

**THE INFLUENCE OF ENTREPRENEURIAL AND MARKET ORIENTATIONS ON
SMALL SCALE AGRICULTURAL ENTERPRISES IN THE VRYBURG REGION**

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DECLARATION

I, Edem Korcu Agbobli, student number 207033170, do hereby declare that this research report submitted to the Central University of Technology, Free State for the degree D Tech: Business Administration is my own independent work and has not previously been submitted by me at another university/faculty. I further cede the copyright of the thesis in favour of the Central University of Technology, Free State.

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ABSTRACT

A major concern for developing countries including South Africa is the high levels of unemployment, poverty and inequity. Developing countries have accordingly been pre-occupied with finding solutions to these problems. Drawing on the success of small, micro and medium enterprises (SMMEs) from the developed countries such as the US and the UK, developing nations have embraced the idea of promoting development through SMMEs. But the overall performance of the small business sector in most developing countries has rather been dismal and as such have not been able to contribute optimally to the development agenda. Adopting a strategic management perspective, this study hypothesised that an integration of entrepreneurial orientation (EO) and market orientations (MO) glued together by innovativeness (INNO) would yield superior outcomes than the stand-alone effects of these strategic postures. To test the hypothesis, a sample of 198 small scale agricultural enterprises (SSAEs) in the Vryburg region was surveyed. Descriptive and inferential statistical analyses were performed on the data generated. The empirical findings showed that EO + MO + INNO interactively exhibited positive and significant correlation with the performance (sales growth and profitability) of SSAEs in the Vryburg region. However, the inter-correlations of EO + MO + INNO with business performance were practically moderate. The moderate correlations create opportunities for strengthening the entrepreneurial and market orientations and innovativeness of SSAES and in fact small businesses in general. An intensive and co-ordinated intervention of government and NGOs in transforming the small business sector into the real engine of growth of the economy is imperative. The study also attempted to predict firm performance holding EO + EO + INNO as predictor variables. Multi linear regression and multinomial logistic regression analysis however did not yield significant predictions of performance of SSAEs. This outcome provides a launch pad for further research into the proposed model in different settings because this study was mainly exploratory and executed in a rural and agricultural environments. Notwithstanding, the study made important contributions to the literature. It showed that it was possible to integrate EO + MO + INNO (previously viewed by many authors as exclusive constructs) into a single business model for the synergic enhancement of small business performance. It is hoped this would stimulate economic growth and development especially in developing countries.

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CHAPTER 1

ORIENTATION TO THE STUDY

1.1 INTRODUCTION

This study investigates the combined effect of entrepreneurial orientation (EO), market orientation (MO) and innovativeness orientation (INNO) that is, EO + MO + INNO on the performance of small scale agricultural enterprises (SSAEs) in the Vryburg region. This integrative approach is an emerging idea (Tan & Liu, 2008:113) proposed by Matsuno et al. (2002:20) and Roskos (2004:6). Hitherto, the approach has been to focus on the effect of each construct or a combination of two of the constructs at a time. The idea behind considering the three construct together instead of individually or in pairs is that since individually and in pairs, they improve business performance, it is possible that combining all three constructs may yield better results.

This introductory chapter provides a general background to the study including an overview of small business environment in South Africa with special reference to SSAEs; motivation for the study; the statement of the research problem; the aims and objectives for the study; the research questions and hypothesis; and concluding with definition of key terms applied and the structure of the study.

1.2 THE SOUTH AFRICAN SMALL BUSINESS ENVIRONMENT

To start with, though the term small business has gained global usage, it has different national, regional and even industry connotations. As a result, it is important to delve into their classification nationally and globally.

In South Africa, small businesses are firms with a maximum of 200 employees (National Small Business Act, Act 102 of 1996, as amended in 2003 and 2004). In the US, small businesses are entities with less than 500 employees (US Small Business Administration [SBA], 2013), while in the EU, a business with maximum employees of 200 is classified as small business (European Commission) (EC) (2009:2). There are other criteria used in small business classifications in different parts and industries in the world in addition to the head count approach referred to above. Terminologies applied to small businesses also differ.

In South Africa as in the EU, small businesses are referred to as small, micro and medium enterprises (SMMEs) (NSBA, 1996, 2004; EC, 2009:2). Detailed definitions of small businesses are presented in Chapter 2. For the purpose of this study, the South African definition of small business which generally implies businesses with no more than 200 employees is applied. In addition, the term small businesses and SMMEs are used interchangeably to mean the same business category. Furthermore, small scale agricultural enterprises (SSAEs) which fall within the SMME classification in South Africa also imply small businesses in the area under study.

There are a number of SSAEs that constitute the mainstay of the economy of the Vryburg region. SSAEs can be regarded as the main stay of the economy of the Vryburg region because 65% of the Vryburg region is rural and only 35% urban (Bophirima District Municipality, 2006:9; Dr Ruth S Mompoti District Municipality, 2009:102) with farming being the primary occupation.

Meanwhile, the importance of small businesses to national economies has been sufficiently demonstrated. For example, small businesses constitute 95% - 97% of all South Africa's enterprises (Damane, 2008; Abor & Quartey, 2010; Nieman & Nieuwenhuizen, 2010; Venter et al. 2011).

On the international front, perhaps the greatest contribution of the small business sector was recorded in the US where the small business agency of the USA, SBA (2006:1) points out that small businesses accounted for as much as 99.7% of employment and created over 75% of all new jobs in the US from 1969 to 1976. In the Organisation for Economic Co-operation and Development (OECD) member countries, small businesses represent more than 95% of all enterprises and employ more than half of the workforce in the private sector (Savlovschi & Robu, 2011:279). World-wide, Savlovschi and Robu (2011:278) claim that the small business sector accounts for two-thirds of all new jobs. The foregoing illustrates the global economic importance of small businesses.

Notwithstanding their generalised economic relevance, the relative contributions of small businesses to various national economies show significant differences. In South

Africa for example, the contribution of the small business sector estimated between 30-40% of GDP (South Africa Year Book, 2005/06; Damane, 2008; Abor & Quartey, 2010; Nieman & Nieuwenhuizen, 2010; Venter et al. 2011) creates a somewhat dubious impression of the small business sector as an engine for the growth and development. Though small businesses in Brazil are reportedly doing well in recent times, their contribution to the national GDP stands at only about 20% (Timm, 2011: 15). This suggests that in spite of their improved performance the contribution of small businesses to Brazil's national output remains low. This again undermines the generalized notion of the economic importance of small businesses.

In contrast, the European Commission (2013) asserts that there are more than 20 million small businesses representing 99% of EU businesses which constitute the key drivers for economic growth, innovation, employment and social integration. Similarly, the SBA (2013) estimates small business contribution to the US gross domestic product at 46-48% from 2002 to 2008.

The contribution of small businesses to the national output especially in the developing economies including South Africa would be more meaningful if only they can become more productive. The researcher believes that the source of this improvement could come from improving the internal resources and capabilities of the small businesses.

A common problem faced by small businesses is their high failure rate. Ghassemieh, et al. (2005:2) and Fatoki and Asah (2011:170) estimate the global failure rate of nascent businesses at 80% in the first ten years of establishment. In South Africa, the dropout rate of young businesses is estimated between 70%- 80% (Van Eeden et al. 2001; Fatoki, 2010; Fatoki & Asah, 2011).

Having lived in the Vryburg region for about 20 years, the researcher has observed an apparent high failure in small businesses that literally reflects the national trend stated above. Small business failures have been attributed to many reasons. However, in South Africa, Van Eeden et al. (2001) sum up the reasons as environmental, marketing, financial and managerial problems. Overcoming these problems is

therefore imperative for ensuring the survival and eventual success of the small scale agricultural enterprises in the Vryburg region.

It is the realisation of the importance of the small business sector as well as the difficulties encountered by small businesses that has influenced the South African government to enact the National Small Business Act of 1996 (Act 102 as amended in 2003, 2004). The Act aims at creating an enabling environment to facilitate improved performance of small businesses. Besides Act 102, central government of South Africa has also created small business supporting agencies such as Small Enterprise Development Agency (SEDA), KHULA, the Industrial Development Corporation (IDC) and the Centre for Small Business Promotion among other organs to support SMME development. Provincial governments as well as local and provincial SMME desks also exist all directed at supporting small business activities.

In spite of these elaborate government interventionist efforts, small businesses continue to perform dismally and have not made substantial impact on addressing South Africa's critical problems of unemployment, job creation, poverty alleviation and equitable distribution of income. Although Statistics South Africa (Stats SA) (2013) reported an increase in the unemployment rate in South Africa from 24.9% in the last quarter of 2012 to 25.2% in the first quarter of 2013 this increase is too meagre to excite anyone.

1.3 OVERVIEW OF THE SSAE ENVIRONMENT

As indicated earlier, SSAEs operate in the agricultural sector which accounts for about 3% of South Africa's GDP and produces about 13% of the country's total exports. The sector is the main source of food supplies to the country's population of about 53 million people. In addition, the agricultural sector employs about 4.8% of the country's workforce (Stats SA, 2013).

In the Vryburg region, agriculture constitutes the biggest economic activity involving animal and crop production and related products. The Vryburg region is credited as the largest beef producing district in South Africa earning the nickname "the Texas of South Africa" for its beef producing capacity reminiscent of Texas which is the largest

cattle producing state in the US. The agricultural sector accounts for about 17% of Vryburg region's GDP and about 27% of employment (Dr. RS Mompoti District Municipality, 2011). Most businesses which engage in the agricultural economic activities are small and micro enterprises, hence the coinage ***small scale agricultural enterprises in the Vryburg region (SSAEs)*** for the purpose of this study. The SSAEs therefore operate in an agricultural environment engaging in either crop or animal production or related activities in the Vryburg region. Employment in agriculture has been on decline nationally and therefore affects Vryburg region as well (Stats SA, 2013). There is therefore an urgent need to stimulate growth in the industry by supporting especially the small businesses which constitute the backbone of economic activities in the Vryburg region for a sustained growth of the sector for the purpose of aiding socio-economic development of the Vryburg region.

1.4 THE NEED FOR INTERVENTION

Dzansi (2004) posits that rural communities are where socio-economic conditions are most severe. It is therefore reasonable to also state that rural communities are where job creation is needed the most. Since the small business sector is credited as the biggest sectorial employer in the country, and since SSAEs are critical to employment creation in rural areas, something different has to be done to enhance the rather unimpressive current performance of the sector in general and SSAEs in particular. It is against this background that the researcher is proposing an alternative approach to making SSAEs more effective in addressing the country's social and economic problems in rural communities where their role is even more important in the employment of unskilled people who need jobs the most. For the small business sector in general and SSAEs in particular to grow and improve their performance, the researcher opines that they need to adopt a more strategic posture through the combination of entrepreneurial orientation (EO), market orientation (MO) and innovativeness (INNO). This is based on the belief that the combined influence of EO, MO and INNO, has a positive relationship with firm performance (Matsuno et al. 2002:19; Bhuiyan et al. 2003:9; Roskos, 2004:343; Li et al. 2008:113). Keh et al. (2007:9) also attest to the existence of a positive relationship between entrepreneurial orientation and marketing information (akin to market orientation) and firm performance. Hult and Ketchen (2003:9) therefore suggested that, for small

businesses to fully exploit the enabling environment as well as supporting institutions created by government, it imperative that they employ their internal strategic resources and capabilities namely, EO, MO and INNO. In the current study, this proposition is extended to the SSAEs in the Vryburg region.

1.5 MOTIVATION FOR THE STUDY

Research on EO, MO and INNO as stand-alone constructs have received extensive attention. EO has been credited with positive influence on firm performance (Dess et al. 1997:691; Lyon et al. 2000:1055; Wiklund & Shepherd, 2005:75). Evidence of a positive relationship between MO and firm performance has also been established (Appiah-Adu, 1997:19; Verhees et al. 2004:147; Heiens & Pleshko, 2011:32). It is also affirmed that INNO positively relates to performance in firms (North & Smallbone, 2000:11; Wolf & Pett, 2006: 2; Ndabeni, 2008:82; Cillo et al. 2010:5). The relationship between EO, MO and INNO and the performance of small businesses in general and in particular SSAEs in the Vryburg region constitute the key issue of the study.

Beyond the stand-alone relationships with firm performance, the integrative effect of the EO, MO and INNO on firm performance has not received much research attention (Atuahene-Gima, 1996:275; Roskos, 2004:7). However, research in this direction (linkages among EO, MO and INNO in various combinations and their impact on firm performance) is beginning to take root (Slater & Narver, 2000:69; Roskos, 2004:6; Van Zyl & Mathur-Helm, 2007:21; Schindebutte, Morris & Kocak, 2008:15; Hill et al. 2008).

In order to fill this gap in the scholarly business literature, this study investigated the integrative effect of EO, MO and INNO on SSAE performance. This integrative model (EO-MO-INNO linkages) constitute the conceptual framework for the study with the underlying argument being, since on a stand-alone basis, the various strategic postures, namely EO, MO and INNO have shown positive relationships with business performance, a combination of these elements (EO, MO and INNO) could yield even higher performance than the individual elements on their own.

It is however worth mentioning that there have been criticisms of this reasoning. Greenley (1995); Henderson (1998); Hunt and Lambe (2000) among others have for

instance cast doubts on a positive relationship between market orientation and performance. They maintain that the entrepreneurial and market orientation constructs in relation to business performance had not been rigorously subjected to enough theoretical and empirical research.

In spite of the above and other misgivings, there has been some evidence of connection between EO and MO and positive firm performance. It is suggested that firms that are characterised by high levels of EO and MO tend to realise higher firm performance (Ackroyd, 1995:141; Atuahene-Gima & Ko, 1995:275; Bhuian et al. 2003:9; Roskos 2004:5).

This on-going debate on the contribution of strategic orientations to firm performance (Greenley, 1995; Atuahene-Gima, 1996; Henderson, 1998; Roskos, 2004; Van Zyl & Mathur-Helm, 2007; Schindebutte et al. 2008) creates avenues for further research. This study takes up the challenge by investigating the relationship between EO + MO + INNO and firm performance using the SSAEs of the Vryburg region as a case study.

1.6 PROBLEM STATEMENT

To sum up the problem, the importance of SMMEs around the globe has been well documented in the literature. The relative poor performance of the small business sector, reflected in the high exit rate of especially the newly created small businesses, has equally attracted extensive attention in the research field. Numerous approaches have been adopted in order to address the poor performance of SMMEs with mixed results. An approach which has not yet received sufficient attention in the empirical domain is the integrative strategic approach including the EO + MO + INNO approach aimed at enhancing the performance of SMMEs (Hisrich, 1992; Osing, 1995; Roskos, 2004; Li et al. 2008).

As said previously, the researcher's observation is that, the performance of small businesses in the Vryburg region ranges from very successful to total failure - an observation that mirrors the national picture of small business performance indicated earlier. Given the fact that small scale businesses in the study area all operate in the same macro environment yet show differences in performance, the researcher is

tentatively inclined to attribute performance variation to differential internal resources and capabilities of these small businesses. In line with the pioneering works of Hisrich (1992); Osing (1995); Roskos (2004); and Li et al. (2008), it is argued that the different levels of performance of SSAEs could be explained in terms of their varying levels of entrepreneurial and market orientations and innovativeness.

Therefore, the problem for this research is: *The investigation of the status of entrepreneurial and market orientations and innovativeness among small scale agricultural enterprises in the Vryburg region and the extent to which these orientations influence the performance of these businesses.*

1.7 AIM OF THE STUDY

The aim of the study is to gain a thorough understanding of the entrepreneurial orientation, market orientation, innovativeness, and firm performance relationship in the South African small scale agricultural enterprise context using the small scale agricultural enterprises in the Vryburg region as a case study.

1.8 OBJECTIVES OF THE STUDY

The objectives of the study are to:

1. Determine the level of entrepreneurial and market orientation and innovativeness (EO, MO, & INNO) as separate constructs among small scale agricultural enterprises (SSAEs) in the Vryburg region.
2. To establish if there are any relationships between these strategic orientations (EO, MO & INNO) as stand-alone constructs and performance of the SSAEs in the Vryburg region
3. To determine if EO + MO + INNO would yield superior performance than the stand-alone influences of these strategic postures (EO, MO & INNO).
4. Provide suggestions for improving performance of SSAEs

1.7 RESEARCH QUESTIONS

As stated in the preceding sections, the underlying theme for this study is the interactive relationship among EO and MO and INNO and their integrative influence

on small business performance. It has been argued that since, on a stand-alone basis, EO, MO and INNO positively influence business performance, a combination of EO and MO linked through INNO would yield even higher performance. The performance of small scale agricultural enterprises (SSAEs) in the Vryburg region would be investigated within this conceptual framework. Consistent with above observations, the following specific research questions are investigated:

1. Are SSAEs in the Vryburg region entrepreneurially oriented?
2. Is there a relationship between levels of EO and performance of SSAEs? If there is, what is the nature of that relationship?
3. Are SSAEs in the Vryburg region market oriented?
4. Is there a relationship between levels of MO and performance of SSAEs? If there is, what is the nature of that relationship?
5. Are SSAEs in the Vryburg region characterized by INNO?
6. Is there a relationship between levels of INNO and performance of SSAEs? If there is, what is the nature of that relationship?
7. Is there a relationship between levels of EO + MO and performance of SSAEs? If there is, what is the nature of that relationship?
8. Is there a relationship between levels of EO + INNO and performance of SSAEs? If there is, what is the nature of that relationship?
9. Is there a relationship between levels of MO + INNO and performance of SSAEs? If there is, what is the nature of that relationship?
10. Is there a relationship between levels of EO + MO + INNO and performance of SSAEs? If there is, what is the nature of that relationship?
11. Will EO + MO + INNO lead to better performance in SSAEs than the individual constructs or pairs of them?

Providing answers to the above questions would enhance the understanding of the contribution of EO, MO and INNO to the success of small businesses in general and more specifically success of SSAEs. The above research questions were transformed into the following hypotheses for further exploration.

1.8 HYPOTHESES

The hypotheses for the study are stated as follows:

H_{o1} SSAEs in Vryburg region are not entrepreneurially oriented.

H_{a1} SSAEs in Vryburg region are entrepreneurially oriented.

H_{o2} There is no relationship between EO and venture performance.

H_{a2} There is a relationship between EO and venture performance

H_{o3} SSAEs in the Vryburg region are not market oriented.

H_{a3} SSAEs in the Vryburg region are market oriented.

H_{o4} There is no relationship between MO and venture performance.

H_{a4} There is a relationship between MO and venture performance.

H_{o5} SSAEs in Vryburg region are not innovative.

H_{a5} SSAEs in Vryburg region are innovative.

H_{o6} There is no relationship between INNO and venture performance.

H_{a6} There is a relationship between INNO and venture performance.

H_{o7} There is no relationship between EO + MO and venture performance.

H_{a7} There is a relationship between EO + MO and venture performance.

H_{o8} There is no relationship between EO + INNO and venture performance.

H_{a8} There is a relationship between EO + INNO and venture performance.

H_{o9} There is no relationship between MO + INNO and venture performance.

H_{a9} There is a relationship between MO + INNO and venture performance.

H_{o10} There is no relationship between EO + MO + INNO and venture performance.

H_{a10} There is a relationship between EO + MO + INNO and venture performance.

Ho11: EO + MO + INNO does not lead to better performance than EO + MO.

Ha11: EO + MO + INNO leads to better performance than EO + MO

Concerning the nature of relationships, no hypotheses were tested. Instead, the data produced was used to determine the direction and strength of relationships (if any).

1.9 METHODOLOGY

Firstly, the study can be regarded as exploratory because it investigated EO + MO + INNO influence on small scale agricultural enterprises (SMMEs engaged in agricultural related activities) - a phenomenon that has not been explored before hence not well understood in the small scale agricultural business context in South Africa. Secondly, the study was conducted from a positivist perspective by employing the descriptive method. Details of the research methodology is presented in Chapter 5.

1.10 ETHICAL ISSUES

Ethics has become a key component in research for at least three broad reasons. Firstly, for research outputs to receive good acceptance, the research process should adhere to certain moral standards. Secondly, ethical behaviour has become a central issue for researchers in recent times because it reflects normative or standardised behaviour that guide moral choices about the behaviour of researchers towards their research elements (respondents or objects) (Blumberg et al. 2008:154; Bryman, 2007:121; Cooper & Schindler, 2011:32). The purpose of ethics in research is therefore to conduct research such that no one gets harmed in the research process. Harm can be physical or psychological. Participants in social research projects often find that their rights, privacy and their emotions are violated in the research process. Ethical research approach is expected to safeguard the rights, privacy and consent among others, of those persuaded to participate in the research.

In this study, participants were treated with dignity and respect while upholding the principles of confidentiality and trust. The rationale for the study was clearly communicated to the respondents in the hope of soliciting honest opinions and authentic information during the study as well as soliciting informed consent from

participants. The research was driven by competence and the avoidance of biased and false reporting with the ultimate objective of reporting quality and reliable findings.

But ethics in research goes beyond the researcher and the participants. Sponsors should not be denied the right to quality research output, sponsors' right to nondisclosure (right to confidentiality-not to reveal themselves) among others need to be observed (Cooper & Schindler, 2011:40). In accordance with this perspective, the execution of the research was done at the highest standard possible to achieve quality and unbiased outcomes whilst respecting sponsor's right to the outcome of the research project.

1.11 DEFINITION OF KEY TERMS

The need to provide precise definitions of key terms in a study has been emphasised in the literature. These definitions provide context specific meanings also termed operational definitions of concepts (terms) as they are used in a study (Cooper & Schindler, 2011:57). Precise definitions of key terms applied in the research are provided in the next section.

1.11.1 SMMEs

In South Africa, the term SMMEs stand for small, micro and medium enterprises. SMMEs are defined by the National Small Business Act (NSBA) of 1996 as amended in 2003 and 2004 as small businesses whose employees range from fewer than 5 and up to 200. In addition to the head count definition, SMMEs also operate mainly at the local level, are independently owned and usually owner-managed (Dzansi: 2004:39). SMMEs in this study therefore mean firms independently owned and managed by the owner(s) employing not more than 200 persons.

1.11.2 SSAEs

SSAEs stand for small scale agricultural enterprises. An exploratory survey in respect of this research revealed that small businesses in the Vryburg region were predominantly micro or very small, employing not more than 10 persons. SSAEs in this study therefore generally mean enterprises which employ, in most cases, no more than 10 persons and owned and or managed by the same person.

1.11.3 Entrepreneurial Orientation (EO)

Entrepreneurial Orientation (EO) implies a firm's behaviour characterised by innovativeness, risk-taking, proactiveness, competitive aggressiveness and autonomy seeking (Lumpkin & Dess, 1996; Roskos, 2004; Kuratko, 2009). However, the competitive aggressiveness dimension is excluded from this study for the reasons that it is very unlikely that small businesses could engage in aggressive competitive war due to resource constraints.

1.11.4 Market Orientation (MO)

Market Orientation (MO) means a firm's generation of intelligence (information) about customer needs, competitor actions and environmental factors such as regulations; sharing the information generated within the firm members and responding to the changes occurring in the environment (Kohli & Jaworski's 1990; Narver & Slater, 1990; Heiens & Pleshko, 2011).

1.11.5 Innovativeness

Innovativeness refers to a firm's willingness or ability to introduce products and services which are new to customers through the adoption of new and creative ideas and processes (Lyon, Lumpkin & Dess, 2000; Kotler & Armstrong 2000; Roskos, 2004; Wiklund & Shepherd, 2005; Abbot & Jeong, 2006). It should be noted that innovativeness is a distinctive dimension of EO.

1.11.6 Innovation

Innovation implies the **actual** creation of a new product or service for customers which may enable the business to grow and increase profitability. Put differently, innovation is the commercialisation of inventions (UK DTI, 2006; Venter et al. 2008; Nieman & Nieuwenhuizen, 2009).

1.11.7 Firm Performance

Firm performance was measured in terms of growth and profitability (Narver & Slater, 1990; Matsuno et al. 2002; Yusuf, 2002; Wiklund & Shepherd, 2005; Madhoushi et al. 2011). Profitability in the study means gross profit (before tax); growth means: sales growth and growth in employment.

1.12 LIMITATIONS OF THE STUDY

Like all studies there are issues in this study that the reader needs to be aware of.

Exploratory nature of the study

The study was largely exploratory. As such there were difficulties in accessing data sources and respondents. Consequently, not all respondents completed and returned the questionnaire. Moreover, regarding small businesses in a rural setting, one could not have expected the response rate to be quite high. Nonetheless, as will be seen in the results chapter, the response rate appears reasonable given that small business research usually encounter low response rate (Dzansi, 2004).

Limited geographical scope of the study

The limited geographical scope (Vryburg region) of the study will invariably limit the generalisability of the findings to a larger population. It must however be noted that like all other research for degree purpose, financial, time and resource constraints could not permit coverage of a wider geographical area.

Demographic characteristics

The study did not seek to establish relationships between key strategic variables (EO, MO & INNO and firm performance) along ethnic or racial lines since such an extension would broaden the scope of the study with its concomitant delays in completing the research project on time and within budget. However, investigating these strategic behaviours along ethnic or racial lines could reveal possible linkages between racial/ethnic groupings and EO, MO and INNO and business performance. The racial/ethnic approach in this strategic context is an area which could be taken up in other studies.

Despite these difficulties, careful planning, the quality of data collected and high level of data analysis makes the outcomes of the study credible.

1.13 CHAPTER OUTLINE

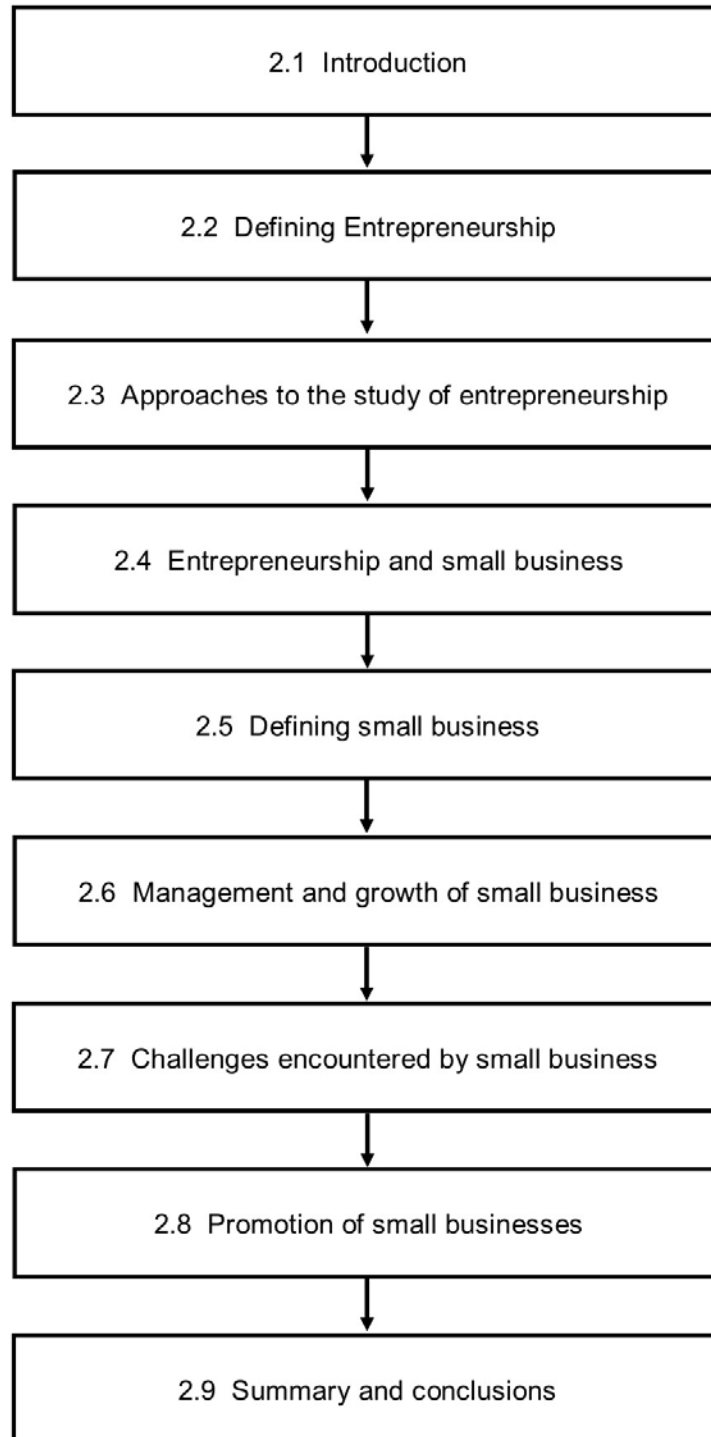
This research report is structured into the following seven chapters. **Chapter 1** presents the introduction and background to the problem, importance of the study,

problem statement, research questions, aims and objectives of the study. It finally discusses the hypothesis, definition of key terms/concepts and the structure of the study. **Chapter 2** deals with entrepreneurship and small business. **Chapter 3** discusses the role of SMMEs and SSAEs in socio-economic development. **Chapter 4** reviewed the literature on entrepreneurial orientation (EO), market orientation (MO) and innovativeness (INNO). **Chapter 5** presents the methodology applied in the study. **Chapter 6** is dedicated to the presentation and discussion of the results. **Chapter 7** articulates the conclusions and recommendations for practice, policy and directions for future research.

CHAPTER 2

ENTREPRENEURSHIP AND SMALL BUSINESS

Outline



CHAPTER 2

ENTREPRENEURSHIP AND SMMES

“The creation of a country’s wealth depends upon the competitiveness of its firms and this, in turn, relies fundamentally on the capabilities of its entrepreneurs and managers”

(Cuervo et al. 2008)

2.1 INTRODUCTION

The previous chapter provided an overarching perspective on the study. It covered the background to the study, objectives, research questions, methodology as well as the key concepts relevant to the study. This chapter provides the broad context of the study by reviewing the literature on definitions, similarities and differences between entrepreneurship and small business, various approaches to the study of entrepreneurship, country/region definitional differences of small business management, growth and challenges in relation to small businesses as they relate to small businesses in South Africa and for that matter SSAEs.

It is curious that while some small businesses experience better performance and growth, others show dismal results. It is observed that although all small businesses are exposed to the same problems such as lack of funds, poor managerial and marketing skills and inability to access markets, small businesses reflect mixed results, that is, some are successful, while others perish. These contrasting performances make the researcher believe that other factors beyond the above problems are responsible for the under-performance of small businesses. To unravel this differential performance, an alternative model which integrates entrepreneurial and market orientations linked through innovativeness is drawn upon to provide direction for enhanced performance of small businesses in general and specifically SSAEs. The proposed model receives a detailed attention in Chapter 4.

Since this study explores the performance of small scale agricultural enterprises which emerge from entrepreneurial activities, it is pertinent to elaborate on what constitutes entrepreneurship.

2.2 DEFINING ENTREPRENEURSHIP

The term entrepreneurship scarcely has a common meaning because it is accorded various definitions (Filion, 1997; Nieman & Nieuwenhuizen, 2010; Venter et al. 2011). Some authors define entrepreneurship in terms of small business although not all small businesses are entrepreneurial (Wennekers & Thurik, 1999; Wickam, 2004; Kuratko, 2009). Another complexity is the tendency of researchers to define the term according to their discipline specialities. Economists for instance, tend to associate entrepreneurship with the classic models of economic behaviour and innovation, while management scholars explain the concept in terms of the resourcefulness and organising capabilities of entrepreneurs (Filion, 1997; Nieman & Nieuwenhuizen, 2010; Venter et al. 2011).

For the purpose of this study, entrepreneurship is defined as ***a process whereby persons (entrepreneurs) recognise opportunities based on market needs or gaps and start their own businesses to satisfy those needs the intention being to make profit. Thus, the driving force behind entrepreneurship is the profit motive. In addition, entrepreneurship requires innovativeness and risk taking and acting proactively*** as suggested by Moore et al. (2010) and Mariotti and Glackin (2012).

Entrepreneurship therefore has to do with entrepreneurs' innovative ability to identify societal needs and harness resources at their own risk to satisfy those needs for economic gain. An objective of the study was to investigate the extent to which small businesses including SSAEs in the Vryburg region fulfil this entrepreneurial role. Various researchers study entrepreneurship from different perspectives. In the next section, a number of approaches to the study of the subject relevant to this study are explored.

2.3 APPROACHES TO THE STUDY OF ENTREPRENEURSHIP

As indicated above, small businesses are the product of entrepreneurship (Nieman & Nieuwenhuizen, 2010; Venter et al. 2011). Mindful of this connection, any meaningful investigation into small businesses necessitates a review of literature on entrepreneurship theory in order to identify the linkages between the two concepts of

entrepreneurship and small business. Although entrepreneurship is studied from various perspectives, only a selection of approaches relevant to this study are explored in the following sections.

2.3.1 The macro and micro views

Kuratko (2009) classifies entrepreneurship study into two broad groups namely, 'macro' and 'micro' views with further sub-divisions. Figure 2.1 illustrates this characterisations which are discussed in the following sections.

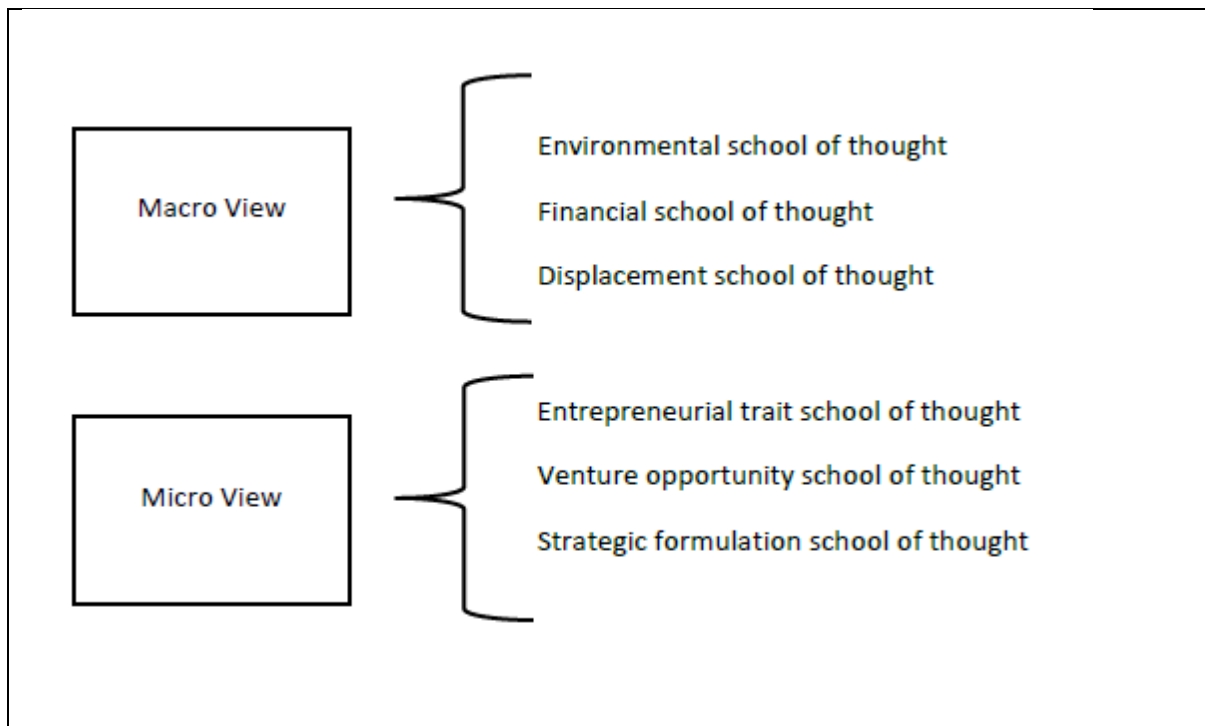


Figure 2.1 **Entrepreneurial Schools-Of-Thought**
 Source: Kuratko (2009:9)

2.3.1.1 The Macro View

Kuratko (2009:8) describes the macro view of entrepreneurship as external forces which either positively or negatively affect the performance of an enterprise. Kuratko (2009) went on and identified three distinct variations of the macro view as follows.

The **environmental school of thought**. This approach includes institutions, values, and mores which strongly affect the development of entrepreneurs' mind set, attitudes and behaviour towards entrepreneurship. These environmental factors are collectively

termed the socio-political environmental framework. (Kuratko, 2009). This framework would be expected to influence the entrepreneurial and market orientations and innovativeness of small business (SSAE) owners' operations and activities.

The **financial/capital school of thought** falls within the macro perspective. From this perspective, seed capital or venture financing are seen as the critical focus of the entrepreneurial process and accordingly, entrepreneurship is analysed mainly from the financial/capital perspective (Kuratko, 2009). This characterisation is critical for small businesses as funding or lack of it makes or breaks small businesses.

The **displacement school of thought**. This approach maintains that persons displaced or denied certain opportunities on social, political or economic grounds would seek out entrepreneurship as a solution (Kuratko, 2009). For instance, someone who has lost his/her job or denied promotion on gender or religious grounds might feel displaced or even discriminated against or excluded and could therefore resort to entrepreneurship as a way out. Often, informal businesses arise resulting from loss of employment. Many blacks in the study area who were denied access to any meaningful educational opportunity and therefore could not gain employment in the formal sector (private or public) would create their own small businesses such as the SSAEs.

2.3.1.2 *The Micro View*

The micro view emphasises factors which are more specific to entrepreneurship and the entrepreneur's potential to direct, control and influence the outcomes of their entrepreneurial activities (Kuratko, 2009). He identified the following three schools of thought.

The **entrepreneurial trait school**. This school argues that entrepreneurs possess certain unique characteristics which are pre-requisites for successful entrepreneurial practice (Kuratko, 2009). In this vein, it is the inherent entrepreneurial characteristics of small business owners including SSAEs that drive their entrepreneurial activities.

The **venture opportunity school**. According to Kuratko (2009), the main research interests here lie in idea generation, identification and exploitation of venture opportunities driven by creativity and innovation. Successful small businesses are opportunity driven (Timmons & Spinelli, 2011). It is the ability of entrepreneurs' to identify market gaps and harness resources to exploit those gaps (opportunities) successfully for economic gain that makes them drivers of economic growth and development (Hisrich et al. 2010:99) .

The **strategy formulation school**. Here the focus is on entrepreneurs' ability in strategic planning and implementation (Kuratko, 2009). Critical attention is paid to identification of unique markets, innovative products and long term special resources acquisition. Entrepreneurial strategy comprises a set of decisions, actions and reactions which enables entrepreneurs achieve their long term objectives which translates into competitiveness and profitability (Hisrich et al. 2010:67). For small businesses, strategic planning, which usually is informal and intuitive (David: 2013), enables them to compete against their rivals and make profit.

Both viewpoints - the macro and micro views, are relevant to this study. At the macro level, small business operations are influenced by external factors such as the state of the national/global economy, government regulations and labour laws, factors which could be seen as aspects of the industrial organisation (IO) view explored in Chapter 4. The micro view, specifically, the strategic formulation school of thought (which reflects on aspects of the Resource Based View (RBV) also reviewed in Chapter 4, even has more direct implications for the study. It is argued that the capability of small businesses to apply their internal intangible resources in crafting their strategic plans also reflects in their entrepreneurial and market orientations and innovativeness that influences their competitiveness, growth and profitability.

Other theoretical approaches to the study of entrepreneurship in the literature include the entrepreneurial process approach, which has been extensively researched. The entrepreneurial process approach which has implications for this study is reviewed in the next section. In the review, the entrepreneurial process approach and its implications for small businesses are considered.

2.3.2 Entrepreneurial process approaches

New ventures are created, developed, and managed for growth and profitability through the entrepreneurial process (Timmons & Spinelli, 2007:51; Nieman & Nieuwenhuizen, 2010:9; Venter et al. 2010: 5). New ventures are usually created as small businesses due to resource constraints such as paucity of start-up capital and marketing limitations. They could also start small for strategic reasons like size and manageability issues and locational considerations.

The entrepreneurial process entails the generation of creative and innovative ideas, identification of attractive and strategic opportunities, development of business plans, gathering resources and launching the venture. The venture then requires effective management for growth and profitability. It must be pointed up that the process presented here appears as though the entrepreneurial process moves from start to end in a smooth fashion. In reality, it involves forward and backward movements and even at times right back to the start when things go wrong. For instance, a poorly defined market opportunity might get the entire process wrong necessitating re-definition of the target market thereby forcing the whole process to start all over again. Entrepreneurial process has been studied and depicted in various models by researchers. A selection of the process models, deemed applicable to this study are presented next.

2.3.2.1 The Timmons Model of the Entrepreneurial process

The Timmons model, (Timmons & Spinelli, 2007:94), centres on the entrepreneur (the founder). Through creativity and innovation, the founder identifies an entrepreneurial opportunity which he/she subjects to critical assessment to determine its economic viability and sustainability. The entrepreneur then assembles a venture team (for high potential ventures), develops a business plan and gathers resources (including financial and human) in readiness for the start of the business. The venture is then launched marking the implementation phase of the process. Succeeding the launch, the business requires strategic entrepreneurial management for the promotion of growth and profitability (Timmons & Spinelli, 2007).

The structure as well as the elements of Timmons and Spinelli's (2007) model suggests a very formal approach to the entrepreneurial process. It is observed that

small businesses in general follow an informal entrepreneurial process. For many, the start of the enterprise might rather start with the search and organisation of resources especially funding which are considered critical for the venture launch, even before they start searching for market gaps. Furthermore, small businesses do not appear to develop a formal business plan nor assemble a venture team. Rather, they adopt an informal business plan (undocumented) and operate as a one-person team. In relation to the SSAEs, the Timmons and Spinelli's (2007) model which looks more applicable to more sophisticated small ventures, requires modification to suit small businesses in developing regions like the Vryburg region. The Timmons and Spinelli's (2007) model is illustrated in Figure 2.6.

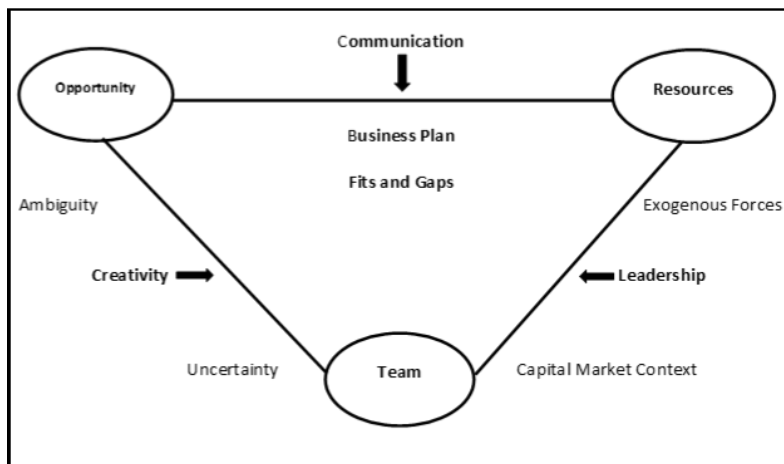


Figure 2.2. **Timmons Model of Entrepreneurial process**
 Source: Timmons and Spinelli (2007:89).

2.3.2.2 Moore's model (1996) as adapted by Bygrave (2004)

Bygrave (2004:2) defines the entrepreneurial process as “all the functions, activities and actions associated with perceiving opportunities and creating organisations to pursue them”. For Bygrave (2004), the entrepreneurial process is influenced by: personal factors such as locus of control, education and age; sociological factors such as family and networks; and environmental factors including opportunity, government policy and state of economy. Bygrave (2004) goes on to identify four stages in the entrepreneurial process which are innovation, triggering event, implementation and growth. Figure 2.3 illustrates Moore's model of the entrepreneurial process as adapted by Bygrave, 2009.

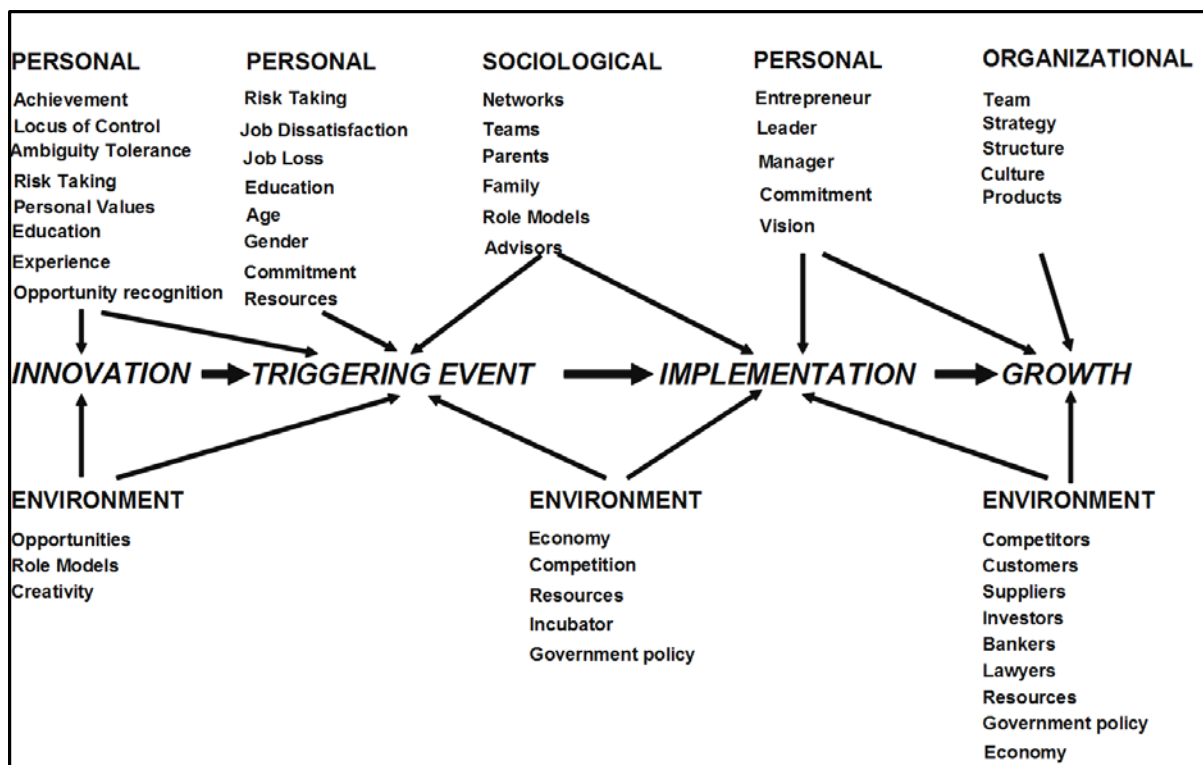


Figure 2.3: Moore's entrepreneurial process model as adapted by Bygrave.
 Source: Moore (1996) as adapted by Bygrave (2009)

Innovation

In the case of **innovation** Bygrave (2004) emphasised personal traits of the entrepreneur such as achievement motive, locus of control, tolerance for ambiguity, risk taking and environmental factors in the form of opportunities and role models which drive innovation in entrepreneurs.

The low level of innovation among South Africa's small business practitioners has raised concerns in academic as well as government circles. For example, Pretorius et al. (2006:3) report that innovation implementation among South African entrepreneurs is rated very low. The Global Economic Forum's Global Competitiveness Index (2013) rates South Africa low if the quality of innovation education offered to its citizens is concerned. In fact, South Africa ranked 146 out of 148 participating countries. Low level of innovation coupled with generally poor quality of education seems to have a negative impact on South Africa's entrepreneurs more so the Blacks who predominate in the Vryburg region. However, Blacks in the GEM Report rank highest in terms of TEA ranking among all population groups in South Africa (GEM, 2013). TEA measures

the rate of willingness of adults aged 18-64 years in a country to start and operate new business. This means that, given the appropriate opportunity and support, the SSAEs operated mainly by Blacks would perform better than they currently do.

Triggering event

According to Bygrave (2004) the next stage of the process starts with a triggering event which may be precipitated by personal circumstances such as job loss, education, age and gender. These personal factors interact with environmental factors such as resources, government policy. The combined effect of personal and environmental factors may influence one to start a business. Many Blacks, who happen to be largely unskilled due to the legacy of apartheid which denied them opportunity to acquire the requisite skills for employment, are forced into the informal small business sector such as the SSAEs in the Vryburg region. Being mainly unskilled or semi-skilled, Blacks and for that matter SSAE owners would be expected to operate informal and low growth potential small businesses.

Implementation

Personal characteristics such as leadership, management commitment and vision coupled with environmental forces like resources, competitors, customers become vital at the implementation stage to ensure business success (Bygrave, 2004). Small business owners have variously exhibited their personal characteristics in combination with environmental factors in starting and running their businesses. Though small business owners possess low managerial and leadership skill, their personal circumstances motivate them to engage in entrepreneurship albeit predominantly informal in nature.

Growth stage

For Bygrave (2004), the venture at this stage requires organisational resources such as team work, well-defined strategy and structure and products taking cognisance of such environmental factors as competitors, customers, suppliers, investors and government policy, among others, in pursuing growth. Small businesses are usually run by owner/managers with few or no team members. They also adopt informal (unwritten) strategies in running their businesses. They have to deal with suppliers,

competitors and as well being guided by government policy in pursuit of growth. Growth as a performance measure of SSAEs will be examined in the study.

2.3.2.3 *Ferri et al.'s process model*

Ferri et al. (2009) developed a ten-stage model which explains the importance of social capital for new venture creation. Their model is outlined in Figure 3.7. In their approach, Ferri et al. (2009) explain that the entrepreneurial process starts with the potential entrepreneur's motivation to create some unique products or services of enhanced value for customers. Ferri et al.'s (2009) characterisation of the innovative motive is similar to Timmons and Spinelli's (2007) innovative drive for opportunity recognition as well as Bygrave's (2009) personal and environmental factors leading to innovation among entrepreneurs. Entrepreneurs' motivation to innovate is a key characteristic of the process models under review. Innovative culture is a central theme in this study. Innovative culture is proposed as the main interface between entrepreneurial and market orientations for superior performance in small businesses.

Another important aspect of Ferri et al.'s (2009) model is finding the required resources, especially finance, with the determination to overcome all possible obstacles in establishing the venture. Resource gathering also features prominently in both Timmons and Spinelli's (2007) and Bygrave's (2009) process models. Resource acquisition is very important for the success of any business undertaking. It is even more critical for small businesses which struggle to assemble minimum resources to start operations.

In the process, Ferri et al (2009) emphasise the need to exploit formal and informal network relationships in order to create organisations and institutions for developing social capital. They consider social capital as an essential ingredient in creating and successfully growing ventures. In succession to starting the business, Ferri et al (2009) argue that, the entrepreneur's attention is turned to entrepreneurial management through effective control of operations, activities and a focus on customer satisfaction for business success. These processes theorised by these writers (Timmons & Spinelli, 2007; Bygrave, 2009; Ferri et al. 2009) was factored into the study of SSAEs in the Vryburg region.

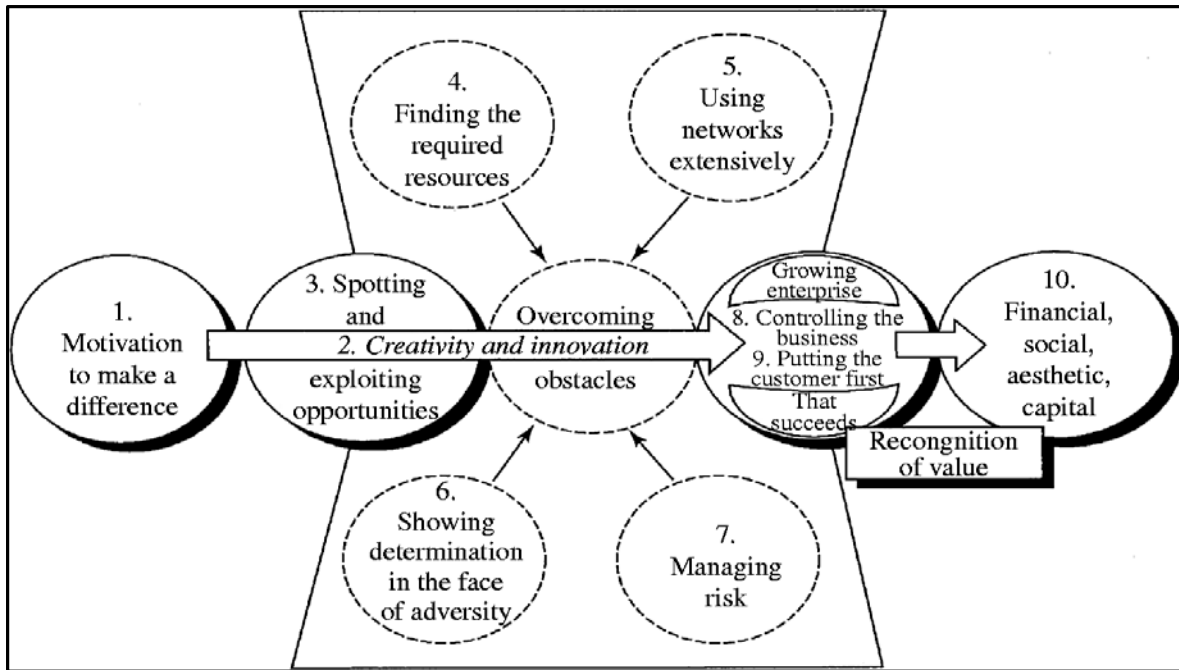


Figure 2.4: Ferri et al.'s entrepreneurial process model.

Source: Ferri et al. (2007)

Following the models of Timmons and Spinelli (2007), Moore (1996) as adapted by Bygrave (2009) and Ferri et al. (2009), one can identify four broad phases of the entrepreneurial process named as follows:

i. The pre-founding phase

The first phase is identified as the pre-founding stage where creativity and idea generation, opportunity recognition evaluation constitute the main activities.

ii. The planning phase

The second phase is where planning activities such as business human resource, financial and marketing planning take place.

iii. The development phase

The third phase involves the development and acquisition of strategic resources such as financial, human, equipment and buildings for the launching of the business.

iv. The management phase

In the fourth phase, managing and growing the business entrepreneurially become the central activity of the business.

The entrepreneurial process approach, which includes dimensions of other approaches such as the macro and micro views, creates room for developing an integrative model. All four phases of the entrepreneurial process outlined above encompass creativity and innovation, organising resources, creating a business and managing for growth.

An integrative model depicting these phases of the entrepreneurial process is illustrated in Figure 2.5. The four phases of the entrepreneurial process contained in Figure 2.5 could be applied to the study of small businesses, though in a watered down form. In practice, the entrepreneurial process hardly occurs in businesses in a smooth linear progression fashion. In reality, the process, normally faces difficulties in implementation requiring revisions, corrections and so on. At times, two phases could be executed simultaneously. All these entrepreneurial activities are driven by the creativity and innovativeness of the entrepreneur. By intuition and innovation, the small business owner or potential entrepreneur explores the environment for opportunities for exploitation in order to realise economic gain. Innovatively, an entrepreneur could undertake the search for business opportunity and at the same time vigorously look for resources.

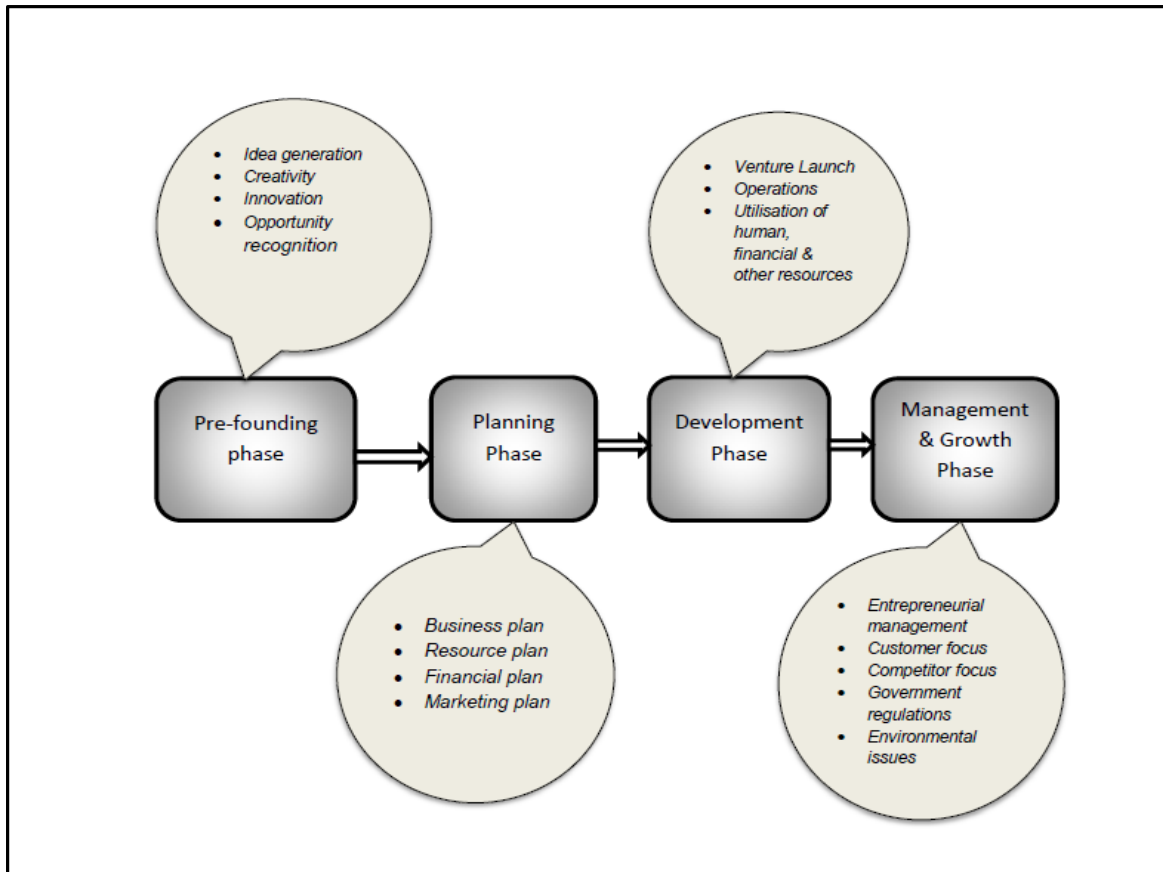


Figure 2.5: An integrative entrepreneurial process model

In small businesses like the SSAEs, this is likely to be the case since they lack resources and time to undertake comprehensive search and assessment of market gaps, compile detailed business, marketing, human resource and financial plans systematically as practiced in larger business entities. Small businesses need to be agile, flexible and resourceful and innovative in the entrepreneurial process.

In addition to the applicability of an adapted version of the integrative model to the SSAEs, it is also important to note the strategic dimensions, namely innovation, entrepreneurial and market orientation (customer, competitor and environmental focus) which are contained therein. This again aligns with the central argument of the study that the above-named strategic behaviours of firms could be crafted into an integrative model (EO, MO & INNO integrative model) to enhance SSAE's performance. Small business has been mentioned in the entrepreneurial context all along. The relationship between entrepreneurship and small business is discussed next.

2.4 ENTREPRENEURSHIP AND SMALL BUSINESS

The foregoing discussions on approaches to the study of entrepreneurship reveal inherent relationships between entrepreneurship and small business. Various definitions of entrepreneurship emphasise venture creation activities. It was pointed out earlier that the consequence of entrepreneurial activity is the birth of small businesses. In addition, the various approaches to the study of entrepreneurship including the micro and macro schools; and the entrepreneurial process approaches point to the creation, management and growth of small businesses. The SSAEs, as small businesses, are assumed to have originated from entrepreneurial processes. Accordingly, the SSAEs would be studied from this perspective.

2.5 DEFINING SMALL BUSINESS

There is hardly a universally accepted definition of the term 'small business' (Partomo, 2001; Ghassemieh et al. 2005; Stokes & Wilson, 2010; Moore et al. 2010; Nieman & Nieuwenhuizen, 2010; Venter et al. 2010). In addition, definitions of small business vary from one industry to another even within same national boundaries (South Africa, National Small Business Amendment Act, No 26 of 2003 as amended in 2004; US SBA, 1953).

Moore et al. (2010) presenting an overview of what constitutes small businesses, explain that small businesses are entities that in most cases, employ fewer than 100 persons. In their view, small businesses localise their operations except marketing which may have wider coverage. Small businesses are usually funded and started by a single owner or a few individuals though may grow to include a few others, they concluded.

Accordingly, Small businesses could generally be characterised as relatively small enterprises which often emerge as a consequence of entrepreneurial activity. Most ventures naturally start small due to resource constraints or strategic reasons (Timmons & Spinelli, 2007; Nieman & Nieuwenhuizen, 2010; Venter et al. 2010; Dandago & Usman, 2011).

There are numerous terminologies applied when it comes to describing or naming small businesses around the globe. The international community uses the term small and medium enterprises (SMEs) instead of small business (Katz & Green, 2011; the University of Strathclyde Library, 2012; Kongolo, 2010). South Africa, like the European Union, recognises a third category termed micro enterprise (NSBA, 1996 as amended 2004; EC, 2009). Thus the term SMME is applied in South Africa and the EU.

In the context of this study, the terms small ventures, small businesses, small firms, SMEs and SMMEs are applied interchangeably but with a preference for SMMEs and/or small businesses for the sake of consistency. For this study, small scale agricultural enterprises (SSAEs) is a term coined to refer to small businesses involved in agriculture-related economic activities such as crop and animal farming, processing and marketing agriculture-related products and services. Accordingly, SSAE is also used to refer to small businesses or SMMEs.

Small business definitions commonly entail quantitative and qualitative dimensions (Stokes & Wilson, 2010:5; University of Strathclyde Library, 2012). The qualitative issues addressed by these sources include market share, independence in terms of ownership and operations and business form. Quantitative definitions are based on head count, turnover, and balance sheet value (Stokes & Wilson, 2010: 4). The Organisation for Economic Co-operation and Development (OECD) (2005) provides an overview of small business definitions that clearly shows apparent definitional confusion. For OECD (2005), SMMEs are non-subsidiary, independent firms, which employ less than a given number of employees. This number varies across countries with the most frequent upper limit being 250 employees, as in the European Union. However, in the US this figure goes up to 499 employees. On the other hand, the lower limit could go as low as 10 employees and in some cases 5 workers. The OECD's (2005) overview highlights definitional differences and does little to harmonise small business definitions. An attempt to standardise definitions of small businesses would seem futile. In this study therefore, the South African definition of small business is adopted. However, for comparative purposes, selected country or regional definitions would be outlined. The South African definition is provided first, followed by other definitions.

2.5.1 Defining small business in the South African context.

Defining small businesses in South Africa is equally a daunting task. However, an attempt is made to explore the broad definitions and narrow it down to the working definition for this study.

Goldstuck (2012:1) outlines the different definitions, which characterise South Africa's small business environment. For instance medium enterprises employ up to 200 heads in mining and manufacturing whereas the upper limit for agriculture is only 100. Small enterprises employ up to 50 persons and very small enterprises employ up to 20 heads. Goldstuck (2012) is silent on the micro sector.

The National Small Business Act (NSBA) of 1996 as amended in 2003 and 2004 provides the most widely applied definitional framework in the South African context. The NSBA (2004) provides detailed definitions, characteristics, and types of SMMEs (Falkena et al. 2001; Ntsika, 2002; Goldstuck, 2012). In the NSBA (2004) definitional framework, the following categories of small businesses according to size are evident.

- i. Medium enterprises employ 120 to 200 persons depending on industry;
- ii. Small enterprises employ up to 50 persons;
- iii. Very small enterprises employ 10 to 20 persons depending on industry; and
- iv. Micro enterprises employ up to 5 persons.

Detailed NSBA (2004) definition of SMMEs is contained in Appendix A.

Falkena et al. (2001) provide a summary of NSBA's definitions of SMMEs reproduced in Table 2.1

Table 2.1: Summary of NSBA's definitions of different categories of business.

Enterprise size	Number of employees	Annual Turnover	Gross assets excluding fixed property
Medium	Fewer than 100 to 200 Depending on industry	Less than R4 million to R50 million depending on industry	Less than R2 million to R18 million depending on industry
Small	Fewer than 50	Less than R2 million to R25 million depending on industry	Less than R2 million to R4.5 million depending on industry
Very small	Fewer than 10 to 20 depending on industry	Less than R200 000 to R50 000 depending on industry	Less than R150 000 to R500 000 depending on industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Source: Falkena et al. (2001:29)

Categories of SMMEs are further provided. Falkena et al. (2001) reports that the NSBA 1996, as amended 2003 & 2004 places SMMEs into the following five categories.

i. Survivalist enterprises

In survivalist enterprises, the income generated is less than the minimum income standard or poverty line, there are no paid employees, and asset value is minimal. This category is considered pre-entrepreneurial and includes vendors, hawkers and subsistence farmers (which are practically classified into the micro-enterprise group).

ii. Micro-enterprises

Micro-enterprises have a turnover less than the VAT registration limit (i.e R150 000 per year) and are not usually formally registered for tax or accounting purposes. Examples are spaza shops, minibus taxis and household industries. They employ a maximum of five people.

iii. Very small enterprises

Very small enterprises operate in the formal market and have access to modern technology. They employ fewer than 10 people except in the mining, electricity, manufacturing, and construction sectors.

iv. Small enterprises

In small enterprises, a secondary co-ordinating managerial structure is in place providing some co-ordination and therefore exhibit more complex business practices than very small enterprises. The upper limit is 50 employees.

v. Medium enterprises

In medium enterprises, there is further decentralisation of decision making, a more complex management structure and increased division of labour. The maximum number of employees is 100 but 200 for mining, electricity, manufacturing and construction sectors.

As in the US and the EU, the NSBA (2003) has spelt out qualitative definition of small businesses. In this regard, the NSBA (2003) states that:

Small business means a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy...which can be classified as micro-a very small, a small or a medium enterprise...

From above definitions, one can deduce that SMMEs are defined from both quantitative and qualitative standpoints. Private enterprises which employ a maximum of 200 persons, owned by one or a few persons with localised operations predominantly in one industry may be classified as a small business in South Africa.

An exploration of small scale agricultural enterprises (SSAEs) in the area of study revealed that the size of enterprises varied from one employee to at most ten. These businesses would not reveal their financial information. For these reasons small businesses for the study are defined mainly on head count. Accordingly, the SSAEs are classified as micro and very small businesses where they employ from one to ten persons.

2.5.2 Overview of Small business Definitions in other countries/regions

In this section, definitions of small business from various countries or regional bodies are explored. The purpose for reviewing small business definitions from other areas is to identify different definitional approaches and the objectives for such classifications. It also aimed at identifying possible lessons South Africa can learn from such classifications. The review starts with the USA followed by other countries and regions

2.5.2.1 The USA

The U.S. Small Business Administration (SBA, 2013) describes small businesses as outlined below:

The SBA (2013) explains that small businesses employ a maximum of 500 persons and must be independently owned. In addition, a small business must not be nationally dominant in their field of operation. There are also industry variations in classification of small businesses in the US though. Small business classification in the US is

important as this determines which businesses qualify for government financial assistance. The SBA has set size standards which determine qualification of economic entities as “small business” in order to access state guaranteed loans for business purposes. The strict application of the classification mechanism makes the granting and tracking of performance of small businesses effective. This process has enabled small businesses access loans from banks and other financial institutions thereby enabling small businesses address the financial hurdle which often results in the doom of many small businesses. These are good lessons for South Africa’s policy makers and small businesses if progress is to be made in assisting small businesses overcome their financial difficulties.

2.5.2.2 *The European Union (EU)*

In the European Union (EU), the European Commission (EC) defines small businesses as enterprises employing a maximum of 250 persons. Besides, there are other financial criteria to be met in order to qualify as a small business in the EU. These additional criteria as well as size categories are summarised in Table 2.2. In the EU, the established thresholds are used for policy purposes. They are used to qualify small businesses in obtaining state guaranteed loans for business operations. (Stokes & Wilson, 2010:5).

Table 2.2 the EU small business thresholds

Enterprise category	Ceilings			
	Staff Headcount (no. of persons expressed in annual work units)	Turnover	or	Balance sheet total
Medium	< 250 (50-249)	≤ € 50m		≤ € 43m
Small	< 50 (10-49)	≤ € 10m		≤ € 10m
Micro	< 10 (0-9)	≤ € 2m		≤ € 2m

Source: European Commission, 2009; page 3 (see Stokes & Wilson, 2010: 4)

2.5.2.3 *The United Kingdom*

In the UK, the Companies Act 2006 defines medium enterprises as those employing up to 250 heads and has a turnover of £25.9 million. The Act also specifies that the small business category should employ not more than 50 persons (University of

Strathclyde Library, 2012). The UK small business definitions are summarised in Table 2.3.

Government institutions in the UK make use of these classifications for official purposes especially for offering financial assistance to small businesses. The British Bankers Association (BBA) has its own definition of small businesses in order to determine beneficiaries of its financial assistance. The BBA, among other criteria, classify business entities with an annual turnover of under £1million as small businesses.

The emphasis on classification of small business in the UK as well as the rest of the EU is to establish objective criteria for statistical purposes and subsequent identification of beneficiaries of state and private sector assistance to promote creation and growth of small businesses. Clearly, there are lessons here for South Africa.

Table 2.3: UK's SMEs definition

Category	Turnover	Balance sheet	Employees
Small company	< £ 6.5m	< £ 3.26m	< 50
Medium	< £ 25.9m	< £ 12.9m	< 250

Source: The UK Companies Act 2006.

2.5.2.4 *Brazil*

In Brazil, there is a strong drive to formalise small businesses; accordingly, small businesses are compelled to register in order to qualify for state assistance (White, 2005:14). In this respect, registered medium enterprises in Brazil may employ 100 to 499 heads in the industrial sector. In service enterprises medium enterprises employ 50 to 99 persons. (White, 2005:14). Other details are provided in Table 2.4.

Table 2.4: Classification of business in Brazil

Category	Type of enterprise	Criteria
Micro enterprises	Industrial operations	Up to 19 employees
	Services	Up to 9 employees
Small enterprises	Industrial operations	20-99 employees
	Services	10- 49 employees
Medium enterprises	Industrial operations	100-499 employees
	Services	50-99 employees
Big enterprises	Industrial operations	Over 499
	Services	Over 99

Source: White (2005:15)

2.5.3 Summative assessment

Formalising small businesses in Brazil via the registration process has largely accounted for the success of its small business sector and officials readily determine beneficiaries for various forms of assistance including financial, networking and marketing (White, 2005; Damane, 2008; Timm, 2011). South African small businesses largely remain informal. There is hardly any comprehensive data base for small businesses. Classification of small business is quite complex and problematic to rely on for statistical usage and identification of small businesses for government and private sector assistance. The Brazilian model could assist South African policy makers in designing effective policies and support for a more effective and efficient small business sector. It is hoped this approach would ensure South Africa's small businesses perform their expected roles namely, job creation, poverty alleviation and equitable distribution of income.

The survey of small business definition above serves to highlight differences (and in some cases, similarities) among various countries. The systematic classification categories in the US, UK and Brazil enable government, their agencies and NGOs to clearly identify small businesses according to specified criteria for assistance and support in their operational efforts. These practices could provide lessons for South Africa's policy makers in shaping approaches to managing the small business sector for greater effectiveness and efficiency.

As stated above this study in the main, considers small businesses to include business entities and for that matter SSAEs, which employ at most ten (10) persons. They therefore range from micro enterprises (maximum of 5 employees) to very small

businesses (not more than 10 employees). Financial criteria were excluded from the definition due to the difficulty for small businesses to disclose their financial matters.

2.6 THE MANAGEMENT AND GROWTH OF SMALL BUSINESSES

After their birth through the entrepreneurial process, small businesses require management for growth and profitability (Timmons, 2007; Bygrave, 2009; Ferri et al., 2009; Stokes & Wilson, 2010). In this section, the literature review considers small business management and growth issues especially those which are relevant to this study in terms of creativity and innovation.

All businesses, no matter the size, require one form of management or another. After start-up, small firms have to be managed on a daily basis to ensure growth and performance. Katz and Green (2011:12) argue that the entrepreneur is faced with management issues regarding the implementation of the business plan. Small business management poses unique complexities and challenges stemming from internal as well as environmental sources (Stokes & Wilson, 2010:340). Problems such as a sole manager with a potential for autocratic management style and lack of diverse and complementary management skills confront small business. In order to manage the enterprise, Katz and Green (2011:7) suggested that the entrepreneur adopts an appropriate management style and develops the ability to comprehend key variables for success. The entrepreneur should also be able to identify and solve problems, develop control systems and develop growth strategy (Katz & Green, 2011). It is to be expected that managers of small businesses in South Africa would possess these management characteristics in order to run their businesses effectively for growth and profitability. Management practice in the SSAEs would be investigated.

Small business managers including entrepreneurs should also be able to perform the general managerial functions namely, planning, organising, motivating, staffing and controlling (David, 2009:143). Business managers are expected to plan for the future in terms of setting objectives and goals and developing strategies. Managers are responsible for organising resources, allocation of responsibilities and coordinating organisational activities. A critical role they also play is the motivation of staff by way of effective communication and assisting staff in fulfilling their needs. They are also

responsible for identifying and employing required staff for the organisation and exercise overall control over the business (David, 2009; Stokes & Wilson, 2010).

Management roles in small businesses are less distinct as they are often centralised in the owner compared with the elaborate management systems in large organisations. Unlike large organisations, less formal planning or managing occurs in small businesses. The small business manager administers the business more by intuition and resolves problems as they surface. There is flexibility in management practice in small businesses. Management decisions are taken either solely by the owner/manager or in consultation with relevant persons in the organisation on ad hoc basis.

The foregoing suggests that irrespective of size, businesses need one form of management or another in order to stay in business. However, there is a need to differentiate management of entrepreneurial ventures from that of small business management and lifestyle or survivalist/necessity ventures. Timmons and Spinelli (2007); Kuratko (2009); Katz and Green (2011) emphasise that entrepreneurial venture management includes actions aimed at innovativeness, growth and profitability and in addition setting strategic objectives (Moore et al. 2010; Nieman et al. 2010; Venter et al. 2010) whereas lifestyle or survivalist/necessity businesses do not aspire to innovate nor attempt to grow. They take satisfaction in the status quo (Katz & Green, 2011:7). Small business management is said to typically focus on the traditional management functions such as planning, organising, and leading and controlling though such businesses may have originated through entrepreneurial activity (Moore et al. 2010; Nieman et al. 2010; Venter et al. 2010;).

Management in entrepreneurial ventures is more of leadership than the traditional role of management (Katz & Green, 2011:7). Entrepreneurial leaders are persons who pave the way and getting others to follow willingly. Such leaders focus on the destination rather than on the details of getting there. Entrepreneurial leaders often convey their vision of the firm's future to all participants in the business so that they can contribute most effectively to the accomplishment of the mission (Moore et al., 2010:495). Conversely, small business managers are less anxious to grow, innovate

and make profit. They pursue cost cutting strategies, take less risky decisions and react to actions of competitors (Katz & Green, 2011:7). The current study examined the management and leadership practices by the owner/managers and the resultant implications for performance of the SSAEs in the Vryburg region.

It is normal to expect that when people start businesses, there is an inherent intension of growing the business and make profits. Entrepreneurs usually create small firms with the intention of growth and profitability (Timmons & Spinelli 2007:51; Moore et al. 2010:14; Nieman & Nieuwenhuizen, 2010:10; Venter et al. 2010:7). Despite growth intensions by all businesses, there is distinction between small businesses and entrepreneurial businesses based on growth potential. It is argued that though the small businesses and entrepreneurial ventures require entrepreneurial action for start-up, on the one hand, the small business may stabilise at a certain level and only grow with inflation. On the one hand, entrepreneurial ventures vigorously pursue growth and profitability (Moore et al. 2010:14; Nieman & Nieuwenhuizen, 2010:9; Venter et al. 2010:8).

The foregone views highlight the growth characteristics of entrepreneurial ventures compared with the relatively stagnant or low growth nature of small businesses. The intention of the researcher is to examine the growth potential of SSAEs. The study would seek to establish if there are any links between growth potential and the strategic orientations of the SSAEs in the Vryburg region.

Van Aardt et al. (2011:349) identify a number of factors which influence growth in entrepreneurial businesses. They identify management growth objectives, creation of business vision, careful expansion plan, customer monitoring and response; and creation of an entrepreneurial culture. These growth factors imply that businesses are more likely to grow if managers clearly spell out their growth intensions guided by clear visions. This thinking also implies that businesses will also grow if managers create entrepreneurial culture that encourages innovation, commitment to pursuing business objectives aggressively for careful expansion. Further, businesses need to focus on satisfying their customers' needs and at the same time being aware of their competitors' actions. These growth objectives seem to overlap with the dimensions of

entrepreneurial and market orientations and innovativeness which have been the underlying theme for the study. The above factors are strategic in character and seem to fit into the proposed strategic model encompassing EO, MO and INNO.

These strategic behaviours of the owner/managers of small businesses could influence growth. It is pointed out that for small businesses to make meaningful impacts on the owners and society at large, growth is of paramount importance. Growth of small businesses has the potential of stimulating economic growth and development thereby creating jobs and alleviating poverty as well as promoting equity. Based on the growth characteristics outlined above, the growth potential of the SSAEs would be investigated. The growth potential characteristics of small businesses are closely related to the role they play in the local as well as national and indeed the global economy boom in the small business sector account for the rapid growth of the major developed economies such as the US, Japan and the UK (Timmons & Spinelli, 2007:50; Hisrich et al. 2010; Katz & Green, 2011:18). The recent Chinese economic miracle is attributed mainly to the small business sector accounting for 60% of China's GDP (Li, 2013).

Despite their success stories, it is established in the literature that small businesses encounter a multiplicity of problems in their business activities. The next section explores some of these problems relevant to the current study.

2.7 CHALLENGES OF SMALL BUSINESSES

Small businesses are confronted with numerous challenges which hinder their effective performance or even culminating in their death. The relative high death rate of small businesses was touched on in Chapter 1. The global failure rate of small businesses is estimated at 80% (Ghassemieh et al. 2005:2; Fatoki & Asah, 2011:170). The failure rate for South Africa's infant businesses is estimated at 70-80% (Van Eeden et al. 2001; Fatoki & Asah, 2011). This suggests that small businesses face problems across the globe although in different forms. This section is devoted to reviewing problems which small businesses especially in developing countries including South Africa face.

2.7.1 Lack of access to finance

One of the often cited constraints for small businesses is lack of access to finance (Das, 2007:75; European Commission, 2007:8; Nieman & Nieuwenhuizen, 2010:35; Olawale & Garwe, 2010:731; Dandago & Usman, 2011:7). SMMEs are traditionally seen as 'high risk' borrowers. In many instances, banks as the main source of finance perceive SMMEs as not being credit worthy. In order to avoid high-risk loans, banks are said to raise the qualifying criteria which the small businesses are unable to meet (Peter & Inegbenebor, 2009:3). Nieman and Nieuwenhuizen (2010:35) describe this scenario as, "risk aversion of the banking sector towards SMMEs". The high rate SMME business failures exacerbate this view. In addition, small enterprises lack collateral and capacity to secure and manage funds (Dandago & Usman, 2011:7). In the developed countries such as the US, funding small businesses seems to be eased by state guarantees which enables small businesses access loans. Yet Fatoki and Odeyemi (2010:128) point out that in South Africa, SMMEs access only 3.8% of available venture capital (R29 billion) citing low level education and training managerial capacity in accessing debt financing, lack of collateral and inadequate financial statements. The SSAEs could face this funding problem.

2.7.2 Lack of managerial skill

Another problem faced by small businesses commonly mentioned in the literature is lack of managerial skills and capacity in various fields including finance, human resources, marketing, operations, information and communication technology (Perks & Smith, 2008:145; Nieman and Nieuwenhuizen, 2010:35; Olawale & Garwe, 2010:731; Dandago & Usman, 2011:7). SSAE owners of the Vryburg region are also likely to lack the requisite managerial skills.

2.7.3 Lack of access to markets

Lack of access to markets is perceived as another significant difficulty inhibiting small businesses operations in South Africa (Nieman & Nieuwenhuizen, 2010:35). Small businesses are not able to market their produce for various reasons including distance from markets, lack of knowledge of existing markets and poor transport facilities between the business owners and the markets. The Vryburg region is predominantly rural and suffers from underdeveloped transportation networks which is likely to negatively affect the SSAEs marketing efforts.

2.7.4 Poor location

Poor location negatively affects the performance of small businesses (Fatoki & Odeyemi, 2010:131). They explain that the geographical location in terms of lack of proximity to potential buyers and suppliers limit opportunities for growth and profitability. As noted earlier, SSAEs are rurally located and removed from the major South African urban centres such as Johannesburg, Durban and Cape Town just to mention a few. Their location therefore seriously hampers their business activities.

2.7.5 Difficulty in networking

Small businesses inability to effectively network with relevant individuals or businesses in order to reduce costs of accessing information, technology, and markets inhibits the performance capacity of small firms (Fatoki and Odeyemi (2010:131). The rural location of SSAEs could render networking a nightmare. Accordingly, they may be unable to take advantage of networking. The SSAEs of Vryburg and similar regions of South Africa would have to try every method or process on their own with the attendant delays, high costs and failures.

2.8 PROMOTING SMALL BUSINESSES

Due to the recognition of the value of SMMEs, governments and NGOs around the world have taken deliberate steps to create conducive environments and institutions to promote SMMEs' creation, development and performance. Enhancing performance of the small business sector is said to enhance local and national economic growth and development. Efforts directed at promoting SMME in various countries and regions of the world are outlined in the next section to serve as lessons to South Africa's policy makers as well as small businesses.

2.8.1 The USA

In the US, the SBA claims that it has delivered loans, loan guarantees, contracts, counselling sessions and other forms of assistance to small businesses (Moore et al. 2010; Katz & Green 2011). According to Moore et al. (2010:330) and Katz and Green (2011), the SBA provides assistance through programmes such as access to capital, entrepreneurial development in the form of education, information, technical

assistance and training, government contracting and advocacy (Moore et al. 2010; Katz & Green 2011). The US federal government does not directly lend money but guarantees loans granted by financial institutions through five key programmes (Moore et al. 2010; Katz & Green, 2011).

Other forms of assistance come from state or local government and community-based sources for small businesses in the US (Moore et al. 2010:331). These comprehensive forms of assistance offered small businesses in the US should provide reference frames for South Africa's small business promotion bodies such as South Africa Enterprise Development Agency (SEDA).

2.8.2 Brazil

Recognising the importance of the SMME sector to the economy, the Brazilian government created the Brazilian Micro and Small Business Support Service (SEBRAE) to offer logistical support in four primary areas of operation. These four key areas are training, credit and capital, entrepreneurial culture and local and sectoral development (White, 2005).

White (2005) observed that the SEBRAE strategy had achieved significant success due to clear definition and classification of the different kinds of SMMEs in the Brazilian economy and the creation of the SMME body (SEBRAE) which has developed clear objectives contained in its action plan. The action plan objectives are to multiply SEBRAE's service delivery, to reduce the failure rate of SMMEs, to promote the formulation of associative networks with other organisations, banks and so on and to reduce the number of informal businesses by offering various incentives to encourage SMMEs to register.

SEDA has lessons to learn from SEBRAE. The formalisation policy vigorously applied in Brazil which has yielded positive results for small businesses as well as the Brazilian economy in general could be adopted by SEDA.

2.8.3 The EU

The European Commission has also taken steps in developing and implementing programmes aimed at creating conducive environments for EU SMEs to survive and

improve their performance. According to the EU Business News support for SMEs in the EU comes in the forms of EU funding for SMEs, creating a more favourable borrowing environment in the EU, region the provision of more equity capital for small businesses and the promotion of entrepreneurship and innovative programmes for SMMEs.

Lessons from the EU are similar to those from the US for South Africa. However, the EU recognises and attends to the needs of micro business which form majority of EU businesses. Majority of South Africa's businesses are micro, hence South Africa needs to learn and adopt the successful small business support programmes from the EU. Such policies would eventually be extended to the SSAEs.

2.8.4 South Africa

The South African government, having realised the critical role SMMEs play in the economic prosperity of the country, has taken specific steps to facilitate the development of the sector. Mahembe (2011:15) reports Trevor Manuel the then Minister of Trade and Industry as saying:

With millions of South Africans unemployed and underemployed, the Government has no option but to give its full attention to the task of job creation, and generating sustainable and equitable growth. Small, medium and micro-enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. We believe that the real engine of sustainable and equitable growth in this country is the private sector. We are committed to doing all we can to help create an environment in which businesses can get on with their job.

(Manuel, 1995).

Prior to 1995, little attention was paid to the small business sector especially among blacks due to apartheid policy. In 1995, the new and democratically elected South African government formulated a strategy for SMMEs by issuing the White Paper called the National Strategy for *the Development of and Promotion of Small Businesses in South Africa* which was transformed into the National Small Business

Act of 1996 as amended in 2003 and 2004 (Nieman, 2010:196; Venter et al. 2010:235). The aim of this Act was to create an enabling environment for the promotion of SMMEs. The Act accordingly created the National Small Business Council and the Ntsika Enterprise Promotion Agency and as well as provided the official definitions of small, micro and medium enterprises (Venter et al. 2010). Nieman et al. (2010:196) identified the key objectives of the white paper *the foundation of the Small Business Act of 1996* as follows:

- Create an enabling environment for small enterprises
- Facilitate greater equalisation of income, wealth and earning opportunities
- Strengthen the cohesion between small enterprises, prepare small businesses to comply with the challenges of an internationally competitive economy
- Address the apartheid-based legacy of disempowerment of black business,
- Support the advancement of women in all business sectors,
- Create long term jobs
- Stimulate sector-focused economic growth,
- Level the playing fields between bigger and small businesses, as well as between rural and small businesses.

The South African national SMME support framework illustrated in figure 2.6 demonstrates the government's elaborate intensions to promote the development of SMMEs in South Africa. The government, through its strategic economic and developmental objectives, has created an enabling environment with institutional support targeting specific population groups and industries for the promotion of SMMEs (including SSAEs).

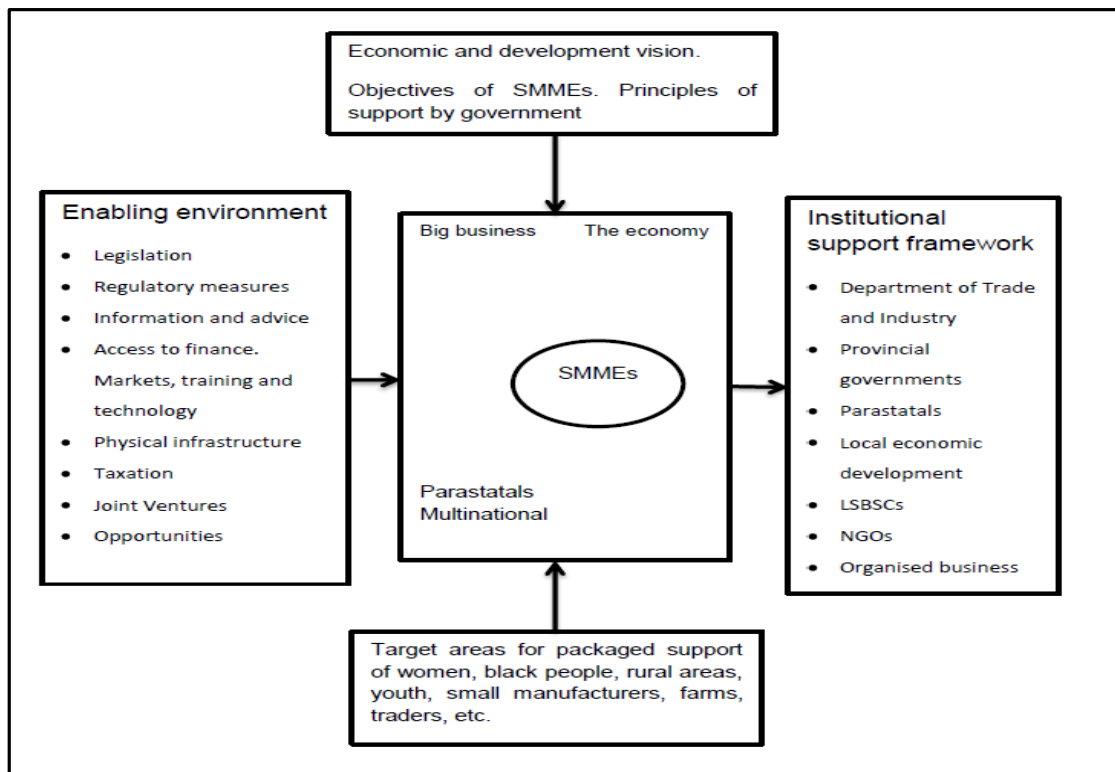


Figure 2.6:The South African National SMME Support Strategy
 Source: Nieman et al. (2010:19)

2.8.5 Summative assessment of SMME issues

The review of literature has led to mixed picture being painted about the contribution and overall performance of SMMEs across the globe.

On the one hand, SMEs are clearly the engine of growth or the life blood of major economies such as the US, Japan and the EU. The small business sector has fuelled the growth of emerging economies such as India, China and Brazil although across the globe, SMMEs encounter many similar problems such as lack of access to finance, lack of skills such as management, finance and marketing.

On the other hand and disappointingly, the performance of the SMME sector in the less developed nations such as Nigeria, Ghana and South Africa to mention a few looks discouraging. Herrington et al. (2009:33) paint a dismal picture of South Africa’s entrepreneurial activity. They report that South Africa ranked very low among the developing countries which participate in the Global Entrepreneurship Monitor (GEM) and in addition scores very low on Total Entrepreneurial Activity (TEA) (GEM, 2013).

Though SMMEs in South Africa are said to represent 98% of total number of firms and employ about 55% of the country's labour force, the contribution to the GDP is rather estimated at a relatively low 35% (Damane, 2008).

The relative poor performance of the small business sector in South Africa makes the researcher believe that other factors than those often cited, e.g. lack of access to finance, markets, technology and managerial skills, and efforts directed at solving them by government and NGOs may be responsible for poor the results. The researcher proposes that in order to improve the performance of SMMEs, there is need for an intense focus on cultivating the intangible internal resources (EO and MO with an emphasis on INNO). These issues are further discussed in Chapter 4. It is further suggested that it is only when small businesses develop internal resources and capabilities in terms of entrepreneurial and market orientations with a focus on innovation through deliberate efforts and intervention programmes, can they take advantage of the external enabling environment created by governmental as well as non-governmental institutions for superior performance.

2.9 SUMMARY

This chapter was devoted to detailed examination of the entrepreneurship literature related to the study. Various definitions of entrepreneurship as well as the different approaches to the study of the concept were examined. The link between entrepreneurship and small business was also explored. Attention was also paid to the management and growth of small businesses. The difficulties which small businesses have to contend with in their business activities and efforts in various forms of support including the creation of enabling environments were also discussed.

It was noted that, in recognition of their importance, governments, regional bodies as well as NGOs have variously created enabling environments as well as supportive institutions to facilitate effective functioning of small businesses across the globe. It was underscored that the creation of enabling environment as well as supportive institutions have not achieved the desired results in various countries including South Africa. This leads the researcher to conclude that in order to effectively exploit governmental and other facilitating conditions to their advantage, SSAEs need to build

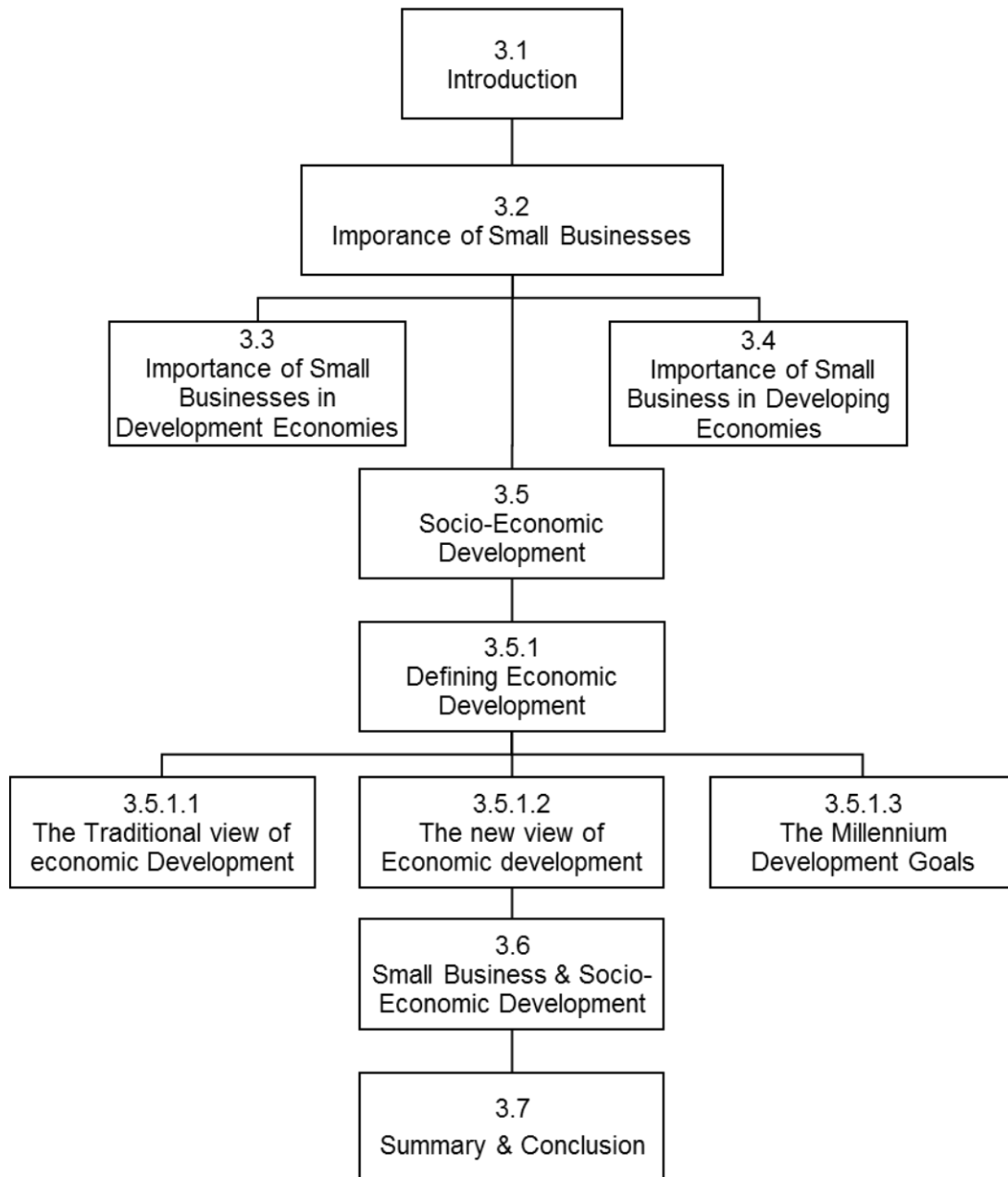
their (internal) strengths by nurturing their entrepreneurial and market orientations with an intense focus on innovativeness which is engrossed in both EO and MO as suggested in chapter one. It is with these enhanced internal intangible resources that the SSAEs could improve their performance which could eventually lead to increased economic growth and development. These issues are further discussed in Chapter 4.

In concluding, this chapter has laboured on the need to promote the SMME sector. The reason is not farfetched and quite easy to comprehend. Simply put, **the ultimate objective of improved SMMEs performance is the facilitation of economic prosperity of the societies they operate in.** Stated differently, the success of SMMEs including the SSAEs, it is expected, will translate into socio-economic development at local, national and global levels. Socio-economic development is therefore at the heart of this study hence is logically examined in the next Chapter.

CHAPTER 3

SMALL BUSINESSES AND ECONOMIC DEVELOPMENT

Outline



CHAPTER 3

SMALL BUSINESS, ENTREPRENEURSHIP AND SOCIO ECONOMIC DEVELOPMENT

“The ultimate purpose of development economics however remains unchanged: to help us understand developing economies in order to help improve the material lives of the majority of the global population”

(Todaro & Smith, 2011)

3.1 INTRODUCTION

“Small business is entrepreneurship - means development” is a common parlance in the discourse on how to promote sustainable development. What it means is that the three concepts are inseparable. It is therefore logical that a study on SSAEs should examine the small business/entrepreneurship/development nexus. In Chapter 2, entrepreneurship and small business (part of the socio-economic development puzzle) issues were reviewed. This chapter, completes the puzzle by presenting the literature on the role of small businesses and for that matter entrepreneurship in the socio-economic development of South Africa. This exercise includes a look into the concepts of economic growth and economic development with emphasis on classical and new perspectives. The Millennium Development Goals (MDGs) and its implications for South Africa’s socio-economic development will also be discussed. The chapter ends with examination of the relevance of small business and by extension, the roles of SSAEs-businesses to socio-economic development in the South African context. This exercise is intended to place the current study on entrepreneurship in SSAEs in context.

3.2 THE IMPORTANCE OF SMALL BUSINESSES

Van Aardt et al. (2011:3) suggest that high levels of entrepreneurship constitute the economic heart of any country. They argue that such high levels of entrepreneurship facilitate the production and exchange of goods and services thereby stimulating economic growth and development. Furthermore, entrepreneurship is said to bring about structural change in business resulting in growth and increased output for the benefit of society (Hisrich et al. 2010:23).The success of leading nations such as USA,

Japan and the United Kingdom is attributable to the small business sector (Hisrich et al. 2010; Katz & Green, 2011; Timmons & Spinelli, 2011). This being the case, entrepreneurship is expected to result in economic growth and development in South Africa. The anticipation is that the SSAEs will also spearhead economic development of the Vryburg region. This would translate into creating more job opportunities, increased employment and poverty alleviation.

Entrepreneurs are said to be the engine of economic growth and job creation, Venter et al. (2010:13) emphasise. They further argue that entrepreneurs generate innovations, fill market gaps and increase competition thereby promoting economic efficiency. Entrepreneurship is characterised as, “innovation + entrepreneurship = prosperity” (Timmons & Spinelli 2011:50). The European Commission (2012) similarly emphasised that small businesses, propelled by innovation, constitutes the backbone of the European Economy. These views seem to emphasise the centrality of innovation in the entrepreneurial process. It could be inferred that in the heart of entrepreneurship and also marketing, lies innovation which itself is a product of innovative culture of organisations. Innovation orientation of small businesses in the context of entrepreneurial and market orientations is expected to provide impetus for enhanced economic activity and development in South Africa. In the next section, the economic significance of small businesses for both developed and developing economies as well as its implications for SSAEs in the Vryburg region is reviewed.

3.3 IMPORTANCE OF SMALL BUSINESSES IN DEVELOPED ECONOMIES

The contribution of small businesses to the economies of selected developed countries/regions is reviewed in this section. This is done in order to create a reference frame for exploring the relevance of small business in developing economies as it also applies to South Africa and for that matter the Vryburg region.

3.3.1 The USA

USA is generally acknowledged as the largest global economy at present. The US economy grew to this powerful position due to what Timmons and Spinelli (2007:60) call *the entrepreneurial revolution*. This radical structural change in the American economy has seen the emergence of entrepreneurial enterprises such as Microsoft

Corporation and Apple Computer, growing from small beginnings to rank in the wealthiest global business category. So have countless small businesses enormously contributed to the US and indeed the global economic prosperity (Timmons & Spinelli, 2007:62; Okpara & Kumbiadis, 2008:109). The question arises as to whether small businesses in the developing countries and for that matter the SSAEs in the Vryburg region could play similar entrepreneurial revolutionary roles in their respective economies.

Analysing the US economy, Stokes and Wilson (2010:9) conclude that the small business sector caused a shift of economic activity from large organisations to small ones over the period from 1969 to 1976. Timmons and Spinelli (2007:50) suggest that over the same period, new and growing firms accounted for about 81.5% of new jobs in the country. The US SBA (2006) opined that 99.7% of US firms were small which also were responsible for creating 75% of all new jobs at the time. Moore et al. (2010:3) similarly explain that small businesses in the US created 50% of all private sector jobs and also 60% to 80% of all new jobs in the decade.

Most small businesses in SA are micro and responsible for the lion share of the country's employment and contribute significantly to the country's GDP. The performance of US small businesses therefore provides a basis to view the role small businesses play in South Africa and in particular in the Vryburg region.

3.3.2 The European Union

Small businesses in the European Union (EU) are classified into micro, small and medium enterprise (SMME) categories just as South Africa does (Stokes & Wilson, 2010; NSBA 1996, as amended in 2003 and 2004). Small businesses play a dominant role in the EU economy. Cornwallon (2010:1) points out that small businesses are even more important to the European Union than to the US economy. It is explained that companies with fewer than 250 employees (the maximum threshold of small businesses in the EU) account for 70% of the private sector workforce in the EU compared with companies employing fewer than 500 persons which account for 49% in the US (Cornwallon, 2010).

The European Commission (EC) (2012) affirms that 99% of all European jobs are located in small businesses which also provide two-thirds of the private sector jobs

and contribute more than half of the total of the processing enterprises. The EC further stated that the small business sector constitutes the backbone of the European economy. An important characteristic of the sector is that 90 % of the small businesses employ less than 10 persons. This means that 90% of the small businesses are micro enterprise, a similar situation encountered in South Africa where most small businesses are micro in size and also employ over 90% of the country's workforce.

The UK, reflecting the trend in the EU to which it belongs, has a strong small business sector. Stokes and Wilson (2010:11) explain that, in 2007, the small business sector was responsible for the employment of 58% of the labour force in the UK. They further report that, out of the 4.7 million businesses counted in in the same year in the UK, about 96% were constituted by firms employing less than 10 persons and 74% of the total (3.5 million) had no employees (one person businesses). This scenario reflects the general EU trend comparable to the South African situation.

The foregone review in relation to the relevance of the SMME sector in the EU economy including the UK provides a comparative platform for measuring the performance of similar businesses in South Africa. This also provides guidelines for analysing the socio-economic role of SSAEs in the Vryburg region.

3.4 SMALL BUSINESSES IN DEVELOPING ECONOMIES

The literature survey in this section begins examining small businesses in South Africa.

3.4.1 South Africa

The importance of small business to the South African economy has been expressed in academia, government and other public circles (Government White Paper 1995 Nieman & Nieuwenhuizen, 2010:4; Venter et al. 2011:21). Small businesses constitute 95% to 97% of all South Africa's enterprises (Damane, 2008; Abor & Quartey, 2010:215; Nieman & Nieuwenhuizen, 2010:3; Venter et al. 2011:19).

It appears that the importance of small businesses to the South African economy could even be considered more critical given the high levels of unemployment standing at

25.6% (Stats SA, 2013) since the small business sector is supposed to solve the unemployment puzzle in the country. Unemployment hits South African youth hardest with records estimating youth unemployment at 51% for the 15-24 years old category (Stats SA, 2013). There is also persistent mass poverty with majority of South Africans living below the poverty line of US\$1 a day or in pronounced deprivation of well-being (World Bank, 2004). Former President Mbeki (2004) clearly captures the state of poverty in South Africa when he states:

Endemic and widespread poverty continues to disfigure the face of our country. It will always be impossible for us to say that we have fully restored the dignity of all our people as long as this situation persists. For this reason the struggle to eradicate poverty has been and will continue to be a cornerstone of the national effort to build the new South Africa.

Inequality in terms of income distribution is another *headache* for South Africa. Income is said to be concentrated in the hands of a few while the majority wallow in abject poverty (Mahembe 2011:15). South Africa's *Gini coefficient*, a measure of income distribution in a society, lies in the region of 0.58, is among the highest in the world (Venter et al. 2011:333). A 0.0 Gini coefficient implies absolute parity; while 1.0 Gini coefficient refers to absolute disparity (Venter et al. 2011). It is argued that the small business sector growth facilitates income redistribution thereby reducing the high levels of inequality in the country.

South Africa's economy appears to be getting from bad to worse. The rate of unemployment declined from 25.20% in first quarter of 2013 to 25.60% in the second quarter of same year (Stats SA, 2013). The informal sector which is dominated by small businesses is also said to have lost employment (Stats SA, 2013). This is not good news for South Africa as the country looks up to the small business sector to lead economic growth and development.

Another area of concern for South African small businesses is the relatively low rate of early entrepreneurial activity (TEA) which measures the rate of willingness of adults aged 18-64 years in a country to start and operate new business (GEM, 2013:26).

South Africa's TEA rate is reported to have declined from 9.1% in 2011 to 7.3% in 2012 (GEM, 2013).

The decline in the informal sector, which also means a contraction of the small business sector, in addition to increasing unwillingness of the adult population to create new ventures, as shown in the declining TEA rate, does not augur well for South Africa. To turn the tide for improved living conditions, implying creation of more jobs, halting the increasing unemployment rate, alleviating poverty and distributing income more equitably, the small business sector requires a different approach as being proposed in this study. This study takes the position that for the small business sector to be more efficient and lead the growth and development of the South African economy, small businesses need to adopt entrepreneurial and market orientations with a focus on innovativeness.

As pointed out earlier, the majority of small businesses in South Africa operate in the informal sector. About 82% of small businesses in the country are either very small or micro enterprises which belong to the informal sector and therefore present limited ability to create employment opportunities compared with small businesses in the developed regions (GEM, 2010; Nieman & Nieuwenhuizen, 2010:30; Venter et al. 2011). Though they absorb a large proportion of the labour force, these very small and micro businesses, often described as necessity or survival enterprises, are owned and run by the owners without hiring any significant number of people, a scenario envisaged among the small scale agricultural enterprises in the Vryburg region. The employment capacity of majority of South Africa's small businesses is in effect limited. Therefore, in order to effectively adopt the proposed strategic postures (EO, MO & INNO), the small businesses need to be formalised as formalisation will attract both government and private support and as well generate internal motivation for increased productivity.

As has been explained, small businesses are very important players in both developed and developing economies. Despite their presumed critical roles in fostering economic growth and development, a high percentage of small businesses in developing economies appear to be performing below expectation. For instance, if SMMEs constitute 95% of South Africa's enterprises, it could reasonably be expected that their

contributions to the GDP should equally be dominant. Unfortunately, the SMMEs contribute less than half the GDP of South Africa (Ntsika, 2004; WBCSD 2004). The relative poor performance of the small business sector is attributable to both external (macro) and internal factors of small businesses. Research has established a number of factors inherent in the entrepreneurial environment believed to constrain entrepreneurial activity in South Africa (GEM, 2010:29). Most critical environmental factors identified by the research in a descending order of significance include:

1. Poor quality primary and secondary level entrepreneurial education. The experts explain that entrepreneurial society requires quality education in order to engage in sophisticated and knowledge-based competitive economy.
2. Inability to transfer research outputs and technological innovations to business, especially small businesses keeps these businesses under-developed and uncompetitive.
3. Poor performing government programmes manifest in a plethora of highly funded government agencies tasked with entrepreneurship development. Many of the intended beneficiaries are either ignorant of or simply unable to access such funds for entrepreneurial activity.

(GEM, 2010:29).

In addition to the above critical environmental factors, the research also mentioned such environmental factors as unfavourable tax regime and restrictive labour laws, bureaucratic practices, red tape and monopolistic market conditions all add up to discourage the creation and growth of small businesses (GEM, 2010:29).

Apart from the environmental entrepreneurial factors confronting small businesses, this study contends that there are also problems internal which the small businesses have to contend with. These internal factors include inability to access finance, lack of critical business or entrepreneurial skills such as financial, management, marketing among others. Though government has initiated a number of policies such as tax relief for small businesses and programmes including skills development for entrepreneurs to address both the external and internal factors which hinder small business development in South Africa, this study proposes that in order to take full advantage of such government initiatives, it is imperative that the small business adopt and implement entrepreneurial, market and innovative practices.

3.4.2 Lessons from some African examples

The review so far has revealed that small businesses have earned the reputation of being the biggest employer of the workforce, significantly contribute to the GDP, and to some extent alleviate poverty in various countries.

In Nigeria for instance, the small business sector is said to account for about 90% of private sector employment and contribute in excess of 40% of GDP (Adegbite et al. 2006; Okpara & Kumbiadis, 2008; Peter & Inegbenebor, 2009; Dandago & Usman, 2011; Ojeka, 2011).

In Ghana, small businesses constitute 85% to 90% business entities and also considered a catalyst for economic growth and development (Mensah, 2004:1; Mahmoud, 2011:24). Others characterise Ghanaian small businesses as instruments of wealth creation and income distribution, enhancement of economic self-dependence and entrepreneurial development (Martey et al. 2013; Peters et al. 2013). If South African small businesses encompassing the SSAEs could take cues from their continental counterparts' higher entrepreneurial activity could be fostered resulting in enhanced economic growth and development of the country.

Economic growth prospects for South Africa are said to be relatively low. The African Development Bank (2013) reports that South Africa's economic growth for 2013 will remain below 3%. This will also imply that the growth prospects for South Africa's small businesses will experience low growth. At the same time, the African Development Bank (2013) forecasts relatively higher economic growth for other countries on the continent for 2013. Growth rates are forecast for Ghana at 8%, Nigeria 7.2% and Mozambique 8.5% for same period (2013). This is likely to improve growth prospects for small businesses in these countries as well. South Africa's policy makers and small businesses will have to figure out the secrets behind growth in her sister countries and follow suit.

The relatively low (TEA rate for South Africa was commented on earlier. It is important to note that TEA rates in a number of African countries rank higher than that of South Africa. Ghana is reportedly rated at 36% while South Africa is rated 7% (GEM,

2013:26). This means that 36% of the adult population in Ghana have expressed the willingness to start or get involved in entrepreneurial activity as against 7% for South Africa. Zambia is the highest rated African country on the TEA scale at 41%. The 2010 GEM report emphasise sound education system and competitiveness linkages and suggests that a sound educational system produces critical minded and entrepreneurial workforce which constitutes the recipe for flourishing entrepreneurship. The report laments South Africa's low and declining ranking with reference to quality of education. South Africa placed virtually at the bottom of the rankings: 125th out of 139 and 146 out of 148 countries for the years 2011/2012 and 2012/2013 respectively due to its very poor educational system (Global Competiveness Report, 2012/2013).

The fact that other African countries placed higher than South Africa in terms of educational standards and also show higher TEA rankings, would suggest that South Africa needs to overhaul its educational system if it is to produce a competitive and entrepreneurial work force. South Africa will have to learn from its sister African countries how to improve its educational system in order to inculcate higher levels of entrepreneurial knowledge among its adult population for enhanced entrepreneurial activity. TEA implies entrepreneurial orientation. To engage in early entrepreneurial activity, an entrepreneurial mind set which extends to market and innovative predispositions is required. It is expected that, TEA manifested in EO, MO and INNO would assist in growing a competitive small business sector for South Africa and hopefully in the SSAEs in the Vryburg region.

3.4.3 Brazil

Brazil is reported to share similar socio-economic conditions with South Africa. Brazil, like South Africa, is one of the most unequal societies in the world (Tim, 2011:10). Both South Africa and Brazil are grappling with similar developmental issues including lack of quality education, inadequate infrastructure and low share in international trade (Tim, 2011). The two countries also have high proportion of their economies constituted by small businesses with the majority being informal and survivalist in nature (White, 2005:22). Small Businesses in Brazil are reported to be performing relatively well in recent times compared with their counterparts in other developing countries and specifically South Africa (White, 2005:12; Timm, 2011:10). Brazil is also

reported to exhibit higher TEA rating than South Africa (GEM, 2012:20). Brazil is ranked 15 while South Africa placed 35th out of 54 countries surveyed by GEM. This means that Brazilians show higher propensity to engage in entrepreneurial activity than South Africans. A further exploration of small businesses in Brazil will provide a framework for studying South Africa's small businesses which includes the SSAEs of the Vryburg region.

Defining small businesses in Brazil is quite contentious as in other developing countries (White, 2005:14). Some definitions exclude the informal sector consisting mainly of survivalist enterprises (White, 2005:15; Timm, 2011:97), while others take them into account (White, 2005:13). The small business sector, made up of 4.5 million formal and 9.5 million informal enterprises, is regarded as the lifeblood and the pistons of Brazil's economic engine (White, 2005; Damane, 2008). The small business sector in Brazil which has made significant progress in recent times offers lessons to South Africa.

The growing success of the small business sector in Brazil is attributed to a number of factors but the creation of a small business body, Brazilian Support Service to Micro and Small Enterprises (SEBRAE), is said to be the brain behind the growing small business success (White, 2005:15; Timm, 2011:50). SEBRAE, a large organisation created through the union of both the public and private sectors and the country's research entities, has been charged to oversee all small business issues in Brazil. SEBRAE has been responsible for restructuring small businesses in Brazil. It also ensured a clear definition of small businesses which facilitated formalisation of these businesses thereby bringing them on board the formal national commercial sector (White, 2005; Timm, 2011).

The formulation of concrete objectives such as multiplication of service delivery to small businesses, the reduction of small business failure rate, promotion of association of small businesses with other organisations such as banks and encouragement of formalisation of small businesses through registration are some of the secrets behind SEBRAE's success story.

The effectiveness of SEBRAE is often recommended for emulation by other developing economies, not excluding South Africa (White, 2005; Damane, 2008; Timm, 2011). The small enterprise development agency (SEDA) which is the small business body in South Africa will have to learn from SEBRAE if the sector should record any significant progress.

Another factor which makes Brazilian small businesses successful is said to be the strong collaboration between research institutions and industry with increasing positive returns for business especially small scale ones (Meneghel et al. 2004:174; Obadan & Agba, 2006:20). It will also be useful if SEDA can forge an alliance between small businesses and institutions of research so that small businesses could access research outputs to drive their innovations, competitiveness, and overall success.

A close collaboration between SEBRAE and SEDA could in the long run build economic bridges between Brazil's and South Africa's small businesses and the broader economies as well. This could indeed promote the South-South economic cooperation more so given the fact that Brazil and South Africa are closer neighbours than they are with their larger trading partners of North America and Europe.

3.4.4 India

India, which also belongs to *BRICS* like South Africa, has a large small business sector comprising formal and informal businesses with majority falling into the latter category (Trade India, 2007; Timm, 2011). South Africa and India also share common developmental issues such as a large informal small business sector, poor infrastructure, poor quality education and perpetual poverty (Timm, 2011:10).

Small businesses in India number about 26 million (Tim, 2011:16). They contribute about 45% to the industrial output and 42% of total exports (Trade India, 2007; Small Business Development Chamber of India, 2011; Small Business Trends 2011).

India is said to have emerged as one of the key global economic players due to the vital role played by the small business sector. The sector is actively engaged in international trade which practice could be emulated by South Africa's small businesses including the SSAEs in the Vryburg region to go global for increased

growth and profitability. The Vryburg region shares borders with Botswana, one of Africa's leading economies. This location offers SSAEs a strategic advantage. Cross-border trade between the SSAEs and businesses in the neighbouring country could promote international trade between South Africa and Botswana. In the process, the SSAEs could become more involved in global trade which requires high productivity and competitiveness. Effective participation in global business will certainly enhance growth and profitability for South Africa's small businesses.

3.4.5 China

China is the biggest economy among the BRICS group of developing economies. China has experienced a phenomenal economic growth in recent times. This growth, dubbed the "Chinese miracle", has made China the 2nd biggest economy currently on earth after the US (Li, 2013). It is claimed that the small business sector has played the dominant role in the Chinese success story. Li (2013) states that small businesses contribute about 60% of China's GDP and this has been the driving force behind the country's recent rapid economic growth estimated at 9.2% and 7.8% in 2008 and 2012 respectively (World Bank).

The dominance of small businesses in the Chinese economy is indicated by authors. It is estimated that small businesses constitute about 95 % of total industrial enterprises contributing about 60% of GDP (Anderson et al. 2003:310; Wang, 2008:5) It is further estimated that 99% of all registered enterprises in China are small businesses which account for 64% of total output value and 55% of sales revenue. (Kanamori et al. 2007:12; Li, 2013).

If small businesses are responsible for creating the Chinese miracle, then a huge task lies ahead of small businesses in other developing countries including South Africa. This also means that the SSAEs have to lead the developmental efforts in the Vryburg region. References have been made to development in the preceding sections. The following sections examine economic and social development in greater detail.

3.5 SOCIO-ECONOMIC DEVELOPMENT

Social and economic developments are concepts which have attracted definitional disagreements over the years. While one school of thought wants to explain the issue

of development purely in economic terms for example in terms of growth per capita income, another adopts a broader perspective by including non-economic factors such as social and economic equality, elimination of poverty and the rule of law (Todaro & Smith, 2011:12). Todaro and Smith (2011) further argue that the economic system should be viewed as a component of the broader social system (Todaro & Smith, 2011:13). In the next sections, the classical notion of economic development and the new socio-economic perspective of development are explored.

3.5.1 Defining socio-economic development

The question of social and economic development has engaged the attention of academics from various disciplines for ages. There is little agreement as to what constitutes economic development (Thomas, 2000:23). While emphasising the need for a critical theoretical discourse in the development field, Rahaman (2005:217) notes that the development concept has remained an umbrella one which is explained according to the researcher's or policymaker's thinking. Some researchers have attempted to resolve the problem of multiplicity of definitions by adopting a two-way broad classification of development approach. Approaches such as the structuralist versus the orthodox perspectives of development (Rahaman, 2005:217), the orthodox development theory and the human development or capabilities paradigm (Randolph, 2009:5), or the traditional economic measures school and the new view of development (Todaro & Smith, 2011:14) have been proposed. Relevant to this study, are the traditional notion of development and the new view of development which are elaborated in the next section.

3.5.1.1 Traditional economic measures school/orthodox development perspective

Randolph and Green (2009:5) explain that orthodox development theory (which Todaro and Smith (2011:14) referred to as traditional economic measures focuses on building productive capacity of national economies so as to improve material well-being which is measured as per capita GDP. Lin (2009:2) argue that, from Adam Smith to the early 20th century, most economists adopted the laissez faire approach (which is synonymous with the orthodox or the traditional schools) which they believe is the best way to obtain sustainable growth based on the assumption that in vibrant economies, all resource allocation is influenced by market forces void of state intervention.

Following the economists' or classical laissez faire tradition which dominated the development literature prior to the 1970s, development had mainly been measured in pure economic terms of increases of about 5% to 7% or more in the Gross National Product (GNP) or the Gross Domestic Product (GDP) of national economies (Todaro & Smith: 2011:14). Other economic indicators of development, according to the traditionalists, are reflected in income per capita or per capita GNP which demonstrates the ability of an economy to grow its economy at a faster rate than the growth of the country's population.

As observed by Todaro and Smith (2011:14) economic development of the pre-1970s was seen in terms of rapid industrialisation often at the expense of agriculture and rural development. This development model anticipated the benefits of overall GNP growth to "trickle" down to the masses in the form of jobs or other economic opportunities. Other social problems such as unemployment, poverty and inequality were relegated to a secondary status.

Experience has however shown that the "trickle-down effect" has not benefited society as anticipated. It rather has led to the development exclusive socio-economic classes of a few haves and majority have-nots resulting in a very unequal society around the globe. In South Africa, socio economic inequality is very evident. A walk around Khayelitsha in Cape Town for example paints a different picture from the leafy suburbs of Houghton in Johannesburg. A different approach to development had to be adopted if all citizens are to benefit from the national cake. Accordingly, the classical economic development model attracted numerous criticisms and alternative or new approaches to economic development emerged like the new view to development discussed in the next section.

3.5.1.2 The new view of development

According to Todaro and Smith (2011:14), the economies of many developing nations experienced economic growth but without a corresponding improvement in the living standards of the majority of their people in the 1950s and 1960s. The GNP per capita model was found inadequate in addressing the developmental needs of the masses

of the developing nations. A case in point is the oft cited Brazil's "growth without development" between 1960s and 1980s (Todaro & Smith, 2011:27).

One can extend the "growth without development" phenomenon to many developing countries today. For instance, Sub-Saharan African countries such as Nigeria and Ghana are currently rated high in terms of fast paced economic growth. Unfortunately, these high rates of growth in GDP terms have not translated into improved quality of life for the majority of their citizenry. Such contradictory scenarios influenced development economists, development institutions and agencies as well as policy makers to view development from broader perspectives than strictly from an economic standpoint.

With the growing realisation that economic growth per se did not necessarily translate into the well-being of society, the United Nations Development Programme (UNDP) 2010 argued that, "economic growth is essential for human development, but to exploit the opportunities for improved well-being that growth offers, it needs to be properly managed".

There has therefore been a growing concern in a number of circles about economic growth as a measure of development. The new view agitated for more concerted attack on widespread absolute poverty, increasing inequitable income distributions, and rising unemployment (Todaro & Smith, 2011:15). Todaro and Smith (2011) explain that the post 1970s accordingly saw a shift in approach to economic development which has been redefined to mean the reduction or elimination of poverty, inequality and unemployment within a growing economy. In order to buttress the new development perspective, Todaro and Smith (2011:15) asserts:

The questions to ask about a country's development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result "development" even if per capita income doubled.

Indeed, in the 1960s and 1970s, a number of developing countries experienced relatively high rates of growth of per capita income without a corresponding improvement or even deterioration in employment, equality and real incomes of the bottom 40% of their populations-a phenomenon termed “growth without development” (Todaro & Smith, 2011:18).

As mentioned earlier, Brazil experienced rapid economic growth in the 1970s stimulated by massive foreign investment. This rapid growth resulted in the development of highly affluent minority which lived in splendour while the living conditions of a very large majority worsened. This scenario plays out in South Africa as well. The rush for the mineral wealth of South Africa attracted huge foreign investment. The economy grew rapidly with the rise of a wealthy urban class mainly Whites with increasingly impoverished rural Blacks. Although not forgetting the apartheid policy of separate development, South Africa’s growth (development) was concentrated in a few White “islands” while the majority Black population experienced relatively worsening living conditions. Apartheid policy of separate development aside, this could be likened to a classic case of growth without development. Surely, Dudley Seers would not see any development in Brazil nor in South Africa.

The questions posed by Dudley Seers and cited above seemed to have been emphasised by the 1991 World Development Report which stated:

The challenge of development ...is to improve the quality of life. Especially in the world’s poor countries, a better quality of life generally calls for higher incomes. ...better education, higher standard of health and nutrition, less poverty, greater opportunity...a richer cultural life.

If this is the position of the World Development Report, then countries such as Brazil and South Africa have many questions to answer. The recent riots during the FIFA Confederations Soccer tournament in Brazil in 2013 raises the questions of development without growth. The poor have been up in arms with the government for spending millions of dollars in preparations for the FIFA Soccer World Cup tournament scheduled for Brazil in 2014 and the Olympic Games in 2016 while their living conditions degenerated. The residents of the squatter camp in Rio de Janeiro locally

known as *Metro favela* near Maracana stadium as well as many other informal settlements around Brazil, have been evicted from their homes to make way for the construction of the stadiums and other facilities in preparation for these tournaments. It is noted that South Africa also hosted the FIFA Soccer World Cup tournament in 2010 in places like Cape Town which accommodates Khayelitsha, perhaps the largest squalor settlement in Africa. South Africa and Brazil indeed share common features in terms of growth and development on the one hand, and wealth and poverty on the other. Brazil and South Africa are among the most unequal societies in the world. Small businesses which have been noted to reduce poverty, create jobs and redistribute income, have mammoth tasks to execute in these countries if the 1991 World Development Report's concerns are to be addressed.

Other authors, who advocate the new approach to development contend that economic development is a complex phenomenon whose analysis and measurement transcends the pure traditional economic indicators (such as GDP or GNP per capita) and must consider other factors such as capital formation, and population growth. In 1970, the United Nations Research Institute for Social Development's (UNRISD) published a study entitled, 'contents and measurement of socio-economic development'. The report aimed at formulating quantitative methods of analysing and measuring socio-economic development levels of countries. In reviewing the above report, Zienkowski (1971) noted that the need for the study arose due to the fact that the indicators applied by then such as per capita income not sufficiently capturing the true social phenomenon. Jaffe (1960:338) in this respect argued, "“economic development” in reality means socio-economic-cultural change in its broadest definition, and includes the whole gamut of human institutions and processes”. Price Waterhouse Coopers (2001) maintains:

Human development and improvement in the quality of life is the ultimate objective of all planning programmes leading to higher economic and social development. There exists a very strong linkage between attaining economic prosperity and enriching the quality of life, which is reflected in the social indicators of health, longevity, literacy and environmental sustainability.

Small businesses have been reported as important players in economic activities in both developed and developing countries. Small businesses hold the prospects of

leading economic growth and development with the consequent redistribution of income as witnessed in the US and Europe. It is expected that small businesses play similar roles in the developing countries especially in Brazil and South Africa where economic growth has had little meaning to the vast majority of their populations. The SSAEs could similarly stimulate growth and development in the Vryburg region which resultantly could spill over to its neighbouring regions.

Apart from broadening the content of development to include general improvement in the quality of life, the sustainability of development is another critical dimension. The World Development Report (2003) insists:

The core challenge for sustainable development is to ensure a better quality of life ... while meeting everyone's aspirations for well-being. This demands substantial growth in income and productivity in developing countries. At the same time, it is necessary to sustain critical ecosystem services and strengthen the social fabric that underpins development...is about improving well-being and protecting what people value and want to pass on to their children.

This suggests that while utilising the earth's natural resources such as land, water and air for economic activities, humans should take care and protect the environment for future generations. This applies to both large and small organisations which exploit natural resources in their economic activities. This means that SSAEs whose economic activities derives mainly from natural resources, also need to take care of environmental problems for sustainable operations. Their crop and animal farming activities as well as their processing and marketing of agriculture related products should not result in environmental degradation. For instance, the processing of animal products should not result in environmental pollution but appropriate refuse disposal methods be applied. "Sustainable development is all about improving the human resource base in order to maximise human welfare and maintain the environment now and for the future", Munslow cited in Coetzee et al., argued.

Van den berg (2012:13) argued that economic development is a complex process because it links millions of people, firms, organisations and government agencies. This complexity is accentuated for the fact that the economy is an integral part of the larger

social and natural systems. Van den Berg (2012:11) views these inter-relationships as economic, social and natural spheres of human existence. The author accordingly rejected the notion that economic analysis could ignore social and natural events. Van den Berg (2012) maintains that it is difficult to envision solutions to the world's problem of poverty, hunger, oppression and violence without increasing economic production. Van den Berg (2012) concludes that, economic growth impacts on the all three spheres of human existence thereby acknowledging that economic development should be perceived from a very broad perspective.

This view was also echoed by Hujo (2010:2) when commenting on social policy and sustainable development. This author lamented that social issues were ignored. He however noted that there has been policy changes since the mid-1990s whereby attention has been drawn to the importance of social sectors and policies for economic development strategies recognising, for example, the contribution of social expenditure to human capital formation, macroeconomic stabilisation, productivity and growth. Social and economic policies from the 1990s increasingly adopted the new view to development and accordingly integrated human issues into governmental development strategies.

Sen (2001:3) argues:

... An adequate conception of development must go much beyond the accumulation of wealth and the growth of national product and other income related variables. Without ignoring the importance of economic growth, we must look well beyond it...Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy.

Human development has taken centre stage in development theory in recent times. In Sen's (2001) view, one cannot truly speak of development when people are subjected to authoritarianism. This implies that people subjected to authoritarian rule enjoy little or no freedom such as freedom of choice, freedom of speech, freedom to education, health etc. People are unfree to determine what they desire to satisfy them. Sen (2001) further argues that development should go beyond increase in GDP though it is a necessary means to development. Development, he argues, requires the removal of

unfreedoms, meaning addressing problems related to poverty, tyranny, and poor economic opportunities among others.

Here again, the Brazilian and South African experiences are cases in point. Brazil was subjected to long periods of military dictatorship while South Africa languished under repressive apartheid laws. Economic growth had no meanings to the majority of the people of Brazil and South Africa because they had no freedom to pursue economic activities of their choice. It is hoped the democratic regimes in place in the two countries would afford their people freedom to improve their living standards.

The classical measures of development such as GDP and per capita income, have been found not to adequately capture the essence of development. As a response, new measurement tools were developed. The human development index is one of such instruments discussed in the next section.

3.5.1.3 The human development index.

The previous sections have discussed various views as to what constituted development and how it should be measured. The United Nations Development Programme (UNDP) (1990) in its Human Development (HDR) report placed people at the centre of development. It declared:

“People are the real wealth of nations. The basic goal of development is to create an environment that enables people to enjoy a long, healthy, creative life”.

The report further states that human development should be perceived as “a process of enlarging choices”. The development process, it explains, involves building human capabilities through processes such as education. It also contends that economic growth should be reflected in the lives of the people who should participate in activities that influence their lives. The report therefore marked a significant shift in how development should be perceived and practiced. Development from then became people-centred. Issues such as GDP and income per capita, though considered as the drivers of development, no longer were considered as ends in themselves but means to achieving human development.

This shift of focus is important for small businesses. Small businesses had previously been considered insignificant in the growth-development process. They were considered peripheral to national economies. With the new approach which emphasises developing the capabilities for active participation in activities that shape the lives of people in free environments, small business owners now have opportunities to develop their skills and competencies through education and engage in entrepreneurial activities of their choice. Incomes that accrue to them consequently will empower them to exercise choice as to their needs. This situation would enable small business practitioners (including the SSAE owners) enjoy a long, healthy, creative life as envisaged by the UNDP (1990).

So, classical growth and development indicators that had long been determined through GDP and income per capita measures are now found to be inadequate because they did not adequately capture real living conditions of people. Consequently, the UNDP (1990) accordingly introduced a composite human development index (HDI). The HDI measures three basic elements of human development namely:

- long, healthy life measured by life expectancy at birth;
- knowledge captured by adult literacy rate and combined enrolment rate at the primary, secondary and tertiary levels;
- real GDP per capita expressed as purchasing power parity (PPP) in US\$, determined by the resources needed for a decent standard of living.

The developers of the HDI pointed out a number of limitations of the instrument. They explain that HDI only takes into account averages and therefore does not cover gender, region, race and ethnic group differences areas which might need urgent attention. The scope of the instrument is also limited as it does not capture all aspects of development such as political freedom. For these reasons, the index is not considered a comprehensive measure of development. Nonetheless, the HDI captures indicators of human development much better than the traditional measures of GD and per capita income. The HDI, with modifications, has increasingly been used by development economists, policy makers and development consultants (Meier & Rauch, 2005:5; Todaro & Smith, 2011:47).

The foregoing discussion explored both the classical and the new approaches to socio-economic development. It also highlighted a shift from the classical approaches which focussed on measures such as GDP and per capita income to the current people-centred methods. It was illustrated that development must take into account the needs of the people who such developments are meant for. It also stressed the need to enlarge the choice of people by improving their capabilities in a free environment so that they can actively participate in activities that influence their lives. Development is therefore more about bettering the lives of people living in impoverishment. Social and economic development is therefore very relevant to South Africa and specifically to the people of Vryburg where the study is located. It has also been suggested that small businesses are charged with the role of driving the expected socio-economic development of their societies. So are the SSAEs expected to promote development in the Vryburg region where they remain the major source of economic activity.

In promoting the new approach to development, the UNDP has set specific developmental targets for countries to meet within specified time frames. The UNDP's programme of action is examined in the next section.

3.5.1.4 Millennium Development Goals (MDGs)

The new view of development seems to be vividly captured by the UNDP's Millennium Development Goals (MDGs) set, following the millennium summit of the United Nations in 2000. At this summit, all member states of the UN and a number of international organisations agreed to achieve eight goals with specific targets and time frames by 2015 (UNDP, 2013). The highlights of the MDGs and targets with their timelines contained in South Africa's MDG Mid-Term Country Report (2007) are as follows.

- **Goal 1:** Eradicating extreme poverty and hunger. The target is to reduce by half the number of persons who earn less than \$1/day and those who suffer from hunger by 2015;
- **Goal 2:** Achieving universal primary education for both boys and girls by 2015;

- **Goal 3:** Promoting gender equality and empowering women by eliminating all gender discrimination at all educational levels by 2015;
- **Goal 4:** Reducing child mortality rates for children under five by two-thirds by 2015;
- **Goal 5:** Improving maternal health by reducing maternal mortality by three-quarters by 2015;
- **Goal 6:** Combating HIV/AIDS, malaria, and other diseases, the target being to halt and reverse the spread of HIV/AIDS; and the incidence of malaria and other diseases by 2015;
- **Goal 7:** Ensuring environmental sustainability through effective management of natural resources, provision of sustainable good drinking water by 2015 and improving the lives of squatter camp dwellers by 2020; and
- **Goal 8:** Developing a global partnership for development. This should reflect in open non-discriminatory trading and financial systems founded on good governance for poverty reduction at both national and international levels. Other areas of cooperation include addressing the need of the least developed countries through debt relief, creating productive work for the youth and assisting poor countries to access to affordable drugs.

The eight Millennium Development Goals are detailed in Appendix B. The above MDGs are clearly people oriented in line with the new development approach as it targets socio-economic development of the masses of the developing countries where extreme poverty with its concomitant deplorable living conditions such as hunger, malnutrition and poor health conditions are rampant. In addition, unemployment and social inequality are endemic. The MDGs also aim at reducing poverty, unemployment and inequality; as well as improving the general quality of life of the masses of the people. Further, the MDGs seek to free the masses from deprivation and want by 2015. They seek to enlarge the capabilities of the poor masses through improved education, health improvements and employment opportunities. They also aim at achieving gender equality. Above all, the MDGs targets creating freedom in all forms for the poor masses for general improvement of quality of life.

Social and economic development could therefore be perceived as a multi-dimensional phenomenon encompassing social, economic, political and human development embedded in the broader earth's ecological system from the MDGs perspective.

3.6 FINAL WORD ON SMMEs AND SOCIO-ECONOMIC DEVELOPMENT

The role/importance of SMMEs and for that matter SSAEs explored in the preceding sections revealed the tremendous contribution of the sector to economic growth and development. Small businesses have been portrayed as the major employers of the workforce in both developed and developing countries (Okpara & Kumbiadis, 2008; Stokes & Wilson, 2010; Venter et al. 2010; Timmons & Spinelli 2011). The creation of new jobs has been attributed to the small business sector (DTI Annual Review of Small Business in South Africa, 2004: 63; US SBA 2006; EC, 2012). Through their entrepreneurial activities with an emphasis on innovations, small businesses have created new ventures, and have offered new products and services to the communities they operate in (Damane, 2008; Abor & Quartey, 2010; Nieman & Nieuwenhuizen, 2010; Venter et al. 2011). They have innovatively marketed their products and services to their customers' satisfaction. Small businesses have stimulated both local and national economic growth and development (White, 2005; Dandago & Usman, 2011; Timm, 2011). Indeed, small businesses have stimulated globalisation of commerce through their entrepreneurship, marketing and innovations. Small businesses have led entrepreneurial, marketing and innovative revolutions in the US, Europe and China (Trade India, 2007; Timm, 2011; Li, 2013).

The role of small businesses in the socio-economic development process cannot be over emphasised given their demonstrated roles in the development process across the globe. It is anticipated that the small business sector plays these critical roles in the developing countries as well. The focus is on South Africa and particularly the Vryburg region. Small businesses should accordingly pilot the development process in these areas.

3.7 SUMMARY AND CONCLUSION

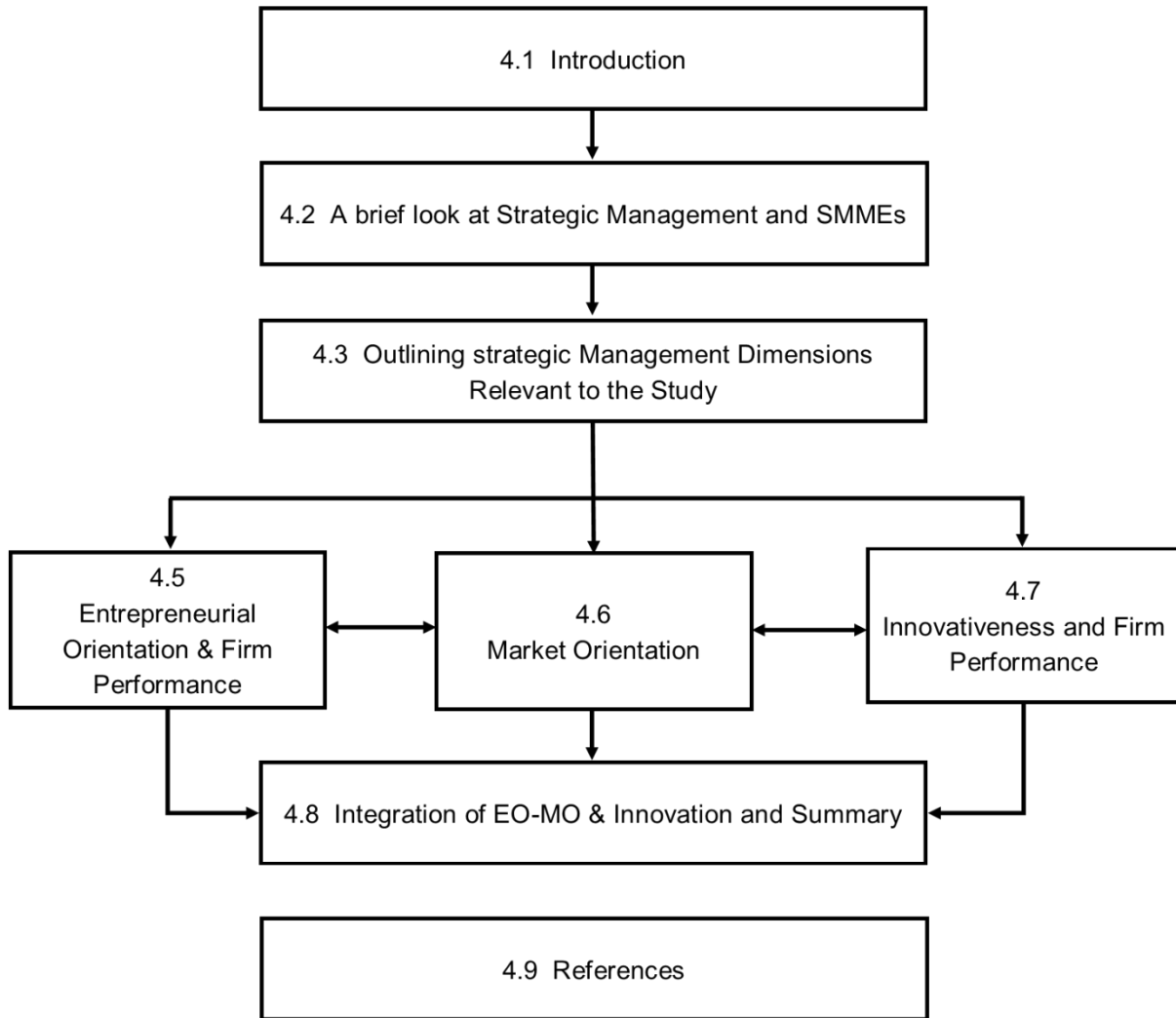
The literature review has demonstrated the important role that small businesses play in local and national economies. Small businesses employ in the region of more than 80% in most countries albeit with varying levels of contributions to their respective countries' GDPs and the entire spectrum of development. In recognition of their importance, governments, regional bodies as well as NGOs have variously created enabling environments as well as supportive institutions to facilitate effective functioning of small businesses across the globe. It was noted above that the creation of enabling environment as well as supportive institutions have succeeded in places such as Brazil but with mixed outcomes in others such as South Africa and Nigeria. The classical and the new approaches to development were explored with present development economists and development institutions recommending the new approach. The new approach is a comprehensive approach to development covering economic growth but with an emphasis on people issues such as education, health and freedom among others. The review also covered the MDGs which is basically a people-oriented approach to development in accordance with the new approach to development. The review ended with emphasis on the role small business play in the social and economic development process. Small business spearhead innovation through entrepreneurship, marketing and innovation in the provision of goods and services to their customers thereby facilitating fundamental social and economic change in their communities. It is concluded by arguing that through innovativeness, small businesses like SSAEs could drive entrepreneurship and marketing for greater firm success and socio-economic progress of society in general.

The next section examines the concepts of innovativeness, entrepreneurial orientation and marketing orientation in much detail.

CHAPTER 4

ENTREPRENEURIAL AND MARKET ORIENTATION, INNOVATIVENESS AND FIRM PERFORMANCE

Outline



CHAPTER 4

ENTREPRENEURIAL AND MARKET ORIENTATION, INNOVATIVENESS AND FIRM PERFORMANCE

4.1 INTRODUCTION

The primary aim of the study has been to examine the relationships among entrepreneurial orientation (EO), market orientation (MO), and innovativeness (INNO) and their combined influence on the performance of small businesses with a focus on the small scale agricultural enterprises (SSAEs) in the Vryburg region. Specifically, the study aims at determining whether a combination of EO, MO interfaced through INNO would not yield superior performance than the stand-alone influences of these strategic postures (EO, MO & INNO) in relation to firm (SSAE) performance. Therefore, the chapter reviews the literature related to these concepts.

The central argument for this study has been that the performance of SSAEs and for that matter all small businesses could be aided by adopting a strategic EO-MO-INNO posture in the operation of their businesses. However, since these behaviours (EO, MO & INNO) are rooted in strategic management (Matsuno et al. 2002:18; Bhuian et al. 2003:9; Keh et al. 2007:1), it is only appropriate and necessary to first examine strategic management from an SMME perspective.

4.2 EO, MO, AND INNO AS STRATEGIC DIMENSIONS OF SMALL BUSINESS MANAGEMENT

In this section, strategic management as it provides context to the key strategic orientations of small businesses as far as entrepreneurship is concerned and their performance relevant to the study is explored.

4.2.1 Defining strategic management

In the ever-changing immediate business environment characterised by increasing competitive intensity, variety of suppliers, numerous government regulations and legislations and shifting customer wants and preferences, businesses regardless of type, size, and even location have been compelled to reposition themselves in order to remain relevant. There are also broader external factors such as economic,

technological, social and political conditions which affect business operations that must be considered (Pearce II & Robinson, 2011:3). In addition, businesses are also confronted with internal pressures from increasing demands from employees who also need to be motivated, conflicts, diversity and equity issues; and productivity among others. Other stake holders like shareholders, the community; and the quest for sustainability, the preservation of the physical environment all need to be taken off (Pearce II & Robinson, 2011:3; Louw & Venter, 2012:6). In order to survive the hostile competitive environmental challenges and at the same time manage internal dynamics plus other stake holders, organisations have no choice but to undertake elaborate planning to address these issues. Planning has to consider the unstable and unpredictable business environment in addition to its internal and external stakeholders in order to manage future events proactively. This type of planning aimed at achieving long term as well as short term objectives of the business is referred to as strategic planning or strategic management. Strategic planning and strategic management are synonymous terms but preferably used in academia and business world respectively (David, 2011:36). The two terms (Strategic planning and strategic management) are applied interchangeably in this study.

A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage (Ireland et al. 2013: 4). It is management's plan of action in running and operating the business in order to outperform its rivals that is to achieve competitive advantage (Ehlers & Lazenby, 2011:3; Hough et al. 2011:5; Ireland et al. 2013:4). A strategic plan serves as the road map or the game plan for success in organisations (David, 2013:35). A competitive advantage is achieved when an organisation implements a strategy which provides customers superior value. It also refers to anything a firm does exceptionally better than its rivals which they find very difficult to duplicate or imitate (Ehlers & Lazenby, 2011:3; David, 2013:38).

Strategic management then could be defined as a set of cross-functional decisions and actions that result in the formulation and implementation of plans designed to achieve a company's long term (strategic) objectives. It involves integrating management, marketing, finance accounting, production/operations etc. for the achievement of organisational success in growing the business and increasing

profitability. An organisation achieves competitive advantage through an effective and efficient strategic management.

Strategic planning in an organisation should align with the environment in order to achieve the long-lasting results in the quest to gain competitive advantage (Ehlers & Lazenby, 2011:3). Organisations should not only seek growth and profitability, but must also be concerned with protecting the earth ecological system for sustainability of the business itself and the communities they serve currently and the future.

Strategic management has a number of unique characteristics. Strategic management requires top management decisions, commitment of large amounts of resources for planning, executing and evaluation (Pearce II & Robinson, 2011:5). Strategic planning emphasises long term objectives of organisations and are therefore future oriented (Pearce II & Robinson, 2011:5; David, 2013:35).

Strategic planning transcends three levels of decision making. In the big business context, the highest decision making authority lies with the CEO and the board of directors. The next level of decision making powers resides with the business or corporate managers. The functional or divisional heads constitute the lowest level of strategy planning. Small businesses do not have the resources required to enable them put in place three levels of decision making layers. In addition, small businesses are usually owned and managed by one person. Strategic planning in small businesses therefore expectedly lies solely with the owner/manager.

Businesses irrespective of size, undertake strategic planning. It occurs in both large and small businesses. Research has however shown that the larger and more sophisticated the business entity, the more formality applied in strategic planning (Pearce & Robinson, 2011:8). In small businesses, strategic planning is less elaborate and informal (David, 2011:48; Pearce & Robinson, 2011:3). There is little or no functional differentiation. Strategy planning mainly rests with the owner/manager in whom management functions are concentrated. The informal strategic plans in small businesses are largely unwritten covering shorter time horizons say one to two years.

This approach reduces delays, encourages quick and flexible strategic planning in small businesses. The speed and flexibility in crafting and implanting strategies gives small businesses proactive and innovative advantage over their larger counterparts whose strategic planning is elaborate and time consuming. Small businesses are able to reach customers with their new products or services ahead of the large businesses. Strategic planning in the SSAEs is expected to firstly, give them competitive advantage among businesses of same size, and secondly, outperform their larger counterparts.

Small businesses in South Africa do strategic planning. Owner/managers compare their business performance with their rivals' and intuitively plan their next courses of action. They critically examine possible causes of their under/over performance and take corrective measures or strengthen their over achievement. Informal conversations with owner managers of SSAEs in the Vryburg region revealed that owner/managers of SSAEs do strategic planning. It is argued that the extent to which they engage in strategic planning will be a reflection of their entrepreneurial, market and innovative preferences.

To outwit rivals a business requires creative thinking and innovation to spot market gaps or needs based on customer preferences identified through customers' information generation. The business will also need to know its competitors' intentions and actions in order to plan its course of action so that it can proactively satisfy customers ahead of rivals. This scenario reflects a convergence of entrepreneurship-sporting market gaps, marketing-determining customer preferences and competitors' intentions and actions; and innovation, producing and serving customers with novel goods and services. Small businesses need to engage in all three distinct but inter-linked strategic activities (entrepreneurship, marketing and innovation) integratively. Thus, strategy formulation and implementation in small businesses should include EO, MO and INNO simultaneously.

4.2.2 Strategic management in small businesses

Strategic management in small businesses, as in large businesses, could be categorised into three separate but inter-related stages (David, 2013:43). These stages include:

- Strategy formulation, stage where strategists develop vision and mission for the business. It also involves external environmental scanning for opportunities and threats to the business. The business at this stage formulates long term objectives and makes a choice from alternative strategy alternatives.
- The second stage of strategic management is the implementation stage. This stage involves setting annual objectives, allocating resources, mobilising staff through motivation and getting the plan into action.

Evaluation is the final stage in the strategic management process. At this stage, efforts are made to find out which strategic actions are working well and are strengthened. Areas of poor performance are identified and corrective measures are instituted. Evaluation outcomes provide feedback to the strategic vision and mission suggesting that the process is continuous. In large organisations, strategic management is highly formalised but less so in small businesses. The strategic management model is illustrated in Figure 4.1

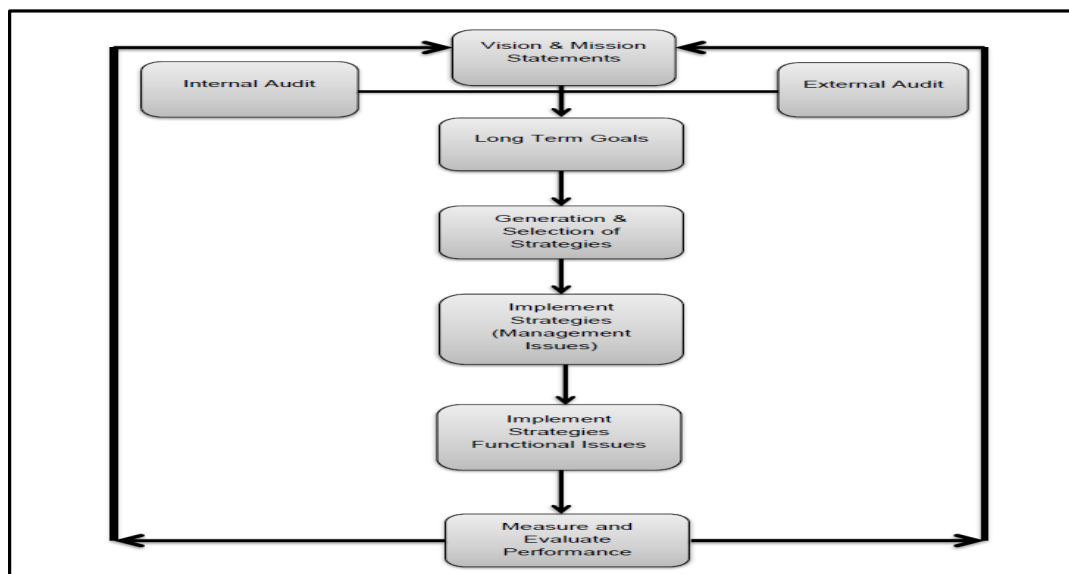


Figure 4.1: The strategic management model

Source: David (2011:44)

Small businesses have been associated with strategic management. Some researchers have shown that strategic management has become an essential formal management tool for many small enterprises (O'Regan & Ghobadian, 2007). Others maintain that strategic management in small businesses is largely informal and intuitive (David, 2011:48). Pearce and Robinson (2011:8) wrote:

Some firms, especially small ones, follow an **entrepreneurial mode**. They are basically under the control of a single individual, and they produce a limited number of products or services. In such firms strategic evaluation is informal.

The foregoing suggests that strategic management in small businesses has been acknowledged. The form it takes and the extent are matters to be contested. Firstly, strategic management requires significant amount of resources in terms of human, financial, time among others to formulate, implement and evaluate. Small businesses are therefore not able to apply the comprehensive strategic management model because of resource constraints. Therefore, elaborate models are more appropriate for large organisations. If it should be of any relevance, the elaborate format will have to be modified to suit small businesses.

Secondly, strategic management in small businesses is more of intuition and informal. Intuition plays a dominant role in strategic management especially in small business (Chak, 1998; David, 2013). It is driven by the owner/manager' experience, imagination and skills. It is usually informal and unwritten. It does not involve detailed environmental or internal analysis. However, the small business strategist, most often, the owner/manager, intuitively develops a vision and mission, scans environmental factors that may positively or negatively impact on the business (Chak, 1998). Based on the information generated, the owner/manager makes decisions and commitments and acts to outwit its competitors for growth and profitability. The owner/manager sets long term objectives, innovatively implements the strategic decisions and finally evaluates the effectiveness of the actions. A simplified intuitive strategic management model is illustrated in Figure 4.2. In the small business, there is little need for coordination of different functions since the enterprises is a virtual single unit entity. The unitary structure makes for flexible implementation of strategy, and quick adaptation and response to emergent issues.

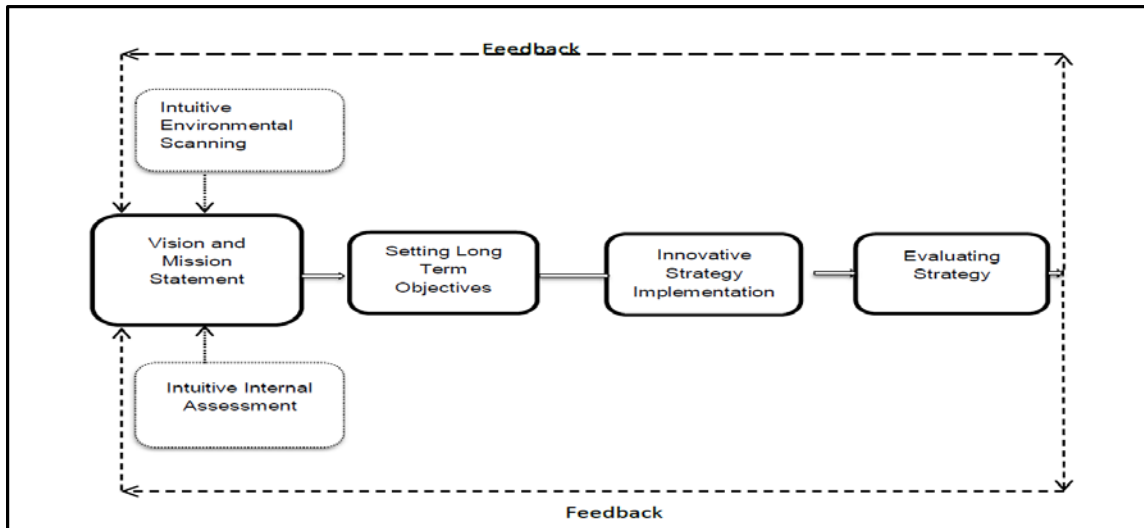


Figure 4.2. An intuitive strategic management model for small business
Adapted from: David (2013:44)

4.2.3 Strategy analysis and choice

There are a number of strategy alternatives for small businesses to choose from following their assessment of external and internal evaluation and setting their strategic objectives. Hough et al. (2011:6) and Pearce and Robinson (2011:13) identify four most frequently used strategies which they name as:

- i. Industry low-cost provider. This strategy aims at cost-based competitive advantage over rivals.
- ii. Differentiation approach. Businesses differentiate their products by introducing new or unique features, enhanced quality, technological superiority, etc in order to outperform their rivals
- iii. A narrow market niche strategy (focus). This approach enables firms to focus on a narrow market segment whose special needs are not well catered for by rivals thereby winning the competition
- iv. Expertise and resource strategy. Small firms tend to rely on their skills and capabilities and resources to outdo their competitors.

The logical strategy choice for small businesses is the narrow focussed strategy since they lack resources to differentiate, develop high level skills, acquire enormous resources and engage in price wars. Accordingly, small business, by intuition, should be able to carve out a narrow niche for themselves which they can focus on with their special good or services.

4.2.4 Benefits of strategic management for small businesses

Benefits accrue to firms that do strategic management (David, 2013:45; Hough et al. 2011:4). Strategic management provides business with a sense of direction and purpose of action. It enables businesses to achieve sustainable competitive advantage over rivals which may translate into above average earnings for the organisation (Hough et al. 2011:6; Ireland et al. 2011:5; Louw & Venter, 2012:16). David (2013:45) argues that strategic management brings both financial and non-financial benefits to businesses. He contends that firms that apply strategic management reap financial benefits reflected in increased sales, profits and higher productivity than firms that do no strategic management. The non-financial benefits which strategic management may produce for businesses include awareness of external threats and competitor actions and intentions, better staff commitment to the businesses' strategic objectives and more effective communication channels between management and employees David (2013) conclude.

The benefits arising from strategic management flow to both small and large businesses. For small businesses, strategic management enables them to be aware of their rivals actions and intentions. It enables them determine which market segments to operate in, to carve a niche for themselves as they can hardly compete against bigger entities in large market segments. Strategic management facilitates flexible production and marketing strategies in small businesses thereby enabling them to compete against their larger counterparts as well as their equals.

Researchers have demonstrated that there exists a positive relationship between strategic management and SMME performance (Entrialgo et al. 2000; Marsden & Forbes, 2003; Brunninge et al. 2007; David, 2011; Mugler, 2012). The implication is that small businesses that do strategic management even if intuitively are more likely to achieve competitive advantage over their rivals. This will translate into enhanced value for their customers, organisational growth and above average returns for the firm. SSAEs could equally benefit from strategic management.

4.3 APPROACHES TO STRATEGIC MANAGEMENT: A SMALL BUSINESS PERSPECTIVE

Strategic management has been studied from different perspectives. Two rival approaches which currently appear to dominate the strategic management literature are on the one hand, the industrial organisation (I/O) view which focuses on the external environment and firm competitiveness; and on the other hand, the resource-based view (RBV) which attributes organisational success to its internal resources (Hough et al. 2011:56; David, 2013:95; Ireland et al. 2013:33). These two approaches are explored in the next section.

4.3.1 The external environmental approach (I/O view).

Proponents of the I/O view contend that the competitiveness of businesses is mainly influenced by external factors (Porter, 1980; Pearce & Robinson, 2011:81; Hough et al. 2011:56; David, 2013:95; Ireland et al. 2013:33). The external environmental factors which influence business competitiveness are grouped into three inter-related sub-categories. Hough et al. (2011:57), Pearce and Robinson (2011:81) and Ireland et al. (2013:34) identify the sub-categories as:

- i. **The macro (remote or general) environment** - The macro environmental factors go beyond the industry but nevertheless influence the competitiveness of businesses. These include demographic, economic, political/legal sociocultural and technological, global and physical environmental factors.
- ii. **Industry environment** - The next set of external factors which influence competition in the industry in which the firm operates are identified as rivalry among competing firms, threat of new entrants, bargaining power of suppliers, bargaining power of buyers and threat of substitute products.
- iii. **Operating environment** - In the immediate competitive environment of the firm there are competitors, creditors, customers, labour and supplies who significantly influence a firm's competitiveness.

The external environment without doubt influences competitiveness of firms. For instance, the global economic crisis of 2008/2009 affected businesses around the globe. Profits plummeted, growth was stunted and even many businesses were forced to shut down. Technological advancement has changed the character of the conduct of business. The internet has transformed business operations around the world.

Without taking into account influences that external factors could exert on the firm's operations, strategies crafted by businesses would not be aligned with the external requisite conditions for competitiveness. Strategies formulated without due consideration of external environment would be irrelevant and could only spell doom for such businesses. It imperative therefore that small businesses, which even feel more constrained by external factors due to their limited resources to withstand exogenous pressures, need to integrate external environmental factors into their strategic management. The external factors to a business organisation is depicted in figure 4.3

4.3.2 The Resource-Based View (RBV) and internal Resources in Small Businesses

The resource-based view (RBV) school, while recognising the importance of external factors, argues that the main source of a firm's competitiveness is its internal resources (Liu et al. 2009:3; Pearce & Robinson, 2011:153; David, 2013:127).

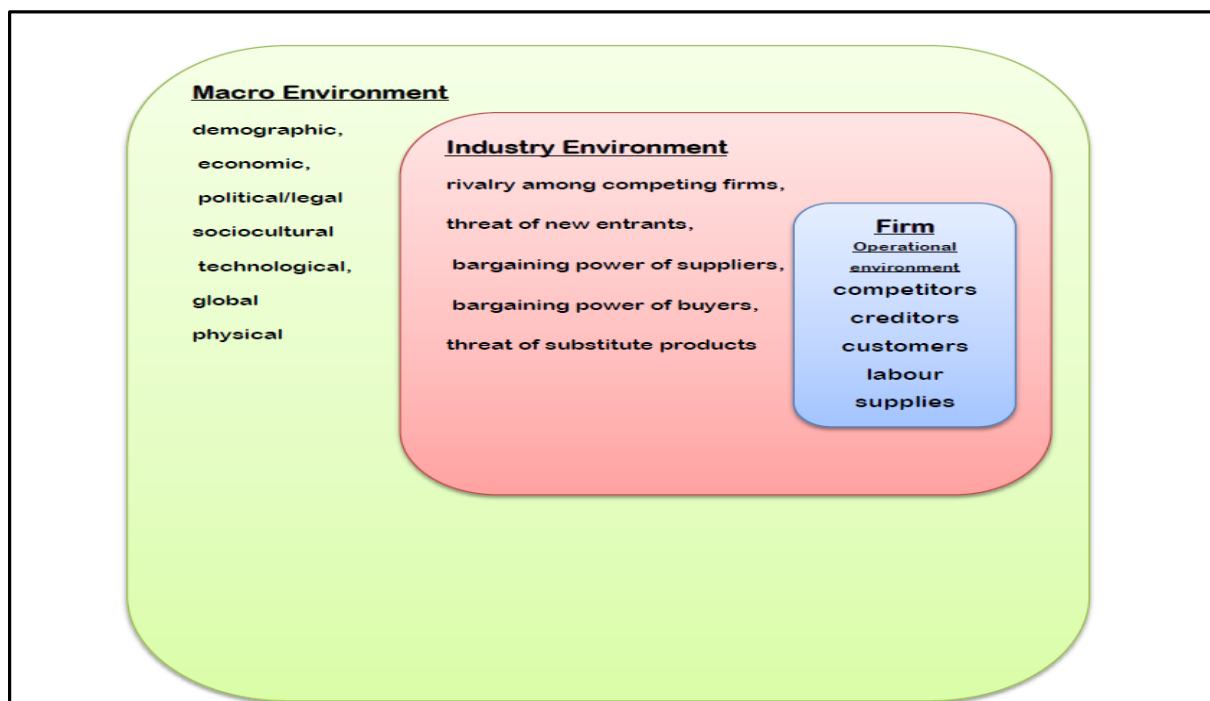


Figure 4.3: The firm's external environment

Adapted from Pearce II and Robinson (2011:81) and Ireland (2013:73).

The RBV school contends that an organisation's internal resources are more important than external factors in gaining competitive advantage (David, 2013:127).

RBV theorists identify three key organisational resources which are responsible for firm competitiveness. These are physical, human and organisational resources. An organisation's physical resources include plant and equipment, location, technology, raw materials etc. Human resources are made up of employees, training, experience, skills and abilities; while organisational resources include firm structure, information systems, patents, copy rights, databases and others (David, 2013:127). Organisational resources could also be divided into tangible, intangible and capability sub-groups (Ehlers & Lazenby, 2011:115; Ireland et al. 2013:75). To them, tangible resources include financial, physical, technological and organisational resources. Intangible resources include: human resources (skill, knowledge, abilities and so on); innovation resources (ideas, capacity to innovate and so on); and reputational resources (brand, perceptions of product quality and so on). An organisation's internal resources are illustrated in Table 4.1

The various classification methods applied to internal resources only seem to emphasise the state of being. That is, whether they are: tangible or intangible or, whether they are physical, human or organisational. What is important is how these businesses' internal resources are applied to achieve strategic objectives of the organisation. Another important consideration is businesses' ability to integrate their physical (plants, equipment, database) (tangible) resources with the organisational human (skills, experience, innovation capacity) (intangible) resources; as well as the organisation's other intangible (brand, reputation, goodwill and so on) resources in achieving competitive advantage. The RBV proponents contend that the mere possession of resources does not guarantee competitiveness and superior performance. They argue that it is the unique integrative capabilities of the businesses to effectively and efficiently utilise these resources that results in competitive advantage. The unique integrative capabilities derive from the intangible organisational resources (Ehlers & Lazenby, 2011; David, 2011).

Using their intangible human resources like skills, knowledge, experience and intuition, businesses bundle their internal resources into capabilities which enable them perform tasks or activities integratively (Kickul & Ma, 2009; Pearson & Robinson, 2011; Ireland et al. 2013). Over time, businesses may convert their capabilities into core competences which may give them competitive advantage over their rivals. Core competences distinguish a firm competitively and set it apart from its rivals Ireland et al. (2013:76). A capability may be converted into a distinctive competence if the firm performs competitive activities better than its rivals (Hough et al. 2011:115; Pearce & Robinson, 2011:153). Distinctive competences are firms' strengths that cannot easily be imitated or matched by competitors. They are resources of gaining competitive advantage (David, 2013:125).

Table 4.1: An organisation's internal resources

Resource	Examples	Indicator
Intangible Resource		
Financial Physical Technological	Cash reserves Excellent location Technically advanced equipment	Cash flow Profitability Solvency Capital equipment
Intangible Resources		
Human Innovation reputation	Intellectual property, knowledge Skills of employees Innovative capacity, ideas, Perceptions of product quality by customers	Patents & copy rights Brand recognition Corporate reputation Brand equity

Adapted from Ehlers & Lazenby (2011:115) and Ireland (2013: 75)

4.3.3 Implications of strategic management for small businesses

Exploring the external and internal views regarding strategic management, it appears that both approaches are important in the strategic management process. Businesses need to scan the external environment, operational, industry and macro, in order to gain awareness of those factors that are likely to influence their strategic management process. Environmental assessment will reveal opportunities the firm could exploit and threats to neutralise. It could also reveal customer profiles, their needs and preferences. The actions and intentions of competitors could also be obtained. Other environmental factors such as government regulations and legislations could be assessed and acted upon. The researcher argues that an effective environmental

assessment could only be accomplished through utilising the capabilities of the organisation. A winning strategy would require distinctive competences derived from the core competences of the firm. Using its core capabilities and distinctive competences a business could craft a winning strategy which could translate into a sustainable competitive advantage. The more difficult these strategies are to duplicate or imitate by rivals, the more sustainable the competitive advantage gained by the focus business.

Extending the argument further, it is contended that core competences and the distinctive competencies derive from the entrepreneurial capabilities of a firm. It is this intangible asset the firm innovatively employs to scan the environment for opportunities and threats, industry properties and general environmental factors such as the state of technology, economic cycle, social and cultural issues that could influence the strategic management of the firm. This reflects the entrepreneurial orientation (EO) of the firm.

Secondly, environmental scanning to gain information about customer needs and preferences, competitor strategies and actions as well as regulations and government policies and legislations, requires innovative market orientation capabilities. To achieve sustainable competitive advantage over rivals in the marketing arena requires distinctive marketing competencies. This is termed market orientation (EO) for the study. It is EO of the firm which will promote strategic external assessment and consequent crafting of a strategic plan to outperform rivals.

Thirdly, it is argued that an innovative culture is an invisible but powerful organisational resource which drives both entrepreneurial and marketing behaviour of firms in their quest for competitive advantage. Environmental scanning, from both entrepreneurial and marketing perspectives, requires innovative capability of the firm. Innovative environmental assessment will enable the firm discern market gaps, that is, customer need and preferences that rivals might not perceive. It could innovatively gather intelligence about their rivals which information will guide the focus firm in crafting an innovative winning strategy.

Finally, applying its internal distinctive competencies, the firm could come up with new products or services through new methods or processes of production and distribution to both new and existing customers. These activities are the hallmarks of innovation stemming from an innovative culture.

A sustainable competitive strategic management, requires external and internal assessment utilising the organisation’s distinctive competencies derived from the firm’s core competences. These core competences are founded on the firm’s intangible entrepreneurial, market and innovative competences. Accordingly, the focus of this study is the integrative model including entrepreneurial orientation (EO), market orientation (MO) linked through innovativeness (INNO) and their combined influence on firm performance. It is argued that an integrative model including EO, MO linked through MO would yield higher firm performance than when these strategic orientations are considered individually in relation to firm performance. The proposed model is further discussed in the next section.

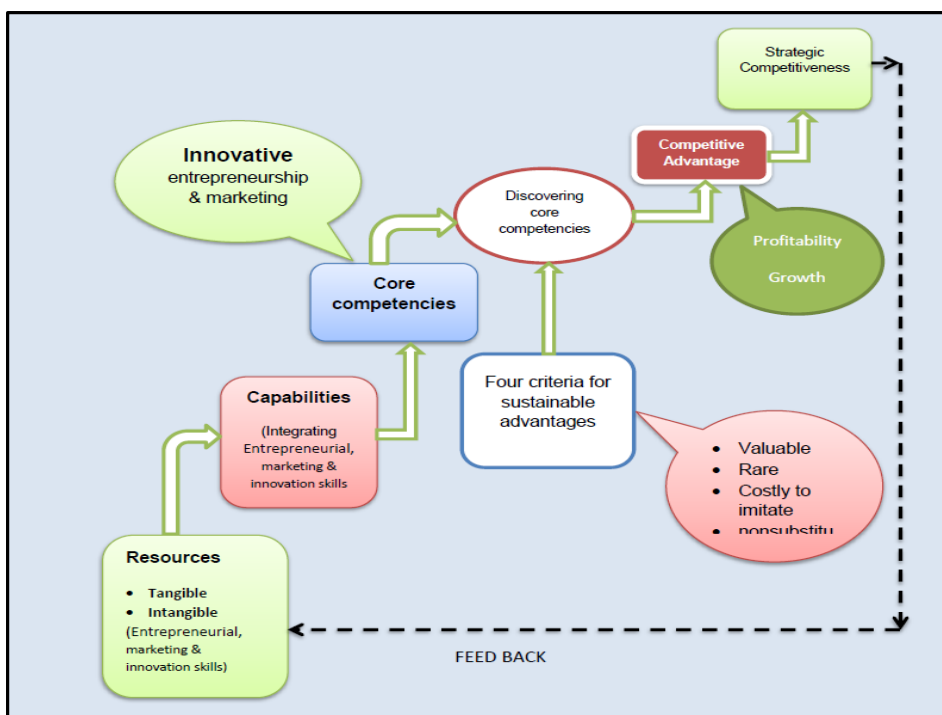


Figure 4.4: Components of competitive advantage and strategic competitiveness

Adapted from Ireland et al. (2013:68)

4.4 THE CONCEPTUAL FRAMEWORK

Following the above assertion, this study focuses on the relevant intangible resources and capabilities of small businesses in their strategic management (Runyan et al. 2006:455; Ferrera et al. 2010:100). In this section, the organisational intangible resources namely, entrepreneurial and market orientations and innovativeness which constitute the building blocks (EO, MO & INN linkages) of the proposed model are explored.

- i. Entrepreneurial Orientation (EO) as discussed by Lumpkin and Dess (1996:1055), Awang et al. (2009) and Ferreira et al. (2010)
- ii. Market orientation (MO) investigated by Narver and Slater (1990), Kohli and Jaworski (1990), Verhees and Meulenbergh (2004) and Olavarrieta and Friedmann (2008)
- iii. Innovativeness (INNO) as examined by Knight and Cavusgil (2004), Bhaskaran (2006), Wolff and Pett (2006), and Liao et al. (2009).

The underlying argument of the proposed framework is that the performance of small scale agricultural enterprises could be greatly enhanced through the adoption of an integrative framework built on EO, MO and INNO, because on a stand-alone basis, these strategic orientations show positive relationship with firm performance. Furthermore, an effective integration of these strategic dimensions (EO, MO and INNO) could translate into unique capabilities-distinctive competencies- which the small scale agricultural enterprises (SSAEs) could utilise to achieve sustained competitive advantage over their rivals. This could also ensure growth and profitability for the SSAEs. Wolf and Pett (2006:269) stressed that the predominant dependent variable of interest in strategic management is performance.

4.4.1 Elements of the conceptual framework

The constituents of the conceptual framework are presented in this section.

4.4.1.1 Firm performance: growth and profitability

Firm performance has been viewed from various perspectives. For instance, Tsai et al. (1991) and Chandler and Hanks (1993) explain business performance in terms of growth. Others (Zahra, 1991; Wiklund & Shepherd, 2005; Moreno & Casilas, 2008) contend that performance should be viewed in a broader perspective. Zahra (1991)

argue that a firm could choose to trade-off long-term growth for short term profitability. Wiklund and Shepherd (2005:80) and Moreno and Casilas (2008:508) maintain that the performance of firms should be viewed as a multidimensional phenomenon and such performance measures should integrate different dimensions of performance. They suggest that a combination of growth and financial indicators would present a more balanced perspective on firm performance. In this regard, performance in this study would be measured by financial (sales growth and return on assets; and nonfinancial indicators (growth of number of employees and level of community participation). Entrepreneurial orientation and firm performance are key dimensions of this study. The next section deals with this relationship.

4.4.1.2 Entrepreneurial orientation and firm performance

Entrepreneurial orientation (EO), which is a strategic behaviour of businesses, has been identified to have a positive relationship with firm performance (Miller & Friesen, 1982:1; Wiklund & Shepherd, 2005:75; Ireland & Webb, 2006:50; Ferreira et al. 2011:109). Figure 4.5 illustrates this relationship.

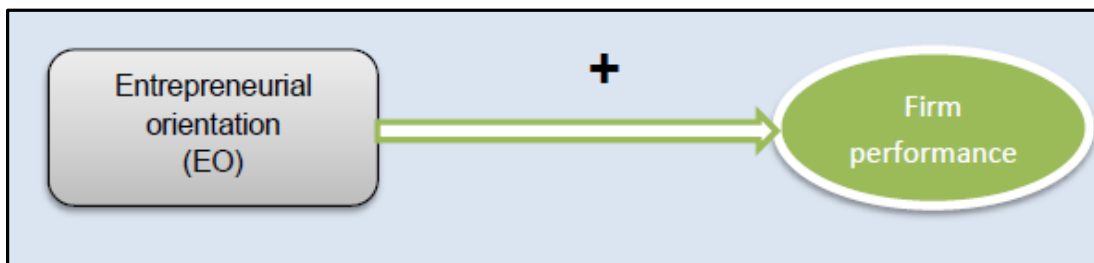


Figure 4.5: The relationship between EO and firm performance
Adapted from Ferreira et al. (2010:104)

4.4.1.3 Market orientation and firm performance

It is established that MO as a main component of strategic marketing, and in some cases mediated by innovativeness, positively influences firm success (Kohli & Jaworski, 1990, 1993; Verhees & Meulenber, 2004; Erdil, 2004; Ferreira, et al. 2010; Mahmoud, 2011). Figure 4.6 captures this relationship.

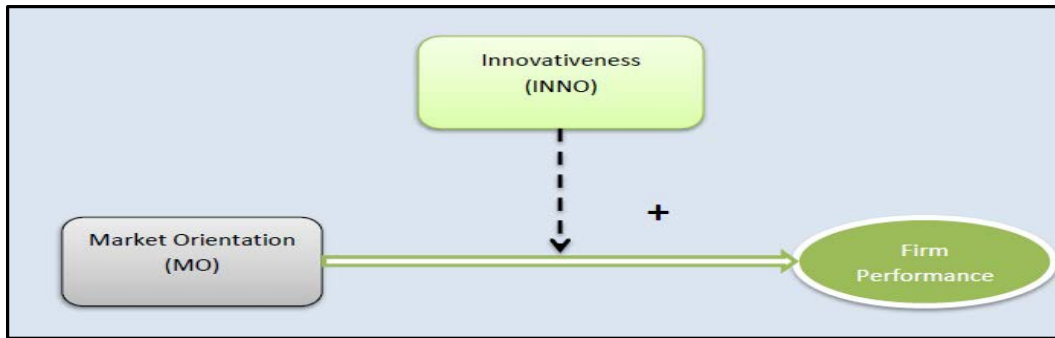


Figure 4.6: The relationship between MO and firm performance

Adapted from Kohli and Jaworski (1990:7) and Erdil et al. (2004:6)

4.4.1.4 *Innovativeness and firm performance*

The relationship between innovativeness and firm success has also been established. For instance, Kotler and Armstrong (2000:608), Roskos (2004:7), Verhees and Meulenbergh (2004:147), Wolff and Pett (2006:281) United Kingdom Department of Trade and Industries (UK DTI) (2006:IV) and Bolinao (2009:74) observed that innovativeness (INNO) has a positive relationship with performance as illustrated in Figure 4.7.

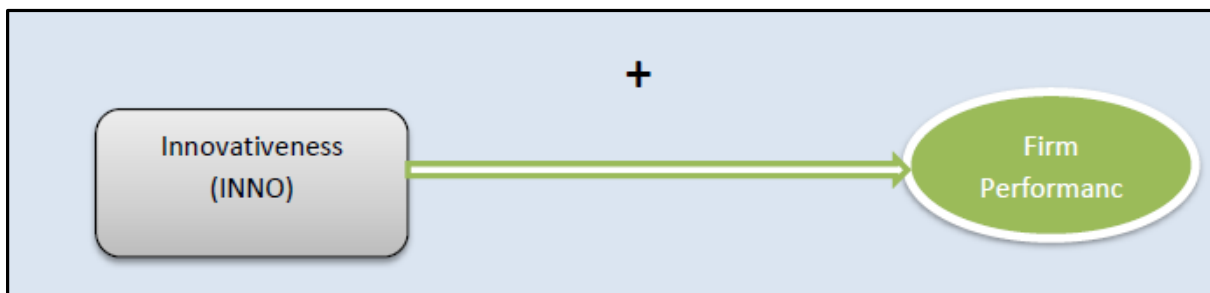


Figure 4.7: Innovativeness and firm performance

Adapted from Anderson (2009:257)

4.4.1.5 *The combined influence of entrepreneurial (EO) and market orientations (MO) on firm performance*

The literature confirms the existence of a positive relationship among entrepreneurial orientation, market orientation and performance (Matsuo et al. 2002:18; Knight & Cavusgil, 2004:135; Morris et al. 2007:21; Keh et al. 2007:2; Schindebutte et al. 2008:4). The literature outlined so far reveals that innovativeness features strongly in the entrepreneurial orientation construct in relation to firm performance (Miller &

Friesen, 1982; Ireland et al. 2003; Wiklund & Shepherd, 2005; Venter et al. 2010). It is also embedded in the market orientation and firm performance relationship model (Verhees & Meulenbergh, 2004:147; Erdil, 2004:8; Mahmoud, 2011:241). Innovativeness therefore features in both entrepreneurial and market orientations as they relate to firm performance. The above strategic behaviours as they relate to firm performance could be surmised as follows:

- i. EO demonstrates a positive relationship with firm performance.
- ii. MO and firm performance are positively related.
- iii. INNO reflects in superior firm performance.
- iv. EO and MO are characterised by INNO and integratively influence firm performance.

These relationships are illustrated in figure 4.8

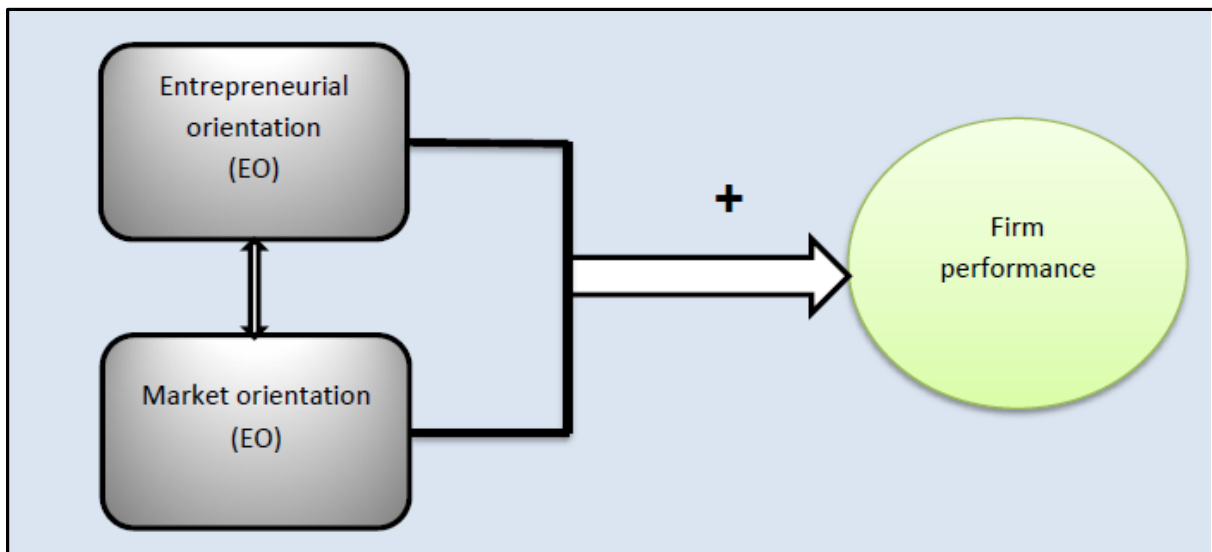


Figure 4.8: Integrative influence of EO and MO on firm performance
Adapted from Matsuno et al. (2002: 19) and Adam et al. (2011: 6)

In the light of the above, the researcher intends to investigate whether the proposed integrative model could be used to predict superior firm performance since each construct (i.e. EO, MO and INNO), either on a stand-alone or paired basis, has a demonstrated positive relationship with firm performance. This integrative strategic model constitutes the conceptual basis for the study of the SSAEs in the Vryburg region.

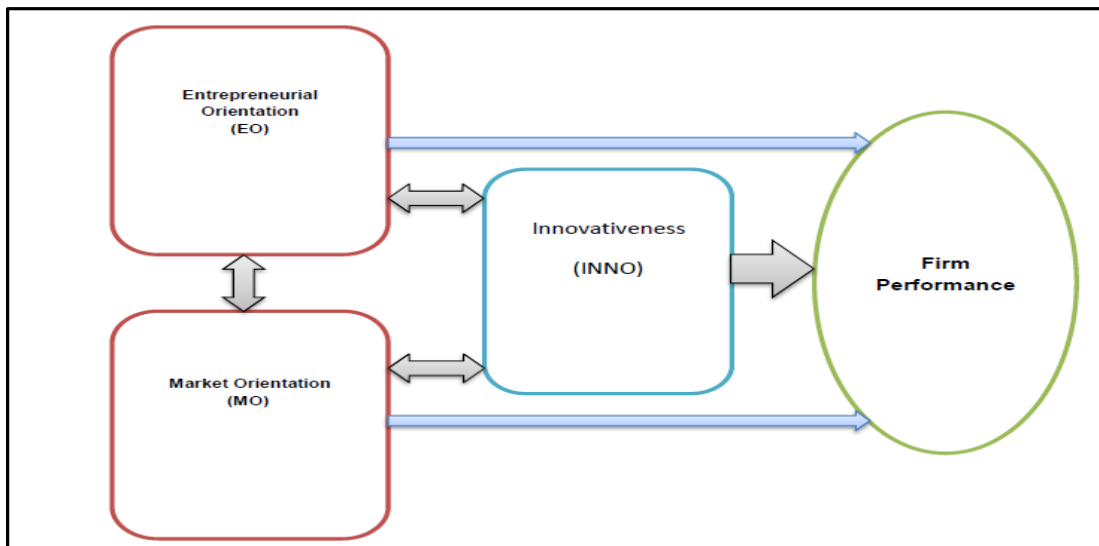


Figure 4.9: EO, MO and INNO relationships in relation to firm performance
 Source: Own compilation.

Having presented the summary of the conceptual framework, each component is now critically examined.

4.5 ENTREPRENEURIAL ORIENTATION

Entrepreneurial orientation stems from the field of entrepreneurship. An effective explanation of the entrepreneurial orientation therefore requires a good understanding of the entrepreneurship concept. Entrepreneurship was thoroughly examined in Chapter 2. The two concept of entrepreneurial orientation is now examined.

4.5.1 Defining Entrepreneurial orientation

Definitions of the entrepreneurial orientation is provided by various authors. Entrepreneurial orientation could be seen as a strategic positioning of businesses. An entrepreneurial firm is disposed to taking risks and proactively engaging in product-market innovation and staying ahead of the competition (Miller 1983:771). In addition to innovativeness, risk bearing and proactiveness, Lumpkin and Dess (1996:140) extended the dimensions of EO to include autonomy seeking and competitive aggressiveness. The extended definition of EO is affirmed by other researchers (Awang et al. 2009:85; Lee & Lim, 2009:2). Based on the above, the operational definition for entrepreneurial orientation is *a firm's willingness to take risks, adopt*

innovative practices in producing goods or services, and proactively serving customers ahead of their competitors. EO also involves a disposition towards a desire to be in control of own business while adopting aggressive competitive posture towards rivals in the wake of the turbulent and hostile business environment.

4.5.2 Dimensions of entrepreneurial orientation

While some researchers apply EO in its original form by embracing the dimensions of innovativeness, risk-taking and proactiveness (Yusuf, 2002; Wiklund et al. 2005; Keh et al. 2007; Zyl & Mathur-Helm, 2007; Ferreira et al. 2010), others such as Knight (2000); Awang et al. (2009) and Lee and Lim (2009) adopt the extended definition of Lumpkin and Dess (1996). Due to the volatility and intensity of competition in present day business environment, businesses need not only be innovative, risk-taking and proactive, but also require competitive aggressive posture in order to stand up to the aggressiveness of their competitors (Kuratko, 2009:4). By incorporating the competitive aggressive posture, small business owners like their bigger business counterparts want to be in control hence their autonomy-seeking posture (Nieman & Nieuwenhuizen, 2009:32). This study adopts the extended view of Lumpkin and Dess (1996) due the turbulent business environment which requires competitive aggressiveness and the desire of the owners to be independent. The EO dimensions namely, innovativeness, risk-taking, proactiveness, autonomy-seeking and competitive aggressiveness are further explained in the following sections.

4.5.2.1 Innovativeness

Innovativeness is described as business environment that promotes and supports novel ideas, experimentation, and creative processes that may lead to new products, techniques, or technologies and new opportunities for economic gain (Knight, 2000; Lyon et al. 2000; Kotler & Armstrong 2000; Alexandrova, 2004; Roskos, 2004; Wiklund & Shepherd 2005; Voss et al. 2005; Abbot & Jeong, 2006).

Innovativeness in this context implies an organisational culture which promotes the willingness to introduce new ideas, new methods and processes within the organisation, and new products and services to their customers. It is a strategic disposition to attain firm competitiveness in growth and profitability.

The small scale agricultural enterprises in the Vryburg region were surveyed in order to determine the extent to which they generate and implement new ideas successfully and how this disposition influences their performance. Adoption of an innovative posture involves risk taking because the innovator remains uncertain about the outcomes of his new products and services in the market. Risk-taking is considered next.

4.5.2.2 Risk-taking

Entrepreneurs' willingness to come up with and implement novel ideas requires risk orientation. Lumpkin and Dess (1996:148), attribute entrepreneurial propensity to risk-taking to the idea of self-employment instead of working for wages and the individual taking a greater risk. Lyon et al. (2000:1056) see risk-taking as activities such as heavy borrowing, committing high percentage of resources to projects with uncertain outcomes and entering unknown markets. Risk-taking may also involve investing in ventures with possibility of significant losses (Knight, 2000; Alexandrova, 2004; Wiklund & Shepherd, 2005; Kaya & Agca, 2009; Fairoz et al. 2010). Entrepreneurs' willingness to venture into unknown business territories with uncertain outcomes is a fundamental entrepreneurial behaviour. Lee and Lim (2009:6) put it as: "the willingness to incur heavy debt or making large resources commitments by seizing opportunities in their market place in the interest of high returns".

Risk-taking behaviour is a unique characteristic of entrepreneurs. It is a calculated move they make; if successful, they reap the resultant financial gain. Like every commercial business, the SSAEs in the Vryburg region are in business for financial benefits. Their investments carry some degree of risk as they are uncertain of the outcomes of their investments. The risk-taking activities of SSAEs was investigated and its influence on performance measured as a dimension of EO. Another key dimension of EO is proactiveness discussed next.

4.5.2.3 Proactiveness

In order to gain competitive advantage, firms need not only innovate and take risks. Speed to the market is crucial if entrepreneurs want to beat their competitors, hence the need for proactiveness. Proactiveness relates to businesses acting strategically in

order to gain first mover advantage by introducing new products and processes ahead of the competition (Lumpkin & Dess, 1996; Lyon et al. 2000; Wiklund & Shepherd, 2004; Alexandrova, 2004). Alexandrova (2004:142) explains that proactiveness is a very important EO dimension as it is the implementation stage of entrepreneurship. Voss et al. (2005:1135) see EO as a commitment to implementing new business processes designed to cultivate new markets for the firm's offerings. EO may also be perceived as making anticipatory initiatives and the pursuit of new opportunities and participating in emerging markets (Lee & Lim, 2009:6).

How quickly the SSAEs move their products and services to established and new/emerging markets in relation to their competitors and how their proactiveness influences their performance was investigated. Proactiveness requires a combative posture if businesses are to gain and sustain competitiveness. Business aggressive behaviour of businesses is explained in the next section.

4.5.2.4 Competitive aggressiveness

Competitive aggressiveness refers to the tendency of firms assuming combative posture towards rivals and employing high level competitive intensity in order to outwit their rivals (Lumpkin & Dess, 1996; Lyon et al. 2000). Alexandrova (2004:142) applied the term to imply a firm's propensity to satisfy achievement needs by challenging competitors or improving its relative marketplace position. Lee and Lim (2009:6) and Fairoz et al. (2010:37) argue that competitive aggressiveness reflects the intensity of a firm's combative postures to outperform its rivals in the market/industry. The competitive aggressive behaviour of the small scale agricultural firms in terms of their performance was examined in the study.

Innovativeness, risk-taking, proactiveness and aggressiveness in relation to business performance requires a large measure of self-control regarding business decisions and actions. The entrepreneur needs substantial amount of autonomy in her/his business pursuits. Autonomy-seeking propensity of entrepreneurs is dealt with below.

4.5.2.5 Autonomy seeking

Lumpkin and Dess (1996:140) explain, "Autonomy is the independent action which identifies an idea or a vision and carrying it through to its completion". The concept is

further explained as the extent to which a firm is free to determine its entrepreneurial activities or act independently (Lee & Peterson, 2000; Roskos, 2004). Alexandrova (2004:141) stated that “autonomy is the catalyst of entrepreneurial activity and the independent spirit of freedom necessary to create new ventures”. Voss et al. (2005:1135) view autonomy as a commitment to encouraging employees to be self-directed and independent in generating and implementing novel ideas. Callaghan and Venter (2011:31) suggest that autonomy encourages independent and autonomous action in firms.

Autonomy-seeking orientation of entrepreneurs could be seen as a desire to be their own “masters” controlling all aspects of their business. The level of independence SSAEs owner/managers in the Vryburg region exercise in their business endeavours and the consequent effect on their business performance were measured.

Firm performance has pervaded the literature discussion so far. It is necessary to explain what constitutes performance at this stage.

4.5.3 EO and firm performance

Research has established positive relationship between entrepreneurial orientation and firm performance (Covin & Slevin, 1986; Zahra, 1991; Dess et al. 1997; Barringer & Bluedorn, 1999; Knight 2000; Matsuno et al, 2002; Wiklund & Shepherd, 2005).

In their study, Keh et al. (2007:593) found that the level of entrepreneurial orientation has both direct and indirect effects on firm performance. Keh et al. (2007) argued that firms with high levels of entrepreneurial orientation tend to constantly audit and monitor their operating environment in order to discover new opportunities, and strengthen their competitive positions. However, some researchers cast doubt on the universality of this positive relationship arguing that the research outcomes are mixed and therefore inconclusive (Yusuf, 2002:88). Citing research of Covin et al. (1994), Yusuf (2002) argued that no significant relationships exist between the two variables while Covin and Slevin (1986), Zahra (1991) maintain that EO positively influences firm performance. Further research conducted by Lumpkin and Dess (1996) confirm the positive relationship between EO and firm performance but added that the relationship is conditioned by the characteristics of the external environment and the internal

organizational characteristics of firms, a position which seems to allude to a combined effect of the IO and RBV propositions discussed earlier.

Current research findings regarding EO-firm performance relationship increasingly seem to point towards positive relationship (Wiklund & Shepherd 2005; Covin et al. 2006; Kaya & Agca, 2009; Lumpkin et al. 2010; Callaghan & Venter, 2011). However, researchers have not agreed as to whether to view EO variables as a unidimensional or multidimensional strategic phenomenon in relation to performance (Lumpkin et al. 2010:253; Fairoz et al. 2010:37; Lee & Lim, 2009:6; Callaghan & Venter, 2011:32; Al-Swid & Mahmood, 2012:4719).

One school argues that the EO variables should be aggregated into a unidimensional orientation and examine its impact on performance (Miller, 1983; Covin & Slevin, 1989; Miller & Friesen 1989; Covin & Slevin, 2006). Lamadrid (2007:5) argues that if the dimensions of EO should be viewed as a multidimensional orientation, and their influence on firm performance vary independently, such a situation would be rendering such firms un-entrepreneurial. It is the inter-dependence of the EO dimensions which makes a business entrepreneurial, Covin and Slevin (2006) conclude. Lamadrid maintains that EO is made up of subparts to make it a whole and for that reason strongly supported the unidimensional approach.

Others question the unidimensionality of EO variables and argue that each dimension be treated separately as each has a unique relationship with the dependent variable (performance). Proponents of the multidimensional school are Lumpkin and Dess (1996), Lyon et al (2000), Wiklund and Shepherd (2005:72), Voss et al. (2005:1135) among others. These researchers believe that the dimensions of EO should be studied independently as they influence performance, taking into account the firm's unique internal and external environmental circumstances. After carefully assessing both sides, this study of EO-firm performance relationship and the consequent implications for the SSAEs in the Vryburg region would be based on the multidimensional approach.

4.5.4 Measurement of EO

Various measurement instruments have been applied on EO. The 9-point scale developed by Khandwalla (1977) and Miller and Friesen (1984) and refined by Covin and Slevin (1989) with modifications in some cases, has been adopted extensively in recent studies and proven to be reliable and valid (Lumpkin & Dess, 1996; Knight, 2000; Matsuno, 2002; Weaver, 2002; Yusuf, 2002; Wiklund & Shepherd, 2005; Keh et al. 2005; Lamadrid, 2007; Al-Swidi & Mahmood, 2012).

The 9-item scale measures entrepreneurial orientation dimensions of innovativeness, risk taking, proactiveness and autonomy seeking and competitive aggressiveness (Lumpkin & Dess, 1996; Knight, 2000; Matsuno, 2002; Keh et al. 2007). An adapted version of the 9-item scale will be applied in studying the SSAEs in the area. The adapted scale includes 15 statements covering all dimensions of EO measured on a four-point Likert-scale ranging from strongly disagreed (1) to strongly agreed (4). The adapted scale will be subjected to factor analysis for validation.

Market orientation being a key a component of the integrative model proposed in this study is reviewed in the next section.

4.6 MARKET ORIENTATION (MO)

Businesses that provide goods or services to customers based on information gathered directly or indirectly from customers are said to be market oriented. In addition, market oriented businesses also tend to collect information about their competitors which influences their strategic decisions. Information generated about customers and competitors is shared within the business in order to produce goods or services to satisfy customer expectations and at the same time enable the business out-compete rivals. The market orientation concept, its implications for business performance and measurement instruments are further explained in the following section.

4.6.1 Conceptualising Market Orientation (MO)

Market orientation (MO) has generated substantial research interest in recent years MO has been explained in a number of ways. Two early and almost simultaneous

systematic studies on the MO construct which have been points of reference for researchers in the field ever since are the works of Narver and Slater (1990) and Kohli and Jaworski (1990). Kohli and Jarworski (1990:6) explain MO from a behavioural stand point. They argue that MO is an organisation-wide generation of market information, dissemination of the information across company departments and responding to the changes taking place in the environment. Narver and Slater (1990: 21) similarly explain MO except from a cultural perspective. Narver and Slater (1990) maintain that MO reflects an organisation's cultural behaviour which focuses on information generation about customer needs, competitor actions and intentions.

Narver and Slater (1990: 21) further explain that market orientation consists of three behavioural components namely customer orientation, competitor orientation, and interfunctional coordination. According to them, customer orientation refers to "the sufficient understanding of one's target buyers to be able to create superior value for them continuously". They then defined competitor orientation as, "a seller's understanding of the short term strengths and weaknesses and the long-term capabilities and strategies of both the key current and potential competitors". Narver and Slater (1990:21) finally, they defined interfunctional coordination as "the coordinated utilization of a company's resources in creating superior value for target customers" maintaining that a firm has to foster company-wide interdepartmental synergy by effectively integrating its entire human and other capital resources in its continuous effort to create superior value for buyers. According to Narver and Slater (Narver & Slater, 1990:6) market orientation primarily must have long-term focus both in relation to profits and in implementing each of the three behavioural components. Narver and Slater's conceptual framework is presented in Figure 4.10.

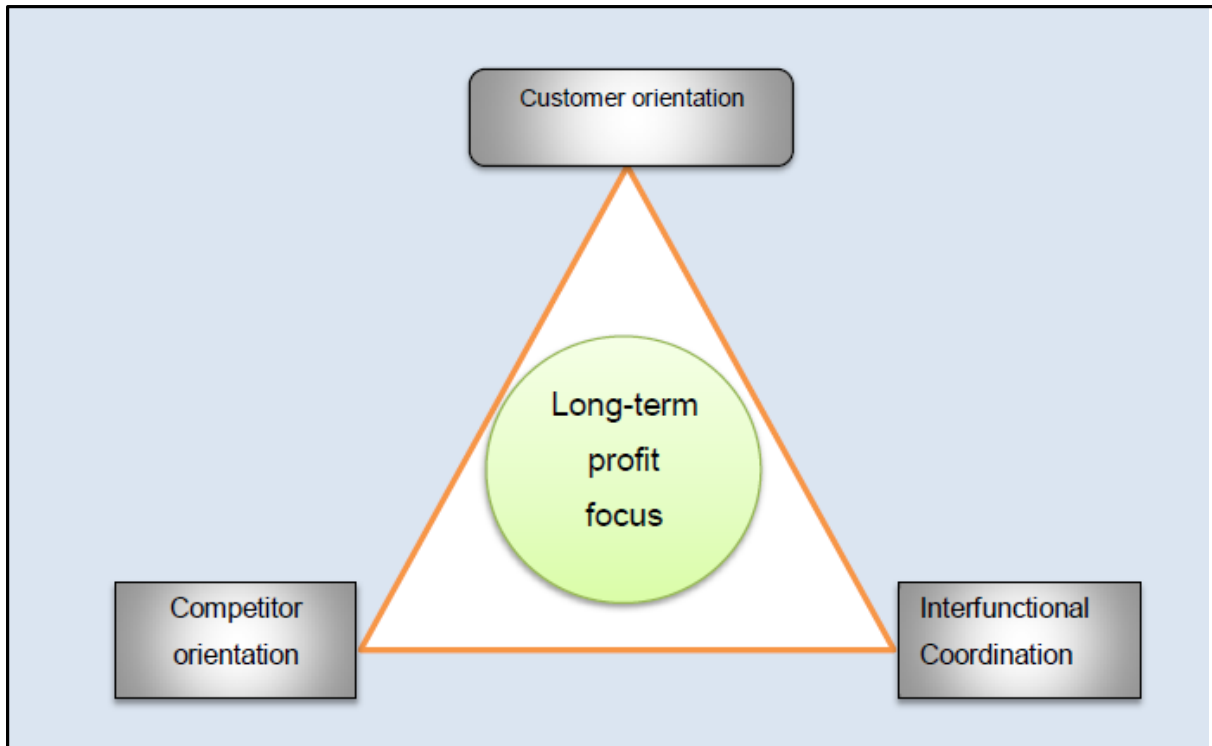


Figure 4.10:**Market orientation model**
 Source: Narver and Slater (1990:23)

Kohli and Jaworski (1990:6) identified three dimensions in explicating the market orientation construct which they named intelligence generation, intelligence dissemination and responsiveness. For Kohli and Jaworski (1990), firstly, firms need to generate market intelligence (information) about customers' needs and preferences, competitors' strategies, government regulations, technology and other environmental factors. Secondly, the information generated should be shared across the firms departments or functional areas. Thirdly, the firms need to plan a coordinated response to the information collected. Responsiveness includes provision of customers' needs and preferences, countering competitors' actions and intensions, addressing technological and other environmental issues and government regulations. Kohli and Jaworski (1990) further explain that responsiveness comprise of two sets of activities namely (i) response design using market intelligence; and (ii) response implementation- executing such plans. They then concluded that responsiveness takes the form of selecting target markets, designing and offering products/services that cater to their current and anticipated needs, and producing, distributing, and promoting the products in a way that elicits favourable end-customer response.

The two approaches agree that MO enables businesses to collect market information through marketing research and marketing information systems and sharing the information among various departments within the businesses. The shared information among the organisation's members forms the basis of responses to customer needs as well as rivals' actions and intentions (Kohli & Jarworski, 1990; Narver & Slater 1990; Wei, 2006). The key elements of MO identified by the above authors could be surmised as *customer orientation*, *competitor orientation* and *interfunctional coordination*. MO activities of businesses are therefore directed towards satisfying customers optimally while outpacing their rivals.

Emphasising the above notions about MO, Laffert and Hult (2001:7) and Ferrell et al. (2010:94) conclude that MO encompasses information gathering about customers' needs and preferences, knowledge about the market activities and relationships, sharing such vital information throughout the organisation and developing appropriate responses to the shared information. Laffert and Hult (2001:9) then proposed an integrative model which would encompass the above key market orientation dimensions for the analysis and implementation of the construct.

Mahmoud (2011:241) contends that the MO construct had mainly been tested in large businesses and therefore required adaptation for applicability in small businesses which are confronted with unique problems such as resource and technological limitations. On a similar note, the researcher opines that small businesses do not have elaborate organisational structures with business units or functional areas or the requisite resources to engage in elaborate marketing research or employ market information systems. The MO concept will therefore have to be adapted to fit the practices of small businesses including the SSAEs. This requires innovative information generation dissemination and response by small businesses. For instance, small businesses could gather customer information directly from their clients or through interviewing potential customers in shopping malls, taxi ranks or public places of large human convergence. They could also observe their competitors' actions and intentions directly or indirectly by interviewing their rivals' customers. Visits to government agencies such as SEDA or SARS or small business units of the commercial banks such as ABSA, FNB or Standard Bank would be useful resources of government policies, regulations, and financial information. Information so

generated could then be discussed among the firms' employees collectively since there are hardly distinct functional units. Response strategies would be informed by the shared information.

The review so far has revealed that MO and EO tend to have certain common characteristics. Firms with entrepreneurial and market orientations act on information about customer needs while taking into account strategic moves by their rivals. The interactions between EO and MO and their individual as well as collective impact on the performance of SSAEs in the Vryburg region constitute the main theme of the study. MO and firm performance is the subject for review in the next section.

4.6.2 Market orientation and firm performance

Literature tends to attribute superior firm performance (growth and profitability) to market orientation. Kohli and Jarworski's (1993) research into market orientation and company performance concluded that there is a positive relationship between market orientation and firm performance conditioned by what they termed a "turbulent and intense competition". Heiens and Pleshko (2011:32) add that MO might be more successful if environmental factors among others are integrated into the MO construct. This means that market orientation and business relationship is mediated by environmental factors such as the ever changing business environment driven by intense competition among rival firms, technological change, and economic trends among others.

Narver and Slater (1995:22) posit that an organisational culture characterised by market orientation translates into a superior performance. Other research findings support the positive relationship between MO and business performance (Guo, 2001; Matsuno et al. 2002; Verhees & Meulenber, 2004; Roskos, 2004; Cillo et al. 2010; Heiens & Pleshko, 2011).

The foregoing suggest that businesses that collect and share information about their customers' needs and meet them and at the same time make strategic decisions taking into account competitive actions of their rivals in addition to other environmental factors such government regulations and policies, tend to outperform those firms that are not oriented towards the market. Against this background, the level of MO and the

consequent influence on the performance of the SSAEs in the Vryburg region was investigated. In order to determine the influence MO exerts on business performance, measurement instruments have been developed and applied by researchers. The measurement instrument applied for this study is discussed next.

4.6.3 Measuring market orientation (MO)

Narver and Slater (1990:22) developed a multi-item market orientation (MARKOR) scale which measures three behavioural (customer orientation, competitor orientation and inter-functional co-ordination) and two decision criteria (long-term horizon and profit emphasis). They argue that MO is a one-dimensional construct because the three behavioural components and the decision criteria are closely related. Narver and Slater's (1990) original MARKOR scale has been increasingly applied with minor modifications (Kara et al. 2005:106).

An alternative MARKOR scale was developed by Kohli and Jaworski in 1990 and refined by Kohli and his associates in 1993. While acknowledging the comprehensive measurement framework developed by Narver and Slater (1990), Kohli and Jaworski (1993), criticised the former for being too focused on customers and competition as compared with an approach which considers additional factors that drive the customer needs and expectations such as technology and regulation and for not including the speed at which market intelligence is generated and disseminated within an organisation. A further criticism was that Narver and Slater's (1990) scale includes a number of items that do not capture specific activities and behaviours that relate to market orientation. Kohli and Jaworski (1993) then set out to develop a measure of market orientation. Their resultant market orientation measure assesses the extent to which a strategic business unit (SBU): engages in multi-department market intelligence generation activities; how it disseminates this intelligence vertically (top-down within the SBU) and horizontally (across various business units within the organisation); and how it develops and implements marketing programmes based on the intelligence generated.

Though Kohli et al.'s (1993) MARKOR scale has been widely used in recent studies, Matsuno et al. (2000) argue that there has not been sufficient empirical studies which

address the validity of Kohli et al.'s (1993) MARKOR scale. Accordingly, they set out to improve the operationalisation and psychometric properties of the MARKOR scale. Matsuno et al. (2000) maintain that Kohli et al.'s MARKOR intelligence-based activities scale is limited to tapping into the firm's specific responses to critical aspects of the market, including competition, customers, laws and regulations, and societal and macro-economic forces. They further contend that Kohli et al.'s MARKOR scale fails to explicitly address how other market forces such as legal and regulatory environment, macroeconomic environment may influence competition and customers. Matsuno et al.'s (2000) improved MARKOR scale broadened the factor domain of intelligence-related activities to specifically include macro-economic factors, social and cultural trends, and regulatory environments.

The above MARKOR scales agreed on the conceptualisation of MO as constituted by intelligence-based activities namely, intelligence generation, intelligence dissemination and responsiveness. The main differences centre on scale item breadth which was expanded with successive scales to capture other environmental forces which drive customer needs and competition. Kohli et al. (1993) expanded Narver and Slater's (1990) scale by including other factors such as technology and regulation, the speed of intelligence generation and response and excluded those items they believe did not validate the market orientation concept.

Another difference between the two approaches is that Kohli and Jaworski (1990) assess MO from a behavioural perspective by focussing on how firms behave or act in generating, sharing and responding to market information. Narver and Slater (1990) approach MO as a cultural predisposition of firms in relation to customers, competitors and the environment.

It is argued in this study that the market orientation concept could be viewed from both cultural and behavioural perspectives simultaneously. On the one hand, organisational actions and activities (in this case market orientation), is influenced by the values, norms and practices within the organisation which is termed organisational culture. On the other hand, organisational behaviour refers to the impact of actions or activities by individuals or groups of persons on the organisation. These individuals or groups acting within the organisational structure should be influenced by the culture of the

organisation since they act within the organisational cultural environment. It is therefore suggested that market oriented behaviour of businesses are also influenced by the culture of the businesses. The market orientation of the SSAEs was viewed from this integrated standpoint.

The nature and sophistication of these MARKOR scales have been designed to measure the market orientation concept in large and multi-unit businesses. For application to small businesses such as SSAEs, the MARKOR scale requires modification. Accordingly, while maintaining the more inclusive character and factors of the refined MARKOR scale, the scale items irrelevant to small businesses were eliminated. For instance, items regarding intelligence generation, dissemination and response on the basis of strategic business units are not applicable to small businesses which generally operate as single-unit entities with little or no functional differentiation. Since the scale applied in the study was modified, it had to be subjected to a validation process through factor analysis. The modified scale applied for the study is further discussed in Chapter 5 which deals with research instrumentation.

The review so far suggests that innovativeness is contained in both EO and MO. Erdil et al. (2004:8) argue that market orientation can lead to firm innovativeness and increase innovation performance which translates into new product development. It was argued earlier that innovativeness is also a dimension of EO. The picture emerging in the review is that, innovativeness transcends both EO and MO. It is argued in the study that linking EO and MO through innovativeness will result in superior firm performance than considering EO and MO as separate models. Results from the study would determine whether this assertion is supported or not. The next section deals with business innovativeness with emphasis on small business-innovativeness.

4.7 INNOVATIVENESS (INNO)

Innovativeness (INNO) reflects a business's willingness and ability to create new products or services for its customers. It is also said that INNO leads to business competitiveness and success. (Erdil, et al. 2004; Verhees & Meulenbergh, 2004; Cillo, De Luca & Troilo, 2010; Rubera & Kirca, 2012). Pretorius, et al. (2006:3) while

affirming the positive relationship between innovativeness and business performance, lamented that the level of innovativeness in South African business is unfortunately low. This view is supported by GEM (2012) which ranked South Africa low on Total Entrepreneurial Activity (TEA). As said earlier, TEA measures the percentage of individuals aged 18-64 years in an economy who are in the process of starting or are already running new businesses (GEM, 2012:26). It was also earlier said that South Africa's TEA rate declined from 9.1% in 2011 to 7.3% in 2012 (GEM 2012:6). This creates a dim picture of entrepreneurship for South Africa. Pretorius et al. (2006:3) stress the critical role innovativeness plays in the entrepreneurial process in a country.

Entrepreneurial and marketing success are largely driven by innovation (providing novel products or services) and innovativeness (willingness to do something new) in businesses. (Pretorius, 2006; Olavarrieta & Friedmann: 2008; Bolinao, 2009; Rubera & Kirca, 2012).

Literature reveals that extensive studies on innovativeness have been conducted mainly in large businesses to the neglect of small businesses (Appiah-Adu, 1997; Salvou & Lioukas, 2003). This study focuses on INNO in small businesses with specific reference to SSAEs in the Vryburg region.

4.7.1 Explaining innovation and innovativeness

It is considered necessary to clarify the concepts of innovation and innovativeness at this stage as the researcher has observed that the two terms are often inappropriately used interchangeably.

4.7.1.1 Innovation

Innovation implies the creation of a new product or service for customers. This enables the business to grow and increase profitability. Innovation is defined as the concretisation of an initial idea for a new product development or product improvement (Roskos 2004:7). Others describe innovation as a combination of invention based on creativity and commercialisation of the invention (Ireland et al. 2001:56). The UK Government Department of Trade and Industry defines innovation as, "the successful exploitation of new ideas" (DTI, 2006:vii). Abbott and Jeong (2006:188) suggest that

businesses tend to exploit new ideas primarily for economic gain. Innovation drives competitiveness and business success in turbulent business environments (Venter et al. 2008:63; Nieman & Nieuwenhuizen, 2009:60). The above views indicate that innovation starts with generation of new and creative ideas which are translated into inventions. When economic value is attached to inventions, that is when inventions are moved to the market or delivered to customers then they are termed innovation.

Innovation could be typified as: **radical (disruptive) innovation** - which is associated with dramatic breakthroughs in ideas or process reorganisation often requiring enormous resources, or as **incremental innovation** - which introduces new products or processes gradually using relatively smaller amounts of resources (Verhees & Meulenbergh, 2004; Venter et al. 2008; Kuratko, 2009). Resource rich large businesses usually indulge in radical innovations while incremental innovations are implemented by small businesses. Radical innovations usually require enormous investments in activities such as research and development which the rich large businesses are able to afford. Incremental innovations are without radical departure from the current form and consume smaller amounts of resources and therefore affordable to small businesses. The small scale agricultural enterprises in the Vryburg region would be expected to engage in incremental innovations

4.7.1.2 *Innovativeness*

Innovativeness constitutes a key dimension of actions of entrepreneurial businesses in developing new products or processes. It reflects the willingness of businesses to introduce new products or services with added value (Venter et al. 2008: 506). These authors argue that innovativeness constitute the heart of entrepreneurship. Innovativeness is further characterised as the willingness and the capability of entrepreneurs to influence the firm's existing marketing resources, technological resources, skills, knowledge, capabilities, or strategy (Pretorius et al. 2006; Venter et al. 2008).

From a market orientation perspective, innovativeness in small businesses could be explained as the willingness of the owner to learn about and to adopt innovations. They further argue that market orientation should be operationalised through

innovation while adopting innovative culture in order to respond effectively to customer and market needs. (Lafferty & Hult, 2001; Verhees & Meulenber, 2004). Entrepreneurship writers conceptualise innovativeness as the cultural disposition of businesses members to create something new with added value for customers (Bolinao, 2009:77; Kuratko, 2009:124).

The foregoing suggests that innovativeness is embedded in the practices, values and norms of businesses with innovative climate. Innovativeness captures the mind-set and behaviour of the members of an organisation with innovative culture. As innovativeness indicates the propensity of businesses to introduce novel products and services, then innovation should be construed as the offspring of innovativeness. It is argued that an innovative organisational culture is a predictor of innovation. In such businesses, creative thinking skills, knowledge and innovation become the norm with the consequent superior business performance. It would be reasonable to expect small businesses immersed in innovative culture to produce new products and services for their customers. Both innovation and innovativeness were investigated in SSAEs in the Vryburg region.

4.7.2 Innovativeness and business performance

Businesses success driven by INNO was alluded to while defining the concept. Some authors argue that organisational success is positively related to the orientation to search and use of new ideas (Gudmundson et al. 2003:1). Other authors maintain that novel and useful ideas constitute the lifeblood of entrepreneurship, implying that entrepreneurship is innovation driven (Venter et al. 2008:58). From the market orientation perspective, Verhees and Meulenber (2004:148) contend that innovativeness of the owner strongly influences firm performance. They explain that successful market orientation strategy requires innovative information generation, diffusion and response to customer (market), competitor and environmental needs.

In the opinion of the researcher, innovativeness (INNO) is as important to entrepreneurial orientation (EO) as market orientation (MO) in relation to firm performance. Firms that continuously engage in product or process renewal experience growth and profitability whether viewed from EO or MO perspective. In the

study, the relationship between INNO linking EO and MO to the performance of the SSAEs in the Vryburg were investigated.

4.7.3 Measuring innovativeness and business success

In measuring INNO and firm performance, Wolf and Pett (2006:275) pointed out the difficulty in measuring small business performance due to the reluctance of small business owners to reveal especially financial information which they consider sensitive. Wolf and Pett (2006) therefore adopted a self-reporting instrument which solicited responses to four questions which required respondents to compare their performance level to their industry. Each of the items was measured on a five-point Likert scale, where 1= lowest and 5 = highest to determine the relative performance levels. Pretorius et al. (2006:3) similarly applied the self-evaluation (self-reporting) approach in their study of creativity, innovation and orientation towards implementation (innovativeness) of South African venture managers. The self-reporting method which has been found to be valid and reliable was utilised in the measurement of INNO and firm performance in the study

4.8 INTEGRATION OF THE FOUR FIRM VARIABLES

The literature review has revealed linkages among entrepreneurial orientation, market orientation and innovativeness. An integrative model comprising these strategic orientations in relation to performance is proposed in this section. The linkages between the concepts in their relation to firm performance are summarised followed by presenting the proposed integrative model.

4.8.1 EO-MO interface and firm performance

Various researchers have attempted to link EO and MO to organizational performance. Atuahene-Gima and Ko (2001) for instance investigated the integrated effect of MO and EO on product innovation in organizations. Basing their research on a construct they termed 'market/entrepreneurial orientation' (ME), Atuahene-Gima and Ko (2001:68) explain that ME firms showed higher new product performance/innovation than firms which were either predominantly market oriented or entrepreneurial oriented. Roskos (2004:11) similarly note a commonality between MO and EO in terms of new product development, the diffusion of innovation and marketing strategies and

growing firms. Schindebutte (2008:15) points to an interactive relationship between EO and MO and their combined positive effect on performance. Research has therefore established a two-way interaction between MO and EO as they interface with INNO to influence performance. The relationship between EO and INNO is further highlighted in the next section

4.8.2 EO-INNO interface and firm performance.

The link between entrepreneurial activity and innovation had long been identified. For example, Schumpeter (1965:55) described entrepreneurs as innovators who fostered change by continuously doing new things. The literature contains several other findings which indicate the existence of a strong relationship between entrepreneurial orientation and innovation. Trevisan et al. (2002:135) and Salavou and Liouikas (2003:98) see entrepreneurial orientation as the driving force for innovative activity in firms which show high propensity for risk taking and proactiveness. Zhou et al. (2005:44) identify entrepreneurial orientation as a key organizational resource which facilitates organizational learning which consequently promotes breakthrough innovation (radical innovation). Roskos (2004:56) suggests that entrepreneurial orientation involves learning and selection processes which stimulate innovative activities. Leibold, Voelpel and Tekie (2004:62) argued that creativity and innovation have become critical ingredients in the entrepreneurial process which give organizations competitive advantage in the business world. Marcati, Guido and Peluso (2008: 1582) posited that innovativeness may be associated with the entrepreneur's personality. Marcati et al. (2008:1587) further demonstrated the key role played by personality-related variables especially innovativeness in influencing entrepreneurs' intention to adopt innovations.

Innovativeness would seem to constitute the key component of entrepreneurial orientation. It drives entrepreneurs to introduce new products/services and/or processes in order to gain competitive advantage in the market/industry and as well offer customers superior value. The special role innovativeness plays in the entrepreneurial activities of the small-scale agricultural businesses in the Vryburg region was a subject of the research.

4.8.3 MO-INNO interface and firm performance.

There seems to be an overwhelming support for the view of positive relationship between market orientation and innovation in the literature (Han et al.1998; Hurley & Hult,1998; North & Smallbone, 2000; Gudmundson et al. 2003; Salavou & Lioukas, 2003; Roskos, 2004; Verhees et al. 2004; Lin, & Chen, 2006; UK. DTI, 2006; Wolff & Pett, 2006; Cillo et al., 2010; McNally et al. 2010; Wang & Lin, 2012).

4.8.4 EO+MO+INNO and Performance interface: a conceptual framework

The foregoing review has revealed the following relationships:

- i. EO positively relates with firm performance.
- ii. MO has a positive relationship with firm performance.
- iii. INNO positively relates with firm performance.
- iv. EO interacts with MO and jointly influence firm performance positively.
- v. EO combined with INNO positively influences firm performance.
- vi. MO together with INNO positively influence firm performance.

The main argument for this investigation is that a combination of all three (EO, MO and INNO) will have a greater positive effect on firm performance than the constructs as stand-alone or paired antecedents to performance.

Schindebutte (2008:14) seems to have this last view in mind when he asserted that EO and MO results in important innovation in firms and their influence on firm performance.

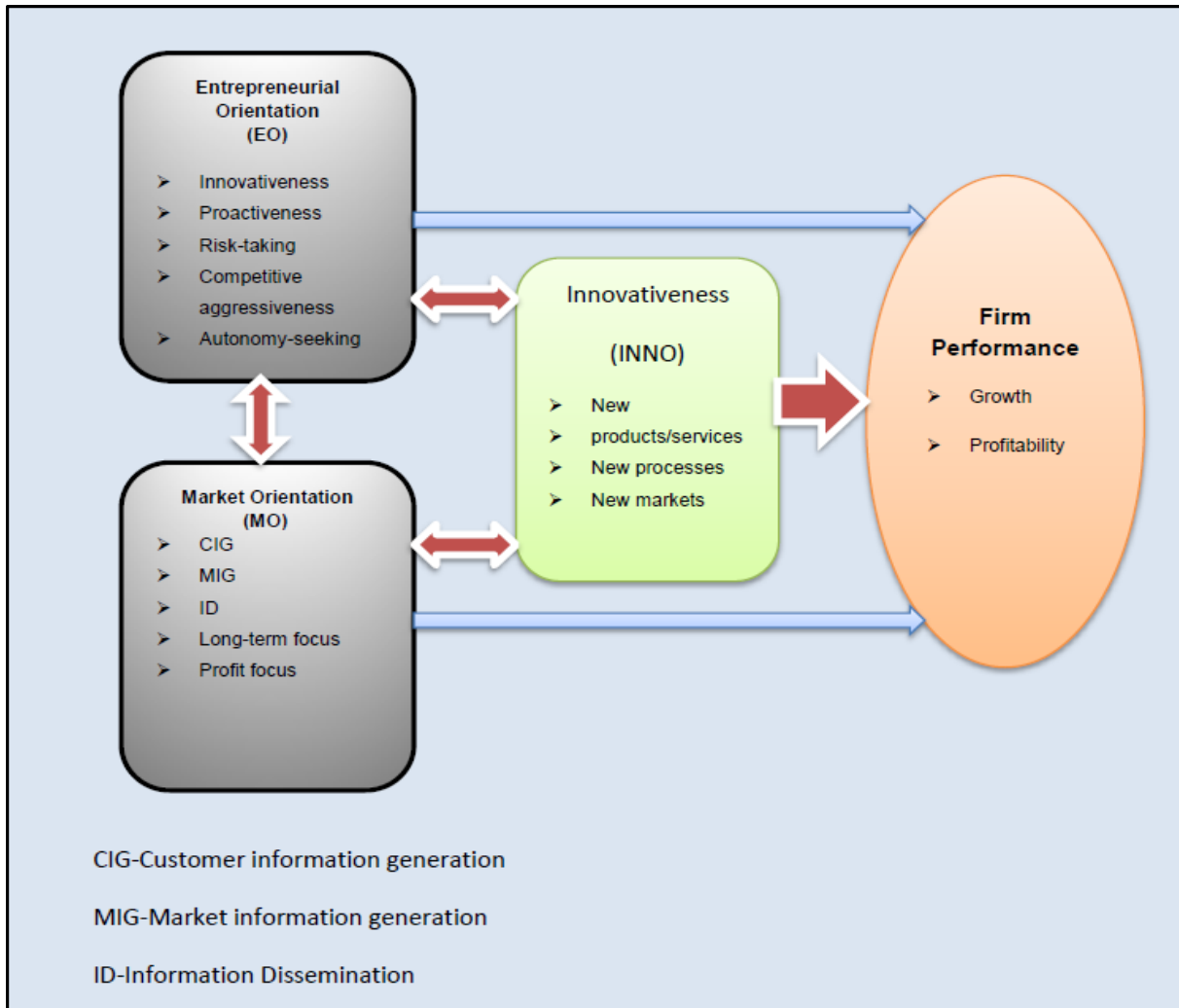


Figure 4.11:An integrative model of EO-MO-INNO and firm performance
Source: own compilation.

4.8.5 Summary

The foregoing literature highlighted the interrelatedness of innovativeness, market orientation, entrepreneurship orientation, and firm performance. The review as illustrated in the conceptual framework indicates inter-relationships among entrepreneurial and market orientations interfaced through innovativeness and their combined effect on firm performance. It has been proposed in this chapter that an integration of EO, MO and INNO will result in superior performance than when these three elements are depended on individually or in pairs. Based on this proposition, an empirical study was conducted within the SSAEs in the Vryburg region to test the model.

CHAPTER 5

METHODOLOGY

All research, whether basic or applied, involves the scientific method.

(Zikmund et al. 2010)

5.1 INTRODUCTION

Chapter 1 gave an indication of the research methodology. Chapters 2, 3 and 4 provided the theoretical issues in the study. This chapter provides a fuller account of the methodology employed for the study. Cooper and Schindler (2011:11) state, "Writers usually treat the research study as a sequential process involving several clearly defined steps". Concurring with the above view, Leedy and Ormrod (2005:2) explain that research could be seen as a systematic process involving data collection analysis, and interpretation for the purpose of understanding of a phenomenon of interest. The research process consisting of a number steps or elements relevant to this study is explained below.

5.2 THE RESEARCH PROCESS

The research process which guided this study is made up of seven stages that include: problem statement; literature review; developing the hypotheses; sampling procedures; development of measurement instrument; administering the questionnaire; and analysing and interpreting results.

Stage 1: Problem statement.

Authors appear to agree that research usually begins with clarifying the research problem (Zikmund et al. 2010:62; Cooper & Schindler, 2011:11). Citing an old adage, Zikmund et al. (2011) stated: "a problem well defined is a problem half-solved". Following this wisdom, the research problem for this study was clarified and stated in Chapter 1.

Stage 2: Literature review

At this stage, attention was focused on the assessment of relevant existing knowledge (Zikmund et al. (2011)). This stage, contained in Chapters 2, 3 and 4 was accomplished through literature search and review which facilitated the development of theoretical as well as the conceptual framework for the study.

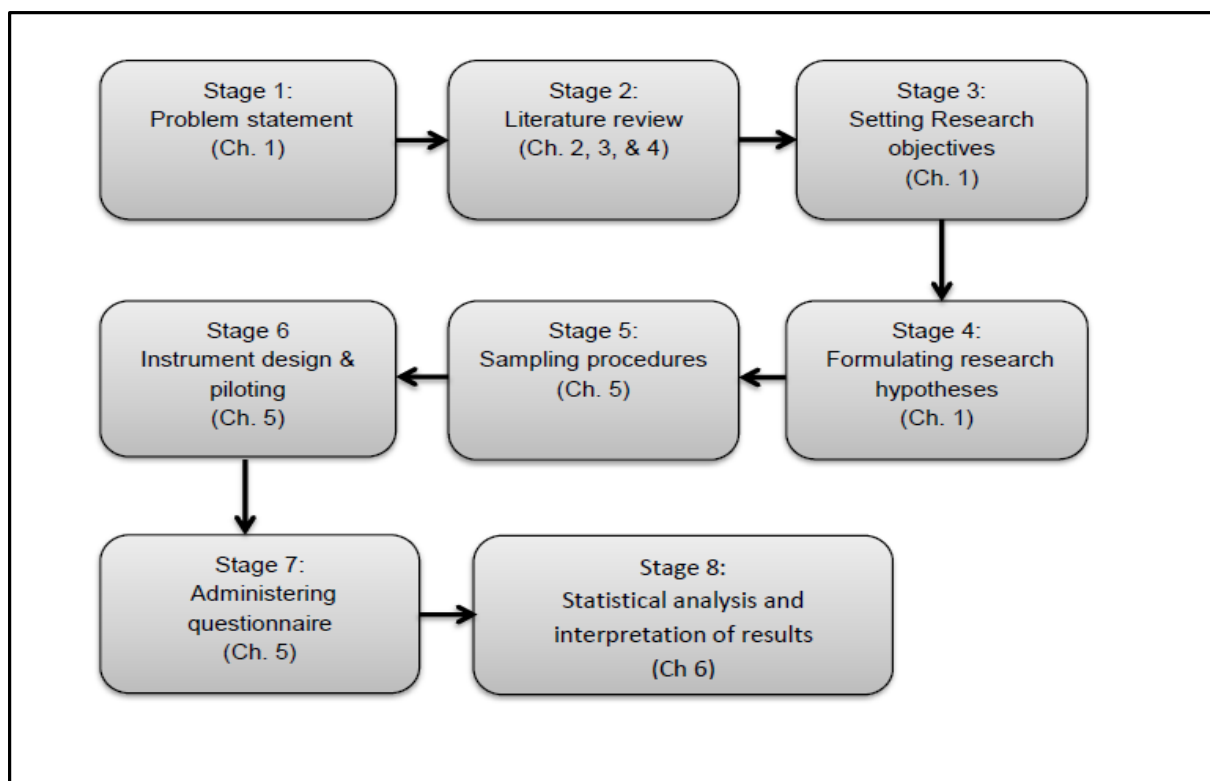


Figure 5.1: Stages in the research process
Source: own compilation

Stage 3: Setting the research objectives

A significant step in the research process is setting the research objectives (Swanepoel, 2008; Zikmund et al. 2011; Cooper & Schindler, 2011).

Stage 4: Formulating the research hypotheses

At this stage the research hypotheses which guided the study were formulated and presented in Chapter 1.

Stage 5: Sampling procedures

The sampling methods adopted for the study were explained

Stage 6: Design of measurement instrument and piloting

The measurement instrument was designed and pre-tested. The instrument design is contained in Chapter 5

Stage 7: Administering the questionnaire

This stage was characterised by data collection procedures. The questionnaires were administered to the respondents on a face to face basis. This process is also covered in Chapter 5.

Stage 8: Statistical analysis and interpretation of results

Descriptive and inferential statistical analyses of data are performed. This is succeeded by reporting findings and discussion of results and recommendations. This stage is covered in Chapters 5 and 6.

5.3 PROBLEM STATEMENT

As stated in Chapter 1, the problem statement is: *The investigation of the status of entrepreneurial and market orientations and innovativeness among small scale agricultural enterprises in the Vryburg region and the extent to which these orientations influence the performance of these businesses.* This problem statement was then converted into research questions and objectives (see Chapter 1 for details) and finally hypotheses. The eventual hypotheses are reproduced here.

5.4 RECAPITULATION OF HYPOTHESES

Hypothesis may be defined as a proposition formulated for empirical testing (Cooper & Schindler, 2011:62; Blumberg et al. 2008:39). These authors view propositions as statements about observable phenomena that may be judged as true or false. Propositions explain the logical relationships among certain concepts. (Kumar, 2011: 83; Cooper & Schindler, 2011:457; Berenson & Levine, 2012:356; Zikmund et al. 2013: 41). By scientific convention, research hypotheses take two formats, namely, the research hypothesis and the alternative hypothesis.

5.4.1 Hypotheses guiding the study

To answer research questions, they must first be translated into **hypotheses** (*null* and the *alternative*) which are educated guesses of problem solution (Cooper & Schindler, 2011:457; Kumar, 2011:85; Berenson & Levine, 2012:356).

The **null hypothesis**, which is often represented by **H₀**, is a statement that maintains that there are either no differences between groups or no relationships between measured variables whilst the **alternate hypothesis** represented by the symbol **H_a** maintains that there is a difference or relationship between measured variables (Dzansi, 2004). Therefore, the alternate hypothesis makes a conjecture that is diametrically opposed to the null hypothesis (Dzansi, 2004).

The following 11 hypotheses guided this study. The hypotheses were derived from theoretical explanations in the literature review in Chapter 2, 3, and 4 and therefore explanations are not be repeated here to avoid unnecessary repetition.

H₀1 SSAEs in Vryburg region are not entrepreneurially oriented.

H_a1 SSAEs in Vryburg region are entrepreneurially oriented.

H₀2 SSAEs in the Vryburg region are not market oriented.

H_a2 SSAEs in Vryburg region are market oriented.

H₀3 SSAEs in Vryburg region are not innovative.

H_a3 SSAEs in Vryburg region are innovative.

H₀4 There is no relationship between EO and venture performance.

H_a4 There is a relationship between EO and venture performance.

H₀5 There is no relationship between MO and venture performance.

H_a5 There is a relationship between MO and venture performance.

H₀6 There is no relationship between INNO and venture performance.

H_a6 There is a relationship between INNO and venture performance.

H₀7 There is no relationship between EO, MO and venture performance.

H_a7 There is a relationship between EO, MO and venture performance.

H₀8 There is no relationship between EO, INNO and venture performance.

H_a8 There is a relationship between EO, INNO and venture performance.

H₀9 There is no relationship between MO, INNO and venture performance.

H_a9 There is a relationship between MO, INNO and venture performance.

H₀10 There is no relationship between EO, MO, INNO and venture performance.

H_a10 There is a relationship between EO, MO, INNO and venture performance

H₀11: EO + MO + INNO does not lead to better venture performance than EO + MO.

H_a11: EO + MO + INNO leads to better venture performance than EO + MO.

5.5 METHODOLOGY APPLIED

This was an exploratory and descriptive study. Exploratory research is useful when what is being investigated is unclear, ill-defined or little is known. It could also be a pilot study to gain a preliminary understanding of a phenomenon. This will then be followed by succeeded by a more comprehensive and formal study (Davis, 2005:146; Cooper & Schindler, 2011:143; Kumar, 2011:11). The conceptual framework (EO, MO linked through INNO) is relatively novel and therefore requires exploration to clarify the expected relationships among these strategic orientations and firm performance. It is intended to lay the foundation for further research into the area.

The study is descriptive because descriptive studies attempt to systematically provide answers to questions such as who, what, and how or information regarding a phenomenon through data collection summarised through statistical analysis. It may also aim at establishing relationships or the interactions between two or more variables (Leedy & Ormrod, 2005:179; Davis, 2005:147; Blumberg et al. 2008:10; Cooper & Schindler, 2011:18; Kumar, 2011:10). Zikmund et al. (2013:53) explain that descriptive research attempts to depict the characteristics of objects, people, organisations or environments; or draw a 'picture' of a given situation. The foregoing views suggest

that descriptive research does not attempt to establish causality between two or more variables, that is, it does not aim at demonstrating cause and effect relationship (correlation) between two or more variables (Zikmund et al. 2013:55; Cooper & Schindler, 2011:19). The focus of descriptive study is the description of a situation as it is at a given point in time.

5.5.1 Research design

As noted earlier, this study was descriptive. Descriptive studies typically adopt quantitative (survey) methods rooted in the positivist epistemology. Issues about what should be considered acceptable knowledge in a discipline are characterised as epistemology (Blumberg et al. 2008:20; Bryman & Bell, 2011:15). Epistemology refers to the philosophical orientation of the researcher in executing this research project. The research was conducted from a positivist perspective. Positivism advocates for adoption of the natural sciences methodology with empiricism as its underlying principle (Bryman & Bell, 2007:15). Bryman and Bell (2007:15) explain that social phenomenon could be studied by the adoption of natural science methodology. This methodology includes development of testable hypothesis derived from theory and generation of objective data or facts gathered through sensual observation (Blumberg et al. 2008: 20; Bryman & Bell, 2011:15). These authors further explain that observable facts are believed to be objective because positivists assume that social facts can be external to the actors and may therefore not be influenced by social actors.

It must be noted that much as positivism has been touted as the most legitimate way to produce knowledge, the approach does not go without criticism. Critics of positivism argue that to study social phenomenon distanced from the social actors is superficial (Blumberg et al. 2008:20; Bryman & Bell, 2011:17). These critics maintain that social phenomenon should be viewed from the actors view point. This implies that the social world cannot be understood by applying natural science principles but should be explained from the interpretations-meanings-social actors attach to social phenomenon. This antithetical position to positivism is termed interpretivism or constructivism - also called constructionism (Blumberg et al. 2008:20; Bryman & Bell, 2011:22). Interpretivists or constructivists aver that social phenomena are constructed and interpreted according to the subjective perceptions of the social actors. The

interpretivists (constructionists) insist that the social world can therefore not be studied objectively as the positivists prescribe.

The opposing philosophical approaches of the positivists vis-à-vis the interpretivists is an age long debate. Writers have identified pros and cons in relation to both schools. On the one hand, positivism is credited with objectivity and generalisability of findings from samples to larger populations of research interest. On the other hand, interpretivism is said to facilitate deeper understanding of social phenomena from the view point of the actors (Blumberg et al. 2008:23; Bryman & Bell, 2011:410; Zikmund et al. 2013:134). Interpretivism involves smaller sample sizes enabling faster data collection and analysis (Cooper & Schindler, 2011:163).

On the contrary, the positivist methodology could drive up costs and time due to large sample size and complex statistical analytical procedures (Blumberg et al. 2008:23). The drive for objectivity in the positive paradigm removes the researcher from participants which may yield superficial outcomes with limited insight into the phenomenon of interest (Blumberg et al. 2008:23). One criticism levelled against interpretivism is that researchers become so immersed in the research process that research outcomes represent no more than the views of the researcher (researcher-dependent) and therefore lacks intersubjective verifiability; that is, the ability of different researchers applying the same procedures to produce the same results or draw the same conclusions (Zikmund et al. 2013:134). The interpretivist approach is also criticised for limited outcomes and inability to generalise findings to larger populations.

It is argued here that the question as to the superiority of either approach is unimportant. In fact, the current research has no intention of wadding into this seemingly unwinnable debate. Rather, it is suggested that the purpose and type of research should drive the methodological approach. The subjective interpretative approach would seem more appropriate for exploratory research which requires clarification of concepts, theory development and short decision time. Conversely, where validation of theory, objective decision making and generalisation are deemed important, the positivist methodology becomes preferable.

The main objective of this study is to examine the influence of EO + MO + INNO on the performance of SSAEs in the Vryburg region. Investigating the influence of EO + MO + INNO on firm performance requires quantification meaning applying quantitative research methods which stems from the positivist research approach. The positivist methodology was therefore deemed appropriate and applied in the study.

5.5.2 Sample design

This section is devoted to the sampling method employed in the study.

5.5.2.1 Unit of analysis

The unit of analysis in research refers to the level at which the research is performed and which objects are investigated (Blumberg et al. 2008:224; Cooper & Schindler, 2011:364). It is the individual participant or object which is measured in a quantitative study. In business research, the respondent may be an individual in a unit or department of an organisation termed the population element; but the unit of analysis is the unit or department or even the entire organisation (Blumberg et al. 2008:224; Zikmund et al. 2013:85). In this research, the unit of analysis was the small scale agricultural enterprise (SSAE) while the respondents were the owners/managers of the SSAEs.

5.5.2.2 Population (universe)

The population also characterised as the target population comprises the universe of units from which the sample is to be selected. It is the totality of a collection of elements about which the researcher wishes to make some inferences. It ideally comprises the correct list of population members (Blumberg et al. 2008:239; Bryman & Bell, 2011:176; Cooper & Schindler, 2011:364; Berenson & Levine, 2012; Zikmund et al. 2013:85). The target population for this study consisted of all small scale agricultural enterprises (SSAEs) in the Vryburg region. The SSAEs include enterprises which engage in agro-related economic activities such as crop and livestock farming, agricultural produce processing and marketing in the Vryburg region. The choice of this target population is justified by the fact that the Vryburg region is predominantly rural with the dominant economic activities being agriculture-related (Bophirima District Municipality, 2006:9; Dr Ruth S. Mompoti District Municipality 2009:102). These sources portray the North-West Province where Vryburg region is located as

mainly rural (65% rural and 35% urban). They further describe Dr Ruth Mompoti District (formerly Bophirima District), including the Vryburg region, as the rural hinterland of the North West Province. An exploratory study by the researcher could not establish a precise population size due to lack of updated data on small businesses in the Dr RSM District Municipality nor the Agricultural Development Corporation (Agricor) databases, a difficulty acknowledged by Dzansi, (2004:183).

5.5.2.3 Sampling frame

This is the listing of all units in the population from which the sample is selected (Blumberg et al. 2008:239; Bryman & Bell, 2011:176; Cooper & Schindler, 2011:364). The sampling frame, also called the working population because these units will eventually provide units involved in the analysis, is often derived from an existing data base (Blumberg et al. 2008:239; Zikmund et al. 2013:388). Establishing the sampling frame for this research was not straight forward due to the absence of a complete (updated) database of small businesses, especially those that fall into the informal category in the Vryburg region. The lack of a complete or updated data source for small businesses, more so for informal businesses is consistent with other research sources (Dzansi, 2004:183; Pretorius & Millard, 2005:59). The sample frame for this study had to be constructed based on listings of all small businesses on the Bophirima District Municipality (now Dr RS Mompoti District Municipality) and Agricultural Development Corporation (Agricor) databases. The Vryburg region is located in the Dr RS Mompoti District and Agricor services agro-related businesses in the area. The sample frame of 885 small scale agricultural enterprises in the Vryburg region was constructed with the help of research assistants recruited from Dr RS Mompoti District and Agricor offices and trained for the purpose of assisting in the research process.

5.5.2.4 Sampling method

Sampling enables the researcher to select some members of a population, referred to as the sample, and draw conclusions about the entire population. A sample is that segment of a population selected for an investigation (Blumberg et al. 2008:228; Bryman & Bell, 2011:176; Zikmund et al. 2013:66). In descriptive research, sampling is preferred for its economy, accuracy of results, speed of data collection, availability and accessibility of respondents to census which involves enumeration of all individual

elements of the population (universe) (Blumberg et al. 2008:228; Bryman & Bell, 2011:176; Zikmund et al. 2013:385).

Two attributes of good samples are accuracy and precision (Cooper & Schindler, 2011:367) Accuracy denotes the degree to which a sample is devoid of bias while precision demonstrates how closely the sample represents the population. This study ensured that an accurate and precise sample of SSAEs from the sample frame of all SSAEs in the Vryburg region was selected. Sampling also facilitated data collection at a lower, easy accessibility of respondents and quicker collection of accurate data.

Researchers have at their disposal two main typologies of sampling techniques. On the one hand, researchers may apply probability sampling method whereby each population element is given a known non-zero chance of selection. This implies that each population element is randomly selected so that each element has a known chance of being selected. On the other hand, non-probability sampling is a method which does not select respondents randomly. It is an arbitrary and subjective selection (personal judgment) method in which case each member does not have a known chance of being selected (Blumberg et al. 2008:235; Bryman & Bell, 2007:176; Zikmund et al. 2013:392).

Relevant to this study is probability sampling. There are varieties of probability sampling. Firstly, there is the simple random sampling considered the most basic form of sampling whereby each element of the population has an equal chance of being selected (Blumberg et al. 2008:242; Bryman & Bell, 2007:179; Zikmund et al. 2013:396). However, Blumberg et al. (2008:242) and Cooper and Schindler (2011:377) argue that the simple random method is often impracticable due to non-availability of a sample frame, may be time consuming, expensive and at times requiring larger samples than other methods. These problems were overcome in this study through exploration and identification/construction of appropriate target population which speeded up data collection at reduced cost. Exploration also enabled the researcher to determine the degree of precision expected and accordingly selected an appropriate sample size. This study therefore adopted the simple random sampling approach by relying on the sample frame construction plan for this study explained in Section 5.8.1.3 above.

5.5.2.5 Sample size

How large a sample should be in probability sampling is a function of the variation in the population parameters (measurable characteristic) being investigated and the desired level of precision. (Cooper & Schindler, 2011:374). These authors explain that the greater the variance in the population, the larger the sample must be; and the greater the desired precision, the larger the sample must be. The population elements in this study were largely homogenous and therefore would not show great variance from the mean. Secondly, the researcher desires to achieve high precision of estimate. The sample size would be just large enough to achieve these sampling objectives. Using an online sample size calculator* a sample size of 268 was derived from a population frame of 885 with a confidence level set at 95%.

In sum, the unit of analysis for this study was the SSAEs while the respondents were the owners/managers of the SSAEs. The population (universe) or the target population for the study consisted of the all SSAEs in the Vryburg region. The sample frame for the study derived from listings of all small businesses on the Bophirima District Municipality (now Dr RS Mompoti District Municipality) and Agricultural Development Corporation (Agricor) databases was 885. Simple random sampling method was applied in the study. The sample size of 268 was determined by applying the Macrorr size calculator freely available on the internet.

5.5.3 Data gathering and analysis

As explained above, this is a descriptive (survey) research which aims at eliciting primary data such as behaviour and other practices from respondents who were owner/managers of SSAEs).

5.5.3.1 Data gathering

Research design may be classified according to the approach employed in gathering primary data. The design may be categorized as communication approach in which case the researcher may communicate with respondents on various topics by administering to them structured questionnaire. Alternatively, the researcher may adopt the observation method where the researcher observes going behaviour, events, people or processes (Blumberg et al. 2008:278; Cooper & Schindler,

2011:240). The communication method in which case applied in this research. Structured questionnaire was administered to the SSAEs with the help of the research assistants.

5.5.4 Data analysis

Statistical procedures including descriptive and inferential statistics was applied in the analysis of the results. IBM Statistical Package for Social Sciences (SPSS) software was used for the statistical analysis (Field, 2009:87).

5.6 OPERATIONAL DEFINITION OF VARIABLES

Operational definitions are definitions of terms regarding specific testing or measurement criteria. These terms must conform to empirical standards which enable the researcher to count measure or through other means gather information about a phenomenon of interest through the senses (Cooper & Schindler, 2011:57). Operational definitions facilitate communication to other people the exact meanings of concepts or variables applied in a study (Kumar, 2011:56; Berenson, et al. 2012:36). The operational definitions of the key concepts which form the basis of the questionnaire applied in the study, are presented in Figure 5.1

5.7 ENSURING CREDIBILITY OF THE STUDY

The credibility of a study largely depends on the quality of the measurement instrument applied. The characteristics of a good measurement instrument include validity, reliability, practicality and sensitivity (Cooper & Schindler, 2011:280; Zikmund et al. 2013:301). These concepts are explained in the next section.

5.7.1 Validity

Validity demonstrates the extent to which an instrument measures what is actually intended to measure (Cooper & Schindler, 2011:280). Zikmund et al. (2013:303) state that validity reflects the accuracy of a measure or the extent to which a score genuinely represents a concept. Two main forms of validity namely, external and internal could be discerned from the literature (Cooper & Schindler, 2011:280). Whereas external validity concerns itself more about generalisability of research findings across persons, settings, times etcetera, internal validity focuses on the ability of the measurement

instrument to measure what it is purported to measure (Cooper & Schindler, 2011). Relevant to this study is internal validity as the study does not aim at broad generalisability of the findings because the study is basically exploratory. Three broad forms of validity are applied in research. These are content validity, criterion validity and construct validity (Cooper & Schindler, 2011:280; Zikmund et al. 2013:304).

5.7.1.1 Content validity.

Content validity of an instrument refers to the extent to which the measuring instrument adequately covers the domain of interest (Cooper & Schindler, 2011:281; Zikmund et al. 2013:304). An evaluation of content validity begins with identifying the constituents of the concept being measured. In the case of this study, it was necessary to identify the elements that constitute EO, MO and INNO. The elements of these concepts are contained in Figure 5.1

5.7.1.2 Criterion validity

Criterion validity demonstrates the success of an instrument either in predicting or estimating outcomes. This implies how practical the measures are (Bryman & Bell, 2011:165; Cooper & Schindler, 2011:281; Zikmund et al. 2013:304). This study attempted to predict performance outcomes of sets of combinations of EO, MO and INNO. The extent to which these measures practically achieve these objectives was determined by their criterion validity.

5.7.1.3 Construct validity

Construct validity takes into account the measuring instrument applied compared with existing theoretical measures (Bryman & Bell, 2011:160; Cooper & Schindler, 2011:281; Zikmund et al. 2013:304). Some authors advocate that researchers should be encouraged to deduce hypothesis from theory which is relevant to the concept (Bryman & Bell, 2011:157). The measurement instrument applied in this study was adapted from existing literature on entrepreneurial orientation, market orientation, innovativeness and firm performance thereby ensuring construct validity

5.7.2 Reliability

5.7.2.1 Reliability

The reliability of a measurement instrument is determined by the extent to which it produces consistent results if applied at different times (Bryman & Bell, 2011:164; Cooper & Schindler, 2011:283; Kumar, 2011:181; Zikmund et al. 2013:305).

5.7.2.2 Internal consistency

Internal consistency of an instrument demonstrates the extent to which different indicators of a concept converge on a common meaning. It shows the extent of homogeneity among the different items of a multi-item measurement instrument (values above 0.80 are deemed to possess excellent consistency, between 0.70 and 0.80 to be good; and between 0.60 and 0.70 are considered fair. Values below 0.60 are judged poor (Bryman & Bell, 2011: 158; Cooper & Schindler, 2011: 283; Zikmund et al. 2013: 305).

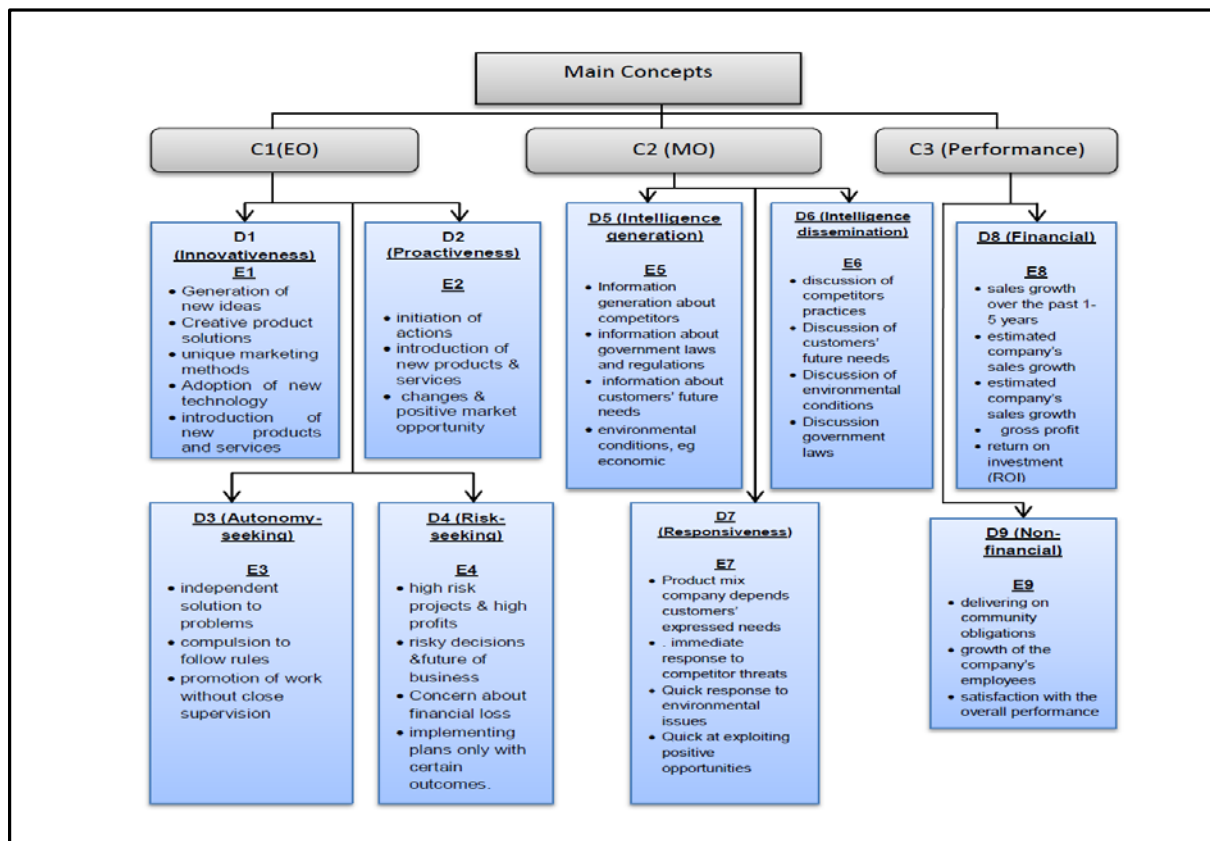


Figure 5.2: Dimensions (D) and elements (E) of concepts (C) (EO, MO and performance).

Adapted from Dzansi (2006:79)

The Cronbach's alpha was applied to determine the internal consistency of the scale items of EO and MO. Market orientation dimensions produced excellent reliability as the values are all above 0.8 (Table 6.9). In the case of the EO dimensions excellent reliability was also reported for the innovativeness dimension (0.838) and generally good reliability for proactiveness and autonomy seeking (both above 0.7). However, the reliability of the risk taking dimension appears to be rather low, namely 0.506 which was improved to 0.652 by dropping one of the items comprising that dimension (Table 6.9).

5.7.2.3 *Other factors affecting reliability*

Kumar (2011:192) explains that it is not possible to develop a research instrument in social science to achieve 100% accuracy because it is not possible to completely control factors that affect reliability. Kumar (2011:192) identifies the following factors among others which require the researcher's attention in order to minimise their influence on the research process.

- **The wording of questions-** ambiguous questions could yield unreliable responses. The researcher took pains to simplify and clarify the research questions applied in this study in order to solicit reliable responses.
- **The mood of the respondents as well as the interviewers** could affect the reliability of the responses. Negative mood or anxiety could influence the interview process thereby rendering the responses unreliable. The Research Assistants were coached to present positive and reassuring attitude while administering the questionnaire. This was done to overcome the possibility of deriving unreliable responses generated from a frosty interview environment.
- **The nature of interaction** between the interviewer and the interviewee could affect the reliability of the outcome. The interviewers were trained and well supervised in order to keep interactions with the respondents formal and ethical to ensure reliable responses.

(Kumar, 2011:192).

5.7.3 Practical issues in administering the research questions

While validity and reliability are of great importance in ensuring the credibility of the study, it is equally important to consider the practicality of executing the measurement process (Blumberg et al. 2008:459; Cooper & Schindler, 2011:285). They identify three dimensions of practicality as economy, convenience and interpretability.

5.7.3.1 Economy

Cost in administering the questionnaire could be significant especially, if the questionnaire items are many. Yet more items yield more reliability (Cooper & Schindler, 2011:285). There is therefore a need to balance cost with reliability in practical terms. In this study, the number of items was kept to a moderate size (50 questions) administered over two weeks. This was done to contain cost.

5.7.3.2 Convenience

A measurement instrument is convenient if it is easy to administer. Cooper and Schindler (2011:285) explain that a questionnaire which is clear with detailed instructions is easy to complete correctly thereby yielding more accurate results. They also explain that a clear design and layout could also facilitate a more accurate completion for greater reliability. Close attention was paid to the instructions that guided the completion of the questionnaires. The design and layout were revised several times until an acceptable quality was attained.

5.7.3.3 Interpretability

Cooper and Schindler (2011:286) also explain that interpretability should be given attention if someone other than the designer must interpret the results. Interpretability was not considered a serious hurdle because the measurement instrument was designed and interpreted by the researcher.

5.8 DESIGN OF THE QUESTIONNAIRE

The questionnaire was designed to capture the elements of the operationalised concepts applied in the study. In addition the questionnaire was designed to generate demographic data of SSAEs in the Vryburg region. The questionnaire which was edited and refined for logical flow and convenience is contained in Appendix C.

5.8.1 Components of the questionnaire

The questionnaire contains four sections as follows.

Section A: Demographics

Respondents were requested to provide information on the following demographic data:

- role in the company (owner or owner/manager)
- gender
- age
- ethnic origin/race
- educational status
- level of business training of owner or owner/manager
- level of entrepreneurship training owner or owner/manager
- number of persons employed by the business
- number of years business has been in operation
- main crop-related activity business is engaged in
- main animal-related activity business is engaged in
- main type of agriculture-related marketing activity business is engaged in

Section B: Entrepreneurial orientation

Respondents were requested to indicate the degree to which they disagree or disagree with various questions pertaining to the dimensions as well as the elements of entrepreneurial orientation (EO) (see Figure 5.2).

Innovativeness

The level of innovativeness was examined in this section. Issues covered include:

- Generation of new ideas.
- Creative solution to problems regarding products and services.
- Development of unique marketing ways of products and services.
- Adoption of new technology.
- Introduction of new products and services.

Proactiveness

- Initiation of actions (quality improvement of new products/services) for competitors to follow.

- First to introduce new products and services to the market.
- Creation of positive opportunity due to changes in the market.

Risk-taking

- Undertaking high risk projects with chances of very high profits.
- Making very bold but cautious decisions that affect business's future.
- Concern about financial loss.
- Liking for implementing plans only with certain outcomes.

Autonomy seeking

- Encouragement of independent individual solution to problems.
- Employees not compelled to strictly adhere to laid down procedures.
- Support for individuals/teams to work without close supervision.

Section C: Market Orientation

Intelligence generation

- Frequency of information generation about competitors' actions (price and quality of products).
- Generation of information about government laws and regulations.
- Generation of information about customers' future needs.
- Generation of information regarding environmental conditions (economic, social and political).
- Discussion of business matters with its suppliers.

Intelligence dissemination

- Frequency of discussion of competitors practices (price, quality of products and customer management) within the business.
- Discussion of customers' future needs within the business.
- Discussion of environmental conditions (economic, social and political) within the business.
- Discussion of new information regarding government laws and regulations within the business.
- Discussion of information about suppliers within the business.

Responsiveness

- Product mix the company depends on customers' expressed needs.
- Starting business with new more competitive suppliers.

- Immediate response if its customers are targeted by rival companies.
- Quick in taking corrective measures on environmental concerns.
- Quick at exploiting positive opportunities and avoiding threats.

Section D: Firm Performance

Financial performance

- Sales growth over the past 1-5 years.
- Estimate the company's sales growth over the past 1-5 years.
- Gross profit (profit before tax) for the company over the past 1-5 years ore tax.
- Return on investment (ROI) (cash generated or lost due to investment in the company) over the past 1-5 years.

Non-financial performance

- Delivering on community obligations as planned over the last 1-5 years.
- Growth of the company's employees over the past 1-5 years and number of employees who have left the company over the past 1-5 years.
- Satisfaction with the overall performance of the business.

5.8.2 The measurement instrument

The Likert scale is an instrument used to measure a cluster of attitudes towards an object of interest (Bryman & Bell, 2011:155). It is the most frequently used type of summated rating scale (Cooper & Schindler, 2011:298; Zikmund et al. 2013:315). Usually, participants are requested to indicate their attitude towards an object of interest stating how strongly they agree or disagree with statements. Respondents usually have four, five, seven and even ten response alternatives to choose from. These alternatives may include: strongly disagree, disagree, uncertain, agree, and strongly agree. In this study, the four point scale was applied because the researcher felt the middle of the road response ("don't know" or "neutral") creates room for respondents' casual completion of the questionnaire without a careful thought out answer.

The research measurement instrument was derived from entrepreneurship, marketing and innovation theories. EO has been studied extensively and measured on the EO

scale which include dimensions namely, innovativeness, risk taking, proactiveness, autonomy seeking and competitive aggressiveness (Lyon et al. 2000; Knight, 2000; Matsuno, 2002; Keh et al. 2007). A 9-item EO scale which has been applied in various studies was adapted for this study. Competitive aggressiveness was excluded from the modified scale because it was assumed to be measured under proactiveness. Secondly, it was reasoned that small businesses could hardly afford to lead competition wars by adopting aggressive posture towards their rivals. It should be noted that innovativeness was measured as a dimension of EO since it simultaneously features as a distinct dimension of EO and embedded in the MO construct (Hill et al. 2008).

Secondly, a modified MO measurement scale was incorporated into the measurement instrument for the study since the conceptual model for the study as well as the proposed integrative model encompasses MO and EO linked through innovativeness. Like EO, MO has received extensive research attention resulting in the development of various measurement instruments. The MARKOR scale has been applied extensively in measuring the MO construct (Narver and Slater, 1990; Kohli et al. 1993; Matsuno et al. 2000; Kara et al. 2005). The dimensions of the instrument were subjected to Cronbach's alpha coefficient test to determine the internal consistency and reliability. The result showed all MO items showed values above 0.80 which imply excellent internal consistency and reliability (see Table 6.9). The same Table 6.9 revealed that EO items recorded above 0.7 and 0.80 on its dimensions meaning good to excellent internal consistency and reliability. Only one item (risk-taking) showed low reliability with a value of 0.652. Overall, the measurement instrument manifests very good to excellent reliability.

The resulting integrative measurement instrument (structured questionnaire) for the study contains dimensions and elements of EO and MO outlined in section 5.11.1 and Figure 5.2 (see also Annexure C - the questionnaire).

5.8.4 Pre-testing the instrument

Pre-testing (also termed piloting) of research instrument ensures that the survey questions as well as the entire instrument functions well (Bryman & Bell, 2011:262) The pre-testing of the instrument is administered to a sample from the target

population in order to identify and correct weaknesses in the instrument (Cooper & Schindler, 2011:89).

Since the measurement instrument was developed by integrating the dimensions and elements of two different constructs (EO and MO) for the study, there was a need for pre-testing to ensure clarity and reliability. The questionnaire was tested on 30 potential respondents (SSAEs). The next step was to fine-tune the instrument by editing the content and layout for the convenience and interpretability

5.8.5 Administering the instrument

The questionnaire was administered to the respondents on a face-to-face basis with the help of the trained research assistants. The face-to-face approach was aimed at ensuring that the targeted respondents and not their delegates or representatives completed the questionnaire to promote reliability of the outcomes.

5.8.6 Data Preparation

The returned questionnaires were subjected to a cleaning and editing process which corrected a few inherent errors. Missing values, uncompleted questionnaires and inadvertent omissions were detected and corrected. In some cases, respondents were contacted to rectify errors on their completed questionnaires. In the end, 207 questionnaires were returned in total of which nine (9) were found to be faulty due to incorrect entries and could not be corrected. They were excluded from the analysis and treated as missing items.

5.8.7 Data coding

Data coding involves assigning numbers or symbols to answers to facilitate grouping of responses into limited number of classes or categories (Cooper & Schindler (2011:405; Zikmund et al. 2013:465). The instrument used for data collection was the Likert-scale which was pre-coded with numerical values. There was therefore no need to code the responses. The responses which had been pre-assigned numerical values were tabulated in the “office use only” column on the questionnaires (Annexure C: Questionnaire).

5.9 STATISTICAL PROCEDURES AND TREATMENT

In order to summarise the results of a descriptive or survey study, various statistical procedures are performed. These statistical procedures enable the researcher to summarise data which provide answers to research questions raised for the study. Statistical analysis takes the forms of descriptive and inferential statistics. (Zikmund et al. 2013:484). Descriptive statistics involves transformation of data which describes the basic characteristics such as distribution, central tendency and so on (Zikmund et al. 2013:484). These authors further state that inferential statistics means making inferences or conclusions about the target population based on observations of a sample representing the population. The two statistical procedures (descriptive and inferential) were applied in this study.

5.9.1 Descriptive statistics

Descriptive statistics was applied in analysing the distribution of scores on the variables. Frequency tables and graphical displays were used to present summarised scores relating to the variables. The frequency tables and graphs are reported in Chapter 6.

5.9.2 Inferential statistics

Chi-square statistic was applied in order to establish if there were any relationships between a statement response and the demographic variable (Cooper & Schindler, 2011:469). The magnitude of the strength between the statement response and the demographic variables was calculated by applying Cramer's V, a statistic measure of the strength of association between variables (Cooper & Schindler, 2011:515). The Chi-square statistic and Cramer's V analyses are reported in Chapter 6.

5.9.3 Multiple linear regression analyses

Multiple regression analyses were performed in order to determine the relative influence of innovativeness on EO and MO in the prediction of firm performance (sales growth and gross profit). Results of the multiple regression analyses were reported in Chapter 6.

5.9.4 Multinomial logistic regression

The multinomial logistic regression analysis was considered a necessary further test to determine the predictive influences of EO, MO and INNO on firm performance (sales growth and gross profit). The multinomial logistic regression is applied when the researcher wants to examine the predictive categorical outcomes based on the interactions between various combinations of the dependent categorical variables (Field, 2009:265; Berenson et al. 2012:641). The reason for this choice is that the predictive outcomes (sales growth and gross profit) were measured on what Zikmund et al. (2013:486) call less than interval scale - categorical scale. This violates the collinearity assumption applicable in linear regression (Field, 2009:267). According to Field (2009:267), the multinomial logistic approach overcomes the collinearity problem posed by the non-linear relationship which characterise the interactive dependent variables in this case (EO, MO and INNO) on the one hand, and the predictive less than interval (categorical) outcomes in this case sales growth and gross profit. Results of the multinomial logistic regression were reported in Chapter 6. The results of the study are reported in Chapter 6

5.10 SUMMARY

The methodology applied to this study was discussed in this chapter. The stages in the research process adopted for the study was presented. The philosophical orientation of the study (positivist perspective) was elaborated and justified. The research problem and research hypotheses were re-stated in the chapter. The research design covered issues regarding population and sampling procedures. The design of measurement instrument, piloting and questionnaire administration were considered. Data preparation and analysis were also discussed. Statistical procedures in the analysis of the data were explained. The results of the study were presented in Chapter 6.

CHAPTER 6

FINDINGS AND DISCUSSIONS

6.1 INTRODUCTION

The current study examined the combined influence of entrepreneurial orientation (EO), market orientation (MO) and innovativeness (INNO) on the performance of small scale agricultural enterprises (SSAEs) in the Vryburg region. A central thesis statement of this study is that innovativeness is the adhesive that mediates and ties together entrepreneurial and market orientations of business culminating in growth and profitability. In combination, these constructs provide a positive cultural milieu for owner/managers to bring about growth and profitability to their businesses.

This chapter presents a summary of the empirical findings of the survey of the SSAEs in the Vryburg region. The key issues reported on include response rate, owner and business demographics, EO, MO, and INNO relationships, EO, MO, INNO and SSAE performance relationship of SSAEs, multiple linear regression and multinomial logistic regression analyses on the predictive capabilities of various combinations of EO, INNO and MO on SSAE performance.

6.2 RESPONSE RATE

The survey questionnaire was administered to a sample of 268 SSAEs out of which a total of 207 completed were returned. This represents a response rate of 77% (77.23% to be precise). There were nine (9) incorrectly filled questionnaires among the 207 that were returned and these were excluded from the analysis meaning 198 completed questionnaires were analysed.

6.3 DEMOGRAPHICS

The demographics are presented in two parts namely, the profile of respondents (business owners/ managers) and business profile. These profiles are summarised in Tables 6.1 and 6.2 respectively.

6.3.1 Profile of business owner/managers

Table 6.1 indicates that most (58%) of the SSAEs are owner-managed. Gender composition appears evenly distributed. Females constitute 51% and males make up 49%.

Table 6.1 Profile of business owners/managers

Variable	Value	Frequency	%
Role	Owner	50	25
	Manager	34	17
	Owner/manager	114	58
Gender	Male	98	49
	Female	100	51
Age	16-25	8	4
	26-35	25	12
	36-45	61	31
	46-55	79	40
	55 +	25	13
Ethnic origin/race	Afrikaner	4	2
	English	6	3
	Other European	8	4
	Black RSA	142	72
	Other Africa.	37	19
Educational Status	No formal education	12	6
	Primary school	28	14
	Middle school	34	17
	High school	94	47
	Undergraduate	25	13
	Post graduate	5	3
Business Training	None	88	44
	Apprenticeship	36	18
	Short courses	36	18
	High school	17	9
	Undergraduate	17	9
	Postgraduate	4	2
Entrepreneurship Training	None	69	35
	Apprenticeship	68	34
	Short courses	48	24
	High school	3	3
	Undergraduate	8	8
	Postgraduate	2	2

This shows equal gender representation in the SSAE ownership/ management in the Vryburg region. The positive side is that women are getting more involved in job creating activities. Table 2.1 reveals that a majority (72%) of the respondents are black South Africans. Stats SA (2013) explains that blacks especially black females are the hardest hit by unemployment in the country. Involvement in economic activities of black females in the Vryburg region seems to be addressing both the chronic

unemployment crisis facing South Africa and the gender imbalance in the employed population which disadvantages the black female population in particular.

The greatest proportion (71%) of the SSAEs owner/managers surveyed fall within the 36-55 years old group (Table 6.1). The implication is that the youth (16-35 years) constituting 31% are not so much involved in the management of agro-related business in the Vryburg region. In terms of educational status of respondents, Table 6.1 shows that high school leavers constitute the majority (48%) and only 6% of respondents did not have any formal education whilst 16% have some university education. When it comes to general business training, Table 6.1 shows that majority 56% had some form of business training ranging from matric level to even postgraduate level. With regard to entrepreneurship training, Table 6.1 shows that a substantial proportion (65%) had undergone apprenticeship or taught entrepreneurship courses. To the effect that 65% of the respondents had some form of entrepreneurship training, the prospects look good for engaging them in further entrepreneurship training. The remaining 35% would also not encounter serious entrepreneurship training since they have some formal educational background. The results therefore suggest that although most respondents did not have advanced training in business or entrepreneurship, the foundation exists for training them further. Further training is important since the level of education positively relates with performance of entrepreneurs (Venter, *et al.*, 2008:44).

6.3.2 Profile of SSAEs

Table 6.2 Business profile

Variable	Value	Frequency	%
Number of employees	(1-5 persons)	110	56
	(6-10 persons)	62	31
	(11-50 persons)	18	9
	(51-100 persons)	8	4
Age of Business	(1-5 years)	38	19
	(6-10 years)	75	38
	(11-15 years)	50	25
	(16-20 years)	23	12
	(Over 20 years)	11	6
Type of agricultural activity	Animal-related products	44	22
	Crop-related products	30	15
	Both animal and crop-related products	124	63

Table 6.2 above indicates that most (87%) of the SSAEs are either micro (employing 1 to 5 people) or very small (employing between 6 and 10 people). This statistics confirms earlier findings of Urban et al. (2010) and Venter et al. (2010) which suggest that South African small businesses are mostly micro or very small in nature.

The next important statistics on the SSAEs is how long the businesses have been in existence. According to Table 6.1, a sizeable majority (81%) of the SSAEs have been in existence for more than five (5) years whilst only 19% have been in existence for five (5) or less years. These statistics show a relatively good longevity among SSAEs in the study area.

6.4 PERFORMANCE OF SSAES

Performance measures include financial and non-financial indicators. Three financial performance indicators were reported on for the SSAEs.

Table 6.3: Business performance

Variable	Value	Frequency	Percentage
Business's sales growth over the past 1-5 years	Decreasing (more than 10%)	3	1
	Decreasing (6-10%)	18	9
	Decreasing (1-5%)	27	14
	No change 0%	26	13
	Increasing (1-5%)	79	40
	Increasing (6-10%)	37	19
	Increasing (more than 10%)	8	4
Gross profit before tax for the last 1-5 years	Decreasing (more than 10%)	3	1
	Decreasing (6-10%)	20	10
	Decreasing (1-5%)	30	15
	No change 0%	22	11
	Increasing (1-5%)	83	42
	Increasing (6-10%)	31	16
	Increasing (more than 10%)	9	5
Return on investment (ROI) over the past 1-5 years	Decreasing (more than 10%)	4	2
	Decreasing (6-10%)	17	9
	Decreasing (1-5%)	41	21
	No change 0%	22	11
	Increasing (1-5%)	84	42
	Increasing (6-10%)	28	14
	Increasing (more than 10%)	2	1
Growth of the business's employees over the past 1-5 years	(0 person)	62	31
	(1-5 persons)	99	50
	(6-10 persons)	31	16
	(11-50 persons)	4	2
	(51-100 persons)	2	1

These are gross profit before tax, sales growth and ROI. Growth in number of employees was reported as a non-financial performance indicator.

6.4.1 Sales growth

According to Table 6.3, 40% of the sample respondents reported 1%-5% growth over the previous five years. About 19% of the sample reported growth of 6%-10% while only 4% reported growth of 10% over the previous five years. Respondents who reported decline in sales performance accounted 24% of the sample. Businesses which did not experience any change in growth represented 13% of the sample. Regardless of size of growth in turnover, the picture painted is that a sizeable proportion of the SSAEs (63%) reported growth in turnover.

6.4.2 Gross profit before tax

Gross profit before tax for the previous five years reported is consistent with the pattern of sales growth. Table 6.3 and Figure 6.2 show that 42% of SSAEs reported (a rather low growth) 1% to 5% gross profit before tax. This means that sales growth translated into profit growth. This reported relatively low performance of SSAEs is somewhat consistent with the general poor performance of the South Africa's economic growth rate estimated for the past few years at around 3% for 2013 (The African Development Bank, 2013). The gross profit performance is captured in Table 6.3 and Figure 6.2.

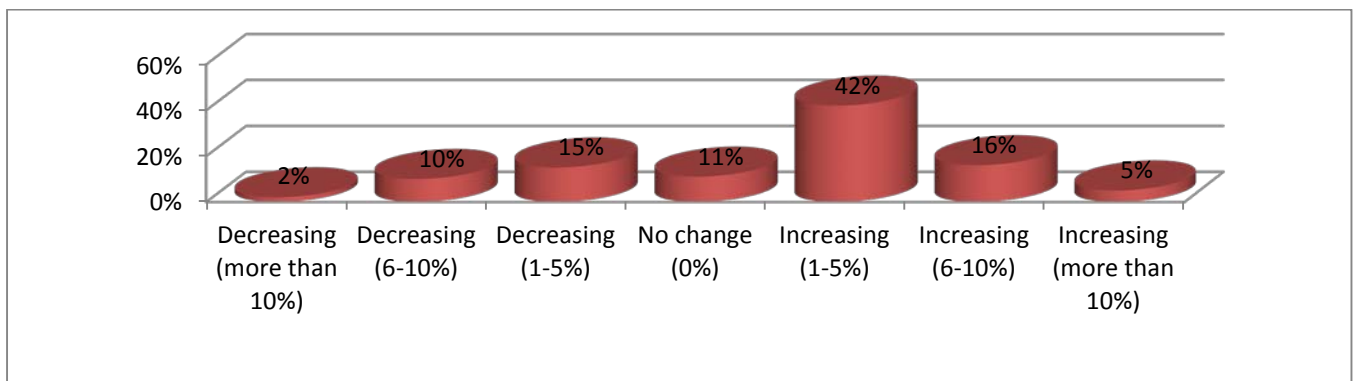


Figure 6.2: Estimate of business's gross profit growth over the past 1-5 years

6.4.3 Return on investment (ROI)

Table 6.3 shows ROI to be relatively consistent with sales and profit before tax. Similar to sales and gross profit, 42% of respondents reported 1%-5% growth rates for ROI.

Respondents making up 5% of the sample reported growth rate of over 10% in ROI (Table 6.3). In sum, 57% of the sample reported increasing ROI while 27% reported decreasing ROI. About 11% reported no change.

6.4.4 Employment growth

Growth in number of business employees also followed the pattern reported for sales, gross profit and ROI. A significant proportion of businesses (50%) reported growth of one to five (1-5) persons for the previous five years (Table 6.3). Growth in the six to ten (6-10) persons category accounted for 16%, while eleven to fifty (11-50) persons category represented 2% of the sample. Only 2% of respondents reported growth in excess of fifty (50) persons for the previous five years.

SSAE performance in relation to the various measures shows that growth rates were generally not quite impressive over the previous five years. Estimated sales growth for 40% of the sample was between 1% and 5%, while 40% of the sample also reported gross profit growth of 1%-5%. About 42% of the respondents indicated that ROI for their businesses grew at the same low rates (1%-5%). About 50% of SSAEs reported growth in the number of employees between one and five (1-5) persons. However, it is important to note that a greater percentage of SSAEs recorded some amount of growth in terms of all the performance indicators.

In the next sections, the relationships between levels of EO, MO and INNO and performance measures are reported. The relationships between these variables were examined by applying Chi-square and Cramer's V statistical tests.

6.5 CHI-SQUARE TEST AND CRAMER'S V STATISTIC EXPLAINED

6.5.1 Chi-square and Fisher's exact tests

Chi-square test indicates whether the relationship between a response to a statement and the demographic variable/ performance measure is statistically significant. Chi-square test is applicable because both variables are categorical (Field 2009:688; Zikmund et al. 2013:521). A finding is deemed statistically significant if the probability that the result could have randomly occurred is less than 5 out of 100. Thus, a

significant result is concluded if $p < 0.05$ (indicated as “sig” in the tables while “ns” means no significant result).

Fisher’s exact test was used as an alternative to Chi-square whenever too many frequencies fell below the acceptable statistical criterion for Chi-square. Chi-square is applied when more than 20% of the expected frequency counts are less than 20. The Fisher’s exact test was designed to cater for small samples and frequencies (Field, 2009:690)

6.5.2 Cramer’s V statistic

Apart from determining statistical significance, a measure of practical significance (an indicator of the magnitude of the observed effect) is equally important. Thus, effect sizes namely Cramer’s V were also calculated in the case of Chi-squares. Cramer’s V is applied in calculating effect size for contingency tables larger than 2 x 2. In this study, the tables constructed regarding demographic variables versus EO and MO variables exceed the 2 x 2 size. The value of Cramer’s V ranges between 0 and 1. As a general rule, effect sizes are calculated as follows: 0.1 = weak effect/relation, 0.3 = moderate effect/relation and 0.5 upwards is regarded as strong effect/relation while 1.0 is seen as extremely strong (Field, 2009:695; Cooper & Schindler, 2011:515). However, Cramer’s V coefficient rarely attains the upper limit of 1.0 (Field, 2009; Cooper & Schindler, 2011).

6.6 LEVEL OF EO AND ITS PERFORMANCE IMPLICATIONS

In this section, relationships between EO dimensions and performance of SSAEs are reported

6.6.1 Level of EO

In the survey, respondents were asked to indicate the extent to which they agreed (or disagreed) with various EO statements. The extent of agreement reported in Table 6.4 indicates that, in most cases, respondents agreed (or strongly agreed) with most statements in relation to EO dimensions. For instance, in terms of innovativeness, 79% of respondents agreed that the business encouraged employees to come up with new ideas at the work place while 75% of respondents reported that their businesses were

positioned to creatively solve problems regarding products and services. With respect to proactiveness, a total of 84% of respondents agreed that in their businesses, it was strongly believed that fluctuations in the market created positive opportunity for doing business.

The percentage analyses presented in Table 6.4 revealed that most SSAEs reportedly agreed to practices regarding all dimensions of EO. The relatively high scores on agreement with EO statements suggest existence of high level of EO practices among the SSAEs. This attests to the involvement of SSAEs in entrepreneurial activities. The high levels of EO reported in Table 6.4 suggest that SSAEs in the Vryburg region are entrepreneurially oriented.

Table 6.4: The EOs for SSAEs

INNOVATIVENESS	DISAGREE	AGREE
The business encourages employees to come up with new ideas at the work place	22%	79%
We try to solve problems concerning products/services by using creative methods	25%	69%
The business encourages development of unique ways of marketing products/services	35%	66%
The business often adopts new technology in making its products/services	21%	80%
The business introduced new products/services to the market in the past 1- 5 years	32%	68%
Mean	27%	72%
PROACTIVENESS	DISAGREE	AGREE
Often the first to initiate actions; other competitors in the area respond	52	48
Very often first in the area to introduce new products/services to the market	43	58
We believe that changes in the market creates opportunity for business	17	84
Mean	37%	63%
RISK-TAKING	Disagree	Agree
The business often undertakes high risk projects with chances of very high profits	29	70
The business usually makes very bold but cautious decisions that affect its future	24	76
The possibility of financial loss is a major concern in this business	19	81
I In this business, there is a strong liking for implementing plans only if it is very certain that they will work	52	48
Mean	31%	69%
AUTONOMY SEEKING	Disagree	Agree
This business encourages individuals to think of ways of solving problems on their own	32	69
In this business employees are not compelled to strictly adhere to laid down procedures in doing their tasks	33	67
The business supports individuals or teams that work on their own without close supervision	22	79
Mean	29%	71%
AVERAGE	31%	69%

The next issues reported were the relationships between EO and business variables. The relationships were subjected to Chi-square tests and Cramer's V statistical analyses. These statistical tests were explained in section 6.5

6.6.2 EO and business performance

In this section, correlations between EO dimensions and business performance based on Chi-square test (statistical significance) and Cramer's V (effect size) are presented. The performance variables considered include sales growth, gross profit, ROI and growth in number of employees.

6.7.2.1 The relationship between EO dimensions and sales growth

Significant and positive relationships were reported in respect of all dimensions of EO and sales growth of SSAEs though most if the relationships are weak. Only three items are strongly associated with sales growth. In particular, measures on autonomy-seeking showed strong and positive correlation with sales growth. For instance, encouraging individuals to think of ways of solving problems on their own was strongly and positively associated with sales growth (Chi-square=60.325, sig, $p < 0.05$; Cramer's $V = 0.552$). This means that SSAEs actively encouraged members to work independently and solve problems with minimal supervision. Self-dependence is favourable for positive business performance. Autonomy-seeking is confirmed in the literature to have a positive relationship with firm performance. Voss et al. (2005:1135) for instance perceive autonomy as a commitment to encouraging employees to be self-directed and independent in generating and implementing novel ideas. Callaghan and Venter (2011:31) argue that autonomy-seeking encourages independent and autonomous action in firms which in turn promotes performance. Others perceive autonomy as a catalyst for entrepreneurial activity and the freedom necessary to create new ventures (Lee & Peterson, 2000:401; Roskos, 2004:54).

Alexandrova (2004:141). Apart from promoting business performance, autonomy-seeking is also linked to other EO dimensions such as innovativeness as they collectively promote business performance as reported in the literature review in chapter 4 (Covin & Slevin, 1986; Zahra, 1991; Dess et al, 1997:691; Barringer & Bluedorn, 1999; Knight 2000:13, Matsuno et al, 2002:18; Wiklund & Shepherd,

2005:75; Covin et al., 2006:57; Kaya & Agca, 2009:8; Lumpkin et., 2010:254; Callaghan & Venter,2011:31)

Table 6.5 Significant tests for EO based on sales growth

Statement	Company's sales growth over the past 1-5 years					Chi-square	Cramer's V
	Decreasing (more than 5%)	Decreasing (1-5%) (n=27)	No change (0%)	Increasing (1-5%)	Increasing (more than 5%)		
Innovativeness							
The company encourages employees to come up with new ideas at the work place	38%	67%	73%	90%	87%	30.610, sig	0.393
The company solves problems by using creative methods	52%	67%	62%	85%	82%	14.642, sig	0.272
The company encourages development of unique ways of marketing products/services	38%	44%	62%	70%	87%	22.018, sig	0.333
The company adopts new technology when available	33%	70%	81%	92%	84%	38.019, sig	0.438
The company introduced new products/services to the market in the past 1- 5 years	33%	56%	65%	75%	80%	18.096, sig	0.302
Proactiveness							
The company is often the first to initiate actions to which other competitors in the area respond	24%	33%	42%	52%	64%	12.945, sig	0.256
Very often this company is the first in the area to introduce new products/services to the market	43%	44%	50%	58%	76%	10.349, sig	0.229
In this company, it is firmly believed that changes in the market creates a positive opportunity for doing business	33%	74%	89%	95%	91%	39.475, sig #	0.506
Risk taking							
The company often undertakes high risk projects with chances of very high profits	33%	59%	62%	76%	91%	27.019, sig	0.369
The company usually makes very bold but cautious decisions that affect its future	24%	70%	73%	85%	91%	41.249, sig	0.456
The possibility of financial loss is a major concern in this company	52%	78%	77%	87%	87%	12.737, sig #	0.271
In this company, there is a strong liking for implementing plans only if it is very certain that they will work	43%	56%	58%	47%	42%	2.463, ns	0.112
Autonomy seeking							
This company encourages individuals to think of ways of solving problems on their own	28%	41%	35%	87%	89%	60.325, sig	0.552
In this company employees are not compelled to strictly adhere to laid down procedures in doing their tasks	29%	59%	54%	76%	82%	24.432, sig	0.351
The company supports individuals or teams that work on their own without close supervision	38%	56%	58%	95%	96%	56.348, sig	0.5333

6.7.2.2 *The relationship between EO dimensions and gross profit growth*

Correlations between EO dimensions and growth in gross profit in SSAEs are significantly positive for all items but most of the relationships are weak (see Table 6.6). Positive and strong growth relationships with sales growth were reported for only three items. The correlation between changes the market environment perceived as business opportunity and gross profit growth are strong and positive (Chi-square=46.287, sig, $p < 0.05$; Cramer's $V=0.549$). Encouraging individuals to solve problems on their own (Chi-square=69.614, sig, $p < 0.05$; Cramer's $V=0.593$) as well as supporting them to work independently (Fisher's exact=60.833, sig, $p < 0.05$; Cramer's $V=0.561$) are strongly and positively associated with gross profit growth. Performance on proactiveness and autonomy-seeking elements are positive and strong in relation to gross profit growth. Based on proactiveness and autonomy-seeking dimensions, it could be concluded that EO positively influences gross profit growth. However, viewed from innovativeness and risk-taking dimensions, associations with gross profit growth, though positively significant, were generally moderate to weak. This finding is consistent with performance of SSAEs where the greatest proportion (42%) reported gross profit growth rate of 1%-5% for the previous five years (see Table 6.3).

Table 6.6 Significant tests for EO based on growth in gross profit

Statement	Company's gross profit over the past 1-5 years					Chi-square	Cramer's V
	Decreasing (more than 5%) (n=23)	Decreasing (1-5%) (n=30)	No change (0%) (n=22)	Increasing (1-5%) (n=83)	Increasing (more than 5%) (n=40)		
Innovativeness							
The company encourages employees to come up with new ideas at the work place	35%	67%	77%	90%	88%	32.961, sig #	0.433
The company tries to solve problems concerning products/services by using creative methods	52%	63%	68%	86%	80%	14.660, sig	0.272
The company encourages development of unique ways of marketing products/services	35%	47%	64%	70%	90%	25.729, sig	0.360
The company often adopts new technology in making its products/services	39%	67%	91%	90%	85%	29.794, sig #	0.420
The company introduced new products/services to the market in the past 1- 5 years	35%	57%	68%	77%	75%	17.397, sig	0.296
Proactiveness							
The company is often the first to initiate actions (e.g., quality improvements) to which other competitors in the area respond	26%	40%	46%	49%	65%	9.948, sig	0.224
Very often this company is the first in the area to introduce new products/services to the market	44%	50%	55%	60%	68%	4.513, ns	0.151
In this company, it is firmly believed that changes in the market creates a positive opportunity for doing business	30%	80%	91%	96%	88%	46.287, sig #	0.549
Risk taking							
The company often undertakes high risk projects with chances of very high profits	35%	60%	59%	82%	83%	25.156, sig	0.356
The company usually makes very bold but cautious decisions that affect its future	26%	70%	82%	87%	85%	39.738, sig	0.448
The possibility of financial loss is a major concern in this company	44%	93%	77%	89%	78%	23.733, sig	0.375
In this company, there is a strong liking for implementing plans only if it is very certain that they will work	39%	57%	73%	37%	55%	11.575, sig	0.242
Autonomy seeking							
This company encourages individuals to think of ways of solving problems on their own	22%	30%	55%	92%	83%	69.614, sig	0.593
In this company employees are not compelled to strictly adhere to laid down procedures in doing their tasks	35%	47%	68%	81%	73%	24.099, sig	0.349
The company supports individuals or teams that work on their own without close supervision	35%	57%	59%	96%	95%	60.833, sig #	0.561

7.6.2.3 The relationship between EO dimensions and growth in ROI

Table 6.7 Significant tests for EO based on growth in ROI

Statement	Company's return on investment (ROI) over the past 1-5 years					Chi-square	Cramer's V
	Decreasing (more than 5%)	Decreasing (1-5%) (n=41)	No change (0%)	Increasing (1-5%) (n=84)	Increasing (more than 5%)		
Innovativeness							
The company encourages employees to come up with new ideas at the work place	48%	61%	86%	92%	80%	27.214, sig #	0.380
The company tries to solve problems concerning products/services by using creative methods	62%	59%	77%	86%	77%	13.178, sig	0.258
The company encourages development of unique ways of marketing products/services	48%	42%	82%	69%	90%	24.534, sig	0.352
The company often adopts new technology in making its products/services	43%	68%	91%	91%	83%	25.531, sig	0.383
The company introduced new products/services to the market in the past 1- 5 years	33%	51%	68%	81%	77%	24.278, sig	0.350
Proactiveness							
The company is often the first to initiate actions (e.g., quality improvements) to which other competitors in the area respond	33%	37%	32%	55%	67%	11.985, sig	0.246
Very often this company is the first in the area to introduce new products/services to the market	57%	42%	59%	63%	63%	5.835, ns	0.172
In this company, it is firmly believed that changes in the market creates a positive opportunity for doing business	48%	73%	86%	94%	93%	27.670, sig #	0.404
Risk taking							
The company often undertakes high risk projects with chances of very high profits	48%	51%	55%	86%	83%	27.139, sig	0.370
The company usually makes very bold but cautious decisions that affect its future	38%	56%	82%	89%	90%	37.481, sig	0.435
The possibility of financial loss is a major concern in this company	52%	76%	82%	89%	83%	14.070, sig #	0.281
In this company, there is a strong liking for implementing plans only if it is very certain that they will work	48%	56%	64%	39%	50%	5.837, ns	0.172
Autonomy seeking							
This company encourages individuals to think of ways of solving problems on their own	29%	29%	64%	93%	83%	70.766, sig	0.598
In this company employees are not compelled to strictly adhere to laid down procedures in doing their tasks	33%	46%	59%	82%	83%	31.715, sig	0.400
The company supports individuals or teams that work on their own without close supervision	52%	49%	73%	95%	97%	50.333, sig #	0.506

The association of growth in ROI with most EO dimensions were reported to be significant but weak (see Table 6.7).

Autonomy seeking elements again were most significantly correlated in magnitude with ROI. This also means that the desire to operate independently with minimum supervisory control is perceived in SSAEs as a very significant influencing factor which promotes growth in return on investments. This is consistent with the positive relationship between autonomy-seeking dimension of EO and firm performance cited earlier regarding relationships between EO and sales growth(see Section 6.7.2.1) and EO and gross profit growth (see Section 6.7.2.2)

6.7.2.4 The relationship between EO dimensions and growth in number of employees

Increase in the number of employees is influenced by EO practices. However, the associations are weak in most cases (see Table 6.8). Being generally small, SSAEs might fancy employing to many workers. In fact, they might perceive growth in numbers (employees) as increased cost to business (Bloise, 2002). This finding is also consistent with Hurst (20011) who found that most small businesses do not aim at growing big or undertake breakthrough innovations.

Table 6.8 Significant tests for EO versus employee growth

Statement	Growth of employees			Chi-square	Cramer's V
	0 person (n=62)	1-5 persons (n=99)	6+ persons (n=37)		
Entrepreneurial Orientation (EO): innovativeness					
The company encourages employees to come up with new ideas at the work place	71%	83%	78%	3.155, ns	0.126
The company tries to solve problems concerning products/services by using creative methods	63%	81%	81%	7.393, sig	0.193
The company encourages development of unique ways of marketing products/services	52%	71%	76%	8.190, sig	0.203
The company often adopts new technology in making its products/services	69%	87%	78%	7.311, sig	0.192
The company introduced new products/services to the market in the past 1- 5 years	52%	75%	76%	10.658, sig	0.232
Entrepreneurial Orientation (EO): proactiveness					
The company is often the first to initiate actions (e.g., quality improvements) to which other competitors in the area respond	31%	54%	62%	11.670, sig	0.243
Very often this company is the first in the area to introduce new products/services to the market	44%	63%	68%	7.541, sig	0.195
In this company, it is firmly believed that changes in the market creates a positive opportunity for doing business	73%	92%	81%	10.778, sig	0.233
Entrepreneurial Orientation (EO): risk taking					
The company often undertakes high risk projects with chances of very high profits	55%	81%	70%	12.418, sig	0.250
The company usually makes very bold but cautious decisions that affect its future	63%	87%	70%	12.998, sig	0.256
The possibility of financial loss is a major concern in this company	79%	86%	70%	4.404, sig	0.149
In this company, there is a strong liking for implementing plans only if it is very certain that they will work	60%	38%	54%	7.598, sig	0.196
Entrepreneurial Orientation (EO): autonomy seeking					
This company encourages individuals to think of ways of solving problems on their own	48%	78%	76%	16.358, sig	0.287
In this company employees are not compelled to strictly adhere to laid down procedures in doing their tasks	42%	79%	78%	26.072, sig	0.363
The company supports individuals or teams that work on their own without close supervision	55%	88%	95%	31.705, sig	0.400

sig = statistically significant result (p<0.05); ns = not significant

means that Fisher's exact test rather than the Chi-square test was performed

To sum up this section on EO and performance of SSAEs, The following can be said.

- a) Positive relationships exist between EO and sales growth. With a few exceptions, the relationships were moderate to weak.
- b) Positive relationships exist between EO and gross profit growth. Most correlations are significant and practically moderate to weak in effect.
- c) Following the pattern of growth in sales and gross profit, EO dimensions showed positive and significant relationships with growth in ROI. Except on two items, the correlations ranged from moderate to weak.

6.7 LEVEL OF MO AND ITS INFLUENCE ON PERFORMANCE

This section reports on level of MO as well as its relationships with the performance of SSAEs.

6.7.1 Level of MO

The level of MO in SSAEs based on percentage analysis is reported in this section.

Table 6.9 Level of MO in SSAEs

Statement	Extent of agreement (%)	
	Disagree/ strongly disagree	Agree/ strongly agree
(MO: intelligence generation)		
The business frequently gathers information about the practices (price and quality of products and customer management) of its competitors	29	71
The business frequently looks for information about government laws and regulations that may affect the business	37	63
The business spends time collecting information about customers' future needs	22	79*
The business gathers information regarding general environmental conditions (economic, social and political) that may affect the business's operations	27	74*
The business periodically discusses business matters with its suppliers	32	69*
Mean	29	71
MO: Intelligence dissemination		
The practices of competitors (price, quality of products and customer management) are frequently discussed with members/different units of the business	33	68*
The business spends time discussing customers' future needs with members/different units of the business	28	72
Information gathered about general environmental conditions (economic, social and political) are discussed	31	70*
Members often meet and information on government new rules	39	62*
The business often discusses information about the operations of its suppliers with members / different units of the business	39	61
Mean	34	67*
MO: Responsiveness		
The different types of products the business sells largely depends on customers' expressed needs	27	74*
The business is quick in starting business with new suppliers if they are seen as more competitive (price, quality & reliability) sources of supply	43	57
The business takes immediate action if its customers are targeted by rival companies	20	81*
The business is quick in taking corrective measures in addressing issues regarding environmental concerns	35	65
The business quickly acts to take advantage of positive general environmental conditions or to minimise their negative impacts on the business	23	78*
Mean	29	71
Average of means	30	70

*Note rounding off differences

Tables 6.9 indicates that majority (71% for intelligence dissemination, 67% for intelligence dissemination, and 71% for responsiveness) of respondents agreed that

they adopted MO practices in operating their businesses. On the average, majority (70%) of respondents reported engaging in MO activities. These findings suggest that SSAEs in the Vryburg region are market oriented.

6.7.2 MO and business performance variables.

In this section, correlations between MO dimensions and business performance based on Chi-square test (statistical significance) and Cramer's V (effect size) are presented and discussed. The performance variables considered are the same as in the case of EO. These include growth in sales, gross profit, ROI and number of employees.

6.7.2.1 The relationship between MO dimensions and growth in sales

Table 6.10 shows that sales growth correlates positively and strongly with MO dimensions with most Cramer's V values above 0.50. Further, information generation about customers' needs and competitors' actions strongly correlate with MO (Chi-square=68.540, sig, $p < 0.05$; Cramer's $V = 0.588$). Intelligence sharing (dissemination) items also positively and significantly correlate with sales growth. Relationship between sharing information about new regulations that may affect the business and sales growth is strong and positive (Chi-square=65.434, sig, $p < 0.05$; Cramer's $V = 0.575$). Similarly, all elements of responsiveness that is, taking actions or making decisions based on market information collected and shared correlate strongly and positively with sales growth. For example, there is a strong and positive correlation between business's sales offerings based on customers' expressed needs and sales growth (Chi-square=88.789, sig, $p < 0.05$; Cramer's $V = 0.670$) (see Table 6.10).

Table 6.10 Significant tests for MO based on sales growth

Statement	Business's sales growth over the past 1-5 years					Chi-square	Cramer's V
	Decreasing (more than 5%)	Decreasing (1-5%)	No change (0%)	Increasing (1-5%)	Increasing (more than 5%)		
intelligence generation							
The business frequently gathers information about the practices of its competitors	38%	30%	42%	89%	96%	68.540, sig	0.588
The business looks for information about government laws and regulations	24%	22%	27%	80%	96%	77.251, sig	0.625
The business spends time collecting information about customers' future needs	29%	63%	58%	96%	91%	60.014, sig	0.551
The business gathers information regarding general environmental conditions	29%	44%	50%	91%	93%	62.140, sig	0.560
The business periodically discusses business matters with its suppliers	29%	37%	39%	86%	91%	60.412, sig	0.552
intelligence dissemination							
The practices of competitors are frequently discussed with members/different units	24%	33%	42%	85%	91%	62.057, sig	0.560
The business discusses customers' future needs with members/different units	29%	48%	50%	89%	91%	52.720, sig	0.516
Information gathered about general environmental conditions are periodically discussed with members/different units	14%	44%	50%	85%	93%	63.292, sig	0.565
There are regular meetings to share new information regarding government laws and regulations	38%	26%	19%	73%	96%	65.434, sig	0.575
The business often discusses information about the operations of its suppliers with members / different units	29%	33%	35%	73%	87%	43.204, sig	0.467
responsiveness							
The different types of products the business sells largely depends on customers' expressed needs	19%	33%	54%	95%	96%	88.789, sig	0.670
The business is quick in starting business with new suppliers if they are seen as more competitive sources of supply	33%	15%	23%	72%	87%	60.193, sig	0.551
The business takes immediate action if its customers are targeted by rival companies	24%	56%	85%	94%	98%	62.109, sig #	0.604
The business is quick in taking corrective measures in addressing issues regarding environmental concerns	24%	19%	42%	82%	96%	76.174, sig	0.620
The business quickly acts to take advantage of positive general environmental conditions or to minimise their negative impacts on the business	24%	48%	73%	94%	96%	69.208, sig	0.591

The above results suggest that sales growth is positively and strongly influenced by MO dimensions namely, information generation and use. The positive relationship between MO and sales growth is consistent with the literature findings reported in Chapter 4.

6.7.2.2 The relationship between MO dimensions and growth in gross profit

As can be seen from Table 6.11, statistically significant and positive correlations exist between MO items and gross profit growth. For instance, correlation between collecting information about customers' future needs and gross profit are positive and strong Fisher's exact test=49.358, sig. $p < 0.05$; Cramer's $V = 0.510$).

Table 6.11 Significant tests for MO based on growth in gross profit

Statement	Business's gross profit over the past 1-5 years					Chi-square	Cramer's V
	Decreasing (more than 5%) (n=23)	Decreasing (1-5%) (n=30)	No change (0%) (n=22)	Increasing (1-5%) (n=83)	Increasing (more than 5%) (n=40)		
intelligence generation							
The business frequently gathers information about the practices of its competitors	44%	30%	50%	87%	95%	58.469, sig	0.544
The business looks for information about government laws and regulations	22%	20%	32%	81%	98%	81.036, sig	0.640
The business spends time collecting information about customers' future needs	35%	60%	64%	95%	90%	49.358, sig #	0.510
The business gathers information regarding general environmental conditions	26%	47%	64%	88%	95%	56.756, sig	0.535
The business periodically discusses business matters with its suppliers	22%	30%	50%	89%	90%	71.989, sig	0.603
intelligence dissemination							
The practices of competitors are frequently discussed with members/different units	30%	27%	59%	87%	83%	55.734, sig	0.531
The business discusses customers' future needs with members/different units	30%	47%	55%	94%	80%	53.997, sig	0.522
Information gathered about general environmental conditions are periodically discussed with members/different units	13%	43%	59%	89%	85%	64.688, sig	0.572
There are regular meetings to share new information regarding government laws and regulations	44%	17%	27%	76%	93%	62.769, sig	0.563
The business often discusses information about the operations of its suppliers with members / different units	26%	23%	46%	76%	88%	51.520, sig	0.510
responsiveness							
The different types of products the business sells largely depends on customers' expressed needs	22%	33%	64%	95%	93%	84.480, sig	0.653
The business is quick in starting business with new suppliers if they are seen as more competitive sources of supply	26%	13%	32%	71%	93%	65.309, sig	0.574
The business takes immediate action if its customers are targeted by rival companies	22%	60%	91%	96%	93%	66.495, sig #	0.628
The business is quick in taking corrective measures in addressing issues regarding environmental concerns	22%	17%	59%	82%	95%	76.494, sig	0.622
The business quickly acts to take advantage of positive general environmental conditions or to minimise their negative impacts on the business	22%	53%	77%	94%	95%	71.628, sig	0.601

Similarly, correlations between responsiveness elements and gross profit growth are significantly positive and strong. For instance, taking corrective measures in addressing issues regarding environmental concerns strongly correlated with increase in gross profit (Chi-square=76.494, sig, $p < 0.05$; Cramer's $V = 0.622$).

6.7.2.3 The relationship between MO dimensions and growth in ROI

Table 6.12 Significant tests for MO based on growth in ROI

Statement	Business's return on investment (ROI) over the past 1-5 years					Chi-square	Cramer's V
	Decreasing (more than 5%) (n=21)	Decreasing (1-5%) (n=41)	No change (0%) (n=22)	Increasing (1-5%) (n=84)	Increasing (more than 5%) (n=30)		
intelligence generation							
The business frequently gathers information about the practices of its competitors	48%	39%	36%	93%	93%	65.116, sig	0.573
The business looks for information about government laws and regulations	38%	24%	32%	85%	93%	69.225, sig	0.591
The business spends time collecting information about customers' future needs	43%	54%	77%	95%	90%	45.665, sig #	0.486
The business gathers information regarding general environmental conditions	43%	39%	77%	88%	97%	52.413, sig	0.515
The business periodically discusses business matters with its suppliers	38%	29%	50%	91%	93%	68.726, sig	0.589
intelligence dissemination							
The practices of competitors are frequently discussed with members/different units	43%	32%	32%	94%	83%	72.553, sig	0.605
The business discusses customers' future needs with members/different units	38%	42%	59%	95%	83%	57.444, sig	0.539
Information gathered about general environmental conditions are periodically discussed with members/different units	24%	37%	64%	92%	87%	65.259, sig	0.574
There are regular meetings to share new information regarding government laws and regulations	48%	27%	32%	80%	87%	50.366, sig	0.504
The business often discusses information about the operations of its suppliers with members / different units	38%	27%	36%	81%	87%	52.784, sig	0.516
responsiveness							
The different types of products the business sells largely depends on customers' expressed needs	29%	34%	77%	95%	93%	80.439, sig	0.637
The business is quick in starting business with new suppliers if they are seen as more competitive sources of supply	33%	20%	36%	75%	90%	56.586, sig	0.535
The business takes immediate action if its customers are targeted by rival companies	33%	61%	82%	98%	93%	55.781, sig #	0.547
The business is quick in taking corrective measures in addressing issues regarding environmental concerns	33%	24%	59%	83%	97%	65.077, sig	0.573
The business quickly acts to take advantage of positive general environmental conditions or to minimise their negative impacts on the business	43%	44%	77%	98%	93%	65.599, sig #	0.575

The performance of SSAEs (Table 6.12) in terms of growth in ROI was consistent with those reported for sales and gross profit growth. Correlation between growth in ROI and MO elements were positive and strong. Information generation about competitors' practices for instance was strongly associated with ROI (Chi-square=65.116, sig, $p < 0.05$; Cramer's $V = 0.573$). Discussion of market information showed a strong and positive relationship with ROI growth (Chi-square=72.553, sig, $p < 0.05$; Cramer's $V = 0.605$).

6.7.2.4 The relationship between MO and growth in number of employees

Table 6.13 shows employment growth positively correlates with all elements of MO.

Table 6.13 Significant tests for MO based on growth in number of employees

Statement	Growth of employees			Chi-square	Cramer's V
	0 person (n=62)	1-5 persons (n=99)	6+ persons (n=37)		
intelligence generation					
The business frequently gathers information about the practices of its competitors	45%	80%	89%	29.587, sig	0.387
The business looks for information about government laws and regulations	34%	75%	78%	32.040, sig	0.402
The business spends time collecting information about customers' future needs	57%	88%	89%	25.332, sig	0.358
The business gathers information regarding general environmental conditions	44%	86%	89%	40.726, sig	0.454
The business periodically discusses business matters with its suppliers	42%	79%	84%	28.972, sig	0.383
intelligence dissemination					
The practices of competitors are frequently discussed with members/different units	42%	78%	81%	26.203, sig	0.364
The business discusses customers' future needs with members/different units	52%	81%	84%	19.230, sig	0.312
Information gathered about general environmental conditions are periodically discussed with members/different units	36%	82%	92%	49.396, sig	0.499
There are regular meetings to share new information regarding government laws and regulations	27%	74%	84%	44.258, sig	0.473
The business often discusses information about the operations of its suppliers with members / different units	31%	71%	87%	38.075, sig	0.439
responsiveness					
The different types of products the business sells largely depends on customers' expressed needs	39%	85%	100%	58.034, sig	0.541
The business is quick in starting business with new suppliers if they are seen as more competitive sources of supply	32%	64%	81%	26.028, sig	0.363
The business takes immediate action if its customers are targeted by rival companies	58%	89%	97%	31.334, sig	0.398
The business is quick in taking corrective measures in addressing issues regarding environmental concerns	31%	76%	95%	51.547, sig	0.510
The business quickly acts to take advantage of positive environmental conditions or to minimise their negative impacts on the business	55%	87%	92%	27.874, sig	0.375

The relationships between employment growth and MO elements are all significant but moderate. These findings seem reasonable because small businesses need to vigorously market products or services through an effective MO strategy if they are to compete with larger businesses for customers. The fact is, in the marketing arena, SSAEs are directly confronted with large competitors, changing customer needs and governmental laws and regulations. All these pressures require high level commitment to MO.

The data presented has shown that performance of SSAEs measured on growth in sales, gross profit, ROI and number of employees is strongly and positively influenced by MO dimensions (intelligence generation and dissemination and responsiveness). These findings corroborate earlier research findings by Kohli and Jarworski (1993); Narver and Slater (1995); Guo (2001:14); Matsuno et al. (2002); Verhees and Meulenbergh (2004); Roskos (2004); Cillo et al. (2010); Heiens and Pleshko (2011:32) who all associate firm performance with market orientation.

6.8 INNO AND ITS PERFORMANCE IMPLICATIONS

INNO is one of the key concepts that underpin the study. It was earlier noted that innovativeness is being examined as a component of EO. It was also pointed out that the multi-dimensional approach to the study of EO concept is being applied. The multi-dimensional approach, which argues that the dimensions of EO could vary independently with firm performance, has made it possible to extract sections relevant to INNO-business performance relationships for analysis. For ease of reference, the relevant sections of the EO tables are reproduced in the sections that follow.

6.8.1 Level of INNO

The results show that on average, 72% of respondents agreed with statements on INNO practices in their businesses (Table 6.14). This is an indication of the presence of INNO in the SSAEs. The relationships between INNO and SSAE performance are reported in the following sections.

Table 6.14: Innovation in SSAEs

	Disagree/ strongly disagree	Agree/ strongly agree	
Entrepreneurial Orientation (EO): innovativeness			
The business encourages employees to come up with new ideas at the work place	22%	79%	198
The business tries to solve problems concerning products/services by using creative methods	25%	69%	198
The business encourages development of unique ways of marketing products/services	35%	66%	198
The business often adopts new technology in making its products/services	21%	80%	198
The business introduced new products/services to the market in the past 1- 5 years	32%	68%	198
mean	27%	72%	198

6.8.2 The INNO-SSAE performance relationships.

In this section, the influence of INNO on business performance is reported. Performance was measured in terms of growth in sale, gross profit, ROI and number of employees.

6.8.3.1 The relationship between INNO and sales growth

From Table 6.15, it can be inferred that the correlations between elements of INNO and estimated sales growth are positive, significant and moderate. The significant but moderate positive relationship between innovativeness and sales growth in SSAEs could point to caution with which small businesses approach risk.

Table 6.15 Significant tests for INNO based on growth in sales growth

Statement	Estimated sales growth over the past 5 years					Chi-square	Cramer's V
	Decreasing (more than 5%) (n=21)	Decreasing (1-5%) (n=27)	No change (0%) (n=26)	Increasing (1-5%) (n=79)	Increasing (more than 5%) (n=45)		
Entrepreneurial Orientation (EO): innovativeness							
The business encourages employees to come up with new ideas at the work place	38%	67%	73%	90%	87%	30.610, sig	0.393
The business tries to solve problems concerning products/services by using creative methods	52%	67%	62%	85%	82%	14.642, sig	0.272
The business encourages development of unique ways of marketing products/services	38%	44%	62%	70%	87%	22.018, sig	0.333
The business often adopts new technology in making its products/services	33%	70%	81%	92%	84%	38.019, sig	0.438
The business introduced new products/services to the market in the past 1- 5 years	33%	56%	65%	75%	80%	18.096, sig	0.302

6.8.3.2 Relationship between INNO and gross profit growth

Table 6.16 shows that correlations between gross profit growth and INNO items are positively significant. However, the magnitude of the relationships is moderate. This is consistent with correlations between INNO and sales growth reported in Table 6.15.

Table 6.16 Significant tests for INNO based on growth in gross profit

Statement	Business's gross profit over the past 1-5 years					Chi-square	Cramer's V
	Decreasing (more than 5%)	Decreasing (1-5%)	No change (0%)	Increasing (1-5%)	Increasing (more than 5%)		
Entrepreneurial Orientation (EO): innovativeness							
The business encourages employees to come up with new ideas at the work place	35%	67%	77%	90%	88%	32.961, sig #	0.433
The business tries to solve problems concerning products/services by using creative methods	52%	63%	68%	86%	80%	14.660, sig	0.272
The business encourages development of unique ways of marketing products/services	35%	47%	64%	70%	90%	25.729, sig	0.360
The business often adopts new technology in making its products/services	39%	67%	91%	90%	85%	29.794, sig #	0.420
The business introduced new products/services to the market in the past 1- 5 years	35%	57%	68%	77%	75%	17.397, sig	0.296

6.8.3.3 The relationship between INNO and growth in ROI

Table 6.17 Significant tests for INNO based on growth in ROI

Statement	Company's return on investment (ROI) over the past 1-5 years					Chi-square	Cramer's V
	Decreasing (more than 5%) (n=21)	Decreasing (1-5%) (n=41)	No change (0%) (n=22)	Increasing (1-5%) (n=84)	Increasing (more than 5%) (n=30)		
Entrepreneurial Orientation (EO): innovativeness							
The company encourages employees to come up with new ideas at the work place	48%	61%	86%	92%	80%	27.214, sig #	0.380
The company tries to solve problems concerning products/services by using creative methods	62%	59%	77%	86%	77%	13.178, sig	0.258
The company encourages development of unique ways of marketing products/services	48%	42%	82%	69%	90%	24.534, sig	0.352
The company often adopts new technology in making its products/services	43%	68%	91%	91%	83%	25.531, sig	0.383
The company introduced new products/services to the market in the past 1- 5 years	33%	51%	68%	81%	77%	24.278, sig	0.350

According to Table 6.17, all elements of INNO correlated positively but moderately with growth in ROI. This relationship mirrors SSAEs' performance trends for sales growth and gross profit growth.

6.8.3.1 Relationship between INNO and growth in number of employees

The results indicate that growth in number of employees in SSAEs is significantly and positively correlated with INNO (Table 6. 18). Unlike correlations between INNO and the other performance measures (sales, gross profit and ROI), which are moderate, the strength of relationship between INNO and growth in employment is rather weak. This result is however consistent with findings reported on EO and MO relationships with growth in employment.

Table 6.18 Significant tests for INNO based growth in number of employees

Statement	Growth of employees			Chi-square	Cramer's V
	0 person (n=62)	1-5 persons (n=99)	6+ persons (n=37)		
Entrepreneurial Orientation (EO): innovativeness					
The business encourages employees to come up with new ideas at the work place	71%	83%	78%	3.155, ns	0.126
The business tries to solve problems concerning products/services by using creative methods	63%	81%	81%	7.393, sig	0.193
The business encourages development of unique ways of marketing products/services	52%	71%	76%	8.190, sig	0.203
The business often adopts new technology in making its products/services	69%	87%	78%	7.311, sig	0.192
The business introduced new products/services to the market in the past 1- 5 years	52%	75%	76%	10.658, sig	0.232

In overall terms, the relationships between INNO and the performance indicators (growth in sales, gross profit, ROI and number of employees) were significant and positive. The strength of associations among these variables ranged from moderate to weak. Notwithstanding the not strong (moderate) relationships, INNO exerts positive and significant influence on performance of SSAES (Table 6.18). This finding is consistent with those of (Kotler & Armstrong, 2000; Roskos, 2004; Verhees & Meulenber 2004; Wolff & Pett, 2006; United Kingdom Department of Trade and Industries (UK DTI), 2006; Bolinao, 2009) who all observed that innovativeness (INNO) positively influences business performance. In addition, the positive but moderately significant relationship between INNO and performance of SSAEs is an indication that SSAEs are more likely to be involved in incremental innovation - which

introduces new products or processes gradually but making use of small amounts of resources (Verhees & Meulenbergh, 2004; Venter et al. 2008; Kuratko, 2009).

6.9 COMPOSITE EO, MO, INNO AND PERFORMANCE RELATIONSHIPS

The inter-correlations between EO (including INNO) and MO dimensions are reported in this section. Internal consistency and reliability analyses are also presented.

6.9.1 Internal consistency and reliability analysis

In order to establish validity and reliability of the outcomes of the research, it was necessary to test internal consistency of the multi-item measurement instrument applied in the study. Internal consistency ensures that questions raised are coherent and relate to the same thing, i.e., the extent to which indicators of a concept converge on a common meaning (Bryman & Bell, 2011:158; Zikmund, 2013:302). An instrument is reliable if different attempts at measuring the same thing under same conditions produce same results (Bryman & Bell, 2011:158; Zikmund, 2013:302).

To facilitate the analysis, the individual items of both the EO and MO measures were reduced to their underlying dimensions. For EO, the dimensions were innovativeness, proactiveness, risk-seeking and autonomy-seeking. MO dimensions were intelligence generation (information generation), intelligence dissemination (information sharing) and responsiveness. Practically, this means that a total score was calculated for each dimension. In order to compute total scores, the internal consistency reliability of each dimension was first assessed by means of Cronbach's alpha (Field, 2009:674; Bryman & Bell, 2011:159). The tables below present the alpha coefficients for each dimension of the two measures.

In the case of the EO dimensions, Table 6.19 indicates excellent reliability for the innovativeness dimension (0.838) and generally good reliability for proactiveness and autonomy seeking (both above 0.7) (Table 6.19). However, the reliability of the risk taking dimension appears to be rather low (0.506). This was improved to 0.652 by dropping one of the items comprising that dimension.

Table 6.19 Internal consistency of dimensions of the measure of EO

Dimension	Item	Cronbach's alpha coefficient	
Innovativeness	Encouraging employees to come up with new ideas at the work place	0.838	
	Creatively solving problems concerning products/services		
	Encouraging development of unique ways of marketing products/services		
	Adopting new technology in making products/services		
	Introducing new products/services to the market		
Proactiveness	First mover in terms of quality improvements	0.740	
	First mover in terms of introducing new products/services to the market		
	Belief that changes in the market creates a positive opportunity for doing business		
Risk taking	Risk and reward behaviour	0.506	0.652
	Being bold but cautious in decisions that affect its future		
	Fear of financial loss		
	Implementation of plans only if it is very certain that they will work (reversed)		--
Autonomy seeking	Encouraging individuals to think of ways of solving problems on their own	0.703	
	Employees being allowed to deviate from procedures when necessary		
	Supporting individuals or teams to work on their own without close supervision		

Table 6.20 Internal consistency of the three dimensions of the measure of MO

Dimension	Item	Cronbach's alpha coefficient	
Intelligence generation	Frequently gathers market information	0.863	
	Frequently gathers information on government laws and regulations		
	Spends time collecting information about customers' future needs		
	Gathers information regarding general environmental conditions		
	Periodically discusses business matters with its suppliers		
Intelligence dissemination	Frequently discuss competitors practices with different business units	0.861	
	Spends time discussing customers' future needs with different business units		
	Discusses information about general environmental with different business units		
	Holds regular meetings with different units on government laws and regulations		
	Often discusses information about suppliers with different units of the business		
Responsiveness	Types of products the business sells depends on customers' expressed needs	0.861	
	Quick in starting business with new suppliers if they are seen as more competitive		
	Takes immediate action if customers are targeted by rival companies		
	Quick in taking corrective measures in addressing environmental concerns		
	Quickly acts to take advantage of positive general environmental conditions		

The MO dimensions have exhibited excellent reliability as the values are all above 0.8. The MO elements could be said to be internally consistent and reliable in converging on a common meaning of the MO construct (Bryman & Bell, 2011:159; Zikmund *et al.*, 2013:302). As a general rule, Cronbach's alpha coefficient of 0.80 is the acceptable

level of reliability though some writers consider 0.70 as efficient (Bryman & Bell, 2011:159). The Cronbach's alpha coefficients for MO dimensions are presented in Table 6.20.

6.9.2 The inter-correlations between the EO and MO dimensions

It should be noted that innovativeness (INNO) was initially measured as a component of entrepreneurial orientation (EO) and not as a stand-alone construct since a business which manifests INNO in its entrepreneurship process would also be assumed to pursue its MO activities on same (INNO) basis (Slater & Narver, 2000:70; Verhees & Meulenbergh, 2004:135; Hill et al. 2008:107). In addition, EO is conceptualised in this study as a multi-dimensional phenomenon whose dimensions could vary independently with performance (Lumpkin & Dess, 1996; Kreiser et al. 2002; Covin et al. 2006).

In order to determine the inter-correlations of the four EO and three MO dimensions, a total score was calculated for each dimension by summing the scores of the individual items. However, before totalling any scores, the individual scores were first recoded to range from 0 (strongly disagree) to 3 (strongly agree), and not from 1 (strongly disagree) to 4 (strongly agree) as originally measured. The logic behind the recoding was to have total scores that start at zero. Thus, after recoding and summation, the scores for the first dimension of the EO measure, innovativeness, could range in theory from 0 to 15 as this dimension comprises 5 items and the minimum and maximum scores for any individual item were 0 and 3 respectively. Similarly, the scores for the other dimensions of the EO measure (proactiveness, risk taking and autonomy seeking), could range between 0 and 9, as each dimension involved only three items. The same procedure was applied to the total scores of the MO dimensions.

The newly created dimensions scores were standardised for ease of comparison by converting each to a score out of 9.

The inter-correlations between the four EO and three MO dimensions based on a series of Spearman rho correlations are presented below. Spearman rho is applied in order to examine correlations between pairs of ordinal scale variables where data has

been transformed and recoded as explained above (Field, 2009: 179; Bryman & Bell, 2011; Cooper & Schindler, 2011). Correlations between pairs of ordinal variables in relation to the dimensions of EO and MO were analysed and presented in Table 6.21

Table 6.21: Inter-correlations between dimensions of EO and MO measures

Dimensions	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) EO: Innovativeness	--						
(2) EO: Proactiveness	0.677*	--					
(3) EO: Risk taking	0.540*	0.578*	--				
(4) EO: Autonomy seeking	0.409*	0.409*	0.525*	--			
(5) MO: Intelligence generation	0.558*	0.558*	0.437*	0.565*	--		
(6) MO: Intelligence dissemination	0.544*	0.536*	0.432*	0.523*	0.785*	--	
(7) MO: Responsiveness	0.572*	0.533*	0.419*	0.478*	0.753*	0.829*	--

* Correlation is significant at the 0.05 level (2-tailed)

6.9.2.1 Correlations between EO dimensions

The correlations between EO items appear to be strongly correlated. For instance, proactiveness strongly correlates with innovativeness (1 & 2) (0.677) while autonomy seeking also strongly correlates with risk taking (4 & 3) (0.525) (Table 6.21). Practically, this means that as scores on proactiveness increase, those on innovativeness also increase by the coefficient of 0.677; or as autonomy-seeking increases, risk-taking also increases by the coefficient of 0.525.

6.9.2.2 Correlations between MO dimensions

Similarly, MO items strongly correlate with each other. Responsiveness strongly correlates with intelligence generation (7 & 5) (0.753) and intelligence dissemination correlates very strongly with responsiveness (6 & 7) (0.829) (Table 6.21). Again this means that an increase in intelligence dissemination will result in an increase in responsiveness by the coefficient of 0.829.

6.9.2.3 Inter-correlations between EO and MO dimensions

There are strong inter-correlations between EO and MO items as well. Intelligence generation strongly correlates with autonomy seeking (5 & 4) (0.565) and responsiveness strongly correlates with proactiveness (7 & 2) (0.533) (Table 6.21).

The strong inter-correlations between the EO and MO variables mean that pairs of correlated items positively co-vary because all the correlation values are positive. For instance, a high performance score on intelligence generation would correlate with a high performance score on proactiveness (5 & 2) (0.558) (Table 6.21). In the same vein, an increase in autonomy seeking would result in an increase in intelligence dissemination (4 & 6) by coefficient of 0.523.

6.9.2.4 Inter-correlations between EO and MO dimensions and business performance

This analysis demonstrates the co-variation in performance of business activities from EO and MO perspectives. This illustrates absence of internal conflicts in a business considering EO and MO practices. On the contrary, the inter-correlations between EO and MO items lend support to the argument that EO and MO interact to positively and significantly influence business performance. This finding is consistent with existing knowledge in the emerging field of what Hill et al. (2008:107) describe as **entrepreneurial marketing** (Slater & Narver, 2000:70; Matsuno et al. 2002:18; Knight & Cavusgil, 2004:135; Verhees & Meulenbergh, 2004:135; Morris et al. 2007:21; Keh et al. 2007:2; Schindebutte et al. 2008:4).

6.9.2.5 Inter-correlations between INNO and other dimensions of EO

The Figures in Table 6.21 show that innovativeness correlate with other dimensions of EO. It should again be noted that EO in this study is conceptualised as multi-dimensional phenomenon whose dimensions could vary independently with other variables (Lumpkin and Dess, 1996, 2000; Kreiser et al. 2002). For instance, INNO strongly correlated with proactiveness (1 & 2) (0.677). INNO also positively correlated with risk-taking (1 & 3) by 0.540 and moderately and positively correlated with autonomy seeking (1 & 4) (0.409) (Table 6.21). INNO therefore positively co-varies with performance measures of the other dimensions of EO (proactiveness, risk-taking and autonomy-seeking). The finding in relation to INNO-EO interactive positive influence on performance is confirmed in the literature (Miller & Friesen, 1982; Ireland et al., 2003; Wiklund & Shepherd, 2005:75; Venter et al. 2010: 9). So, an empirical

finding in this study is that significantly positive correlations exist between EO and INNO items which exert positive influence on performance of SSAEs.

6.9.2.6 Inter-correlations between INNO and MO dimensions

Figures in Table 6.21 indicate that there is a significantly positive correlation between INNO and MO items. For instance, INNO positively correlates respectively with intelligence generation (1 & 5) by a coefficient of 0.558; intelligence dissemination (0.544) and responsiveness (0.572) (Table 6.21). This means that as INNO of SSAEs improves, MO activities also simultaneously improve. Therefore, the desire to (innovatively) introduce new products and services to customers would also prompt SSAEs to simultaneously gather market information share the information among business members and respond to market needs accordingly. This finding is sufficiently corroborated in the literature (Han et al.1998; Hurley & Hult,1998; North & Smallbone, 2000; Salavou & Lioukas, 2003; Gudmundson et al. 2003; Roskos, 2004; Verhees et al. 2004; Lin & Chen, 2006; UK. DTI, 2006; Wolff & Pett, 2006; Cillo et al. 2010; Wang & Lin, 2012).

The next section employs non-parametric statistics, specifically the Kruskal Wallis test, to examine the relationship between the EO and MO dimensions, on the one hand, and each of the measures of financial and non-financial performance, on the other.

6.9.3 Relationship between EO and MO on the one hand and firm performance

Kruskal Wallis test is applied when data are collected on ordinal scale and do not meet assumptions for parametric test (Field, 2009:560; Cooper & Schindler, 2011:484). The ordinal Likert-scale was used to collect data regarding EO and MO dimensions. The Kruskal Wallis test is therefore appropriate for analysing the relationships between the EO and MO dimensions on the one hand, and each of the measures of financial and non-financial performance, on the other. The results are reported in the following sections.

6.9.3.1 EO and MO versus sales growth

Table 6.22 reveals that firstly, there are significant differences in sales growth based on its MO and EO. Secondly, careful analysis of the median scores show a generally the higher median scores (6.0 and above out of maximum score of 9.0) for EO and MO corresponding to agreed/ strongly agreed (meaning increasing levels of sales growth). This means that the higher the EO and MO together, the better the sales growth. In other words, there is a strong and significant positive correlations between EO and MO dimensions and sales growth.

Table 6.22: EO and MO relationships and sales growth for past 5 years

The company's sales growth compared with major competitors has been increasing significantly over last 1-5 years	Median score (out of 9) on EO dimensions				Median score (out of 9) on MO dimensions		
	Innovativeness	Proactiveness	Risk taking	Autonomy seeking	Intelligence generation	Intelligence dissemination	Responsiveness
Strongly disagree (n=4)	4.5	3.5	5.0	4.0	3.0	3.6	3.6
Disagree (n=49)	4.8	4.0	5.0	4.0	4.2	3.6	4.2
Agree (n=108)	6.0	5.0	6.0	6.0	6.0	6.0	6.0
Strongly agree (n=37)	6.0	6.0	7.0	6.0	6.0	6.0	6.6
Kruskal Wallis test result	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05

6.9.3.2 EO and MO relationships with gross profit

Table 6.23 shows the trend similar to the one above. Table 6.23 reveals that firstly, there are significant differences in gross profit growth based on its MO and EO. Secondly, careful analysis of the median scores show a generally the higher median scores (6.0 to 7.0 out of maximum score of 9.0) for EO and MO corresponding to agreed/ strongly agreed (meaning increasing levels of gross profit growth). This means that the higher the EO and MO together, the better the gross profit growth. In other words, there is a strong and significant positive correlations between EO and MO dimensions and gross profit growth.

Table 6.23: EO and MO relationships and gross profit for past 5 years

	Median score (out of 9) on EO dimensions				Median score (out of 9) on MO dimensions		
	Innovativeness	Proactiveness	Risk taking	Autonomy seeking	Intelligence generation	Intelligence dissemination	Responsiveness
Decreasing (more than 10%)	5.4	3.0	5.0	5.0	3.6	3.0	3.0
Decreasing (6-10%)	4.2	4.0	4.0	3.5	3.6	3.6	3.6
Decreasing (1-5%)	5.4	4.5	6.0	4.5	3.9	3.3	3.6
No change (0%)	6.0	5.0	6.0	5.0	4.8	4.2	5.4
Increasing (1-5%)	6.0	5.0	6.0	6.0	6.0	6.0	6.0
Increasing (6-10%)	6.6	6.0	7.0	6.0	6.6	6.0	7.2
Increasing (more than 10%)	6.6	6.0	6.0	5.0	6.0	6.0	6.6
Kruskal Wallis test results	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05

6.9.3.3 EO and MO relationships with ROI

Like the previous measures on business performance (sales growth and gross profit), estimated growth in return on investment (ROI) over the previous 5 years is shows significantly positive relationship with increasing levels of EO and MO.

Table 6.24: EO and MO relationships and ROI for past 5 years

	Median score (out of 9) on EO dimensions				Median score (out of 9) on MO dimensions		
	EO: Innovativeness	EO: Proactiveness	EO: Risk taking	EO: Autonomy seeking	MO: Intelligence generation	MO: Intelligence dissemination	MO: Responsiveness
Decreasing (more than 10%)	5.1	5.5	5.0	5.0	5.1	4.5	3.6
Decreasing (6-10%)	4.2	4.0	4.0	4.0	3.6	3.6	3.6
Decreasing (1-5%)	4.8	4.0	5.0	4.0	3.6	3.6	3.6
No change (0%)	6.0	5.0	5.5	6.0	4.8	4.2	5.4
Increasing (1-5%)	6.0	5.0	6.0	6.0	6.0	6.0	6.0
Increasing (6-10%)	6.0	6.0	7.0	6.0	6.9	6.0	6.6
Increasing (more than 10%)	4.8	4.5	6.0	5.0	5.4	4.8	6.3
Kruskal Wallis test results	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05

Table 6.24 reveals that firstly, there are significant differences in ROI based on its MO and EO. Secondly, except for the highest profit level of 10%+, careful analysis of the median scores show a generally the higher median scores (5.0 to 7.0 out of maximum score of 9.0) for EO and MO corresponding to agreed/ strongly agreed (meaning increasing levels of ROI). This means that generally, the higher the EO and MO

together, the better the ROI. In other words, there is a strong and significant positive correlations between EO and MO dimensions and ROI.

6.9.3.4 EO and MO relationships with employment growth

Employee growth over the past 5 years also showed a significant differences based on EO and MO (including INNO). The pattern is haphazard. This means that there is no discernible pattern hence nothing much can be made of differences in growth in employee numbers based on levels of EO, MO INNO dimensions.

Table 6.25: EO and MO relationships with employment growth for past 5 years

Growth of employees over the past 1-5 years	Median score (out of 9) on EO dimensions				Median score (out of 9) on MO dimensions		
	Innovativeness	Proactiveness	Risk taking	Autonomy seeking	Intelligence generation	Intelligence dissemination	Responsiveness
0 person	4.8	4.0	5.0	5.0	4.2	3.9	4.2
1-5 persons	6.0	5.0	6.0	6.0	6.0	6.0	6.0
6-10 persons	6.0	6.0	6.0	6.0	6.0	6.0	6.6
11-50 persons	5.4	4.0	5.0	5.0	6.3	5.4	6.6
51-100 persons	7.5	6.5	2.5	3.5	7.5	4.5	6.6
Kruskal Wallis test	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05	Yes, p<0.05

6.9.3.5 INNO versus various performance measures

Median scores in relation to the performance measures reported in Tables 6.22 to 6.25 also show that INNO scores were significantly high. The median scores on INNO in relation to sales growth were 6.0 for both agree and strongly agree categories on the one hand, and on the other, median scores for agree was 4.8 and strongly disagree was 4.5 (see Table 6.22). A similar pattern of higher median scores for the agree/strongly agree than the disagree/strongly disagree categories is reported in relation to gross profit (Table 6.23), ROI (Table 6.24) and growth in employment (Table 6.25) This finding reinforces the earlier reports (section 6.7.3) that INNO, interacting with EO and MO, positively and significantly influences performance.

Regression analyses were done in order to investigate the predictive interactions between EO and MO and INNO. The results are reported in the next sections.

6.10 MULTIPLE LINEAR REGRESSION ANALYSES: EO- MO-INNO RELATIONSHIPS

In order to determine the relative influence of innovativeness together with EO and MO in determining a company's sales growth and gross profit, two separate multiple regression models were specified (see Table 6.26) where all three variables (innovativeness, EO and MO) were simultaneously entered as predictors in the model, with sales growth and gross profit, respectively, as outcome variable. Thereafter innovativeness was removed from both models and in each case a new model computed. This procedure allowed one to establish whether the multiple correlation coefficient (R) and hence also the percentage of explained variance (R^2) associated with the first stage model, would significantly decrease after removal of the influence of innovativeness in the second stage model.

To perform these multiple regressions a total MO score was first calculated as well as a total EO score. The reason for using the total MO and EO scores, rather than the scores for the different dimensions (proactiveness, risk taking, intelligence generation etc.) is because the relatively high correlations between the different dimensions could present a problem of multicollinearity. Field (2009:242) defines a number of guidelines that should be observed in order to prevent the problem of multicollinearity namely:

- The largest variance inflation factor (VIF) should not be greater than 10
- The average VIF should not be substantially greater than 1
- The tolerance value should not be below 0.2 and definitely not below 0.1

Should the seven EO and MO dimensions be used as predictors in the multiple regression model there is the potential threat of multicollinearity as the average VIF is 2.71, which is markedly greater than 1 (see Table 6.26). It was therefore decided to use total MO and EO scores instead. In fact, it is not a total EO measure that was computed. Rather, a modified EO version where innovativeness was maintained as a separate dimension; the total EO measure incorporated only proactiveness, risk taking and autonomy seeking as will soon be explained.

Table 6.26: Collinearity based on EO and MO dimensions

Dimension	Collinearity statistics	
	VIF	Tolerance
EO: Innovativeness	2.19	0.46
EO: Proactiveness	2.09	0.48
EO: Risk taking	1.69	0.59
EO: Autonomy seeking	1.84	0.54
MO: Intelligence generation	3.73	0.27
MO: Intelligence dissemination	3.97	0.25
MO: Responsiveness	3.43	0.29
Average	2.71	

Turning first to MO, a total score for each respondent was computed by summing the scores obtained on the 15 items that comprise the total MO measure. Each item was scored as ranging from 0 (strongly disagree) to 3 (strongly agree), meaning that any respondent, theoretically, could obtain a total MO score ranging between 0 (i.e. 15 x 0) and 45 (i.e. 15 x 3). A high score on the measure indicates a strong market orientation. The total MO measure revealed a Cronbach's alpha coefficient of 0.94, which indicates excellent internal consistency and reliability.

In the case of EO, the total measure also comprised 15 items. However, five of these items measure innovativeness as a sub-component. Hence a total EO measure was constructed by excluding the five mentioned items and summing the remaining 10 items.¹ Since the items of this measure were ranging from 0 (strongly agree) to 3 (agree), any respondent could have theoretically obtained a total score ranging between 0 (i.e. 10 x 0) and 30 (i.e. 10 x 3). The total EO measure also displayed very good internal consistency, as it is associated with a Cronbach's alpha coefficient of 0.80. High scores on the measure indicate strong entrepreneurial orientation.

¹One item ("In this company, there is a strong liking for implementing plans only if it is very certain that they will work") was reversed scored as agreement with this item indicates the *absence* of risk taking (an entrepreneurial orientation) rather than the *presence* thereof.

6.11 PREDICTING SALES GROWTH AND GROSS PROFIT

As stated before, the three variables INNO, EO and MO were used as predictors in a multiple regression model, with the two rating items on sales growth and gross profit as outcome variables. The first analysis, Table 6.27, uses sales growth as outcome and a two-stage model is specified. During the first stage all three predictors are imputed into the model (model 1), thereafter innovativeness is removed during the second stage (model 2) to see if INNO's absence would significantly affect outcomes.

Table 6.27: Multiple linear regression predicting a company's sales growth

Model		Unstandardised coefficients		Standardised coefficients	t	p value	Model statistics
		B	Std. error	Beta			
1	(Constant)	.995	.356	--	2.797	.006	R = 0.637 Adjusted R2 = 0.396 F = 44.054 p<0.05
	INNO	-.032	.041	-.061	-.794	.428	
	EO	.061	.025	.186	2.472	.014	
	MO	.101	.014	.548	7.342	.000	
2	(Constant)	.946	.350	--	2.702	.008	R = 0.635 Adjusted R2 = 0.397 F = 65.891 p<0.05
	EO	.053	.022	.162	2.354	.020	
	MO	.097	.013	.525	7.634	.000	

*Multiple linear regression predicting sales growth for previous 5 years, based on three predictors INNO, EO and MO) in Model 1, with INNO as a predictor removed in Model 2

6.11.1 Sales Growth

In model 1 in Table 6.27 the three variables (INNO, EO and MO) explain altogether 39.6% of the variance in the dependent variable, which is the business's sales growth over the previous 5 years. The multiple correlation coefficient is statistically significant ($R = 0.637$, $F = 44.054$, $p < 0.05$). However, only EO and MO significantly contribute to the prediction of the dependent variable (sales growth). INNO appears to be redundant as predictor. In the second model, when the influence of INNO as predictor is removed, both EO and MO still feature as significant predictors (both have p values < 0.05). Moreover, these two variables together still explain about 40% of the variance in the dependent variable, meaning that the removal of INNO has no effect on the overall correlation – also because the new multiple correlation coefficient (R) remained almost unchanged (0.635) and this correlation is still statistically significant ($R = 0.635$, $F = 65.891$, $p < 0.05$). An F-change value was also calculated (not reported above) and according to this, the removal of INNO has no significant effect on the overall model.

This means that inclusion of INNO, as predictor of a business's sales growth interacting with EO and MO, is statistically insignificant.

6.11.2 Gross profit

A similar two-stage multiple regression analysis was performed with a business's gross profit as outcome variable (Table 6.28). Again INNO emerged as statistically insignificant as its removal did not alter the percentage of explained variance or the significance of the multiple correlation coefficients. An F-change value was also calculated in this case (not reported in Table 6.28), confirm that the exclusion of INNO in model 2 has no significant effect on the overall model. The only difference between the results of Table 6.27 and Table 6.28 is that MO alone significantly contributes (p value is less than 0.05) to the prediction of a business's gross profit whereas both MO and EO significantly contribute to the prediction of a business's sales growth. The following conclusions emerge from the multiple linear regression analyses:

1. EO and MO significantly contribute to the prediction of sales growth. Innovativeness appears to be irrelevant (Table 6.27)
2. MO alone significantly contributes to the prediction of gross profit (Table 6.38). Both EO and INNO in sales growth prediction were statistically insignificant.

Table 6.28: Multiple linear regression predicting gross profit

Model		Unstandardised coefficients		Standardised coefficients	t	p value	Model statistics
		B	Std. error	Beta			
1	(Constant)	.903	.354	--	2.549	.012	R = 0.655 Adjusted R2 = 0.420 F = 48.522 p<0.05
	INNO	.010	.041	.019	.252	.801	
	EO	.024	.024	.072	.969	.334	
	MO	.112	.014	.597	8.164	.000	
2	(Constant)	.919	.348	--	2.641	.009	R = 0.655 Adjusted R2 = 0.423 F = 73.103 p<0.05
	EO	.026	.022	.079	1.176	.241	
	MO	.113	.013	.604	8.977	.000	

Multiple linear regression predicting a business's gross profit, based on three predictors (INNO, EO and MO) in Model 1, with INNO as a predictor removed in Model 2

To probe these findings further, the data were subjected to a multinomial logistic regression analysis because this allows for performing predictive analysis of interactions of independent variables (EO and MO) with categorical dependent variables (sales growth and gross profit) which violate linear relationship assumption (Field, 2009:264; Bereson et al. 2012:640).

6.11.3 Multinomial logistic regression analyses

Findings of the multinomial logistic regression analysis are reported in this section. Multinomial logistic regression is performed to determine the outcomes (sales growth and gross profit) of interaction between independent predictor variables (EO + MO + INNO) (Field, 2009; Bereson et al. 2012).

It is argued that the two outcome variables (sales growth and gross profit over the previous 1-5 years respectively) cannot necessarily be assumed to represent interval variables, which is often the assumption of multiple linear regression analysis because each outcome variable is measured on a rating scale with no true zero. It could therefore be more appropriately interpreted as an ordinal variable (Field, 2009; Bereson et al. 2012). Because the assumption of interval level measurement does not apply, multiple linear regression procedures appear inappropriate (Field, 2009; Bereson et al. 2012). Accordingly, multinomial logistic regression procedure was applied. The multinomial logistic regression also has the added advantage that it allows for testing of interaction effects between the independent variables (Field, 2009; Bereson et al. 2012).

In performing the multinomial logistic regression the seven categories of the outcome variables (i.e. decreasing more than 10%; decreasing 6-10%; decreasing 1-5%; no change; increasing 1-5%; increasing 6-10% and increasing more than 10%) were reduced to only three broad categories. These were respectively labelled as “decreasing”, “no change” and “increasing”. The category of “increasing” was consistently used as reference category in the multinomial logistic regressions. This means that the results are disaggregated in terms of pairs of outcome categories, specifically “no change” versus “increasing”, and “decreasing” versus “increasing”.

Two multinomial logistic regression models were performed: firstly, one with sales growth as outcome variable and, secondly, one with gross profit as outcome variable. The parameter estimates associated with the two models are reported (see Table 6.29 for sales growth and Table 6.30 for gross profit).

Table 6.29: Multinomial logistic regression model for gross profit versus

	B (SE)	95% confidence interval for odds ratio		
		Lower	Odds ratio	Upper
No change versus Increasing				
Intercept	12.25 (5.01)*	--	--	--
INNO	-0.33 (0.71)	0.18	0.72	2.91
EO	-0.07 (0.39)	0.43	0.93	2.02
MO	-0.65 (0.28)*	0.30	0.52	0.90
INNO x EO	-0.02 (0.04)	0.91	0.98	1.06
INNO x MO	0.03 (0.02)	0.99	1.03	1.07
EO x MO	0.01 (0.01)	0.98	1.01	1.04
Decreasing versus Increasing				
Intercept	19.29 (4.85)*	--	--	--
Innovativeness	-1.16 (0.70)	0.08	0.31	1.24
EO	-0.29 (0.38)	0.36	0.75	1.59
MO	-0.65 (0.26)*	0.31	0.52	0.87
INNO x EO	0.02 (0.04)	0.95	1.02	1.09
INNO x MO	0.03 (0.02)	0.99	1.04	1.08
EO x MO	0.00 (0.01)	0.97	1.00	1.03

Note: * means $p < 0.05$; $R^2 = 0.44$ (Cox & Snell), 0.53 (Nagelkerke). Model $\chi^2(12) = 115.45$, $p < 0.05$.

In Table 6.29, MO was the only significant predictor of changes in a business's sales growth over the previous 1-5 years ($b = -0.65$, $p < 0.05$). The relevant odds ratio is less than 1, namely 0.52. This means that as scores for MO increase the odds of a business reporting "no change" for its sales growth rather than "increasing" decreases. Put differently, higher scores for MO are associated with increases in sales growth. The same argument applies to the results reported in the lower half of Table 6.20. Since the odds ratio of the only significant predictor (MO) is also less than 1 (0.52 again) it means that as the scores for MO increase the odds of a business reporting "decreasing" rather than "increasing" decrease. In simple words this means that higher MO scores are associated with increases in a business's sales growth. None of the

other two independent variables (innovativeness and EO), or any of their interactions, appears to be significant predictors of a business's sales growth.

Table 6.30: Parameter estimates of the multinomial logistic regression model

	B (SE)	95% confidence interval for odds ratio		
		Lower	Odds ratio	Upper
No change versus Increasing				
Intercept	12.40 (5.1)*	--	--	--
Innovativeness	0.22 (0.72)	0.31	1.25	5.10
EO	-0.19 (0.40)	0.38	0.83	1.83
MO	-0.83 (0.29)*	0.25	0.44	0.77
Innovativeness x EO	-0.05 (0.04)	0.88	0.96	1.03
Innovativeness x MO	0.03 (0.02)	0.99	1.03	1.07
EO x MO	0.02 (0.01)	1.00	1.02	1.05
Decreasing versus Increasing				
Intercept	21.22 (5.04)*	--	--	--
Innovativeness	-1.06 (0.71)	0.09	0.35	1.40
EO	-0.47 (0.40)	0.29	0.63	1.38
MO	-0.70 (0.27)*	0.29	0.50	0.84
Innovativeness x EO	0.02 (0.04)	0.96	1.03	1.10
Innovativeness x MO	0.03 (0.02)	0.98	1.03	1.07
EO x MO	0.01 (0.01)	0.98	1.01	1.04

Note: * means $p < 0.05$; $R^2 = 0.46$ (Cox & Snell), 0.55 (Nagelkerke). Model $\chi^2(12) = 120.37$, $p < 0.05$.

Similarly, in Table 6.30, as the MO scores increase the odds of a business reporting “no change” for its gross profit rather than “increasing, appears to decrease (Table 6.32: $b = -0.83$, $p < 0.05$; odds ratio = 0.44). This means that high MO scores are associated with “increasing” rather than “no change” responses as far as gross profit is concerned. Also, in the lower half of the same table, a significant result for MO means that as the MO scores increase there is a concomitant decrease in the odds of classifying the gross profit as “decreasing” rather than “increasing” ($b = -0.70$, $p < 0.05$; odds ratio = 0.50). Thus MO scores appear to be associated with increased gross profit rather than decreased profit. Again none of the interaction effects are statistically significant.

In sum, the multinomial logistic regression analysis shows the following:

- (a) That MO is a significant predictor of both sales growth and profitability.
- (b) EO in the model is a weak predictor of both sales growth and profitability
- (c) Innovativeness in the model did not significantly predict sales growth and profitability; and
- (d) Interactive effect of the three independent variables (INNO, MO and EO) did not show a significant difference from these variables on a stand-alone basis.

The outcomes of the multinomial logistic regression analysis seem to confirm the findings of the multiple linear regression analysis earlier reported in section 6.11.2. It was reported (section 6.11.2) that only EO and MO contributed significantly to the prediction outcome of sales growth. This finding is in line with the other findings in the literature. Roskos (2004: 343) reported that a strong entrepreneurial oriented firm would also attach significant importance to understanding the market and responding to those insights. Roskos (2004) concluded that interaction between EO and MO are strong and positive predictors of performance. This view is supported by other writers. Matsuno *et al.*, (2002) explain that proactiveness, (EO dimension), promotes identification of new market opportunities and acting on them. This in turn results in more intelligence generation and use (dimensions of MO). They conclude that EO and MO interactions significantly and positively influence business performance.

INNO in the models did not significantly contribute to the prediction of either sales growth or gross profit. The relationship between INNO with either EO items and MO variables has generated mixed results which again is consistent with findings by other writers. Authors have found significantly positive, insignificant, and neutral or even negative relationships between INNO on the one hand, and EO and or MO depending upon variables such as industry factors, venture characteristics (eg. age and size of firm). For new firms for instance, Roskos (2004: 209) found that INNO had significantly **strong negative** (*emphasis mine*) correlations with performance (market share and profit). Roskos (2004) explained that the negative relationship between INNO and performance in new ventures could be attributed to the desire of the new venture to promote growth or profits rather than spend resources on new products or services development. Therefore, the insignificant influence in the prediction models in this study could be attributed to a number of factors. These variables could include environmental stability, the conservative attitude of SSAE owner/managers in a

traditional rural setting towards innovativeness, the informal character of the business entities among others.

The failure of the combined influence of these constructs to produce higher outcomes could be attributed to a number of factors.

1. It could be that the sample size was rather too restricted to produce results different from the hypothesised outcome. It is suggested that the model could be tested on larger samples to compare the outcomes with the results of this study.
2. The traditional rural agricultural setting where the SSAEs operate does not offer ample opportunities for innovative practices, hence the moderate correlation of INNO with performance reported. SSAEs scored higher on MO which correlated strongly with performance. It is suggested that the EO + MO + INNO model be investigated in an innovative environment eg. In the IT industry for comparative purposes.

The researcher believes that the model, if applied in an innovative-oriented environment which is also pro-entrepreneurial, the results could be different. Notwithstanding the predictive outcomes of the model, the study has made a number of important contributions to the business management literature.

The point of departure from the perspective of this study is that, unlike most previous studies which viewed the EO, MO and at times INNO as separate constructs in relation to firm performance, it attempted to propose an interactive model for the enhancement of small business performance. The researcher believes that the synergic influence of the combined concepts of EO, MO and INNO would lead to improvement in performance of small businesses.

The empirical findings reported above seem to suggest that a combination of EO and MO could significantly predict sales growth. MO was perceived as the strongest predictor of both sales growth and gross profit. Innovativeness was perceived as a weak predictor of both sales growth and gross profit. Adopting multi linear regression and multinomial logistic regression methods in developing models to predict performance outcomes of EO, MO and INNO did not yield significant outcomes.

However, the composite analysis reported in section 6.9.2 which examined the inter-correlations between EO and MO variables on the basis of Spearman's rho tests, established that EO and MO including INNO interactively had positive and significant influence on performance of SSAEs (see Table 6.21). In addition, the non-parametric statistics (Kruskal Wallis test) reported in section 6.9.2 also confirmed significant and positive correlations between EO and MO including INNO items and form performance (see Tables 6.22 to 6.25).

6.12 SUMMARY

In this chapter, the empirical findings have been reported and fully discussed. In terms of demographic data, it can be said that most SSAEs are owner/managed. Ownership is equally distributed among black males and females, 49% and 51% respectively, whose ages were between 36 and 55 years. Most owners had some basic education though below tertiary level and only 6% had no formal education. Majority (57%) of SSAEs have operated from 1 to 10 years. SSAE's main business activities include crop and animal farming, food and animal processing and crop and animal related marketing.

The study shows the greatest proportion of SSAEs (40%) experienced sales growth ranging from 1% to 5%. Estimated gross profit growth for the respondents resembled that of sales growth where 40% of SSAEs estimated gross profit growth was 1% to 5% for about 40%. Likewise, ROI growth for 42% of SSAEs ranged from 1% to 5%. Overall financial performance for SSAEs could therefore be estimated from 1% to 5% for about 40% of the respondents. Non-financial performance results showed that majority (54%) of SSAEs reported living up to their community commitments. About half of SSAEs experienced growth in employment ranging from 1 to 5 persons. Labour turnover appeared to be high with about 60% of the small scale agricultural enterprises losing 1 to 5 persons over the previous half decade. About 44% of respondents expressed overall satisfaction with their business performance.

Percentage analysis revealed that most there were appreciably high levels of EO, MO, and INNO and performance indicators sales growth, gross profit growth, ROI and employment growth positively correlated among the SSAEs. However, the

relationships are generally weak except for MO dimensions that significantly and strongly relate to business performance.

Internal consistency and reliability analysis showed high alpha coefficients especially for all underlying dimensions of MO as all values were above 0.80 and therefore showed high levels of reliability and consistency. EO dimensions showed excellent reliability for innovativeness (0.838), good for proactiveness (0.740) and autonomy seeking (0.703). Risk taking reliability was rather low (0.652).

Non-parametric statistical analysis showed significant inter-relationships among the dimensions of EO (including INNO) and MO. The dimensions of EO and MO positively and significantly influence one another in relation to business performance. Multiple linear regression analysis results showed that EO and MO are significant joint predictor variables for sales and profit outcomes. Innovativeness in the regression models was an insignificant predictor as its inclusion or exclusion in the models made no predictive difference in relation to predicted outcomes.

Results of multinomial logistic regression confirmed that it is only MO which could predict performance outcomes (sales growth and profitability) significantly. It means that the higher MO scores reported, the higher levels of sales growth and profitability could be predicted.

The next chapter presents conclusions and recommendations based on these findings.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

This chapter presents conclusions and recommendations on the study. The following hypotheses were tested to arrive at the conclusions and recommendations.

H₀1 SSAEs in Vryburg region are not entrepreneurially oriented.

H_a1 SSAEs in Vryburg region are entrepreneurially oriented.

H₀2 There is no relationship between EO and venture performance.

H_a2 There is a relationship between EO and venture performance

H₀3 SSAEs in the Vryburg region are not market oriented.

H_a3 SSAEs in the Vryburg region are market oriented.

H₀4 There is no relationship between MO and venture performance.

H_a4 There is a relationship between MO and venture performance.

H₀5 SSAEs in Vryburg region are not innovative.

H_a5 SSAEs in Vryburg region are innovative.

H₀6 There is no relationship between INNO and venture performance.

H_a6 There is a relationship between INNO and venture performance.

H₀7 There is no relationship between EO + MO and venture performance.

H_a7 There is a relationship between EO + MO and venture performance.

H₀8 There is no relationship between EO + INNO and venture performance.

H_a8 There is a relationship between EO + INNO and venture performance.

H₀9 There is no relationship between MO + INNO and venture performance.

Ha9 There is a relationship between MO + INNO and venture performance.

Ho10 There is no relationship between EO + MO + INNO and venture performance.

Ha10 There is a relationship between EO + MO + INNO and venture performance

Ho11 EO + MO + INNO does not influence venture performance more than EO + MO.

Ha11 EO + MO + INNO influences venture performance more than EO + MO

7.2 CONCLUSIONS BASED ON LITERATURE REVIEW

In order to develop the theoretical as well as the conceptual frameworks for the study, an extensive literature review was conducted. The following conclusions were arrived at based on the literature.

7.2.1 Entrepreneurship and small businesses

A key finding was that there is a close association between entrepreneurship and small business since small businesses result from entrepreneurial activity. Therefore in order to increase the rate of small businesses creation, it is important to strengthen entrepreneurial activities.

It was also revealed that small business especially in the developing countries are confronted with a number of hurdles such as lack of access to finance and lack of managerial skills which makes it difficult for them (small businesses) to grow and make profit. Overcoming these difficulties will surely aid small businesses to achieve both organisational goals (growth and profitability) and national goals (job creation, poverty reduction and equity).

Another important finding is that, South African small businesses have a lot to learn from more successful small businesses practices in places like Brazil where the sector has actively been promoting growth and development.

7.2.2 Small business and economic development

Economic development emerged as a top priority for developing countries such as South Africa since small businesses are key to economic development. Specifically,

small businesses emerged as the most potent tool to address the problems of unemployment, poverty and inequity. The literature revealed that there is movement away from the classical notions of development premised on growth indicators such as GDP per capita or per capita income to a more humanistic approach by focussing on human needs such as education, health and so on. The literature shows that about a vast majority (80%) of the world's working population are employed by small businesses. At the same time, as much as about 80% of small businesses across the globe are informal and exhibit low growth and profit potential. The capacity of such informal businesses to solve development problems particularly in the developing world is therefore limited. Improving the capacity of small businesses is contingent on formalising the small business sector in the first place. It is only then that the small businesses sector can drive growth and development in particular reference to the developing countries.

7.2.3 Small business and entrepreneurial orientation (EO)

There is agreement in the literature that EO consists of a firm's willingness to take risks, adopt innovative practices in producing goods or services and acting proactively in serving customers ahead of their competitors. Entrepreneurially orientated businesses also seek independent and pursue competition aggressively. The literature also revealed that entrepreneurially orientated firms tend to attain higher performance levels than firms that do not adopt and apply the EO philosophy in their operations. It is also concluded that since small businesses lack resources, they are not in the position to engage in aggressive competitive actions and must therefore innovatively follow the market.

7.2.4 Small business and market orientation (MO)

In the literature, authors seem to agree on conceptualising MO in terms of generation of market information about customers, competitors and the general socio-political environment (intelligence generation), sharing market information among business members (intelligence dissemination) and use (responsiveness). Authors also seem to agree that a positive relationship characterise MO and business performance relationship. Writers who hold this view explain that businesses attain superior performance if they collect, share and act on information gathered about their customers, competitors and the general environment, such as economic, cultural,

political etcetera. The literature also revealed that information generation, dissemination and responsiveness is driven by innovation. Authors agree that increased profitability and growth are positively correlated with MO.

7.2.5 Small business and innovativeness

The literature review led to the conclusion that innovativeness (INNO) reflects a business's willingness and ability to create new products or services for its customers which translate into business competitiveness and success. A growing view which emerged from the literature is that entrepreneurial and marketing success are largely driven by innovation (providing novel products or services) and innovativeness (willingness to do something new) in businesses. Businesses which fail to adopt innovative culture and therefore unable to produce new products or services, often end up suffer economically. The literature also revealed that, due to resource scarcity, small businesses more often than not engage in incremental (piecemeal) rather than ground breaking (radical) innovations.

7.2.6 EO, MO and INNO and firm performance

7.2.6.1 EO and firm performance

The literature revealed that the higher the entrepreneurially orientation of a small business the higher its growth and profitability. Therefore, small businesses need to adopt the EO culture.

7.2.6.2 MO and firm performance

It was demonstrated in the literature review that market oriented small firms tended to be more successful (growth and profitability) than firms that were less focussed on the market. In order to be successful, small businesses need to identify present and future needs of customers while being cognisant of current and potential actions and intensions of their competitors as well as environmental requirements and market trends. Information generated about customers, competitors and the environment should form the basis of small business decisions and market response.

7.2.6.3 INNO

The literature revealed that innovativeness positively correlates with firm performance. The literature distinguished innovativeness (a cultural disposition to innovate) from innovation (introducing new products and services). The literature also identified two forms of innovation namely, radical and incremental. As said earlier, it was revealed in the literature that small businesses which adopted innovative culture practiced incremental innovations due to resource constraints.

7.2.6.4 EO + MO + INNO and firm performance.

The literature review regarding EO + MO + INNO revealed the following:

- i. that EO relates positively with firm performance (growth and profitability)
- ii. that MO relates positively with firm performance (growth and profitability)
- iii. that INNO relates positively with firm performance (growth and profitability)
- iv. that the three constructs (EO + MO + INNO) are closely inter-related. EO specifically encompasses innovativeness as a distinct dimension while market orientation is driven by innovativeness. Some authors affirm existence of positive correlations between various combinations of EO and MO including INNO and business performance (Slater & Narver, 2000:69; Roskos, 2004:6; Van Zyl & Mathur-Helm, 2007:21; Schindebutte *et al.*, 2008:15; Hill *et al.*, 2008).
- v. INNO in relation to EO and MO has generated mixed results under different conditions. For instance, studies have shown positive correlation between innovativeness and performance in high tech businesses in growing industries. On the contrary, mature firms in stable environments have shown low propensity to innovate. The correlation between performance of mature firms and innovativeness has been reported in some cases to be negative or neutral. (Roskos, 2004:209). It is explained that in stable environments, mature businesses would be more interested in employing strategies to improve customer loyalty and monitor actions of their rivals than pursuing innovative strategies (Roskos, 2004).

Based on the assertions that EO, MO and INNO either individually or in various combinations positively influence business performance, it could be reasoned that a

combination of these concepts could yield superior outcomes (growth and profitability) compared with their individual influences on firm outcomes.

7.3 EMPIRICAL FINDINGS

In this section, results of the survey conducted in order to answer the research questions and test the hypotheses which guided the study are presented. The research questions as well as the hypotheses are restated in the relevant sections. These are accompanied with answers to the research questions and tests of the hypotheses.

7.3.1 Research question 1

Are SSAEs in the Vryburg region entrepreneurially oriented? To address this question, the following hypotheses were tested.

H₀1: SSAEs in Vryburg region are not entrepreneurially oriented.

H_a1: SSAEs in Vryburg region are entrepreneurially oriented.

To test the above hypotheses, percentage analysis was performed. Table 6.4 showed that majority (72%) of the businesses are involved in innovative activities; 63% are proactive, 69% take calculated risk, while 71% are autonomy seeking. The overall average percentage for EO activities came to 69%. In the light of this finding, the null hypothesis *H₀1: SSAEs in Vryburg region are not entrepreneurially oriented* is not supported. Therefore, the alternate hypothesis *H_a1: SSAEs in Vryburg region are entrepreneurially oriented* is accepted.

It is therefore concluded that the SSAEs in the Vryburg region are entrepreneurially oriented.

7.3.2 Research question 2

What is the nature of relationship between levels of EO and performance of SSAEs? The following two hypotheses were tested.

H₀2: There is no relationship between EO and venture performance.

H_a2: There is a relationship between EO and venture performance.

It was reported in Tables 6.5 to and 6.8 that EO positively and significantly correlated with performance of SSAEs. Effect size of the associations between EO items and

performance measures were generally moderate. Accordingly, the null hypothesis H_02 : there is no relationship between EO and venture performance is rejected. The alternative hypothesis ***H_{a2}: there is a relationship between EO and venture performance*** is accepted.

It is therefore concluded that there is a relationship between SSAEs EO and its performance. Furthermore, the relationship is positive.

7.3.3 Research question 3

Are SSAEs in the Vryburg region market oriented?

The following hypotheses were tested

H₀₃: SSAEs in the Vryburg region are not market oriented.

H_{a3}: SSAEs in Vryburg region are market oriented.

Results of the percentage analysis reported in chapter 6 (see Table 6.9) regarding MO statements and extent of agreement revealed that majority of respondents (70%) agreed that they were involved in MO activities namely, information generation and use. 71% of respondents agreed that they engaged in information gathering, 67% were involved in information sharing while 71% were acted on the information generate. This finding forms the basis of testing the hypotheses stated below. The analysis has revealed that SSAEs are market oriented since majority (70%) of respondents indicated their involvement in MO activities. From this stand point, the null hypothesis H_03 : SSAEs in the Vryburg region are not market oriented is not supported. The alternate hypothesis ***H_{a3}: SSAEs in Vryburg region are market oriented*** is accepted.

It is therefore concluded that the SSAEs in the Vryburg region are market oriented.

7.3.4 Research question 4

What is the nature of relationship between levels of MO and performance of SSAEs?

The following hypothesis were tested in order to answer this research question

H₀₄ There is no relationship between MO and venture performance.

H_{a4} There is a relationship between MO and venture performance

Positive and strong correlations were found between MO dimensions (intelligence generation, dissemination and use) and SSAE performance measures namely, sales

growth (Table 6.10), gross profit growth (Table 6.11), growth in ROI (Table 6.21) and growth in number of employees. This means that performance of SSAEs is strongly and positively influenced by MO. In the wake of increasing competition, changing customer needs and increasing government laws and regulations, SSAEs have no choice but to vigorously market their products and or services. It is therefore no surprise that performance of these businesses is strongly influenced by their strategic market orientation. The strong influence of MO on business performance provides a basis for the hypothesis H_04 : there is no relationship between MO and venture performance to be rejected. The alternate *hypothesis H_{a4} : there is a relationship between MO and venture performance* is therefore accepted.

It is therefore concluded that there is a relationship between SSAEs MO and its performance. Furthermore, the relationship is positive.

7.3.5 Research question 5

Are SSAEs in in the Vryburg region characterized by innovativeness?

The following hypotheses were tested.

H₀₅: SSAEs in Vryburg region are not innovative.

H_{a5}: SSAEs in Vryburg region are innovative.

High levels of innovativeness were reported by respondents (see Table 6.14). In fact, a high percentage (72%) of respondents indicated involvement in innovative practices in the operation of their businesses. There were also relatively high scores on all the elements of INNO. About 79% of responds agreed that they were involved in idea generation, 80% reported that they adopted new technology in producing goods and services, while 68% agreed they introduced new products to their customers. Based on these findings, the null hypothesis H_05 : SSAEs in Vryburg region are not innovative failed to be supported. The alternate hypothesis *H_{a5} : SSAEs in Vryburg region are innovative* is therefore accepted.

It is therefore concluded that the SSAEs in the Vryburg region are innovative.

7.3.6 Research question 6

What is the nature of relationship between levels of INNO and performance of SSAEs?

The following hypotheses were tested.

H₀6 There is no relationship between INNO and venture performance.

H_a6: There is a relationship between INNO and venture performance.

It was found that positive and significant relationships exist between INNO and performance measures reported in Chapter 6 (sales growth: Table 6.15; gross profit growth: Table 6.16; growth in ROI: Table 6.17; growth in number of employees: Table 6.18). Significant and positive relationship were found between INNO and performance measures of SSAES though the strength of the relationships were moderate. The result shows that the null hypothesis H₀6: there is no relationship between INNO and venture performance is accordingly rejected. The alternate hypothesis ***H_a6: there is a relationship between INNO and venture performance*** is accepted.

It is therefore concluded that there is a relationship between SSAEs INNO and performance. Furthermore, the relationship is positive.

The positively significant but moderate relationship between INNO and performance of SSAEs could be attributed to the fact that SSAEs, being small and predominantly informal, would be characterised by incremental innovative practices. The specific type of innovative activity practiced by SSAEs and their relationship with performance could be a starting point for further research.

7.3.7 Research question 7

Is there a relationship between EO + MO and performance of SSAEs? To answer this question, the following hypotheses were tested.

H₀7: There is no relationship between EO + MO and venture performance.

H_a7: There is a relationship between EO + MO and venture performance.

An inter-correlation matrix of the dimensions of EO + MO and performance measures reported in Table 6.21 revealed significant relationships that is positive. For instance proactiveness in market information generation and use (MO) and bearing risk in producing customer desired products or services (EO) correlates with improved profitability and growth for the business. In view of this finding, the null hypothesis H₀7:

there is no relationship between EO + MO and venture performance is not supported. Consequently, the alternate hypothesis ***Ha7: there is a relationship between EO + MO and venture performance*** is supported. It is therefore concluded that there is a relationship between EO + MO and SSAE performance

It is therefore concluded that there is a relationship between SSAEs EO+MO and its performance. Furthermore, the relationship is positive.

7.3.8 Research question 8

Is there a relationship between EO + INNO and performance of SSAEs? The following hypotheses were tested in order to answer this question

H₀8: There is no relationship between EO + INNO and venture performance.

H_a8: There is a relationship between EO + INNO and venture performance.

Table (6.21) shows that positive changes in INNO + EO leads to increases in performance. Based on this finding, the null hypothesis H₀8: there is no relationship between EO + INNO and venture performance is not supported. The alternate hypothesis ***H_a8: there is a relationship between EO + INNO and venture performance*** is accepted.

It is therefore concluded that there is a relationship between SSAEs EO+INNO and its performance. Furthermore, the relationship is positive.

7.3.9 Research question 9

Is there a relationship between MO + INNO and performance of SSAEs?

H₀9: There is no relationship between MO +INNO and venture performance.

H_a9 There is a relationship between MO + INNO and venture performance.

Table 6.21 shows a positive and significant correlation between INNO + MO and firm performance. The null hypothesis H₀9: there is no relationship between MO + INNO and venture performance is rejected. The alternate hypothesis ***H_a9: there is a relationship between MO + INNO and venture performance*** is accordingly accepted.

It is therefore concluded that there is a relationship between SSAEs MO+INNO and its performance. Furthermore, the relationship is positive.

7.3.10 Research question 10

What is the nature of the relationship between levels of EO + MO + INNO and performance of SSAEs? To answer this question, the following two hypotheses were tested.

H₀10: There is no relationship between EO + MO + INNO and venture performance.

H_a10: There is a relationship between EO + MO + INNO and venture performance.

For the purpose of testing above hypothesis, findings based on a number of analyses reported in Chapter 6 are drawn upon. Firstly, a composite analysis reported in section 6.9 indicates that positive and significant inter-correlations exist between EO + MO + INNO which increases SSAEs' performance (Table 6.21). Secondly, non-parametric statistical analysis reported in Section 6.9.2 also showed EO +MO +INNO positively influence performance of SSAEs (Tables 6.22 and 6.25). On the basis of this, the null hypothesis H₀10: there is no relationship between EO + MO + INNO and venture performance is rejected. The alternate hypothesis **H_a10: there is a relationship between EO + MO + INNO and venture performance** is therefore accepted.

It is therefore concluded that there is a relationship between SSAEs EO+MO+INNO and its performance.

7.3.11 Research question 11

Could EO + MO + INNO influence firm performance better than pairs of these constructs?

H₀11: EO + MO + INNO does not influence venture performance better than EO + MO.

H_a11: EO + MO + INNO influences venture performance better than EO + MO.

It was argued that EO+MO+INNO would lead to better performance than these constructs paired or separately. However, the multiple linear regression analysis (Tables 6.27 and 6.28) and multinomial logistic analysis (Tables 6.29 and 6.30)

performed in order to determine the influence capabilities of the EO + MO + INNO model showed no significant differences in performance between EO + MO + INNO and EO + MO. Therefore, the null hypothesis ***H₀11: EO + MO + INNO does not lead to better venture performance than EO + MO is supported hence accepted.*** Confirmation of the null hypothesis in practical terms means that EO + MO + INNO did not produce higher outcomes than the stand-alone or paired relationships of these variables with firm performance.

It is therefore concluded that there MO+EO+INNO does not lead to better SSAE performance than MO+EO.

7.4. POLICY IMPLICATIONS AND RECOMMENDATIONS

The study has revealed a number of critical issues pertaining to the state of the social and economic conditions in South Africa, and by extension to other African and developing countries. It was revealed that the South African economy manifests a high level of unemployment (especially among the youth), high levels of poverty and inequitable distribution of income. The economy is also characterised by a very large informal small business sector whose contribution to the economy is dubious. The small business sector, reputed for employment of up to about 80% of South Africa's workforce, remains largely unproductive. In fact, employment in the small business sector is described in certain circles as "disguised unemployment". The contribution of the sector to the national economy remains paltry, in the region of 30%-40%, given the size of the human capital it engages. In addition, the often hyped perennial problems of lack of skills in marketing, entrepreneurship, general business management and financial management continue to daunt the sector.

The foregoing creates challenges for policy makers. The problem is that the small business sector which is supposed to lead the war on unemployment, poverty and inequity remains largely informal and ineffective. So long as the small business sector remains largely informal, its capacity and ability to address the problems highlighted above remain elusive. In order to overcome the precarious situation outlined above, the following recommendations are made based on the findings of the study.

7.4.1 Formalisation of small businesses

The prevalence of high level of informal small businesses in South Africa revealed in the study requires a radical transformational approach. The sector requires a huge effort in turning the mostly informal and necessity-driven small business entities into economically viable and sustainable enterprises. A step in the right direction would be to formalise the small business sector on similar lines as obtains in Brazil. SEDA definitely has lessons to learn from its Brazilian equivalence-SEBRAE which has been phenomenally successful in facilitating formalising small businesses and turning them into economically viable and vibrant commercial entities in Brazil. It is therefore strongly recommended that the South African government, in partnership with small-business oriented NGOs, relentlessly pursue formalisation strategy in order to take the bulk of the small businesses to the commercial stream. Entering the commercial sector will ameliorate other SMME problems such as lack of access to credit finance from the banking sector. The registered small businesses could also receive state guarantees for credit facilities, access formalised training in various business-related fields. Indeed, the benefits emanating from formalisation are enormous. It is a sure route to improving the effectiveness of the small business sector culminating in addressing the chronic unemployment, poverty and inequity hurdles.

7.4.2 The Brazilian experience

It was reported in the literature review that South Africa is confronted with a plethora of socio-economic problems. Unemployment is high and increasing. The gaping gap between the rich minority and the poor masses is on the increase, meaning inequity is worsening. Majority of South Africans still wallow in poverty. The government is expected to take the lead in addressing the 'hydra-headed' problems engulfing the country.

These structural problems have confronted Brazil. However, the literature reports that Brazil has reduced levels of poverty, unemployment and equity through an effective small business policy. A significant proportion of the unemployed in Brazil have found their way into small business operation. The rate of unemployment was drastically reduced. The income gap between the rich and the poor has been significantly slashed. The Brazilian route to addressing the socio-economic problems is

recommended to the South African government and NGOs for adoption in addressing unemployment, poverty and inequity problems.

7.4.3 Developing strategic business orientations (cultures)

This study has taken the position that entrepreneurship, marketing and innovation strategies could be simultaneously pursued from a centralised business perspective. It has been argued that businesses would be more successful in achieving their growth and profitability goals if they combine their entrepreneurial and market orientations interfaced through innovativeness. The findings of the study have provided some support for this position. In addition, the empirical study has shown high manifestation of EO, MO and INNO among the SSAEs which correlate with business performance. This culture could be further strengthened through deliberate government's and NGOs' intervention.

Accordingly, it is recommended that small business owners/managers be encouraged to integratively cultivate these strategic cultures within their businesses. This encouragement could come in various forms such formal training sessions, mentorship, apprenticeship and learnership. The ultimate goal of such programmes would be to inculcate in the small business owner/managers the *entrepreneurial/marketing/innovative* spirit so that they could innovatively lead the entrepreneurial revolutions in their respective communities. Such small business based (entrepreneurial) revolutions have catapulted present day economic giants such as the US, China, Japan, Germany and India to global prominence. An effective and efficient small business sector therefore is *sine qua non* for socio-economic development especially in developing countries including South Africa.

7.4.4 Business management skills development

The study also revealed a high percentage of respondents (44%) had no business and 35% had no entrepreneurship training. This must also be a source of serious concern for policy makers. Basic training in business management and entrepreneurship would assist small businesses overcome skills shortage in areas such as finance, marketing and information management thereby promoting effective and efficient business management and operations.

It is also anticipated that, intensive and regular training in entrepreneurship and business management would expose small business owners/managers to benefits of strategic management. Realising the tangible benefits of strategic orientation (EO, MO and INNO) small business owners\managers would be more likely to apply them in their businesses for increased performance.

7.4.5 Research output utilisation

One secret of the Brazilian small business success story reported in the literature is the effective collaboration between research institutions and small businesses facilitated by SEBRAE. The collaboration enables small businesses to apply research outcomes from research institutions in their business operations. It was reported that this collaboration has produced positive performance results for small businesses in Brazil. It is recommended that close collaboration be forged between South African research institutions and the small business sector facilitated by SEDA and other small business institutions. Universities for instance could offer business and entrepreneurship training programmes to small business owner/managers for enhanced performance. This could go a long way in addressing the skills handicap of small business owner/managers.

7.4.6 Socio-economic development

This study was undertaken in order to contribute to the socio-economic developmental debate regarding developing countries and South Africa in particular. A number of approaches to development have been proposed. Of particular interest to this study is the ***new approach to development*** which advocates for a people centred approach to development. The new approach has shifted attention from the traditional methods which focussed on development indicators such as GDP per capital or income per capita to people focus. The new approach places human development at centre stage whereby health, knowledge, and real GDP based on purchasing power parity of the citizens receive emphasis in the developmental process. The people's freedoms are equally emphasised. In sum, the quality of life of a country's citizenry takes precedence over all other developmental issues. Of course, economies must first of all grow in order to provide impetus to human development. Growth is no longer perceived as an end in itself, but a means to achieve sustainable development.

The pursuit of these developmental goals encapsulated in the Millennium Development Goals (MDGs) outlined in the study, has preoccupied government's attention for a while. In order to supplement present efforts, it is recommended that, government and NGOs pursue a more coherent and co-ordinated small business development strategy in order to realise the targets set in the MDGs. It is reasoned that since majority of the South African workforce is engaged in the small business sector, in fact most of whom are in the informal sector, transforming their informal character into viable and productive entities by infusing in them the *entrepreneurial/marketing/innovative* ethos through training, coaching, mentorship and learnership, the attainment of the MDGs would become a reality.

7.5 Recommendations for further research

Improving performance and sustainability of small businesses has occupied the attention of governments, NGOs and similar institutions concerned with socio-economic development particularly in the developing world. Numerous studies have been done and suggested solutions provided. However, we are still far from fully addressing problems that hinder effective and efficient performance of small business. More research is definitely required in order to promote small business development.

This study attempted to explore the possibility of developing an integrated model for enhancing performance of small businesses in order to facilitate the stimulation of socio-economic development. However, a number of issues remain unresolved. Some these unresolved issues are suggested for further research. The following areas are suggested.

7.5.1 Further research into EO-MO-INNO relationships in different contexts

The study was spread across businesses restricted to agricultural related enterprises in a predominantly rural setting. It is proposed that the proposed EO-MO-INNO integrative model be investigated in other industries in different settlement contexts; for example validating the study in manufacturing, retail or construction contexts in urban settings.

7.5.2 Investigating type of SSAEs' innovations and performance relationships

The inter-correlation between innovativeness and the dimensions of EO and MO performance in SSAEs was generally positive but with practically moderate significance. It was speculated in the study that the moderate significance of INNO in relation to performance measures might be due to the fact that these business entities engaged in incremental innovations hence the moderate effect. It is therefore necessary to investigate further the type of innovation SSAEs implement and how they specifically influence performance.

7.5.3 Investigating mediating variables and EO-MO-INNO relationships and firm performance

The researcher suspects that intervening variables could have influenced the EO-MO-INNO interactions in their relationship with performance. For instance, environmental factors or other internal factors could have influenced the relationships. These factors are worth investigating.

7.6 Limitations of the study

1. This study was conducted on a limited geographical scale. The generalisability of the findings would also be limited.
2. Limited resources restricted the scope of the study.
3. The study was largely exploratory. Follow up studies are called for.

7.7 FINAL CONCLUSIONS

This study has shed light on the inter-relationships among EO, MO and INNO as they influence firm performance. The study has in the main been exploratory with the main objective being to gain a thorough insight into interplay between EO, MO and INNO on the one hand and SSAE performance on the other hand. The ultimate goal is to help in facilitating improved performance of small businesses. The findings suggest that SSAEs in the Vryburg region engage in EO, MO and INNO activities and these orientations positively correlate with performance. The effect of the associations were however moderate. The moderate correlations create opportunities for strengthening the entrepreneurial and market orientations and innovativeness of SSAES. An

intensive and co-ordinated intervention of government and NGOs in transforming the small business sector into the real engine of growth of the economy is imperative.

6.13 REFERENCES

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ANNEXURE A: QUESTIONNAIRE

Small Scale Agricultural Enterprises (SSAEs) Entrepreneurial and Market Orientations Questionnaire

Interviewer instructions

1. Call the telephone number on the list provided
2. Request to speak to the owner/manager
3. Say the following to him/her

Date of interview :

Time of interview:

Physical address:

INTRODUCTION AT THE START OF THE INTERVIEW

Good day Sir/Madam. My name is..... (State your name).

I represent Mr. E.K. Agbobli who is a doctorate student at the Central University of Technology (CUT), Free State and is currently collecting data for his thesis. The topic for his thesis is: ***The influence of entrepreneurial and market orientations on typical rural small scale agricultural enterprises in the Vryburg area.***

May I please use a few minutes of your time to ask you some questions. The interview should take about **25 minutes**. I wish to assure you that information from this interview will be treated with utmost confidentiality and will be used for research only.

The Research Assistant will help you to answer the questions if it becomes necessary.

Company name	
Responsible person (respondent name)	
Position	
Telephone number/ Cell number	
Physical location	

Section A: Demographic data (company and the owner manager information)

Question	Please mark the appropriate answer with ' X'					
1	Please indicate your role in the company					
	1 owner		2 manager		3 Owner/manager	
2	Please indicate your gender					
	1 - male			2 - female		
3	Please state your age in years					
	1 (16-25 years)		2 (26-35 years)	3 (36-45 years)	4 (46-55 years)	5 (above 55 years)
4	Please indicate your ethnic origin/race					
	1 Afrikaner	2 English	3 Other (European)	4 Black RSA	5 Other African	6 Indian
5	Please indicate your educational status					
	1 No Formal education		2 Primary	3 Middle School	4 High School	5 under-graduate
6	Please indicate your highest level of business training					
	1 None	2 Apprenticeship	3 Short courses	4 High school	5 Under-graduate	6 Post-graduate
7	Please indicate your highest level of training in entrepreneurship					
	1 None	2 Apprenticeship	3 Short courses	4 High School	5 Under-graduate	6 Post-graduate
8	Please state the number of persons employed by your company					
	1 (1-5 persons)		2 (6-10 persons)		3 (11-50 persons)	4 (51-100 persons)
9	Please indicate the number of years your company has been in operation					
	1 (1-5 years)		2 (6-10 years)	3 (11-15 years)	4 (16-20 years)	5 (Over 20 years)
10	Which type of agriculture-related marketing activity is your company engaged in?					
	1 animal related products		2 Crop-related products		3 Both animal and crop-related products	

Section B: Entrepreneurial orientation					
Question	Please indicate the extent to which you agree or disagree with the following statements regarding your company. Please mark the appropriate answer with 'X'	strongly disagree	disagree	agree	strongly agree
Entrepreneurial Orientation (EO): innovativeness					
11	The company encourages employees to come up with new ideas at the work place.	1	2	3	4
12	The company tries to solve problems concerning products/services by using creative methods.	1	2	3	4
13	The company encourages development of unique ways of marketing products/services.	1	2	3	4
14	The company often adopts new technology in making its products/services.	1	2	3	4
15	The company introduced new products/services to the market in the past 1- 5 years	1	2	3	4
Entrepreneurial Orientation (EO): proactiveness					
16	The company is often the first to initiate actions (e.g., quality improvements) to which other competitors in the area respond.	1	2	3	4
17	Very often this company is the first in the area to introduce new products/services to the market	1	2	3	4
18	In this company, it is firmly believed that changes in the market creates a positive opportunity for doing business	1	2	3	4
Entrepreneurial Orientation (EO): risk taking					
19	The company often to undertakes high risk projects with chances of very high profits	1	2	3	4
20	The company usually makes very bold but cautious decisions that affect its future.	1	2	3	4
21	The possibility of financial loss is a major concern in this company	1	2	3	4
22	In this company, there is a strong liking for implementing plans only if it is very certain that they will work.	1	2	3	4
Entrepreneurial Orientation (EO): autonomy seeking					
23	This company encourages individuals to think of ways of solving problems on their own.	1	2	3	4
24	In this company employees are not compelled to strictly adhere to laid down procedures in doing their tasks.	1	2	3	4
25	The company supports individuals or teams that work on their own without close supervision	1	2	3	4

Section C: Market Orientation					
Question	Please indicate your agreement/disagreement with the following statements with an 'X'	strongly disagree	disagree	agree	Strongly agree
Market Orientation (MO): intelligence generation					
26	The company frequently gathers information about the practices (price and quality of products and customer management) about its competitors.	1	2	3	4
27	The company frequently looks for information about government laws and regulations that may affect the company	1	2	3	4
28	The company spends time collecting information about customers' future needs.	1	2	3	4
29	The company gathers information regarding general environmental conditions (economic, social and political) that may affect the company's operations.	1	2	3	4
30	The company periodically discusses business matters with its suppliers.	1	2	3	4
Market Orientation (MO): intelligence dissemination					
31	The practices of competitors (price, quality of products and customer management) are frequently discussed with members/different units of the company.	1	2	3	4
32	The company spends time discussing customers' future needs with members/different units of the company.	1	2	3	4
33	Information gathered about general environmental conditions (economic, social and political) that may affect the company's operations are periodically discussed with members/different units the company.	1	2	3	4
34	There are regular meetings with members/different units in order to share new information regarding government laws and regulations that may affect the company.	1	2	3	4
35	The company often discusses information about the operations of its suppliers with members/ different units the company.	1	2	3	4
Market Orientation (MO): responsiveness					
36	The different types of products the company sells largely depends on customers' expressed needs.	1	2	3	4
37	The company is quick in starting business with new suppliers if they are seen as more competitive (price, quality & reliability) sources of supply.	1	2	3	4
38	The company takes immediate action if its customers are targeted by rival companies.	1	2	3	4
39	The company is quick in taking corrective measures in addressing issues regarding environmental concerns.	1	2	3	4
40	The company quickly acts to take advantage of positive general environmental conditions or to minimise their negative impacts on the company.	1	2	3	4

Section D: Firm Performance							
Question	Financial performance						
	41	Please indicate the extent to which you agree or disagree that the company's sales growth compared with major competitors has been increasing significantly over last 1-5 years					
	1 strongly disagree	2 disagree	3 agree	4 Strongly agree			
42	Please estimate the company's sales growth over the past 1-5 years						
	1 Decreasing (More than 10%)	2 Decreasing (6-10%)	3 Decreasing (1-5%)	4 No change (0%)	5 Increasing (1-5%)	6 Increasing (6-10%)	7 Increasing (More than 10%)
43	Please estimate the gross profit (profit before tax) for the company over the past 1-5 years						
	1 Decreasing (More than 10%)	2 Decreasing (6-10%)	3 Decreasing (1-5%)	4 No change (0%)	5 Increasing (1-5%)	6 Increasing (6-10%)	7 Increasing (More than 10%)
44	Please estimate the company's return on investment (ROI) (cash generated or lost due to investment in the company) over the past 1-5 years						
	1 Decreasing (More than 10%)	2 Decreasing (6-10%)	3 Decreasing (1-5%)	4 No change (0%)	5 increasing (1-5%)	6 Increasing (6-10%)	7 Increasing (More than 10%)
Non-financial performance							
45	The company has lived up to its community obligations as planned over the last 1-5 years						
	1 - Strongly disagree	2 - disagree	3 - agree	4 - Strongly agree			
46	Please indicate the growth of the company's employees over the past 1-5 years						
	1 - (0 person)	2 - (1-5 persons)	3 - (6-10 persons)	4 - (11-50 persons)	5 - (51-100 persons)		
47	Please indicate the number of employees who have left the company over the past 1-5 years						
	1 - (0 person)	2 - (1-5 persons)	3 - (6-10 persons)	4 - (11-50 persons)	5 - (51-100 persons)		
48	How satisfied are you with the overall performance of your company?						
	1 – very dissatisfied	2 – dissatisfied	3 –satisfied	4 – very satisfied			

THANK YOU FOR YOUR TIME

ANNEXURE B: DEFINITIONS OF SMALL BUSINESSES IN SOUTH AFRICA

Sector or subsectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
Agriculture	Medium	120	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	120	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade	Medium	120	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Commercial Agents and Allied Services	Medium	120	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering	Medium	120	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Storage	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Communications	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance	Medium	120	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Business Services	Medium	120	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Community	Medium	120	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Social and Personal Services	Medium	120	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

Source: National Small Business Act 102 of 1996 as amended 2003, 2004