in accordance with the overall objectives of the study. Normally this relates to the cost and the quality of the results obtained through the research. Factors such as money, time and the availability of the researcher influence the actual design of the research.

This study involves qualitative research. Qualitative research was used because, it will be impossible to a certain extent to explain the behaviour and the attitudes of small businesses in a quantitative form. Descriptive research enables the researcher to analyse the complicated aspects in the layout thereof in more understandable terms.

This study is an example of descriptive research which is related to the critical factors that lead to success and failure in the Khomas region, as outlined in the previous chapters. The factors that could lead to business success and failure were compiled from both the empirical research and literature review.

## **4.3 RESEARCH AREA**

According to (Bagozzi, 1994: 74) how and where data is collected has a direct impact on the sample of respondents that are selected from the population for the research.

## 4.4 DATA AND SAMPLE DECISION

### 4.4.1 Data required

- *The universe*

Defining the universe is the first step in the sampling process. The universe unit in this study is the Khomas Region Namibian small medium enterprise business owners who are successful in their business operations and also those who have failed. This study analyses the relationship between successful businesses and those that fail, in other words the factors that make some a success, while others fail.

- *The sample frame*

Having defined the universe, the next step is to obtain a frame from the population (Le Roux, 2003). Sample frame is closely related to the population and entails a list of elements from which the sample is drawn.

Forty questionnaires were distributed to small business in Namibia in the Khomas region (twenty for successful businesses and twenty for unsuccessful businesses). The names of the business owners were randomly selected from small business owners' directory of the Khomas region.

- *Sampling method and sample size of data*

Because of the size and the distance and distribution of this population, it was decided to use a questionnaire. Questionnaires were personally delivered to business owners during the first week of August 2005..The owners were given a few weeks to complete the questionnaires, which were collected by the researcher during the last week of August 2005.

## 4.5 METHOD OF DATA COLLECTION

The method of data collection flows from the research design. Various methods may be used for the collection of data, including questionnaires, personal interviews and telephonic interviews. During personal interviews the researcher poses personally questions to the interviewee. In telephonic interviews the process is similar, but the parties are not physically present at the interview, but they are connected by the telephone line.

Questionnaires were used for the purpose of this study because of the following reasons (Sekaran, 1992: 220 cited in Van der Walt, 2002).

- Questionnaires will be able to reach larger number of respondents in the Khomas Region.
- The size of the research population makes it impossible to conduct personal or telephonic interviews, as most owners have a very busy working schedule.
- Personal interviews also take a tremendous amount of time.

There is no simple answer to which of the available methods of data collection the researcher should use when collecting primary data (Le Roux, 2003). It normally depends on the nature and the purpose of its use.

For this study a short structured questionnaire was developed which would be completed by respondents.

- *Reliability of the questionnaire*

According (De Voss et al., 1998:86) reliability of measuring instruments is the basis where the independent administration of the same measuring instrument deliver the same results when a comparison is made between two circumstances. Reliability can be measured in two ways. Firstly it may be measured in the contexts of stability over time.

This basically means that when the same questionnaire is forwarded to the same respondents under the same circumstances, but at a different time, it should still be able to reach the same results.

Secondly reliability could be measured in the context of cooperating to reach a common goal. All questions in the questionnaire should be coherent to determine the factors that lead to the success and small and medium enterprises and how they are applied.

This questionnaire that is used was evaluated by experts in the field of small medium enterprises and complies with the above requirements. As regards this questionnaire it was only possible to use the evaluation of the experts, as no pilot study could be done because of the small size of the sample used for this research. Furthermore, no statistical methods of data analysis could be used for this research because of the small sample.

- *Validity of the questionnaire*

Validity refers to the extent to which a test measures what it intends to measure. Content validity in this study was great, as the questionnaire was evaluated by experts in the field of small and medium enterprises, because of the small sample of the study. Thus it is believed that the instrument fulfils the purpose of its measure (De Voss et al., 1998).

- *Questionnaire design*

The questionnaire have three main sections which relate to family history, gaining more insight about the owner and the business and ascertaining the reasons why the business is either a success or failure. Most of the questions are either on a two point scale (Yes/No) or on a four point scale where respondents are given the opportunity to select from a wide variety of choice. With the four point scale respondents are able to choose the answer they regard as the most appropriate. Several questions related to the literature are also used to guide this selection of questions.

- *Rating Scale*

A standard five point Likert scale was used in which five was regarded as a key contributor and one being the least contributor or no key contributor at all.

- *Pilot Study*

A pilot study is normally used to test the implementation of the measuring instrument amongst a small group of respondents, who have a similar profile as the respondents of this particular study. A pilot study was conducted with small and medium enterprise business owners in the Western Cape, not only for the discovery of errors, but it was useful in familiarising the researcher with the respondents and also to see whether the respondents understand the different questions. No significant changes were made to the original questionnaire, and, therefore, no post-test questionnaire was compiled.

#### **4.6 SUMMARY**

An analysis of the research methodology methods used in the empirical study was outlined in this chapter, and also the reasons as to why particular methods were used for the research. In Chapter five the results of the empirical study will be discussed and explained in detail.





## CHAPTER 5

### EMPIRICAL STUDY PRESENTATION AND ANALYSIS

#### 5.1 INTRODUCTION

The empirical data collected for the study on hand are analysed in detail in this chapter. As a basis for the survey, some descriptive analysis was also conducted. The previous chapters covered mostly descriptions of small medium enterprises and the factors that lead to the success or the failure of SMEs. It should be noted that an inferential and a statistical analysis were not possible for this study because of the small sample.

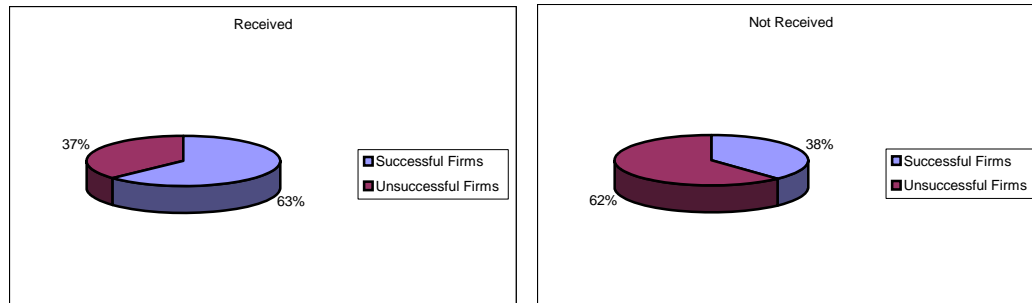
#### 5.2 DESCRIPTIVE ANALYSIS

The first step in data analysis is descriptive analysis. This form of analysis usually provides a useful evaluation of data obtained from the questionnaires (see Appendix A & B). Variables were descriptively analysed for this study.

- The respondents
- The objectives of the study
- Profile of the respondents
- Background about the business of the owners
- Reasons behind either the success or failure of businesses
- General ideas of business owners regarding the success and the failure of businesses in Namibia.

## 5.2.1 THE RESPONDENTS

Figures 5.1: Description of the Questionnaires of SMEs in the Khomas Region; 2005.



From the 40 questionnaires (20 from successful firms and 20 from firms that have failed) which were sent out, 19 questionnaires were returned from the small and medium enterprise businesses. Of these questionnaires, 12 were from successful business owners and 7 from unsuccessful business owners. Since 50% of the questionnaires were received, it could thus be argued that the researcher would be in a position to make valid conclusions.

## 5.2.2 THE OBJECTIVE OF THIS STUDY

The overall objective of the study was to analyse the success and failure of small medium enterprises in the Khomas Region.

Given various definitions of business failure, this study aimed specifically at:

- Comparing at least forty Namibian small medium enterprises, of which twenty are successful and twenty unsuccessful, in terms of those factors that relate to entrepreneurial management.
- Furthermore the study aimed to address the critical factors that lead to success in small medium enterprises.
- The study also aimed to address the critical factors that result in the failure of small medium enterprises.

### 5.2.3 SPECIFIC OBJECTIVES OF THE STUDY

Thus, in recognition of addressing these problems of business failure in the country, the specific objectives of this study were:

- to confirm whether there is a problem of business failure in Namibia
- identify the causes of the problems
- propose remedial actions give the causes of the problem



### 5.3 PROFILE OF RESPONDENTS

**Table 5.1:** Below is a table that summarises the data generated via questions 1 to 10 of the questionnaire (please see Appendix A & B). The attached appendix concerns the profile of respondents who participated in this study.

**Table 5.1: Profile of SME respondents in the Khomas Region; 2005.**

<i>Characteristics</i>	<i>Successful Firms</i>		<i>Unsuccessful Firms</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Age</i>				
20-30	4	33	2	29
30-60	8	67	5	71
<i>Gender</i>				
Male	7	58	4	57
Female	5	42	3	43
<i>Nationality</i>				
Namibian	11	86	7	100
Other	1	14	0	0
<i>Did parents</i>				
<b>Own a business</b>				
Yes	3	25	2	29
No	9	75	5	71
<i>Education</i>				
Primary School	0	0	0	0
High School	3	25	3	43
Certificate	5	42	4	57
Diploma	1	8	0	0
Bachelors degree	1	8	0	0
Honours/Masters	2	0	0	0
Doctorate	0	0	0	0
None	0	0	0	0

The following conclusions were derived from Figure 5.1:

- Of the 19 respondents for this study, 33% of the respondents from the successful firms were between the ages of 20 and 30, while 29% of the respondents in the unsuccessful firms were between the latter mentioned age ranges.
- Respondents from successful firms were between the age of 30 and 60, while 71% of the respondents in unsuccessful firms were between the age ranges of 30 and 60.
- No respondents aged below the age of 20 or above 60 were found in this sample. This indicates that the respondents for this survey were people who are in the adult age.
- There were no significant differences in terms of gender between the firms that were successful and those that were not.
- Close to hundred percent (95%) of the respondents who completed the questionnaires were Namibians, while only 5% of the respondents were foreigners.
- In the two groups of successful and non-successful firms, most of the owners' parents did not own a business before. From this it is evident that the parents did not have a significant influence as to why an individual started the business.
- The educational background of the respondents in successful and unsuccessful firms were predominantly high school and certificate graduates
- In successful businesses 25% of the respondents had only a high school qualification, while in unsuccessful firms 43% of the people had a high school certificate.
- Certificate graduates constituted 42% and 57% in successful and unsuccessful businesses respectively.

#### 5.4 BACKGROUND OF THE BUSINESS OWNERS

- Approximately 50 % of the successful businesses have been in operation 0 to 4 years, while none of the businesses that have failed fell in this age range. This is a good indication of how successful business owners were more willing to take risks when they started their business, compared to unsuccessful business owners.
- A quarter (25%) of successful businesses have been in operation for 5 to 8 years, while 57% of the businesses that have failed, fall in this age range.
- None of the businesses that has failed, was in operation for 9 to 14 years, while approximately 25% of the successful businesses fell in this range.
- Between the age ranges of 15 to 20, no successful firms were found, while approximately 43% of small medium enterprises that have failed fell in the range.
- Nearly 83% of the successful business owners were the actual business founders, while only 43% of the owners whose businesses have failed were the actual founders. No significant difference was found in terms of percentages between owners who purchased the business from previous owners.
- Approximately 66% percent of successful businesses are in the service Industry, while unsuccessful businesses constitute 43% in the service sector.
- Nearly twenty percent (17%) of successful businesses fall in the automobile industry, while none of the respondents whose businesses have failed, was found in this sector.
- Slightly over fifteen percent (17%) of the respondents found themselves in the food industry, while 14% of the unsuccessful firms were found in this sector.
- None of the successful business fell in the artisan sector, while 57% of the failed businesses were in the artisan sector.

Figure: 5.2: Various forms of ownership in SMEs in the Khomas Region; 2005.

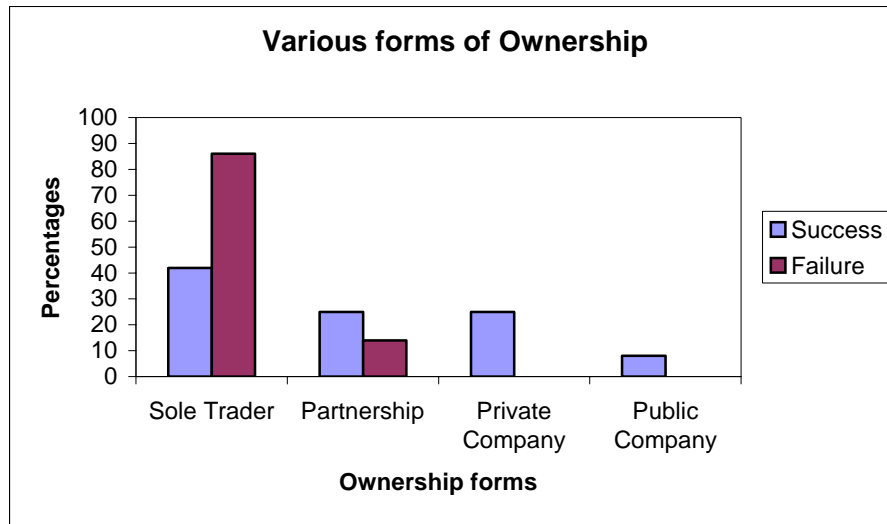
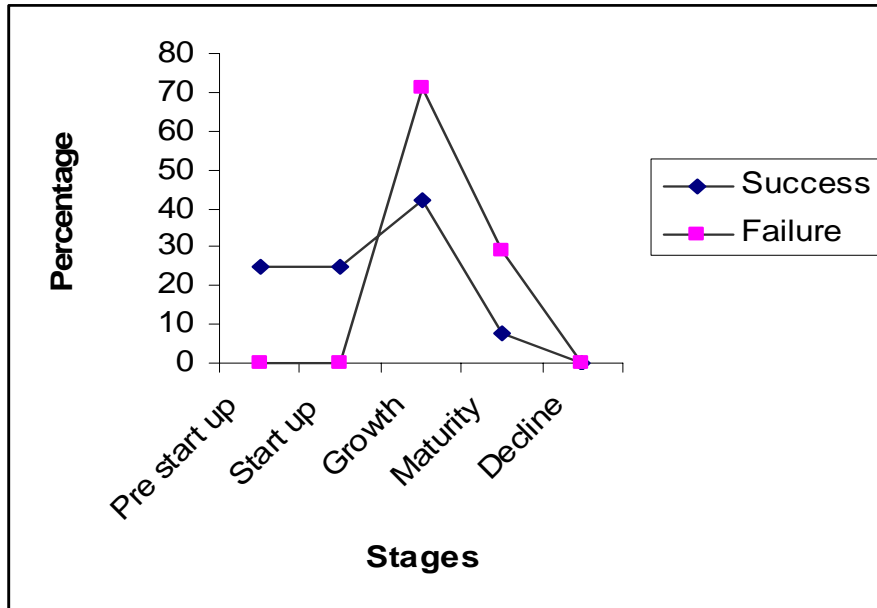


Figure 5.2 state that over 42% of the successful business owners operate their businesses as sole traders, while 86% of the owners whose businesses have failed are sole traders. The relationship in terms of percentage between partnership and private company were equal for both business owners. None of the owners whose businesses have failed had a private company, while 14% of the owners whose businesses have failed operated a partnership. Only 8% of successful business owners operated a public company, while none of the owners whose businesses have failed was found in this group.

**Figure 5.3: Stages of entrepreneurial development in the SMEs in the Khomas Region; 2005.**



As discussed in the literature review, businesses normally go through four stages. These stages are pre-start up, start up, growth and maturity stage. Over forty percent (42%) of successful business owners believe that the growth phase is the most important phase for the survival of the business. Business owners who are not successful feel similarly and constitute 71% of the sample. Almost thirty percent (29%) of unsuccessful business owners felt that the maturity stage plays a very crucial role for the success of the business. This stage appears to be less important for business owners who are successful and constitute only 8%. The stages of pre-start up and start up were critical for successful businesses and constitute 25% for each one of these stages. The stages of pre-start up and start up seems to play no role in unsuccessful businesses.

Over forty percent (42%) percent of successful business owners felt that the primary motivation why they started their businesses was to establish autonomy which could result in greater innovation. None of the business owners who failed, felt this way.



One could thus conclude that innovation, which is such a crucial element in today's competitive environment, is not an important element for business owners who have failed. Social responsibility and being one's own boss were factors that were regarded as less important for successful firms and both constituted 8% of the sample. However, being boss was considered to be a very important aspect for 57% of business owners who have failed. Monetary rewards were also an important aspect for 43% of unsuccessful business owners. Monetary rewards were less important for successful business and constituted 33% of the respondents.

The factors important to owners of successful and unsuccessful businesses are being one's own boss, monetary rewards, social contribution, freedom and innovation and were on a scale 1 to 5 (1 being the most important and 5 being the least important) (See Table 5.2).

**Table: 5.2 Successful Firms (S) and Unsuccessful Firms (U) in percentages (%).**

Rank	Being own boss		Monetary rewards		Social Contribution		Freedom		Innovation	
	S	U	S	U	S	U	S	U	S	U
1	0	57	50	43	8	0	8	0	32	0
2	25	43	17	43	8	0	33	0	17	14
2	33	0	17	14	25	14	8	57	17	14
4	8	0	8	0	33	43	33	43	17	14
5	33	0	8	0	25	43	17	0	17	58

Considering the extent to which each of the factors mentioned in Table 5.2 are important to the particular business owners, it is clear that business owners whose businesses have failed rated being one's own boss as the most important factor, while this particular factor was not so important for successful business owners.

Successful business owners were rather motivated by monetary rewards; however, there was no major difference in terms of percentage for both types of business owners.

## 5.5 REASONS THAT MAKE A BUSINESS EITHER A SUCCESS OR A FAILURE

Factors that lead to the success of a business, included responsibility, risk taking, desire for success, and desire for immediate feedback, skill orientation and achievement orientation. Each one of these factors was ranked and rated in three different categories, namely the degree to which a particular factor is not a **Key contributor**, **Slight Contributor** and a **Moderate contributor**. Each one of the latter mentioned dimensions were rated on a scale from one to three, three being the strongest and one as the weakest.

**Table 5.3: Successful (S) and Unsuccessful Firms (U) – Not a key contributor in percentages (%).**

Rank	Responsibility		Taking risk		Desire for success		Desire for feedback		Skill oriented		Achievement oriented	
	S	U	S	U	S	U	S	U	S	U	S	U
1	17	0	17	14	8	14	33	14	42	14	16	0
2	33	47	16	72	50	57	34	14	25	43	34	72
3	50	53	67	14	42	29	33	72	33	43	50	28

From Table 5.3 it can clearly be seen that there was no significant difference in terms of the importance of the factors in both successful and unsuccessful firms, when one considers the extent to whether or not each one of these factors represents a key difference. However, to the researcher's surprise, successful firms indicated strongly that risk taking and responsibility are not key contributors.

**Table 5.4: Successful (S) and Unsuccessful Firms (U) – Slight contributor in percentages (%).**

Rank	Responsibility		Taking risk		Desire for success		Desire for feedback		Skill oriented		Achievement oriented	
	S	U	S	U	S	U	S	U	S	U	S	U
1	33	43	33	14	8	0	25	14	24	14	41	14
2	42	57	50	86	53	71	66	43	58	57	42	43
3	25	0	17	0	33	29	8	43	17	29	17	43

From Table 5.4 it is evident that there was no significant difference between successful and unsuccessful firms when looking at the degree to which they are slight contributors.

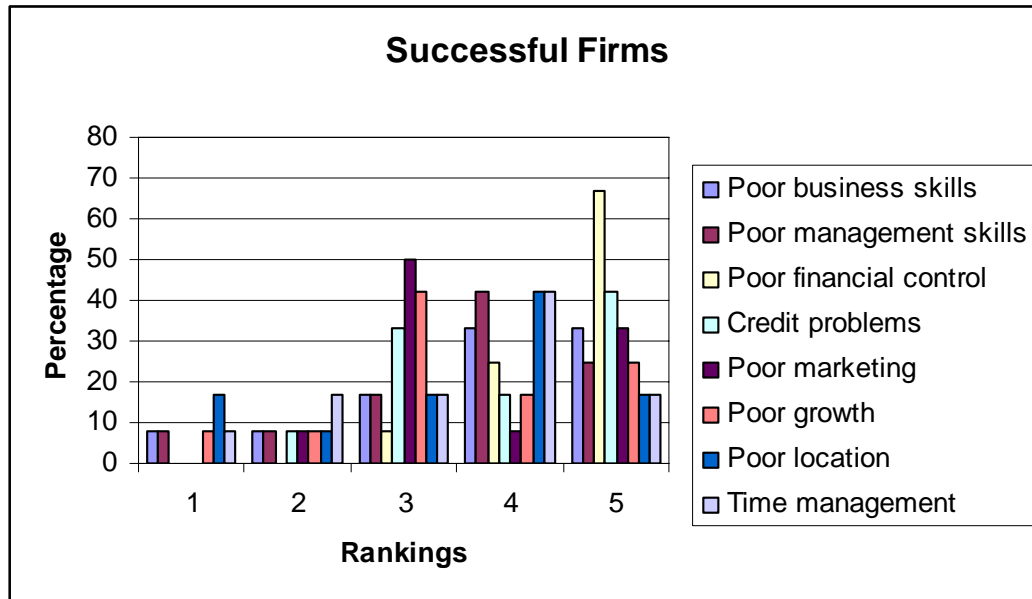
**Table 5.5: Successful (S) and Unsuccessful Firms (U) – Moderate contributor in percentages (%).**

Rank	Responsibility		Taking risk		Desire for success		Desire for feedback		Skill oriented		Achievement oriented	
	S	U	S	U	S	U	S	U	S	U	S	U
1	25	43	25	28	25	43	59	29	42	71	33	50
2	42	14	50	43	25	0	25	71	25	29	34	50
3	33	43	25	29	50	57	17	0	33	0	33	0

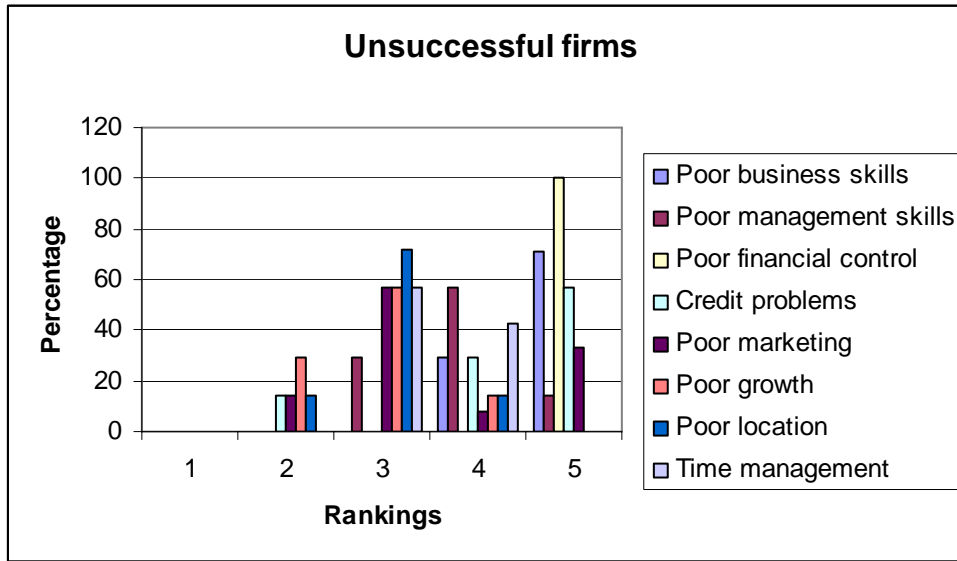
From Table 5.5 it can be seen that successful firms felt strongly about the degree to which each of these factors are moderate. In contrast, unsuccessful firms felt that they were weakly moderate contributors.

Factors that make a business fail were selected and both the owners of successful and unsuccessful businesses rated these factors on a scale of one to five (one was regarded as the least important and five extremely important). These factors are explained by means of a bar graph in Figures 5.4 and 5.5.

**Figure 5.4: Factors that make a business fail in the Khomas Region; 2005.**



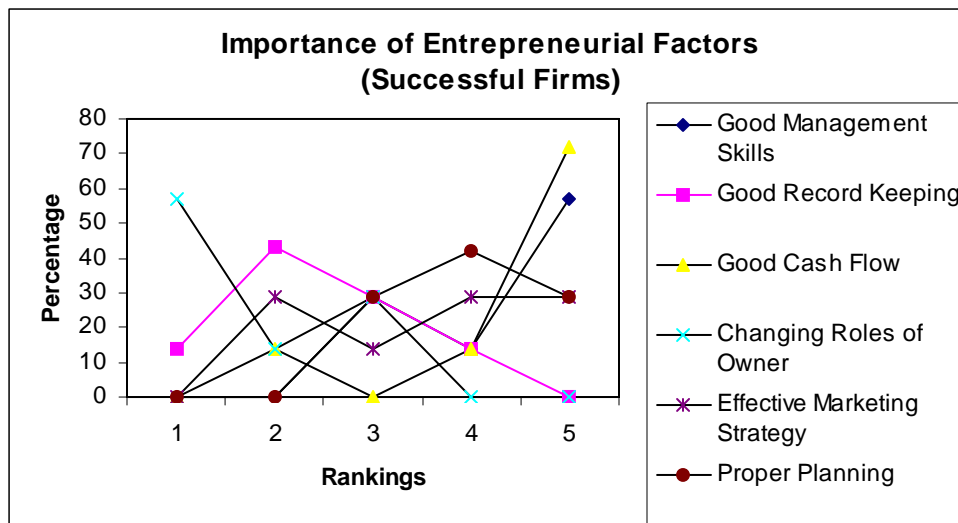
**Figure 5.5: Factors that result business failure in the Khomas Region; 2005.**



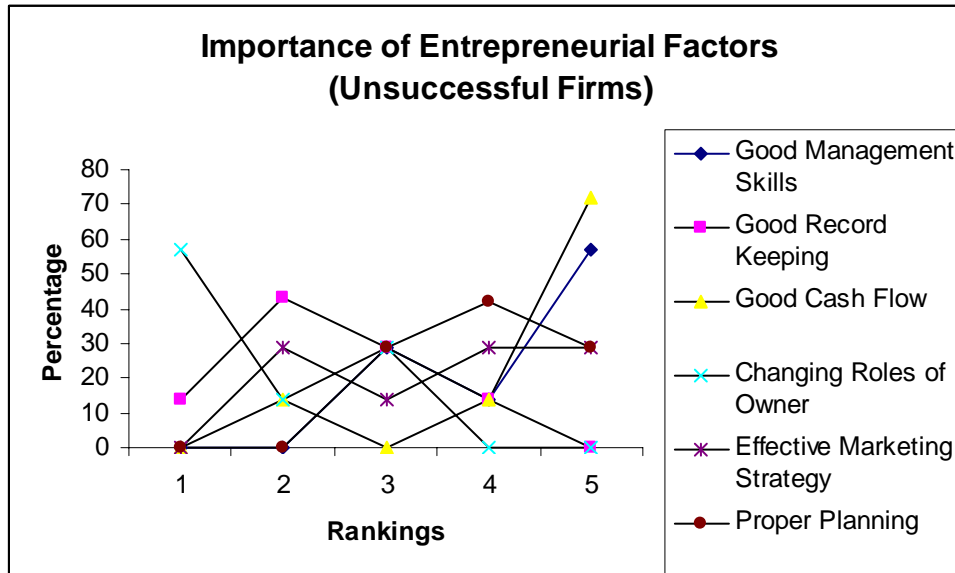
Figures 5.4 and 5.5 considered the factors that result in business failures. Both successful and unsuccessful business firms rated poor financial control as the key contributor to business failure. Credit problems were rated the second highest in both successful and unsuccessful business. Poor management skills and poor marketing also seem to play an important role in business failure. However, there was no significant difference in both successful and unsuccessful regarding the rest of the other factors.

Figures 5.6 and 5.7 illustrate the factors that are important in the life of the entrepreneur. These factors are good management skills, proper record keeping, good cash flow management, changing role of the owner, effective marketing strategy and proper planning. Each of the latter mentioned factors were ranked on a scale of 1 to 5 (Five being an excellent contributor and one being not a key contributor). These results are shown in Figures 5.6 and 5.7.

**Figure 5.6: Factors that are important in the entrepreneurial life in the Khomas Region; 2005.**



**Figure 5.7: Factors that are important in the entrepreneurial life in the Khomas Region; 2005.**

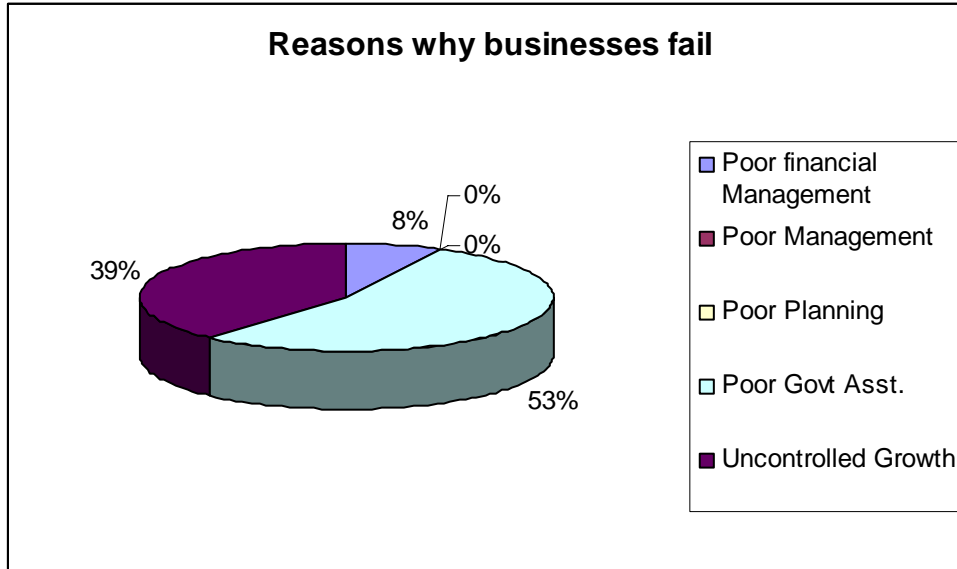


Both the owners of successful and unsuccessful businesses felt that good cash flow is one of the key factors that influence the life of the entrepreneur. This particular factor was rated 70% by both groups of business owners. Good management skills also played an important role for both the owners of successful and unsuccessful businesses.

Good record keeping was regarded as a very important factor in successful businesses, while in unsuccessful ones this particular factor had a low rating. There was no significant difference between successful and unsuccessful businesses amongst the rest of the factors.

An additional question was posted to unsuccessful business owners. This question specifically looked into the factors that contributed to the failure of the particular business owner. These factors related to poor financing, lack of managerial or entrepreneurial skills, poor planning, poor governmental assistance and uncontrolled growth. Each one of the latter mentioned factors were ranked on a scale of 1 to 4 (one refers to the factor not being a key contributor, while five regarded the factors as a key contributor). These results are explained with the help of a pie chart, as seen in Figure 5.8.

**Figure 5.8: Factors that contributed to the failure of SMEs in the Khomas Region; 2005.**



It is clear from Figure 5.8 that 53% of the respondents ranked poor governmental assistance as the key contributor to the failure of SMEs in Namibia. Another prominent factor, according to the respondents of this survey, is uncontrolled growth. Unsuccessful business owners did not at any stage feel that poor planning and poor management could be amongst the contributors of business failure, because these two variables were rated 0%. The unsuccessful business owners who rated poor financing, constituted 8% of the sample.



## 5.6 GENERAL IDEAS REGARDING SUCCESSFUL AND UNSUCCESSFUL BUSINESS OWNERS IN NAMIBIA

These questions considered the general ideas of business owners of both successful and unsuccessful firms with regard to entrepreneurship in Namibia. These results will be presented in the form of a table.

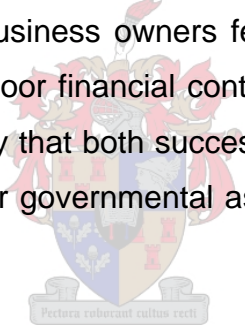
**Table 5.6: General ideas of successful and unsuccessful entrepreneurs in the Khomas Region; 2005**

Successful Firms	Unsuccessful Firms
<p>75% of the respondents provide autonomy to their employees while, 25% of the owners do not have any employees. Most employees in successful businesses were provided proper training.</p>	<p>Over eighty percent (85%) of the employees have autonomy in unsuccessful businesses, while 25% of the employees have no autonomy, but will still be trained to make decisions and issues that concern the company. Most of the employees in the particular unsuccessful firms are trained.</p>
<p>As was also indicated in the previous questions, some successful business owners felt that governmental assistance is rather minimal, and they would like to receive more governmental support.</p>	<p>Almost all employees in unsuccessful business feel the major reason for their failure is because of capital and financial mismanagement.</p>
<p>In general the successful business owners suggested that the competencies and the abilities of SMEs be surveyed.</p>	<p>Generally some unsuccessful business owners mentioned that they would like assistance with financing methods and how to operate an SME during the period of planning and preparation.</p>

## 5.7 SUMMARY

From the above analysis, it is evident that there are many factors that influence the success and failure of SMEs in Namibia. Nearly fifty percent of the questionnaires that were sent out were returned. Most SME owners taking part in this study operate their businesses as sole traders. However, all the unsuccessful business owners only operated as sole traders, and this could have been the primary reason that may have resulted the failure of their businesses.

The four main stages of entrepreneurial development were also discussed in this chapter. These stages were the pre-start up, start up, growth and the maturity stages. The primary motivators that influenced most of the small business owners to start their business were also discussed in this chapter. Furthermore successful and unsuccessful business owners felt that the primary reason why most SMEs fail is because of poor financial control and credit problems. It was evident from this empirical study that both successful and unsuccessful business owners had the notion that poor governmental assistance is a major obstacle to the success of their businesses.



In Chapter six the conclusions and recommendations based on the theoretical and empirical study will be discussed.

## CHAPTER 6

### CONCLUSION AND RECOMMENDATIONS

*“Change is the law of life. And those who look only on the past or the present are certain to miss the future – John F. Kennedy, former President of the US.*

#### 6.1 INTRODUCTION

In chapter six a short summary of the study will be provided. Firstly the background and the objectives of the study are discussed. Thereafter a summary of the literature review, followed by a summary of the results from the empirical study, will be outlined. Conclusions from the theoretical and the empirical study will be provided, followed by the necessary recommendations where applicable.

#### 6.2 BACKGROUND AND THE OBJECTIVES OF THE STUDY

Namibia had no established small business sector prior to independence. The whites owned most businesses at that stage, as they were the rulers of the economy. Another prominent reason is that people had no essential information as how to run a small medium enterprise and did not have a clear idea on what a small medium enterprise was.

Currently the Namibian economy is faced with a problem of small and medium enterprise failure. The issue of business failure is problematic because small and medium enterprises are created to foster economic development and growth within the country. Against this background the overall objectives of this study were:

- To compare at least forty Namibian small medium enterprises in the Khomas Region, twenty that are successful and twenty that are not successful.

- To address the critical factors that lead to success in small medium enterprises in the Khomas Region
- To address the critical factors resulting in failure amongst small medium enterprises in the Khomas Region.

The specific objectives of this study were to:

- confirm whether there is a problem of SME failure in the Khomas Region.
- identify the causes of these problems
- propose remedial actions given the causes of these problems

### **6.3 SUMMARY OF THE LITERATURE**

The theoretical study and also the primary purpose of this study focused mainly on the success and failure of SMEs.

#### **6.3.1 The background and meaning of entrepreneurship**

Entrepreneurship is the process whereby the owner of a particular business brings about change and possesses those characteristics required to implement such a change. The well-known Austrian economist, Schumpeter, goes even further and describes entrepreneurship as an event that introduces new products, a product method, new markets or a new form of organisation (Nieman et al., 2003). Entrepreneurship in a nutshell can thus be defined as the process of coming up with a particular idea and implementing it in the most innovative manner to ensure the success of the business in the long run.

The various roles played by the entrepreneur in the business were also discussed. These roles amongst many others include the desire of the entrepreneur for immediate feedback, strong desire for responsibility and the strong desire of entrepreneurs to succeed.

The study scrutinised the roles of the entrepreneur and it could be concluded that SME business owners in Namibia in the Khomas region both in successful and unsuccessful businesses regarded these roles as crucial for the overall business success.

Thereafter the study discussed the various stages of entrepreneurial development. These stages were the pre-start up stage; start up stage, growth stage and the maturity and the decline stages. It may be concluded that each one of these stages plays an essential role when one analyses the degree to which a business may fail or succeed (Nieman et al., 2003).

The study also described the advantages and the disadvantages of entrepreneurship. During this study of the success and failure of SMEs in the Khomas Region special attention was devoted to advantages, such as being sole owner and making a contribution to the society. A discussion of the disadvantages of entrepreneurship followed thereafter. Having discussed the meaning and background of entrepreneurship, the study analysed the various forms of ownership in a business.

### **6.3.2 VARIOUS FORMS OF BUSINESS OWNERSHIP**

When an individual decides to become an entrepreneur one of the most important decisions he or she is faced with is the form in which the business will be owned. Forms of ownership include whether the specific owner wants to run the business as a sole owner or whether the individual requires support from other parties. In this study these various forms of ownership were discussed with the several advantages and disadvantages of each form of ownership. Alternative forms of ownership were also discussed in this study with special emphasis on family businesses. Specific forms of ownership that were discussed are the (Zimmerer & Scarborough, 2002):

*Sole trader:* This refers to a business that is owned and managed by one individual

*Partnership:* This is an association of two or more people who co-own a business for the purpose of making profit.

*Public company:* Company registered as a PLC under the provisions of the South African Companies Act of 1980. The company's name has to carry the words 'public limited company' or initials "plc" and must have an authorised share capital over R5000 with R1250 paid up – paid to the company by shareholders.

*Private company:* A private company is an association of people incorporated in terms of the Companies Act (Act of 1973).

*Close Corporation:* This is a smaller corporation that elects close corporation status and is therefore entitled to operate without strict formalities which are normally required in the operation of standard corporations.

Furthermore the study scrutinised the options one has to evaluate when buying a particular business. According to (Nieman et al., 2003) the history, physical condition of the business and competitors are crucial factors to be considered when evaluating the options for buying a particular business. The next section of the literature reviewed the advantages and the disadvantages facing the entrepreneur when purchasing an existing business.

After a detailed analysis of the various forms of ownership was concluded, a discussion of the factors that result in SMEs success and failure ensued. There are various reasons contributing to a business becoming a success or a failure. The reasons for business success can be attributed to:

- Expansion of management skills
- Good record keeping
- Proper planning
- Efficient and effective marketing

Business success is only possible when the above-mentioned factors are taken into account with careful consideration. Furthermore the reasons as to why small medium enterprises fail were also discussed.

The factors that lead to business failure include amongst others:

- Credit problems
- Poor financial control
- Poor time management
- Uncontrolled or managing growth

Business success or failure is not determined by one particular factor, but there are many factors that could contribute to a business being a success or a failure. To draw the literature review closer to reality, the study placed a special emphasis on the SMEs in the Khomas Region.

### **6.3 SMALL MEDIUM ENTERPRISES IN THE KHOMAS REGION**

Small and medium enterprises are very important for economic development in Namibia. Here a discussion about the structure and control of SMEs globally were provided. Thereafter the study looked into the importance, advantages and disadvantages of small medium enterprises globally. Furthermore specific reference was made to the SME sector in Namibia.

The key points that were analysed in this part of the study are the strengths, weaknesses, opportunities and threats of the Namibian SME sector. The strong points of the Namibian SME sector stand out to certain extent. Eradication of poverty and inequality were amongst the strengths of the Namibia SME sector.

The small business development Act, provides specific strategies that has to be implemented for SME development in Namibia. These strategies are retaining and expanding existing businesses, fostering new business development, attracting outside business and resources, plugging the leaks in the local community, enhancing job linking capacity of the community and the market. Thereafter the role of the Namibian government in SME strategy was discussed.

The theoretical study served as a basis for the empirical research. The empirical study analysed the background of the business owners, stages of entrepreneurial development and the reasons that make some business owners successful where others fail.

Other important aspects discussed in the empirical study were the factors that play a crucial role in the lives of entrepreneurs and the reasons why unsuccessful businesses resulted in failure.

#### **6.4 SUMMARY OF THE RESULTS OF THE EMPIRICAL STUDY**

Entrepreneurship is playing an essential role in today's global economy. SMEs are becoming the backbone and survival for both industrialised and developing countries.

Against this background it became crucially important to understand the way in which small medium enterprises put entrepreneurship in practice.

The aim of the empirical study was to examine the factors that lead to business success and failure in the Khomas Region and to obtain solutions for it. The response rate to the questionnaires handed to respondents was approximately 50 percent, including both successful and unsuccessful business owners. The questionnaire was used to study the following aspects:

- The profile of the respondents, which specifically scrutinised characteristics such as age, gender, nationality, parents' occupation and education. There was no significant difference between these variables for the purpose of this study, as the sample for the study was relatively small. Parents' occupation and educational background seem to have had no influence as to whether the respondent became an entrepreneur, both in successful and unsuccessful businesses.
- When observing the background of most business owners, it is clear that most unsuccessful businesses have been in a longer operational period than successful businesses. Most successful business owners were the actual founders of their businesses, while in the case of unsuccessful business owners; they purchased their businesses from previous owners.



- It was also clear from the study that most of the successful and unsuccessful businesses operated as sole traders, while the other forms of ownership appear to be minimal and at some instances were not applicable to unsuccessful businesses.
- Analysing the stages of entrepreneurial development in SMEs in the Khomas Region, both successful and unsuccessful businesses owners regarded the growth stage as the most important.

However, in unsuccessful firms a higher percentage of respondents felt that the growth stage was crucial, while the pre- start up and start up phases did not seem to play a role at all.

All the stages seemed to play an important role in successful firms, except the decline phase, which seemed to play no role at all.

- The empirical study also covered the primary reasons why the owners of both successful and unsuccessful businesses started their businesses. To the surprise of the researcher, the key primary reason that stood out was autonomy (freedom) for the successful business owners, while being their own boss was a crucial factor for unsuccessful businesses.
- Both the owners of successful and unsuccessful businesses strongly felt that poor financial control was one of the primary reasons why businesses fail. Furthermore the empirical study also considered the factors, which made a particular business a success. These factors were responsibility, taking risks, desire for success, and desire for feedback, skills orientation and achievement orientation. Each of these factors were rated on three scale groups namely, *not a key contributor*, *slight contributor* and *moderate contributor*. There was no significant difference amongst each one of these factors in the three scale groups.

When considering the group of not a key contributor, responsibility and risk taking seemed to appear less important to successful businesses.

When observing each of the factors of slight contributors, there was no significant difference between successful and unsuccessful businesses. Successful businesses clearly felt that each one of these factors were strongly moderate contributors while this was not the case with unsuccessful businesses.

- Factors that are important in the life of the entrepreneur also formed an essential part of this empirical study. These factors were good management skills, good record keeping, and good cash flow management, changing roles of the owner, effective marketing strategy and proper planning. Good cash flow and good management skills seemed to play an essential role in both successful and unsuccessful businesses.
- Unsuccessful small and medium enterprises felt that the primary reason for their failure was poor governmental assistance. Other essential factors that were attributed to failure in unsuccessful SMEs were poor finance and uncontrolled growth.
- It was a general feeling amongst successful and unsuccessful small medium enterprises that autonomy played a critical role in their enterprises. Successful firms also had the notion that governmental assistance was rather minimal. Unsuccessful firms on the other hand felt that most of the reasons as to why they fail were capital and financial mismanagement.

The conclusions from the theoretical and empirical study will be discussed in the next section of the study.

## **6.5 CONCLUSIONS AND RECOMMENDATIONS**

The conclusions derived from the study will be discussed in the same sequence in which the empirical results were contained. The most prominent areas, which lead to either business success or failure, were identified and will be discussed with specific recommendations towards the end of this chapter.

### **6.5.1 Overall conclusions**

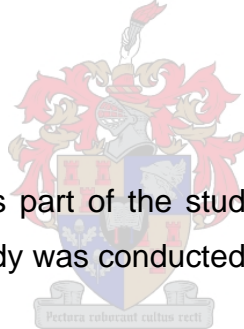
In terms of the overall objectives of the study the researcher concluded that there were certain factors that lead to either the success or the failure of a particular business amongst the SMEs in the Khomas Region.

The primary driving force behind any successful entrepreneurship venture is that most owners of successful SMEs are willing to take risks, and they believe that it is crucial to have a proper business plan initially before starting up the enterprise.

In contrast the critical factors that lead to the failure of some SMEs are the inability of the owners to take risks and the lack of skills and knowledge to operate a SME successfully. Other factors that could be attributed to the failure of SMEs in Namibia are poor financial and management control. The above mentioned shortcomings lead to the following specific conclusion as will be discussed in section 6.5.2.

### **6.5.2 Specific conclusions**

The conclusions derived in this part of the study emanate from specific results obtained after the empirical study was conducted.



#### **6.5.2.1 Profile of the respondents**

A large percentage of the respondents for this study were above the age of thirty. Therefore it is assumed that more than fifty percent of the respondents were in the age range of thirty to sixty and this could have a different impact when it comes to the derivation of specific results. The conclusion is that having respondents only from a particular age group could have resulted in some similarity, and this does not create enough room for a fair comparison between each of the two age groups.

Most of the respondents' parents did not have a business of their own. Furthermore, the educational background of the respondents was mostly a Junior Certificate.

The conclusion derived from this is that parents' occupational and educational backgrounds are not the only determining factors to whether an individual is a successful entrepreneur or not. This brought the researcher to the notion of whether entrepreneurs are born or made. The researcher came to the conclusion that entrepreneurs are born and some are made, and there is no distinct or specific determining factor.

#### **6.5.2.2. Background of the business owners**

Most of the respondents in the unsuccessful businesses operated as sole traders, while the rest of the respondents operated in partnership with other business owners. However, there was almost an equal distribution amongst the various forms of ownership in successful business. From this it could be concluded that operating mostly as sole traders could have resulted in many drawbacks rather than benefits for unsuccessful business owners.

These drawbacks occur because operating in sole proprietorship means that owners cannot exchange their knowledge and skills with others, as the characteristic of a sole proprietorship states that there is only one owner, which would not be the case in any other form of ownership. This brings the researcher to the conclusion that creativity and innovation are fostered through a proper sharing of knowledge and skills amongst individuals within an organisation.

Furthermore, when looking at the stages of entrepreneurial development most owners of both successful and unsuccessful businesses indicated that the growth stage is the most important amongst all the stages. However, when observing each one of the stages, successful business owners regarded each one of these stages as important as there was almost an equal distribution of respondents amongst each one of these stages. In contrast unsuccessful business owners did not regard the pre-start up and start up stages as crucial. From this the researcher comes to the conclusion that entrepreneurs who fail, do so because they do not understand the fundamentals of entrepreneurship.

The stages of pre-start up and start up are crucial for the success of any entrepreneurial venture, because this is where most of the preparation and planning for successful entrepreneurship takes place.

Most of the owners in successful businesses regard money as a important driving force as to why they have established their businesses in particular, while unsuccessful businesses have the notion that being their own boss is the most important reason why they started their businesses. From this it could be concluded that both groups of business owners started the businesses for reasons they believed were the most effective and efficient for their businesses. However, money cannot be the only motivation for establishing a business and nor can being one's own boss.

Successful business owners are able to build on their success if they understand each one of the components that would be crucial for the success of their businesses. In contrast unsuccessful business owners fail because they believe the power of success lies within them, but being their own boss is not a means to an end, and it is crucial to understand the benefits and also the drawbacks of running a business as a sole trader.

### **6.5.2.3 *Reasons that make a business a failure and a success***

The owners of successful and unsuccessful businesses believe that poor financial control and credit problems are the most prominent reasons as to why businesses fail. A conclusion that could be made from the above, is that business owners know the reasons why particular incidents, such as the failure of businesses, happen, but they do not know how to deal with the problems of failure and what the particular signs are when the businesses are on their way to failure.

In terms of the extent to which responsibility and skills orientation plays an important role for the success of the businesses, most successful business owners regarded these factors as strong moderate contributors, while in contrast unsuccessful businesses regarded these factors as weak moderate contributors.

This leads to the conclusion that unsuccessful firms have no thorough understanding of the factors that are critical for the success of a SME. This could have a significant impact on the way they implement and manage their business operations.

Unsuccessful business owners have the impression that the Namibian government is not doing enough in terms of the financial grants that are provided to SMEs annually. The researcher is of the opinion that the government does not sufficiently explain the terms and the conditions of the grants when it is provided to business. Although the government assists the business owners financially, there is no assistance in terms of human and physical resources.

#### ***6.5.2.4 General ideas of successful and unsuccessful business owners in Namibia***

The research shows that successful business owners provide autonomy and training to their employees. However, unsuccessful businesses also provide autonomy and training to their employees.

Nonetheless the autonomy that is provided in unsuccessful businesses is more prevalent than in successful businesses. Almost ninety percent autonomy is provided in unsuccessful businesses compared to seventy five percent in successful businesses. From this it could be concluded that too much autonomy could have a detrimental impact on the business, as could be seen in this case of unsuccessful businesses. In addition to this, unsuccessful business owners do not provide any training to their employees, although they were planning to do so in due course. From the aforementioned, the researcher comes to the conclusion that a failure to provide training to their employees could also have been one of the main reasons that could have resulted in the failure of unsuccessful SMEs.

Both successful and unsuccessful business owners felt that governmental assistance was limited, especially during the start up stages. This leads the researcher to the conclusion that a lack of governmental assistance has a significant impact on the business operations of small medium enterprises and even so could have a negative impact for successful business.

If the government fails to take cognisance of the importance of SMEs for economic growth and development there will be limited growth in the country's economy.

### **6.7 Overall recommendation**

For a country like Namibia that has emerged after political turmoil, the challenge for economic development is tremendous. The overall objectives and also the specific objectives of this study were met and on this footing the researcher will make recommendations based on the results obtained from this study.

The study investigated the critical factors that lead to the success and failure of SMEs in the Khomas Region. From the study it was clear that there is a problem of business failure in Namibia in the Khomas Region. Various factors, such as poor financial planning, credit problems and uncontrolled growth, were identified as one of the key factors that lead to the failure of SMEs in the Khomas Region.

Before small businesses are registered, it is crucial that the Namibian government ensure that it establishes the means and ways in which such a business can survive on a long-term basis. Only when the government has established the means and the feasibility of establishing a particular business should the owners be granted an opportunity to go ahead and develop such a business.

The researcher understands that most of the small business owners in Namibia are from a previously disadvantage background. Bearing this in mind, the government should make a tremendous effort in terms of helping small business owners to survive.

### **6.7.1 Specific recommendations**

- The Government of the Republic of Namibia should consider establishing business incubator facilities, whereby small business owners are nurtured for future growth and development. Incubator facilities generally enable firms that lack the management, technical and financial ability to survive on their own. This will be a perfect opportunity to monitor the progress of SMEs and help where it becomes necessary.
- Another initiative that the government could consider is creating and building relationships between business with previously disadvantaged owners and private organisations in order to expand the ability of the business to meet the existing demands of the market.
- The Namibian government should provide for research fees, so that essential data are recorded about all SMEs in Namibia, so that more researches could be carried out to measure the trend in terms of the improvement that the government has made since independence.
- Entrepreneurial education should become part of both primary and secondary school education curriculums, whereby young citizens of the country are instructed about the basics on entrepreneurship. If they eventually choose to become owners of their businesses, they have a clear understanding of what entrepreneurship entails.
- A replicate study should be conducted on the critical factors that influence the success and failure of SMEs in the whole of Namibia, instead of a study such as this one that only focused on the Khomas Region.



## 6.8 SUMMARY

The study was conducted to investigate the critical factors that lead to the success and failure of SMEs in Namibia in the Khomas Region. The overall and specific objectives of the study were met, which causes the researcher to believe that a replicate study could well be conducted with a bigger sample to ensure that the future research is representative of the entire Namibia.



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## APPENDIX A

### SUCCESSFUL BUSINESS OWNERS

#### CRITICAL FACTORS THAT INFLUENCE THE SUCCESS AND FAILURE OF SME'S IN NAMIBIA IN THE KHOMAS REGION SURVEY

---

Confidential Survey for Business Owners or Entrepreneurs

I appreciate your valuable time.

The name and address of your business is randomly selected from the Namibian small and medium enterprises directory. **If you are not the owner of this business please be so kind and pass on this survey to someone who is.**

Results from this survey will provide a basis for a Masters thesis in which the factors that influence the success and failure of small and medium businesses are analyzed.

Your understanding of the business in today's global competitive market will help to identify the factors that lead to business success and failure. The results obtained from this study will be used to rectify the problems that lead to SME failure and will also boost the factors that result the success of SMEs. Through proper understanding of the reasons as to why business are either a failure or a success in Namibia, we will be able to create sound business owners for the future that lies ahead.

Please return your completed survey in the enclosed Replay envelope by 31 August 2005. Rest assured that the responses of this survey would be treated in strict confidence.

Should you wish to verify the authenticity of this project, you can do so by telephoning Dr. Johan Van Zyl, Lecturer, Department of Business Management, University of Stellenbosch Main Campus on 0027 21 808 2475.

**THANK YOU FOR YOUR TIME; YOUR CONTRIBUTION IS OF GREAT IMPORTANCE TO THE SUCCESS OF THIS RESEARCH!**

Yours sincerely

Wilfred Isak April  
Masters Candidate  
Department of Business Management  
University of Stellenbosch  
Cape Town

## **Survey Form**

**Strictly Confidential!**

Survey of Business Owners or Entrepreneurs

Wilfred Isak April

University of Stellenbosch

Department of Business Management

2005

Could you kindly spare me, thirty minutes of your time to complete this questionnaire. It will be highly appreciated.

## **INTRODUCTION**

The results of the survey will provide basis for a masters thesis in which the factors the influence the success and failure of small medium enterprises in Namibia is analyzed.

Much international literature focuses on the factors the influence the success and failure of small medium enterprises in general. Certain sensible factors that contribute to this success and failure has been identified, however not many studies of this kind has been conducted in Namibia. Entrepreneurial Studies of this kind are very important for developing countries such as Namibia, as studies of this nature will lead to the identification of problems that cause the success or failure of SMEs.

The name and the address of your business have been selected randomly from the Namibian SME directory. Rest assured that the responses would be treated in strict confidence. To verify the authenticity of this research project contact, Dr. Johan Van Zyl, Lecturer, Marketing Management, University of Stellenbosch Main Campus on 00 27 808 2475.



## **INSTRUCTIONS**

Please read each question carefully.

Follow the instructions.

Answer every question.

1. If you require help to complete this survey, contact Wilfred Isak April on 0027 73 853 5864.

Please return the completed Survey Form by 31 August 2005. To be included in our prize draw to win Champagne to the value of R150 just fill in the attached form and return it with the completed survey in the enclosed envelope.

Once again, than you so much for your time!

Wilfred Isak April  
Masters Candidate  
Department of Business Management  
University of Stellenbosch  
Cape Town

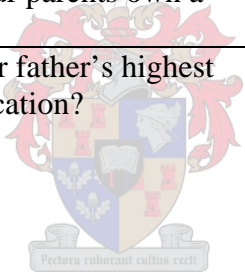


## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question. (Please mark with a cross (X) in the appropriate box, unless stated otherwise).

### Section A – Objective: Find out more about the owner and family history.

Questionnaire Number		
----------------------	--	--

Questions	Answers
Q1	Date of birth ____/____19____
Q2	Sex <input type="radio"/> Male <input type="radio"/> Female
Q3	Nationality
Q4	When you were growing up where did you live? <input type="radio"/> City      Country <input type="radio"/> If other, Please specify _____
Q5	What was your father's occupation
Q6	What was your mother's occupation
Q7	Did any of your parents own a business <input type="radio"/> Yes <input type="radio"/> No
Q8	What was your father's highest formal qualification?  <input type="radio"/> Primary School <input type="radio"/> School/Junior Certificate <input type="radio"/> High School Certificate <input type="radio"/> Certificate or Diploma <input type="radio"/> Undergraduate degree <input type="radio"/> Honours/Masters degree <input type="radio"/> Doctorate <input type="radio"/> If Other Please specify _____
Q9	What was your mother's highest formal educational qualification? <input type="radio"/> Primary School <input type="radio"/> School/Junior Certificate <input type="radio"/> High School Certificate <input type="radio"/> Certificate or Diploma <input type="radio"/> Undergraduate degree  <input type="radio"/> Honours/Masters degree <input type="radio"/> Doctorate

		<input type="radio"/> Other (Please specify _____
Q10	What has been your highest formal qualification to date?	<input type="radio"/> Primary School <input type="radio"/> School/Junior Certificate <input type="radio"/> High School Certificate <input type="radio"/> Certificate or Diploma <input type="radio"/> Undergraduate degree <input type="radio"/> Honours/Masters degree <input type="radio"/> Doctorate <input type="radio"/> Other (Please specify _____



## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

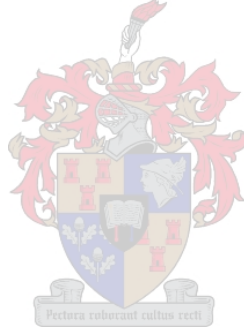
### Section B: Objective: Get more insight about the owner and the Business

Q11	In which year was your business founded	19_____
Q12	In which year did you become the owner of this business	19_____
Q13	How did you become the owner of this business? (For e.g. manufacturing, retail or services) (Please tick one box only)	<input type="radio"/> I purchased it <input type="radio"/> I founded it <input type="radio"/> I inherited it <input type="radio"/> Other (please specify _____)
Q14 (i)	Mostly in which Industry is the business?	_____
Q14 (ii)	For how many years have you been engaged in this Industry?	_____
Q15	Which one of the following is a form of ownership of your business?	<input type="radio"/> Sole Trader <input type="radio"/> Partnership <input type="radio"/> Private Company <input type="radio"/> Limited Public Company <input type="radio"/> Other (Please specify _____)
Q16	Which one of the following entrepreneurial life cycle stages are the most important for the survival of a business? (Please tick one box only)	<input type="radio"/> Pre-start up stage <input type="radio"/> Start up stage <input type="radio"/> Growth stage <input type="radio"/> Maturity stage <input type="radio"/> Decline stage <input type="radio"/> _____
Q17 (i)	For the past financial year, did you have a documented business plan?	<input type="radio"/> Yes <input type="radio"/> No
Q17 (ii)	To what extend do you conduct business in accordance to your business plan?	<input type="radio"/> Completely <input type="radio"/> Mostly <input type="radio"/> Sometimes <input type="radio"/> Not at all

## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

Q18 (i)	What were the main reasons as to why you decided to start your own business?	<ul style="list-style-type: none"><li><input type="radio"/> Being own boss</li><li><input type="radio"/> Monetary rewards</li><li><input type="radio"/> Make a societal contribution</li><li><input type="radio"/> Freedom</li><li><input type="radio"/> More innovative thinking</li></ul>
Q18 (ii)	Rank the above mentioned factors in a chronicle order on a scale of (1-5) 1 being the most important and 5 being the least important?	<ul style="list-style-type: none"><li><input type="radio"/> Being own boss</li><li><input type="radio"/> Monetary rewards</li><li><input type="radio"/> Make a societal contribution</li><li><input type="radio"/> Freedom</li><li><input type="radio"/> More innovative thinking</li></ul>



## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

### Section C: Objective: Finding out the reasons that result business success or failure.

Q.19 Which of the following factors do you regard as the **most important contributors to failure**? Scale them to the extend you considered them important to your enterprise.

Business	Not important	Slightly important	Moderately important	Very important	Extremely important
Lack of general business Skills	1	2	3	4	5
Lack of management skills	1	2	3	4	5
Poor financial control	1	2	3	4	5
Credit Problems	1	2	3	4	5
Poor marketing techniques	1	2	3	4	5
Uncontrolled Growth	1	2	3	4	5
Poor Location	1	2	3	4	5
Poor time Management	1	2	3	4	5

## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

Q.20. Which of the following **factors in your business** would you regard as **key contributors to business success**?

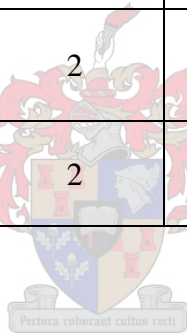
Factors <b>Strong desire for:</b>	Not a key contributor			Slight Contributor			Moderate contributor		
	1	2	3	1	2	3	1	2	3
Responsibility	1	2	3	1	2	3	1	2	3
Risk taking	1	2	3	1	2	3	1	2	3
Desire for success	1	2	3	1	2	3	1	2	3
Desire for immediate feedback	1	2	3	1	2	3	1	2	3
Skill oriented	1	2	3	1	2	3	1	2	3
Achievement oriented	1	2	3	1	2	3	1	2	3

*Pectora roborant cultus recti*

## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Q.21 Show the **importance** of each of the mentioned factors below in your life as an entrepreneur, when looking at your business?

Business	Not a key contributor	Slight contributor	Moderate contributor	Good contributor	Excellent contributor
Good management skills	1	2	3	4	5
Proper record keeping	1	2	3	4	5
Good cash flow management	1	2	3	4	5
Changing roles of owner	1	2	3	4	5
Effective marketing Strategy	1	2	3	4	5
Proper planning	1	2	3	4	5



**SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS**

Please read the questions carefully where they appear. Answer every question.

**Section D: Objective General Ideas of the business owner regarding entrepreneurship in Namibia.**

Q.22 How important is the employee in your business organization? (E.g. Do you give them enough autonomy, do you trust them, are there any training initiatives).

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Q.23 Do you perhaps have any ideas, that you think would be valuable to the completion of this study?

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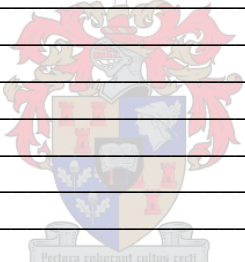
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Name of the Company \_\_\_\_\_  
Name of Interviewee \_\_\_\_\_  
Date \_\_\_\_\_



## APPENDIX B

### UNSUCCESSFUL BUSINESS OWNERS

#### CRITICAL FACTORS THAT INFLUENCE THE SUCCESS AND FAILURE OF SME'S IN NAMIBIA IN THE KHOMAS REGION SURVEY

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Confidential Survey for Business Owners or Entrepreneurs

I appreciate your valuable time.

The name and address of your business is randomly selected from the Namibian small and medium enterprises directory. **If you are not the owner of this business please be so kind and pass on this survey to someone who is.**

Results from this survey will provide a basis for a Masters thesis in which the factors that influence the success and failure of small and medium businesses are analyzed.

Your understanding of the business in today's global competitive market will help to identify the factors that lead to business success and failure. The results obtained from this study will be used to rectify the problems that lead to SME failure and will also boost the factors that result the success of SMEs. Through proper understanding of the reasons as to why business are either a failure or a success in Namibia, we will be able to create sound business owners for the future that lies ahead.

Please return your completed survey in the enclosed Reply envelope by 31 August 2005. Rest assured that the responses of this survey would be treated in strict confidence.

Should you wish to verify the authenticity of this project, you can do so by telephoning Dr. Johan Van Zyl, Lecturer, Department of Business Management, University of Stellenbosch Main Campus on 0027 21 808 2475.

**THANK YOU FOR YOUR TIME; YOUR CONTRIBUTION IS OF GREAT IMPORTANCE TO THE SUCCESS OF THIS RESEARCH!**

Yours sincerely

Wilfred Isak April  
Masters Candidate  
Department of Business Management  
University of Stellenbosch  
Cape Town

## **Survey Form**

**Strictly Confidential!**

Survey of Business Owners or Entrepreneurs

Wilfred Isak April

University of Stellenbosch

Department of Business Management

2005

Could you kindly spare me, thirty minutes of your time to complete this questionnaire. It will be highly appreciated.

## **INTRODUCTION**

The results of the survey will provide basis for a masters thesis in which the factors the influence the success and failure of small medium enterprises in Namibia is analyzed.

Much international literature focuses on the factors the influence the success and failure of small medium enterprises in general. Certain sensible factors that contribute to this success and failure has been identified, however not many studies of this kind has been conducted in Namibia. Entrepreneurial Studies of this kind are very important for developing countries such as Namibia, as studies of this nature will lead to the identification of problems that cause the success or failure of SMEs.

The name and the address of your business have been selected randomly from the Namibian SME directory. Rest assured that the responses would be treated in strict confidence. To verify the authenticity of this research project contact, Dr. Johan Van Zyl, Lecturer, Marketing Management, University of Stellenbosch Main Campus on 00 27 808 2475.

## **INSTRUCTIONS**

Please read each question carefully.

Follow the instructions.

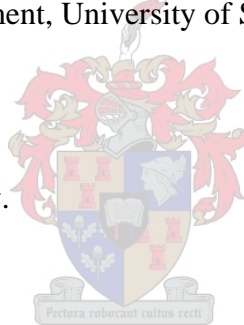
Answer every question.

1. If you require help to complete this survey, contact Wilfred Isak April on 0027 73 853 5864.

Please return the completed Survey Form by 31 August 2005. To be included in our prize draw to win Champagne to the value of R150 just fill in the attached form and return it with the completed survey in the enclosed envelope.

Once again, than you so much for your time!

Wilfred Isak April  
Masters Candidate  
Department of Business Management  
University of Stellenbosch  
Cape Town



## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question. (Please mark with a cross (X) in the appropriate box, unless stated otherwise).

### Section A – Objective: Find out more about the owner and family history.

Questionnaire Number		
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Questions		Answers
Q1	Date of birth	___/___19___
Q2	Sex	<input type="radio"/> Male <input type="radio"/> Female
Q3	Nationality	
Q4	When you were growing up where did you live?	<input type="radio"/> City    Country <input type="radio"/> If other, Please specify _____
Q5	What was your father's occupation	
Q6	What was your mother's occupation	
Q7	Did any of your parents own a business	<input type="radio"/> Yes <input type="radio"/> No
Q8	What was your father's highest formal qualification?	<input type="radio"/> Primary School <input type="radio"/> School/Junior Certificate <input type="radio"/> High School Certificate <input type="radio"/> Certificate or Diploma <input type="radio"/> Undergraduate degree <input type="radio"/> Honours/Masters degree <input type="radio"/> Doctorate <input type="radio"/> If Other Please specify _____
Q9	What was your mother's highest formal educational qualification?	<input type="radio"/> Primary School <input type="radio"/> School/Junior Certificate <input type="radio"/> High School Certificate <input type="radio"/> Certificate or Diploma <input type="radio"/> Undergraduate degree  <input type="radio"/> Honours/Masters degree

		<input type="radio"/> Doctorate <input type="radio"/> Other (Please specify _____)
Q10	What has been your highest formal qualification to date?	<input type="radio"/> Primary School <input type="radio"/> School/Junior Certificate <input type="radio"/> High School Certificate <input type="radio"/> Certificate or Diploma <input type="radio"/> Undergraduate degree <input type="radio"/> Honours/Masters degree <input type="radio"/> Doctorate <input type="radio"/> Other (Please specify _____)



## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

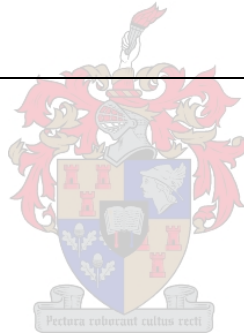
### Section B: Objective: Get more insight about the owner and the Business

Q11	In which year was your business founded	19_____
Q12	In which year did you become the owner of this business	19_____
Q13	How did you become the owner of this business? (For e.g. manufacturing, retail or services) (Please tick one box only)	<input type="radio"/> I purchased it <input type="radio"/> I founded it <input type="radio"/> I inherited it <input type="radio"/> Other (please specify _____)
Q14 (i)	Mostly in which Industry is the business?	_____
Q14 (ii)	For how many years have you been engaged in this Industry?	_____
Q15	Which one of the following is a form of ownership of your business?	<input type="radio"/> Sole Trader <input type="radio"/> Partnership <input type="radio"/> Private Company <input type="radio"/> Limited Public Company <input type="radio"/> Other (Please specify _____)
Q16	Which one of the following entrepreneurial life cycle stages are the most important for the survival of a business? (Please tick one box only)	<input type="radio"/> Pre-start up stage <input type="radio"/> Start up stage <input type="radio"/> Growth stage <input type="radio"/> Maturity stage <input type="radio"/> Decline stage <input type="radio"/> _____
Q17 (i)	For the past financial year, did you have a documented business plan?	<input type="radio"/> Yes <input type="radio"/> No
Q17 (ii)	To what extend do you conduct business in accordance to your business plan?	<input type="radio"/> Completely <input type="radio"/> Mostly <input type="radio"/> Sometimes <input type="radio"/> Not at all

## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

Q18 (i)	What were the main reasons as to why you decided to start your own business?	<ul style="list-style-type: none"><li><input type="radio"/> Being own boss</li><li><input type="radio"/> Monetary rewards</li><li><input type="radio"/> Make a societal contribution</li><li><input type="radio"/> Freedom</li><li><input type="radio"/> More innovative thinking</li></ul>
Q18 (ii)	Rank the above mentioned factors in a chronicle order on a scale of (1-5) 1 being the most important and 5 being the least important?	<ul style="list-style-type: none"><li><input type="radio"/> Being own boss</li><li><input type="radio"/> Monetary rewards</li><li><input type="radio"/> Make a societal contribution</li><li><input type="radio"/> Freedom</li><li><input type="radio"/> More innovative thinking</li></ul>



## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

### Section C: Objective: Finding out the reasons that result business success or failure.

Q.19 Which of the following factors do you regard as the **most important contributors to failure**? Scale them to the extend you considered them important to your enterprise.

Business	Not important	Slightly important	Moderately important	Very important	Extremely important
Lack of general business Skills	1	2	3	4	5
Lack of management skills	1	2	3	4	5
Poor financial control	1	2	3	4	5
Credit Problems	1	2	3	4	5
Poor marketing techniques	1	2	3	4	5
Uncontrolled Growth	1	2	3	4	5
Poor Location	1	2	3	4	5
Poor time Management	1	2	3	4	5



## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

Q.20. Which of the following **factors in your business** would you regard as **key contributors to business success**?

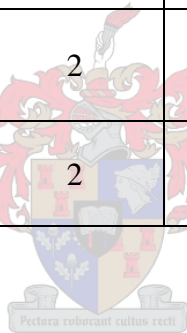
Factors <b>Strong desire for:</b>	Not a key contributor			Slight Contributor			Moderate contributor		
	1	2	3	1	2	3	1	2	3
Responsibility	1	2	3	1	2	3	1	2	3
Risk taking	1	2	3	1	2	3	1	2	3
Desire for success	1	2	3	1	2	3	1	2	3
Desire for immediate feedback	1	2	3	1	2	3	1	2	3
Skill oriented	1	2	3	1	2	3	1	2	3
Achievement oriented	1	2	3	1	2	3	1	2	3

*Pectora roborant cultus recti*

## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Q.21 Show the **importance** of each of the mentioned factors below in your life as an entrepreneur, when looking at your business?

Business	Not a key contributor	Slight contributor	Moderate contributor	Good contributor	Excellent contributor
Good management skills	1	2	3	4	5
Proper record keeping	1	2	3	4	5
Good cash flow management	1	2	3	4	5
Changing roles of owner	1	2	3	4	5
Effective marketing Strategy	1	2	3	4	5
Proper planning	1	2	3	4	5



**SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS**

Please read the questions carefully where they appear. Answer every question.

**Section D: Objective General Ideas of the business owner regarding entrepreneurship in Namibia.**

Q.22 How important is the employee in your business organization? (E.g. Do you give them enough autonomy, do you trust them, are there any training initiatives).

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Q.24 Except for the factors you indicated in question 22, what do you think were the major reasons as to why your business failed?

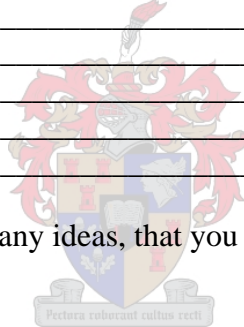
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Q.25 Do you perhaps have any ideas, that you think would be valuable to the completion of this study?

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Name of the Company\_\_\_\_\_

Name of Interviewee\_\_\_\_\_

Date\_\_\_\_\_

## SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

### ENTER 2006 WORLD CUP IN STYLE

### ENTRY FORM

### CHAMPAGNE PRIZE TO THE VALUE OF R150

Complete your contact details below, and return both this entry form and the enclosed survey in the reply envelope and you will be automatically entered into the Champagne Prize draw ("See entry Conditions below").

Family Name \_\_\_\_\_

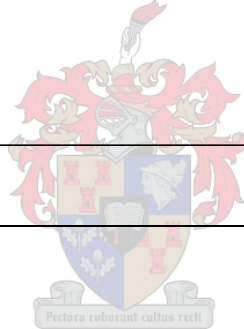
First Name \_\_\_\_\_

Address \_\_\_\_\_

Suburb \_\_\_\_\_

Postcode \_\_\_\_\_

Telephone \_\_\_\_\_



- 1. Details of Prize and instructions for entry form part of these Conditions.**
- 2. To be eligible**
- 3. The winner will be the first valid entry drawn on the date.**
- 4. The judges decision is final and no correspondence will be entered into.**
- 5. The prize comprises champagne to the value of R150. The prize is not transferable and cannot be redeemed for cash.**
- 6. The offer commences from 1 August 2005.**
- 7. All surveys become the property of the promoter.**
- 8. The winner will be notified by mail.**
- 9. The promoter is Wilfred Isak April.**