

# **AN INVESTIGATION INTO THE MANAGERIAL COMPETENCIES REQUIRED FOR SMALL BUSINESS SUCCESS**

**Elmarie Venter, University of Port Elizabeth\***  
**Shelley van Eeden, University of Port Elizabeth**  
**Taryn King, University of Port Elizabeth**

## **Contact Person**

**Elmarie Venter**  
**Department of Business Management**  
**University of Port Elizabeth**  
**PO Box 1600, Port Elizabeth, 6000**  
**Tel +27 41 504 2875**  
**Fax +27 41 5832644**  
[ecaeev@upe.ac.za](mailto:ecaeev@upe.ac.za)

“Eighty percent of all new small businesses fail in their first five years” (Allen, 2000:20, Why do small businesses fail, 2003:1) and it has “been proven, time and again, that the main cause of business failure is the incompetent management of a business” (Smith, 1999:28-29).

## **ABSTRACT**

The failure rate of SMEs lies between 70% and 80% (Barron, 2000:1, Moodie, 2003:9, Ryan, 2003:13). Although small businesses fail due to a variety of reasons arising from the macro, market and micro environments, a problem that is often cited as a major contributor to failure is managerial incompetence and lack of business skills (Bekker and Staude, 1988:503, Marx, van Rooyen, Bosch and Reynders, 1998:732). More than 90 percent of entrepreneurial failure is attributed to lack of abilities to perform managerial functions (Glueck, 1980:65, Limited skills in management, 1998:1). The objective of this study was to identify the management competencies possessed by small business owner-managers in the Nelson Mandela Metropole. A quantitative research design based on the positivistic paradigm was used. A judgemental sample of 242 small businesses in the Nelson Mandela Metropole was utilised. The empirical results indicated that the managerial competencies evident in successful small businesses are planning and administration, strategic action and self-management (balance).

# INTRODUCTION

The small and medium-sized enterprise (SME) sector has been described by the South African government as having enormous economic potential and because of this the government has become increasingly committed to the promotion and growth of this sector (Budget speech, 2001, South African Yearbook, 2000:257). SMEs in South Africa employ almost half of the people formally employed in the private sector and play a pivotal role in the economy by contributing to 42% of the country's gross domestic product (Levin, 1998:79, South African Yearbook, 2000:256). With the importance of the small business sector becoming increasingly apparent, the continued creation and survival of SMEs is vitally important to "the future of the South African economy and the creation of new employment opportunities" (Macleod, 1999). However, it has been estimated that the failure rate of SMEs lies between 70% and 80% (Barron, 2000:1, Moodie, 2003:9, Ryan, 2003:13) and that a substantial amount of money is being lost due to the occurrence of mistakes and problems that could otherwise have been avoided. The chances of survival and success are however greatly enhanced if future problems and challenges are anticipated, understood and addressed prior to establishing the small business or an obstacle arising.

Small businesses operate within an environment that is dynamic, turbulent and that offers great challenges. Some of these challenges present not only opportunities to SMEs but are also a major source of problems. Within the environment problems arise from the macro, market or micro environments. Issues that present a problem to SMEs in the macro environment relate to the state of the economy, crime and rapidly changing technology amongst others. The market environment presents problems such as limited market size, low demand for products/services and considerable competition. Problems relating to the functional and financial areas, as well as the inability to control growth and lack managerial competence can arise from the micro environment.

Although small businesses fail due to a variety of reasons, a problem that is often cited as a major contributor to failure is managerial incompetence and lack of business skills (Bekker and Staude, 1988:503, Marx *et al.*, 1998:732). More than 90 percent of entrepreneurial failure is attributed to lack of abilities to perform managerial functions (Glueck, 1980:65, Limited skills in management, 1998:1), while Wright (1995:75) concurs that poor management ranks among the main reasons for the failure of many small businesses. It is therefore apparent that small business owner-managers require certain managerial competencies in order to succeed (Kyambalesa, 1994:174). This will allow small business owner-managers to better manage their businesses and solve problems, resulting in improved chances for success and the ability to be a better contributor to the economy.

## OBJECTIVES OF THE STUDY

The primary objective of this study is to identify the management competencies possessed by small business owner-managers in the Nelson Mandela Metropole. Secondary objectives include establishing the existence of any significant relationships between:

- managerial competencies and selected demographic variables;
- managerial competencies and perceived success; and
- selected demographic variables and perceived success.

## **PROBLEM INVESTIGATED**

Small and medium-sized enterprises (SMEs) are having a positive impact on the South African economy through job creation and provision of employment opportunities. However, despite the economic benefits and the opportunities provided by SME initiatives, small businesses continue to be inextricably linked to high failure rates and problematic challenges. Flusche, van Beveren and Kilgore (2001:1) state that although government and economic conditions contribute to SME failure, managerial action, incompetence and inexperience has a far more significant influence on SME success. Studies have further shown that 14,5% of small businesses fail due to a lack of management competence or management experience (Flusche *et al.* 2001:1), and unless addressed, this will be a major factor contributing to the high failure rate of small business. The problem to be investigated in this study involves identifying the management competencies possessed by small business owner-managers in the Nelson Mandela Metropole based on the model of managerial competencies proposed by Hellriegel, Jackson, Slocum, Staude and Associates (2001:6), namely communication, planning and administration, teamwork, strategic-action and self-management competencies.

## **RESEARCH OBJECTIVES**

In order to investigate the managerial competencies prevalent in SME owner-managers in the Nelson Mandela Metropole, a research instrument in the form of a questionnaire was developed.

## **RESEARCH METHODOLOGY**

This research study can be described as quantitative research from a positivistic approach. This paradigm is concerned with seeking the facts and causes of a phenomenon, is associated with measurement and produces data that is both specific, precise and quantitative (Hussey and Hussey, 1997:52).

## **RESULTS**

A series of factor analyses revealed that the items measuring success loaded onto a single factor, and the 60 items pertaining to the various managerial competencies loaded onto nine different factors. These were subsequently named communication; planning and administration; financial planning; teamwork (promotion); teamwork (participation); strategic-

action; self-management (conduct); self-management (balance) and self-management (drive/adaptability).

In order to evaluate the internal reliability of the questionnaire, Cronbach Alpha coefficients were calculated. For the purpose of this study, the cut-off value of 0,70 was utilised to indicate the reliability of the measuring instruments. All Cronbach Alpha coefficients exceeded the cut-off point of 0,70 as determined by Nunally (1978). The internal reliability of the measuring instrument was thus confirmed.

**Table 1: Summary of factor analyses per category**

Factor	Number of items	Factor loadings		Cronbach alpha coefficients
		Min	Max	
Success	4	- 0,62	0,83	0,72
Communication	9	0,17	0,78	0,79
Planning and administration	11	0,39	0,71	0,81
Financial planning	3	0,75	0,84	0,79
Teamwork (promotion)	5	0,70	0,73	0,81
Teamwork (participation)	4	0,60	0,83	0,77
Strategic action	7	-0,65	-0,84	0,87
Self-management (conduct)	5	0,52	0,80	0,78
Self-management (balance)	4	0,52	0,78	0,71
Self-management (drive/adaptability)	7	0,51	0,70	0,79

Descriptive statistics relating to the sample are presented in Table 2. From the table it is evident that the majority of respondents were both owner and manager of their small business. It has further been identified that the majority of respondents are males and predominantly white. Most owner-managers have occupied this position for between three and five years and the majority of respondents do not possess a managerial qualification. The close corporation and sole trader are the most popular forms of enterprise. Many respondents indicated operating in more than one industry, namely in retail, wholesale, manufacture and service or a combination thereof. It was however identified that they operate in the service and retail industry respectively. The majority of respondents employ between one and five full-time employees. Most small businesses reported an annual turnover of less than R500 000.

**Table 2: Sample characteristics**

<b>Ownership Status</b>	<b>Frequency</b>	<b>Percent</b>
Owner	25	10,33
Manager	36	14,88
Both	181	74,79
<b>Total</b>	<b>242</b>	<b>100,00</b>
<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	181	74,79
Female	61	25,21
<b>Total</b>	<b>242</b>	<b>100,00</b>
<b>Population group</b>	<b>Frequency</b>	<b>Percent</b>
White	151	62,40
Coloured	20	8,26
Black	30	12,40
Asian	31	12,81
Not willing to say	10	4,13
<b>Total</b>	<b>242</b>	<b>100,00</b>
<b>Term of management</b>	<b>Frequency</b>	<b>Percent</b>
1 year	14	5,79
2 years	25	10,33
3 - 5 years	70	28,93
6 - 10 years	62	25,61
11 - 20 years	49	20,25
21 years and above	22	9,09
<b>Total</b>	<b>242</b>	<b>100,00</b>
<b>Management qualification</b>	<b>Frequency</b>	<b>Percent</b>
Yes	89	36,78
No	153	63,22
<b>Total</b>	<b>242</b>	<b>100,00</b>
<b>Form of enterprise</b>	<b>Frequency</b>	<b>Percent</b>
Sole trader (proprietorship)	75	31,00
Partnership	13	5,37
Private company	44	18,18
Close corporation	92	38,01
Trust	18	7,44
<b>Total</b>	<b>242</b>	<b>100,00</b>
<b>Nature of industry</b>	<b>Frequency</b>	<b>Percent</b>
Retailer	67	27,68
Wholesaler	6	2,48
Manufacturer	12	4,96
Service industry	71	29,34
Other, please specify	86	35,54
<b>Total</b>	<b>242</b>	<b>100,00</b>
<b>Number of full-time employees</b>	<b>Frequency</b>	<b>Percent</b>
0	2	0,83
1 – 5	92	38,02
6 – 10	70	28,92

11 – 20	43	17,77
> 20	35	14,46
<b>Total</b>	<b>242</b>	<b>100,00</b>
<b>Annual turnover</b>	<b>Frequency</b>	<b>Percent</b>
< R 500 000	76	31,40
R 500 000 – R 999 999	38	15,70
R 1 000 000 – R 4 999 999	65	26,86
R 5 000 000+	34	14,05
No response	29	11,99
<b>Total</b>	<b>242</b>	<b>100.00</b>

Table 3 below contains a summary of the descriptive statistics for the various competencies that are considered important in managing a successful small business. It is evident from the table below that the mean scores varied for all the management competencies investigated. The self-management (conduct) competency obtained the highest mean score, whereas the planning and administration; and the communication competencies both obtained the lowest mean scores.

**Table 3: Descriptive statistics on the management competencies investigated**

Factor	Valid N	Mean	Quartiles		Std.Dev	Frequency distribution %		
			Min	Max		Disagree	Neutral	Agree
Communication	242	3,93	2,00	5,00	0,51	5,78	53,72	40,50
Planning and administration	242	3,93	2,10	5,00	0,50	3,31	59,50	37,19
Financial planning	242	4,03	1,00	5,00	0,80	11,57	44,63	43,80
Teamwork (promotion)	242	3,94	2,20	5,00	0,59	7,85	52,89	39,26
Teamwork (participation)	242	4,29	2,25	5,00	0,56	2,89	38,02	59,10
Strategic action	242	4,00	2,28	5,00	0,59	5,37	52,48	42,15
Self-management (conduct)	242	4,45	3,00	5,00	0,44	0,83	26,45	72,72
Self-management (drive/adaptability)	242	4,41	3,14	5,00	0,42	0	26,03	73,97
Self-management (balance)	242	4,07	1,25	5,00	0,62	6,20	50,00	43,80
Success	242	3,60	1,50	5,00	0,69	26,03	53,72	20,25

Table 4 below portrays the Pearson product moment correlations for establishing the relationship between the management competencies investigated as well as between these competencies and success. Significant relationships were established at the 99 percent and 95 percent confidence levels.

**Table 4: Pearson product moment correlations for the management competencies investigated and success**

	Correlations									
	Success	Communication	Planning and administration	Financial planning	Teamwork (promotion)	Teamwork (participation)	Strategic action	Self-management (conduct)	Self-management (balance)	Self-management (drive/adaptability)
Communication	<b>*0,17</b>	1,00	<b>*0,52</b>	<b>*0,37</b>	-0,06	<b>*0,52</b>	<b>*0,42</b>	<b>*0,34</b>	<b>*0,36</b>	<b>*0,28</b>
Planning and administration	<b>*0,27</b>	<b>*0,52</b>	1,00	<b>*0,47</b>	-0,04	<b>*0,37</b>	<b>*0,60</b>	<b>*0,44</b>	<b>*0,50</b>	<b>*0,32</b>
Financial planning	<b>*0,21</b>	<b>*0,37</b>	<b>*0,47</b>	1,00	-0,02	<b>*0,27</b>	<b>*0,43</b>	<b>*0,22</b>	<b>*0,24</b>	<b>**0,16</b>
Teamwork (promotion)	- 0,02	- 0,06	- 0,04	- 0,02	1,00	<b>** - 0,13</b>	- 0,10	- 0,04	- 0,02	- 0,08
Teamwork (participation)	<b>*0,24</b>	<b>*0,52</b>	<b>*0,37</b>	<b>*0,27</b>	<b>** -0,13</b>	1,00	<b>*0,28</b>	<b>*0,48</b>	<b>*0,49</b>	<b>*0,29</b>
Strategic-action	<b>*0,27</b>	<b>*0,42</b>	<b>*0,60</b>	<b>*0,43</b>	-0,10	<b>*0,28</b>	1,00	<b>*0,41</b>	<b>*0,51</b>	<b>*0,30</b>
Self-management (conduct)	<b>**0,16</b>	<b>*0,34</b>	<b>*0,44</b>	<b>*0,22</b>	-0,04	<b>*0,48</b>	<b>*0,41</b>	1,00	<b>*0,62</b>	<b>*0,30</b>
Self-management (balance)	<b>*0,30</b>	<b>*0,36</b>	<b>*0,50</b>	<b>*0,24</b>	-0,02	<b>*0,49</b>	<b>*0,51</b>	<b>*0,62</b>	1,00	<b>*0,45</b>
Self-management (drive/adaptability)	<b>**0,13</b>	<b>*0,28</b>	<b>*0,32</b>	<b>**0,16</b>	-0,08	<b>*0,29</b>	<b>*0,30</b>	<b>*0,30</b>	<b>*0,45</b>	1,00
Success	1,00	<b>*0,17</b>	<b>*0,27</b>	<b>*0,21</b>	-0,02	<b>*0,24</b>	<b>*0,27</b>	<b>**0,16</b>	<b>*0,30</b>	<b>**0,13</b>

\* 99% confidence level (< 0,01)

\*\* 95% confidence level (< 0,05)

It is evident that at the 99 percent confidence level a positive correlation exists between all the following competencies, namely communication, planning and administration, financial planning, strategic action, self-management (conduct), self-management (balance), self-management (drive/adaptability) and teamwork (participation) except teamwork (promotion).

Teamwork (promotion) is negatively correlated at the 95 percent confidence level with teamwork (participation) and self-management (drive/adaptability) positively correlated with financial planning at the 95 percent confidence level. A significant relationship exists between success and the following competencies at the 95 percent confidence level, namely self-management (conduct) and self-management (drive/adaptability).

The results of the analysis of variance (ANOVA) are depicted in Table 5 below. This test was undertaken to establish whether significant differences exist between the selected demographic variables on the one hand, and the management competencies investigated and perceived success, on the other hand.

**Table 5: Relationships between management competencies investigated and demographic variables**

	df	Communication		Planning and administration		Financial planning		Teamwork (promotion)		Teamwork (participation)	
		F	P	F	P	F	P	F	P	F	P
Ownership status	2	5,152	<b>*0,006514</b>	0,884	0,414493	0,7987	0,451239	1,613	0,201651	0,639	0,528660
Gender	1	0,810	0,369063	0,400	0,527689	5,7233	<b>**0,017590</b>	0,259	0,611493	1,649	0,200434
Population group	4	1,468	0,213087	0,273	0,895422	0,4499	0,772406	1,262	0,286110	1,008	0,404343
Term of management	1	0,513	0,474548	1,095	0,296505	0,1236	0,725497	0,073	0,786741	0,078	0,780320
Management qualification	1	5,678	<b>**0,018039</b>	1,583	0,209626	24,1450	<b>*0,000002</b>	0,784	0,376991	0,749	0,387594
Form of enterprise	4	0,535	0,710484	0,821	0,513029	0,6153	0,652059	0,726	0,575346	0,778	0,540812
Nature of industry	4	0,788	0,533843	0,206	0,935132	2,4764	<b>**0,045207</b>	2,683	<b>**0,032464</b>	0,054	0,994471
Number of full-time employees	1	0,420	0,517818	0,533	0,466208	1,6834	0,195844	0,558	0,456004	0,180	0,671757
Annual turnover	4	0,052	0,994824	0,575	0,680980	4,1108	<b>*0,003122</b>	1,571	0,183024	1,699	0,151280

\*99% confidence level (< 0.01)

\*\*95% confidence level (< 0.05)

**Table 5 continued: Relationships between management competencies investigated and demographic variables**

	df	Strategic action		Self-management (conduct)		Self-management (balance)		Self-management (drive/adaptability)	
		F	P	F	P	F	P	F	P
Ownership status	2	0,459	0,632395	0,300	0,741323	0,917	0,401411	1,066	0,346067
Gender	1	0,045	0,831494	0,729	0,394092	1,842	0,176097	0,362	0,548222
Population group	4	0,630	0,641444	0,240	0,915489	0,628	0,642821	0,376	0,825490
Term of management	1	0,222	0,638333	0,033	0,855359	0,099	0,753288	2,055	0,153152
Management qualification	1	4,867	<b>**0,028427</b>	1,946	0,164489	4,902	<b>**0,027863</b>	3,324	0,069644
Form of enterprise	4	0,135	0,969283	0,259	0,903822	0,212	0,931496	0,809	0,520705
Nature of industry	4	2,288	0,060908	0,465	0,761283	0,575	0,680840	2,061	0,087008
Number of full-time employees	1	0,004	0,948042	1,751	0,187122	0,238	0,626475	0,012	0,911498
Annual turnover	4	0,952	0,434577	1,793	0,131292	0,227	0,923363	0,455	0,768993

\* 99% confidence level (< 0,01)

\*\* 95% confidence level (< 0,05)



**Table 6 continued: Descriptive statistics of demographic variables, management competencies investigated and perceived success**

	Success		Communication		Financial planning		Teamwork (promotion)		Strategic action		Self-management (balance)	
<b>Nature of industry</b>												
Retailer					4,12	0,71	3,95	0,58				
Wholesaler					3,94	0,71	4,07	0,60				
Manufacturer					3,97	0,90	4,20	0,57				
Service industry					3,90	0,87	4,05	0,56				
Other, please specify					4,08	0,79	3,81	0,62				
<b>Number of full-time employees</b>												
0	3,62	1,24										
1 – 5	3,44	0,69										
6 – 10	3,53	0,66										
11 – 20	3,68	0,63										
> 20	4,04	0,66										
<b>Annual turnover</b>												
< R 500 000					3,74	0,84						
R 500 000 to R 999 999					4,02	0,74						
R 1 000 000 to R 4 999 999					4,08	0,85						
R 5 000 000+					4,53	0,53						
No response					4,11	0,57						

It is evident from the table above that a significant difference exists at ( $p < 0,01$ ) between the selected demographic variables and the management competencies investigated.

Communication competency and the demographic variables ownership status and management qualification are significantly different. It appears that respondents who are owners exhibit superior communication skills compared to those that are not. Owner-managers who possess a management qualification exhibit the communication competency more than those that do not.

A significant difference was found between financial planning competency and the demographic variables gender, management qualification, annual turnover and nature of industry. It is evident that owner-managers who possess a management qualification undertake financial planning activities to a greater extent than those that do not have a qualification. Small businesses with a turnover greater than R5 million are more likely to do financial planning than those with a turnover of less than R5 million. The results further indicate that small businesses operating in the retail sector perform financial planning activities more than small businesses operating in the service sector.

With regard to the following competencies a significant difference exists at ( $p < 0,05$ ). It is evident that at this level teamwork (promotion) competency indicates a significant difference with nature of the industry. It is evident that respondents in the manufacturing sector promote the effectiveness and efficiency of teamwork to a greater extent than those in either the retail sector or those operating in a combination of sectors.

There also exists a significant difference between the strategic action competency and management qualification. It appears that owner-managers who possess a management qualification are more skilled at strategic planning than those who possess no managerial qualification.

A significant difference exists between self-management (balance) competency and management qualification. It is clear that owner-managers who possess a management qualification are more capable of balancing work and other life issues than those who do not possess a managerial qualification.

It is apparent that a significant difference ( $p < 0,01$ ) was established between the perceived success of a small business and term of management, gender and number of full-time employees.

**Table 7: Relationships between demographic variables and success**

		Success	
		F	P
	df		
Ownership status	2	0,6052	0,546867
Gender	1	9,1363	<b>*0,002806</b>
Population group	4	0,5757	0,680544
Term of management	1	6,8557	<b>*0,009456</b>
Management qualification	1	3,6672	0,056801
Form of enterprise	4	0,3681	0,831213

Nature of industry	4	1,5805	0,180527
Number of full-time employees	1	15,9265	<b>*0,000090</b>
Annual turnover	4	1,8912	0,113024

\* 99% confidence level (< 0,01)

\*\* 95% confidence level (< 0,05)

Owner-managers who have been in business for only two years perceive themselves to be more successful than owners who have had a longer term of management. Females perceive themselves to be more successful at running a small business than do males. Owner-managers who employ more than twenty full-time employees perceive their businesses to be more successful than those employing less.

## CONCLUSIONS

This study investigated the contributions made by the SME sector to the economic growth of South Africa and the challenges faced by the SME sector. Management incompetence was revealed as a major challenge facing the small business sector. The empirical investigation conducted on small businesses in the Nelson Mandela Metropole revealed the order of importance of the managerial competencies investigated. The order of importance of the managerial competencies is thus as follows: self-management (conduct), self-management (drive/adaptability), teamwork (participation), self-management (balance), financial planning, strategic-action, teamwork (promotion), communication and planning and administration. From the above order of importance it can be deduced that the following competencies need to be improved upon: communication, planning and administration, financial planning and teamwork (participation). The empirical investigation further revealed that the managerial competencies evident in a successful small businesses are planning and administration, strategic action and self-management (balance).

From this study, it is evident that managerial competencies will, in the future, have a major impact on small business success. It is therefore crucial that the South African government and the small business sector alike take note of this challenge hindering small business success and realise that without adequate managerial competencies, the small business sector will be unable to realise its full potential. The heightened awareness of the effects of managerial incompetence could result in South Africa experiencing increased economic growth, social stability and job creation for the country as a whole.

## RECOMMENDATIONS

The empirical investigation revealed that the managerial competencies communication, planning and administration, financial planning and teamwork (participation) require improvement. Owner-managers may therefore do the following to improve on the competencies.

To improve their ability to communicate the following is recommended: involve employees more in business operations, encourage openness and sharing of information with employees

through the use of weekly or monthly meetings or discussions, utilise written communication that is clear, concise, commands attention and that does not contain terms that could not be understood and meetings should be short and to the point.

The planning and administration competencies may be improved through the implementation of the following: utilise all available resources to acquire information pertaining to any risk that the business may assume, for instance consult external experts and secondary sources, weigh-up the advantages and disadvantages of assuming a risk through drawing up lists and profit projections, develop plans and schedules on a weekly or monthly basis to achieve specific ideas and goals, divide the whole problem or idea into manageable and workable parts and assign priorities to and delegate responsibility for each task, thus aiding in achieving the completion and implementation of the plan on time.

In order to improve an owner-manager's competence in financial planning it is recommended that owner-managers utilise projected cash flow statements and other financial records when considering the purchase of assets, starting of a new project or planning for an activity.

It is lastly recommended that in order to improve teamwork (participation) within their business, owner-managers should hold open discussion groups with relevant team members in order to develop specific and clear goals together that are attainable and will thus inspire commitment from each individual member. It is further recommended that owner-managers implement monitoring systems, for example conduct monthly report-back sessions or periodic deadlines for specific tasks, to ensure tasks and goals are being reached and make employees part of decision making through asking for opinions or solutions directly from employees as well as giving employees a measure of authority and responsibility by making the employees themselves responsible for the outcome.

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