

Lessons and Challenges faced by Small Business Owners in running their Businesses

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Abstract

The South African government has identified small business development as an imperative to create employment and address high employment rate. The study aims to investigate the experiences and challenges faced by SME entrepreneurs in running their business successfully. A qualitative approach was used for this study. Data were obtained through purposive sampling (n = 15) by way of semi-structured interviews. Most of the respondents attest that they are still encountering some challenges when running and this is characterized by unwillingness of the banks to fund SMEs, implementation of different training interventions to enhance the success of their businesses. The study suggests that there is a need for regular surveys to determine the strides made by SMEs in creating employment, addressing poverty and contributions they are making in the economy of the country.

Introduction

The SMMEs play a crucial role in the growth of the economy. This however, is characterized by the fact that they create employment that is providing people with a livelihood and income; they provide opportunities for entrepreneurs to prove themselves and show their innovative ideas; they tend to use local technologies and they are more likely to satisfy the local needs, more especially of poor people, than large enterprises and foreign technologies (Groenewald *et al*, 2006:14).

Many prospective entrepreneurs have positive mind to start the business. In attempt to pursue the business ideas, there are factors that discourage people from becoming entrepreneurs. Amongst these factors as identified by Groenewald *et al*, (2006:23) are not able to get enough start up capital; the high interest charged for borrowing money; the risk involved in starting a business, fear of failure or bad performance as well as a lack of suitably trained and skilled potential employees

The Apartheid system created a situation where most of the communities remained vulnerable and marginalized in terms of opportunities to make strides in life. This marginalisation and ignorance has resulted in lack of access to education and employment which ended up with widespread poverty and unemployment. The extent of the marginalisation of poor people from formal mainstream economy and opportunities

for income generation is of a level that requires national interventions and this could include issues of distribution of resources in the country. Unemployment is fundamentally a matter of serious concern that is taking into account its effects on economic welfare, erosion of human capital, social exclusion, crime and social instability. The primary challenges facing many developing countries are poverty and unemployment. South Africa in this situation is not an exception. Small businesses can however create employment and they provide opportunities for entrepreneurs to prove themselves and to show their innovativeness.

In the quest to address all these challenges, Department of health and social services in the Mpumalanga province is encouraging the community to initiate projects and businesses so that they could generate employment and address poverty. In order for the community to be successful in their endeavors, training is provided on how to develop a competitive business plans. Based on the competitiveness and viability of the business plans, funding is provided by the Department to enable the communities to start their projects and businesses. At first, they are encouraged to operate as informal and later on when they are growing, and then they register their enterprises. Despite operating in the most rural setting, they are trying very hard to succeed irrespective of the endless challenges such as poor infrastructure, no access to markets, lack of funding as well as lack of business skills, misapplication of funds, lack of management skills, mismanagement of resources, poor cash management, employee theft, white collar crime, non-compliance with laws, lack of planning and impatience and unrealistic expectation. If all these challenges could be addressed, SMEs are likely to make some strides in running their business. Although small and medium sized businesses have been hit by the current economic meltdown, they have proven to be remarkably more resilient than large businesses. According to Biyase (2009: p4) only 5% of SMEs were running at a loss whilst 67% regarded their businesses as profitable. It would be interesting to unravel other challenges and prospects that they are encountering.

Problem statement

Historical injustices had resulted in Africans being less educated and as such they remained vulnerable and unemployed. Efforts are taken by government to encourage communities to start their own businesses with the view of curbing poverty and create employment. There seems to be challenges faced by these emerging entrepreneurs when they pursue their endeavours. These challenges are characterised by lack of management skills, no business skills and start up capital.

Research question

The following research question guided the researcher to achieve the results. “What are the experiences and challenges of SMEs entrepreneurs to run their businesses successfully and address unemployment in the selected municipalities?”

Research aim and objectives

The overall purpose of this research was to investigate the lessons and challenges faced by SMEs in running their businesses to address unemployment and poverty.

The objectives of the research are to:

- Determine the success or impeding factors towards the running of the business ventures.
- Explore the extent to which SMEs are able to create employment.

Research design and methods

The design of this study is qualitative, explorative, and contextual in nature. The qualitiveness provides the opportunity to unravel the nature of the entrepreneurs' experiences perspectives of which little is known. The intent of its exploration is to obtain richer understanding of the experiences. Babbie and Mouton (2009:p270) describes a contextual study as one in which the phenomenon under investigation is studied in accordance with its intrinsic and immediate contextual significance. With this type of research the researcher tends to emphasize the dynamic, holistic and individual aspects of human experience and attempt to capture those aspects in their entirety, within the context of those who are experiencing them. The participants were given an opportunity to describe their experiences and challenges regarding the running of their businesses.

Population and sampling

The study population comprised of SME entrepreneurs from Lekwa, Dr JS Moroka and Thembisile municipality in Mpumalanga province. Non - probability sampling was used. Purposive sampling is used in case where participants possess knowledge of the phenomenon under study, namely the experiences and challenges facing the entrepreneurs in the pursuance of their businesses. In essence this means that only people who are perceived to provide required information were included in the study. To obtain informed consent, the purpose of the study and the process to be followed for data collection were explained to the participants and they had a right to participate or not in the study. Participants were further informed that confidentiality and anonymity will be maintained.

Data collection procedure

Data collection was done through the use of individual interviews, field notes and as well as tape recorder. The researcher used one central question as a starting point namely: *“What experiences and challenges to you have in the pursuance of your business”* Based on the main question, other questions emerged as the interviews continued. The researcher asked follow- up questions in order to explore an aspect in greater depth. The researcher wrote field notes and also used tape recorder to supplement the interview proceedings.

Data analysis

In analyzing data, the researcher and co-coder analysed the data independently using Tesch's data reduction method (Creswell, 2009: p186) of open coding. Audiotapes were listened and re-listened to. The field notes were read to understand the data properly and to get a sense of the whole. Topics were abbreviated as codes and they were written

next to the appropriate cluster of the text. The related topics were grouped to reduce sub-themes. A final decision regarding wording for topics was done to turn them into categories (Creswell, 2009: p186). After data was completed, the researchers and co-coder discuss the analysis and agreed on themes identified. In ensuring trustworthiness, the framework of Lincoln and Guba, (1985) was followed. This included credibility, transferability, dependability and confirmability as below.

Credibility

Credibility was ensured through prolonged engagement with the participants to establish rapport, establishing trust relationship and to capture the realities of the study. Follow-up interview sessions and triangulation of methods were utilized, namely: semi-structured interviews, field notes captured and tape recording of all proceedings of the interviews sessions.

Transferability

Transferability has to do with the stability of a research design and the probability of generalizing the information of the study to another group or even to a broader population

(Polit and Beck, 2009:p539).The researcher is of the opinion that the rich description of the research method used for the study will make replication of the study by other researchers possible.

Dependability

The accuracy and authenticity of scientific findings in qualitative research are essential for the determination of dependability. The degree of dependability can be determined if the following can be determined: (1) to what extent the conclusions of the researcher represent the observed reality and (2) whether the research constructs measure the true range of human experience. This should also provide evidence that if it were to be repeated with the same participants in the same context, its results should be the same (Babbie and Mouton, 2009:p278).If in this instance, there is agreement between the observations of participants and the reader regarding the study, then its dependability is largely ensured (Polit and Beck, 2004: p 434).

Confirmability

Confirmability was ensured through the involvement of co-coder to avoid researcher's possible bias (Babbie and Mouton, 2009:p278).

Sample realisation

It emerged from the findings that most of the participants are females (82.5%) while male participants constitute only 17.5%. This however, is a good indication that women are starting to enter into business on a serious note. The age profile of the SMEs interviewed ranged from 21-30 years (27.5%), 31-40 years (37.5%), 41-50 years (15%), 51-60 years (10%) and 61+years (10%). Most of the participants' age ranged between 21-40 and this however is in line with the government to encourage youth to start their own businesses. In terms of education the majority (90%) have matric or less qualification.

The entrepreneurs were from the following type of business, retail 60% (9), Service 27% (4) and manufacturing 13% (2)

Empirical findings

During data analysis, main themes emerged, namely, lack of funding, training, government laws, support from the government, credit facilities, crime, job creation and legacy of apartheid.

Lack of funding

The first theme that emerged was lack of funding and this is important because no business can run without finances.

The participants believe that they are not taken serious by financial institutions whenever they apply for loans. Lack of finance is regarded as source of many small business failures. "...My business was drying up and banks are not willing to fund small firms..." "...They will always tell you about collateral security which you do not even have, may the government should help..." Quite often SMEs especially those in rural and townships, face a situation where they are generally being perceived by funding organizations as posing a major risk and as such their applications for loans are always declined. This however, is a result of small entrepreneurs who are not educated about keeping proper records that show historical performance and this perception makes them ineligible for funding prospects. Not much has been done by the government and private institutions to remove these perceptions by finding new ways that assists the SMEs to deal with their challenges. These findings confirm what Netswera and Ladzani (2009) found in their study that access to finance is critical for the success of the business in this case; financial institutions are not willing to assist entrepreneurs.

Lack of training

This theme was divided into sub-themes inter *alia* with financial management, managerial skills, training on strategies to pay back loans and business skills.

Financial management

It emerged from the findings that the participants require training on financial management. It becomes a futile exercise to generate money and only find that the money generated is not properly used. This is normally characterized by the fact that entrepreneurs acquire luxury cars instead of expanding the business operations. These findings confirm what van Aardt *et al* (2008:p248) that business owners and managers should avoid using assets of the business for personal use at the expense of the business. "... Sometimes you become lucky that the bank gives you a loan and you know tend to use it for other things not relating to the business and according to me this because we lack insight on how to use money and manage what we have..." This particular situation is a result of lack of training on how to manage the resources of the business. In some instances, SMEs secure funding, the entrepreneurs tend to use the money for what it was not intended for instead of channeling it towards their business. The likelihood is that if such funding is misdirected, it may result in less income generated and more likely inability to repay the loan. Lack of financial management can cause cash flow problems. Should money generated be misused in the business instead of being channeled towards the needs of the business, funds may be depleted.

Managerial skills

Entrepreneurs attest that for them to succeed in the pursuance of their business successfully, they strongly feel that they be trained on managerial skills. When asked which managerial skills they lack most, they indicated that they lack “how to keep records on the affairs of their businesses, writing of a business plan, how to manage the business and marketing skills” This is imperative because they need to have thorough knowledge on the management of the business to ensure that they succeed in their businesses. Most of the businesses fail because they never had any training on how to manage their business. In some instances, the entrepreneurs come from outside business fraternity and also lack management skills. Lack of experienced management essentially means that there would be lack of critical skills and as such there could a greater possibility of inability to plan, acquire funds and understand the environmental factors that could hamper the successful running of the business. Entrepreneurs would like to be exposed to managerial training to curb the possibility of business failure.

Training on strategies to pay back loans

From the interviews, it emerged that entrepreneurs require training on the repayment of their loans. Both benefits and implications for paying or non payment could have serious consequences for the business. If one fails to repay a loan, it would have adverse effect on the credit ratings and as such no credit facility might be made available for such an entrepreneur.

Business skills

From the entrepreneurs interviewed, it is noted that they need training on basic accounting skills in order to equip them to do their own bookkeeping. These however would enable them to know what is happening in their respective businesses. They further needed some skills on how to write competitive business plans. “ ... *I need training on how to write business plan so that I can faithfully understand the activities and be able to write my own business plan when applying for loan. I am tired of paying consultants...* ” If these entrepreneurs are provided with necessary business skills, there is a greater possibility of enhancing their skills and they would be able to do things on their own without engaging business consultants. Ekaete and Olumide (2007) argued that lack of business skills has been largely blamed on lack of government support interventions such as mentoring programme and entrepreneurial education. As a result of this pestilence, entrepreneurs find themselves being unable to plan, market their products and ultimately inability to manage their finances properly.

Government laws

The entrepreneurs articulated that government laws put a challenge when running their businesses. This is characterized by the fact that when employing workers they need to register them and they should be paid in accordance with sectoral determination guidelines. This is viewed as impediment because most of the entrepreneurs are not making huge profits on their operation. This situation compels the businesses to employ people on contract basis.

Support from the government

There is a general concern from the entrepreneurs that they are not aware of the support that the government could offer. “ ... *You read on the news papers about Department of Trade and Industry and its assistance they provide to small businesses, but they do not*

reach us in the rural areas...” If these people can at least visit the provinces and advertised their services well maybe we may benefit...”

From the sentiments it is clear that the services offered by DTI are not known by these entrepreneurs interviewed. This is however a challenge to the department and its agencies to expand their services even at the most rural areas.

Credit facilities

From the interviews, it was found that entrepreneurs are trying to retain their customers by extending credit to them. The sentiments from most of the participants are that they are surviving as a result of the credit facilities and there is also certainty that they would come and make a business again. Even though there are prospects from other entrepreneurs, some feel that they are facing hard times in getting customers to pay. *“...People are not paying their debts and some are even postponing their orders... You know you end up using your own money to bail out the business...”* From this context, it is evident that some of the SMEs are better placed than others and this suggests that some owners are naturally good at attracting and keeping customers during these trying times.

Crime

Most of the SMEs interviewed perceive crime as a challenge to their businesses. *“... There is high crime rate here, the problem that we have is robbery, you work hard and at the end you are robbed the money of the whole day at gun point...”*This finding is in accordance with what Van Scheers and Radipere (2005:p348) had found crime is a widespread problem in the black townships and imposes an additional premium of running a business there and that crime compels to relocate elsewhere, that is out of black townships.

Job creation

It emerged from the interviews that entrepreneurs are able to create ample job opportunities. From the fifteen interviewed entrepreneurs, it emerged that in total they have employed 42 people. Even though it is not such a huge number of people employed, these entrepreneurs could claim the fact that they are able to create an employment. Research has shown that without small development, the economy of the country would stagnates, employment declines and as such poverty may rocket.

The legacy of apartheid

The participants indicated that the legacy of apartheid has done injustices to them in many respects namely, the type of education offered to blacks, group areas Act which inhibit blacks from operating businesses in the white areas. These findings concur with what Ekaete and Olumide (2007: p436) found that low level of black self-employment in South Africa has been blamed, to some extent, on apartheid. This however is a result of restrictive legislation such as the Group Areas Act, stricter licensing, zoning regulations, and *Bantu* education, repressed and disempowered black South Africans and would have inhibited the development of entrepreneurial and social skills and of social networks-factors which are important for confidence in engaging in entrepreneurship (Kingdon and Knight, 2005:p26). Thus, in present day South Africa, most Blacks tend to prefer to be employed, rather than take the risk to start their own business. This attitude though, is changing among the new crop of young South Africans who did not grow up under the

repressive conditions of apartheid. The change in attitude is due to the government's initiative to promote entrepreneurial culture and self-sustainability for the youths through initiatives such as the Umsobomvu programme

Implications

The current situation is that entrepreneurs sometimes secure funding to either start the business or expand operation, but because of lack of entrepreneurial mindset and understanding of entrepreneurship, they end up using the money as personal income. As revealed in the findings training is imperative for the entrepreneurs to succeed. Without training these entrepreneurs are likely to fail.

Conclusions

This paper reveals that even though the entrepreneurs are working hard to make strides in their businesses, there are still some challenges that need to be addressed. With the interviewed SMEs entrepreneurs it is notable that for them to succeed in their endeavors there is a need for them to undergo various training interventions for instance financial management, managerial skills and so forth. One of the options that could be followed is to establish entrepreneurship education at high school level with the view of exposing the beneficiaries at an early age so that they could have an understanding of the entrepreneurship. From the findings it can further be concluded that entrepreneurship has been recognized as an effective way for economic growth and job creation. The government needs to craft mechanisms on how to address issues such as providing training for the SMEs in particular intensive training after securing funding and of course training could assist to decrease the number of businesses that fail in the few years of operation. Though the funding may be the case, it is a fact that some entrepreneurs do not even know how to utilize such funds efficiently

It is imperative to expose entrepreneurs to intensive training after securing financial aid. Despite the barriers and prospects, there seems to be a need for ongoing surveys of the SMEs sector to ascertain the contributions made by this sector in terms of job creation, contribution to the economy. In order to minimise the challenges faced by entrepreneurs, it imperative to make use of consulting professionals, such as accountant and business consultants. Once this information is determined, perhaps the government could introduce incentives in terms of tax rebates and other incentives.

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