ABSTRACT

Growth is considered the hallmark of success for any entrepreneurial business. Therefore, entrepreneurs are highly growth inclined individuals. Entrepreneurs regard especially rapid growth as important to create wealth for themselves and society, as well as to grow the economy as quickly as possible. Although growth can be an entrepreneurial business’ biggest ally, it can also become an entrepreneurial business’ worst enemy. Many entrepreneurial businesses have fallen because of rapid growth, especially if the growth was unforeseen and unprepared for. Business decline and business failure due to rapid growth is known as overtrading. This paper aims at exploring this phenomenon, so that a higher level of knowledge regarding its symptoms, potential dangers and impact on the entrepreneurial businesses can be obtained. This research is important to entrepreneurs to enable them to diagnose overtrading, and realise the impact and effect it might have on their businesses.

This paper examines the following propositions:

• Proposition One: Overtrading always results in entrepreneurial business failure;
• Proposition Two: Overtrading only occurs in new (entrepreneurial) businesses;
• Proposition Three: Overtrading can be understood as a core evaluation criterion for entrepreneurial business failure.

These propositions are examined because there is very little research on this topic despite the fact that overtrading is widely recognised as at least a contributing factor to business decline and failure. The possible outcomes of the study are that sufficient support can be found that overtrading is a definite cause for entrepreneurial business failure and that especially new entrepreneurial businesses should guard against overtrading, since they are the ones that are in the start-up phase. Therefore, overtrading can be cited as a core evaluation criterion for entrepreneurial business failure.

The study is a literature research regarding business growth, too rapid growth and overtrading, and business failure.

INTRODUCTION

Entrepreneurial businesses are businesses with the principal objectives of profitability and growth (Nieuwenhuizen & Nieman, 2009:10). Entrepreneurial businesses have a high level of innovation that is always present. These can be technological innovations, a new way of producing, a new way of offering a service, a new way of marketing and distributing, or even the way in which the organisation is structured and managed (Nieuwenhuizen & Nieman, 2009:10). The entrepreneurial business also exhibits a large potential for growth and sets itself strategic objectives in terms of market targets, market development, market share and market development (Hisrich & Peters, 2008:10; Nieuwenhuizen & Nieman, 2009:10; Wickham, 2006:255).

Entrepreneurs, by definition, are prone to be growth orientated (Nieuwenhuizen & Nieman, 2009:9). There are certain aspects that are important to entrepreneurs, two of which are the ability to create and grow a business, and taking risk, both financial and personal (Nieuwenhuizen & Nieman, 2009:9). Entrepreneurs therefore work toward as much growth for their business as they can, especially during the business’s start-up (Burns, 2007:328; Nieman & Pretorius, 2004:99).

In close conjunction with this, growth is often identified as a measure to which the success of a business can be identified (McCormick, 2009:56; Nieman & Pretorius, 2004:1; Probst & Raisch, 2005:99). Young businesses especially seek to obtain as much growth as possible in order to ensure
that the business does not fail (Burns, 2007:328; Strotmann, 2007:88-89). Business failure, then, is generally associated with low or no growth (Nieman & Pretorius, 2004:99).

“Growth is written into the culture of a business enterprise as the hallmark of success” (Nieman & Pretorius, 2004:1). The growth of an entrepreneurial business makes it possible for the business to expand, obtain new premises, obtain greater profitability, employ more personnel and influence the labour market (Nieman & Pretorius, 2004:1). Additionally, it allows for the business to attract more highly skilled people and gain a general increase in resources, which, in turn, ensures even further business growth and a higher status for the business in the business world (Nieman & Pretorius, 2004:1).

However, this presupposition and haste toward fast growth, in conjunction with an entrepreneur’s affinity for growth, can lead to the pitfall of overtrading or too rapid growth (Burns, 2007:328). Overtrading in a business, in turn, has the potential of leading to, or at the very least contributing to, a business’s failure (Ashta, 2008:207).

Overtrading takes place when a business “is trading at certain volumes without a proper base of assets to support these volumes” (Nieman, 2009:277). Consequently, the entrepreneur attempts to stretch the business’s working capital, labour capacity and (human) resources (Butler, 2006:183; Nieman & Pretorius, 2004:99). However, in an overtrading situation operations cannot be sustained successfully “to serve the additional demand with the existing capacity” (Butler, 2006:183; Nieman & Pretorius, 2004:99). Income lag thus takes place, since the bigger demand asks for higher fixed costs that are some period before the income is acquired (Butler, 2006:183; Nieman & Pretorius, 2004:99-100). Overtrading, therefore, is the rapid growth of a business in which such strain is placed on the business’s capacity and/or resources, that when something (small) goes wrong the entrepreneur cannot deliver and problems grow in frequency (Butler, 2006:183; Nieman & Pretorius, 2004:100).

Because of the apparent seriousness of this pitfall, overtrading is often identified as a problem against which entrepreneurs and businesses must beware (McCormick, 2009:56; Parkes, 2009). However, not much research has been done on overtrading as a specific topic (Steyn-Bruwer & Hamman, 2007:43). In general, researchers mention overtrading as a problem which can lead to business failure, briefly define it and then move on to another topic (Kelly, 2005:57; Kuratko & Hodgetts, 2007:611; Pretorius, 2010:56).

As noted above, new businesses often seek business growth as a means for the business to be considered one that will survive (Dobbs & Hamilton, 2007:311). Thus, overtrading is a very real threat of which they should be aware and guard against. However, overtrading is not restricted to new, and therefore small, businesses alone. Large, well-established businesses run the risk of overtrading as well. This can be seen in businesses such as British Telecom, DaimlerChrysler, Swiss Air and Time Warner, in each of which overtrading was identified as a contributing factor to their downfall (Probst & Raish, 2005:92).

When all of these facts are considered in conjunction with the entrepreneurial nature to strive for business growth, it becomes apparent that there is a need for research in the field of overtrading. This should be done so that entrepreneurs, both those starting a new business and those who are involved in established businesses, can know to identify and therefore prevent overtrading in their businesses.

Therefore, it is this phenomenon that will be examined in this paper.

**PROBLEM STATEMENT**

Overtrading is listed as the cause of 47% of all bankruptcies (Steyn-Bruwer & Hamman, 2007:43). Overtrading is thus one of the common causes of business failure and/or business decline (Butler, 2006:183).

Business failure “occurs when [a business’s] value falls below the opportunity cost of staying in business” (Cressy, 2006:103). Failure can therefore be defined as a condition under which a business is involuntarily unable to obtain and attract new debt or equity funding to reverse decline (Pretorius, 2009:10). As a result, the business cannot survive in its current structure (Steyn Bruwer & Hamman, 2006:10). Business failure can thus be seen as the endpoint or discontinuance (bankruptcy) of a
business “and when it is reached, operations cease and judicial proceedings take effect” (Pretorius, 2009:10). However, failure does not necessarily only entail bankruptcy – a dramatic decline in business value can also be identified as business failure (Probst & Raisch, 2005:90).

In general, a business is in decline when it is unable to respond to changing technological and market trends (Burke, 2006:127). The result is a decrease in sales, revenues and the quality of the products or services offered (Burke, 2006:127). If the decline continues without remedial intervention, the company becomes a candidate for a takeover or closedown (Burke, 2006:127).

Many different terms are identified as being linked to entrepreneurial business failure (Pretorius, 2009:9). Pretorius (2009:9-10) identifies the following core criteria regarding business, and thus entrepreneurial business failure:

- **Discontinuance**: “exit or closure for any reason, excluding deliberate exits for alternative motives.”
- **Bankruptcy**: “the firm is deemed to be legally bankrupt or has ceased operation with resulting losses to creditors.”
- **Loss-cutting**: “firms are disposed of with a loss to avoid further losses.”
- **Earning**: Firms are not “earning an adequate return on invested capital, which is significantly and continually below prevailing rates on similar investments.”
- **Shareholder Loss**: “whether the loss applies to creditors, owners or any other relevant constituency.”

However, as indicated before, overtrading can be identified as another criterion which can lead to entrepreneurial business failure. As stated above, this study places overtrading as a reason for entrepreneurial business failure under the spotlight. Hence, the study seeks to prove the following statements:

- **Proposition One**: Overtrading always results in entrepreneurial business failure;
- **Proposition Two**: Overtrading only occurs in new (entrepreneurial) businesses;
- **Proposition Three**: Overtrading can be understood as a core evaluation criterion for entrepreneurial business failure.

**PROBLEMS ASSOCIATED WITH OVERTRADING**

Although growth holds many advantages to the entrepreneurial business, one must beware of the potential dangers of growth (Hisrich & Peters, 2008:488). According to Timmons and Spinelli (2009:562), the faster a business grows, the greater the potential for problems become. This can be contributed to various pressures, confusion, loss of control and chaos (Timmons & Spinelli, 2009:562). The rapid growth rate affects all areas of the business, for example, as sales increase, more people must be hired, inventory increases, and sales outpace the manufacturing capability and capacity (McKelvie & Wiklund, 2010:267; Timmons & Spinelli, 2009:564). Additionally, facilities are increased, staff are moved between facilities and buildings, accounting systems and controls cannot keep up the pace, the cash burn rates accelerate and debtor collection period lags behind (McKelvie & Wiklund, 2010:267; Timmons & Spinelli, 2009:564). Another common characteristic of overtrading is “working capital problems, arising from the simultaneous (I) slow receipt of cash receipts relating to accounts receivable and (II) pressing demands for payments to suppliers” (Burns, 2007:328; Steyn-Bruwer & Hamman, 2007:44).

Hence, if taken too lightly, rapid growth, and thus overtrading, can cause an entrepreneurial business many difficulties and problems. Martin (2007:50-51) identifies the following:

- "covering up of weak management, poor planning, or wasted resources;
- dilution of effective leadership;
- causing the business to stray from its goals and objectives;
- communication barriers between departments and individuals;
- training and employee development are given little attention;
- stress and burnout; Companies that are classified as burnouts owe their decline and/or failure to excessive growth, uncontrolled change, autocratic leadership and an excessive success culture (Probst & Raisch, 2005:91). All of these are highly entrepreneurial characteristics that most entrepreneurs aspire to.
• delegation is avoided and control is maintained by only the founders, creating bottlenecks in management decision-making;
• quality control is not maintained."

An entrepreneurial business that expands requires cash and working capital in order to finance the expansion of its facilities and operating activities (Steyn-Bruwer & Hamman, 2007:43). Businesses that grow too rapidly often find themselves depleting their cash resources (Steyn-Bruwer & Hamman, 2007:43). Many entrepreneurial businesses find themselves “growing out” of business because they are aggressively growth orientated, but are unable to handle the rapid growth of their businesses (Kuratko & Hodgetts, 2007:611).

In addition, due to the entrepreneur’s distinguishing and continued focus on innovation and creativity (Nieuwenhuizen & Nieman, 2009:9), highly creative entrepreneurs and entrepreneurial businesses sometimes find themselves unable and/or unwilling to meet the requirements of administrative challenges in the growth stage (Kuratko & Hodgetts, 2007:611). As a result of not being able to manage growth, many creative entrepreneurs are often forced to abandon their enterprises (Kuratko & Hodgetts, 2007:611). An example of this is Steven Jobs of Apple Computers, who was forced to exit his firm during its growth stage because of his creative ideas and inability to assume a managerial role, for which he had neither the expertise nor the desire to fulfil (Kuratko & Hodgetts, 2007:611).

As businesses start to grow, they gain more sales and customers (Bygrave & Zacharakis, 2008:555). Managing the ensuing growth often becomes a daunting and critical challenge that can lead to business failure if not handled appropriately (Bygrave & Zacharakis, 2008:555). When rapid growth strikes, many entrepreneurs have limited organisational skills, business skills, time and/or resources to address the problem (Bygrave & Zacharakis, 2008:555; Kelly, 2005:57; Timmons & Spinelli, 2009:560). Thus, these entrepreneurs leave little time for planning organisation-building and rather pursue too many opportunities or product developments, because it is something they like and is comfortable in doing (Bygrave & Zacharakis, 2008:555).

Additionally, growth can harmfully influence the experience consumers expect to receive from a business with regard to both the quality of the experience and that of the product (Sherman, 2007). Thus, growth can “outpace a company’s ability to maintain the experience consumers expect from a company or product” (Sherman, 2007). In 2007, for example, Toyota had to recall various products due to inferior quality (Sherman, 2007). The increased production outpaced Toyota’s quality control system and therefore Toyota was not able to deliver the same quality product customers were accustomed to (Sherman, 2007).

Overtrading can also cause that an insufficient amount of retained profits are ploughed back into the entrepreneurial business, which can cause a permanent appetite for cash and working capital needed to finance the increasingly greater level of activity in the business (McCormick, 2009:56). Hence, the “faster the business expands, the more cash it will need for working capital and investment” (Flanagan, 2005:26). Many businesses fail because of a depletion of capital reserves during the growth phase of the life cycle of the business (Thomas, 2005:4). Overtrading reduces an entrepreneurial business’s financial flexibility by locking up cash and working capital in items, such as inventory and production (Thomas, 2005:4). As rapid growth continues, the situation may worsen and will leave the business increasingly less able to respond to changes in the external business environment (Thomas, 2005:4).

A complex relationship exists between growth and risk (Wickham, 2006:515). In most cases, the larger a business, the less prone to risk it shall be (Wickham, 2006:515). The reason for this is the fact that the larger business tends to have more slack resources. Slack resources are those that are not project specific and that “can be moved around quickly” (Wickham, 2006:515). Therefore, large businesses can buffer themselves more effectively against short-term environmental shocks than small businesses are able to (Wickham, 2006:515).

However, when looking at larger, settled entrepreneurial businesses specifically, rapid growth which can lead to detrimental overtrading effects, as well as its causes, can also be identified. The first of these are “managerial problems and reduced effectiveness in … core operations” (Probst & Raish, 2005:92). Management, therefore, fails to suitably coordinate the “increasing complexity of an organization during its expansion” (Probst & Raish, 2005:92). The second effect of overtrading is that the business starts to experience market constraints on its growth (Probst & Raish, 2005:92).
Therefore, in order to maintain its high growth rates, such businesses often turn to acquisitions (Probst & Raish, 2005:92). In addition to this, the problem is enhanced in that the majority of acquisitions fail and that acquiring businesses receive negative results (Probst & Raish, 2005:92). The last problem that these kind of entrepreneurial businesses face due to overtrading is financial problems. Financial constraints are placed on the business’s growth and it often turns to large amounts of debt to counteract this (Probst & Raish, 2005:92). However, this type of financial problem has been cited as the main reason for insolvencies in businesses (Probst & Raish, 2005:92).

For the purpose of this paper, insolvency will be defined as the inability of a business to pay its creditors in due time (Burns, 2007:326; Butler, 2006:305). Furthermore, it is important to note that it is illegal for a business to continue trading when it is insolvent (Butler, 2006:305).

Probst and Raish (2005:92) performed a study among 40 international companies, all of which were classified as ‘failed.’ These companies illustrate how overtrading can lead to the downfall of an established business, in that almost all of the examined businesses experienced a phase of enormous rapid growth before they failed (Probst & Raish, 2005:92). Some of these businesses grew so rapidly that they tripled their size in just five years (Probst & Raish, 2005:92). Continuous and rapid growth at first has a positive effect on the profitability of a business (Probst & Raish, 2005:99). However, as soon as optimum growth value has been exceeded, the effect of such growth turns negative (Probst & Raish, 2005:99). The optimum growth value of a business, also referred to as the sustainable growth rate of a business, “is the rate at which a company can grow without creating a cash flow problem” (Ashta, 2008:207).

McCormick (2009:56) lists the following as possible effects of overtrading:

- Liquidity;
- Short-term crises management (which leads to)
- Decreased corporate efficiency;
- Relationship problems with bankers, suppliers and tax authorities;
- Collapse of the business.

**WHEN DOES OVERTRADING OCCUR?**

Overtrading can occur in any phase of the lifecycle of a business venture or in new, mature and or declining businesses as we will explain in the following sections.

**Overtrading in new entrepreneurial businesses**

In trying to understand overtrading as a phenomenon among new and existing businesses, it is important to understand the life cycle associated with these businesses (McKelvie & Wiklund, 2010:266). The life cycle of a business represents the various phases or stages through which a business may or will grow during its lifespan. These phases or cycles include new-business development, start-up activities, growth, maturity or stabilisation, and innovation or decline (Kuratko & Hodgetts, 2007:610). For the purposes of this study, the focus will be on the growth, maturity/stabilisation and innovation/decline stages of the business life cycle. The growth stage in the greater business life cycle is characterised by high growth, rapidly increasing sales, higher profits as costs lower and an intensifying of competition as competitors enter the market (Burns, 2007:278).

The maturity stage in the greater business life cycle is characterised by static but high sales, static but high profits, a focus on cost reduction, high competition for market share and an established base of competitors (Burns, 2007:278). The decline stage in the greater business life cycle is characterised by declining sales, declining profits or even losses, and the exit of competitors (Burns, 2007:278). If the business fails to introduce entrepreneurial innovation, the business will eventually continue to decline until it dies (Kuratko & Hodgetts, 2007:612).

Often, it is young, inexperienced and start-up entrepreneurial businesses that step into the trap of overtrading, which then leads to business failure (Steyn-Bruwer & Hamman, 2007:44). Because small and emerging businesses have to compete with larger, more financially powerful competitors, these small and emerging businesses are forced to either grow quickly or exit the market (Dobbs & Hamilton, 2007:311; Strotmann, 2007:88).
Therefore, it is found that overtrading firstly exists in the growth stage of a small and emerging business’s typical life cycle (Kuratko & Hodgetts, 2007:611). The type of growth occurring in this specific growth cycle of a new entrepreneurial business is referred to as organic growth (McKelvie & Wiklund, 2010:266). This form of growth is internally generated within the business (McKelvie & Wiklund, 2010:266).

**Profit, Productivity, Revenues**

![Business Lifecycle Diagram](image)

**Figure 1: Business lifecycle (Adapted from: Kuratko & Hodgetts, 2007:610)**

Bygrave and Zacharakis (2008:560) identify the following reasons for overtrading in new entrepreneurial businesses in the growth stage:

- **Execution challenges:**
  - Emphasis on sales over profits;
  - Reactive orientation;
  - Rapid growth overwhelms operations;
  - Inadequate systems and planning lead to inefficiency, poor control and quality problems;
  - Lack of organization building leads to informal communication and processes that, in turn, create confusion and a lack of accountability;

- **Opportunity challenges:**
  - New businesses lack a clear strategy of how the business competes;
  - New businesses have a tendency to over commit and pursue many diverse opportunities;

- **Organizational resources and capabilities challenges:**
  - In new businesses, financial and human resources are constrained because the rapidly expanding sales require more financing and personnel;
  - Because of the lack of organizational structure and order, skills become increasingly generalized and incapable of handling increasing complexity;

- **Leadership challenges:**
  - The entrepreneurial business outgrows the entrepreneur’s abilities;
  - The entrepreneur often lacks managerial skill and is unable to delegate;
  - Internally promoted managers often lack necessary skills.

**Overtrading in declining businesses**

After the maturity phase of the business life cycle has passed, the entrepreneur has the choice of either innovation or accepting decline (Kuratko & Hodgetts, 2007:610). It does indeed happen that businesses enter a phase of decline, and lose a substantial amount of revenue and value (Probst &
Many entrepreneurs find themselves at the helm of a business which is declining and in order to reverse the decline and spawn growth, they turn to “hustling with a purpose” (Manning, 2001:23). This entails that the business desperately undertakes various “entrepreneurial shock treatments” in order for it to enter a stage of rapid growth once more in order to survive (Manning, 2001:20). The entrepreneurial character might well become a liability in this situation, which will be to the detriment of the business (Burns, 2007:333).

The “hustling with a purpose” strategy might have the exact opposite effect, it might cause business decline or failure (Probst & Raisch, 2005:91). Many entrepreneurs in decline purposely decide to overtrade in an attempt to steer the business to profitability and recapture its shrinking market share (Burns, 2007:333). Often, the exact opposite is achieved. The first problem arising for a declining firm hitting a rapid growth phase is that it does not have the capacity to sustain the business (Butler, 2006:305). The working capital and cash flow requirements for the business to sustain the growth and survive exceed the amount available (Butler, 2006:305). In addition, a second and related problem to the first is the fact that these declining businesses are then actually trading illegally, because these businesses cannot pay its creditors when due (Butler, 2006:305). Many businesses involved in overtrading can quickly become insolvent (Butler, 2006:305).
Overtrading in mature/stable businesses

Profit, Productivity, Revenues

Potential Failure due to Overtrading

New-Business Development Activities Business Growth Stabilization or Decline Stages (Number of Years)

Figure 3: Innovation and rejuvenation of mature businesses (Adapted from: Kuratko & Hodgetts, 2007:610 and Manning, 2001:20)

More established entrepreneurial businesses are less prone to risk when growing rapidly than new businesses (Burns, 2007:328; Wickham, 2006:515). However, any form of growth carries with it some form of risk (Wickham, 2006:515). As long as rapid growth is the aim and strategy of a business, overtrading will be a risk and a possibility (Steyn-Bruwer & Hamman, 2007:44). Thus, established businesses are also subject to the dangers of overtrading (Steyn-Bruwer & Hamman, 2007:44; Wickham, 2006:515).

Some businesses are at their zenith when failure sets in (Probst & Raisch, 2005:90). These businesses are at the peak of the maturity and stabilisation cycle where they generate a reliable and stable stream of revenue (Probst & Raisch, 2005:91). Yet, soon after the “hustling with purpose” or attempted rapid growth phase is reinstated, these companies experience a significant decline or even failure (Probst & Raisch, 2005:91). Many established business, some highly profitable, fail because they grow and expand faster than their resources will allow them to (Butler, 2006:305).

Probst and Raisch (2005:91) identify the following common characteristics among financially sound and mature businesses that fall into the trap of overtrading:

- A high growth rate;
- The ability to change continuously;
- A highly visionary business leadership;
- A success-orientated company culture.

Although these factors are very entrepreneurial, they were offered in extreme abundance and that is where their problem lies (Probst & Raisch, 2005:91). It thus appears as if there is a boundary outside which these highly entrepreneurial success factors have a counterproductive effect (Probst & Raisch, 2005:91). This occurrence among successful and established businesses has been labelled under the term ‘burnout’ (Probst & Raisch, 2005:91).

As mentioned earlier, mature and profitable businesses often turn to acquisitions to induce further growth. To enable this growth, these businesses acquire substantial amounts of borrowed capital. Thus, in order to grow, the business might be left highly leveraged, making it highly sensitive to economic instabilities, and debt implications and responsibilities (Timmons, Spinelli & Zacharakis, 2005:223).
When a business makes use of a leveraged acquisition, it can become very difficult to funnel the needed cash flow into the growth plans of the business (Timmons et al., 2005:223).

**HOW TO DETECT OVERTRADING**

Overtrading can only be detected through a careful analysis of the financial statements of firms and the use of ratio analysis. Steyn-Bruwer and Hamman (2007:48) developed their own model which they applied to the financial results of a number of listed companies. They state that factors that determine whether a business is overtrading are the growth rate of its sales, its profit margin and its working capital structure.

Overtrading is quite often the result of undercapitalisation. Undercapitalisation refers to insufficient start-up funds or a shortage of expansion capital. Undercapitalisation is the result of a number of factors, namely (Nieman, 1999:8):

- Lack of access to capital;
- Lack of collateral; and
- Lack of proper cash flow planning

The financial flexibility of a business (in other words, its liquid resources and its ability to raise additional equity or loans) determines whether such a business will fail or not (Sten-Bruwer & Hamman, 2007:49). It was not in the scope of this paper to discuss the use of ratio analysis in predicting or detecting overtrading. The problem with ratio analysis is that it “happens after the fact”. It, however, remains an extremely difficult phenomenon to keep track of.

**CAN OVERTRADING BE CONSIDERED A CORE CRITERION REGARDING ENTREPRENEURIAL BUSINESS FAILURE?**

This study set out with the identification of core criteria that lead to entrepreneurial business failure, namely discontinuance, bankruptcy, loss-cutting, earning and shareholder loss (Pretorius, 2009:9-10). However, this study found that if overtrading is not prevented entirely or identified soon enough so that it can be counteracted, it proves lethal to any business, i.e., the business declines and/or fails. Hence, this study proposes that overtrading can also be considered one of the core criteria that lead to (entrepreneurial) business failure.

**LIMITATIONS OF THE STUDY**

The limitations of this study number as quite a few. Very little empirical research has been done on the topic of overtrading. As such, almost no in-depth research exists on the topic, as most researchers only refer to overtrading in a vague manner. Therefore, there was a limitation on the amount of specific resources regarding overtrading available for the research of this paper.

Overtrading, in general, falls in the scope of business failure caused by growth. However, a single definition for (entrepreneurial) business failure does not exist (Pretorius, 2009:1). Of all resources consulted, only one mentions and discusses this lack of uniformity for the concept of business failure (Pretorius, 2009). Hence, this study had to develop its own definition of entrepreneurial business failure.

Similarly, very few definitions for overtrading itself were found. Hence, an own definition for overtrading had to be developed as well.

Lastly, because such a little amount of in-depth research has been done on the topic of overtrading, this study sought to answer only two issues in the large array of issues pertaining to overtrading, namely the identification and timeframe of occurrence of overtrading. Issues such as the prevention of overtrading was not discussed or even touched upon. This paper, therefore, did not seek to provide solutions to the problem of overtrading, but rather sought to clarify the phenomenon of overtrading. Hence, this study has the potential to serve as a stepping stone for further research in the field of overtrading.
CONCLUSION

“A business that expands needs cash in order to finance expansions of its operating activities and facilities” (Steyn-Bruwer & Hamman, 2007:43). Hence, (entrepreneurial) businesses can easily step into the trap of overtrading in an attempt to meet this need. This study thus researched three propositions with regard to overtrading, each of which were accepted or rejected by means of the study done:

• Proposition One: Overtrading always results in entrepreneurial business failure – Insufficient support was found during the course of this study to accept this proposition. Although overtrading was identified as detrimental to an entrepreneurial business and a pitfall which should be guarded against at all times, it was shown that overtrading can negatively affect a business on various levels, all of which can also lead to the business’s failure. However, overtrading was shown to not necessarily lead to business failure, since all of the negative effects caused by it have the potential of being turned around. Hence, if overtrading is identified soon enough, it can be counteracted and the business can consequently be saved.

• Proposition Two: Overtrading only occurs in new (entrepreneurial) businesses – Insufficient support was found during the course of this study to accept this proposition. Although it was identified that the phenomenon of overtrading is more prone to occur during the start-up phase of the life cycle of a business, it was shown that overtrading is not limited to this phase. Hence, overtrading does not only affect new (entrepreneurial) businesses, but has the potential to affect all businesses that experience rapid growth. This includes highly profitable and stable businesses in the maturity/stability cycle as well as businesses in the decline phase injecting an ‘entrepreneurial shock’ of innovation and creativity to spawn rapid growth in order to rescue the declining business.

• Proposition Three: Overtrading can be understood as a core criterion for entrepreneurial business failure – This proposition was accepted during the course of this study. Since overtrading can occur in any cycle of a business’s existence, it is a factor that should be guarded against at all times. It was also shown that overtrading will lead to business failure, whether directly or indirectly, if not prevented and/or identified and counteracted soon enough. Therefore, it was proposed that overtrading be understood as a core criterion for entrepreneurial business failure.

Overall, this study thus showed that overtrading is a factor all businesses, especially those that are entrepreneurial in nature, must guard against. It was shown that overtrading is a significant contributor and/or reason for business failure. Overtrading, as a phenomenon on its own, needs to be researched in depth, so that entrepreneurial businesses can avoid or overcome its effects.

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