

CONSEQUENCES OF FAILURE AND CHALLENGES OF SMALL BUSINESS IN SOUTH AFRICA: A THEORETICAL REVIEW

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Abstract

In most nations, small businesses are viewed as vital to economic advancement. These smaller businesses can take advantage of environmental opportunities more effectively than huge corporations since they are more adaptable. Nevertheless, in the course of their activity, they also face numerous challenges. The study aimed to look at the challenges faced by Small businesses in South Africa and the consequences of small business failure within the country. The study also made recommendations on how to sustain these small businesses. This paper was written by employing a descriptive literature review. The descriptive literature review approach is an organised process that seeks out, collects, and evaluates published works in a specific area to identify any discernible patterns or trends. Every SME failure situation ought to be reviewed as a unique case and treated on its merit. Consequently, the success of small businesses would be found in the reverse of these elements, namely, entrepreneur capacity, enterprise competitiveness, and environmental conduciveness.

Keywords: Small businesses, Business challenges, South Africa, Consequences of business failures.

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1. INTRODUCTION

According to Bushe (2019), small businesses in South Africa appear to collapse at a very high rate. Statistics show that 50% of all new businesses in the country fail in the first year, 70% collapse in the second year, and 80% fail in the first ten years. This low survival rate is supported by the 2012 Global Entrepreneurship Monitor (GEM) study, which noted that South Africa's local start-up business survival rate is low by international standards (Sitharam & Hoque, 2016). Considering the widely held belief that small businesses are a necessary panacea to support economic development, specifically that they help to create jobs and eradicate poverty, among other things. There is still little study of the challenges and

reasons for small business failure in developing nations, and South Africa is no exception. The National Strategy for the Growth and Promotion of Small Businesses in South Africa, published in 1995, states that the country's economic policy continues to place a high priority on entrepreneurship as a major driver of economic growth and job creation (SEDA, 2013).

Small businesses are increasingly recognised as being crucial to the economies of many nations. As a result, governments around the globe concentrate on the advancement of the SME sector to boost the economy. As stated by Ayandibu and Vezi-Magigab, (2021) in their study that SME employment makes up 56% of the private sector workforce and 36% of the GDP in South Africa. With an estimated total of 32.7% of the working-age population unemployed, South Africa experiences high unemployment (Statistics South Africa, 2023). Leveraging the ability of small businesses to create jobs and encouraging small business development are two of the best methods to combat unemployment (Storey, 2017).

Strong small and medium-sized enterprises sectors are vital to a country's economy because they boost entrepreneurship, reduce unemployment, and increase the GDP by reducing poverty and unemployment rates. The value of small businesses to the nation's development cannot be overstated (Manzoor, Wei & Sahito, 2021). Despite the importance and value of small enterprises and their contribution to economic advancement, small businesses continue to encounter several obstacles that limit their ability to grow both in South Africa and globally (Sitharam & Hoque, 2016).

In addition to helping to reduce the high unemployment rate, SMEs can be used to reshape the nation by dispersing productive assets among the formerly underprivileged. Despite being categorised as a middle-income country, South Africa trails the majority of African countries in terms of entrepreneurial goals. Failure rates of small businesses are high in South Africa (Muriithi, 2017). According to the National Development Plan (NDP), government policy suggests that during the next 20 years, the majority of employment opportunities in South Africa must be provided by SMEs (Meyer & Meyer, 2017). The problem is that the unemployment rate in the country is rising steadily to an all-time high of over 32 percent and small Enterprises are finding it difficult to survive and expand (Statistics South Africa, 2023).

SMEs make a substantial contribution to the development of the economy. SME activity contributes more than 50% of GDP in developed nations like France (55%), Germany (54%), Italy (59%), and the Netherlands (64%) among others. Even developing nations like China (60%), Egypt (79%), Indonesia (61%), and Turkey (54%) have significant contributions from the small business sector (Herrington & Kew, 2017). This suggests that SMEs play a substantial role in economic development (Opute, 2020). In South Africa, small businesses made up 45% of the economy in 2015, which was less than average by international standards (Nieuwenhuizen, 2019). The contribution of SMEs in 2016 was only 36%, according to Herrington and Kew (2017). This dwindling contribution of SMEs to the economy should be

a cause of concern for all shareholders. According to SEDA (2013), 2.4 million small businesses are operating in South Africa. They also indicated that despite the large number of SMEs in the country, employment provided by this sector decreased by almost 3%. Considering the widely held belief that small businesses are a necessary panacea to support economic development, specifically that they help to create jobs and eradicate poverty, among other things. Research into the challenges and causes of small business failure is still minimal in developing, and South Africa is no different.

2. CHALLENGES FACED BY SMALL BUSINESSES GLOBALLY

Researchers have looked at various challenges that small enterprises in established and developing nations face. This section will look at the challenges faced by small businesses in developed economies, in Africa, and finally within South Africa.

According to Robert-Edomi (2013), more than 36% of the UK's small enterprises acknowledge a skilled workforce shortage, the most significant skill gap being in sales with IT and financial management skills coming second and third respectively. The absence of a business plan was cited by Blackburn et al. (2013) as a factor in SME failure.

The OECD (2017, p. 36) found that in Finland, "the uptake of digital technologies remains particularly low among small firms even for technologies that seem particularly relevant for SMEs, such as cloud computing". The pace at which small businesses adopt digitalisation, as reported by Li, Su, Zhang, and Mao (2018), is strongly inconsistent. This could be because, SME owners and employees usually lack the skills to use technology and its applications (Verhoef et al, 2019). This corresponds with Foerster-Metz and Golowko (2018), who stated that small businesses require both hard and soft skills, like the ability to utilise technology and analyse larger volumes of data, along with the ability to embrace change and recognise opportunities.

In Bosnia, it was reported that the major obstacle faced by small businesses is access to finance (Hisrich et al., 2016). Furthermore, Also, in Bosnia, besides a relatively high level of corruption (Petković & Tešić, 2013), the higher institutions do not encourage self-employment as a career choice; pursuing entrepreneurship is regarded as a failure. Fatoki (2014) reported similarly that issues like corruption, crime and a system of education that discourages entrepreneurship may exacerbate the failure of small enterprises.

One of the issues experienced by small businesses in Turkey has been identified to be inadequate financial management skills coupled with the instability of the economic environment (Kaya & Alpkın, 2012).

Although the majority of small businesses in Italy have websites (67.4%), many have yet to fully appreciate the benefits of e-commerce; merely 13 percent of SMEs can accept online orders through their websites, while only 8.1 percent have made online sales using the internet (Istat, 2014). Agreeing with this point, Mazzarol (2015) stated that small businesses are losing prospects by not embracing the opportunities offered by digital and online markets.

Small businesses in Australia face substantial challenges such as a shortage of skilled workers, difficulty accessing funding, and regulatory compliance, the price of developing new products, and uncertainties about the demand for new products and services (Department of Innovation, Industry, Science, and Research, 2011). Meanwhile, small business owners in the USA say the most significant difficulty they encounter is obtaining adequate and long-term finance to meet their business working capital (Byrd et al., 2013).

TABLE 1. SYNOPSIS OF THE CHALLENGES FACED BY SMALL BUSINESSES GLOBALLY

1	Shortage of skilled workforce
2	Low usage of digital technologies
3	Difficulty in accessing loan
4	High level of corruption
5	Educational institutions do not promote entrepreneurship as a career option
6	Lack of financial management skills
7	Unfavourable government regulations

Source: Author

2.1 Challenges faced by small businesses in other African countries

In African countries, the failure rate of small businesses is still quite high, with five out of eight new businesses failing within the first year (Adcorp, 2014). The reasons for this can be found in inadequate funding, deteriorating infrastructure, a multiplicity of taxes, and a refusal to use technology are all obstacles to small business survival in Nigeria (Agwu & Emeti, 2014). Similarly, a research by business survey (WBES, 2010) conducted in Ivory Coast, noted that the unstable economic situation, extremely high crime rates, stringent regulations, crumbling infrastructure, and insufficient power supply are the main challenges faced by small businesses.

In Uganda, for example, sixty-five percent of new enterprise start-ups fail within the first year of existence (Willemse, 2010). Also, in Uganda, it was shown that small enterprises' difficulty in obtaining loans was the most significant obstacle they faced. According to the Ugandan USE Brochure (2013), small businesses failure to offer collateral was the cause of their difficulty obtaining a loan from the bank. Additionally, in Ghana, small businesses have difficulties getting access to financing. This is because small businesses fail to provide acceptable collateral to financial institutions. According to the World Bank

(2012), 65 percent of small enterprises in Chad fail as a result of governmental regulation, which entails high tax rates. A study by Kamunge et al. (2014), carried out in Ghana, found that excessive taxation was a significant challenge encountered by small businesses in the country. They went on to urge the government to ease taxation for these businesses so they can thrive.

In Nigeria, Agwu and Emeti (2014) and Igwe, Newbury, and Icha-Ituma (2018) identified several elements that contribute to the premature death of small businesses, such as lack of resources, erratic power supply, infrastructural inadequacies (water, roads, etc.), insufficient market analysis, inexperience, and improper bookkeeping. World Bank Enterprise Survey (2010), in their study, noted that lack of power supply is the most significant (25 percent) stumbling block for small enterprises in Africa. Power is critical to the functioning and cost-effectiveness of small enterprises. Because most small businesses are compelled to use generators to power their firm due to an epileptic power supply, and as such, the organisation cannot run at full capacity (Fjose et al., 2010; Hatega, 2007). Interestingly, because of Nigeria's unpredictable power supply, small business owners are compelled to acquire alternative power-generating systems, thereby increasing their financial struggles (Ekpo & Bassey, 2016).

According to Nziku (2016), the most prevalent impediments to small enterprises in Tanzania were the inability to get finance, inadequate connections, lacking access to technology, and insufficient education. Insufficient education can also be the reason why small business owners do not appreciate the value of record keeping. According to Olatunji (2013) who asserted that most of Nigeria's SMEs do not maintain documentation, which makes it challenging for them to differentiate between corporate and personal assets. He continued by saying that most of the companies he dealt with had experienced this problem, and in certain instances, the failure of the business was attributable to poor financial management.

TABLE 2. SYNOPSIS OF THE CHALLENGES FACED BY SMALL BUSINESSES IN SOME AFRICAN COUNTRIES

1	Deteriorating infrastructure
2	Inadequate funding
3	High crime rate
4	Government regulation (high tax rate)
5	Epileptic power supply
6	Lack of record keeping
7	Lack of access to technology

Source: Author

Small businesses are noted for being quick, with management structures thereby reducing bureaucracy and allowing for quick decision-making (Eftekhari & Bogers, 2015). However, small businesses face numerous obstacles as a result of their small size and lack of bureaucracy, which often result in their closure (Harrington et al., 2014). These multiple obstacles hinder their development and long-term sustainability (Kamunge et al. 2014; Nikoli, Dharmo, Schulte, Mihajlovi, & Kume, 2015).

2.2 Challenges faced by small businesses in South Africa

SMEs in South Africa struggle to make ends meet. Yeboah (2015) found that nearly (75%) of South African small enterprises fail to grow into reputable businesses. According to FinTrust's research in South Africa, small enterprises' lack of capital is one of the leading causes of failure (Makina, Fanta, Mutsonziwa, Khumalo & Maposa, 2015). The challenge with financing small enterprises, according to Mohammed and Nzelibe (2014), is not so much the sources of capital as it is the availability. The strict restrictions imposed by financing institutions in South Africa, such as a business strategy, credit position, and collateral, have been noted as impeding small enterprises' access to finance (Ndege & Van der, 2015).

Van Aardt et al. (2011), noted that the government lacks sufficient tools to support small enterprises and provide training to these entrepreneurs. This was further stressed by Lekhanya (2015), who noted that one of the reasoning behind the high percentage of business failure in South Africa is that new enterprise owners fail to receive any form of business support. A recent study by Rankhumise (2017) found that SMEs in South Africa are not using latest technologies to run their businesses. Utilising the most recent technologies, according to him, is one of the most essential elements in attaining a successful competitive advantage for any firm. In the same vein, Chipangura and Kaseke (2012) discovered that inadequate utilisation of technology or the ability to explore and develop new business concepts limits small business development. Small businesses have restricted access to technological advancement, in part because they lack the resources and technical know-how and therefore cling to outdated and ineffective technologies.

According to Herrington et al. (2012), after an uneducated workforce, tight labour restrictions are the next most troublesome barrier to doing business in South Africa. Several restrictions in South Africa stifle entrepreneurship by restricting access to vital resources like finance, resulting in a volatile business environment and undermining the benefits of success (Simodisa 2015). According to Vlachos and Bitzenis (2016), small businesses face a greater burden of compliance with government rules than big companies, and regulation impedes small business' formation, development, and ability to create jobs. Furthermore, small businesses may face excessive and unneeded obligations which result in expensive start-up costs, which include licensing and registration procedures (Abor & Quartey 2010; Kamara 2017). One of the issues encountered by SMEs in South Africa has been identified as debilitated infrastructure within the country. Infrastructure plays a larger, more fundamental, and often more significant role in growth as stated by Mcgaffin et al. (2015). By boosting efficiency and assuring long-term economic growth, infrastructure supply promotes human development and enhances the quality of life (Arimah, 2017).

Small enterprises in South Africa also face enormous hurdles from crime and corruption. South Africa has a high level of corruption and crime, which comes at a hefty cost to businesses. According to (WEF, 2017; GEM, 2016), these factors also negatively impact the investment climate. Furthermore, according to Business Tech (2016), the greatest difficulty for small businesses in South Africa is rivalry with other comparable businesses.

Literature has shown that small businesses around the World face similar challenges like lack of finance, lack of innovation, regulatory licenses and taxes, managerial incapacities, and not using the appropriate technologies (Diehl, Toombs & Maniam, 2013).

TABLE 3. SYNOPSIS OF THE OBSTACLES FACED BY SMALL BUSINESSES IN SOUTH AFRICA

1	Strict restrictions imposed by financial institutions (when applying for loans)
2	Lack of government support
3	Failure to utilise digital technologies
4	Tight labour restrictions
5	Managerial incapacities
6	Debilitated infrastructure
7	High level of corruption and crime

Source: Author

3. ROLES OF SMALL BUSINESSES IN AN ECONOMY

Small businesses have become increasingly popular in the field of management because of the vital function they play in advancing a country's economy and alleviating poverty by creating employment possibilities, (Hamisi, 2021). Their impact on economic expansion and development is indisputable both in developed and emerging economies (Masocho, 2019).

According to Rasak, Abdullah, and Ersoy (2018), small businesses account for 43% of all investments and approximately 69% of employment in Turkey. In Nigeria, they provide for almost 80% of all jobs, even though 70% of the populace lives in poverty (Amah & Oyetuunde, 2020). This crucial contribution made by small businesses can be linked to their degree of innovativeness and versatility (Del Giudice et al, 2021). However, their ability for creativity is dependent on management skills, size, and accessibility to resources (Mikalef & Krogstie, 2020). Creativity is critical to business development, and the more small businesses innovate, the improve their industry performance (Saastamoinen, Reijonen, & Tammi, 2018). SMEs are important in practically all economies, but especially in emerging countries with significant employment and income inequality difficulties, like South Africa.

The establishment and sustainability of small businesses are critical to a nation's socioeconomic stability; otherwise, the country faces stagnation in its economy (Hu & Kee, 2022). It is predicted that small enterprises employ more than 42% of the adult population in developing nations (Jere & Ngidi, 2020).

According to the United Nations Industrial Development Organisation (UNIDO), small businesses account for more than 89% of privately owned companies and account for over fifty percent of the workforce and gross domestic product (GDP) in most African nations (UNIDO, 1999). According to a recent study undertaken by Jili, Masuku, and Selepe (2017), 91% of officially recognised businesses in South Africa are small businesses, and these small businesses represent between 52 and 57% of GDP and approximately 61% of jobs. Yet, many small enterprises in South Africa collapse within the first year of operation, with mortality rates as high as 59 percent (Hung, Cant, & Wiid, 2016). Small businesses play a vital role in the economy and governments around the world especially in developing countries should generate strategies that will assist these small businesses in reaching their full potential.

4. METHODOLOGY

The descriptive literature review approach was used to write this paper. The descriptive literature review approach is usually regarded as an organised endeavour that locates, collects, and evaluates published works on a specific area to uncover any interpretable patterns or trends. This scientific technique is typically used to gain insight and possibly offer the foundation for discussions concerning specific phenomena in a given field (Van der Walddt, 2021). The researchers thought that this technique was appropriate after considering the views of scholars such as Yang and Tate (2012) and Schlagenhauer and Amberg (2015), who consider the descriptive literature review approach as the legitimate source for an exceptional body of knowledge. To establish the credibility of our analysis and review, we used a variety of sources such as technical papers and published and unpublished monographs, despite Weinbaum et al (2018) conviction that actual scientific knowledge is only accessible in journal articles.

5. CONSEQUENCES OF SMALL BUSINESSES' FAILURE IN SOUTH AFRICA

Small businesses employ nearly all of the workforce in developing nations (Tambunan, 2019). When these small enterprises fail, jobs are lost, and the owners/managers struggle economically, socially, and mentally (Hadjielias, Christofi, & Tarba, 2022), resulting in intense emotional and painful experiences for them and their families (Doern, 2016). This may indicate that a surge in societal problems such as suicide, crimes, and prostitution may be on the horizon. In addition, the GDP will fall, producing difficulties such as rising inflation and a rise in poverty. Business failure can also result in less revenue for the government in the shape of taxation paid by these small enterprises and greater government spending on crime prevention (Muriithi, 2017). Small enterprises are critical for market competitiveness. Without small enterprises, the marketplace would be controlled by large multinational companies with high pricing for

goods and services (Song, 2019). SMEs support the development of infrastructure in the neighborhood where they are located. Due to the existence of SMEs in the community, social amenities like roads, power, pipe-borne water, telecommunications facilities, etc. are drawn to the region; however, when they collapse, the community is not provided with these social amenities. (2018) (Eze, Ruhode, & Iwu). Additionally, the ongoing failure of small enterprises will deter would-be entrepreneurs from opening their own companies (Byrne, Fattoum, & Diaz Garcia, 2019). The unpredictability of running a firm would make it harder for new entrepreneurs to qualify for loans from financial institutions, which would tighten the requirements for receiving credit.

6. RECOMMENDATIONS FOR THE SUSTAINABILITY OF SMALL BUSINESSES IN SOUTH AFRICA

According to a study by Fubah and Moos (2022), the South African government's assistance for small businesses falls short in comparison to the scale of the sector in the economy. Along these lines, Hatton, Vargo, and Seville (2023), noted that political organisations and the government are responsible for creating an atmosphere that is supportive of small businesses. Taxes and restrictions imposed by the government must be minimal and fair (Eze, Ruhode, & Iwu, 2018). Government assistance for small enterprises is essential, and they should make sure that enterprise owners/managers receive the necessary training.

Recent studies have shown that social networking sites can assist small businesses sell their brands, leading to increased sales and brand visibility (Irbo & Mohammed, 2020). According to research on the advantages of IT for small enterprises that involved more than 4000 small businesses in industrialised nations, from the result, it was found that tech-savvy small enterprises outmatched those who used little to no technology (Eze, et al., 2018). Bagale et al. (2021) findings also supported the idea that small enterprises that use technology have expanded, cut costs, and improved efficiency. As of April 2023, Facebook had more than 2 billion active users. This is not shocking given how quickly social media tools are integrating into people's daily lives. They are used by individuals to exchange, read, and produce content (Khan, 2017). In this regard, companies can use social media platforms as a tool to advertise their goods and services to a global audience.

7. CONCLUSION

Governments and politicians are beginning to acknowledge the significance of small businesses for the expansion, advancement, and eradication of poverty among their citizens. Small and medium-sized businesses have traditionally been seen as engines of economic expansion and development.

This continues to be the case in developed economies, such as the United States, Britain, and Germany. Small enterprises have made a significant impact on citizen employment, poverty alleviation, and a decrease in crime. To help small enterprises in South Africa prosper like their counterparts in industrialised countries, the South African government established several institutions in acknowledgment of the significance of the small businesses sector. Regardless of government initiatives, most small firms in South Africa continue to collapse in the first few years of existence. However, reports indicate that adopting social media in some capacity will assist these firms become more known, drawing clients, engage with prospective clients, and sell their products, all of which will help these companies grow and, in turn, lower South Africa's rate of unemployment. Several remedies have been proposed, including the elimination of excessive regulation, adequate road networks, reliable power sources, and chances for training and self-improvement. Entrepreneurship education should also be introduced in schools as early as high school. By introducing entrepreneurship education in schools, learners will be knowledgeable about what it takes to run a successful business and how they can create a long-lasting enterprise. This will help them in tackling some of the challenges they might encounter when they start their business.

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