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## **Perceptions of Small Business Owners on Managerial Skills: Problems in Business Development in South Africa**

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### **Abstract**

The survey analyses the perceptions of small business owners on managerial skills, whether gaps exist between managerial skills that owners should have and those that they actually possess. Managerial skills and business knowledge are an indication of how well a manager can perform important tasks and activities to ensure the success of their business. The study confirms that the lack of managerial skills of small business owners is considered by the respondents as the main reason why small businesses fail in South Africa. Small business owners lack managerial skill such as financial, marketing and human managerial skills to operate their businesses successfully. The perceptions of the small business owners are that the managerial skills they possess, and those that they preferably should have, do not correlate. The challenge is to improve the managerial skills of small business owners as small business is considered to be the panacea for South Africa's unemployment problems.

### **Keywords**

South African small business owners; managerial skills; internal microenvironment; financial, marketing and human managerial skills.

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## **INTRODUCTION**

Small business undertakings create about 80 percent of all new job opportunities and according to Bowler, Dawood & Page (1999) more than 70 percent of all South Africans are employed in the small business sector. The small business sector is an essential factor in promoting and achieving economic growth and development and the widespread creation of wealth and employment. Nager, Swanepoel & van der Merwe, (1999: 37) indicate that small business development should be an essential component of all reconstruction and development initiatives and this has the potential to economically empower the majority of the country's people. Starting a business is risky but Pearce & Byars (2000:267) explain that by efficiently performing managerial skills and achieving competitive advantage creating a successful business is possible. The problem statement of this study emanates from the current high failure rate of small businesses in South Africa where about 40 percent of new businesses fail in their first year, 60 percent in their second year and 90 percent in their first 10 years of existence (CSS, 2000:35). The aim of this paper is to analyse the perceptions of small business owners on managerial skills, whether gaps exist between managerial skills that owners should have and those that they actually possess. The development of managerial skills may improve business operations and consequently assist with the creation of employment in South Africa and in this way enhances the economy as a whole. Next the theoretical and empirical overview of literature will be described.

## **THEORETICAL AND EMPIRICAL OVERVIEW OF LITERATURE**

A small business is defined by Bowler and Dawood (1999) as an independent profit oriented business unit that is personally managed by the owners and has a small influence or market share in the business world. Nager et al. (1999) define an enterprise as small business if it satisfies one qualitative criterion and two quantitative criteria. The one qualitative criterion is that the business must be privately and independently owned, managed and controlled, even if it has more than one branch or business unit. The second quantitative criteria can be any two of the following: an annual turnover of less than R2.5 million; capital assets of less than R2 million and not more than 50 full time employees. Dockel & Ligthelm (2002) classify the problems experienced by small business owners in conducting a successful business into various categories, namely:

- Economy based problems that are associated with national economic factors related to the state of the economy (the small business owner cannot control these factors);
- Industry based problems that are associated with the industry in which the enterprise operates (the small business owner cannot control these factors); and
- Enterprise based problems that refer to the business's internal factors such as incompetent management, lack of managerial skills, and poor financial control (the small business owner can control these factors).

Managers require certain managerial skills to manage a business successfully, namely technical, conceptual and interpersonal skills.

### **Importance of the Study**

The unfolding process of transformation is itself being threatened by the very challenges that it seeks to address, particularly unemployment, slow economic growth, and managerial skill shortages. Therefore the development of managerial orientated skills is important to ensure good governance and democracy. Implementations of democracy in previous years have indicated that leadership and managerial skills are key elements for a successful changing process (GEM, 2002). Inadequate managerial skills of owners create management problems which deprive the country of healthy concerns that can provide employment opportunities for the high numbers of unemployed. The literature review and the research findings will contribute positively to the implementation of envisaged support structure programmes by government, which in turn will assist in the retention of skilled small business owners, thereby contributing to the success of small businesses.

## **FRAMEWORK FOR ANALYSIS**

Secondary and primary sources were used to gather information. The main secondary sources used were journals, articles, press reports, and books. The method of research for analysing managerial skills of small business owners in South Africa and the problems they experience falls under a qualitative paradigm. A qualitative methodology captures and discovers meaning through a research question, and measurement is in terms of verbal data, with non-causal and inductive theory, whereas quantitative methodology tests a hypothesis, and measurement is in terms of numerical data, with causal and deductive theory (Neuman, 2001). Since the aim of this research is to answer a research question by understanding the perceptions and experiences of

small business owners, in order to gain insight, rather than test an existing hypothesis with a necessity to generalise conclusions, a qualitative paradigm was deemed appropriate. The sample frame of 150,000 small business owners was obtained from the Department of Trade and Industry list (DTI, 2001). 2000 questionnaires were posted to small business owners. 222 questionnaires were posted to each of the nine provinces of South Africa (see Table 1).

**Table 1** Demographic characteristics of the respondents

	<b>Total</b>	<b>Gender</b>		<b>Population</b>				<b>Managerial skills*</b>				
<b>Percentage 1</b>	<b>100</b>	<b>M*</b>	<b>F*</b>	<b>African</b>	<b>Col</b>	<b>White</b>	<b>Asian</b>	<b>1*</b>	<b>2*</b>	<b>3*</b>	<b>4*</b>	<b>5*</b>
<b>Age</b>		<b>73</b>	<b>30</b>	<b>52</b>	<b>13</b>	<b>18</b>	<b>15</b>	<b>35</b>	<b>10</b>	<b>27</b>	<b>22</b>	<b>10</b>
< 29	39	29	10	16	5	7	6	6	4	7	9	1
30-49	55	36	19	34	8	9	9	20	6	19	11	7
50+	9	8	1	2	0	2	0	3	1	1	2	2
<b>Qualifications</b>												
Grade 1-12	70	52	21	45	8	12	11	29	6	19	16	2
Diploma	20	15	5	6	5	3	2	4	3	5	4	7
Degree	10	6	4	1	0	1	2	2	1	3	2	1
<b>Years in operation</b>												
< 2 years	26	13	13	13	3	5	4	8	3	6	6	2
2 year +	74	57	17	39	10	13	11	27	7	21	16	8
<b>Industry</b>												
Retail	48	37	11	36	1	7	4	26	4	12	16	1
Wholesale	14	13	1	5	6	2	1	2	1	6	4	2
Manufacturing	7	5	2	3	2	2	0	3	0	4	0	0
Service	30	24	6	10	4	6	10	4	5	2	2	6
Construction	1	1	0	0	0	1	0	0	0	0	0	1
<b>Bus. by province</b>		<b>73</b>	<b>30</b>	<b>52</b>	<b>13</b>	<b>18</b>	<b>15</b>	<b>35</b>	<b>10</b>	<b>27</b>	<b>22</b>	<b>10</b>
Gauteng	28	22	6	14	1	7	6	21	0	4	2	1
North West	13	7	6	5	6	2	1	5	1	2	3	2
Limpopo	10	5	5	10	0	0	3	4	2	2	2	0
Mpumalanga	11	7	4	8	0	2	1	2	3	2	3	0
Free-State	12	8	4	9	0	3	0	5	2	1	4	0
Eastern Cape	8	7	1	0	5	2	1	2	0	1	5	5
Western Cape	18	17	1	6	1	2	3	0		11	3	2
<b>Annual turn over</b>												
< R20 000	50	46	4	39	1	5	3	30	2	12	5	1
R21 000 – R50 000	50	23	26	13	13	13	12	5	8	15	17	9
<b>Problems faced</b>												
Crime	42	31	11	33	5	3	1	13	5	13	9	2
Economic factors	36	28	8	12	4	9	11	12	4	9	6	5
Finance	18	15	3	5	4	5	4	9	0	4	6	3
Labour	3	1	2	2	0	1	0	1	0	1	1	0
Rent	1	0	1	1	0	0	0	0	1	0	0	0

Percentage 1: the percentages were rounded

\*Male and Female

1 = managing stress and conflict

2 = marketing of the small business

3 = bookkeeping

4 = pricing of products

5 = writing business plans or general planning of their business

Of the 2000 questionnaires posted, on 6 July 2003, 459 questionnaires were returned, giving a response rate of 23 percent. 30 October 2003 was considered as the cut-off date and questionnaires were not accepted after that date. This can be considered a good response rate according to Leedy (1993) considering the sensitivity of the topic, the nature of the problem under investigation and the inhibitions that management might have regarding the survey.

## **EMPIRICAL FINDINGS**

The demographic profile findings present an overview of the sample elements (owners) in terms of gender and age. The survey seeks to establish whether gender or age of the respondents has an influence on their managerial skills and whether it plays a role in the failure rate of small businesses. The sample units (small businesses) are also described in terms of type of business (to observe which type of business is more susceptible to failure); the number of years in operation (to establish whether years in operation influence the failure rate of a small business); industry type (to observe which industry sector has a greater change to fail); ownership by population group (to observe whether race influence the failure rate); and the highest educational qualification achieved. In Table 1 the demographic characteristics of the respondents are indicated. As indicated in table 1 the typical small business owner in South Africa is a male, between the ages 20 to 39 years, his business has survived for more than 2 years, he operates a retail shop, he forms part of the African population group and has prior business experience. The African population forms 76 percent of South Africa's total population and this may be the reason that 52 percent manage small businesses (van Scheers, 1989). The fact that most of these businesses are owned by Africans may indicate that they may not have access to borrow capital resources, which may hamper their survival.

## **DISCUSSION OF SURVEY FINDINGS**

The discussion will follow the sequence of the questionnaire, describing the profile of the respondents in terms of a number of demographic and socio-economic attributes; as well gathering perceptions concerning business success factors and managerial skills of small business owners.

### **Demographic profile**

Access to demographic information of the survey population assists strategists in their decision-making responsibilities related to future small business skills development strategies. Gender of respondents will also be looked at because in the overwhelming majority of countries, the rate of entrepreneurial activity among men is far higher than among women.

### **Gender of the respondents**

The respondents were asked to identify their gender as well as whether gender has an influence on the managerial skills of business owners and whether gender plays a role in the failure rate of a small business.

The survey shows that 73 percent of the respondents surveyed were male as compared to 27 percent female respondents. Whilst a higher ratio than the norm, it is in keeping with a higher

activity rate by males in South Africa where males are one and half time more likely to be small business owner. A report from the GEM (2002) indicates that results from the South African expert questionnaires provide evidence of the impact of culture on female entrepreneurs; that 60 percent of the experts believe that there are insufficient social services available to enable women to continue to work after they start a family. What is evident from these results is that more South African women need to be encouraged to pursue entrepreneurial ventures and those particular obstacles to the involvement of women in self-employment activities needs to be addressed. The perception of the respondents was that gender does not have an influence on the managerial skills of small business owners and therefore can not be considered as a reason for small business failure.

### **Age of the respondents**

The survey attempts to determine the age of the small business owners in South Africa. The small business owners were asked whether they think age has an influence on managerial skills or the lack of managerial skills. The survey indicates that 37.5 percent of the sample population is aged between 30 and 39 and 30 percent falls in the age group 40 to 49. The results indicate that most of the small business owners operating are still relative young. Only five respondents (6.3 percent) were older than 50 years. Observing the results the researchers are of the opinion that the entrepreneurial profession is a strenuous profession because only a few older persons are doing this type of work. The respondents indicated that they think age does not play a role in whether a small business owner possesses managerial skills or not.

### **Age of the business and number of years in operation**

The age of a business reflects its market experience and affects its ability to grow and move to the next size class. Furthermore, market experience and size of a business are important variables that determine a business's access to financial sources because financial institutions are more likely to supply a loan for an established small business than a new one. The outcome of the survey shows that 74.1 percent of businesses have been operating for more than two years. Only 25.9 percent have been established between one month and two years. These findings reflect a relative high survival rate for small business sector in the survey areas. [This may reflect a bias in response towards older, more successful businesses – *editor's note*]. This is an encouraging finding against the backdrop of the high unemployment rate in South Africa. However, table 1 also confirms the relatively high rate of establishment of new businesses. 25.9 percent of small businesses have been in operation for less than one year. International experience shows that births and deaths among small businesses tend to be concentrated among younger and smaller firms (Picot & Pupuy, 1995). The perceptions of the respondents are that the older the business the more likely it will survive.

### **Nature of Industry**

An additional variable investigated in the questionnaire is the nature of the industry in which participating small businesses operate. The aim was to observe whether certain industry type of businesses is more susceptible to business failure than others. The outcome of the survey shows that 48.1 percent of the respondents operate in the retail industry, with 30.4 percent in the services industry and 7.4 percent in the construction and manufacturing sectors. The perceptions of the respondents were that small businesses in the retailer sector have the largest chance to

failure. Previous studies conducted by Murphy (1996) confirm that this is a result of the ease of entering this sector and the consequent possibility of overtrading.

### **Small business ownership by population group**

The reason why this question was asked was to determine whether race has an influence on the failure rate of small businesses. The outcome of the survey shows that Africans own 52 percent of the small businesses surveyed followed by the White community with 18 percent and Asian and Coloured community, 15 and 13 percent respectively. The African group forms the largest population group in South Africa (45 percent of the population) together with the high unemployment rate (43 percent) in this group may be an indication why so many own small businesses according to Murphy (1996).

### **Prior business experience**

The results indicated that 71.6 percent of the respondents are first-time business owners. Only 28.4 percent of the respondents indicated that they have prior business experience. This reflects a relatively low experience in running a business when evaluated in tandem with the number of years the small businesses are generally operating.

However the perceptions of the respondents were that they have a general idea of what managing a business entails. The demographic factors indicated that the older the owners and the longer they have manage small businesses, the less likely their business would fail.

### **Educational level of respondents**

The question was structured to obtain information on the educational qualifications of the respondents. The outcome of the survey results shows that 48.6 percent have a Grade 8-12 educational qualification. The owner's level of education does have an influence on the failure rate of the business. Most respondents perceive that people who have matriculation or tertiary education are significantly more likely to operate a successful business than those without matriculation.

### **Factors for business success**

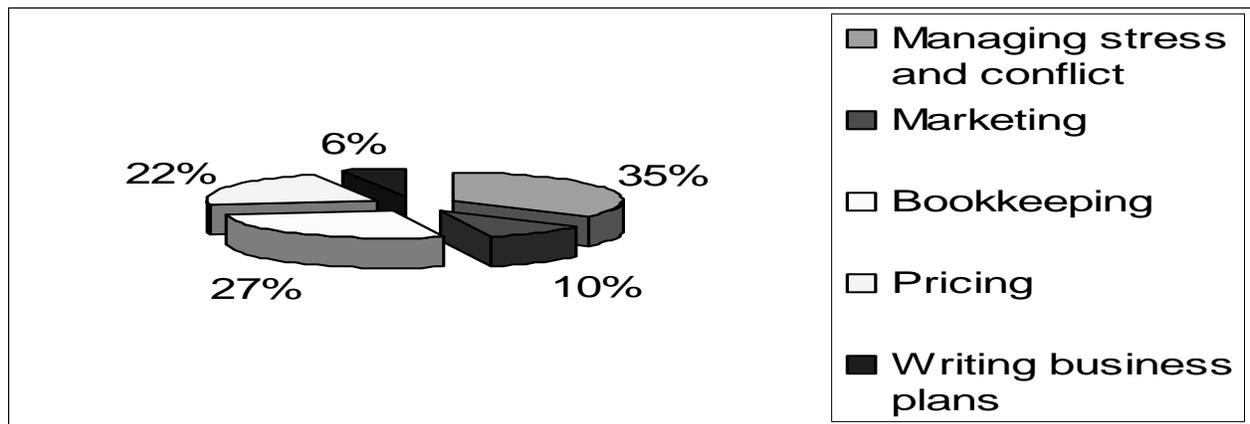
The respondents were asked to give their perceptions on what they consider as factors, which will increase business success. This was an open-ended question and the respondents needed to supply the factors themselves.

85 percent of the respondents perceived that the factor 'managerial skills' is the most important factor to insure business success. Five percent of the respondents were of the opinion that location of the small business is a factor while 10 percent considered access to adequate financial sources as an important factor.

### **Managerial Skills**

This question was structured to obtain information how important managers perceive managerial skills in operating their businesses. Figure 1 presents the outcome of the survey finding. Figure 1 indicates that the managerial skills, managing time and conflict forms 35 percent of the small business owners working day. 10 percent of the owners' working day is spent in marketing the business, 27 percent on bookkeeping, 22 percent on pricing products and 10 percent on writing business plans (or planning the business). Most of these respondents indicated that they did not really know how to write a business plan.

**Figure 1** Managerial skills



However, this is an important activity since without this it is hardly possible to obtain finance from the banks. From the generally positive results expressed by the respondents that are reflected in figure 1, the survey observed that most business owners have a high regard for managerial skills and what they mean for the success of their businesses. Although the respondents find all the managerial skills as important in their day-to-day work, it is obvious that writing business plans is the least favourite activity, most likely because of unfamiliarity. All the managerial skills mentioned in figure 1 are important and should be attended to if a business were to succeed.

### **Problems faced by small business owners**

According to the respondents, crime is perceived the most significant factor of all problems faced by South African small business owners. At least two out of five enterprises are affected by crime. The respondents indicated in the comments section that formal businesses with premises away from home and those that hold stock are at greater risk, since this makes them more vulnerable to crime such as burglaries outside business hours. Crime is a widespread problem in the black townships and imposes an additional premium on running a business there and that this (crime) acts as an incentive to relocate elsewhere, out of the black townships. The respondents perceive economic factors as an external factor causing problems for the business. Small businesses cannot control this external environment that harms them.

### **Potential factors contributing to the closure of small businesses**

The survey gathered the perceptions of the respondents their concerning potential factors contributing to closure of small businesses.

### **Business Failure**

The question was structured to obtain information on whether the first initiative in establishing a business had failed, or not. The findings reveal that for 83.3 percent of the respondents the first business initiative proved to be unsuccessful. Only 16.7 percent of the respondents indicated that their first business venture had succeeded. This question was asked to establish whether the first initiative had any influence on the success or failure of small business.

**Reasons why small businesses fail**

As discussed earlier about 40 percent of new business ventures fail in their first year, 60 percent in their second year, and 90 percent in their first 10 years of existence (CSS, 2002). This question was asked to gather information on the perceptions of small business owners why they think that small businesses fail in South Africa.

The results indicate that 72 percent of the respondents are of the opinion that small businesses fail due to a lack of managerial skills. When small business owners were asked which managerial skills they lack most, they indicated the following managerial skills 'how to keep financial records', 'communication skills', 'marketing' and 'legal rights skills'. Respondents that thought political factors to be prejudicial to their business success were a minority, only three percent. This indicates that South Africa's political situation is currently relative stable. 25 percent of the respondents regard the economy to be the main reason for small business failure. Here they perceived that high inflation, and the low value of the South African currency, the Rand impact negatively on their businesses. The small business owner has no control over exogenous problems that manifest themselves in economic and political spheres.

**Sustainable business development**

Sustainability of small businesses can be measured on the basis of various variables including, profit as a percentage of turnover and the length of period that business has been in existence. The section on the survival rate of small business shows, for instance, that 75 percent of businesses have been in operation for more than two years and 25 percent operated between one month and two years. Almost half the owners of small business want to acquire new and better skills through training.

The survey indicates that 28 percent of the small business managers would like to receive managerial training to prevent business failure. 25 percent of the respondents need financial support, 11 percent need help with marketing/advertising and 10 percent need security services. The respondents were of the opinion that the installation of electricity, water and telephone at their shops will improve the success of their business.

**CONCLUDING REMARKS**

Managerial skills and business knowledge are an indication of how well a manager can perform important tasks and activities to ensure the success of the business. The study confirms that the lack of managerial skills of small business owners is considered by the respondents as the main reason why small businesses fail in South Africa. Small business owners lack managerial skill such as financial, marketing and human managerial skills to operate their businesses successfully. The study confirmed that the lack of managerial skills of small business owners, and financial issues has a negative influence on the success rate of small businesses in South Africa. The perceptions of the small business owners are that the managerial skills they possess, and those that they preferably should have, do not correlate.

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