

Full Length Research Paper

Why are so many managers not “managing?”

Louise van Scheers* and Simon Radipere

School of Business Management, Box 392, Unisa, 003, University of South Africa, South Africa.

Accepted 08 October, 2007

This research investigates whether lack of managerial skills of small business owners is the main cause of business failure in South Africa. It is evident from the conducted research that small business owners lack certain managerial skill such as financial management, marketing and human managerial skills to operate their businesses successfully. The research findings confirmed that entrepreneurs of MSEs are in need of support services. It is equally evident that entrepreneurs of MSEs are constrained not only by financial factors but also by non-financial factors such as lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure. The research conducted confirmed that there is relationship between problems experienced by MSEs entrepreneurs and the managerial skills they possess. The research established that the lack of managerial skills has a negative impact on the success and viability of small businesses. The research concluded that the challenge would be to increase the pool of capable small business owners in South Africa. Improving the managerial skills of small business owners is of crucial importance, as small business is considered to be the panacea for South Africa's unemployment problems and a stagnating economy.

Key words: Small business, managerial skills, Nepad, GEM Report, macro and market environmental problems.

INTRODUCTION

South Africa is a country of growing business opportunity in which the spirit of free enterprise is evident. Although there is a large growing pool of labor available for training, there is a growing shortage of capable entrepreneurs (Government Gazette, 1998). Improving the managerial skills of small business owners/managers is therefore of crucial importance, as small businesses are considered the panacea for South Africa's unemployment problems and stagnating economy. Unemployment is widely recognized as a major factor inhibiting economical stability in South Africa and by improving the managerial skills of entrepreneurs, the dream of Nepad can become reality (Herrington et al., 2002).

In South Africa, the problem is that too many small businesses are collapsing and that lead to more unemployment, poverty, crime and etc. This research project will find out why these businesses are failing. Managerial skills will be investigated if they have an impact on success or failure of these businesses. Small business und-

ertakings create about 80% of all new job opportunities and according to Bowler et al. (1996) more than 70% 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 et al. (1999) indicated 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.

This research study focuses on analyzing the managerial skills of small business entrepreneurs in the formal sector in Pretoria area. The small business entrepreneur needs to be multi-skilled to perform the many managerial functions for business success. Managerial skills are specific abilities that result from knowledge, experience, information, practice, and aptitude (Bateman and Snell, 1996). The development of these managerial skills may improve business operations and consequently assist with the creation of employment in South Africa. In this way, this will enhance the economy as a whole.

Kroon and Moolman (1999) state that managing a small

*Corresponding author. E-mail: Vscheml@unisa.ac.za

business comprises several factors, for example: the creation and exploitation of an opportunity, a sense of enterprise, vision, innovation, commitment, motivation, taking calculated risks, bearing risk, uncertain circumstances, uncertainty, leadership, and control. Pearce and Byars (2000) explain that starting a business is risky, but efficiently performing managerial skills and achieving competitive advantage can create a successful business.

Small businesses are regarded as necessary for growth, job creation and social progress, because the economies of economically successful countries function around a successful small business sector (Nager et al., 1999). It is difficult to formulate a universal definition of a small business because the economies of countries differ and people adopt particular standards for particular purposes. Many of the small businesses we know of in our environment are typical examples of small businesses, such as a hairdressing salon, a greengrocer, a video shop or a hardware store. A business that may be classified as small in the USA may be classified as large in South Africa (Longenecker et al., 2000).

A research project was done in Pretoria area to find out on why small businesses fail. The research problem of this study emanates from the current high failure rate of MSEs apparently due to deficiencies in management skills. About 40% of new business ventures fail in their first year, 60% in their second year, and 90% in their first 10 years of existence (CSS, 2000). In the early years of an enterprise, the entrepreneur is responsible for all the management functions namely: general management, financial, personnel, marketing, production and public relations.

We have decided to investigate their perception of why they fail and whether there is any relationship between their skills and different success factors. The literature review and the research findings of this study will contribute positively to the implementation of support structure programmes by government, which will in turn assist in the retention of skilled entrepreneurs thereby contributing to the success of small businesses. The legacy of apartheid has left South Africa with a relatively underproductive, under-performing work force to sustain the economy and cope in a globalized world (Herrington, Kew and Wood, 2002). Through the promulgation of laws of the Department of Labor, South Africa's skill development efforts has been the dominant driver to employment over the past years. For the country to be able to survive, businesses should be able to create goods and services in response to changing customer needs.

Murphy (1996) states that small business owners exhibit certain personality traits that is responsible for the success or failure of their businesses. Inadequate managerial skills of owners create management problems in the small business sector. That deprives the country of healthy concerns that can provide employment opportunities for the unemployed masses.

RESEARCH METHODOLOGY

The aim of this research was to gather information to analyze the managerial skills of small business owners in the Pretoria area. For this purpose, 100 questionnaires were delivered to small business owners in the area. The small businesses were randomly selected from a Department of Trade and Industry list (DTI, 2001). Of the 100 questionnaires delivered on 1st February 2003, 81 replies were received which means a response rate of 81%. The 31st March 2003 was considered as the cut-off date and no questionnaires were accepted after this date. This may be considered a good response rate according to Nederhof (2002) considering the sensitivity of the topic, the nature of the problem under investigation and the inhibitions that management might have regarding the survey.

WHAT DO WE MEAN BY "SMALL BUSINESS" AND "MANAGERIAL SKILLS"?

A small business is defined by Bowler and Dawood (1996) as an independent profit-orientated business unit that is personally managed by the owners and has a small influence or market share in the business world.

The small business is normally the natural habitat of entrepreneurs. The small business provides the ideal environment for entrepreneurs to test their talents.

Managerial skills are specific abilities that result from knowledge, experience, information, practice, and aptitude (Bateman and Snell, 1996). The development of these managerial skills may improve business operations and consequently assist with the creation of employment in South Africa. In this way, this will enhance the economy as a whole. Managerial skills can be improved through training programs and practical experience.

Problems experienced by small business owners

Dockel and Ligthelm (2002) classify the problems experienced by small business owners in conducting a successful business into various categories, namely:

1. Economy-based problems that are associated with national economic factors related to the state of the economy.
2. Industry-based problems that is associated with the industry in which the enterprise operates.
3. Enterprise-based problems that refer to the business's internal factors such as incompetent management, lack of managerial skills, and poor financial control.

It is useful to consider the problems caused by factors outside the small business by combining economy-based and industry-based problems as macro-environmental or exogenous problems. These problems can be distinguished from problems over which the individual owner has some control: or firm-based problem which are classified as internal-micro or endogenous problems.

Macro-economic variables such as interest rates, unemployment and inflation rates were also considered. However, enterprise-based problems were found to be associated with 65% of small business failures (Dockel and Ligthelm, 2002). A second study by Peterson (1998) estimates that internal-micro factors were responsible for approximately 70% of small business failures. The rest of this section will highlight the type of exogenous and endogenous problems experienced by small businesses in South Africa.

External factors

Exogenous factors are those factors whereby management exerts no control over (Bosch et al., 1998). They are composed of macro- and market environmental problems.

Macro environmental problems: Management can exert no control over exogenous problems that manifest themselves in the economic, political, socio-demographic, technological and international spheres.

Market environment: As with macro environmental issues, management has little or no control over external market factors and success often depends on an adequate, sufficient and prompt response to changing circumstances.

Internal problems

Deficiencies in the internal microenvironment are the major cause of small business failures (Bowler et al., 1998). Endogenous cause of failure centers largely on the following areas: managerial skills, management behavior and financial knowledge. Lack of expertise in the following functional areas is often reported: marketing, human resource management and financial issues. The high rate of business failure in South Africa is apparently credited to lack of managerial skills.

Who are typical small business owners in the Pretoria area?

The demographic profile presents an overview of the owners in terms of gender and age. Furthermore, the small businesses are described in terms of type of business, and number of years in operation, industry type, and ownership by population group.

Access to demographic information of the survey population assists strategists in their decision-making responsibilities related to future small business skills development strategies. Dockel and Ligthelm (2002) emphasize that demographic factors indicate that the older the owners, the less likely they are to leave and more likely they are to be successful. Gender of respondents was also looked at because in the overwhelming majority of countries, the rate of entrepreneurial activity among men is far higher than that among women (Herrington et al., 2002).

Gender of the respondents

Most of the respondents surveyed were male (72.8%) as compared to female respondents (27.2%). South Africa is typical, with men being twice as likely as women to be new enterprise entrepreneurs and one and half times more likely to be owner managers of established firms (CSS, 2002). Herrington et al. (2002) presents a possible explanation for this male-biased trend. According to this publication male owner/managers employ more workers in comparison with female owner/managers, who employ less.

Culture and social norms are also likely to play a role in these gender differences, particularly since women traditionally have more domestic responsibilities such as child rearing. A report from the Herrington et al. (2002) indicates that results from the South African expert questionnaires provide evidence of the impact of culture on female entrepreneurs; for example 60% 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 that those particular obstacles to the involvement of women in self-employment activities needs to be addressed.

Age of the respondents

The largest% age of the sample population (37.5%) is aged between 30 and 39, followed by the age group 20 to 29 at 30%. Only

Table 1. Population group.

Population group	N	%
African	28	52,8
Asian	8	15,1
Coloured	7	13,2
White	10	18,9
Grand Total	53	100,0

*Item non-response¹ = 28.

five respondents (6.3%) were older than 50. Observing the results we are of the opinion that the entrepreneurial profession is strenuous because only a few older persons are still in that profession.

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 valuables that determine a business's access to financial sources. According to the questionnaires, most businesses (74.1%) have operated for two years and more. Only 25.9 % have been in operation for less, (between one month and two years). These findings seem to reflect that the longer a business survives, the greater its chances to survive in the longer term. This is an encouraging finding against the backdrop of the high unemployment rate in South Africa. International experience has shown that births and deaths among small businesses tend to be concentrated among younger and smaller firms (Picot and Dupuy, 1995).

Nature of industry

The research indicates that 48.1% of the respondents operate in the retail industry. Of the total sample, approximately a third (30.4%) conducts business in the services industry. Only 7.6% of the survey population participated in the construction and manufacturing industries. Previous studies (Herrington, Kew and Wood, 2002) have found that small businesses in the retail sector have a higher failure rate as a result of the ease of entering this sector and the consequent possibility of overtrading. The present study found that the sector, in which the owner operated.

Small business ownership by population group

The ownership status of small business owners by various population groups is presented in Table 1. Note that, from the 100 respondents, 28 failed to answer the question about their population group. During collection of the questionnaires, most respondents indicated that they preferred not to be identified by race and expressed the thought that this was an anachronism of the 'apartheid days'. Table 1 indicates, however, that of those who answered, Africans own most of the small businesses (52.8%) followed by the White community with 18.9% and then by the Asian and Coloured

¹ Item non-response refers to specific questions that have been left unanswered (Diamantopoulos and Schlegelmilch, 1997). From the 459 respondents, 189 respondents preferred not to answer this question. Personally, was not a determinant of possible success of small business.

Table 2. Managerial skills.

Managerial skills	Index
Managing personal stress	21
Managing time	18
Performance appraisal	31
Motivating people	10
Managing conflict	26
Solving problems	16
Marketing	29
Bookkeeping	20
Recording transactions	31
Writing business plans	4
Pricing	37

communities (15 and 13%, respectively).

WHAT IS THEIR BUSINESS EXPERIENCE AND SKILLS?

Prior business experience

Simply owning or running a business does not make a person an entrepreneur. Many business owners are really managers, that is: running a business that they have copied from someone else. In connection with this observation, it is also significant to note that most respondents had a fair idea of what management of a business entails, even if they had no previous business experience and though they were not always able to express their ideas in 'academic terms'. Only 28.4% of the respondents indicated that they had had prior business experience, and 71.6% of the respondents are first-time business operators. This reflects a lack of experience in running a business when evaluated in tandem with the number of years these businesses are operating. The demographic factors indicated that the older the owners, the less likely they are to leave and the more likely they are to become successful.

Perception of managerial skills

Managerial skills consist of an identifiable set of actions that individuals perform, which lead to certain outcomes. Managers with different styles and personalities may apply these skills differently (Cameron and Whetten, 1999). Thus, managerial skills are behavioural. General managerial skills are required to organise the physical and financial resources needed to run a business and people managerial skills are needed to obtain the necessary support from others for the business to succeed. Managerial skills and business knowledge are an indication of how well an entrepreneur can perform important tasks and activities related to the functions of a business.

Examples of managerial skills are the following: managing personal stress, managing time, performance appraisal, motivating employees, managing conflict, solving problems, marketing, bookkeeping, record keeping, writing business plan and pricing. We asked a question about their skills to obtain information on the extent to which entrepreneurs use behavioral skills during their workdays. Table 2 presents the outcome of the survey findings.

Table 2 indicates that motivating workers occupies less (10%) of an owner's time. Besides this function, managing time and solving problems are also not attended to when compared to the other business functions listed in Table 2. Nearly 29% of the respondents are constantly involved in marketing activities. The rest of the respondents never or hardly ever market their business, or do not know what marketing is. These business owners should be assisted in acquiring knowledge about marketing.

20% of the respondents are constantly involved in bookkeeping activities and 31% on daily record their business transactions. A disturbing 4% of the respondents have written a business plan. Verbally, most of these respondents indicated that they did not really know how. However, this is an important activity since without this; it is hardly possible to obtain finance from banks and etc. About 37% of the entrepreneurs constantly devote time to the pricing of products and services. The rest of these entrepreneurs never do pricing themselves, but indicated verbally that they invite outside help with this function.

From the general results expressed by the respondents that are reflected in Table 2, one can safely conclude that most business owners have a high regard for these entrepreneurial skills and what they mean for the success of their businesses. However, many are unfamiliar with the demands of these skills. Although the respondents find all the managerial skills listed in the table as important in their day-to-day work, it is obvious that writing business plans is the least favorite activity. All the managerial skills mentioned in Table 2 are important and should be attended to if a business is to succeed.

Problems facing them

The following examples were listed as problems faced by the respondents, namely: crime, economic factors, finance, labour and rent. The outcome of the survey finding is presented in Table 3.

Table 3. Problems faced by respondents.

Critical problems	N	%
Crime	34	43,0
Economic factors	28	35,5
Finance	14	17,7
Labour	2	2,5
Rent	1	1,3
Grand Total	79	100,0

*Item non-response = 2.

According to Table 3 crime is perceived as the most significant (43%) factor of all other problems faced by South African small business owners. At least two out of five enterprises are affected by crime. Some 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 of business hours. Some respondents also mentioned 'off the record' that 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, outside of the black areas.

As indicated in Table 3, more than a third of the respondents (35.5%) perceive economic trends as an external factor causing problems for the business. Small businesses cannot control this external environment that harms them. Only 17.7% of the respondents regard finance as the problem. About 2.5% of the respondents indicated that they experience problems with employees. Only 1.3% complains about the rent they pay. Respondents tend to be more in agreement with the statement that variables, such as crime and economic factors, negatively impact on the success of their businesses.

It can be deduced that conceptual know-how of the functioning of the macro-economic environment allows better insight into the impact of exogenous factors on the functioning of businesses within a particular macro economic setting. The impact of market related issues are discussed in the next section.

THE IMPACT OF MARKET RELATED ISSUES ON BUSINESS SUCCESS

The survey asked whether market-related issues have impact on the respondent's businesses. Most of the respondents believed that a lack of knowledge of market related issues could have a negative impact on their businesses. A lack of knowledge about competitors seems to have the largest impact on the success of small businesses. About 88% believe that low product demand can have an impact on the success of a business. Respondents also believe that ineffective marketing and a poor locality (84 and 85% respectively) can have a negative impact on the success of their business. It is interesting to note that Burgess and Steinhof (1999) also found that marketing issues were the most significant problems among small business owners.

Potential factors contributing to the closure of small businesses

Potential factors contributing to the closure of small businesses that were investigated in the survey include: business failure, reasons for business failure and reasons

why entrepreneurs fail. The factors will be discussed below.

Business failure

This question of the questionnaire was structured to obtain information on whether the first initiative in establishing a business had failed, or not. The research findings reveal that for most start-up businesses (83.3%) the first business initiative proved to be unsuccessful. Only 16.7% of the respondents indicated that their first business venture has succeeded. This question was asked to establish whether the first initiative had any influence on the success or failure of the business. The reasons for business failure will be discussed next.

Reasons why businesses fail

The respondents gave the following examples of causes for business failure: lack of skills, financial problems, and lack of interest. 83.3% of the respondents, whose first business initiative failed, blame financial problems for the business failure. The results suggest that the lack of money for running costs or capital items is the most widespread problem facing small businesses. This is a significant finding that gives rise to the general opinion that most disadvantaged small business owners lack finance. The research findings indicate that the lack of finance is a problem for a significantly large proportion of formal small businesses. The finding that a lack of finance is a key problem, is a common feature of most research on problems facing entrepreneurs, and occurs in both developing and developed countries (Herrington et al., 2002). Some of the respondents (23.1%) indicated that they no longer have an interest in their businesses because of imminent failure. Lack of management skills and competition respectively, were the major causes for businesses failure for the other two respondents. The fact that a sizeable %age of respondents complained about the above issue is a matter for concern. The reasons why some small businesses fail will follow next.

Reasons why small business owners fail

As discussed earlier about 40% of new business ventures fail in their first year, 60% in their second year, and 90% in their first 10 years of existence (CSS, 2002). 70.9% of the respondents are of the opinion that small businesses fail due to a lack of managerial skills. Most business owners view lack of management skills as a problem. However, when small business owners were asked in what areas they would like training, most indicated that they would like training in how to keep financial records and training in communication skills, marketing and their legal rights. Respondents that thought political

and social factors to be prejudicial to their business success were a minority that is 2.5 and 6.3% respectively. A fifth of the respondents (20.3%) regard the economy to be the main reason for small business failure. Management can exert no control over exogenous problems that manifest themselves in economic, socio-demographic and political spheres. Respondents also indicated the following reasons for their failure; lack of education, inadequate technical skills and municipal bylaws inhibit sales during weekends.

SUMMARY OF RESEARCH FINDINGS AND IMPLICATIONS

Managerial skills and business knowledge are an indication of how well an owner can perform important tasks and activities related to the functions of a business (Cameron and Whetten, 1999). It is evident from the study that business owners lack certain managerial skills such as financial, marketing and human skills to operate their businesses successfully. It is equally evident that small businesses are constrained not only by financial factors but also specifically by non-financial factors such as lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure. The analysis also indicates that the managerial skills that the respondents possess, and those that they preferably should have, do not correlate.

The study established that the respondents lack the following key managerial skills: financial skills, record keeping, financial planning/budgeting, bookkeeping, how to draw business plan and credit management. The picture emerging from the research analysis depicts a continuum of small businesses ranging from fairly sophisticated businesses operations in the formal market to businesses lacking formality in terms of, for example, labor legislation, business premises and accounting procedures.

RECOMMENDATIONS

Improving managerial skills

Managerial skills are required to organise the physical and financial resources needed to run a business. It is emphasised that managerial skills and business knowledge are an indication of how well an entrepreneur can perform important tasks and activities related to the functions of a business. We acknowledge government's involvement in managerial training which focuses on basic literacy, numeracy and communication skills with a developmental rather than a business focus. Training should also focus on administration, financial management and marketing skills. Training should be more of a practical nature; less formal and classroom-based, and

should also include follow-up practical courses. Small business owners would then also be more equipped to make better-informed decisions, and to steer their business away from known pitfalls.

What they lack

Batley (1999) expresses the view that South Africa has too few people with small business managing qualities, leading to a situation where the South African economy performs poorly because only a few people succeed as small business owners. Deficiencies in the internal micro-environment are the major cause of small business failures. Cause for failure centres largely on the following: managerial skills, management behaviour and financial knowledge.

In an effort to promote participation of these businesses in exploiting economic opportunities, a support structure should be designed to address these shortcomings. Such support function should be as comprehensive as possible, including management and business skills training, financial support systems, assistance with the marketing of products and services, and counselling on running an own business.

How to address the problem?

Educators in South Africa should be aware of the relative importance of problems, and discussions thereof should form an integral component of training or mentorship programmes. Educators should for instance have to give considerably more attention to problems arising from the macro or market environment than to problems arising from some of the internal and functional areas, with the exception of the financial function. The importance of environmental scanning and planning should likewise receive more attention in syllabi. The development of financial acumen and planning skills should also be seen as crucial elements to be offered. This study seems to indicate that the need for managerial training is the greatest among small business owners from previously disadvantaged communities.

The research conducted 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.

In conclusion, it is established that there is a relationship between problems experienced by small business owners and the managerial skills they possess. It is established that the lack of certain managerial skills has a negative impact on the success and viability of small businesses. It is also established that failure of small business lead to more unemployment, crime and poverty. Government needs to do more research to improve this condition. Educators can also help by establishing non-formal short courses based on these very needs.

The research concluded that the challenge would be to increase the pool of capable small business owners in South Africa. Improving the managerial skills of small business owners is of crucial importance, as small businesses are considered to be the panacea for South Africa's unemployment problems and a stagnating economy.

Further research might consider focusing on perception of small business owners on government agencies; particularly Khula Enterprise Finance Limited and Ntsika Enterprise Promotion Agency.

REFERENCES

- Bateman TS, Snell SA (1996). *Management: Building Competitive Advantage*. Third edition. Chicago: Irwin.
- Batley T (1999). *Management skills for professionals*. New Jersey: Philip Allan Publishers Ltd.
- Bosch P, Marx J, Reynders AJ, van Rooyen K (1998). *Business Management*. Second Edition. New York: Prentice Hall.
- Bowler A, Dawood MS, Page S (1998). *Entrepreneurship and Small business Management*. Pretoria: Juta and Co. Ltd.
- Burgess JF, Steinhoff D (1999). *Small Business Management Fundamentals*. Chicago: McGraw-Hill.
- Cameron KS, Whetten DA (1999). *Developing Management Skills*. Third edition. New York: Harper Collins College Publisher.
- CSS (Central statistic service). *Development of SMMEs*. (2002). Available on at <http://www.statssa.gov.za/Statisticalreleases.htm>.
- DTI (Department of Trade and Industry) Accessed on date at www.thedti.gov.za (12/ 03/ 2001)
- Diamantopoulos A, Schlegelmich BB (1997). *Taking the fear out of data analysis: A step-by-step approach*. New York: The Dryden Press.
- Dockel JA, Ligthelm AA (2002). *Factors that contribute to small business survival*. Article submitted for publication. Pretoria: Unisa.
- Government Gazette (1998). *Creating jobs, fighting poverty; an employment strategy framework*. Notice 1264. 397:19040. 3 July 1998. Pretoria.
- Kroon J, Moolman PL (1999). *Entrepreneurship*. Pretoria: Kagiso Publishers.
- Longenecker JG, Moore CW, Petty JW (2000). *Small business management: an entrepreneurial emphasis*. Eleventh edition. London: South-Western Publishing.
- Murphy M (1996). *Small business management*. London: Financial Times and Pitman Publishing.
- Nager T, Swanepoel E, van der Merwe MA (1999). *Introduction to Entrepreneurship and Small business Management*. Pretoria: UNISA Press.
- Nederhof K (2002). *Social research methods*. London: Bacon.
- Pearce JA, Byars LL (2000). *Management*. New York: McGraw Hill.
- Peterson MF (1998). *Leadership, Organisation and Culture*. London: Sage Publications.
- Picot G, Dupuy R (1995). *Job creation by size class: Recent evidence for Canada*. Workshop on SMMEs. Washington DC.