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AN ANALYSIS OF BUSINESS INTERVENTIONS AND THEIR EFFECT ON THE PERCEIVED SUCCESS OF SOUTH AFRICAN SMALL AND MEDIUM ENTERPRISES

By

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Submitted in accordance with the requirements for the degree of

DOCTOR OF COMMERCE

in the subject

BUSINESS MANAGEMENT

at the

UNIVERSITY OF SOUTH AFRICA

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NOVEMBER 2007

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank the following individuals and institutions:

- My wife, Saretha and my daughter, Mieke, who have always supported my efforts.
- My mom, Estelle, for motivating me to study since I can remember. I hope it was a pleasant surprise!
- Professors Cecile Nieuwenhuizen and Johan Strydom, my promoters for their invaluable guidance, advice, support and continuous encouragement throughout the study.
- The University of South Africa (Unisa).
- Professor Deon Tustin, Head of the Bureau for Market Research, who assisted me with the questionnaire and statistical matters.
- Advocate Hein van der Walt of Cofesa who provided the database to use a population for the study.
- Maria, Elna and Richard from Ask Africa, who not only collected all the data but also rendered great aftersales service.
- All the respondents who participated in the study for their time and valuable contribution.
- Moya Joubert, for her professional and critical editing of the manuscript.

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I declare that **THE EFFECT OF BUSINESS INTERVENTIONS ON THE PERFORMANCE OF SOUTH AFRICAN SMALL AND MEDIUM ENTERPRISES** is my own work and that all sources that I have used or quoted have been indicated and acknowledged by means of complete references.

……

Edmund John Ferreira 27/11/2007

SUMMARY

A prestudy by the author of the assistance available to small business owners in South Africa revealed that although much assistance is available, many small businesses still fail. The question that arose was whether small business owners are receiving the proper assistance in respect of the right functional areas of the business, for the appropriate duration, at the right stage of the business life cycle and by the right people. Taking all these issues into account, the main purpose of this study was to determine what types of business interventions have the greatest impact on the success of entrepreneurs and small and medium enterprise owners.

The literature study includes the history of small business development in South Africa and the interventions that have taken place in this and other countries. It also provides a definition of a successful small business and the generic business needs of small business owners.

The sample used in this study was drawn from the members of the Confederation of Employers of South Africa (Cofesa). The research findings of this study are reliable for the SME owners who are members of Cofesa. The Cofesa group is not representative with regards to demographics, location, economic sectors or qualifications of South African SMEs. The following are some of the findings of the study of successful small business owners:

- They generally make use of assistance in the areas of finance, marketing and human resources.
- Most of them make use of assistance on a continuous basis during all the stages of the business life cycle, suggesting the way forward for aspirant business owners who should start making use of assistance even before starting their businesses.
- Consultants or business specialists are mainly used for assistance.

- More than two-thirds of the business owners thought that their businesses were more successful after they had received assistance.
- The assistance was neither the cause of failure nor was it the main cause of their success.

Assistance is a contributing factor to success but not the main reason for it. The success of a SME will depend mainly on other factors such as type of product, product quality and marketing. Assistance, however, proves vital and should first be provided for the areas as identified by the respondents in this study (mainly finance, marketing and human resources).

Key terms:

Business interventions; Success; SMEs; Assistance; Small business owners; Types of business interventions; Cofesa; Areas of assistance; Consultants or business specialists; Failure of SMEs.

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CHAPTER 1

INTRODUCTION, AIM, METHOD AND LAYOUT OF THE STUDY

1.1 INTRODUCTION

Throughout the world, policy makers are turning to small and medium enterprises (SMEs) to drive economic growth and development. SMEs are regarded, inter alia as the primary creators of jobs and economic stability. The vital contribution that SMEs can make to employment and income generation is recognised worldwide, and in South Africa in particular (Brink, Ligthelm & Cant, 2003:1).

The South African government has committed itself to the promotion and growth of the small, medium and micro enterprises (SMME) sector as one means of reducing unemployment (Nieman, 2001:445). Its aims are to increase the number of new ventures and create an enabling environment to ensure the survival and growth of SMEs.

Entities such as Khula Enterprise Finance and the Small Enterprise Development Agency (Seda) were specifically created by government to promote the SMME sector. Corporate South Africa and parastatals have embraced procurement policies that support black economic empowerment (BEE) and foster the development of a vibrant SMME sector. With all this in place and despite efforts by the government to establish a support structure for the SMME sector, to date these efforts have not proved to be that successful. The SME survey 2005 executive summary reports that not only has government failed in addressing the shortcomings in its support for SMEs identified in 2004, but also that these shortcomings are even worse outside the four major urban centres (SME Survey, Executive Summary, 2005).

In the Executive Report of the Global Entrepreneurship Monitor (GEM), Maas and Herrington (2006:18-19) also list the following points indicating the shortcomings of the initiatives of government and the factors hindering entrepreneurship:

- The education system does not encourage entrepreneurship as a career.
- Regulations create huge administrative burdens and high costs when starting a business.
- Infrastructure and the necessary skills required for the development of entrepreneurship are lacking.
- There is no or little support from government and the private sector in the creation and development of new and existing enterprises.
- Although sufficient funds seem to be available it is difficult to access them.

Apart from government interventions (including all types of assistance, support and training), SME owners also make use of consultants and advisors such as attorneys, accountants, banks, and business consultants. Attorneys, accountants and banks provide a specialised type of service and do not usually interfere with the core business. Attorneys are usually involved when the business is being registered, when contracts have to be drawn up, when the form of the business changes and when insolvencies occur. Accountants are generally responsible for the bookkeeping aspect and only give a financial reflection of what is happening in the business. Financial advisors are necessary to give direction in financial matters. Banks are not really financial advisors, but SME owners need to borrow money from them. Some banks, however, also assist SME owners with other matters as discussed in section 3.5.3 in chapter 3 of this study.

Business consultants, on the other hand, are usually contacted for advice on specific business related matters that the owners do not understand. They assist with issues such as systems design, productivity improvement, administration, payroll and expansion of the business. They assist or become part of the

business for a specific task, for a specific period or even on a semi-permanent basis, such as one day per week or month.

Although the initial picture, especially regarding government assistance, does not seem to be doing well in meeting the desired objectives, there are businesses that make use of these as well as private consultants that are thriving. Many SME owners realise that they could be doing better if they were to make use of consultants in the areas in which they themselves lack knowledge and experience.

There are many providers that small business owners can make use of to assist them such as Deloitte and Touché, consulting businesses and employer associations. Another example is the Confederation of Employers of South Africa (Cofesa). Cofesa is an employers' association and primarily gives its members access to The Commission for Conciliation, Mediation and Arbitration (CCMA) representation in labour-related cases and provides labour-related advice and assistance. Since 2003 it has started assisting their members in other functional areas of business as well, making use of advisors and specialists.

For the purpose of this study the researcher had to find a population of SMEs of which the owners/managers had been assisted in some way in their businesses. The South African SME population is extremely unstructured and no comprehensive list of SMEs or business owners is available. Different sources such as "BizAssist", the DTI and "EASYINFO" were investigated to attempt to find a list of SME owners who had been assisted, but to no avail. Furthermore, most of the SMEs listed in these sources had not been assisted and those that had been assisted were mostly only given loans or grants with no mention of business interventions.

After some time of searching, Cofesa was identified as a population that could be used. Cofesa is a structured unit, possessing a list with contact details of all their

members, most of whom had previously received business assistance. These business owners actually joined Cofesa with the aim of receiving assistance. This is exactly what was needed for this study. The researcher needed to investigate SME owners who had been assisted in order to analyse the way they had been assisted and try to determine how these interventions affected the success of their businesses.

Cofesa also demonstrated their goodwill by making the details of their members available. In realising the importance of this study, Cofesa expressed their cooperation and support.

Although the Cofesa group is probably not representative with regards to demographics (it was not measured), location, economic sectors or qualifications of the general SME market in South Africa (see tables 6.1, 6.3 and figure 6.1), the choice of Cofesa is based on the fact that this was the only structured, comprehensive group available to the researcher. It is acknowledged that the use of the Cofesa list could probably skew the research towards a specific target group.

In order to ensure a common understanding of the research area and the basic terminology used in this thesis will now be elucidated.

1.2 DEFINITION OF CONCEPTS

Success

Success can mean a level of social status, the achievement of an objective/goal or the opposite of failure. The *Oxford dictionary* defines success as the accomplishment of an aim or purpose and the attainment of fame, wealth or social status.

The definition of a successful SME that will be used in this study is the following: A successful SME is one that has been in existence for at least four years, has been profitable and has shown growth over the preceding three years (Nieuwenhuizen & Groenewald, 2006:70).

SMEs

SMEs are an extremely heterogeneous group and include a variety of firms that possess a wide range of sophisticated skills and operate in different markets and social environments (Hallberg, 1999:2). Table 2.1 in chapter 2 of this study shows the distribution of private sector enterprises in South Africa (as percentages) by sector and size-class.

Recently, the European Union (EU) had started standardising the different concepts of a definition of an SME. Its current definition categorises enterprises with fewer than 50 employees as "small", and those with 50 to 250 as "medium". In the USA, when the number of employees is used to define the size of a business, those with fewer than 100 employees are classified as "small" and those with fewer than 500, as "medium". Micro-business is defined in both the EU and the USA, as a business with fewer than 10 employees. A business with fewer than 10 employees is also known as a Soho (small office/home office).

In South Africa the definition of SMEs differs from one economic sector to the next. Generally speaking, SMEs are businesses with between five and 250 full-time paid employees. The annual turnover varies between R3 and R51 million and the gross assets (excluding fixed property) vary between R1 to R23 million, depending in which sector or subsector of industry the business is classified (Goldstuck, 2004:5).

Although some of the sources referenced, refer to SMMEs (which include SMEs), the researcher did not include micro enterprises and survivalists in the study.

Entrepreneur

Different authors have come up with different definitions of the term "entrepreneur", and these definitions do not always correspond. For the purpose of this research, the following definition will be used: An **entrepreneur** recognises opportunities for new products and services and obtains the finance and other resources to produce and deliver them. This person has the ability to create an enterprise where none existed before. An entrepreneur can thus also be a small business owner, but a small business owner is not necessarily an entrepreneur. Such a person might be enterprising, but true entrepreneurs habitually create and innovate to build and grow something of recognised value (Nieuwenhuizen, 2005a:3).

An entrepreneur creates a growing business and develops the business. If no growth is evident, the business has no entrepreneurial flair. There is also no such thing as a typical entrepreneur with a specific profile. There are only certain characteristics that they have in common (Van Vuuren, 2004:1).

The entrepreneurs researched in this study were all SME owners.

Business Intervention

A business intervention provides executives and business leaders with guidance to deal with fundamental practical business issues. There are two factors that are critical to success in any intervention. Firstly, the executives must want to improve their performance and secondly, there needs to be a specific issue that can be successfully mastered and worked on through the intervention of a business expert (Leonard, 2004:32).

In their research, Yapp and Fairman (2005:151-156) refer to local authority interventions to examine compliance with food safety legislation in small businesses. These interventions were done to change a process, change behaviour and to enforce safety requirements. In this case the intervention, or rather enforcement of safety requirements, was done by the Environmental Health Practitioners employed by the local authority.

Introducing new products, new business methodologies and designing new business processes, equipment or tools and policy are also seen as business interventions. The interventions referred to here were promoted to franchisees in the usual format of email and newsletters as well as by the company's business consultants during their visits to the businesses and the franchisees themselves (Davis, 2004:71).

A business intervention is interference that may affect the interests of others. According to Pleva (2006:8), an intervention may range from direct provision to market intervention.

Literature shows that there are different meanings to the word interventions. For the purpose of this research, most of the different types of interventions were included. The term was used interchangeably with the term "assistance". This includes consulting, training, support and advising the small business owner or entrepreneur about any facet of the business and its environment at any time with a view to making the business successful or more successful.

1.3 RATIONALE FOR THE STUDY

Worldwide there is evidence of the survival rate of SMEs being extremely low. Some authors claim that up to 96% of all SMEs fail within 10 years. According to Brink et al. (2003:1), the estimated failure rate of SMEs in South Africa is between 70 and 80%. According to the Small Business Administration in the USA (Longley, 2006), over 50% of small businesses fail in the first year and 95% within the first five years. Unfortunately the results of studies on this topic are often contradictory or vague, and flawed statistics may make entrepreneurs and SME owners' prospects look worse than they really are. Taking all this into account, it is generally accepted that the failure rate among SMEs is extremely high. New start-ups have a slightly higher probability of failure than firms that have been in business at least four years as they undergo turbulence, while the latter could experience relatively stable growth (Hallberg, 1999:3).

On the other hand, as indicated in chapter 3, there is so much assistance available to SMEs in South Africa, ranging from government assistance (through many entities that were established) to professionals, private consultants (including business consultants) and advisors.

The above poses two questions, namely: "Why are there so many failures?" and "Are SME owners receiving the proper assistance to enable them to manage their businesses effectively to make them successful in the long run?" Not only should the cause of failure be determined, but the types of interventions that could assist SMEs in a beneficial way also need to be determined.

If the above questions can be answered, not only consultants, but also the government, and SME owners in particular could benefit and spend the available effort, time and money on interventions that would probably increase the success rate of SMEs and help them grow profitably.

SME owners would also be aware of the different types of interventions to make informed decisions that could enhance their success. They would see that some types of interventions do not really make a difference and that others can help them to survive and make them more profitable.

If SMEs are the way to alleviate the unemployment situation as government and other experts suggest, and the proper and relevant assistance is given to SME owners, South Africa could hopefully look forward not only to lower unemployment figures, but also less poverty and a better economic and social situation.

1.4 PROBLEM STATEMENT

From the above discussion it is clear that business interventions in SMEs do not always seem to be sufficient, do not always focus on the areas that will necessarily enhance their success rate and do not necessarily contribute to the success of South African SMEs. The negative situation of high failure rates as mentioned previously could possibly be minimised through the right type of intervention at the right time by the different providers. This relates to the main problem of the study, namely: that the use of consultants/business interventions and their link to the perceived success of the performance/survival of SMEs has not been researched previously in South Africa. The crux of the problem that needs to be investigated is the manner in which business consultations/interventions take place and the perceived success of these interventions for South African SMEs.

1.5 OBJECTIVES OF THE STUDY

1.5.1 Primary objective

The primary objective of this study is to analyse business interventions and to determine their effect on the perceived success of South African SMEs.

Following this primary objective the following secondary objectives can be realised:

1.5.2 Secondary objectives

The secondary objectives of this study are as follows:

- to determine in which **functional areas** the SME owners have received assistance
- to determine the **amount of time** the consultants (including all those assisting the SME owner) spend with the business
- to determine during which **stage** of the business life cycle assistance is rendered
- to determine **a profile of the provider** of the assistance
- to identify any **shortcomings** in the process of assistance
- to determine to what extent the respondents rate Cofesa as a provider of assistance.

1.6 DEMARCATION OF THE STUDY

In this study the researcher will look at SME owners who are members of Cofesa and have been assisted, supported, trained or exposed to any form of assistance in managing their businesses.

The population consists of SME owners who are members of Cofesa. Cofesa has a membership of more than 5 500 employers who are all SME owners. It has been serving the interests of employers since 1990. Its mission is "to protect employers' rights through expert information, assistance and benefits regarding all labour relations issues". Cofesa is a powerful source of information and regularly presents seminars and workshops to keep its members up to date, making use of the web and e-mail.

Cofesa is primarily a professional service organisation of advisors in different areas of business. Their members are SME owners who have experienced the need to be assisted by specialists. Initially, Cofesa focused on labour-related issues, but during the last six years has been assisting its members in other functional areas of business as well, making use of advisors and specialists. Amongst other types of assistance, they have a hotline for entrepreneurs requiring help in different areas.

The reasons for making use of Cofesa as the population are as follows:

- Most of the 5 500 members are SME owners who have been assisted in some way or another. Assistance is a prerequisite for this study since the main objective is to analyse business interventions and effect thereof on the success of SMEs.
- Although the Cofesa group is probably not representative with regards to demographics (it was not measured), location, economic sectors or qualifications, the choice of Cofesa is based on the fact that this was the only structured, comprehensive group available to the researcher.
- Cofesa also had a list available with contact details of all their members and demonstrated their goodwill in making this list available to the researcher.

1.7 LIMITATIONS OF THE STUDY

Publications in accredited journals and articles in other sources on the results and consequences of interventions by private consultants are limited. Consultants are mainly not academics with no or limited interest in publishing their results. Furthermore, they will not publish results of unsuccessful interventions. Since it is also not a topic that academics or researchers have addressed, the results of other studies, references and secondary information are limited. These limitations are also the reason why the research topic is valid for a doctoral study.

Limitations regarding the use of the Cofesa population:

- Cofesa is probably not representative (it was not measured) of the SME owners in South Africa regarding the demographics of the country.
- Although the members of Cofesa own or manage SMEs in many areas countrywide, the majority of them are in the Gauteng area.
- Although the members of Cofesa own or manage SMEs in all the sectors in the economy, it is not completely proportional to the sector distribution of SMEs in South Africa. The agricultural sector (the largest in South Africa) is not represented well by this population. The manufacturing and community, social and personal services sectors are proportionally higher represented than the distribution in South Africa.

These limitations will not make this study representative of SMEs in South Africa. The benefit of the thesis however lies in the fact that it will provide the start to the investigation of the contentious issue regarding the use of business consultants by SMEs in South Africa. This study provides a framework of reference, a guide and a measure to which future studies on business interventions could be compared with. The results of this study could already be used by small

business owners to guide them in all the aspects of business interventions as discussed in this study, seeing that no such information is currently available.

1.8. RESEARCH DESIGN AND METHODOLOGY

1.8.1 The literature study

With the limitations on secondary sources as mentioned above, the literature study that was conducted is divided into three chapters. Chapter 2 deals with the history and development of entrepreneurs and SMEs in South Africa.

Chapter 3 explains the various concepts associated with interventions and gives an overview of the different types of interventions and programmes generally available. Thereafter interventions in other countries are outlined as well as the establishments, bodies, parties, agencies, centres, associations and individuals that offer assistance to SME owners. Finally, the South African situation is reviewed, with specific reference to government, professional and other types of assistance rendered to SMEs.

Chapter 4 evaluates the various definitions and views of and ideas of success and when a business can be judged as being successful. The chapter also looks at the different needs of SME owners and what government could do to assist them.

1.8.2 The empirical study

To determine the success rate of assistance and to try to answer all the questions arising from the stated problem, all the members of Cofesa were used as the population.

Historical data were collected by means of questionnaires and the members of Cofesa were interviewed. The members of Cofesa (5 543) with telephone numbers formed the population of the study. A random, purposeful sampling technique was followed. Those SME owners who had any type of assistance were asked to answer the questions telephonically. Once a total of 2 658 calls had been made by the call-centre and 200 questionnaires had been completed, the survey was discontinued.

The figure of 200 cases was deemed to be a sufficient sample (3.6% of the population) for the purpose of this study. The sample was therefore all owners and managers who had received assistance in relation to business matters. As this population has unique characteristics, the sample was deemed to be fairly representative of the Cofesa members. The size of the sample was also large enough to perform elementary statistical procedures.

Ask Africa was used to collect the data required. Ask Africa is a professional, strategic research partner that applies active intellect and connectivity to provide credible research results and consulting services to its wide range of blue chip clients (as quoted in correspondence from “Ask Africa”).

The objective of the questionnaire was to answer the primary and secondary research questions.

1.8.3 Data collection by means of a questionnaire

The measurement tool used to obtain information was a questionnaire. According to Rossouw (2003:129), it is considered an appropriate method of research if the individual is the unit of analysis. It is one way of ascertaining opinions, perceptions and reports of individual behaviour. When paired with sampling techniques, it can facilitate reliable generalisations about total populations at certain points in time and in particular contexts.

The advantages of using questionnaires are that it is low in cost and does not require a lot of personnel and organisation. The questions are in writing and the respondent can read through them a couple of times if it is a complex issue. The disadvantages, however, are that the response rate (when using mail surveys) is usually low. The researcher also loses the opportunity to probe, gain any advice or assistance from the respondent and/or clarify any misunderstanding (Rossouw, 2003:129).

A questionnaire was drawn up to gather information in order to realise the objectives of the study. The information contained in the literature study was used to guide the researcher in drawing up the questionnaire. The researcher made use of a range of question types including open, closed, dichotomous and multiple-choice questions.

The questionnaire was edited and tested by academics in the Bureau for Market Research and Business Management departments at Unisa. This group included the Head of the Bureau for Market Research, the two supervisors of the thesis and a professor assisting with research in the department. Thereafter the questionnaire was sent to the CEO of Cofesa to discuss it with his business consultants. Finally, the questionnaire was edited by Ask Africa to make it “call centre friendly”. The data were collected by means of computer-aided telephonic interviewing (CATI).

1.8.4 Data analysis and interpretation

The type of study used was regarded as a combination of quantitative and qualitative data. Although the sample size was fairly large, the administration thereof was manageable. The type of analysis was statistical and summarised to present thoughts and reasoning. A descriptive research study was conducted to attempt to answer the questions. The details of the research methodology are provided in chapter 5.

The data collected from the questionnaires were mainly organised into nominal, ordinal and interval data. Tustin, Ligthelm, Martins, and Van Wyk, (2005:592-593) describes these data forms as follows:

- nominal data: numbers assigned to individuals such as owners, managers, partners and members
- ordinal data: numbers used to differentiate between options and also to rank them in order, for example, the most recent suppliers of assistance
- interval data: data measured on an interval scale of 1 to 7 such as the respondents' perception of the success of their businesses

SPSS (originally, Statistical Package for the Social Sciences) 14.0 for Windows was used to do all the calculations. Data were captured directly onto the SPSS spreadsheet. A final error check was carried out by comparing the number of entries on the original with the copied data. There were no incomplete questionnaires.

1.8.5 Analysis objectives

In analysing the data the focus was on a descriptive analysis, providing a summary of the sample in terms of the variables of interest. The researcher

made use of the following descriptive analysis techniques (Tustin, et al., 2005:523):

- frequency tables and basic tables
- measures of central location and variability
- measures of skewness and kurtosis
- correlations and cross-tabulations

These techniques are briefly explained below.

- **Frequency tables.** A graphical representation of the data is provided. The data may be grouped or ungrouped. The graphical representation may be in the form of a bar chart, pie chart, histogram and frequency polygon, and/or frequency distributions (Tustin, et al., 2005:523-538). The researcher used mainly frequency tables, presenting them graphically in the form of bar charts.

- **Measures of central location and variability.** There are three measures of central tendency – the arithmetic mean (average), the median (middle value) and the mode (most frequent occurring value) (Tustin, et al., 2005:538-548). The researcher only made use of the arithmetic mean in the study.

- **Measures of skewness and kurtosis.** The skewness or kurtosis will be close to zero if the distribution of values is symmetrical and mesokurtical (normal distribution curve) (Tustin, et al., 2005:554).

- **Correlations and cross-tabulations.** Welman and Kruger (2001:209-212) discuss correlation and cross-tabulation as a descriptive analysis technique. This technique describes the relationships between variables and measures the extent to which a change in one variable is attributed to a change in another.

1.9 CHAPTER LAYOUT

Since the objectives of the study have been introduced and their importance discussed, it is necessary to explain the layout of chapters 2 to 7.

Chapter 2 deals with the history and development of entrepreneurs and SMEs in South Africa. It mainly covers the historical and economic background and the importance, development and growth of SMEs, financing and regulation, SME failures and the role of the South African government.

Chapter 3 gives an overview of the different types of interventions and programmes generally available. Interventions in other countries are described as well as the establishments, bodies, parties, agencies, centres, associations and individuals that offer assistance to SME owners. Finally, the South African situation is reviewed, with the focus on the government and the professional and other types of assistance offered to SMEs.

Chapter 4 looks at definitions and views of and ideas on success and at what point a business can be judged as being successful. The different needs of SME owners are examined as well as what government could do to assist them.

Chapter 5 describes the research methodology used in this study. The steps in the research process are first discussed within a theoretical framework. Thereafter the objectives of the study are reviewed and the methodology used in the study discussed. More specifically, the various stages of the sampling process are described, including the design of the research instrument, a discussion of the pilot testing of the questionnaire, the data collection process and a description of the data analysis process.

Chapter 6 provides information on the data analysis and interpretation thereof. It includes an analysis of the Cofesa respondent profiles, general business

information on them, the areas and detail of the assistance provided, shortcomings in the assistance received and factors contributing to the success of SMEs. After the initial description of the issues mentioned, correlations and cross-tabulations are done, looking at different variables, mainly using the variable of success with various other variables. In conclusion, the reasons for some of the businesses failing are discussed.

Chapter 7 deals with the conclusions and recommendations. It summarises the main findings of the study. On the basis of these findings recommendations are made that could guide government, other assistance providers and especially SME owners enabling them to concentrate the available effort, time and money on those types of interventions that should improve the success rate of SMEs and help them to grow profitably.

CHAPTER 2

THE HISTORY AND DEVELOPMENT OF SMEs IN SOUTH AFRICA

2.1 INTRODUCTION

The literature reveals that the small and medium enterprise (SME) sector plays a critical role in the economic and social development of a country (Müller, 1990; UNCTAD, 1999; Campbell, 2003; SBA, 2006). This also applies to South Africa. The SME sector was neglected for a century, following the discovery of diamonds and gold and the establishment of a capitalist economy with almost exclusive white control. Although the large mining and industrial enterprises are vital to the growth of the economy of a country, there seems to be a great deal of evidence that SMEs have a high labour absorptive capacity. The cost of creating a job in the SME sector is lower and its innovative role is vital for the challenges facing South Africa. The SMME sector has further proven to be a highly significant vehicle for black economic empowerment (DTI White Paper, 1995:10-12).

2.2 HISTORICAL BACKGROUND

Although the Portuguese were the first Europeans in South Africa, the Dutch established a supply depot when they arrived at the Cape of Good Hope. This depot developed into the Cape Colony. At the end of the 18th century, the British seized the Cape Colony and it became a British Colony. As the number of European settlers increased, there was increased fighting with the natives over the rights to land and farming. The Dutch, by then known as the Boers, moved to the Highveld region and established their own colonies. After two wars with the British, which the latter won, the Cape Colony and the two Boer republics unified in 1910 as the Union of South Africa. Blacks, coloureds and Asians had no say in the Boer republics and their rights continued to be eroded. In 1948 a system of

racial discrimination (known as apartheid) was created. In 1961, South Africa became a republic. The African National Congress (ANC) was the most active organisation to oppose this system and in 1992 apartheid was dismantled under FW de Klerk, the State President at the time. In 1994 Nelson Mandela became President, and today South Africa is a multi-racial, democratic country (Anon, 2005a).

2.3 ECONOMIC BACKGROUND

When the Europeans settled in the Cape, the coloureds there were involved as workers in agriculture, industry and trade and this led to entrepreneurial activity. According to Müller (1990:1-3), the colonists needed labour, but found the Khoikois (a coloured group) too lazy. The fact, however, was that the latter were not willing to be entrepreneurs if the circumstances and rewards were not attractive. This shortage of labour led to the need to import slaves in 1658 and the slave population grew until Britain abolished the slave trade in 1807. Most of these slaves had the opportunity to earn income through some kind of entrepreneurial activity. Some were given small plots of land that they could cultivate and some had their own livestock. Their masters and they themselves taught one another a variety of skills. These skills included building, painting, saddle-making and boat-building. Another practice permitted slaves to conduct trade on their own account in return for some fixed payment to their owners. Many of them prospered and were able to buy their own and also others' freedom (Müller, 1990:1-3).

Until about 1870 the economy of South Africa was almost entirely based on agriculture. Diamonds were discovered in 1867 and gold in 1886. After these discoveries the mining industry became the foundation of economic development and was well established by the beginning of the 20th century. Foreign trade increased dramatically. By 1907 the mines of the Witwatersrand (central

Gauteng today) were producing almost one-third of the world's gold. The Boers found themselves as poor farmers in a country in which large scale mining ventures and foreign capital rendered them irrelevant. Blacks and coloureds were entirely marginalised. Harsh taxes were imposed, wages were reduced and the British encouraged the immigration of Chinese to undercut any labour resistance (Anon, 2005d).

World War I (1914-1918) produced a booming wartime economy, followed by an international recession. This put pressure on mine-owners and they started employing lower-paid black, semi-skilled workers. Secondary manufacturing began in 1923 with the assembly of US automobiles in Port Elizabeth. This was followed by a national, coal-based electricity network and later an iron and steel industry in Pretoria. Initially, industry was mainly concentrated on the Witwatersrand where the gold mines were located, but later spread to the port cities of Durban and Cape Town (Anon, 2005d).

During the mid 1920s, there was political-economic concern over the lack of industrialisation in developing countries. The overall framework was to promote large enterprises, disadvantaging small enterprises in the process. The latter were left to produce inferior goods, catering for the lower end of the market and using labour-intensive means of production (Anon, 2005c:28-29). The economy, however, was becoming diversified, and by 1945, manufacturing was the leading contributor to the gross national product (GNP) (Anon, 2005d).

The Industrial Development Corporation (IDC) was established in 1940. It was responsible for encouraging and financing suitable import-substitute industries throughout South Africa. In 1970 each homeland also created its own development corporation, which used various economic incentives and tax concessions to attract South African and overseas capitalists. The homelands (these constituted 10 reservations or areas within South Africa designated by government where a majority of black South Africans resided) of Transkei, Ciskei,

Kwazulu, Lebowa, and Bophuthatswana succeeded in attracting a large number of factories (Anon, 2005d).

By the 1970s there was also polarisation of mainstream development policy and small-scale sector development. This caused these sectors to view each other as competition, preventing meaningful possible linkages and mutual benefits. Policy intervention and a variety of measures reinforced this issue. What might have been necessary was a two-tier approach, catering for both sectors. Although it was clear that certain policies needed to be changed, targeted interventions may well have been required to remove bottlenecks and facilitate development (Anon, 2005c:28-29).

An industrial development plan followed in 1981 divided the country into eight regions, ignoring homeland boundaries in favour of overall economic development. All of the IDCs, the Small Business Development Corporation and the Development Bank of Southern Africa combined their efforts to raise standards of living through decentralised industrial investment by all ethnic groups. By the 1990s services made up almost 60%, industry over 35% and agriculture about 5% of the GNP (Anon, 2005d).

2.4 THE IMPORTANCE OF SMEs

Although Schumpeter (1934) noted that entrepreneurs are central to economic growth and change, the belief during the 1970s was that the role of small firms would go on diminishing indefinitely in the face of capital-intensive globalisation. Research continued and still many of the new findings are surprising and little appreciated. Governments continue to focus on issues such as a supposed lack of entrepreneurial cultures, business skills and small business failure rates. These are either not important or difficult to influence, or both. Bannock (1999)

suggested that governments should do something about the heavy compliance burdens and tax distortions.

According to Byrd and Qinsong (1990:189), the entrepreneur is even more important in developing countries than developed countries. Vosloo (1994:418) summarises the importance of the entrepreneur as follows: "People make things happen. Enterprises begin with people. Enterprising people give rise to production, which in turn gives rise to employment. Without the spirit of enterprise as expressed in entrepreneurial activity, there can be no employment creating economic growth."

Vosloo (1992:1) observes that the growth pattern and the overall health of an economy depends largely on dynamic entrepreneurial activity in the SME sector and adds that the key role of this production factor is often overlooked and underestimated.

According to most researchers, the role of the small businessperson has basically been completely ignored for decades. Saayman (1997:10) states that there are few and mostly old sources describing the influence of the entrepreneur on the economy. Only a few authors, mostly from the Austrian school, regard the entrepreneur as valuable.

During the three decades prior to 1990 some of the East Asian countries such as Japan, China and Korea had extremely high economic growth rates. This was mainly because of large, medium and small entrepreneurial-driven enterprises. During the same period, Africa had a poor economic growth rate. The difference was that the government had taken over the role of entrepreneur in many of the African states (Saayman 1997:4).

Mantle, Harrod and Nel, (1992:12-13) note that there has always been some confusion about what constitutes small business or informal business activities

and that some activities are even confused with one another. Disregarding precise definitions, Mantle et al., (1992) conclude that at the time there were no national statistics (other than manufacturing concerns) available to enable one to analyse the importance of SMEs in South Africa. When they conducted their research the informal sector was estimated to account for about 15% of GDP. This figure comprised of varied contributions according to subsector.

Because of its importance, the South African government has targeted the SME sector to try and alleviate the problems of economic growth, wealth distribution and unemployment. Mantle et al., (1992:12-13) mention the following advantages in this regard:

- The SME sector is more labour-absorptive than other sectors.
- The cost of creating a job is lower than in the large enterprises.
- SMEs allow for more competitive markets.
- They can adapt more rapidly and often use local recycled resources.
- They provide opportunities for the unemployed.
- Fewer skills are required in some cases.
- They play a vital role in technical and other innovation.

The Small Business and Entrepreneurship Council (SBSC) in the USA stated clearly in their small business survival index, 2003 that small businesses and entrepreneurs truly are the backbone of the U.S. economy, and the primary source of job creation. The following facts were provided:

- Businesses with fewer than 500 employees account for 99.7 percent of all employees.
- These firms employ more than half of private-sector employees.
- Small businesses create between 60 and 80 percent of net new jobs.
- Small businesses create 13 to 14 times the number of patents per employee compared to large patenting businesses.

- 39 percent of high-tech workers are employed by small businesses.
- Small businesses account for 97 percent of all exporting businesses.

Bruce, Deskins, Hill and Rork (2007:2) also found in their study in the USA that small firm establishment births have a larger impact than any other factor examined on gross state product (GSP), state personal income (SPI) and total state employment. The authors also found that small firm establishment birth rates and deaths rates have equal and opposite effects on state economic growth. This suggests that economic growth will be faster when the net small firm establishment birth rate is positive (exceeding the death/failure rate).

Many authors have reported on the importance of SMEs and not only mentioned that small business was seen as the essential condition for economic growth, but that the training of their workforce was even more important. SMEs have long been recognised as the engine of economic growth (Bernier, 2005:540; Pansiri & Temtime, 2008:251; Lewis, Massey, Ashby, Coetzer & Harris, 2007:551-552).

Although Sikhakhane (2005:1) reported that a study by three US economists suggested that there is growing evidence that the contribution made by SMEs is overstated and does not enhance economic growth or create jobs, research done in countries all over the world clearly shows the importance of SMMEs and entrepreneurial activity to enhance economic growth, distribute wealth and create employment.

2.4.1 The distribution of South African private sector enterprises

Roux (2002:38) makes the following observations from data gathered on the employment offered by the SMME sector in South Africa and shows that there is clearly a relationship between the size-class of the enterprise and the sector concentration:

- Micro and survivalist enterprises dominate the construction, retail, trade and transport, storage and communication sectors.
- Small enterprises dominate the mining and quarrying, wholesale, trade, and catering and accommodation sectors.
- Medium enterprises dominate the agriculture, forestry and fishing, manufacturing, finance and business services, and community, social and other personal services sectors.
- Very small enterprises do not dominate in any sector.

Table 2.1 (Roux, 2002:39) shows the distribution of private sector enterprises (as percentages) by sector and size-class:

Table 2.1: The distribution of South African private sector enterprises (as percentages) by sector and size-class, 2002.

Sector	Survivalist	Micro (0)	Micro (1-4)	Very Small	**Small**	**Medium**	Large	
Agriculture, forestry and fishing	0.4	3.4	11.1	14.9	**21.1**	**23.8**	25.3	**100**
Mining and quarrying	0.4	0.7	3.3	4.6	**6.8**	**4.9**	79.3	**100**
Manufacturing	0.8	0.7	4.9	6.8	**11.3**	**18.2**	57.3	**100**
Construction	0.4	3.7	14.3	13.4	**21.1**	**20.4**	26.7	**100**
Wholesale trade	1.1	2.8	15.0	19.9	**19.0**	**17.2**	25.3	**100**
Retail trade (incl. motor trade)	32.0	36.1	15.9	11.6	**3.9**	**0.3**	0.2	**100**
Catering and accommodation	12.2	29.2	21.3	18.2	**16.4**	**2.1**	0.6	**100**
Transport, storage and communications	0.7	7.6	12.5	7.0	**10.2**	**15.6**	46.4	**100**
Finance and business service	1.1	2.4	8.6	11.2	**16.7**	**19.8**	40.2	**100**
Community, social and personal services	1.2	1.9	7.8	10.2	**19.1**	**23.6**	36.2	**100**
Total	**5.0**	**8.8**	**11.5**	**11.7**	**14.6**	**14.6**	**33.8**	**100**

According to this table, there are more large enterprises than any other size-class. Medium and small each account for 14.6% of private sector enterprises.

2.5 THE DEVELOPMENT AND GROWTH OF SMEs

2.5.1 Historical overview

The so-called "Free Blacks", a small group, came into existence when some slaves were liberated soon after their arrival in the Cape of Good Hope in 1658. They played an important role as entrepreneurs, inter alia, as tailors, shoemakers, masons, builders, saddlers, hawkers (selling fruit and vegetables) and other small-scale traders. Fishing was also a vital activity in that fisherman worked together in groups to find the required capital. The free Blacks, however, faded into insignificance (Müller, 1990:3-5).

Initially, cross-frontier trade between black and white in the Cape Colony was forbidden because of the invariable lack of goodwill on both sides during a transaction. Nevertheless, much trade occurred early in the 19th century. Cross-border trade was legalised in 1824, and in 1830 all restrictions on cross-border trading for trading purposes were abolished. These developments were of utmost importance to the Eastern Cape and especially the ivory trade that came to the rescue of the 1820 settlers whose agricultural endeavours did not last. The settlers appeared to benefit more because of the type of merchandise (such as beads, buttons blankets and clothing) they traded for ivory, but in the end both parties were better off after the exchange (Müller, 1990:10-12).

A most remarkable development occurred during the 19th century. Black farming was involved in a transformation from subsistence-oriented to market-oriented farming when the plough was introduced at various missions. Cultural customs were broken down; for example, meat was sold instead of given away when an ox was slaughtered. From the 1830's the results of the commercialisation of black farming was apparent and the Commission of Native Affairs of 1865 obtained much evidence of growing entrepreneurial activities amongst blacks in the Cape Colony.

The success of blacks in commercial agriculture in the Cape was replicated elsewhere in South Africa. In 1870, it was reported in Natal that the black man was characterised by his energy and industry as a farmer and that the blacks were ready and fit to become agriculturists. Until the late 1870s, the blacks in Natal dominated sales of produce to the colony's markets. The Sotho farmers (a black ethnic group in the Free State) helped to feed the country's little towns and the diamond diggers. Between 1850 and 1880, the Lesotho black farmers also supplied grain to the diggers during the 1870s. It has been said that in the Transvaal the Sotho and Tswana supplied food to the miners far more swiftly and efficiently than the Afrikaner landowners. However, black commercial farming declined everywhere, and was then regarded as one of the great tragedies in South African economic history (Müller, 1990:12-15).

The white farmers began complaining because they could not compete or attract blacks to work for them. They subsequently started to import Chinese and Indian labourers to assist them. It was also during this time that laws were passed to prohibit land ownership by blacks. The blacks, however, dissatisfied with the trade skills their children were taught at mission schools, initiated and financed their own private schools. They hired white teachers to teach them the commercial and management skills needed to become business owners rather than employees. Thereafter, African education was gradually reduced to the level that made blacks good labourers and junior clerks in government offices (Ladzani, 2001:1).

During the latter half of the 18th century and beginning of the 19th century, men such as Cecil Rhodes (De Beers Consolidated Mines), Barney Barnato and Ernest Oppenheimer (Anglo American Corporation) came to South Africa and became permanent residents instead of temporary expatriates. The main issue here is that they brought with them valuable entrepreneurial, managerial and technical skills, both for mining and other sectors. Even the Jewish immigrants from Lithuania and other parts of Eastern Europe were valuable additions to the

economic and entrepreneurial resources crucial for successful development (Feinstein, 2005:97).

Owing to the output of the gold mines and World War I, the economy expanded rapidly until 1920 when the post-war depression struck. It declined for two years before growth recommenced until 1929 when the worldwide depression also hit South Africa. During these years, about 15% of the population was reduced to poor-white status. Since the English-speaking portion of the population was urban, the burden of adjusting to the changing conditions was borne by the Afrikaans-speaking farmers. This traumatic experience as well as having to compete with the blacks for labouring jobs, helps to explain the rise of the National Party and the future apartheid policies in subsequent years (Jones & Müller, 1992:20-22).

During this time, some Afrikaners rose up to mobilise their own people (many of them now poor whites) to go into commerce and industry. In October 1939, the First National Economic Congress was held with the overriding goal of inciting the impoverished demoralised people to take on the challenges of entrepreneurship. However, they needed capital and some structures (such as Federal National Investments, FVB and the "Reddingsdaadbond" [RDB] were put in place to assist suitable applicants. They called the economic system they put in place "national capitalism". There were some success stories, but many businesses folded, in Johannesburg alone at least 50. In 1941, probably the most successful South African entrepreneur, Anton Rupert, together with two other partners bought an insolvent tobacco company. This was the beginning of the highly successful Rembrand Group (Dommisse, 2005:53-65).

During this period, the role of agriculture and mining declined while the role of manufacturing doubled. From 1933 to 1961, the country saw sustained economic growth and was reported as a developing market economy (Jones & Müller, 1992:20-22).

In Third World developing countries, small-scale industries first became the focus of attention when these countries realised that the industrialisation process was not able to absorb all the urban unemployed in the productive labour force. During the first half of the 20th century until the mid-1960s the focus was on large-scale industrialisation that was thought to be the foundation of economic growth. The idea was that expansion, based largely on import substitution, would increase wage sector employment and generate filter-down effects throughout society. However, this did not happen quickly enough and alternative solutions to the objective of achieving redistribution with growth were sought. Attention was turned to the "informal sector", a concept first used by Hart (1973) (Da Silva, 1987:14-15).

In 1938, the *African Defender* (a paper for Bantu Education and Development) published in Cape Town ran an article entitled "Lesson 18: starting a business". In the preface to this article, the author condemned the laws that made it difficult for blacks to pursue business, and stated that Blacks should have their own business. The idea behind this was that all black people could earn more money and have a chance of living well. Businesses owned by non-blacks in black areas were also denounced. According to the guidelines, a cooperative enterprise would be necessary for success. This meant, firstly, that members had to pool their funds because individuals did not have enough money to start a business successfully. Secondly, expert business management had to be acquired to develop business strategies to counter competition from other ethnic groups. Thirdly, a large store was envisaged on the main street with black managers and personnel selling all kinds of merchandise (Walker, 1995:15-16).

The *African Defender* also published guidelines for blacks wishing to establish a one-man concern in a white area but because the law required certain criteria to do this, explained that it was becoming increasingly more difficult (Walker, 1995:16).

According to Mantle et al., (1992:12), the history of black entrepreneurship in South Africa was brief. After the early 1940s, black small business was subdued by the governments in power and was not allowed to have manufacturing concerns or form companies outside their designated areas, let alone in urban areas. Opportunities for growth were almost impossible because of the "one-man, one-shop" law according to which blacks could own only one business. There were also constraints on the ownership of land and this prevented the blacks from having access to capital. Other laws such as the Group Areas Act also barred black small businesspeople from trading. These were all government interventions and caused the country to suffer many economic blows such as sanctions and lack of international funds.

After the National Party came into power in 1948, African capitalism was structured by separate development. Black political and economic development was to be confined to the homelands. Severe restrictions were placed on black businesspeople in urban areas. Among other things, they were not allowed to form partnerships, to pursue financial, industrial or wholesale activities and to own property (Southall, 2003:5).

The development of financial institutions was a primary factor in the rise of Afrikaner capital in the non-farming economy. During the post-war period, Afrikaners produced over 80% of all marketed farm output, but their involvement in other sectors was minor. It was estimated that the proportion of turnover sold by Afrikaner firms in 1948/1949 was only 1% in mining and only 6% in both manufacturing and finance. It was 25% in commerce and the majority of these businesses were either small one-man and family operations or cooperatives. Afrikaners tried to mobilise their capital for the furtherance of their interests and the elected white government and local authorities transferred their accounts and deposits to Volkskas (a local Afrikaner friendly bank). Other Afrikaner institutions

and government contracts were also awarded to the same group (Feinstein, 2005:177-179).

From 1961 onwards the country experienced rapid economic (and population) growth, but then slowed down during the 1970s and 1980s. During the same period, when all sectors were experiencing growth, the decline of agriculture was persistent (Jones & Müller, 1992:227-230).

According to Stokes (1971:27) the Afrikaner entered the modern economy with a vengeance from 1940 to 1970. During this period, large numbers of entrepreneurs and other businesspeople were produced.

NACOC (the National African Chambers of Commerce) was founded in 1964, and formed a single federal body, but by 1973 it was hardly recognised outside its own community. In 1969, NACOC was reorganised into regions under the umbrella of a Federated Chamber of Commerce and from this process, the National African Federated Chamber of Commerce and Industry (Nafcoc) was born. Nafcoc aimed and today still aims to promote and facilitate the development of business in South Africa, drawing the majority of South Africans into the mainstream economic activity and decision-making process (Nafcoc, 2006).

The political situation at that time was such that government refused to speak to its executives. Hetherington (1985:3) praised the dedicated small band of black businesspeople who led and built Nafcoc for their immense contribution.

Regarding the advanced capitalist nations, most research centred on the situation in the UK where the economic recession of the 1970s and the publication of the “Report of the committee of small firms” inspired the interest on issues surrounding small-scale industry. The focus seemed to be on evaluating the contribution of the small firm, employment generation and regional

development. Many people suggested that small firms provide the entrepreneurial basis for future development and larger enterprises, play an important role in the diversification of regional economies and provide a vital source of technological innovation to lagging regions. It was also suggested that new small businesses provide regional economies with a considerable degree of industrial flexibility and improve regional efficiency. Lastly, increased output and employment for the region were provided (Da Silva, 1987:9).

Until the 1970s, black businesspeople could have only one business, could sell only necessities and could not form business partnerships. In South Africa blacks were also limited to certain occupations. By 1952, only 10% of total reserve trade was controlled by African dealers. Although this type of legislation dated back to the 1920s, black businesspeople demonstrated entrepreneurial persistence. Business activities were pursued on a full-time and part-time basis, both legally and illegally. This led to the development of distinct business niches and supplied employment for many blacks. For example, segregation led to the development of the black taxi business. By 1982 there were 9000 registered black businesses in South Africa, of which about one-quarter were in Soweto (Walker, 1995:16-18).

In the 1960s, under the leadership of Verwoerd, the government tried to lure businesspeople to the border areas of the homelands. They would be legible for tax concessions, cheap finance, subsidies and exemption from minimum wage stipulations. They would also be able to make use of the cheap labour of the homelands. In practice, this never happened, primarily because of the costs involved in decentralising businesses to these border areas (Feinstein, 2005:156).

In the late 1970s and early 1980s, four of the homelands were given their independence and became separate republics (national states). Their separation from South Africa, however, was not recognised by the United Nations or the

world in general outside South Africa. After the May 1994 elections, the four independent homelands were reabsorbed into South Africa.

The following were some of the situations that prevailed in the homelands during the time of their existence:

- On 3 June 1981, the so-called "factory flats", were opened at Zwelitsha, Ciskei. These flats were functional buildings that could be used by the manufacturers. In the years preceding this opening, more than 150 small business manufacturers come to the fore with their products, after it was initially thought that there were no SMEs (Hetherington, 1985:86-87).

- During the 1980s, Commercial farmers and manufacturers were also the wealth creators in Lebowa. The main problem prevented small business from increasing and expanding was all the laws and regulations (over 2000 of them) that affected business. Deregulation was the most urgent need. The issue of not being able to acquire land was also a problem here as in all the other homelands (Hetherington, 1986:9).

According to Hetherington (1985:192-193), in 1984 there was only one country in this region that was serious about the development of small business, namely the Ciskei. Ciskei's parliament had just passed a Small Business Deregulation Act. The Ciskei government realised that with their independence three years previously, they had inherited (from South Africa) socialism and not free enterprise. Ciskei began to modernise land and tenure structures, privatise housing and transport and simplify and reduce taxes. This country led the way in this respect. Free enterprise was starting to replace the bureaucratic control enforced by the South African government at that time (Hetherington, 1986:13-18).

South Africa and the homelands were not the only countries struggling with rules and regulations prohibiting small business development. In 1980, the US Federal Government passed the Regularity Flexibility Act, which was an attempt to root out institutional biases that work against the small entrepreneur (Hetherington, 1985:193).

By the mid-1970s the Afrikaner movement had accomplished its primary goals. Although ownership in manufacturing, construction, mining and finance had increased, ownership in the commercial sector had, however, declined to 16% because of the larger (efficient and cheaper) chain stores such as OK Bazaars and Woolworths that had put smaller businesses out of business. The dominance of the Afrikaners was of considerable significance for the subsequent formation of economic and social policies. This rise of Afrikaner capitalism was a key part of the erosion of the original apartheid policies (Feinstein, 2005:179-180).

The year 1979 was seen as a turning point. By June 1979, Dr Koornhof (then Minister of Plural Relations) had removed the prohibition of blacks manufacturing in so-called "white areas" and many steps were taken to recognise the future permanence of blacks in these areas (Hetherington, 1985:34). During a conference convened by Dr Koornhof in March 1979, made the following proposals, *inter alia*, about black business:

- The rules and regulations (red tape) for a black businessperson to start a business should be streamlined,
- On-the-spot counselling should be given by the white private sector, with the possibility of retired businesspeople taking this responsibility,
- White-owned factories should investigate the possibility of outsourcing to black businesspeople, and
- White business should look into the possibility of participating in joint ventures and partnerships with black businesspeople.

It would seem that Dr Koornhof was passionate about reforming the situation and helping black small business to flourish. He wanted to bridge the gap between the haves and the have-nots, reduce the red tape involved and improve the quality of life of people. The one main issue that still remained at that stage was the private ownership of property. In late 1979, the Prime Minister held the Carlton Conference with an all-race private sector. Both these parties placed much emphasis on the role of small business in the changed future and the next few years proved just that (Hetherington, 1985:166-167).

During the early 1970s no black companies or manufacturers were permitted in the townships. The Bantu Investment Corporation (BIC) had encouraged some black businesspeople to buy out white businesspeople in the homelands. Other than this, not much had been done for the black business community. There were no blacks on the BICs board or in its top management (Hetherington, 1985:164-165). At the end of the 1960s the Potchefstroom Small Business Bureau was established, but it concentrated on the white commercial sector only.

Economic development in the homelands was largely government inspired. There was not much involvement by the private sector and little attention was paid to the development of the small indigenous black businessperson (Hetherington, 1985:28).

During 1978/1979 it was estimated that there were about 30 000 black-owned businesses in South Africa and the TBVC (Transkei, Bophuthatswana, Venda and Ciskei) states. Two-thirds were traders and shopkeepers; the rest were in transport. Although no manufacturers or farmers were mentioned, they were obviously there (Hetherington, 1985:130).

By early 1979, there were about 20 000 black traders in South Africa, with Nafcoc having about 4 000 members (also almost all traders). Only in about 1977 did black businesspeople start thinking about the possibility of manufacturing. During

1978 Nafcoc organised a black manufacturer's conference that 153 black delegates attended. The following year, an agricultural committee was also formed for farmers. The Black Bank was formed after Nafcoc mobilised R1 million from small black investors (Hetherington, 1985:29-30).

Nafcoc went from strength to strength and by 1980 could boast 17 regional chambers. In the 1980s black business started moving forward, and according to Hetherington (1985:60), the following three facts were widely recognised:

- There is a single economy that cannot prosper unless small business prospers.
- Lasting economic development must start with small business.
- Free enterprise is the system for creating wealth and improving general living conditions.

During 1979 the private sector accepted the responsibility of initiating the SBDC. During this period government also increased its support for training, consulting and education services to small business. Government embraced and coordinated with groups in the private sector and asked the private sector for advice on the promotion of small business. Several commercial banks and the state development corporations were attending to the needs of small businesspeople regarding finance and business premises (Hetherington, 1985:22). In 1998, the Small Business Development Corporation (SBDC) was transformed into Business Partners Limited and the organisation shifted its focus to small and medium enterprises (Boosting small business, 2006).

Because of the above changes, the Council for the Promotion of Small Business was established early in 1981, opening eight small business information centres, assisting university-based small business training and advisory centres and bringing private sector consultants within the reach of small business. The necessary support infrastructure and climate were right for small business to take

off. By that time, several universities had established small business bureaux. Following Potchefstroom's lead, the Council contributed by providing them with funds to increase their training and consulting human resources. About 10 to 12 universities of different ethnic groups were able to employ about 60 additional small business consultants. Funds were also made available to assist small business to utilise private sector consultants, which they did on an increasing scale. Several large businesses were also playing a supportive role (Hetherington, 1985:22).

During the 1980s the formal business sector in South Africa not only failed to create any new job opportunities, but also experienced a decline of approximately 20 000 job opportunities. Most of those workers becoming unemployed experimented with some form of trading in the informal sector and the spaza shop (informal small convenience store operation) was born out of these circumstances. These shops developed and were handling vast turnovers and became a prominent member in the distribution channel (Terblanché, 1991:1).

Although African industrial enterprise in South Africa came a long way with traditional rural crafts such as mat- and basket-making at the time of colonial settlement, small-scale industries first became the focus of attention when it became evident that the industrialisation process was unable to absorb the large numbers of unemployed into the labour force (Da Silva, 1987:14).

In 1985, Nafcoc had around 15 000 members, mostly still manufacturers. Members were coming together all over the country to learn from and support one another.

According to Phillips (1993:4), prior to 1994, the initiatives for black small business were inadequate. Any programme of assistance needs to be assessed against the need for social, political and economical freedom. The environmental system needed to be integrated and synergised for accelerated development

programmes to be more effective. It was not a question of simply allocating more resources and programmes - other issues needed to be taken into account to make any assistance more meaningful. Such issues included the adoption of selective and creative approaches, an improved understanding of all elements of especially the black-owned component and a cooperative, understanding government.

History also shows that the economy was built on systematically enforced racial division in every sphere of society. Segregation in education, health, welfare and employment caused inequalities and economic inefficiency. Many workers were therefore poorly equipped for the rapidly changing environment, while SMEs in South Africa were underdeveloped. Whatever the new system entailed, it would have to provide fairness and equality and reflect society's racial and gender composition- hence the need for affirmative action (Van der Merwe, 1995, 3).

During the 1990s, the present government developed the RDP (Reconstruction and Development Programme), a statement of intent that outlined definite principles in promoting SMEs in South Africa. The RDP is an integrated, coherent socio-economic policy framework that seeks to mobilise all South Africans and resources towards the final eradication of apartheid and the building of a democratic, non-racial and non-sexist future (South Africa, 2005a).

The ANC describes the RDP as at the heart of the government's vision for social and economic transformation. One of the main priorities is that of building a new economic order that reverses the past economic distortions. Since the mid-1990s the inner city of Johannesburg has experienced dramatic racial transformation, offering black businesspeople an urban environment to start and grow. The predominantly white-owned businesses preferred to relocate to decentralised suburban locations because of rising levels of crime and violence (Rogerson & Rogerson, 1997:85).

To summarise the historical overview, during the first half of the 20th century the focus was on large-scale industrialisation that was thought to be the foundation of economic growth. The industrialisation process was not able to absorb all the urban unemployed in the productive labour force and small-scale industries became the focus of attention. During the second half of the 20th century, the economy was built on systematically enforced racial division in every sphere of society, which caused inequalities and economic inefficiency. Because of this, many (mostly black) workers were poorly equipped for the rapidly changing environment during the latter part of the century. SMEs in South Africa were underdeveloped. In 1979, blacks were allowed to do manufacturing in so-called "white areas" and many steps were taken to recognise the future permanence of blacks in these areas. The private sector accepted the responsibility of initiating the SBDC and government also increased its support for training, consulting and education services to small business.

In contrast to black workers, the Afrikaner (the Afrikaans-speaking white people) entered the modern economy with a vengeance from 1940 to 1970. During this period, large numbers of entrepreneurs and other businesspeople were produced and the country experienced rapid economic and population growth until it slowed down again during the 1970s and 1980s.

Miller (1998:1) reported that the apartheid history of South Africa profoundly affected the structuring and functioning of business. Generally, white business is highly developed, formal and has access to financial and infrastructural support, while black business is often subsistence-based, informal and struggles to gain access to support mechanisms. Miller proposed black/white joint ventures as a mechanism to help alleviate this situation.

2.5.2 Problems in black business

Phillips (1993:1) looked at the question whether the general assistance of the small business sector in South Africa would have served to equalise opportunities for black businesspeople. To answer this question, the following two main issues had to be borne in mind:

- The black SME sector of South Africa encountered many difficulties in the past, experiencing prejudice and discrimination. Historically the apartheid system repressed the informal activities of black South Africans through such restrictive legislation as the Group Areas Act, harsh licensing, strict zoning regulations, and effective detection and prosecution of offenders. (Kingdon. & Knight, 2004:391-408).

- The second issue is that of commitment to enterprise. Enterprise is extremely dependent on its perceived role in society. A stereotyped view of values and behaviour system in the black communities suggests that these are essentially cooperative or group-focused, rather than individualistic and competitive. This view will influence enterprise because it could be said that such a view is unfavourable for self-enterprise and competitive opportunity search. It also draws from a historical perspective of traditional, tribal-based and mostly rural communities of Africa. (Because of the changing environment the researcher suggests further investigation into this issue in order to substantiate this statement.)

2.5.3 Stimulating growth in the SME environment

Toomey (1998:100) reports that an inadequate analysis of the SMME environment (relevant because SMEs are included here) in South Africa and the potential of certain sectors to support SMMEs could endanger the ultimate goal of developing a thriving SMME sector. Analysis is lacking in the following areas:

- The assumption that SMMEs are net job creators is contested.
- Given the limited resources available from the DTI it is questionable policy to target agriculture and the mining sector as the primary recipients of SMME support services.
- There is a tendency to focus on retail firms and hawkers at the expense of the service and manufacturing sectors.
- Supply-sided assistance was implemented instead of demand-sided support where assistance takes the form of providing one or more ongoing services to emergent businesses.

The lack of sufficient capital and credit is often a major handicap in the development of SMEs, especially in their growth stages. In developing countries worldwide, close to 95% of all SMEs have to rely solely on the personal resources and initiatives of the owners (Anon, 2005c:22-23).

According to one source (Anon, 2005c:49-50), there are no statistics available to evaluate the growth potential of SMEs in South Africa, but the following indicators can be used:

- Innovating firms are likely to grow more rapidly than "traditional" start-ups. Research shows that South African SMEs are less innovative than in developed countries.
- Exporting firms are likely to have better growth because of the frequent lack of domestic markets.
- To grow and realise economies of scale, enterprises need fixed assets.

This justifies the assumption that, on average, South African SMEs have slower growth figures than First World SMEs.

The question of what would stimulate growth in the SME sector remains and there are two arguments here. The one is for a free economy with no

intervention, but with an environment that is conducive to entrepreneurial endeavour. The other is for logical intervention from the top, stimulating so-called "high growth" areas. Both arguments would require a similar management of the macro economy to enable them to be implemented (Mantle et al., 1992:18).

Mantle et al. (1992:18-19) observed a finite number of options open to anyone wishing to stimulate the SME sector, irrespective of the economic model used. These options are as follows:

- removing the legislation and controls that impede growth or hinder the entrepreneur
- assisting the entrepreneur in financing the business or its expansion, training the entrepreneur or the staff and providing adequate premises and facilities
- providing a ready market for goods and services from SMEs (i.e. sub-contracting from big business)

However, according to Mantle et al. (1992:19), the largest, single factor in the success and failure of a new business is the entrepreneur himself/herself. If the production factor of entrepreneurship is missing, no other assistance will build a long-term viable business.

Toomey (1998:87) draws the following conclusions, inter alia, from a table showing the estimated distribution of private sector enterprises and employment in South Africa by sector and size-class in 1995:

- South Africa is dominated by the presence of large-scale industry and accounts for nearly 40% of all employment.
- The most opportunities appear to be in manufacturing, retail and trade. He remarks that this is probably because of the result of fewer barriers to entry.
- One quarter of all enterprises are classified as survivalists and nearly 55% of all enterprises employ only family members.

- South Africa's SMME manufacturing sector is underdeveloped in comparison with other developing countries. This sector is dominated by large enterprises.

During the early 1990s, Mantle, et al (1992:1) found the following regarding the start-up and growth of small business in South Africa:

- White businesspeople started up mainly because they wanted job satisfaction and had experience in the sector.
- Black businesspeople believed there were profits in retail and service-type activities.
- Physical constraints such as premises, transport and burglaries were a serious problem at start-up and tended to hinder the growth of the small business.
- A stagnating economy was the main constraint for growth in white business.
- Financial and training problems were also experienced at start-up.
- Only a few black businesspeople were harassed at start-up.
- Only a few respondents who applied for financial assistance experienced problems obtaining money.
- Only a few respondents were undergoing training.
- A large number of respondents were aware of the legislation affecting their business.

During a survey of SMME firms in the Johannesburg area undertaken by the World Bank in 1999, one of the concerns was the lack off growth after 1994. Although the sample was limited to one area, the constraints to SMME growth could still give some indication of the situation of the entire economy. Also keeping in mind that not all SMMEs had the desire to expand (15% in this survey), the following constraints were identified (Lewis, 2001:26-30):

- The customer base was not large enough.
- Interest rates were high and there was limited or no access to capital.
- There were insufficient government contracts and weak support programmes.
- There was limited international trade.

Literature reveals that the formal business sector in South Africa not only failed to create any new job opportunities, but also experienced a decline of many job opportunities during the 1980s. Growth in the SME sector was handicapped by many factors such as the lack of sufficient capital, regulation and insufficient management skills.

2.6 FINANCING OF SMEs

Financing is an obvious need for SMEs, but the major obstacle is the lack of access to credit. The problem here is that the size of loans required by SMEs is too small for normal commercial lending institutions to service profitably and the businesses most in need of credit are the ones least able to raise security (Mantle et al., 1992:97).

During 1979, the private sector accepted the responsibility of initiating the Small Business Development Corporation (SBDC). Dr. Anton Rupert's proposal for this public/private sector joint venture was enthusiastically implemented, its main functions being to provide finance and infrastructure for SMEs. During this time, government also increased its support for training, consulting and education services to SMEs. Government embraced and coordinated with groups within the private sector and asked for advice from the private sector on the promotion of SMEs. Several commercial banks as well as the state development corporations attended to the needs of small businesspeople regarding finance and business premises.

During 1980, the Minister of Finance, Dr. Horwood, budgeted R10 million for use in encouraging small business. The climate for the development of small business was gradually improving (Hetherington, 1985:61).

According to Mantle et al. (1992:97), the following bodies were assisting in some way or other in financing small business:

- ***The Development Bank*** had traditionally lent money (after 1983) to the development corporations in the homelands and independent states.
- The ***SBDC*** was established in 1981 as a joint and equal venture between the public and private sectors. Their main activities included lending money to the business sector, leasing property to businesses, marketing small business products to big business, providing information and advisory services, lobbying for changes in the legislature on small business, providing training and consulting services and organising and supporting special projects for the business sector.
- The ***IDT*** (Independent Development Trust) focused on housing, education, health, rural development, welfare and, at a later stage, job creation.
- *The* ***NGOs*** lent money to small business, but mostly through stokvels/investment clubs that carried the risk of the repayment of the loans.
- Regarding formal financial institutions, only ***Standard Bank*** and ***First National Bank*** catered for the small businessperson.
- ***Informal financing*** included stokvels, mashonisas, burial societies and investment clubs.

More recently the following bodies were listed as national finance institutions for assisting small businesses by the Small Business Development Agency (Seda), (Seda: 2008):

- Commercial banks
- Khula retail financial intermediaries

- Khula guarantee scheme
- Business partners
- Industrial development corporation
- Land bank
- Sizanani advisory services
- Zimele

Providers of financial assistance will be discussed in more detail in chapter 3.

Table 2.2 (Roux, 2002:40) shows the annual new registrations of private companies and close corporations from 1990 to 2002:

Table 2.2: The annual new registrations of private companies and close corporations from 1990 to 2002

Year	Private companies	Close corporations
1990	6 369	28 008
1991	6 236	26 426
1992	6 550	27 570
1993	7 164	27 950
1994	9 356	39 170
1995	12 168	52 408
1996	16 151	61 884
1997	20 332	68 067
1998	23 651	73 114
1999	28 717	69 304
2000	32 419	78 730
2001	25 669	94 696
2002	32 178	107 302

The figures show that there was fairly strong growth of new businesses during that decade, which also indicates a strong move towards entrepreneurship.

Roux (2002:42) also examined the demographic situation in South Africa and found that Gauteng and the Western Cape were the only two provinces

- with a GDP per capita in excess of R20 000
- whose contribution to South Africa's GDP is greater than their share of the country's population,
- where more than 30% of their populations are employed
- that are also the two highest contributors to total employment, jointly accounting for 56%

The Eastern Cape and Kwazulu-Natal were responsible for 24.3% of South Africa's GDP and 37% of the country's population, but they accounted for only 22.7% of total employment, with less that 12% of their populations employed. This suggested that incomes were in the hands of a few. The Northern Cape was the smallest province in terms of GDP, but had the third highest GDP per capita with almost 20% of its population employed. This suggests relative economic health (Roux, 2002:42).

In 2002, SMMEs employed 68.2% of people employed in the private sector. This shows a significant increase from 44% in 1994 and 53.9% in 2001. Small enterprises made up 21% and medium-sized 18% of total SMME employment. This growth in employment was much faster than the growth in the contribution by SMMEs to GDP. In 1995, the contribution of the SMME sector to employment in the private sector was 1.35 times greater that the contribution of the SMME sector to GDP. In 2001 this factor was 1.5 (Roux, 2002:36).

Although there are many bodies assisting in financing small business, the lack of access to credit is still one of the major obstacles. Government entities are still trying to improve and increase SMME access to grants and other support mechanisms. New incentive grant schemes and amendments to existing ones are also being considered (DTI: 2005). It seems that the process of financing small businesses is still not working effectively.

2.7 REGULATION OF SMEs

Regulations are rules and standards imposed by public authorities. Some regulations are needed to address, for example, market failures and social needs. Regulations also create important benefits such as safer working conditions, safer products, more innovation and a more stable business environment, but regulations also create different costs (Dagut, 2007:5-6).

In 1982 it was recognised that SMEs were not thriving in South Africa and had not been able to solve the unemployment problem. The main issues were bureaucratic rules, regulations and tax. There was simply too much red tape involved. For black small businesspeople it was even worse regarding the rules and regulations issues. However, this situation was, being studied. During the early 1980s, the University of Pretoria was commissioned to undertake a study to rectify this situation. Another study at Unisa also proposed a completely new body of law, much simplified to govern small business. Although the Registrar of Companies and the Receiver of Revenue supported this, it was resisted by certain elements in private sector and professional bodies (Hetherington, 1985:96-97).

Regulation includes many issues such as zoning, licensing, land-use regulations, remuneration packages, tax and rules and regulations for setting up a small business (Hetherington 1986:34-37).

The Group Areas and influx control laws still denied black businesspeople equal opportunities, the licensing procedures were tedious and there was harassment by the Industrial Councils (Hetherington, 1985:167-169).

If one looks at the history of the USA, prolonged high taxation can never and has never supported economic growth. Income taxes were actually considered unconstitutional for more than 100 years after the USA's independence in 1776.

Growth is financed out of profits and if profits are highly taxed, growth is impeded (Hetherington, 1986:28).

In South Africa, the number of regulatory instruments, including labour and other regulations, increased from 521 in 2002 to 1 309 in 2004. In 2004 alone, regulations cost the business sector 6.5% of GDP, or in monetary terms, R79 billion. The regulatory cost per worker is 10 times higher for a business with five employees than for one with 200 employees (Paton, 2004).

Regulation of SMEs, however, is still a debatable point. The question is *how much* should SMEs be regulated? Property developers, formal business and municipal representatives, for example, talk about interference by SMEs and unfair operating conditions and demand some form of regulation (Mantle et al., 1992:83).

During the early 1970s, in an investigation into the economic history of South Africa, it was noted that the prospects for a continuing virile economy were not too good. Government intervention was increasing, economic development in the homelands was almost pure socialism and the SME sector everywhere was meagre and largely ignored, if not positively discouraged by the authorities (Hetherington, 1985:2).

One source (Anon, 2005b:29-36) identified the following features of a socioeconomic environment conducive to SME development:

- macroeconomic stability
- a supportive legal framework
- a favourable human resource environment
- an appropriate and efficient infrastructure
- competitive and cost-effective access to finance

If this is so, then one can assume that some regulation is necessary to create such an environment if it is not naturally the case.

Mantle et al. (1992:2) saw the passing of the Business Act of 1991, which eased procedures for SMEs to facilitate training, as a significant development in deregulation. However, deregulation alone is not adequate and should be coupled with infrastructure developments, training and financial assistance. They also said that the true problem in regulation was the municipalities. The latter had passed laws and by-laws to regulate SMEs and the lack of coordination between municipal departments made it difficult for SMEs to trade. The rules between municipalities also varied considerably.

In the report published by Mantle et al. (1992), it is stated that a key issue in the deregulation of SMEs was the abandonment of a large number of zoning, licensing and land-use regulations which, at the time, were hindering the activities of SMEs. Although there was an urgent need for legislative reforms, they suggested that other measures that intended to benefit SMEs should be considered. The focus had to be on pro-active measures to further stimulate the growth of the SME sector that included infrastructure development programmes such as market upgrading and technical assistance by offering advice on suitable products or methods of food preparation (Mantle et al., 1992:83).

Regarding the issue of regulation, Vosloo (1992: 6) noted the following aspects of a national strategy for SME development:

- The SME sector can be part of the solution to unemployment, poverty and unrest.
- Many governments have come to realise that they have a key role to play as facilitators of entrepreneurial development.
- Specific action is required by government to remove the second-class status of the SMEs and level the playing fields with the large enterprises.

- Affirmative action and economic empowerment can be used to assist disadvantaged communities.

Van Tonder (2005:6) also reported that unemployment and poverty in South Africa could be reduced if government implemented certain policy suggestions. These suggestions were to decrease the cost of capital as well as the cost of labour regarding specific groups. Less regulation for small businesses with fewer than 200 employees and lower remuneration packages for young employees were two of these suggestions. It was also remarked that Cosatu would strongly oppose such suggestions, but that it would surely reduce unemployment and poverty. Another member agreed and added that the economic growth rate could grow from 3 to 4%. The Cosatu representative, however, was concerned about the first economy not creating more opportunities, but the reason given was all the limitations preventing them from growing more rapidly and creating opportunities. Because of these strict regulations, labour was regarded as expensive and a "trouble factor". The unemployed were also not skilled enough to make them employable. It was pointed out that the lack of skills was one factor causing the then 80% failure rate of small businesses.

Mr Schwenke of Business Partners and Professor Van Aardt (Ueckermann, 2005c:6) both agree that deregulation is necessary, but that employers and employees still need protection. According to them, it is so difficult to get rid of employees who perform poorly, that employers are careful to employ people in a growing economy. In the USA, it is common practice to employ and fire employees as the economy changes. Employees are also fired more easily in times of strikes. In South Africa, employers tend to opt for contract appointments and automation rather than permanent appointments. According to Schwenke, it is simply too much trouble and there are too many rules. In many cases it is also difficult for the small business owner to pay a wage negotiated by the unions, while the owner does not even belong to a union.

The tax incentives announced in the 2005 national budget provided small business with the best tax support they had received in recent years. Claassen, (2005) mentioned the burdensome regulations for setting up a small business, as well as the fact that these tax measures were a huge incentive for budding entrepreneurs. Small businesses also received a double deduction for start-up costs, but that deduction should not exceed R20 000. Claassen, (2005) also encouraged new small business owners to exploit tax incentives.

In June 2005, Duvenhage (2005a:8) reported increasing regulation of different sectors in South Africa. The annual index for freedom and transformation by the Free Market Foundation in South Africa decreased by one base point to 5.8 in 2004. This index measures the progress of South Africa on its way to freedom and transformation and includes matters such as financial markets, labour, education, privatisation, health care, tax and international trade. This decrease seems to be the issue of increasing regulation that is costing both businesspeople and the government money, the latter to enforce these regulations. These regulations affect SMEs the most, and make it even more difficult for them to contribute to job creation. Excessive regulation is undoubtedly the reason why South African small businesses contribute less to the GDP than they do in most other countries. It is also one of the reasons why South Africa has one of the highest unemployment rates in the world. In July 2005, Duvenhage (2005b:11) once again summarised the problems with excessive regulation and indicated how South Africa compares unfavourably in so many areas with other countries worldwide.

During September 2005, the Trade and Industry Minister of South Africa, Minister Mpahlwa, reported that six pieces of legislation that were burdensome to SMEs would be reviewed by government with a view to lessening their negative effects. Although many businesspeople have voiced their concern about the effect of legislation on their businesses, any changes in the labour law are likely to be opposed by the trade unions. However, the laws under review included the Basic

Conditions of Employment Act, the Skills Development Levies Act, the Employment Equity Act, the Occupational Health and Safety Act and the Regional Services Council Act. Mpahlwa also admitted that the government's SME development support strategy over the past 10 years had been deficient in being too supply-side driven. Government provided too much support guided by their own perceptions of the needs of SMEs. Mpahlwa also stated that, in future, the market would be used as a mechanism to provide support. There needs to be integration between national, provincial and local levels of business support and well as between government and non-governmental agencies in providing support. To this end, the Small Enterprise Development Agency (Seda) has been mandated to design and implement a standard and common national delivery network that will integrate all government-funded small enterprise support agencies across all spheres of government. In addition, the new Apex Fund will provide for credit for survivalists and micro-enterprises, while Khula and other development financiers will be targeting SMEs (Ensor, 2005).

In a survey done by Strategic Business Partnerships (SBP) in 2006 in the tourism sector in the Gauteng and Mpumalanga areas, nearly 35% of the respondents indicated that state interface and regulations was one of the factors inhibiting business growth. Only weakness in the economy was mentioned by more (42.5%) respondents. Dagut (2007:9) stated that if we wanted to reduce unemployment and promote black economic empowerment, we should be making life as easy as possible for labour-intensive small firms. The burden of regulatory compliance costs is doing exactly the opposite. Finally Dagut (2007:37) recommends a change of attitude and the development and application of practical techniques for managing regulatory costs.

During 2005/2006 the national treasury and presidency reviewed tools to improve the regulatory environment in South Africa. During 2007 the cabinet approved a pilot of the regulatory impact assessment (RIA), a tool to assess likely

consequences of proposed regulation and the actual consequences of existing regulations (Tshazibana, 2007:5).

Kingdon and Knight (2004:391-408), summarise the situation well by stating that as long as barriers to entry continue to restrict opportunities in much of the informal sector, this sector will be unable to absorb significantly more of the currently jobless. South Africa needs policies that will create employment. The research indicates that government should try to decrease the obstacles to entering the productive informal sector.

2.8 THE FAILURE OF SMEs – A WORLD-WIDE PROBLEM

Governments in most countries provide a variety of programmes to assist SME owners. Although there have been success stories in a few countries such as Taiwan, Northern Italy and Ireland, the impact of the SME development programmes on performance has been less than satisfactory (Hallberg, 1999:1).

Despite efforts by the South African government to establish a support structure for the SME sector, to date these efforts have not met with much success. The Minister of Trade and Industry admitted that his department had failed in its chief objective, of supporting and growing the SME sector in South Africa (Erwin, in Van Eeden, Viviers & Venter 2003:13).

According to Van Eeden et al. (2003:13), the estimated failure rate of SMMEs in South Africa is between 70 and 80%. As a result a lot of money is being lost on business ventures because of essentially avoidable mistakes and problems. They describe the difficulties encountered by small businesses as environmental, marketing, financial or managerial. Perhaps these mistakes and problems could be avoided by the use of experts!

According to Ahwireng-Obeng, and Piaray (1999:78-83), the South African government has failed to minimise institutional uncertainty in its efforts to promote productive entrepreneurship on a large scale as a strategy for combating the country's foremost problem of unemployment and inequality. The above authors also stated that at the level of institutional efficiency, it is just another failing of a Third World African country. Government has passed controversial labour, patent and competition laws and imposed new taxes and levies to fund new jobs – all of which are unfavourable to direct investment. The evidence emanating from this study is that institutional risks from crime and security, corruption, dysfunctional government and similar sources are formidable and pose a real threat to the transition to an open economy with an open political system.

The implications of the above are that entrepreneurs will limit their investment to establishing branch offices for sales and marketing rather than commit themselves to expanding existing production units or establishing new ones. The study shows that there is a need for further reforms. Any hope of an entrepreneurial revolution to kick-start a continental renaissance will largely depend on a vastly improved institutional climate (Ahwireng-Obeng & Piaray, 1999:84-85).

While South Africa has one of the highest unemployment rates in the world, it has emerged as one of the lowest-ranking developing countries in terms of the Total Entrepreneurial Activity (TEA) index, according to the executive summary in the 2004 Global Entrepreneurship Monitor (GEM) Report. The TEA measures the proportion of a country's adults who are involved in starting or running a new business. In 2004, the TEA index in South Africa was 5.4% compared to an average of 9.4% in all 34 counties included in the 2004 survey. This survey confirms that South Africa has a relatively low TEA compared with the other countries. This has also been the case since 2001 (Orford, 2004:3 & 10).

This shows that the government's strategy to flag entrepreneurship as one of its key public policy interventions to scale down the unemployment rate by 40% within the next five years is largely failing. The low rating also means that the country is losing out on "substantial employment and growth opportunities".

Of 38 countries surveyed, South Africa was one of the weaker performers, especially with regard to the entrepreneurial rate. Problems in the education system, poor financial management practices and reluctance on the part of banks to grant entrepreneurs initial start-up capital were seen as factors contributing to this low ranking. The latter is seen as the main obstacle for potential entrepreneurs, and banks rightfully cannot take that risk (Naidoo, 2004).

To overcome this situation, the financial services charter compelled banks to commit investment worth R2billion to black small businesses over the next five years. An implementation plan was to be presented by June 2004. The plan looked at ways in which the banks could mitigate risks more cooperatively. The banks see mentoring (probably meaning *advising* in this case) as an essential part of managing risk (Naidoo, 2004).

The results of research by Nhlapo (2004:73) in the Kroonstad area indicate that there is no synergy between local government and the aspirations of businesses in terms of the support to businesses and investors. He highlighted the importance of business and local authorities working together and formulating a joint vision for making the region economically successful. This could be done by bringing together expertise, resources and effort that would attract investment to the region.

The failure of SMEs still seems to be a world-wide problem and governments are trying to alleviate the problem by establishing programmes to assist SME owners and set up support structures for the SME sector.

2.9 REASONS FOR THE FAILURES

Fifty to sixty percent of enterprises fail within the first three years because of mismanagement and incapability. Barron, in Van Eeden et al. (2003:13) points out that the ideas are often good and the people behind them are competent, but "they do not have a clue on how to run a business", and have no underlying appreciation of business fundamentals.

Van Eeden et al. (2003:14) also mention the role of competition, insufficient demand for products/services and market imperfections as frequently cited problem areas in small businesses.

South African entrepreneurs view economic uncertainty, crime, corporate tax rates, and labour laws as the main threats facing the SME sector.

Furthermore, in research conducted by Cape Town's Graduate School of Business, it was found that as much as 45% of the black-run businesses surveyed experienced cash flow problems and failed because they lacked skills to manage their finances.

One of government's key strategies was to provide access funding and grant preferential procurement for small black business in order to combat high unemployment and address inequality in South Africa. According to John Orford, a researcher at Cape Town's Graduate School of Business, these policies fail to address the underlying managerial weaknesses inherent in these businesses and might not work in the long term.

An impact study by the Business Place, that was published in January 2004, revealed that most of the businesses that were assisted had been in business for more than a year, 35% for more than two years and 17% for more than four years, indicating some degree of success. Although not proven, one of the main

issues that could be a restraining factor is that the entrepreneurs are not oriented towards growth. The problem could be competitive markets and that they do not have sufficient skills and knowledge to differentiate or they are in need of better general and financial management (Verran, 2004).

Orford, Wood, Fisher, Herrrington, and Segal, (2003:48) stated that inadequate financial management practices among formal black-owned businesses in South Africa are a major threat to the financial health and survival of these firms. They also found that there is strong evidence that sound management practices (keeping a cash book, an accounts receivable record, a record of inventory and performing proactive debtor management) reduce the probability of cash flow difficulties. Applying all four of the above practices appears to reduce the probability of an exhausted overdraft by as much as 61%.

The fact that government expect expertise from SMEs in their complexities in qualifying for grant funding rather than offering them that expertise also underlines why government initiatives fail (SME Survey, 2005).

Research-based findings by Massey University in Auckland, New Zealand confirmed that growth orientated SMEs are held back by lacking knowledge resources, skill fits and educational input. The first annual report of the Small Business Advisory Group in New Zealand identified failure on the part of the majority of small business owners to seek competent advice. Further research by Business Horizons states that where true entrepreneurs are concerned, seeking advice runs contrary to the belief in their own ability, with an inclination to rate their own knowledge above others (Penning, 2004:46).

Penning (2004:46) states that no assistance can substitute missing management capability and suggests that ideally every business owner should attend a business course and appreciate the value of management qualifications. Professionally qualified practitioners rarely feature in bankruptcy findings.

According to different researchers such as van Scheers and Radipere (2007: 1) and Pansiri and Temtime (2008:252) it is evident that small business owners lack certain managerial skills such as financial management, marketing and human managerial skills to operate their businesses successfully. The research of Scheers and Radipere (2007: 1) confirmed that SME owners are in need of support services and that they are constrained by financial as well as non-financial factors such as lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure. The research established that the lack of managerial skills has a negative impact on the success and viability of small businesses.

To summarise, the following can be cited as the reasons why SME's fail:

- lack of certain managerial skills and managerial weaknesses
- owners' lack of underlying appreciation of business fundamentals
- the manner in which advice is given
- inadequate financial management practices and the lack of actual financial advice given
- cash-flow problems
- the role of competition
- insufficient demand for products/services
- market imperfections
- economic uncertainty
- crime
- corporate tax rates
- labour relations
- failure to seek competent advice
- lack of knowledge resources, skill fits and educational input

The unemployment situation in South Africa has forced government to focus some of its attention on the issue. One way of addressing this problem was to

support SMEs and entrepreneurship in the hope of solving at least part of the problem. Government has implemented some initiatives over the last few years, but in general, these have not had the desired results.

Apart from government assistance there are also other types of assistance for SME owners. The assistance falls mainly under the following categories: legal assistance, accountants, banks and business consultants. The question can be asked whether assistance by attorneys, accountants and banks really contributes to the success of the business, because this type of assistance does not focus on the core business and the management thereof. The results of this, especially by business consultants, are rarely published and are therefore not well known.

2.10 OTHER GENERAL PROBLEMS IN THE DEVELOPMENT OF SMEs

"Given the historical devastating consequences of white supremacy capitalism in the economic destruction of black people, philosophical and ethical issues have been raised as to whether capitalism should be the basis for the future economic uplift of Blacks" (Walker, 1995:18).

Regarding the issue of which economic system should be used for developing SMEs, Vosloo (1992:5) reports that a growing number of public policy analysts believe that free markets most fruitfully employ economic resources and that SME entrepreneurship flourishes best when free markets are allowed to function. These analysts are therefore sceptical about the effectiveness of government intervention and public expenditure to achieve economic growth.

Mutharika (1992:3-5) refers to the large numbers of failures of new businesses in Africa and lists the following as factors contributing to these failures:

- No enabling environment is created for the indigenous private sector to survive. Although this is improving, government policies are often too restrictive or even hostile to SMEs.
- There is little access to start-up capital and operational cash.
- There is a lack of proper business strategy and planning. Technical and managerial skills are often non-existent.

In a more recent survey, Sherwin (2005:1) reported that eight out of 10 start-up companies in South Africa would eventually fail. The author also mentioned obstacles such as outdated plans and technology that could double the time or money taken to break even. Poor management needs to be looked at as a problem because management is often a major shareholder in a new business. The required skills change quickly in the first few years from being an inventor to managing people and networks and also making international deals. Entrepreneurs usually do not possess all these skills and have to acknowledge the fact that they need professional management assistance. Management can get bogged down with the day-today business and not see the pitfalls by having an overarching view of the business. Venture capitalists should also realise that start-up companies not only need money during the start-up phase, but also at different stages after that. This however, must be looked at and managed carefully. The time comes when investors have to realise that the business is simply not working and give up.

With all these regulatory and other matters regarding SME development in mind, the role of government is probably more important than before if it wishes to make a difference. Although government has been involved all the time, its focus needs to be redirected to those issues that will change the environment to meet the needs of SMEs.

These days, SME owners in South Africa have numerous challenges to overcome. Timm and Terblanche (2006) compiled the following list of most burning issues that business owners face today:

- **A lack of business skills**. This is because of a poor education system and little or no culture of entrepreneurship.
- **A lack of finance**. Financial institutions will only lend money to low-risk clients and the cost of banking is high.
- **High costs**. The cost of raw materials and telecommunications is high.
- **Poor skills of employees**. The government skills development system is not assisting SMEs.
- **Bargaining councils**. They have become huge conspiracies in which smaller businesses are crushed.
- **The CCMA**. Time is wasted because employees can take their employers there for the smallest whim.
- **Black economic empowerment**. Businesses are still confused by the multitude of criteria set out in the codes. Many owners also pay consultants huge sums of money to obtain ratings they do not yet require.
- **Crime.** Stock theft as an example obviously has a negative effect on some of the SMEs.
- **Exposure**. Business owners do not portray themselves well.

The following concerns about the growth and development of SMEs were also identified by Roux (2002:48), Lewis (2001:26-30) and Sherwin (2005:1):

- The smaller the enterprise size-class, the less significant as an employer it tends to be in most sectors, but more significant in the construction and retail trade.
- There are still substantial interprovincial inequalities in terms of economic performance, job opportunities and poverty.

- As the enterprise size-class increases, the percentage owned by Asians, coloureds and Africans decreases, meaning that most larger enterprises are owned by whites.
- There is a predominance of African female ownership in certain sectors that is welcomed, but most of this involvement is in the survivalist or micro-enterprises. By definition, the wealth and employment generated here are constrained.
- Ownership constraints are particularly severe for entrepreneurs (especially women) in rural areas.
- Low-wage competition is discouraged by legislation, thereby discouraging labour intensive activity.
- There is a small customer base.
- Interest rates are high and there is limited or no access to capital.
- There are insufficient government contracts and weak support programmes.
- International trade is limited.
- Plans and technology are outdated.
- Management skills are inadequate resulting in poor management.

Research shows that the problem is not only one-sided, but that the three role players, namely the government, the consultant and the business owner also play a part in the process of interventions.

Mantle et al. (1992:2) indicate that historically, government failed to promote small business. Although there was talk of financing small business, providing training was a more urgent need. At that time, many organisations were providing training to small business owners such as non-governmental organisations (NGOs), universities, technikons, development agencies, financial institutions, large corporations and private organisations. There was, however, no coordination between these interveners and the NGOs.

The training provided was mainly in the technical areas of business such as finance and bookkeeping. Little or no training was provided in the areas of marketing, market analysis and opportunities. They realised that training courses should be designed with input from the business owners, the courses needed tot be practical, and account for the user's levels of education, and the trainers should be able to visit and consult businesspeople on site (Mantle et al*.,* 1992:2).

Today there are many government initiatives to assist SME owners, and once again the 2007 budget made some positive adjustments regarding monetary issues (Manuel, 2007). The South African government has committed itself to the promotion and growth of SMMEs.

It is clear from the literature that there are many different factors hampering the development of SMEs in South Africa. The problem is not simple and all the role-players, including government, business owners/managers and the providers of assistance, are part of the problem. Government needs to take care of creating an environment with less regulation. Business owners/managers need to be trained and assisted to acquire the needed skills, especially management skills. Finally, the providers of assistance need to assist the businesses in such a way that will hopefully enhance the success rate of SMEs in South Africa.

2.11 THE ROLE OF THE SOUTH AFRICAN GOVERNMENT (1994-2006)

Sikhakhane (2005:1) reports that SMEs create more jobs than large enterprises because they use more employees per unit of output. SME supporters also argue that small businesses increase levels of competition in the economy. This again benefits consumers because it usually causes prices to decrease and increases the number of different goods available to them. SMEs are more productive than larger ones but their development and progress are limited by the lack of financial suppliers and other institutional failures. There is a belief, not only in South Africa

but also in the World Bank and other international aid agencies that SMEs can contribute to economic growth and the reduction of unemployment. These are some of the points that government is using to justify its direct support for SMEs.

The DTI White Paper of 1995 outlines a seven-step process leading to the implementation of an SMME support strategy. It proposes a process of consultation, study, training of staff and establishment of an SMME support structure to redress the SMME capacity deficit.

After 1994 the government of South Africa was confronted with the dual challenge of reintegrating the country into the global economy as well as positioning itself to deal with the challenges of the new democratic order. With the objectives of economic growth in mind, the government started promoting the development of SMMEs. The main objectives were to generate employment, redistribute income and become globally competitive (Rogerson, 2004:765).

A hierarchy of importance had to be assigned to each of the policy objectives in order to decide on the distribution of resources. The government's SMME strategy sought to meet this range of different and sometimes conflicting objectives. The main institutional support pillars for implementing the strategy were Ntsika Enterprise Promotion Agency, which was responsible for non-financial or business development services and Khula Enterprise Finance which functions as a wholesale finance institution. This support was to be focused on improved and decentralised access to information, training, markets, finance and technology, improvements in business structure and the market environment and the strengthening of networks between the enterprises. Part of the support strategy was the establishment of a set of decentralised or localised service centres (LSCs), which later became local business service centres (LBSCs). They were to provide relevant services to SMMEs. By 2003, the number of LBSCs in South Africa had risen to 92. Another support structure that was established was the set of tender service centres that were to provide, among

other services, advice on tendering and tender guidelines and procedures. The last public sector support structure that was established was the Manufacturing Advice Centres (MACs). By 2003, 16 MACs had been established, their main objective being to assist SMME manufacturers in improving their competitiveness. Other newer support institutions were put forward by the DTI such as local industrial parks (LIPs) and business incubators. The government also tried to nurture an enabling environment to support the sustainability of the SMME economy (Rogerson, 2004:766-768).

Rogerson (2004:768-781) evaluated the outcomes and impacts of these programmes and found the following:

- Because the statistics and data surrounding the SMME economy are dismal, it is extremely difficult to, say, make useful deductions or assumptions when the figures of Stats SA and Ntsika differ substantially.
- Comparing the data with pre-1994, it can be said that positive progress regarding SMME programmes has been made. An assessment by the World Bank in 1999 also remarks positively in terms of progress. Bloch and Daze in (Rogerson, 2004:769), also remark that in the early 1990s there was simply no existing public SMME support infrastructure for the country.
- Regarding the creation of employment, the contribution of SMMEs to national employment remains low for at least the following reasons:
  - SMMEs try to compete with larger enterprises instead of complimenting them, say, with specialised products.
  - The majority of them lack the dynamism to expand beyond one-person concerns.
  - SMMEs have adopted a strategy of jobless growth. The bulk of employment is likely to emerge from new microenterprise formations.
- The SMME economy can be a positive factor in contributing to poverty alleviation. It is not necessarily because of the government programmes but because of a default option for households and survivalists where other

initiatives to alleviate poverty did not work. It has further been argued that the current support programmes offer little in the way of support for survivalists, women entrepreneurs and rural SMMEs.

- The broad conclusion regarding empowerment is that too few black SMMEs are reached, too little funding is available, too many centralised top-down programmes are considered by the delivery mechanisms and delivery is felt to fall short of promises, let alone expectations. The number of BEEs with access the DTI incentives is still unacceptably low.
- All groups have not benefited equally. A large percentage of the clothing industry, for example, uses SMME programmes. The needs of emerging SMMEs are poorly met and supported, while exporting or high-growth SMMEs make more use of these programmes. Urban-based SMMEs have been the prime beneficiaries in terms of their access and awareness of the support programmes. Finally, financing is mainly directed at white-owned enterprises.
- Funding allocation is biased in the sense that emphasis is given to SMEs where white ownership is dominant and not to microenterprises and the informal economy where previously disadvantaged entrepreneurs are most important.
- There is also a lack of access to support services. There is a general mistrust of external support agencies as well as an incapacity to raise awareness by support institutions about their existence and effectiveness. There also seems to be an uneven geographical distribution of service providers. The cost of accessing services is high and the often cumbersome and changing administrative procedures frustrating.

On the negative side, Sikhakhane (2005:1) reported that a study by three US economists (Thorsten Beck, Asli Demirguc-Kunt & Ross Levine) suggested that there is growing evidence that the contribution made by SMEs is overstated and do not enhance economic growth or create jobs. Also, SMEs do not create better quality jobs than large enterprises. SMEs are usually created as a last resort and not as a first choice of employment and therefore have limited growth potential.

Evidence is also inconclusive about SMEs being more innovative than large firms. It is said that large companies may exploit economies of scale and more easily undertake the fixed cost associated with research and development.

2.11.1 South African government policy interventions

In March 1995, President Nelson Mandela convened the first President's Conference on Small Business in Durban. At that time, the government had committed itself to creating an environment in which SMEs could flourish and which would encourage the development of an entrepreneurial culture. To this end, the government established a number of initiatives to stimulate the SMME sector.

In December 1995 the National Small Business Enabling Act was gazetted. This created a national framework for SMME support. The framework included the following:

- the creation of Ntsika Enterprise Promotion Agency (Nepa) – to implement support strategies in South Africa
- Business Development Services (BudS) – a unit of Nepa to develop and implement support services to SMMEs
- Local Business Service Centres (LBSCs) – to provide the first tier of generic business services to SMMEs
- Manufacturing Technology Centres (MTCs) – to render sector-specific targeted assistance to small manufacturing firms from disadvantaged communities
- Tender Advice Centres (Tacs) – established only in 1997 to assist SMMEs in completing the requirements for tendering for government and parastatal procurement
- BuDS Information and Networking Programme – to provide greater access to information

- National Small Business Council (NSBC) – to provide policy support and a voice for SMMEs in government

The SBDC and Khula Enterprise Finance Limited, two government-supported financial institutions, were to provide financial support. Henceforth, the SBDC would only provide for-profit equity and loan capital for small and medium enterprises, while Khula would indirectly interact with SMMEs to render its loan services (Toomey, 1998:95-98).

Owing to the history of South Africa, it is necessary to look at the development of the SME sector from two perspectives. Because of racial inequalities after the 1800s, the history of "black business" differs from the history of "white business". The business activities of blacks, however, remained virtually obscured from the historical record (Walker, 1995:13).

SME support policies go back to the early 1960s with the establishment of homeland development corporations. After 1948, government departments and supporting institutions were established along racial and ethnic lines. It was only after the 1994 elections when the ANC party took office that this started changing and new and non-racial SMME business support programmes and institutions could be designed (Van der Merwe, 1995:1)

Roux (2002:33) indicates in Ntsika's annual review that SMMEs play a vital role in economic development enabling people to meet their basic needs for survival. It has also been proven in many countries that the SMME sector stimulates economic growth, redistributes wealth and creates jobs.

Lewis (2001:30) identified policy stability, lower interest rates, education and training and promoting SMME in public service as the main factors that government could do to assist SMME growth.

Today one may well ask whether government policies are in place to capitalise on these advantages.

2.11.1.1 Small business and entrepreneurship as a government initiative

In his opening speech at the Second National Conference on Small Business on 5 November 1997, Mr Nelson Mandela referred to the legacy of neglect and suppression of black business interests. He said that the effects of the past still continued and that we should deal with them. Apartheid had not only robbed many blacks of their livelihoods, but had also deprived the entire nation of critical job creators, robbing itself of a pool of creativity and drive. He stated that the inherited obstacles such as low levels of education and training, barriers to markets, inaccessible finance and lack of support institutions had been dealt with in the foregoing two-and-a-half years and that a foundation for developing the SME sector in South Africa had been laid. Government had ensured that parastatals and government departments would make an effort to cooperate with SMEs and even with insufficient finance and imbalances still to be overcome, many gains had been made (Mandela, 1997).

During 1996 and 1997, many new institutions were set up to address the obstacles and implement government policy. Although their services had not reached all the corners of the country, many small enterprises had found these new services valuable for expansion. Local Business Centres were also established to give advice and assistance to SMMEs in all areas, even the most remote. This was part of the government's assistance scheme, but it was never really that successful.

At that stage, a crucial phase in the development of SMEs was reached. The suggestion was that local government and business build a lasting relationship benefiting both. Local government was to provide education and training, simplify tender procedures, promote access to finance and promulgate by-laws that would be fair and conducive to the prosperity of informal and formal business.

During the budget speech in 2001, the South African government acknowledged that it was committed to the promotion and growth of the SMME sector. Its aims were to increase the number of new ventures and create an enabling environment to ensure the survival and growth of SMEs.

Since the new government came into power in 1994, they have been promoting the development of SMMEs in South Africa, mainly to create jobs, redistribute wealth and become globally competitive. They created support entities such as Ntsika and Khula and tried to create an environment to support the sustainability of SMMEs. Although some positive progress has been made, their contribution to employment has remained low for different reasons.

The Centre for Development and Enterprise (CDE) stated in a media release on 12 July 2004 that the government's support for entrepreneurship in South Africa had been largely misdirected and it was time to accept the failure of the current approach. The costly new bureaucracy aiming to deliver finance and skills training to emergent entrepreneurs often missed the target (Bernstein, 2004).

2.12 THE CURRENT SITUATION

According to Schwenke, MD of Business Partners in (Anon, 2005a:40), there has never been a better time for those considering the option of starting a business, developing an existing one or doing a management buy-in or buy-out. South Africa's economy has proven to be stable and robust, and the growth projections for 2005 and 2006 predict very well for entrepreneurs. The growing importance of SMEs is clear, and SMEs currently account for about half of all people in formal employment in South Africa. This is a remarkable achievement, given the restrictions entrepreneurs face in this country, namely the real regulatory

restraints, the lack of finance and the difficulties in acquiring the appropriate business skills (Anon, 2005a:40).

According to the 2005 Global Entrepreneurship Monitor (GEM) released by the University of Cape Town, reasonable progress has been made but South Africa's entrepreneurial activity is still far lower than one would expect, given its per capita income. Schwenke contends that one way to increase entrepreneurship in South Africa is franchising. It offers an established brand name, infrastructure, support systems, training and human resource management programmes. There are also many different opportunities to meet every need, from fast-food franchises to car fitment centres. In conclusion, he comments that the future of business and economic growth lies with entrepreneurs and SME owners as large enterprises restructure and downsize (Anon, 2005d:40).

As indicated in the report of the 2004 SME survey led by Goldstuck (2005:1), SMEs in South Africa are alive, well and regard themselves as highly competitive. However, few SME owners give the government credit for their initiatives and efforts to promote SMEs. He also assumes that given the amount of resources being ploughed into SME development, the situation reflects poor communication rather than poor strategy. The survey also shows that less than half of the SME owners were positive about legislation, the impact of skills development programmes and the impact of BEE, the latter having more negative than positive scores. A low 12% positive rating was given for the impact of general government incentives for SMEs. Because of the many neutral responses (a quarter to a third) on most issues, government has an opportunity to use communications to change perceptions (Goldstuck, 2005:1). (Although this source is not so reliable, it was the only place the researcher could find the SME Survey 2005: Executive Summary.)

2.13 CONCLUSION

Schumpeter (1934) and other authors concur that economic development can be directly attributed to the level of entrepreneurial activity in a country. More recently, Roux (2002:47-48) observed that SMMEs in South Africa continue to make a substantial and ever-increasing contribution to economic activity and employment.

More recently, many authors such as Bernier (2005:540), Pansiri and Temtime (2008:251), and Lewis, Massey, Ashby, Coetzer and Harris (2007:551-552) reported on the importance of SMEs and that small business was seen as the essential condition for economic growth.

SMMEs also tend to be less capital-intensive than larger enterprises and this is a useful situation in a country in which there is a shortage of capital and a surplus of labour (Roux, 2002:47-48).

To ensure that successful entrepreneurial activity contributes to economic development, government and other role players should create an enabling environment for entrepreneurs, and provide effective entrepreneurial education and relevant training and assistance.

Although different role players are offering assistance in many areas, there are still many failures. This indicates that the type of assistance is inadequate, irrelevant or not given when needed. The following chapter will focus on the assistance provided, types of assistance and the impact of this on the success of SMEs.

CHAPTER 3

BUSINESS INTERVENTIONS IN SOUTH AFRICA AND OTHER COUNTRIES

3.1 INTRODUCTION

According to the literature researched it is generally accepted that the failure rate among SMEs worldwide is extremely high. Furthermore the impact of the SME development programmes on performance has been less than satisfactory (Hallberg, 1999:1) and despite efforts by the South African government to establish a support structure for the SME sector, to date these efforts have not met with much success (Erwin, et.al., 2003:13).

There are many reasons why SMEs fail, but the main reasons for failure all have to do with management in some way or another. These include a lack of certain managerial skills, lack of underlying appreciation of business fundamentals, inadequate financial management practices, cash-flow problems, labour relations, lack of knowledge resources, skill fits and educational input.

Seeing that management is the main reason why SMEs fail, the researcher will briefly refer to the definition of management.

Management refers to a number of issues, such as the people (for example the CEO and other executives) and also the tasks and activities that managers do (for example planning, organising, leading and control). These management tasks and activities are done by different people in different jobs, even if that is not their main focus. The functional managers, for example the financial, marketing and human resources managers are all involved in managing their respective sections and their management function surely includes planning, organising, leading and control (Hellriegel, Jackson, & Slocum, 2005: 7-8).

Herath (2007:896) defines management as the process of using organisation resources to achieve organisational objectives through the functions of planning, organising and staffing, leading and controlling.

According to Rossouw and Louw, (2005:16), management is also the "art of getting things done through people". This means that the organisational goals which have been set can only be achieved by getting other people to perform the tasks rather than managers performing the tasks themselves. Management can also be described as the process of planning, organising, leading and controlling human and other resources to achieve the goals of the organisation. This definition includes the additional management functions and tasks, i.e. coordinating, disciplining, delegating, communicating and motivating (Rossouw & Louw, 2005:16-17).

There are many definitions of management, but for the purpose of this study the researcher will use the definition given by Rossouw and Louw, (2005:16): "Management is the process of planning, organising, leading and controlling human and other resources to achieve the goals of the organisation."

Although management is the main problem leading to SMEs failure, it is not the focus of this study. Managers/owners of SMEs need assistance and this study focuses on the effect of assistance or business interventions on the perceived success of the SMEs.

The remainder of this chapter will focus on business interventions in South Africa and other countries.

There are many consulting institutes, agencies and consultants that render assistance to businesses. This assistance covers many facets of business and its environment all over the world. Some of these include the Small Business Administration (SBA) in the USA, the Association of Independent Consultants

(AIC) in Canada and the Institute of Management Consultants (IMC) which is found in many countries, including South Africa. The IMCs are all part of an international network of professionals enabled through the International Council of Management Consulting Institutes (ICMCI).

The aim of all these bodies and individuals is basically the same worldwide, namely to assist small business owners in different ways to survive and be more successful.

In this chapter the different concepts associated with interventions will be defined and an overview provided of the different types of interventions and programmes generally available. Interventions in other countries around the world will also be discussed as well as the establishments, bodies, parties, agencies, centres, associations and individuals that offer assistance to small business owners. Finally, the South African situation will be discussed with specific reference to government, professional and other types of assistance offered to SMEs.

3.2 DEFINITION OF CONCEPTS

3.2.1 Consulting

Consulting contributes situation-specific knowledge. Consulting requires that the provider should know the particulars of the customer's business. Strategy consulting (also called management consulting) is the service of providing advice to those in charge of running a business. Strategy consulting improves business performance by identifying opportunities/problems and formulating plans for capitalising on that knowledge Pleva (2006:8).

Consultants act as advisers to business owners in all sectors of the business environment. Consulting service providers started thinking about the problem of

small businesses with the question: “What problems do businesses face and how can we solve them?” Framing the issue in this manner led to a two-step solution. Providers first identified small business constraints, and then directly provided corresponding services. Following this thinking, they provided strategy consulting services which are usually referred to as “technical assistance” (Pleva, 2006:12).

3.2.2 Training

Another type of intervention is training. It provides a widely applicable skill and can be administered in a relatively anonymous classroom setting. Consulting and training are often bundled together when provided by donors (Pleva, 2006:8). Training is the systematic and organised process through which the employee (the business owner in this case) acquires the knowledge, skills, attitudes and information necessary to achieve the objectives of the business. The aim of training is to influence and change owners’ working habits and levels of performance in such a way that they will become more productive (Marx, Van Rooyen, Bosch & Reynders, 2001:488-490). Training is therefore directed at tasks that are in line with the objectives of the business. Training is provided by a number of different institutions, bodies and qualified persons.

3.2.3 Supporting

Intervention by supporting the small business owner could include many things. It could be to provide the owner with whatever is needed, including money, necessities, advice, knowledge and anything that would enable the businessperson to start, maintain or grow the business.

3.2.4 Adviser

A true business advisor is someone to whom business owners look when they have to make major financial decisions (Weinstein, 2004).

A trusted business advisor is accessible for assistance and advice whenever needed, does what it takes to get the job done, including follow-ups, offers innovative and creative solutions and helps business owners to figure out how to help them achieve their goals (Pallais & Good, 1996).

3.2.5 Mentor

Although the *Oxford dictionary* defines a mentor as an experienced and trusted adviser, the small business field defines a mentor as a business professional who is connected with the small business owner in a mentoring relationship. The mentor is an individual, usually older, always more experienced, who helps and guides the small business owner in starting, managing and/or growing a business (Reh, 2006).

The Institute of Business Advisers in South Africa (IBA) sees mentoring as an ongoing, long-term business counselling relationship between an experienced business advisor and client which covers a diverse range of topics as a business develops (IBA, 2001:1).

Mentoring is a process in which “an experienced veteran helps to shape or guide a newcomer”. It is also seen as someone “who helps another person become what the person aspires to”. Literature further suggests that mentorship is the relationship existing between a mentor and his/her “prote´ge´” where the former, via sharing his/her experiences, acts as a guide to the newcomer in the organisation (Kakabadse & Louchart, 2006:418).

Although there are a number of definitions for mentoring, most of them mention the words long-term relationship, where skills and development are shared and in which certain abilities are acquired (Watson, 2004:60).

3.2.6 SME life cycle

SME life cycle refers to the succession of stages a business goes through during its time of existence. For the purpose of this study, the business life cycle as described by Nieman, Hough and Nieuwenhuizen (2003:238-240) was used as a reference. The different stages described in this cycle are

- start-up or infancy stage (the small business owner starts a business by manufacturing or introducing a new product or service)
- growing or breakthrough stage (the rate of growth accelerates and resources are under pressure)
- mature stage (products are likely to be established and sold through multiple distribution channels)
- declining or rejuvenation stage (decline is not inevitable, but the owner needs to be aware of signs of decline in order to rejuvenate the business)

3.3 VARIOUS TYPES OF INTERVENTION STRATEGIES

Initially, providers categorised consulting as a "non-financial service" and provided the service directly. In the late 1990s non-financial services were renamed "business development services" when markets were promoted instead of providing services directly. More recently, the focus seems to have shifted to particular problems discovered during the business development era (Pleva, 2006:11).

Government interventions to promote SMEs focused on the provision of credit through various means such as direct lending, subsidised interest rates and credit facilities often supplemented by guarantee schemes through banks and other financial institutions (Hallberg, 1999:9). Another intervention strategy discussed by Hallberg (1999:10-11) focuses on increasing SME access to

markets, on the inputs used by SMEs (such as information and technology) and on the diverse range of services (financial and non-financial) that support SME growth and competitiveness. This shifts the focus from direct provision to the development of markets and networks.

Howard and Hine (2000:4) mention different and specific types of assistance that could be rendered to small businesses, including financial assistance, taxation incentives, information and advice, management education and training, export incentives, government regulatory policies and government procedure programmes.

As early as 1966, the United Nations attempted to systematically organise assistance measures for small business. They compiled a list of "measures" taken by member countries. According to Howard and Hine (2000:3-4) this list included the following measures:

- consultancy services that disseminate information, give advice and assist with management
- finance via specialised banks and loans
- training programmes in costing, organisation, management, productivity, etc.
- marketing assistance
- common facilities for setting up facilities
- industrial research for business planning support, information services and technology research

Studies conducted in the 1980s attempted to group assistance measures into the four categories of financial assistance, technical assistance (including the choice of equipment), training (including inventory management skills) and social promotion (promoting a social environment supportive of entrepreneurship) (Howard & Hine, 2000:4).

During the next decade, assistance measures were grouped into the internal environment, including the skills of the owner and the external environment (the marketplace). Meridith and Howard (in Howard & Hine, 2000:5) propose the following four generic forms that provide small business assistance measures:

- education and training providers
- consulting and business advisory centres
- resource providers
- a combination of the above three

Howard and Hine (2000:13-17) suggest a small enterprise environmental matrix to show what type of assistance (referring to the above three measures) should be sought in which circumstances. They use the internal environment (with a weak to strong axis) and the external environment (with an unsupportive to supportive axis) to determine the need for training and for resources.

The literature referred to by Howard and Hine (2000:6-7) suggests that interventions require a diagnostic phase (needs analysis) before any recommendation and implementation. The latter could include a relevant training programme.

The literature also suggests that small business owners receive many types of support. These include accessing mentoring, networking, funding and structured training. In a survey conducted in Ireland and the Netherlands, networking was the most cited support, followed by funding and mentoring (De Faoite, Henry, Johnston, & Van der Sijde, 2004:444).

Outsider assistance programmes that seek to support the entrepreneurial activities of young people exist worldwide and include Entreprep, YESS!Mini Society, Junior Achievement International (USA), Atlantic Canada, Youth Business Initiative (Australia) and Law 44 (Italy) (Greene & Storey, 2001).

Online training is another form of assistance found in many countries, including South Africa. The research results of Webster, Walker and Barrett (2005:248) indicate that those small business employers with aspirations towards business growth and who are existing Internet users are more likely to participate in online training than those without growth aspirations. The "virtual assistant" is also available on the Internet where many consultants advertise their services to businesspeople. These are mostly administrative services and include bookkeeping, typing, secretarial, scanning, diary management, time management, office and even home organising (Virtual Assistant, 2006). The SME toolkit is also available on the Internet and offers free business management for SMEs in accounting, finance, business planning, human resources, marketing and sales, operations and IT. It offers, inter alia, "how-to" articles, free business software, online training, self-assessment exercises and resources to help entrepreneurs in Africa to start, finance, formalise and grow their businesses (SME Toolkit, 2006).

Many countries, including South Africa, supply monetary assistance to promote small business development. The budget speeches of 2006 and 2007 made some positive adjustments regarding monetary issues to promote small business, but no other form of assistance was mentioned (Manuel, 2006 & 2007).

In the 2007 budget speech, agencies and entities falling under the DTI received an amount of R1.7 billion to promote industrial development, black economic empowerment and small business development. It was also mentioned that entrepreneurship remained a vital ingredient in the growth of the economy. The only other form of assistance that was mentioned was the small business tax amnesty that offers those outside the system a new opportunity to become compliant and benefit from the myriad of support measures offered by government (Manuel, 2007).

One should bear in mind that the lack of micro credit is not the main constraint in small business development and that there is an increasing shift towards the recognition of non-financial constraints such as the lack of information, management and business skills (Jackson, 2004:1). The same author also notes that the business development services (including services designed to help the business start, survive and grow) have not been developed as much as the financial services, and do not have a comprehensive set of good practice principles such as the financial services. There is also a trend towards focusing on a smaller number of services and referring clients to specialists for specialised support where possible (Jackson, 2004:8-11).

Consultants usually cost small business owners huge sums of money. Hamilton and Smith (1993:17-18) suggest that when a consultant is involved, the client and not the consultant should invest heavily in the time spent in order to mould the programme to the client's style and to enable the client to assume ownership. Ultimately, the client will want to wean himself/herself away from the consultant's help, because the latter's time costs the small business money. Hence the right strategy for a small business is to use the consultant in an advisory, overseeing and monitoring role rather than in hands-on work. For this type of approach to remain effective the consultant should follow up frequently and give feedback. The consultant should take responsibility for keeping on top of the project. The idea is to invest only a little of the consultant's time on each occasion. Quick visits and phone calls work well.

Intervention strategies as described in this section consist of the provider, the type of assistance provided and the method of providing the assistance. Some of the providers mentioned are the government, consultants, monetary institutions, advisory centres and resource providers. There are also various types of assistance that are provided such as credit/finance, tax incentives, other incentives, information, advice (on any business related issues), education, training and supplying common facilities for setting up business. Finally, the

assistance described here is provided through personal mentoring, networking and training (including online training).

Research done in manufacturing SMEs in the UK indicated that formal training (including qualification courses at Universities/colleges, formal courses by outside providers, distance learning courses, formal in-house courses and Internet-based courses) is shown to be more significantly associated with performance than informal training (including coaching, informal training seminars and networking). While managers may perceive that informal training is more relevant, this study highlighted the importance of targeted, formal interventions to specific problems (Jayawarna, Macpherson, & Wilson, 2007: 334-335).

3.4 ASSISTANCE AND INTERVENTIONS IN OTHER COUNTRIES

This section looks at examples of assistance, interventions, advisers and related issues in the USA, UK, Europe (Ireland, the Netherlands, Spain & Germany), Brazil, Australia, China and Asia, and Swaziland, Botswana and Malawi in Africa.

3.4.1 The USA and Canada

The SBA was officially established in 1953, but its philosophy and mission originated earlier in a number of predecessor agencies. It started mainly as a response to the pressures of the Great Depression and World War II. In 1932 President Hoover founded the Reconstruction Finance Corporation (RFC) to alleviate the financial crisis of the Great Depression. This was the “grandparent” of the SBA. It was basically a federal lending programme for small and large businesses affected by the Depression. The Smaller War Plants Corporation (SWPC) was created by Congress in 1942 to assist small businesses to participate in war production and to enable them to compete with the large industries. It provided loans to entrepreneurs, encouraged credit availability to

them and supported their interests to federal procurement agencies and large businesses. After the War, the SWPC was dissolved and its lending and contract powers handed over to the RFC. Even during this period, there was a problem with small business failure. The lack of information and expertise was believed to be the main cause. The Office of Small Business (OSB) produced brochures and conducted management counselling for individual entrepreneurs. The RFC was abolished by President Eisenhower in 1952, and the SBA created to continue the functions of the earlier agencies. Since then, the SBA has grown in terms of total assistance provided and its array of programmes tailored to encourage small businesses in all business areas (SBA, 2006).

Since its establishment, the SBA, has supported several consultative programmes such as the Service Corps of Retired Executives (Score), Small Business Development Centers (SBDC) and the Small Business Institute (SBI) (Jones, Vaught, Timmerman & Trewatha, 1990:2).

Score has been extremely effective. Because 80% of its clients are start-ups, it makes use of monthly workshops to meet their needs. Most of the clients state that they would recommend the service to a friend starting a new business, and nearly two-thirds of them would recommend Score to friends with existing businesses in order to correct present problems. A study presented a positive picture of the ability of Score to correctly identify the problems and concerns faced by business owners and to provide the advice needed by the owners to solve problems effectively (Jones et al., 1990:2-3).

In the areas the respondents thought the various consultants would provide the best service, the SBDC was noted as being ideal when the business is young or first starting out. Another strong point is its ability to provide quality help with financial records as well as assisting with management problems (Jones et al., 1990:3).

The private consultant, however, was seen as being particularly helpful in finding sources of credit and capital. This group also scored high on advertising, international selling and help with financial records. Starting a business, however, was not regarded as a particular strength of the private consultant (Jones et al., 1990:5).

The results of this study support the suppositions that the use of consultants in the workplace is vital for the success of many business firms. Careful consideration of the problem to be solved, however, is important in the choice of consultants. There is always the need to properly assess potential client problems in determining whether consultants can provide the necessary aid (Jones et al., 1990:6).

The USA has recognised the importance of providing training, counselling and advice. They have pioneered mentoring programmes, utilising retired businesspeople to assist new businesses with managerial and technical advice. They have also established venture capital forums that bring together entrepreneurs and potential investors. The trend in recent years has been towards combining available support mechanisms to offer a more comprehensive integrated package of support for start-up companies. For example, they provide on-site assistance, gather and channel funding sources and adopt an entrepreneurial approach to service delivery (Madell & Adam, 2002:8). Gavron (in Madell & Adam, 2002:8) recommends the provision of pre-start up advice and training, encouraging a network of mentors and the promotion of best-practice schemes.

A small business survey conducted in Northeast Iowa (USA) on the small business consulting needs and opinions of consultants showed that the major external problems were interest rates, inflation and taxes, while internal problems were declining sales, cash flow and marketing. To overcome these problems, small business owners indicated the following:

- This is necessary to maintain counselling seminars (being presented by the SBDC) with the emphasis on basic marketing and advertising. This is to alleviate the effect of external forces and to solve internal problems.
- It is essential to increase publicity to improve SBDC awareness and emphasise the pragmatic nature of counselling.
- Although newsletters provide general information on tax, inflation and interest rate issues, the small business owner needs practical tips on selling, advertising and accounting.
- There is a need to utilise private consultants and management assistant teams in conjunction with universities in order to complement one another's strengths and support one another's weaknesses (Pelham, 1985:11).

In the same study, Pelham (1985:11) found that half of small business owners cited internal problems as the primary cause of small business failure, while only one-third blamed external factors. These owners suggested improvements in management training. Other studies also seem to support the latter statement. Regarding the effectiveness of consultants, some blame the lack of communication in layperson's terms from the academic community to small businesspeople. Others say that the stereotype of consultants is often an individual who is unable to understand the practical managerial issues and whose consulting focus is strategic rather than tactical. According to the responses in this survey, private consultants were ranked as "very effective" where university sponsored consultants were second in the level of "very effective". The main reason for not using consultants was the belief that problems are best solved internally.

Finally, the problem areas in which consultants were mainly used were sales and marketing, followed by advertising/promotion, forecasting and budgeting. Studies in Alaska and Wyoming indicated similar outcomes, where accounting and marketing problems were the most common (Pelham, 1985:10).

According to the executive report of the London Development Agency (LDA, 2005), New York City has a Department of Small Business Services whose aim is to promote small business development and entrepreneurship. It is coordinated by NYC Business Solutions, which acts as a first point of access for information and advice for small business. It was only launched in September 2004. There are also specific funding programmes as well as assistance to access public sector procurement and contracts for minority entrepreneurs and women.

Today in the USA, as in so many other countries, there are many consulting firms available to SMEs for assistance. The services they provide include the following (Business Consultants, 2006):

- start-ups
- budgeting
- productivity improvement
- helping business owners grow their business
- management assistance
- business strategy
- forecasts
- research services on new innovations, trends and trademarks

Entrepreneurial activity is the highest in the poorer countries of the world (such as South Africa with an average US$3 750 per capita income), but appears to decline as income per capita increases to between US$25,000-35,000. Thereafter entrepreneurial activity increases as income per capita rises above US$40 000 (such as the USA with an average US$40 000 per capita income). The Total Entrepreneurial Activity (Tea) rate of South Africa was 5.4%, which is well below the expected Tea rate, where the Tea rate of the USA was nearly double that of South Africa (Orford, 2004:11-12). Here a positive relationship can be seen between the Tea in the USA and the levels of consulting services as described above.

In Canada, the Association of Independent Consultants (AIC) helps businesses find specialists, experts and contractors in many fields. The AIC holds educational networking meetings and workshops and the website has articles on consulting, discussion boards and a searchable database of consultants. Is caters for hiring, becoming and growing people as consultants (AIC, 2006).

3.4.2 The UK and Europe

3.4.2.1 The UK

The governments of most industrial countries offer "soft" business support (using taxpayers' money) including advisory assistance, the dissemination of best practice, encouragement of partnerships and gateway services. The research of Wren and Storey (2002:354) in the UK showed that the assistance provided in this case had a significant positive effect on the survival of medium-sized SMEs but a negative and insignificant effect on the smaller and also the larger SMEs.

Wren and Storey's (2002:336-337) research focuses on the marketing initiative. Marketing assistance had significant positive effects on turnover and employment, especially on small SMEs, with less positive effects on medium-sized firms and an insignificant effect on the sales of large firms. A marketing strategy was given to the firms involved. They were also offered subsidised advice in areas of promotion, pricing, distribution and after-sales service, and market research on product demand, competitors and emerging markets. Most of the projects involved were undertaken for the purpose of expansion.

The participants first had to apply for assistance. They were approved once a business review had been carried out to assess the suitability for participation in the scheme. A private consultant was appointed to assist the business, and finally, the business had to decide whether or not to implement the

recommendations of the consultant. Government assisted in the form of offering grants at certain rates (Wren & Storey, 2002:337-338).

Research by Keogh and Mole (2005) in the UK explored the changes in the role of the public sector small business adviser. Previous studies have shown that business advice offered to small businesses differs significantly from adviser to adviser. In their findings, the researchers identified that the public sector adviser would try to advise a wide variety of type of firms and mention that there are large differences in skill levels, even with innovative SMEs. They suggest that there are two sets of issues that are important for business advice, namely "technical skills" (knowledge of finance, marketing and human resources for example) and "soft skills" (professionalism, knowledge management and understanding the process). Their paper implies that the adviser should emphasise the "soft skills" at the expense of the "technical skills". This research is still in process.

In another working paper by Akunuri and Nwankwo (2005) (also in the UK) it is reported that a draft of business support programmes targeting the SME sector is being formulated and implemented. The assistance programmes provided by public sector are laudable but leave many unanswered questions. There seems to be a need for more collaboration between business support providers and SMEs.

Devins, Gold, Johnson and Holden (2005:540) attempted to develop a model for managing learning in micro businesses. Although they refer to "micro business", these businesses would be classified as small businesses in South Africa. Their paper highlights the lack of information exploring management development and learning in the micro business as well as the lack of policy interventions that connect with micro businesses. A key challenge lies in the ability to design interventions that are cost effective and reflect the heterogeneity of micro businesses. There is a need to design, develop, deliver and evaluate offerings that are in tune with the interests of micro and small business managers. Closer

relationships between flexible assistance providers and the managers/owner should provide the foundation to interventions.

A micro business by necessity has to interact with professional service providers such as bankers and accountants. Devins, et al. (2005:544) suggest that these providers could influence practice in micro businesses if they are in tune with the interests of the micro business manager at a given point in time.

In another study done in the UK, Stumpf and Longman (2000:125) in Kakabadse and Louchart (2006: 426-427), stress the importance of building a sound relationship between the consultant and the client by making use of the following phases: Firstly a "ready-receiver" who will be willing to invest time in conversation with the consultant must be created. Then a common interest between the consultant and the client must be developed. This common interest allows the consultant to gain the respect of his client and appears even more credible. The consultant gains a good understanding of the client's business. Thereafter the real and relevant customer needs must be identified. The consultant must build trust to get the needed data from the client in order to solve the problems at hand. A client's willingness to share information depends on the consultant's ability to build trust. Gathering data is the key point of the success of a consultancy project. A long-term relationship must be built and maintained.

3.4.2.2 Ireland and the Netherlands

In a survey undertaken in Ireland and the Netherlands, evidence suggests that the Irish and Dutch rate supports such as mentoring, networking, training and incubation space favourably (De Faoite et al., 2004:445). The entrepreneurs studied in this case received support from a wide range of organisations including government, trade associations and tertiary institutions. Networking and mentoring were among the most frequently accessed informal supports and were well received by these groups. Financing was mainly accessed during the start-

up phase of the business. However, the groups complained that the services offered by the entrepreneurship support programme were not that effective in practice or did not materialise at all. This could mean that the programmes were not meeting the needs or that academics were not well suited to deliver entrepreneurial support (De Faoite et al., 2004:445-447).

3.4.2.3 Spain

Research was conducted in Spain on the impact of the work done by external consultants and the client's degree of satisfaction. The only way to determine the effectiveness of the assistance was to find out whether the recommendations of the adviser had been implemented. The aim of the adviser is not only to draw up a plan but also to set up a relationship with the client on the basis of mutual collaboration so that the client learns how to resolve problems in the future. This basically means training. The adviser should help the client to understand and learn so that the client can be self-dependent in future (Soriano, Roig, Sanchis, & Torcal, 2002: 100).

3.4.2.4 Germany

Germany focuses on the provision of research incentives, advice services and financial assistance to promote set-up and developing businesses. The form of assistance is geared to improving productivity and their ability to be competitive. They also have adult education centres to assist business start-ups (Madell & Adam, 2002:7).

3.4.3 Brazil and Mexico

Although this research focused on SMEs in remote areas in Brazil, it is still interesting to note the results. The researchers indicate that there is a "hidden demand", which means that the small businesses need consultancy, but they do

not apply for the available services and are generally incorrect in their assessments of the problems they have and how their problems should be prioritised. After a diagnostic consultancy they are better able to evaluate problems and make use of consultants more efficiently (Schwartz & Bar-El 2004:503). Other researchers have also found the diagnostic consultancy to be as efficient in increasing the added value of existing business support programmes in disadvantaged areas (Schwartz & Bar-El 2004:517).

The business-related difficulties that hinder small business development in Brazil in this instance are management, business skills, marketing deficiencies, human resources, development of external linkages and network relations, the bureaucratic institutional environment and the inability of existing financial institutions to cater for their needs (Schwartz & Bar-El 2004:505-506).

Finally, the business owners all have problems. Almost none of them made use of the assistance provided by the public institution but almost all expressed a willingness to make use of such assistance. The lack of access (in distance or cost) was the most probable cause (Schwartz & Bar-El 2004:511-513).

The countries of Brazil and Mexico have also embraced SMEs as a potential mechanism to create and distribute wealth. However, both these countries face enormous social and economical challenges that have slowed down the efficiency and effectiveness of SME support programs. These challenges include very immature capital markets, bureaucratic regulation and technological dependence (Rivera, 2007:161). Although there are many support programs, the number of programs seems to make their operation and coordination very difficult. Information is scattered and it is not known, for example, how much money as a percentage of GDP is spent to support SMEs. Rivera (2007:144) actually suggests that effective SME programs need to be created.

3.4.4 Australia and New Zealand

Small business is integral to the economic and social fabric of Australia and account for 96% of all businesses in the country. Despite this, as in so many other countries, the failure rate in Australia is also unacceptably high. Many failures could be avoided by honing proprietors' management skills. Many small business owners indicate that government should do more to ensure that people receive at least basic training in business management before they start a business. They also request better access to business management and training advice and continuity of access to business mentors and advisers (Campbell, 2003:8691-8692).

The Employment, Workplace Relations and Education References Committee further recommended that the Commonwealth examine the feasibility of establishing a national mentoring service for small business. Recommendations include one-stop shops (delivering a wide range of services under one roof) for government assistance, access to finance, and even the formation of an indigenous small business association and improved arrangements for advice and assistance for indigenous entrepreneurs. One of their main problems is also the burden of complex government regulation, which entrepreneurs see as a major deterrent to employment (Campbell, 2003:8692-8693).

Clegg, Rhodes, Kornberger, and Stilin (2005:219-223) researched the characteristics and challenges of business coaching in Australia. Business coaching is a form of organisational intervention and differs from managing consulting and other forms of coaching by combining business planning with facilitation techniques to assist clients in defining and achieving their goals. Usually a third party from outside the business works on a one-to-one basis or with small groups to diagnose the current business situation, elaborate on future goals, identify resources and assess and plan for the process of achieving those goals. Business coaches establish collaborative partnerships with their clients

and provide a process through which the client can solve their own problems. This is a shift from institutionalised learning to informal work-based learning. This is the first research project of its kind in Australia. Although business coaching is still in the early stages of development, it is emerging as a potentially valuable form of organisational intervention.

The Department of Business, Economic and Regional Development (operating in the Northern Territory Government of Australia) offers a free and confidential business information service to prospective, new and existing businesses. Information is provided in areas such as business planning, insurance, licence and permits, marketing, business structures, intellectual property, taxation and sourcing finance. It also encourages business owners to make use of independent business advisers for assistance because business owners tend to become so immersed in their daily operations (Anon, 2006a).

Business Mentors New Zealand is a mentoring program in New Zealand. The concept is centred on large and successful businesses becoming patrons and business people becoming volunteer mentors. The mentoring sessions last form 1.5 to 2 hours and many of the mentoring relationships can be active for a number of years (Anon, 2006b: 60).

A similar study to this one was done in New Zealand, exploring the business assistance realities for SMEs (Lewis, et al., 2007:551-563). The researchers found that:

- The owners or managers interacted with the assistance providers in different ways, ranging from frequently and with regularity and purpose to infrequently and only in response to a problem, stimulus or opportunity.
- The sources most frequently used were not necessarily perceived as being the most useful and vice versa. (However, accountants were the one source

that the respondents contacted and made use of most and that they found the accountants the most useful of the assistance providers.)

- Most of the respondents viewed their interactions as being for operational purposes (short-term needs) as opposed to strategic purposes (long term needs).
- Seeking assistance was not part of regular routine.
- The nature of interactions did not fall in any definite patterns related to firm size or other characteristics. However, some similarities were noticed in seeking assistance at a similar phase in the life cycle (being mostly at the start of the business life cycle and then again at a more mature stage of the business).

Other interesting facts regarding this study of Lewis, et al. (2007:564) were the following:

- Not all SME owners will seek assistance.
- The time taken, the cost and the outcome of the interactions will influence the perceptions of success and inclination to use that source again.

3.4.5 China and Asia

In Taiwan, Province of China, SMEs play a central role in the industrial and export growth of the economy. Taiwan has a highly effective technology extension and contract research service that has allowed it to exploit the inherent flexibility of SMEs to meet the changing demand conditions and develop market niches. Government-supported technological and scientific research institutes have been indispensable in the high technological development. Over and above this, the China Productivity Centre (CPC), the Industrial Technology Research Institute (ITRI) and a number of industrial technology institutes covering different industries provides management and technological assistance. These institutes render assistance in the form of training, quality systems, technology

development and the acquisition of foreign technology. Some enterprises are linked to research centres to solve complex technical problems. Government also assists by encouraging private industry and partly funding contract research to universities. The ITRI undertakes research considered too risky for the private sector, and provides space and facilities for joint research and development between its researchers and local business and for business incubation and training facilities (Unctad [United Nations Conference on Trade and Development], 1999:18-19).

SMEs are also promoted in Taiwan through the Centre Satellite Factory Programme. It integrates smaller factories around a principal one, involving vendor assistance and productivity-raising efforts as well as a rational sharing of tasks between participating enterprises. The author also indicates that policy makers should help SMEs by creating an environment that stimulates and supports learning, innovation and constant upgrading (Unctad, 1999:19).

In places such as Singapore, India, Malaysia and Indonesia, clans of ethnic groups form associations that become the vehicles through which entrepreneurial skills and vocational education are passed on to successive generations of fledgling entrepreneurs. The latter are provided with specialised training, mentorship on marketing, sourcing, customer care and technical assistance (Nicolaides & Reddy, 2004:205).

3.4.6 Africa (excluding South Africa)

Mutharika (1992:6-7) proposes the following to enhance the success of small business in Africa and that these issues be considered by African governments and the International Council for Small business (ICSB):

- Technical assistance and advisory services should be provided to new and old businesses. Advice should include the determination of the size of the

business, the capital needed and the technical and managerial skills required for success.

- Detailed information should be made available on the demand and supply situation of products and services.
- Governments should create an enabling environment for small businesses.
- The ICSB should launch a campaign to encourage different industrial chambers to assist small business more than is presently the case.

The following overview of assistance and advice in Swaziland, Botswana and Malawi also adds to the body of knowledge:

3.4.6.1 Swaziland

In 1973, Sedco (the Small Enterprises Development Company) was established in Swaziland to assist and counsel entrepreneurs. Initially no manufacturer could be located, but after some publicity, some were selected and were given practical, individual, on-the-spot and continuing training. Buildings were erected on several locations where a superintendent was available to assist and counsel, manufacturing entrepreneurs. In some cases, large pieces of equipment were purchased and rented to entrepreneurs because they could not afford to buy the equipment. Six years later, 150 Swazis were running their own manufacturing businesses with a success rate of over 80% at that time. This success rate seems to have been caused by the continuous, practical and on-the-spot counselling (Hetherington, 1985:30-31).

Sedco, a wholly government owned entity, is still operating in the SME sector today, providing mini factories, business development services and marketing assistance to SME owners in Swaziland. It also offers training in business management and legal and general counselling at subsidised rates. Swaziland also sees the small business sector as vital to job creation and economic growth. In 2004, the role of Sedco changed and it is now developing intermediary

institutions able to nurture SMEs into profitable businesses. Sedco will also support SMEs seeking loans from the commercial banks under the scheme (Swaziland, 2005).

The Small and Medium Enterprise Department was established in 2001. Its objective was to unify and coordinate the functions of organisations such as Sedco and to facilitate the free flow of SMEs' day-to-day business, enhance working relations between them and to strategise their business environment (Swaziland, 2005).

3.4.6.2 Botswana

The government of Botswana established the Botswana Entrepreneurial Development Unit (Bedu) in 1974 to provide local firms with financial and non-financial assistance. The Local Preference Scheme (now the Local Procurement Programme) followed in 1978 which procures up to 30% of the government annual procurement for local firms. There are currently many financial and non-financial organisations committed to the provision of assistance to start up and establish firms (Temtime, Chinyoka & Shunda, 2004:569)

Financial assistance has been granted in different ways and the creation of many jobs was projected during the late 1990s. (However, proof that this has actually happened is not forthcoming.) A lack of coordination of investments was put forward as a problem at that time. During the late 1990s the Citizen Entrepreneurial Development Agency (Ceda) replaced the Financial Assistance Policy and sustainable enterprise development became its main objective. Loans instead of outright grants are now given. There are also many other financial aid schemes and funds available to business owners in Botswana (Temtime et al., 2004:569-570).

The Botswana Confederation of Commerce, Industry and Manpower, Enterprise Botswana, Small Business Clinic and the Department of Industrial Affairs all assist small business owners in various ways such as industrial relations assistance, management counselling, business principles and even technical training. Despite all these efforts, the pace of small business development is far from satisfactory. This research report concludes by suggesting an integrated model of appropriate continued small business assistance to achieve sustainable development (Temtime et al., 2004:573-578).

3.4.6.3 Malawi

Small business development is also emphasised by the Malawi government and donors to create employment and increase income are actively encouraged. Many agencies exist in Malawi to assist the small business sector. Masten and Kandoole (2000: 289-298) identified numerous capacity constraints and made suggestions to improve the effectiveness of the agencies. The diverse source of SME assistance and know-how was suggested as one cause of the capacity limitation of the agencies.

The assistance and interventions in different countries all over the world do not differ much at all. It seems that most of them offer advisory, consulting, training, counselling and mentoring services to SME owners. Of course they also offer financial assistance such as loans and grants as well as an infrastructure such as the mini factories in Swaziland and South Africa. The functional areas where assistance is provided mostly includes management, marketing, quality systems and improving productivity in general. Some countries also assist the SME owners with technology and technical assistance.

3.5 ASSISTANCE AND INTERVENTIONS IN SOUTH AFRICA

3.5.1 Existing government assistance to small business

According to a study by Madell and Adam (2002:9), local authorities should be empowered to render business development and support services at a local community level, and measures should be identified to increase the participation of established local business in the provision of advice and support to emerging enterprises.

In South Africa, the following bodies are amongst those established by government to support small businesses:

3.5.1.1 The Small Enterprise Development Agency (Seda)

Seda was officially launched on 13 December 2004 as an agency of the Department of Trade and Industry. It was established to coordinate the design and implementation of development support programmes and the creation of a service delivery network for small businesses throughout South Africa. Seda incorporated the previously existing small business support institutions (Ntsika Enterprise Promotion Agency and the Namac Trust). The existing Local Business Service Centres and Tender Advice Centres, which were supported by Ntsika, were also incorporated by Seda. The assistance they offered to small business owners and entrepreneurs included help with business plans, technical advice and marketing, as well as information on export support, tenders and incentives (Damane, 2005).

More recently, in April 2007, Seda reported that it had eight provincial offices managing the work of 40 branches all over the country with the head office in Gauteng. It mentioned its website (www.seda.org.za) as another instrument assisting small businesses as well as a newsletter that is sent to subscribers on a

monthly basis. Seda also has an information centre where assistance is mainly provided telephonically. The most common enquiries include financing an enterprise, drawing up a business plan, concessions, business opportunities, suppliers, tender information, how to recruit clients and how to register an enterprise (Damane, 2007:36).

3.5.1.2 Ntsika (now incorporated by Seda)

Ntsika, for example, was established in 1997 in terms of the National Small Business Act, to deal with non-financial constraints faced by SMMEs in South Africa. It mission is to render an efficient and effective promotion and support service to the SMME sector through intermediary organisations and to contribute towards equitable economic growth in South Africa. It does so by means of an extensive consultative process driven by the broad spectrum of SMME needs, national imperatives and government priorities. Its functions are as follows:

- to identify and develop SMMEs to service identified market opportunities
- to identify and develop markets with the objective of increasing opportunities for SMMEs
- to facilitate business linkages between SMMEs and identified market opportunities
- to coordinate, conduct and provide research, information and expert advice on SMME development
- to promote the products and services of Ntsika through interaction with a broad range of stakeholders with the objective of creating business opportunities for themselves

According to Ladzani (2001:8), Ntsika did not effectively link training programmes to aftercare and the mentoring of trainees and market opportunities. It was also largely unsuccessful in marketing services to target groups. With no aftercare,

the training it provides remains invisible. Ladzani (2001:11) recommends that overinvestment in training should not be done at the expense of aftercare.

3.5.1.3 Gauteng Manufacturing Advisory Centre (Gaumac)

As part of Gauteng Provincial Government's infrastructure initiative, Blue IQ, Gaumac was established. The Blue IQ initiative, which targets economic infrastructure development, forms part of the industrial regeneration of areas experiencing economic decline in the province. It focuses on enhancing the manufacturing competitiveness of SMEs employing fewer than 200 people in the province. Gaumac was officially launched during the 2001, "Blue IQ means business" week. Gaumac's mission is to assist small and medium manufacturing enterprises in Gauteng to have ready access to high-quality business and technical support services to improve their productivity and enhance their competitiveness. Gaumac is supported by local government and funded by the department of trade and industry (DTI).

3.5.1.4 Sector Education and Training Authority (Seta)

According to Butcher (2002:40), providing access to funding and advisory support is not enough. These need to be coupled with skills development. Setas are already playing an important role in this regard. Many Setas are aggressively targeting SMMEs. There are currently 23 active Setas in South Africa.

As explained in the South African Qualifications Authority (Saqa) information manual (2006) a Seta includes employers, trade unions, and government departments. The functions of a Seta include developing and implementing sector skills plans and registering and promoting learnerships.

Setas were formally established in March 2002. Initially, the majority of the 25 Setas did not have the appropriate systems and procedures in place to deal with

their core functions. Seta boards were also trying to define their areas of responsibility. It took them two to three years before they were in a position to deliver on their mandate. After five years, some Setas continued to struggle financially and because of weak and inefficient systems, while the situation is changing for those Setas that have developed their own internal capacity in the intervening years.

After three years, some amendments were made to the Skills Development Act, seeking to rein in the Setas and ensure stricter controls around their management, functioning and overall performance. This led to recommendations about the consolidation of the 25 Setas. After some deliberation and a process of public hearings, the Minister decided on a number of minor mergers, reducing the number of Setas to 23 (Grawitzky, 2007:17).

3.5.1.5 Khula

Khula Enterprise Finance Limited is an agency of the Department of Trade and Industry. It was established in 1996 to facilitate access to finance for SMMEs. Khula is a wholesale finance institution which means that it does not provide finance directly, but through institutions such as commercial banks, retail financial intermediaries and micro credit outlets. It also provides mentorship services to assist small business owners and entrepreneurs to manage their businesses (Khula, 2007).

According to Lebelo (2004:8), Khula had been criticised in the past for poor achievement, but added that the slow supply of funds by institutions to assist new enterprises did not make its task any easier. The problem could also have been that many of the mediators did not know how to utilise the guarantee system properly. Once again the MD of Khula at that time (and still today in 2007), Mr Sithole, was preparing a plan of action to present to the directors of Khula regarding the acceleration of the availability of finance. He also admitted the

mistakes made in the past, but gave the assurance that they had learned by their mistakes.

According to Madell and Adam (2002:9), non-governmental role players should, however, also be encouraged to establish and manage business support centres. Subsidies may be necessary where these business centres operate in poor areas where customers are able only to pay a minimal consultancy fee. The authors also suggest that local authorities consider establishing a network of referral centres.

During June 2005, the largest private and self-financed supplier of financial services in South Africa, Real people, received a loan of R20 million from Khula. This was used to assist the small business sector, especially the disadvantaged groups in South Africa with different products and loans. This also gave Khula the opportunity to expand its efforts to black small business, especially those needing less than R1 million. The executive director of Real People, Mr Johan van Rooyen, also promised general and strategic assistance to small business to ensure long-term success (Ueckermann, 2005b:6).

3.5.1.6 Gauteng Enterprise Propeller (Gep)

Gep was established early in 2005 with a budget of R60 million for supplying financial services and R15 million for supplying non-financial services to the small business sector. As a result, it foresees that 800 000 jobs must be created by 2014, by assisting 30 000 SMEs (Ueckermann, 2006:11). A budget of R300 million for 2006 to 2008 was set aside for this. Partnerships would be established with banks to match funding provided by local government. The sectors that would be targeted included telecommunications, financial services, construction and retail services. The ultimate goal of this was to contribute to economic growth, which would assist help to alleviate the poverty and unemployment problems in South Africa (Waluda, 2005:1).

However, during early 2006, the president of the SMME Forum to the Gep, Mr Khaas, accused the Gauteng Provincial Government's department of financial and economic affairs and their respective agencies of not doing their part to promote small business. In fact, they were alleged to have played a major role in many failures (Ueckermann, 2006:11).

During the middle of 2007, the MEC for Finance and Economic Affairs, Paul Mashatile, appointed additional members to serve on the Gep Board. The new Board appointees have a wealth of experience and leadership and comprise experts in the SMME development arena. Their goal is to support SMMEs from the second to the first economy and to see them grow and become major players in the economic mainstream (Gep, 2007).

3.5.1.7 Business Referral and Information Network (Brain)

This is an online initiative launched by the DTI. It offers basic information and essential service links to entrepreneurs. The website includes information about government incentives and SMME support agencies as well as links to business centres throughout South Africa (Boosting small business, 2006).

3.5.1.8 The Western Cape government

In the Western Cape government launched a scheme to promote entrepreneurship amongst the unemployed. They made R1000 available to each of 1 000 unemployed people in the province. Applicants were chosen on the basis of their business ideas and were given a loan for six months. During these six months, their businesses were evaluated by a panel of experts and the winner received R5 000 towards his or her new business. Mentoring was also provided by the Red Door initiative, a one-stop shop for small business in the Western Cape to receive advice (South Africa, 2005b:2)

Although the present government is still relatively new, its capacity is limited and support programmes tend to be driven from national level. According to the literature reviewed by Monkman, (2003:9) numerous problems are responsible for the unsatisfactory impact of government financial support of SMEs. Some of these problems are as follows:

- The weak management and poor corporate governance of Khula, especially during 1999-2001 is a problem.
- There are not enough service providers to assist entrepreneurs.
- The larger enterprises tend to be better served because their outcomes are more predictable.
- Donors are increasingly bypassing government.
- Market awareness and the usage of DTI and agency programmes are low.
- SMEs have the perception that there is no outreach to them.
- Cumbersome administration and discontinuity of programmes are evident.
- There is a lack of management support accompanying a loan application.
- Access to finance programmes tends to be overly supply-driven.

3.5.2 Other types of assistance available

For a small business to get started or an existing business to be encouraged to grow, it is desirable for some form of affordable mentoring or guidance to be available to the entrepreneur (Tsehloane & Nelson, 1992).

Different skills are needed at different stages of a business. Nieuwenhuizen, (2005a:9) explains that entrepreneurial skills in medium and large businesses are also different from those in micro and small business level. At the small business level, a fine balance between entrepreneurial and managerial skills is essential. As businesses become larger, specialisation becomes necessary with different departments for functions such as finance, human resources and administration.

Not only do different sizes and different stages of business influence the skills needed, but also the cultural, social and educational background of the entrepreneur needs to be taken into account when developing training and support systems (De Faoite, et al., 2004:440).

3.5.2.1 The Institute of Management Consultants of South Africa (IMCSA)

IMCSA is a professional body in South Africa representing the management consulting profession. The Institute was inaugurated on 28 April 1972. It seeks to make the profession recognised, respected and accepted as providing a valuable and vital service to organisations in South Africa and the Southern African region. It acts as the certifying body for the profession, representing and enhancing the profession to clients, authorities and the community (IMCSA, 2006).

3.5.2.2 International Executive Service Corps (IESC), South Africa

This corps consists of volunteer executives. They are retired people who have spent their working lives in business, commerce, technology and other activities. They make their expertise and experience available to small business owners. The IESC in South Africa provides a mentoring and guidance service to budding black entrepreneurs who request it at a modest fee and in some cases at no cost at all. Typically, the retired person would be from the industry concerned. The main objective is to enable the entrepreneur to gain entry into the mainstream of formal business activities and to be confident in his or her ability to compete on equal terms with white-owned businesses (Tsehloane & Nelson, 1992).

According to the IESC, South Africa (Tsehloane & Nelson, 1992), the following were identified as areas of concern for many small businesses:

- starting up, including some knowledge and skills about the type of business, the equipment needed and marketing
- bookkeeping to keep track of the financial situation and remain informed about the profitability or non-profitability of the business
- costing of goods and services
- pricing, quality and delivery, especially when supplying larger companies as a subcontractor
- subcontracting which could have many pitfalls
- payment of installation/service work
- marketing and selling (the owner cannot do everything)
- financing and a business plan

3.5.2.3 Coaches and Mentors South Africa (Comensa)

A professional body representing business coaches and mentors in South Africa was launched in Johannesburg and Cape Town in April 2006, and in Durban in May of the same year. Comensa is affiliated to the European Mentoring and Coaching Council (EMCC) and the Worldwide Association of Business Coaches (WABC). The main objective of Comensa is to raise and develop the profile of mentors and business coaches in South Africa in order to improve the quality of service rendered to business owners. At the time the article was published, Comensa had 500 members on its books, but no mentor or coaches listed on the website (Mwanambuyu, 2006).

3.5.2.4 Industrial Development Corporation (IDC)

A multimillion rand agreement to support SMEs was concluded in July 2005 between the IDC and Thales International Offsets in collaboration with Calyon Investment Bank. This is a five-year loan facility that will be used to promote and sustain SME development in historically poorer provinces (Eastern Cape, Northwest, Limpopo and Free State) as well as enterprises adjacent to townships

and rural areas. The focus would be on job creation, BEE and assistance to help sustain and develop the economy (Big deal for small business, 2005).

3.5.2.5 Business Partners Limited

Business Partners Limited is a specialist investment company providing debt and equity investment, mentorship and property management services for SMEs in South Africa. Professional mentorship and consulting services are provided by the Business Partners Mentor and Consulting Services Division (Business Partners, 2006).

According to Mr Paul Malherbe, executive head of Business Partners Mentors, most small enterprises fail because of poor management which has financial and human resource implications. This is why they use experienced mentors to guide inexperienced entrepreneurs through the business process, trying to decrease the number of small business failures and providing specialist assistance to enable the enterprise to grow. In this way the entrepreneur has access to the same skills and knowledge as corporate enterprises. Business Partners renders specialist assistance in the following areas: developing a business plan, formulating business strategies, managing and optimising growth, increasing market share, communicating with the target market, diversifying, expanding and managing crisis. Mentors who are specialists in their fields provide assistance on an ad hoc basis (Malherbe, 2004:11).

Business Partners announced during May 2005 that they had allocated R357 million for BEE in their investment budget for 2005/2006. This budget focuses on SMEs, making investment financing more accessible to this sector. About R297.5 million would go towards empowering women entrepreneurs. Business Partners sees BEE as a priority and the SME sector as one of empowerment, job creation and economic growth. The financial assistance will be for new

businesses, growth, purchasing transactions, concessions, management buy-ins and buy-outs, tenders and contracts (Schwenke, 2005:6).

According to Schwenke, managing director of Business Partners, investing in SMEs could be especially profitable if lenders work closely with SMEs and help run the businesses. Business Partners does not simply provide businesses with loans and leave them to fend for themselves. He further states that they provide finance and take a portion of the equity in the business to compensate for the risk. Legal, accounting and business experts provide guidance and mentor the owners (Malherbe, 2004:11). Mentors are prepared to help entrepreneurs to improve efficiency, profitability and grow their businesses (Business Partners, 2006).

3.5.2.6 *Strategic alliance partners and networks*

The importance of strategic alliance was clearly demonstrated in the survey conducted by Burke and Jarrat (2004:9-10). Linking up with a major supplier could prove extremely valuable for an SME. The advice of the major supplier seems to be spot-on. The respondents (all small business owners) regard networks and networking as the most credible source of advice, even though they may be from different industries. The respondents feel less threatened and more secure in what they are doing.

3.5.2.7 Business Beat

Business Beat is a project of the Deloitte and Touche Business Equity Initiative (BEI), their objective being to develop the SME sector, focusing on previously disadvantaged communities. They support corporates, franchisors and public sector programmes that encourage the development of SMEs by creating profitable business opportunities and assisting with the development of entrepreneurs from the targeted groups to manage their businesses efficiently

(Business Beat, 2004). According to Mr Godfrey of Deloitte and Touche (2004), this service was not that successful. It focused on the business plan, but because the service providers were ineffective, Deloitte and Touche had to spend too much time to elevate the plans to a 100% level. The initiative was thus disbanded. A Business Beat centre has been initiated in Cape Town where students and consultants share their knowledge with entrepreneurs on an ad hoc basis. They also encourage banks to assist the entrepreneurs. As in the previous case, the success rate was poor.

3.5.2.8 The Business Place

The Business Place is situated in the centre of Johannesburg. One of its objectives is to render support services to the micro-enterprise sector. An impact study was undertaken to measure, among other things, the perception and feedback of the increasing utilisation of the Business Place and its positioning for this sector. The results were published in January 2004 and showed that although not all entrepreneurs become successful, the Business Place has helped many clients to achieve some noteworthy results. The success could not be attributed to one factor, but clients themselves have indicated that the Business Place helped them. Of the sample, 81% made more than one visit, and 92% indicated that they would return in the future (Verran, 2004).

The Business Place offers information and advice on the client's problem or need. If the client cannot be assisted by the assistants on the premises, he or she is referred to other consultants, business owners or institutions that have indicated their willingness to assist such entrepreneurs (Verran, 2004).

According to Rikhotso (2004), in order to succeed, entrepreneurs need training in business management, especially in financial matters. They generally have few skills in bookkeeping, creditor's control and financial management. Most of Rikhotso's clients come to him because they require money, but after a few

consultations, he finds that what they need is business management skills to expand their businesses and make them sustainable.

3.5.2.9 Pro-active Risk Management (PRM) Services

PRM is a multi-disciplinary financial business partner that provides knowledge and expertise in financial, labour and business matters. The typical market is small enterprises with 1 to 50 employees, in any form of business. The services and products PRM provides include the following: day-to-day bookkeeping, debtors and creditors, accounting services, VAT returns, financial statements, management accounts, cash flow and forecasts and budgets. According to PRM, these functions are probably not the primary functions of the business but are critical for success. The experts at PRM are convinced that it costs much less to outsource these functions to a professional group than to appoint a full-time accountant. This area is so specialised that professional people should handle it. They claim that their experience in this field could make the difference in a business, whether it is a medical practitioner, dentist, lawyer restaurant owner, shop owner or manufacturing concern (Van Oordt, 2004).

3.5.2.10 Employer associations

Cofesa (the Confederation of Employers of South Africa) as an example of an employer association consists of a team of professional advisers that assists small business owners countrywide with all aspects of labour legislation. This assistance includes wage negotiations, disciplinary hearings, conciliation and arbitration, as well as labour court cases. Regarding the Skills Development Act, Cofesa's call centre can be contacted for related requirements. A panel of experts deals with all facets of skills development. Cofesa advisers also draft employment equity reports and plans for members. Finally, Cofesa's hotline and advisers also assist members to identify health and safety risks (Cofesa, 2006).

There are many such employer associations. A long list is provided on the following website: http://www.workinfo.com. These associations are common meeting grounds for companies in a specific industry. Knowledge, ideas and experience are exchanged and stimulated. Most of them provide a platform for the employer to get close to matters affecting the industry, provide a representative strength to promote and protect their interests. The Electrical Engineering and Allied Industries Association and the Johannesburg Chamber of Commerce and Industry are two examples.

3.5.2.11 *Industry associations*

Industry associations were identified as both credible and valuable sources of market intelligence, marketing and technical/logistical advice. They provide a window to the broader marketplace and their advice is regarded as being specific to the competitive environment, in contrast to business networks that afford businesspeople the opportunity to discuss shared experience and general trends (Burke & Jarrat, 2004:9).

3.5.2.12 The South African Bureau of Standards (SABS)

The SMME Development Department with the SABS has initiated the Missing Link Programme, which provides SMMEs with the knowledge, skills and capabilities necessary to manufacture high-quality products that conform to national and international standards. The Department also provides access to other key facilities and services through the 50% Subsidy Scheme for SABS laboratory services, capability report, SABS ISO 9000 and SABS ISO 14000. The training programmes are offered in the following industries and focus on required standards and specifications for the specific industry: industrial chemicals, welding, clothing, civil engineering and marine products (Anon, 2000:100).

3.5.2.13 Sanlam

One of the main objectives of Sanlam's Entrepreneurs Development Programme is to establish 50 business ventures by the end of 2006. This will give budding entrepreneurs the opportunity and exposure to training, financial assistance and mentorship they will need to be successful. The entrepreneurs are chosen through a selection process in which 50 are chosen. After placing them, Business Partners Mentors appoints mentors to assist the entrepreneurs for a period of 12 months (Ueckermann, 2005d:6).

3.5.2.14 *Southern Sun*

Southern Sun has initiated an "Adopt a guesthouse" project in which it assists tourism entrepreneurs (five guesthouses owned and managed by women) in the areas of business, financial management and marketing skills, bringing them up to world class quality level (Ueckermann, 2005e:10).

3.5.2.15 South Africa Breweries (SAB): KickStart

KickStart is a project in the form of a competition held by SAB Ltd. It is aimed at inculcating a culture of entrepreneurship in young people between the ages of 18 and 35, promoting awareness through training and providing grants as start-up capital and mentorship and assistance during the start-up phase of a business.

Potential entrepreneurs enter the competition and are selected in the different regions of South Africa. They are trained for 10 to 14 days, and then required to draw up a business plan. The business plans are presented to a panel of judges and the winners receive grants in the form of capital. A mentor is also contracted to assist the potential entrepreneur for at least six months (South African Breweries Limited, 2006).

3.5.2.16 Sasol

In 1998, ChemCity was created by Sasol as one of its subsidiaries to render assistance to SMME development and job creation. Sasol helps develop ChemCity-branded SMMEs in downstream chemical and related industries. Sasol does this by identifying entrepreneurs and business propositions that have what it takes to become a viable SMME. ChemCity provides assistance through financing, Sasol's resources and coaching. It concentrates on empowered SMMEs owned and managed by black economic empowerment groupings, ensuring they are sustainable and working closely together with them. In collaboration with their partners ChemCity offers the following services, inter alia (ChemCity: 2006):

- general consulting services
- industry and competitor analysis
- marketing
- sourcing of technology
- technical development
- business plans
- feasibility studies
- sourcing of finance
- plant cost estimations

3.5.2.17 Zimele

Zimele is an enterprise development and empowerment initiative of Anglo American. It invests across a wide range of industries with no particular area of focus. It facilitates BEE, provides finance to black-owned emerging companies, assists in the development of entrepreneurship and facilitates procurement and outsourcing of non-core activities. In addition, to providing finance Zimele also provides a list of other types of assistance, including seeking and evaluating

viable business opportunities, assessing business proposals and plans, assisting with business formation, systems and information, nurturing entrepreneurs through the transfer of business and managerial skills and providing access to Anglo American's administrative resources such as legal, tax and human resources, at no cost (Zimele, 2005).

3.5.2.18 Inzuzo

In 2000, Intekom of South Africa launched a business-to-business Internet portal, branded "Inzuzo" (the Zulu word for "gain") to promote business interests and growth in the SME sector. The idea was to improve the success rate of small business and to help entrench this sector in the economy. Businesses are able to list or edit their products and service details online at no cost in order to increase their exposure. Inzuzo is an online information directory of where to go, for what. This source of information includes daily updated financial and investment news and advice on starting, running and marketing a small business. It also includes information on raising capital, management and commerce strategies, finance, accounting, tax-related issues, government regulations and legal issues. Information on numerous other issues and business tools is also available here. This creates an information and communications forum for SMEs, a virtual community for the small business owner (Intekom, 2000).

3.5.2.19 Friends, family members, customers and staff

The survey by Burke and Jarrat (2004:9) also revealed that this group is regarded as credible source of information and advice for strategic decisions. The Chamber of Commerce is also deemed to be a valuable source of the shared experience of other business practitioners. Personal friends can be of assistance if they have had business experience, but the data gathered in the survey emphasises the value of advice from quite informal sources seemingly unrelated

to the specific business. This value is built on respect, trust, experience and business success.

3.5.2.20 Outsourcing

Outsourcing is not a direct intervention, but in the context of this study, it is a type of intervention because someone outside the business, usually an expert in that particular field, does something for the business. Outsourcing can be seen as contracting with consultants and other service providers outside a business to perform specific tasks for the business. Portions of work are transferred to external sources as opposed to completing the work internally.

According to Stark and Du Plessis (2004:2), Business Process Outsourcing (BPO) is increasingly being used as a management tool by organisations competing in the New Economy (referring to information, digital, network, e-conomy, etc). Executives are also being advised to outsource all non-critical business systems and focus on their core competencies (Ellram & Billington, 2001). Once again, Hodgson, Schoppemann and Benson (in Stark and Du Plessis, 2004:6) pose the question whether this model will benefit the customer. They conclude by saying that because of the move from the Old to the New Economy the emphasis has moved from a sheer cost benefit to strategic balance in the organisation and the decision process related to business outsourcing is complex and impacts on various levels of the organisation.

3.5.2.21 International assistance to South Africa

Through a strategic partnership with Business Unity South Africa (Busa) the Netherlands Embassy is planning to significantly expand business assistance activities in South Africa. This assistance involves drawing on a pool of 4 500 retired business executives to advise businesses in 70 countries. Plans are also under way to introduce training and tailor-made courses (Holmes, 2006).

The trade Facilitation Office Canada and the International Trade Centre in Geneva are helping African SMEs to develop their ability to trade. This support programme includes the Programme for Building African Capacity for Trade, focusing on strengthening institutional support, enhancing enterprise competitiveness and promoting solid opportunities (Holmes, 2006).

Sweden has been offering financial support to South Africa across a spectrum of development activities, but recently announced that the funding will be replaced by a new Swedish support mechanism for SME development (Holmes, 2006).

3.5.3 Existing professional assistance

Professional assistance includes the assistance available from consultants in a specific business function or area such as accountants, attorneys and even banks.

3.5.3.1 Accountants

In a survey done by Burke and Jarrat (2004:9) accountants were perceived as providing sound advice on purchasing decisions (e.g. hire purchase or loan), reporting practices and tax matters. They also tended to be consulted only on strategy decisions post-event. Respondents indicated that accountants lacked the in-depth knowledge of their business to be a credible source of strategic advice, they do not understand the marketing process fully and they are too financially oriented. This indicates the contrast perceived between the value of specific advice sought in areas of expertise and the value of more strategic advice from the same source.

There are even more accountants, tax consultants and financial advisers than legal consultants and they all render a similar service. As indicated by Van Oordt (2004), this area is extremely specialised and professional people should handle

it. Small business owners can either do accountancy or they cannot and if the latter is the case they require assistance. Accountancy is not a task one can try to do oneself. Most small business owners make use of accountants to do their books and related tasks, because, as indicated by Van Oordt, it costs much less to outsource this function to a professional than to appoint a full-time accountant.

3.5.3.1 Attorneys

Attorneys such as the privately owned "FDE Attorneys, Notaries and Conveyancers" offer a variety of services and ad hoc advisory consultations. These services include the following (FDE Attorneys, 2004):

- conveyancing and notarial services
- commercial law services
- insolvencies and related services
- litigation services
- matrimonial law and related services
- deceased estates and other general services concerning related legal matters

Many other similar firms can be contacted by small business owners for assistance with legal matters. The type of service offered is usually a once-off type of intervention or consultation, for example, when the business is registered, when contracts have to be drawn up, when the form of business changes and when insolvencies are involved. It does not interfere with the management of the business and therefore cannot really have any impact on the business's success.

3.5.3.2 Banks

Peter Carruthers (2004) wrote that South African banks are not financial advisers, irrespective of what they communicate to the public. He is of the opinion that

South African banks exist to sell as much money as they can, at the lowest possible risk, and at the highest possible interest rate. Regarding small business owners he explains that they should be knowledgeable about banking aspects such as sureties, personal assets, interest rates and overdrafts. He says that small business owners should become their own bankers so that their current banker can never threaten their future. This single strategy has saved hundred of businesses from premature closure when their own bankers wanted immediate repayment of all outstanding debts.

ABSA is committed to the small business sector in South Africa and has introduced specialised support for small business customers through their branch network countrywide. Their portfolio managers tend to financial needs for finance, investments and other business products and services. ABSA says that it can assist the small business customer during any stage of the business, such as the business decision, a newly started business, in business for some time and needing to expand.

Apart from all the usual banking services, ABSA has a Business Banking ToolBox, which is a complete guide to business in 10 booklets. The bank claims that the booklets provide an ideal opportunity to gain a thorough understanding of what is involved in starting and then managing one's own business. The titles of the booklets are as follows (ABSA Business, 2004):

- *Considering your own business*
- *Checklist for buying a business*
- *Franchising*
- *Principles of finance*
- *Your business and your bank*
- *The Business Plan*
- *Key issues in small business management*
- *Legal issues*

- *Tax and small business*
- *Cash-flow programme and* manual.

Gavin Clarke, divisional head of small business at ABSA, reported in 2004 that if SMEs are carefully managed, the sector could be a profitable one in the long term. ABSA has worked closely with Khula. This has prompted banks to become more involved in helping SME clients in the hope of achieving similar results. Clarke also states that banks are starting to provide more free information to SME clients to help them run their businesses, and could eventually provide consultants offering free services to SMEs. "An SME that is getting good advice and mentorship is less of a risk and banks are starting to realise this" (Clarke, 2004).

First National Bank assists small business owners in all stages of the business. Its range of business banking products and services includes insightful business tips, transactional banking, insurance, financing, investing, sales and procurement.

Nedbank focuses on providing small and medium businesses with financial support and solutions essential for growth and development. Regardless of the type of business activities, it claims to have the products and services to suit each unique client's needs.

Van der Merwe (2004) also found in her research that commercial banks do not believe that it is their responsibility to train and educate entrepreneurs on business, management and entrepreneurial skills.

Pretorius and Shaw (2004:221) conclude in their article on business plans and bank decision making, that banks finance business ventures with poor potential for success if the applicant is creditworthy or has the necessary security rather than assisting applicants with good plans and ventures with potential, but who

lack sufficient security. Lack of finance is often mentioned as a stumbling block for start-ups and this research showed that only one-quarter of applicants for bank loans were reported to be successful in South Africa. Banks are less likely to grant loans than to offer credit through credit cards and overdrafts.

3.5.4 Private business consultations

The task of the private business consultant is a daunting one. The adviser has to demonstrate expertise across a generic wide-ranging sector and in a sense challenge the managing directors in their castles, and they actually have no legitimate power to do so. Advisers need not only a significant level of specialist knowledge, but the literature also suggests that personal advisers also have a prime initial task to demonstrate their competence, face to face (Mole, 2002:156). In the survey by Burke and Jarrat (2004:9), specialist advisers were not always seen as credible in providing practical strategic market-oriented advice because of their lack of knowledge about the particular industry or business, or both.

Consultation is a two-way interaction process of seeking, giving and receiving help. Resources need to be mobilised internally and externally to deal with problems and change whatever is necessary. One of the major issues of small business consulting centres on the inability of the owner is to clearly see what problems are affecting the business. The key to process consultation lies not only in finding the remedy for the problem, but to sharpen the owner's ability to assess problems in the business (Matthews, 1990:5-6).

The following are examples of successful private business consultations:

3.5.4.1 Patchall Systems

Patchall (name changed for the sake of confidentiality) is a manufacturer of rubber patches, valves and solutions. In September 1999, the owner required

assistance from Cofesa in certain labour matters. During the investigation, the consultant found that the cause of the decline in productivity was not only a labour force matter, but also that the company lacked properly managed systems. While the business was growing, the owner had become so tied up in his job as owner/manager, that he lost control of most of the activities. The consultant started assisting the owner in implementing administrative, production and human resource management systems. This assistance lasted for nearly four years and the business became more profitable than before. The owner actually employed the consultant on a contractual basis to assist him on a weekly basis (Nieuwenhuizen, 2005b).

The following are three examples in which small business owners successfully made use of a consultant. In all instances, the consultant was requested to assist in changing the employee's contracts and putting the control systems in place. The common problem seemed to have been that the owners had become so tied up in the day-to-day activities that they either neglected or did not have the skills to put administrative and control systems in place. This led to an increase in costs in all the cases (Nieuwenhuizen, 2005b).

3.5.4.2 BMB Electronics (a telecommunications company)

After analysing the situation, a cost analysis and cost breakdowns were done. New documentation was designed and a management control system implemented to control costs. Owing to these changes, the company profits increased dramatically. The consultant first assisted the owner on a weekly basis and thereafter on a monthly basis, until he felt comfortable to continue on his own.

3.5.4.3 Chemvul (a rubber product manufacturing company)

After analysing the situation, the following was done:

- Labour costs were allocated to specific outputs.
- Restructuring meetings were held with staff and the owner.
- Information was analysed to achieve optimum utilisation of resources.
- Improved systems were implemented and contractors trained.

The consultant was initially involved for about a month. Thereafter he was contracted to assist the owner for one day a week, and after about six months, was asked to assist whenever the owner needed him. During this period, the owner could also contact the consultant telephonically to obtain immediate assistance when required.

3.5.4.4 Christensen tools (Pty) Ltd (manufacturer and supplier of specialist tools, equipment and bags)

In this example the consultant gathered information, allocated labour costs to specific outputs, analysed information to achieve optimum utilisation of resources and implemented new cost structures. Although the process was the same as in the previous example at that stage the owner had no further need for assistance, other than with regard to labour-related issues.

In all of the above examples, the consultant was involved with the owner on a continuous basis and “became part of the business” for some time.

3.5.5 Employing experts

Although employing an expert is not the same as making use of a consultant, the small business owner sees that there is a need for expert knowledge, skill or input to become or be more successful. Two examples are discussed below.

3.5.5.1 Pacmar

Pacmar founder and MD, Kabous Marra, started off as a food technology student. At that stage, he had many years of beverage experience under his belt. After qualifying and working in the dairy, fruit wine and fruit juice industries in various development and quality control positions, he decided to start his own business. Together with previous colleagues and other experts in this field, he started a business as beverage producer and contract packer (Neall, 2002:13).

The issue here was not that he was making use of assistance, but that he was actually employing experts in their particular fields to do the job. This combined technical expertise gave the business a synergetic strength that few competitors could emulate. Today this is a vibrant company and its success is ascribed to quality, service, relationship and price (Neall, 2002:13-16).

3.5.5.2 JOBFOOD.COM

Bosman, MD of JOBFOOD.COM admits that one may feel that the business is "one's baby" but there are times when one needs to let go. It is dangerous to try to control all aspects of it at all times. Remember where the core competence lies. At some stage one will need specialist assistance to complement one's own skills. One needs to bring in the best and give them some leeway (Bosman, 2002:8).

Assistance to small businesses in South Africa is provided by many different bodies and entities classified under government assistance (such as Seda, Ntsika and Gaumac), assistance from professional bodies (such as IMCSA, IESC and Comensa), professional assistance (from accountants, attorneys and banks), and private business consultations (done privately by consultants). Some businesses were also identified that employ experts as part of the staff component and this was also classified as another form of assistance.

3.6 CONCLUSION

In countries worldwide, SME support and service are provided by various governments, bodies and individuals. Support comes in many different forms. These include direct financial assistance for start-ups to assisting with management problems in existing businesses. The importance of providing training, counselling and advice is widely recognised.

The present South African government has acknowledged the importance of SME development and has established many bodies to support the start-up and growth of SMEs. Although much of this support is in the form of financial assistance, the impact thereof is still unsatisfactory. The literature also reveals that the government's capacity is limited and support programmes tend to be driven at national level.

The majority of support bodies in South Africa are in the Gauteng area. However, these bodies are fragmented and in the hands of so many role players, and the interventions aimed at personal motivation and entrepreneurial skills tend to be the exception rather than the rule (Nieman in Nicolaides & Reddy, 2004:207). Not much is done to ensure entrepreneurial activity for the impoverished masses.

The literature reveals that there are many different types of interventions and programmes available in South Africa that SME owners can use to help them start a business, survive and grow the business. However, the problem is still there and certain questions remain unanswered in respect of most interventions. How successful are these interventions? Do they increase productivity, return on investments, return on assets, return on equity, profit/loss accounts, market share and/or sales growth? Do they cause the business to grow? Are the interventions according to the specific needs of SMEs and do those who supply the assistance

know what the needs are? Which interventions would probably enhance the success rate of SMEs in South Africa?

The literature does not satisfactorily reveal the detail and the success of interventions. There does not seem to be quality control or feedback regarding the assistance (financial and non-financial) provided by government or the private sector. The literature does, however, reveal the fact that while a substantial amount of both financial and non-financial assistance is offered, the failure rate of SMEs is extremely high. This seems to be a worldwide phenomenon.

The next chapter looks at the meaning of success, when a business can be judged as being successful, the different needs of the SME owners and what government could do to assist SME owners.

CHAPTER 4

SUCCESS FACTORS FOR SMALL AND MEDIUM ENTERPRISES

4.1 INTRODUCTION

Chapters 2 and 3 covered the history of SME development in South Africa as well as the different types of assistance provided to SME owners. The questions that remain are whether the assistance provided actually meets the needs of SME owners, causes the SMEs to be more successful and enables them to grow in the long run. Although some research has been done on SME interventions, it is still not clear exactly what type of assistance in all its facets does actually enhance the success rate of SMEs.

This chapter looks at the different definitions of, and views and ideas on success, and when a business can be judged to be successful. The different needs of SME owners and what government could do to assist them will also be examined.

4.2 WHEN IS AN SME SUCCESSFUL?

There seem to be many definitions of, and views and ideas about the success of an SME. Because the owners of such businesses have different reasons for starting an SME, their goals and their views on success also differ. Whatever their view of success, it needs to be measured to determine whether or not they are successful. There are also different ways to measure the level or degree of success. The literature reveals that success comes in many forms and with many measurements.

“Making a living is important but going beyond that is not often seen of great concern by SMEs.” A study in Finland showed that entrepreneurs are likely to measure their performance (success) by other criteria and find success in job satisfaction and satisfied customers (Reijonen & Komppula, 2007:689). In this study many small-firm entrepreneurs set non-financial goals and mentioned a “no-growth” objective. At the same time they did not regard maximisation of profit as an important goal. The desire for independence is the biggest motivational factor for the small firm owners (Reijonen & Komppula, 2007:693).

Bill Gates, the owner of Microsoft, is an example of monetary success, Sister Theresa, who did mercy work in Calcutta, India, was a spiritual success and Stephen King, the author of numerous thrillers is a literary success. Egelhoff (2006:1-2) also considers many of his teachers to be great successes although none of them were wealthy. He states that money is the most common measure but not the best. His further thoughts on success involve being able to look at what you have accomplished, that at least one person is better off because of your efforts and that you have somehow made a difference, be it long or short term (Egelhof, 2006:1-2).

According to Cornwall (2006:1), it is often assumed that the primary reason for starting a business is money and that profit is the only measure of success. He says that this thought is really another myth about entrepreneurship. Entrepreneurs evaluate and measure success in different ways as indicated below.

- the jobs they create
- the satisfaction of their customers
- creating an environment that fosters human development and provides for the common good
- self-satisfaction

- self-fulfilment

Rodriquez (2006:1) also gives different answers to the question of what success is, including the following:

- achieving independence, control and security
- power, acclaim and money
- having friendship
- rising from failure

Although financial success is clearly fundamentally important to all entrepreneurs it is often viewed as a natural outcome of pursuing what each entrepreneur views as his or her real success (Cornwall, 2006:1).

Rodriquez (2006:1) states that it is tough to define success but that a business usually passes through several milestones, which when achieved, prove that the business is on the right track. These milestones serve as indicators that the business is growing and expanding in the right direction. He discusses the following three indicators:

- **Achieving the break-even point.** Profit only comes after the break-even point has been exceeded. The business owner must calculate the break-even point, showing what level of sales is needed to offset all fixed costs of doing business and the variable costs of producing products. This is the point where expenses equal income, showing zero profit. Achieving this point on a monthly basis is an indication that the business may be viable.

- **Earning a living wage.** If a business can provide the owner with a living wage, it is starting to do well. This could mean that there is no profit yet.

- **Achieving real profit.** According to Rodriquez (2006:2), real profit is when the business is providing cash after all costs, including salary. At this point the business is more valuable than its assets. It is generating a return on investment and has a positive cash flow.

Conradie and Fourie (2002:136) include direct labour cost in the calculation of the break-even point. Thus, if the owner's wage/salary is seen as a direct labour cost, it will be included in calculation of the break-even point. This means that when break-even is reached, there is zero profit and zero loss, but the owner has received a living wage as described by Rodriquez in the previous section. Rodriquez does not seem to include the owner's wage/salary as a cost item.

Another definition by Driver, Wood, Segal and Harrington (2001:11-16) of a successful business is one that has survived from the start-up phase to the new-firm phase. The start-up phase includes businesses that have not paid salaries/wages at all or have paid them for only three months, while new firms are businesses that have paid salaries and wages for more than three months but for less than three-and–a-half-years.

According to Foxcroft, Wood, Kew, Herrington and Segal (2002:31), a business that has paid salaries and wages for more than three-and-a-half-years is an established firm. A business that has become an established business is also a successful business.

Nieman and Bennett (2002) state in their lecturer's guide, that a business is reasonably successful because it has been in business for five years.

Success can also be defined in terms of return on investments, return on assets, return on equity, profit/loss accounts, market share and sales growth. Factors such as customer satisfaction, customer loyalty, image and product service

innovation may also be considered, but Garg, Joubert and Pellissier (2004:7-19) found that they are not valid dimensions for measuring business performance. They did, however, find that business growth and profitability (the ability to generate income) show a high degree of correlation, indicating that business growth is aligned with profitability, that growth for profitability is a major concern and that profitability still remains the key measure of business performance in the South African banking sector.

Because financial success is fundamentally important to all SME owners and seems to be a common denominator in most of the definitions of a successful business, it is doubtful whether a business will continue in the long run if it does not make a profit. The other factors referring to a successful business differ from one owner to the next, and are often subjective and fairly difficult to measure.

As indicated in the definitions of success, some business owners see themselves as successful if they can earn a living wage, while others regard themselves as successful only once they make much more. If making money or profit equals being successful, business owners need to measure how much money is made to determine how successful they are.

The amount of money made is measured by looking at the business's profit. To maximise profit, business owners strive to achieve the maximisation of the surplus of sales income received over the total costs incurred (Marx et al., 2001:117).

Profit maximisation can also be related to the capital employed, which is a more meaningful concept than the isolated profit figures. This refers to the rate of return (Marx et al., 2001:118) or the return on investment (Conradie & Fourie, 2002:14), also known as profitability. The reason why it is more meaningful is that the percentage ratio is calculated between the net profit earned in a specific

period and the capital required to generate that profit. The rate of return on the total capital (the enterprise's rate of return) is illustrated by the following equation:

$$\left(\frac{\text{Profit}}{\text{Sales income}} \times \frac{\text{Sales income}}{\text{Total assets}} \times \frac{100}{1} \right)$$

= Profit margin on sales x total asset turnover (expressed as a %).

The two "capabilities" that determine enterprise's rate of return are the ability to earn a profit on sales, as expressed by the profit margin, and the ability to generate sales through the utilisation of assets, as expressed by the total asset turnover. Rate of return can also be calculated on equity and controlling capital (Marx et al., 2001:118-119).

Edwards, Hermanson and Maher (1993:1079-1086) agree that profitability is an important measure of a business's operating success. They refer to two areas in judging profitability. The first is the relationship on the income statement that indicates the business's ability to recover costs and expenses, while the second is the relationships of income to various balance sheet measures that indicate the business's relative ability to earn income on assets employed. Profitability tests include the following:

- the rate of return on operating assets
- net income to net sales
- net income to average common stockholders' equity
- cash-flow margin
- earnings per share of common stock
- times interest earned ratio
- times preferred dividends earned ratio

In finding an appropriate definition to describe a successful SME for this study the following two definitions were mainly studied and the second one selected for the purpose of this study:

(1) A successful SME owner is one who creates work at least for himself or herself but also for others, who has supported this for at least a period of one year, whose business is profitable, who functions autonomously and who generates an income for himself or herself. Owners do not necessarily specify growth as an objective but see themselves as successful if their businesses are profitable (Nieuwenhuizen, 1999:12).

(2) A successful SME is one that has been in existence for at least four years, has been profitable and has shown growth over the preceding three years (Nieuwenhuizen and Groenewald, 2006:70).

If this is the definition of a successful SME, in this study the researcher will endeavour to determine what type of interventions could cause SMEs to be successful or more successful.

The literature on this topic is limited and not specific about what type of interventions actually cause success. However, there are some sources dealing with the needs of SME owners and these needs should indicate to some extent what options could assist them.

4.3 THE NEEDS OF SME OWNERS

4.3.1 Access to expertise

SMEs consider access to expertise to be the single most critical resource for their business. A study conducted in 2005 revealed that according to 91% of more

than 6 000 SME owners, expertise is important in starting and running their businesses, while only 2% believed it not to be (Goldstuck, 2005:1).

Nieuwenhuizen (1999:58-159) identifies the use of experts as one of the success factors of a SME. She comments that successful entrepreneurs usually have enough knowledge and skills to ensure reasonable success. They are fully aware of their own deficiencies and make use of experts for advice and assistance to improve their performance. Successful entrepreneurs see themselves as competent in the entrepreneurial, management and technofunctional roles. However, later in her study (p. 166) she warns about the manner in which advice is given. She recommends that SME owners need to be assisted to implement the advice as they do not always have the ability, understanding and knowledge to do it themselves.

Nieuwenhuizen (1999:168) proved in her research that "knowledge and skills regarding the business" and "the use of competent consultants" are closely related. She also identified the use of competent consultants as a vital success factor that is strongly related to an enterprise's success.

In a survey by Burke and Jarrat (2004:8), the respondents agreed that they would act upon advice given to them that is practical and based on hard experience. It all has to do with "profitability" and "relatability". The problem they had was that such information is not always available to SMEs and the information available is strategic and refers to big business.

A study in the USA involving successful entrepreneurs revealed the following responses to a question on the importance of proper advisors (Entrepreneur Interview Series, 2004):

- “is essential to the success”
- “is very important towards achieving success”
- “are KEY to the success”
- “if you want your business to grow, find someone who knows about business”
- “is very important”
- “advisors are critical”
- “it helps big time”
- “mentors are an essential key to your success in business”
- “extremely important”
- “proper advisors are crucial”

All these responses seem to be extremely positive and the businesspeople concerned do not seem to doubt the significance of proper advisors.

4.3.2 Access to finance

Access to finance was not far behind (in the same study in the previous section), with 88% of the respondents claiming it to be crucial for the business. Roy Ross, Director: Business Banking of Standard Bank also confirms that the main constraint to the development of the SME sector is the knowledge and skills of the entrepreneur rather than access to finance. It is equally important to know how to access finance as it is to know where to get it (Goldstuck, 2005:1).

A combination of expertise and financial resources appears to be the bedrock on which the growth of the SME sector should be built.

4.3.3 Information technology

Burke and Jarrat (2004:10) found that the rate of technological change per se was a driver of information search. It is not the technological nature of the information that is the issue, but the competitive advantage that may result from

following that information or advice. The point is that keeping up with new technology can provide an advantage.

4.3.4 Education and management training

The high school education system in South Africa basically teaches pupils to conform, and entrepreneurs are generally not conformists. It is about reproducing what they have learnt and not about their own original thoughts and creativity. Entrepreneurs usually succeed in doing something different from their competitors. They make a plan, improvise and invent. The more educated a pupil becomes the less likely he or she is to start his or her own business. There are many entrepreneurs who do not have degrees or even a grade 12 (Hetherington, 1986:23).

During a study in the USA, successful entrepreneurs were asked what value they place on formal and informal education for a future businessperson. They were also asked about the importance of a college degree such as an MBA. Regarding formal education, most of the respondents mentioned business experience, on-the-job experience, the real world and informal education as vital factors. Formal education did not seem that important to most of them (Entrepreneur Interview Series, 2004).

Entrepreneurs would benefit from education, especially management training. In South Africa, there is the need to increase the learning and training opportunities for new entrepreneurs and to develop networks to assist them. In ancient times in countries such as Greece, Persia, India and Babylon, a business was passed down from a father to his sons who were encouraged to continue and maintain a competitive edge in the market. In this way entrepreneurial training was directly influenced by personal relationships rather than by formal education. Soon craftsmen gathered and created associations to protect their interests and common trades. These groups appointed experts in their fields to conduct quality

control and serve as mentors to new entrepreneurs. They offered strong support in the form of advice and assistance (Nicolaides & Reddy, 2004:204-205).

Anyone cannot simply decide to open a business and be successful in doing so. An entrepreneur needs to be at least educated, trained or skilled in some way and together with that make use of experts/specialists in those areas in which he or she is incompetent. It is vital for entrepreneurial training to form the cornerstone of a supportive environment, because it equips SME owners/managers with the skills necessary to succeed. A training perspective is that failure can be avoided by exploring the circumstances from which failure arises. Success often depends on management's ability to respond quickly to changing circumstances (Van Eeden et al., 2003:14).

Although there are many competent businesspeople with outstanding ideas, many of them do not know how to manage a business and have no underlying appreciation of business fundamentals. These businesses then fail because of poor management skills and a lack of business knowledge. Established businesses often fail as a result of the entrepreneur's inability to adapt to the changing needs of the business (Nieuwenhuizen, 2005a:6).

More often than not, increasing productivity lies in the human resource component of the business. It is thus necessary for entrepreneurs to understand how practices and processes designed to utilise the knowledge, skills and abilities of the employees can lead to greater productivity and performance (Ciavarella, 2003).

Van der Merwe (2004) reports that women on the Women Entrepreneurship Programme (WEP) at the University of Pretoria have a greater need for ongoing support once they have started their businesses because they lack management experience and access to networks. The WEP was developed to train and assist entrepreneurs to start and grow their businesses. Because training programmes

generally place little emphasis on the provision of after-care training, care and advisory service for the ongoing firms, the WEP also takes care of post-care training in the form of business mentors and advisors, and this is what makes it unique. Further research into the WEP will, inter alia, also determine how after-care support and mentoring can be established.

Walker, Redmond, Webster, & Le Clus (2007: 294-304), explored the claim that small business owners are "too busy to be trained". In Western Australia they found that small business owners/managers are not too busy to be trained given certain conditions. They will participate in training opportunities if they are directly applicable to current situations in their businesses and if the delivery process is carefully structured in terms of locations, time of day and length of session.

4.3.5 Working experience

An impact study by the Business Place revealed that the most likely SME owners to succeed are those with some work experience, some access to own capital and some understanding of their market and customer base (Verran, 2004).

Man (2006:317) found in a study on the patterns of entrepreneurial learning that entrepreneurial learning was affected by various input factors of which most importantly different forms of experience which those entrepreneurs developed before or along with the learning experience. These business people improved and reflected upon experience and successfully transferred prior experience in current practices.

4.3.6 Business sense

According to Dyer (1997:9), successful entrepreneurship requires clarity of vision and purpose, a keen sense of business opportunities to realise the vision, bold

ideas on how to exploit perceived opportunities and well-managed action to follow up on those ideas. He further explains the two key thrusts or dimensions that can be distinguished in terms of the overall process of entrepreneurship. The "opportunity orientation" of a business is measured by the degree to which the business owner or manager effectively identifies new opportunities, generates new ideas to respond to these opportunities, develops the selected ideas into marketable products or services, and implements the ideas. The "systems orientation" of a business is measured by the degree to which the business effectively develops organisational systems; processes structures to manage its activities; categorises similar types of opportunities; identifies patterns across different categories of opportunities; realises benefits from managing economies of scale; anticipates and manages risks; and creates strategies for the realisation of value from future streams of opportunity.

4.3.7 Informal sources

Informal sources such as business alliances and the Chamber of Commerce are preferred over the more formal sources, the latter being generally regarded as providing information and advice that are not specific to the context in which SMEs operate. The formal providers appear concerned about the legal implications of their advice. This cautiousness tends to render the information provided through these sources irrelevant in the strategic decision-making process. These findings correlate with those of Hill et al. (1999) supporting the importance of personal business relationships in providing information for decision making. Such relationships are built on trust and the advice given is in the interest of the business partner (Burke & Jarrat, 2004:10).

4.3.8 Government assistance

Assistance does not only come from consultants but also from government. According to the 2004 SME Survey, 62% of respondents experienced

government initiatives as negative and the impact of government initiatives on the effect of the competitiveness of SMEs was found to be minimal. This corresponds to the 2005 figures (Anon, 2005).

A study by Goldstuck (2005:1) recommends that government should restructure support plans to provide expertise in a meaningful fashion for SMEs. She states that one of the reasons many government initiatives fail is because of the level of expertise expected from SMEs when dealing with the complexities of qualifying for grant funding. Government should provide the expertise instead of demanding it. Orford (2004:51) also suggests that government should reduce direct provision of support in favour of facilitating commercially-driven private sector provision of business development services.

As stated earlier, access to expert knowledge and financing remain the principal factors that enable SME owners to run their businesses successfully. Government, however, expects SME owners to have a certain level of knowledge, for example, of complex regulatory issues, when this is not the case. Secondly, financing plays a key role, not only when starting a business (mainly the focus of government grants), but also in respect of its competitiveness and survival. This is probably one of the reasons why so many government programmes fail (Ueckermann, 2005a:8).

More than 20 years ago, Hetherington (1985:22) observed that finance was seldom the most significant factor to ensure the success of SME owners. More recently, Jackson (2004:8-11) agreed, and remarked that the needs of SMEs are more in the areas of bookkeeping, securing raw materials, the type of equipment to purchase, costing and marketing and the fact that these needs are best met by regular visits from sympathetic, experienced businesspeople. These visits should be at the place of work with a person-to-person discussion. He further believes that retired directors who were active in the specific field could meet this need.

4.3.9 The gender issue

This study did not determine or take the gender of the business owner into account, but it seems that "special assistance" is necessary when assisting female business owners. According to Tillmar (2007:93-95), business advisors need adequate training in gender issues to ensure an unbiased approach. They need to take into account that apart from the general problems small business owners face, women also need to handle the gender-system in society and the expressions of this that they encounter.

4.4 CONCLUSION

Entrepreneurs make use of advisors such as attorneys, accountants, banks and business consultants. Information on the number or of consultants required by SME owners, their status, what they do for the businesses and the value their service adds, is not known and merits further research.

Although little information is available on the process and importance of the use of advisors, entrepreneurs generally agree that they need assistance and expertise to start as well as on-going support once the business is up and running.

Finance does not seem to be the primary need to ensure improved performance, but amongst other things, human resources factors, advice based on experience, keeping up with new technology and the fact that informal sources are preferred over more formal sources.

According to Madell and Adam (2002:13), it is clear that South Africa can benefit much from experiences in business support policies and strategies elsewhere in the world. South Africa should reform its business support policies and strategies

in order to meet the objectives of increasing economic growth and reducing employment and inequalities in our society. This would involve establishing a network of business support agencies that includes professional, technical, academic and other institutions. It would also entail placing greater emphasis on promoting entrepreneurship and discouraging public sector emphasis on linking business development to social welfare programmes. In conclusion, additional legislative and funding policy changes are required to make the environment more conducive to local economic development.

The next chapter will describe the research methodology used in this study.

CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter deals with the research methodology used in this study. The research methodology forms the backbone of and guides the planning, organisation, analysis and interpretation of the data. The methodology dictates the data gathered, dictates the approach to be adopted so that meanings that lie below the surface of these data become manifest, and draws a conclusion or series of conclusions that leads to the expansion of knowledge (Leedy, Newby & Ertmer, 1997:9).

It is necessary to understand how the data were gathered in order to assess the research findings, interpretations, recommendations and conclusions and judge the validity and reliability of the data (Ali, 2003:293).

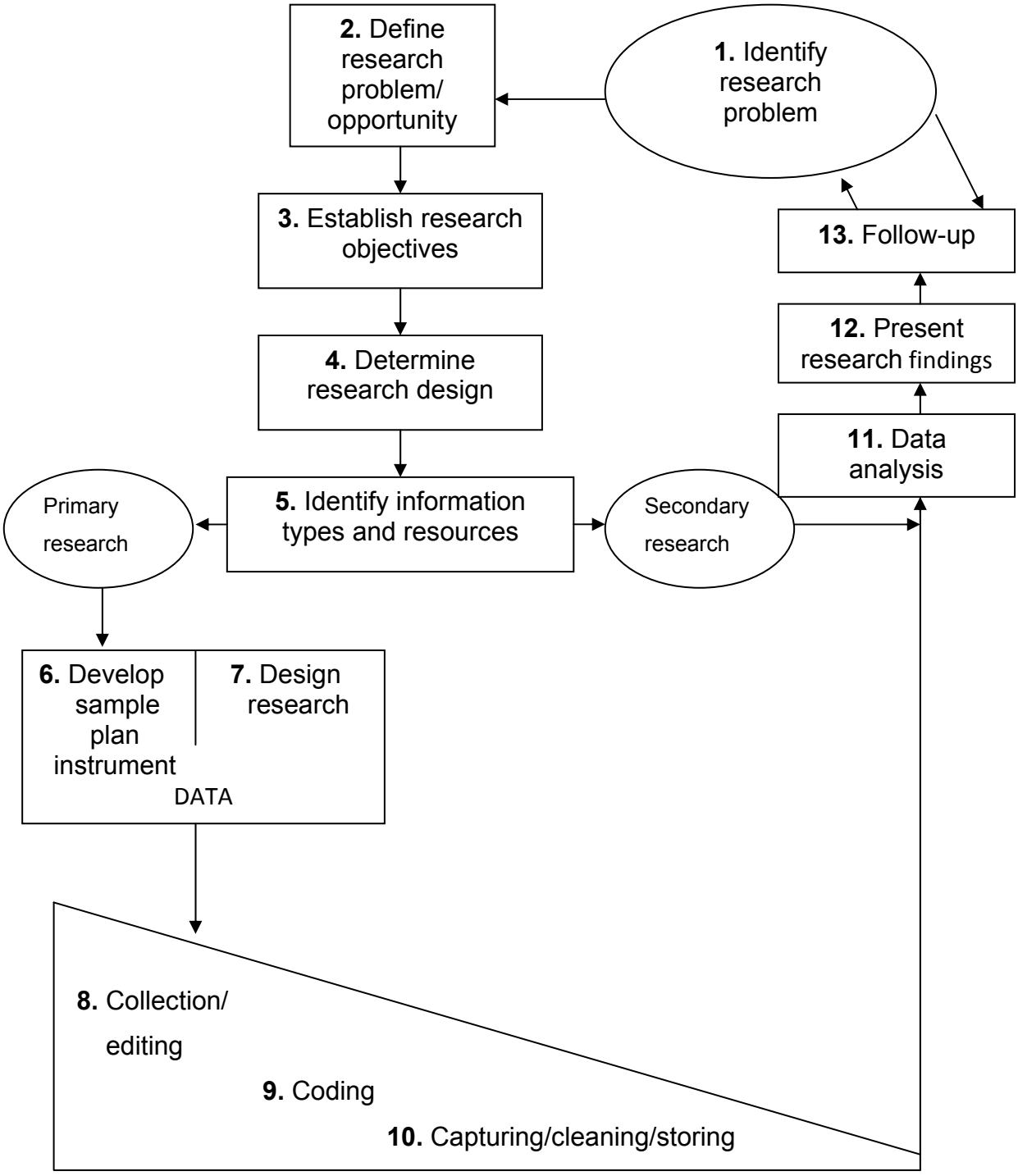
The steps in the research process will be discussed within a theoretical framework. The objectives of the study will then be reviewed and the methodology used in the study discussed.

5.2 STEPS IN THE RESEARCH PROCESS

The literature review revealed different steps by different authors in the research process. Tustin et al.'s (2005) model was chosen for this study because it was found to be systematic, complete and easy to use for the research problem in question.

This model is depicted in figure 5.1. Firstly, the theory of the model will be discussed and then the application thereof.

Figure 5.1: Steps in the research process



Source: Adapted from Tustin et al. (2005:76)

Step 1: Identify the research problem or opportunity

Step 1 involves identifying a problem or opportunity. The problem/opportunity usually arises from the continually changing and uncertain business environment in which businesses operate. This step requires an understanding of the decisions to be made and the problems or opportunities to be identified (Tustin et al., 2005:77).

The first three steps guide the research and are critical in the process. If they are correct, the research has a good chance of being useful and appropriate. If not, the research will be a waste and irrelevant (Tustin et al., 2005:77).

Step 2: Define the research problem or opportunity

Steps 1 and 2 should be viewed together. Once a problem/opportunity has been identified, the researcher comes into the picture. The researcher and the relevant manager in the business clearly establish the problems that have been observed and then define precisely what the research problem is. The management decision problem is translated into a research problem for the researcher. This means that the researcher obtains information effectively and efficiently to help management make a decision and take action to solve the problem.

This process of defining the research problem requires more insight and creativity than any other step in the process. This is a critical part of the process. The researcher might have to do additional exploratory research to define the exact nature of the problem and gain a better understanding of the environment.

McDaniel and Gates (Tustin et al. 2005:79) identify the following three key questions to be answered at this stage:

- Why is the information required? The researcher needs to know why the information is required and what decisions will be made on the basis of the results. The more information available to the researcher, the easier it will be to identify the essence of the problem.
- Does the information already exist? If sufficient secondary data are available, it might not be necessary to collect primary data.
- Can the question really be answered? The researcher should be sure that the required information is available or can be readily obtained, otherwise time and effort will be wasted in pursuit of the wrong problem.

See section 5.2.2 for the answers to the above questions.

Step 3: Establish the research objectives

These objectives reflect the exact information (what management need to know in research terms) required to address the problem/opportunity and make a decision. It must be specific and unambiguous. According to Aakar, Kumar and Day (Tustin et al. 2005:81), research objectives have three components:

- the research question that specifies the information the decision maker needs
- the development of hypotheses that are essentially alternative answers to the research question (information needs to be gathered to test the hypotheses)
- the scope and boundaries of the research

The research objectives and hypotheses are explained in section 5.2.3.

Step 4: Determine the research design

The research design is the plan to be followed to realise the research objectives and answer the hypotheses. It specifies the methods and procedures for collecting and analysing the required information. Different factors such as

research costs, the quality of the research information provided and the time constraints influence this design. Tustin et al. (2005:83) provide the following classification of research approaches or research design types by data collection method:

- **Exploratory research.** This is done by collecting internal and external secondary data. Data can be collected by means of in-depth interviews, focus groups, online chat rooms and e-focus groups.

- **Descriptive research.** Data can be collected by means of personal interviews, mall intercepts, telephone interviewing, mail surveys, facsimile surveys, panels, Web-based surveys, e-mail surveys and online panels.

- **Causal research.** Data are collected through experimentation.

Some authors like Aaker and Day (1990:25) include in this step the design of the questionnaire, specifying the sampling plan and designing the experiment. Malhotra (1993:25) includes the following eight steps in the design phase:

(1) secondary data analysis
(2) qualitative research
(3) methods of collecting quantitative data
(4) definition of information needed
(5) measurement and scaling procedures
(6) questionnaire design
(7) sampling process and sample size
(8) plan of data analysis

Although all these steps are part of the research design, the researcher in this study will handle these issues as separate steps as indicated in Tustin et al.'s (2005:76) model.

The research design is explained in section 5.2.4.

Step 5: Identify the information types and sources

The method(s) of data collection now needs to be stipulated. Data should be valid, reliable and easy to obtain within a realistic timeframe, affordable and relevant to the problem. Data sources are divided into the two main groups of secondary and primary data and there are numerous ways to in which to gain access to them.

Secondary data are already available in the form of existing information. Primary data are collected specifically to address the research objective if secondary data are insufficient (Tustin et al., 2005:88-89).

When the researcher has to collect primary data, he or she should choose the most appropriate research approach (quantitative or qualitative research) as well as the most appropriate primary data collection method.

Quantitative research usually involves collecting primary data from large numbers of individuals with the intention of projecting the results to a wider population where the aim is to generalise about the specific population. Qualitative research generates data that are frequently difficult to quantify. This research approach is often expressed as personal value judgements and it is difficult to draw any collective general conclusions. The difference between quantitative and qualitative research methods is based on sampling methodology and not the type of data generated (Tustin et al., 2005:89-91).

Information types and resources are identified in section 5.2.5.

Step 6: Developing a sampling plan

Although sampling is part of step 4 (the research design) it remains a separate step in the process. A sample is a subset of the population. Diamantopolous and Schlegelmilch (1997:18-19) explain the following five steps of sampling:

- **Define the population or universe**. This is the group from which the sample will be drawn.
- **Specify the sample frame**. This is where the listing or directory from which the sample will be drawn is specified.
- **Select the sampling method**. The researcher must specify whether a probability or non-probability approach will be applied as well as the way in which the sample units will be selected.
- **Determine the sample size**. The researcher specifies the number of sample elements to be included in the final sample.
- **Draw the sample**. The operational procedure for the selection of the sample is specified.

The detail of the sample plan is discussed in section 5.2.6.

Step 7: Designing the research instrument

A questionnaire or interview sheet is designed to collect information from the sample population. Only essential questions are included. They may be structured and/or unstructured. The types of responses may be open or closed ended. Closed-ended responses can be categorised into dichotomous, multiple-choice and scaled responses (Tustin et al., 2005:98).

Malhotra (1993:319) notes that there are no scientific principles that guarantee an optimal or ideal questionnaire and because of this questionnaire design skill is acquired through experience. It is an art rather than a theory. There are,

however, useful guidelines in designing questionnaires that new researchers can use. Malhotra (1993:319) also presents a series of steps for questionnaire design. They are as follows:

1. Specify the information needed.
2. Specify the type of interviewing method.
3. Determine the content of individual questions.
4. Design the questions to overcome the respondent's inability and unwillingness to answer.
5. Decide on the question structure.
6. Determine the question wording.
7. Arrange the questions in proper order.
8. Identify the form layout.
9. Reproduce the questionnaire.
10. Pre-test the questionnaire.

A questionnaire was compiled and used as instrument to collect data. The design details are discussed in section 5.2.7. A copy of the survey questionnaire is included in appendix A of this study.

Step 8: Collecting and editing data

The data collection process is also referred to as fieldwork. It involves all the functions relating to conducting interviews such as the selection, training and supervision of the people who collect data. One must also keep in mind that the nature of fieldwork varies with the mode of data collection, the latter referring to in-house, telephone, mail and mall interviews, focus groups and online.

Fieldwork also involves control, which means determining whether the interview actually took place and verifying the information collected, and includes following up incorrect and uncertain responses. This is referred to as editing.

The data collection process is discussed in section 5.2.9.

Step 9: Coding data

The responses on the completed questionnaires are coded. This involves allocating numerical values to the responses and thus transforming them into computer-readable format that can be transferred to a computer.

See section 5.2.10 for details.

Step 10: Data capturing, cleaning and storing

When the coded data are typed into a computer this is referred to as data capturing. This can be done by using computer data-capturing packages such as spreadsheets (such as Excel and Quattro Pro) or Statistical Package for Social Sciences (SPSS) Data Entry. Once this has been done, any mistakes must be corrected. This process is referred to as data cleaning. There are techniques for finding or verifying mistakes. Finally, the data are stored electronically.

See section 5.2.11 for details.

Step 11: Data analysis

The purpose of data analysis is to interpret and draw conclusions from the mass of collected data. Clear analysis objectives must be set which serve as a guide to the analysis process (Diamantopolous & Schlegelmilch, 1997:62-63).

According to Tustin et al. (2005:103-106) the focus of any analysis can only take on one of three basic forms. These are as follows:

- **Descriptive analysis**. The aim is to provide a summary of the sample in terms of the variables of interest. A number of statistical techniques can be used for this purpose. They include frequency distributions, location measures (mode, median and mean), variability measures (index of diversity, range, variance and standard deviation) and skewness and kurtosis measures.
- **Estimation**. The aim of an estimation focus is to use the information available from the sample to estimate the situation that is likely to exist in the population as a whole.
- **Hypotheses testing**. The aim is to test specific proportions of the variables of interest and use the evidence provided by the sample to draw conclusions about these proportions for the population as a whole.

See section 5.2.12 for details on the data and method of data entry as well as the data analysis techniques used in this study.

Step 12: Presentation of research findings

The results have to be communicated by writing a research report. When structuring the report, factors such as the type of audience/client, the research topic and space/time constraints should be taken in to consideration, because they will have an impact on the format of the final report.

Step 13: Follow-up

Tustin et al. (2005:107-108) suggest that it is essential to establish whether the research findings presented to a client or management are actually accepted and used. Research that reduces uncertainty and influences decisions is far more likely to be utilised. Research will make a contribution to management decision making when it is relevant, timely, efficient and accurate.

In the remainder of this chapter the researcher will attempt to explain the research methodology, based on the model of Tustin et al. (2005:76), used for this specific project.

5.2.1 Identify the research problem

On analysing the situation in South Africa, the researcher found that a great deal of assistance, mostly in the form of financial assistance, is available to SME owners. With this in mind, the failure rate of SMEs in South Africa is still extremely high. This, however, appears to be a universal phenomenon.

5.2.2 Define the research problem/opportunity

In the researcher's opinion, the assistance, support and training suggested by the South Africa government and provided by many consultants, advisors, specialists and trainers of SME owners are not always adequate, do not always focus on those areas that will necessarily enhance their success rate and do not necessarily contribute to their success.

This problem led to the researcher posing the following questions:

- In which areas, and how, are SME owners being assisted?
- To what extent do consultants assist entrepreneurs and SME owners or become part of their businesses?
- What are the consequences of consultants assisting entrepreneurs and SME owners? Are they successful?
- Are there any shortcomings in this process of assistance?
- What types of assistance contribute to the success of SME owners?

This information is required so that assistance to SME owners is more meaningful and enables them to be more successful. Specific and meaningful

information on this issue is lacking as indicated in the literature study. At this stage it is impossible to say whether or not the question can be answered, but it is surely worth the time and effort to find out.

5.2.3 Establish the research objectives and formulate the hypotheses

This section reviews the research objective formulated in chapter 1. The primary objective of the study was to analyse business interventions and to determine their effect on the perceived success of South African SMEs.

The secondary objectives of this study are as follows:

- to determine in which functional areas the SME owners are receiving assistance
- to determine the amount of time the consultants (including all those assisting the SME owner) spend with the business
- to determine during which stage of the business life cycle assistance is rendered
- to determine a profile of the provider of the assistance
- to identify any shortcomings in the process of assistance
- to determine to what extent the respondents rate Cofesa as a provider of assistance.

The following null hypotheses (H_o) relating to the research problem were tested against alternative hypotheses (H_a):

H_o^1: There is no relationship between the types of businesses owned/managed by the respondents and the success of the businesses.

H_a^1: There is a relationship between the types of businesses owned/managed by the respondents and the success of the businesses.

H_o^2: There is no relationship between the period in the business cycle in which the assistance was provided and the success of the businesses.

H_a^2: There is a relationship between the period in the business cycle during which the assistance was provided and the success of the businesses.

H_o^3: There is no relationship between the way the respondents were assisted and the success of the businesses.

H_a^3: There is a relationship between the way the respondents were assisted and the success of the businesses.

H_o^4: There is no relationship between those who provided the assistance and the success of the businesses.

H_a^4: There is a relationship between those who rendered the assistance and the success of the businesses.

H_o^5: There is no relationship between the period of time of assistance and the success of the businesses.

H_a^5: There is a relationship between the period of time of assistance and the success of the businesses.

H_o^6: There is no relationship between the size and the success of the businesses.

H_a^6: There is a relationship between the size and the success of the businesses.

H_o^7: There is no relationship between the most important areas in which assistance was received and the success of the businesses.

H_a^7: There is a relationship between the most important areas in which assistance was received and the success of the businesses.

H_o^8: There is no relationship between the qualifications of the respondents and the success of the businesses.

H_a^8: There is a relationship between the qualifications of the respondents and the success of the businesses.

5.2.4 Determine the research design

To realise the research objectives, the researcher firstly conducted exploratory research by collecting secondary data. The purpose of this was to gain a deeper understanding and broaden the scope of the research problem. Secondly, descriptive research was undertaken to attempt to answer the questions that arising from the research problem.

Although some of the following steps are seen part of the research design, they will be covered separately.

5.2.5 Identify information types and resources

The researcher explored a wide variety of secondary resources, including accredited journal articles, other articles found in newspapers and on the Internet, and government and other reports such as the Gem and SME Survey of Goldstuck (2005 & 2004). This literature review provided the background information on the type of assistance available to SME owners. However, it often failed to reveal how successful these interventions had been.

Primary data were collected by making use of questionnaires and interviewing the members of Cofesa. All 5 543 members of Cofesa had an equal chance of being called and those SME owners who had received any type of assistance were asked to answer the questions telephonically. Once the number of respondents who fulfilled this requirement reached 200, the process was discontinued. These 200 can be seen as the sample for the study. The data were automatically captured on the SPSS spreadsheet.

5.2.6 Develop a sample plan

The sample was drawn from all the members (5 543) of Cofesa. To obtain a sample size of 200 (discussed later in this chapter), 2 658 of the members were contacted randomly in the different regions of South Africa (quota sampling). A filter question on making use of any assistance was asked to determine whether the respondents' input would be useful for this study. This was done telephonically. It can therefore be stated that the researcher made use of quota and random sampling to obtain the results from the 200 SME owners.

5.2.7 Design a research instrument

A questionnaire was compiled and used as the instrument to collect data (see appendix A for a copy of the survey questionnaire). The questionnaire consisted of 18 questions. The researcher made use of a range of question types, which included open-ended, closed, dichotomous and multiple-choice questions. Four of the questions had the option of "other", making them open-ended as well. The questionnaire was separated into six distinct areas of investigation:

- Introduction
- Screener section
- Section 1: general business information
- Section 2: shortcomings
- Section 3: successful interventions
- Section 4: demographics

In compiling the questionnaire, the researcher's chief concern was to keep the interviews as straightforward as possible and make it easily understandable without compromising the objective of the study. The options to choose from in the dichotomous and multiple-choice questions were structured in such a way that the respondent was not able to choose two options where only one was

required. It was also not possible to give any other answer than that of the options given on the seven-point scale.

The questions were precoded to facilitate calculations on a spreadsheet.

5.2.8 Pilot testing of questionnaire

Data collected must be directly relevant to the research problem (Tustin et al., 2005:387). This is an important factor to be considered in compiling a questionnaire and the questionnaire should be designed in such a way that the research objectives are realised (Ali, 2003:308).

To ensure that the questionnaire achieved the study objectives, it was edited and tested in the following ways:

Firstly, the questionnaire was edited and quality tested by researcher's colleagues in the Market Research and Business Management Departments at Unisa. This group included the Head of the Bureau for Market Research, the two supervisors of the thesis and another professor who assists with research in the Department.

They not only tested for precision of expression, relevance and objectivity, but also made sure that the questions were simple and easily understandable. Additionally, they checked and tested for data-capturing relevance.

Secondly, the questionnaire was sent to the CEO of Cofesa to discuss it with his business consultants. They made sure that the questions would be simple, understandable and relevant to the study objectives.

Thirdly, the questionnaire was edited by Ask Afrika (introduced at the end of this section) to make it "call centre ready".

A number of respondents from the population were randomly selected, called and interviewed. The pilot phase was successful in terms of the responses obtained. The sample provided, was extremely accurate in terms of the phone numbers and there were few unusable phone numbers (wrong numbers, etc). Although two hundred and one (201) calls were required to obtain nine completed interviews, 41% of the managers/owners indicated that they were busy and requested the interviewer to call back at a later stage. In the case of 23% of the numbers called, there was no answer and the phone just rang. Otherwise, the refusal rate was low and the interviews were successful.

After a few respondents were called and interviewed, the questionnaire was found to be too long. Respondents were not willing to be interviewed for 15 to 20 minutes. They were too busy managing their businesses and were not willing to spend so much time answering questions. Subsequently, it was shortened to last an average of ten minutes per interview. This was acceptable to more of the business owners. The shortened questionnaire was used for the remainder of the data collection process.

5.2.9 Collecting/editing data

5.2.9.1 Collecting data

Data were collected by means of questionnaires and the members of Cofesa were interviewed.

Initially the researcher attempted to collect the required data by making use of a web-based questionnaire. An electronic mail message was sent to the entire population, requesting each member to go to the specified website displaying the questionnaire and complete it electronically. The questionnaire was designed in such a manner that members could complete it quite easily and within a relatively short time (about 15 minutes on average). Once the questionnaire was

completed, the member would submit it by clicking on a “submit” button. The data were automatically transferred to a spreadsheet on another website from where calculations would have been done.

This method of collecting the data was not successful at all. The same electronic mail message was sent to the members twice in two weeks. During the three weeks that followed after the last message was sent, only four members had responded by completing the questionnaires. The researcher then decided to change the data collection method. Each member of the population would be called telephonically and interviewed.

The data were collected by means of computer-aided telephonic interviewing (CATI). CATI can be described as the use of computers to automate the key activities of a telephone interviewing facility. The CATI system uses computers to assist in conducting the interviews. A computer controls the questionnaire, so skip patterns are executed exactly as intended, responses are within range, and there are no missing data. Answers are entered directly into the computer which enables the researcher to start the data analysis immediately. The system also handles the administrative and telephonic functions associated with interviewing, such as sample management, quota control, call disposition monitoring, productivity reporting, Rapid Dial or predictive dialling, interviewer monitoring and rating, and voice capture. CATI requires that the computers used be linked through a network to a main server that functions as a central storage location for sample and data (Sawtooth Technologies, 2008).

Ask Africa, which is a professional, strategic research partner that applies active intellect and connectivity to provide credible research results, was used to collect the data required. Ask Afrika’s interview quality is underpinned by rigorous standards. This includes the thorough training of interviewers, the use of an interview protocol developed according to international standards, as well as a specialist team of quality assessors monitoring each survey from start to finish.

The researcher was also provided with audio recordings of a sample of completed interviews. This provided enhanced insight into the interviewing process and involvement for the researcher in the data collection phase of the research (Ask Afrika, 2008).

For this study the most advanced CATI software was used by Ask Afrika to conduct the research and ensure reliable results (Ask Afrika, 2008). The advanced technology in the call centre ensures quality sampling through random probability without replacement design, which means that each telephone number in the population is attempted at least 10 times before a new number is entered into the sample pool. Telephone interviews are conducted with CATI software, which provides comprehensive control of projects while affording complete flexibility that allows users to meet the demands of the target audience. The researcher is of the opinion that he obtained the best quality, verifiable data available.

Ask Afrika made use of Ronin's *Results for Research*® CATI package which randomly selects the sample or the numbers that are called. The system generates a set of completely random numbers in the range 0 – 32 767. Each time the random set is created regardless of the initial seed value (Ronin manual, 1999:315).

As the above indicates, the members of Cofesa were randomly called (ensuring that there was no bias and that all the respondents had an equal chance of selection) within each region and asked whether they would be willing to participate in this study. Those who agreed to be interviewed, were then asked whether they had received any form of assistance in relation to business matters, including training or advice, specialist consultations and expert assistance from a family member, friend or organisation. The respondents who had received assistance were then interviewed. Once a total of 200 respondents were interviewed, the process was terminated. This is 3.6% of the entire population.

Also see sec. 5.3.3 where the sample size was calculated using a statistical formula.

The sample was extremely accurate and a response rate of 3.6% for this target audience (owners and managers) was good, since owners and managers are generally busy at work and at times difficult to get hold of. However, to improve the response rate, it is advisable to send out letters before the phone call is made to make the managers/owners aware of the survey and also to prepare them for it. This also shortens the introduction, which in turn shortens the length of the interview.

There was no need for a **weighting** process. The data were used as captured in the survey where, n=200. With such a small and unique universe, a sample of 200 is sufficient. However, if there had been a need to compare it to StatsSA data, a broader demographic section, asking specific questions, would have been required.

Two months after the initial interviews, the "unsuccessful" business owners/managers (those respondents who ranked their businesses from 1 to 3 on an interval scale of 1 to 7 of how successful they thought their businesses were) were called again and asked the following questions:

- Why are you not as successful as you would like to be?
- What could you do to rectify the problem?
- Would assistance of any kind make a difference?
- If so, in what way would you like to be assisted?

The purpose of the above questions was to gather additional information from the respondents on the reasons for them being not as successful as they might have been.

5.2.9.2 Fieldwork

The call centre supervisor received a detailed brief containing all relevant information on the study. Interviewers were briefed and thoroughly trained. There was continuous contact between the call centre, the project manager, and the statistician of Ask Africa and the researcher to ensure that everything went according to plan.

Quality control included listening to recordings of interviews by using Amethyst. Of the interviews, 15% (30 in total) were assessed. The following elements were assessed as follows:

Overall

The quality of benchmark of 85% was exceeded; the eventual quality score was 97%.

General aspects (97%)

- Introducing the purpose of call accurately
- Coding accurately
- Clarifying answers when needed
- Ending off professionally
- Clarifying sample details
- Adhering to interviewer notes, etc

Scales (97%)

- Clarifying when needed and coding accurately

Professionalism (95%)

- Building a good rapport; using respondent's surname effectively
- Satisfactory interaction

Options (96%)

- Introducing options clearly, clarifying when needed and coding accurately

Since the interviewers used on the study were experienced interviewers all aspects of interviewing were well handled and no areas of development were identified.

5.2.10 Coding data

The coding of the data was done in conjunction with designing the questionnaire. It was automatically linked to the responses when received in computer-readable format on an SPSS spreadsheet.

5.2.11 Capturing/cleaning/storing data

Since the data were on an SPSS spreadsheet, the researcher was able to do the calculations. In finding and verifying mistakes, the researcher checked whether there was a discrepancy between the total number of cases in the data matrix and the size of the sample. Because of the way in which the questionnaire was developed it was not possible to submit out-of-range variables. Mistakes were corrected and the data electronically stored.

5.2.12 Data analysis

The researcher used a variety of data analysis techniques that were the most appropriate to interpret the data, draw conclusions from the data and realise the research objectives.

5.2.12.1 Data and method of data entry

The data collected from the questionnaires were mainly organised into nominal, interval and ratio data. Tustin et al. (2005:592-593) describe these data forms as follows:

- **Nominal data.** Nominal data are numbers assigned to individuals such as “owners”, ”managers” and ”other” such as employees or secretaries (questions 1, 3, 4, 6, 7, 8, 9, 13 and 14 of the questionnaire).

- **Ordinal data.** Numbers were used to differentiate between options and to rank them in order. For example, the most important areas are those in which the respondents received assistance (questions 5 and 11 of the questionnaire).

- **Interval data.** Interval data measured on an interval scale of 1 to 7 such as the respondents' opinions of how successful they are (question 2 of the questionnaire). SPSS 14.0 for Windows was used to do all calculations. The data were directly copied into SPSS.

5.2.12.2. Data analysis techniques

The study was classified as quantitative and qualitative. The sample size was quite large but the administration thereof was manageable. The type of analysis

was statistical and summarised to present thoughts and reasoning. A descriptive research study was conducted in an attempt to answer the research questions.

The following techniques were used:

- frequency tables and basic tables
- measures of central location and variability
- measures of skewness and kurtosis
- correlations and cross-tabulations

For the "delighted", "satisfied", "dissatisfied" splits for satisfaction with the success of the business, the researcher could not perform any test of significance owing to the fact that the base size was too small for the “dissatisfaction” category. An acceptable base size for significance differences is 30, while for accurate and reliable significance tests a base size of 50 is required.

a. Frequency Tables

A graphical representation of the data is given. The frequency distribution can be one-way or cross-tabulated with another variable. It can be grouped or ungrouped. The graphical presentation can be in the form of a bar chart, pie chart, histogram and frequency polygon, and/or frequency distributions. Frequency distributions can be described and compared with one another by referring to their key properties. From these key properties, summary measures can be calculated, capturing the essential characteristics of the different distributions. The summary measures can also be used to make inferences about the population from which the data were collected (Tustin et al., 2005:523-538).

The researcher used mainly frequency tables, presenting them graphically in the form of bar charts.

Since not all statistical tests are equally relevant, the appropriate tests must be used. The researcher did the following:

- To indicate in which **areas** SME owners were being assisted, the information was captured on the questionnaires and divided into the different categories as indicated. The categories were arranged from most assistance to least or no assistance. The respondents were also asked to indicate the first, second and third most important areas of assistance. This, firstly, highlights the areas where SME owners are being assisted, and secondly, those areas they think are the most important in which they require assistance.

  Descriptive statistics was used to summarise the data collected and to describe the general characteristics thereof.

- It was necessary to establish during which **stage** of the business life cycle the assistance was rendered, the **ways** the assistance was provided, **who** rendered the assistance and the **period** of assistance. Descriptive statistics was used here to describe the general characteristics of the data collected.

- General **shortcomings** as well as specific shortcomings in each area of assistance were identified where possible by the business owners themselves. The researcher simply grouped similar shortcomings together to determine their frequency.

b. Measures of central location and variability

There are three measures of central tendency – arithmetic mean (average), the median (middle value) and the mode (most frequent occurring value) (Tustin, et al., 2005:538-548).

The researcher used of the **mean** to indicate the respondents" perception of the how successful their businesses were, showing it on a distribution curve. The **standard deviation** was also calculated. It measures statistical dispersion and indicates how widely the values in a data set are spread.

c. Measures of skewness and kurtosis

The skewness or kurtosis will be close to zero if the distribution of values is symmetrical and mesokurtical (normal distribution curve) (Tustin, et al., 2005:554).

d. Correlations and Cross-tabulations

Welman and Kruger (2001:209-212) discuss correlation and cross-tabulation as a descriptive analysis technique. This technique describes the relationships between variables and measures the extent to which a change in one variable is attributed to a change in another.

The researcher attempted to make comparisons (associations between variables) and looked at the following relationships:

- the success of the businesses and the areas of assistance
- the success of the businesses and the time in the business cycle assistance was utilised
- the success of the businesses and the way they were assisted
- the success of the businesses and who presented the assistance
- the success of the businesses and the period of assistance
- the success of the businesses and shortcomings identified
- the success of the businesses and the perception that the business was more successful because of the assistance rendered

- the success of the businesses and the stage at which assistance should have been sought

To determine the success of the businesses, the respondents had to indicate on a rating scale of 1 to 7 how successful they thought their businesses were. The categories of “delighted/satisfied/dissatisfied” regarding “success of the business” were used for the above correlations. However, the base size of the “dissatisfied” category was too small (only 17) to enable the researcher to conduct any tests of significance. An acceptable base size for significance differences is 30, while accurate and reliable significance tests require a base size of 50.

The responses were recategorised into “least successful/satisfied/very successful”, producing more equal frequencies of the three categories. Because the base sizes were >50, reliable significance tests could be performed.

To determine and measure the strength of the association of the variables a proportional reduction of error (PRE) measure, known as lambda (symbolised by the Greek letter λ) and as Goodman-Kruskal lambda, was calculated. Lambda, a measure of association, reflects the proportional reduction in error when values of the independent variable are used to predict values of the dependent variable.

Lambda has a possible range of 0 to 1. A value of 0 means that the information supplied by the independent variable does not improve the ability to predict the dependent - hence there is no association between the variables. A value of 1 means that the independent variable predicts the dependent variable perfectly and that there is an association between the variables.

Values between 0 and 1, say 0.7, have a direct and meaningful interpretation. These values can be seen as indices of the extent to which one variable helps to predict another. When multiplied by 100, the value of the lambda indicates the percentage reduction in error and therefore the strength of the association. A

lambda of 0.7 would be interpreted by concluding that knowledge of the independent variable improves the ability to predict the dependent variable by a factor of 70%. In other words, the researcher is 70% better off knowing the independent variable (such as the size of the business) when attempting to predict the dependent variable (such as the success of the business) than we are, not knowing the independent variable.

Computation of lambda: In its customary, asymmetric form, lambda = [(SUM(fi) - Fd]/(n - fd) where f<SUB)I< sub> is the largest frequency for each class of the i classes of the independent variable, and Fd the largest marginal value of the dependent variable, and n is sample size. SPSS (which was used to compute lambda) computes the significance of lambda on the basis of a complex formula for lambda's standard error (Anon, 2007).

Lambda was used to determine and measure the strength of the relationships between the following variables:

- the type of business the respondents owned/managed and the success of the businesses
- the period in the business cycle in which assistance was used of and the success of the businesses
- the way the respondents were assisted and the success of the businesses
- the assistance provider and the success of the businesses
- the timeframe of assistance (how long the assistance lasted) and the success of the businesses
- the number of employees in the business (the size of the business) and the success of the businesses
- the most important area in which assistance was received and the success of the businesses
- the highest qualification of the respondents and the success of the businesses
- the highest qualification of the respondents and the sectors in the economy

Chi-square was not used in this study because the cross-tabulation matrix was unbalanced in most of the above cases. The differences in some of the cell values were too large, violating one of the assumptions of Chi-square.

Finally, additional cross-tabulations were done between the "unsuccessful" businesses and various other variables.

Based on the information as indicated above, conclusions were drawn up and recommendations made.

5.2.13 Present research findings

The researcher decided to present the research findings as a doctoral thesis and in the form of one or more articles to be submitted for publishing.

5.2.14 Follow-up

In this study, there was nothing to follow up because there was no request for the research. However, the researcher hopes that the results will reduce uncertainty and influence decisions about the assistance rendered to SMEs in South Africa.

5.3 VALIDITY AND RELIABILITY

"Validity" and "reliability" are the two words most encountered in research methodology and are the key to assessing the trustworthiness of any research (Leedy, Newby & Ertmer in Ali, 2003:316).

5.3.1 Validity

Validity, in its simplest form, has to do with determining whether or not the measuring instrument tests what it is supposed to test (Statsoft, in Ali, 2003:316). The term "validity" is applied to measuring instruments that show the extent to which differences in scores on the measurement reflect true differences between individuals, groups or situations in the characteristic they seek to measure, or reflect true differences in the same individual, group or situation from one occasion to another, rather than constant or random errors (Tustin et al., 2005:296).

Malhotra (1993:224-225) distinguishes two concepts of validity relevant in experimentation, namely internal validity and external validity.

- **Internal validity** simply means that the change in the independent variable was brought about by a change in the dependent variable and by no other variable (Welman & Kruger, 2001:97-98). According to Malhotra (1993:224-225), internal validity shows whether the observed effects on the test units could have been caused by variables other than the treatment. If the observed effects are influenced or confounded by extraneous variables, it is difficult to draw valid inferences about the causal relationship between the independent and dependent variables. Internal validity is the minimum that must be present in an experiment before any conclusion can be drawn about treatment effects. Control of extraneous variables is a necessary condition for establishing internal validity.

- **External validity** shows whether the cause-and-effect relationships found in the experiment can be generalised to a larger population of interest (Malhotra, 1993:224-225). For example, to what populations, geographic areas, treatment variables and measurement variables can the measured effects be projected (Tustin et al., 2005:296)?

Tull and Hawkins (1993:317-319) further distinguish between the following three basic types of validity:

- **Content validity** evaluates the appropriateness of the measuring instrument. It refers to the accuracy with which a measuring instrument measures the factors or situations being studied. Do the questions asked draw the right information from the respondents?

- **Criterion-related validity** involves inferring an individual's score or standing on some measurement, a criterion, from the measurement at hand.

- **Construct validity** involves understanding the meaning of the measurements obtained.

The validity of the study is discussed in sec. 7.5 of chapter 7.

5.3.2 Reliability

Reliability refers to the extent to which the scores obtained may be generalised to different measuring occasions, measurement/test forms and measurement/test administrators (Welman & Kruger, 2001:139). Joppe, in Golafshani (2003:598) also defines reliability as the extent to which results are consistent over time, and an accurate representation of the total population being studied is referred to as reliability. If the results of a study can be produced using a similar methodology, then the research instrument is considered to be reliable. According to Ali (2003:319), reliability is mainly concerned with the accuracy, consistency and predictability of the research findings.

The research findings of this study are reliable for the SME owners who are members of Cofesa. The Cofesa group under investigation is however not

representative with regards to demographics, location, economic sectors or qualifications (see tables 6.1, 6.3 and figure 6.1) of South African SMEs. The choice of Cofesa is based on the fact that this was the only structured, comprehensive group available to the researcher. The South African SME population is extremely unstructured and no comprehensive list was available other than Cofesa. Other sources such as “BizAssist”, the DTI and “EASYINFO” were investigated to attempt to find a comprehensive list of SME owners who had been assisted in some way, but to no avail. Furthermore, most of the SMEs listed in these sources had not been assisted and those that had been, were mostly only given loans or grants, with hardly any mention of business interventions. A more representative population with such an address or telephone list is really hard to find.

Cofesa was identified as a structured unit, possessing a list with contact details of all their members, most of whom had previously received business assistance. These business owners joined Cofesa with the aim of receiving assistance. Cofesa also demonstrated their goodwill in making the details of their members available. In realising the importance of this study, Cofesa expressed their cooperation and support.

The majority of the population that was used for this study met the main requirement needed, i.e. that they had been assisted in some way or another. It is acknowledged that this skews the research towards a specific target group, but those SME owners/managers who had not been assisted would not have been of much use to the researcher. The researcher however acknowledges the fact that such a group could have been useful as a control group to measure the results obtained in this study against.

The benefit of the thesis however lies in the fact that it will provide the start to the investigation of the contentious issue regarding the use of business consultants by SMEs in South Africa. Although this study is not representative of the SMEs

in South Africa, it provides a framework of reference, a guide and a measure to compare the results of future studies on business interventions with. The results of this study could already be used by small business owners to guide them in all the aspects of business interventions as discussed in this study, seeing that no such information is currently available. The population of SME owners in South Africa is very large and this study could be duplicated with other groups, if it is at all practical and possible.

Data analysis verification

The following procedures were performed to ensure that the data, tabulations and other outputs were verified:

To validate the data set and to check for reliability, the Cronbach alpha value was calculated. The Cronbach alpha value in this case was 0.68, which, according to Nunnally (1978:245), is an acceptable reliability coefficient.

Cronbach's alpha measures how well a set of items (or variables) measures a single unidimensional latent construct. When data have a multidimensional structure, Cronbach's alpha is usually low. Technically speaking, Cronbach's alpha is not a statistical test - it is a coefficient of reliability (or consistency).

If one conducts an evaluation survey, it is certainly reassuring to know that the instrument you are using always elicits consistent and reliable responses even if the questions are replaced with other similar questions? If the variable generated from such a set of questions returns a stable response, the variable is said to be reliable. Cronbach's alpha is an index of reliability associated with the variation accounted for by the true score of the "underlying construct". The construct is the hypothetical variable that is being measured (Hatcher, in Santos & Reynaldo, 1999:2).

An alpha coefficient ranges in value from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous (i.e. questions with two possible answers) and/or multipoint formatted questionnaires or scales (i.e. rating scale: 1 = poor, 7 = excellent). The higher the score, the more reliable the generated scale is. According to Nunnally (1978:245), 0.7 is an acceptable reliability coefficient, although lower thresholds are also acceptable.

In this study, completeness was validated, that is, all the tables necessary to answer objectives were present. The base for each table was validated and was correct. The standard breaks (splits) were validated and were correct. There were no blank tables. Frequency counts prior to running tables, to ensure the accuracy of data and to determine base sizes for subgroups were validated. All the statistical techniques used were accurate and appropriate.

5.3.3 Sample size

The sample size (n = 200) in this study was sufficient. This is because it was calculated as follows (Mason, Lind & Marchal, 1999:290-292):

$$n = p(1-p)\left(\frac{z}{E}\right)^2$$

$$= \frac{(.1)(.9)(1.96)^2}{(.05)^2}$$

$$= \frac{0.345744}{.0025}$$

$$= 138.3$$

where:

n = sample size

p = probability level

z = standard normal value corresponding to the desired level of confidence

E = maximum allowable error

The minimum sample needed for this study is thus 139.

The size of a sample is not only influenced by the purpose of the study and the population size, but also by the level of confidence desired, the margin of error the researcher will tolerate and the variability in the population being measured.

In this sample, the 95% level of confidence was selected, which means that 95 out of 100 such samples will have the true population value within the range of precision specified. The 95% level of confidence corresponds to a *z* value of ±1.96 (Mason, et al., 1999:290).

The maximum allowable error (*E*) is the amount that is added or subtracted from the sample mean to determine the end points of the confidence interval. It is the current error that the researcher is willing to tolerate. It is also one half the width of the corresponding confidence interval. The larger the allowable error, the smaller sample is permitted and vice versa (Mason, et al., 1999:290).

The degree of variability refers to the distribution of attributes in the population. The more heterogeneous a population, the larger the sample size required to obtain a given level of precision. The more homogeneous or concentrated a population, the smaller the sample size (Israel, 1992:2).

A proportion (p) of 10% was selected for determining the sample size for this study as the population is fairly homogeneous. The respondents were all members of Cofesa, they were all SME owners and all of them had been assisted in one way or another. SME owners who had been assisted was the crucial attribute of interest needed for this study.

Israel (1992:3) suggests that for small populations (like the one used in this study) the sample size could even be reduced slightly. This is because a given sample size provides proportionally more information for a small population than

for a large population (for example, all the SMEs in South Africa). With such a small and unique universe, a sample of 200 was deemed to be more than sufficient. However, if there had been a need to compare it to StatsSA data for South African SMEs for example, a broader demographic section would have been required.

5.4 CONCLUSION

Based on the above information, conclusions will be drawn and recommendations made on what types of assistance could probably enhance the success rate of SME owners. This information should be sufficient to determine what types of assistance government and consultants should consider when rendering their assistance and services to SME owners.

The next chapter interprets and analyses the findings of the empirical research.

CHAPTER 6

DATA ANALYSIS AND INTERPRETATION

6.1 INTRODUCTION

This chapter interprets and analyses the findings of the empirical research. The responses gathered from the respondents will first be discussed and analysed. Once the statistical analysis has been completed, the extent to which the objectives of this study were met will be indicated.

The results of the research are presented and analysed by means of tables, graphs and other descriptive statistics. The aim of this is to realise the primary and secondary research objectives, thereby resolving the research problem.

In order to accomplish this, an analysis of the respondent profiles is provided in section 6.2. The general business information of the respondents is provided in section 6.3. Section 6.4 describes the areas and details of the assistance rendered to the respondents. The shortcomings in the assistance received by the respondents are presented in section 6.5, followed by a discussion of the characteristics of successful interventions in section 6.6. Sections 6.7 and 6.8 describe the relationships between different variables. Finally, issues regarding the unsuccessful businesses in this study are discussed in section 6.9.

The data were collected by means of computer-aided telephonic interviewing (CATI). The sample was drawn from all the members of Cofesa. The total of 5 543 members was included in the population. The members were randomly called and asked whether they would be willing to participate in the study. Those who agreed to be interviewed were then asked (the screening question) whether they had received any form of assistance relating to business matters. The respondents who had received assistance were then interviewed. Using random

sampling, a total of 2 658 calls were made (this is 47.9% of all the members) by the callcentre in order to obtain 200 completed questionnaires. This was 3.6% of the entire population. These 200 are referred to as the “respondents”.

The number of 200 was deemed to be a sufficient sample size
to represent this universe because the target population was owners and managers who had received assistance relating to business matters. It is a unique sample representing a small universe (5 543 cases).

Since the data were captured on a SPSS spreadsheet, the calculations could be done by means of the SPSS program. A variety of data analysis techniques were used that were the most appropriate to interpret the data, draw conclusions from the data and realise the research objectives. All the respondents answered all the questions, yielding a 100% response rate.

6.2 ANALYSIS OF COFESA RESPONDENTS

This section reports on the profiles of the Cofesa respondents. The respondents were asked to answer a number of questions to enable the researcher to develop a profile of the respondents involved in the study. The figures in the tables are reported directly from the captured respondent questionnaires (appendix A).

The recorded frequencies of the demographic details are referred to as the characteristics of the respondents' profiles. The following characteristics are reported on here:

- the location of businesses participating in the study
- the types of businesses owned and/or managed by the respondents
- the respondents’ highest qualifications
- the respondents’ occupations prior to becoming involved in the business

The respondents who were interviewed were either the owners or managers of SMEs. No other employees of the businesses such as secretaries or assistants were interviewed.

6.2.1 The location of businesses participating in the study

SME owners and members of Cofesa were randomly contacted countrywide. Table 6.1 (also see figure 6.17 in appendix B) shows the number of businesses of the entire population (all the members of Cofesa) as well as the number of businesses of the sample used in this study. It also indicates that the sample is similar to the population regarding the location of the businesses in South Africa, corresponding with the non-probability quota-sampling method.

Table 6.1: Location of participating businesses

	Location	Sample		Entire population	
		Frequency	Percent	Frequency	Percent
Valid	Gauteng	81	40.5%	2 103	37.9%
	Western Cape	36	18.0%	819	14.8%
	Kwazulu-Natal	14	7.0%	642	11.6%
	Garden Route	13	6.5%	337	6.1%
	Pretoria (Northern Gauteng)	10	5.0%	277	5.0%
	Free State	10	5.0%	465	8.4%
	Limpopo	9	4.5%	215	3.9%
	Eastern Cape	7	3.5%	187	3.4%
	Mpumalanga	6	3.0%	223	4.0%
	Other	6	3.0%	79	1.4%
	Northern Cape	4	2.0%	139	2.5%
	North West	4	2.0%	57	1.0%
	Total	200	100.0%	5 543	100.0%

Observations

Figure 6.1 indicates that 40.5% of the 200 businesses participating in the study were located in Gauteng, 18% in the Western Cape and 7% and 6.5% in Kwazulu-Natal and the Garden Route respectively. Most of the other regions in

South Africa were also represented here, indicating that the sample proportionally represents Cofesa members throughout the country.

6.2.2 Types of businesses owned and/or managed by the respondents

The respondents were owners and/or managers in all the different industries and sectors in the economy. Industries and sectors were classified on the basis of the Standard Industrial Classification System (SIC) of all industrial activities used by the USA. The following table indicates the number of respondents from each of the different economic sectors:

Table 6.2: Types of businesses owned and/or managed by the respondents

	Sectors in the economy	Frequency	Percent
Valid	Manufacturing	44	22.0
	Community, social and personal services	43	21.5
	Retail and motor trade repair services	41	20.5
	Agriculture	15	7.5
	Catering, accommodation and other trade	15	7.5
	Construction	13	6.5
	Wholesale trade, commercial agents and allied services	11	5.5
	Finance and business services	8	4.0
	Transport, storage and communication	6	3.0
	Electricity, gas and water	3	1.5
	Mining and quarrying	1	0.5
	Total	**200**	**100.0**

Observations

Table 6.2 (also see figure 6.17 in appendix B) indicates that 22% of the 200 respondents were in the manufacturing, 21.5% in the community, social and personal services and 20.5% in the retail and motor trade repair services. The others were generally equally spread amongst the other sectors, except for the mining and quarrying sector where there was only one respondent.

The table below shows the comparison of the distribution of SMEs in the sectors of the economy used in the sample with the distribution of all SMEs in the different sectors of the economy in South Africa.

Table 6.3: Comparison of the distribution of SMEs in the sectors of the economy used in the sample with the distribution of all SMEs in the different sectors of the economy in South Africa

Sectors in the economy	Percent of Cofesa sample	Percent in South Africa
Manufacturing	22.0	12.3
Community, social and personal services	21.5	7.7
Retail and motor trade repair services	20.5	20.1
Agriculture	7.5	34.4
Catering, accommodation and other trade	7.5	5.5
Construction	6.5	4.7
Wholesale trade, commercial agents and allied services	5.5	5.6
Finance and business services	4.0	7.0
Transport, storage and communication	3.0	2.4
Electricity, gas and water	1.5	Not available
Mining and quarrying	0.5	0.3
Total	**100**	**100**

Source: HRD Review (2003)

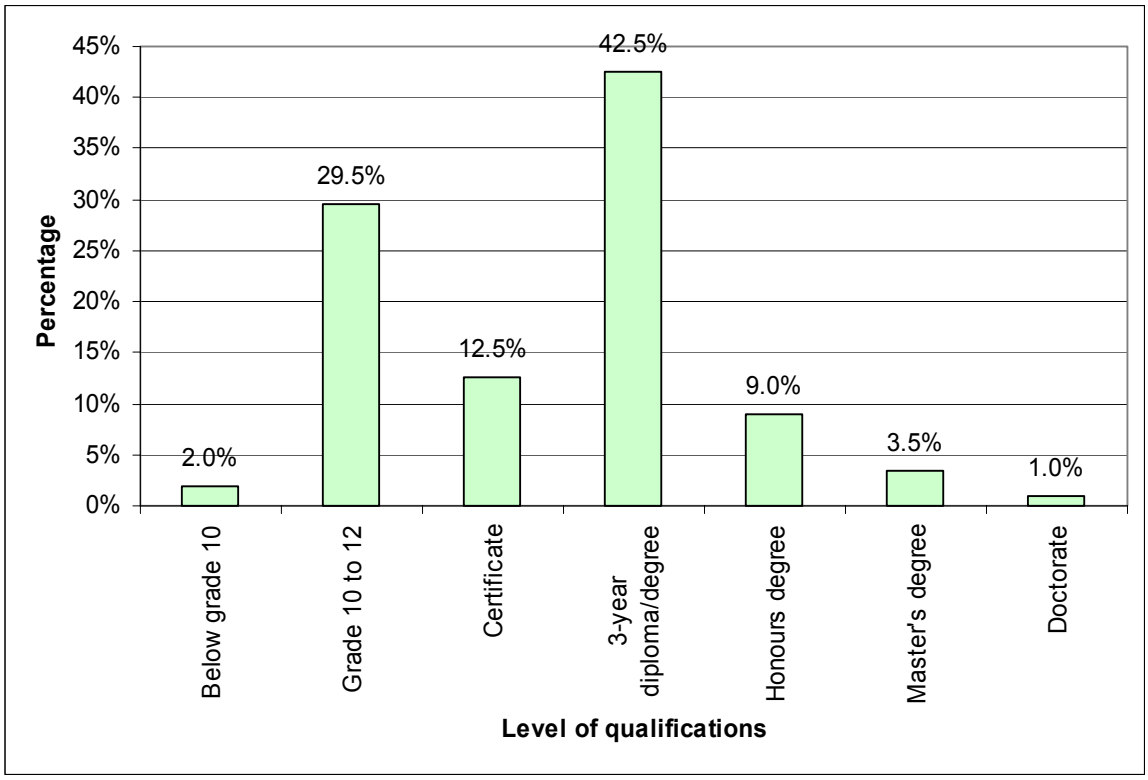
From the comparison it is clear that the profile of the sample to some degree reflects the situation in all the SMEs in South Africa. The sample, however, does not represent the agricultural sector as well as it could. The sample also has larger representation in the manufacturing and community, social and personal services sectors. This is because of the composition of the population (Cofesa members).

Cofesa members mainly own/manage SMEs with high employment, for example manufacturing. Some sectors have their own employers' organisations. The agricultural sector, for instance, has several employers' organisations.

6.2.3 Respondents' highest qualifications

The respondents were asked about their highest qualification. Figure 6.1 indicates the respondents' different qualification levels.

Figure 6.1: Frequency of the qualifications of the respondents



<u>Observations</u>

As can be seen in figure 6.1, 42.5% of the 200 respondents had a three-year diploma or degree, while a substantial number (29.5%) had completed grade 10 to 12. Of the respondents, 13.5% had a higher qualification than a three-year diploma or degree, and 2% had below grade 10 schooling.

This also shows that 56% of the respondents had at least a tertiary qualification, including 13.5% with a postgraduate qualification.

6.2.4 Respondents' occupations before becoming involved in the business

Table 6.4 indicates the type of employment or jobs the respondents had before becoming involved in the business.

Table 6.4: Respondents' occupations before getting involved in the business

	Previous occupation	Frequency	Percent
Valid	1. Managers including: director/managing director, assistant manager, financial manager, project manager, area manager, general manager, warehouse manager, admin manager, educational management, human resources manager, manager of a supermarket, manager at a farm, regional manager and army general	54	27
	2. Student/scholar	20	10.0
	3. Teacher	16	8.0
	4. Bookkeeper/accountant	11	5.5
	5. No previous occupation	11	5.5
	6. Personal assistant/secretary	11	5.5
	7. Clerk	8	4.0
	8. Specialists/professionals	8	4.0
	9. Technician	6	3.0
	10. Policeman	5	2.5
	11. Salesperson	5	2.5
	12. House executive	4	2.0
	13. Supervisor	3	1.5
	14. Barman	2	1.0
	15. Broker	2	1.0
	16. Computer engineer	2	1.0
	17. Farmer	2	1.0
	18. IT consultant	2	1.0
	19. Marketing person	2	1.0
	20. Nurse	2	1.0
	21. Owner	2	1.0
	22. Teller	2	1.0
	23. Trainer (skills developer)	2	1.0
	24. Buyer	1	0.5
	25. Caterer	1	0.5
	26. Dancing instructor	1	0.5
	27. Forestry employee	1	0.5
	28. House mother	1	0.5
	29. Importing/exporting	1	0.5
	30. Income tax inspector	1	0.5
	31. Insurance consultant	1	0.5

	32. Laboratory assistant	1	0.5
	33. Medical insurance underwriter	1	0.5
	34. Nursery employee and landscaper	1	0.5
	35. Personnel consultant	1	0.5
	36. Printer	1	0.5
	37. Scuba diving instructor	1	0.5
	38. Self employed person	1	0.5
	39. Shop assistant	1	0.5
	40. Transport	1	0.5
	41. Verification officer	1	0.5
	Total	200	100.0

Observations

The 200 respondents were involved in no fewer than 41 different occupations prior to becoming involved in the current businesses. Those categories that represented the largest number were managers in different areas (27%), students/scholars (10%), teachers (8%), bookkeepers/accountants, those with no previous occupation and personal assistants/secretaries each 5.5% respectively.

Although managers represented a large group, they still came from many different areas of business. Although scholars also represented a high percentage, their background of study was unknown. Because they had become involved in business it could be assumed that they had elementary business management and accounting as part of their courses. The third largest group was that of teachers who probably represent different subject fields and not a specific area of study or employment other than teaching.

It is interesting to note that so many ex-teachers start another business. Although there could be many reasons for this, retrenchments, unacceptable working conditions, low pay in the teaching profession and political issues could be some of the reasons. Opportunity cost is also low, making it easier for them to leave the teaching occupation.

If one examines the variety of responses, there seems to be no indication that SME owners in this study come from a specific background of previous employment.

6.2.5 Summary of characteristics of Cofesa respondents

The respondents in this study were located primarily in the Gauteng area, with the Western Cape, Kwazulu-Natal and the Garden Route areas a distant second most popular location. The types of businesses owned and/or managed by the respondents were mostly manufacturing, retail and motor trade repair services and community, social and personal services. Most of the respondents had a three-year diploma or degree while a substantial number had completed grade 10 to 12. Finally, the respondents were employed in many different areas before they became involved in the current businesses. The only area of occupation that was mentioned significantly more than the others was that of "manager", where the respondents referred to their previous occupations as being a manager in different functional areas and on different levels.

6.3 GENERAL BUSINESS INFORMATION OF THE COFESA RESPONDENTS

Since the primary objective of this study was to analyse business interventions and to determine their effect on the perceived success of South African SMEs, it was necessary to find respondents with successful businesses who had been assisted in some way or other. Successful businesses are identified in this section. The size of the businesses is also reported here.

6.3.1 Respondents' perceptions of the success/failure of their businesses

The respondents were asked to answer "yes" or "no" to the statements below. By examining their answers it was possible to determine whether or not they were successful.

- My business has been profitable during the last financial year.
- My business has grown over the past three years.
- The profit has been increasing over the past three years.
- I have been paying salaries and wages for at least three-and-a-half years.
- I make enough money to live comfortably.
- My business is employing more people now than two years ago.
- The turnover/sales of my business have increased over the past two years.
- My business is unsuccessful.

Most of these statements were deduced from the definitions used for a "successful business" as discussed in chapter 4 of this study. The following three definitions were used as the primary source for the selection of these statements:

(1) A successful new business is one that has survived from the start-up phase to the new-firm phase. The start-up phase includes businesses that have not paid salaries/wages at all or have paid them for only three months, while new firms are businesses that have paid salaries and wages for more than three months but for less than three-and-a-half years (Driver, et al., 2001:11-16).

(2) A successful SME owner is one who creates work at least for himself or herself but also for others, who has supported this for at least a period of one year, whose business is profitable, who functions autonomously and who generates an income for himself or herself. Owners do not

necessarily specify growth as an objective but regard themselves as successful if their businesses are profitable (Nieuwenhuizen, 1999:12).

(3) A successful SME is one that has been in existence for at least four years, has been profitable and has shown growth in the preceding three years (Nieuwenhuizen & Groenewald, 2006:70).

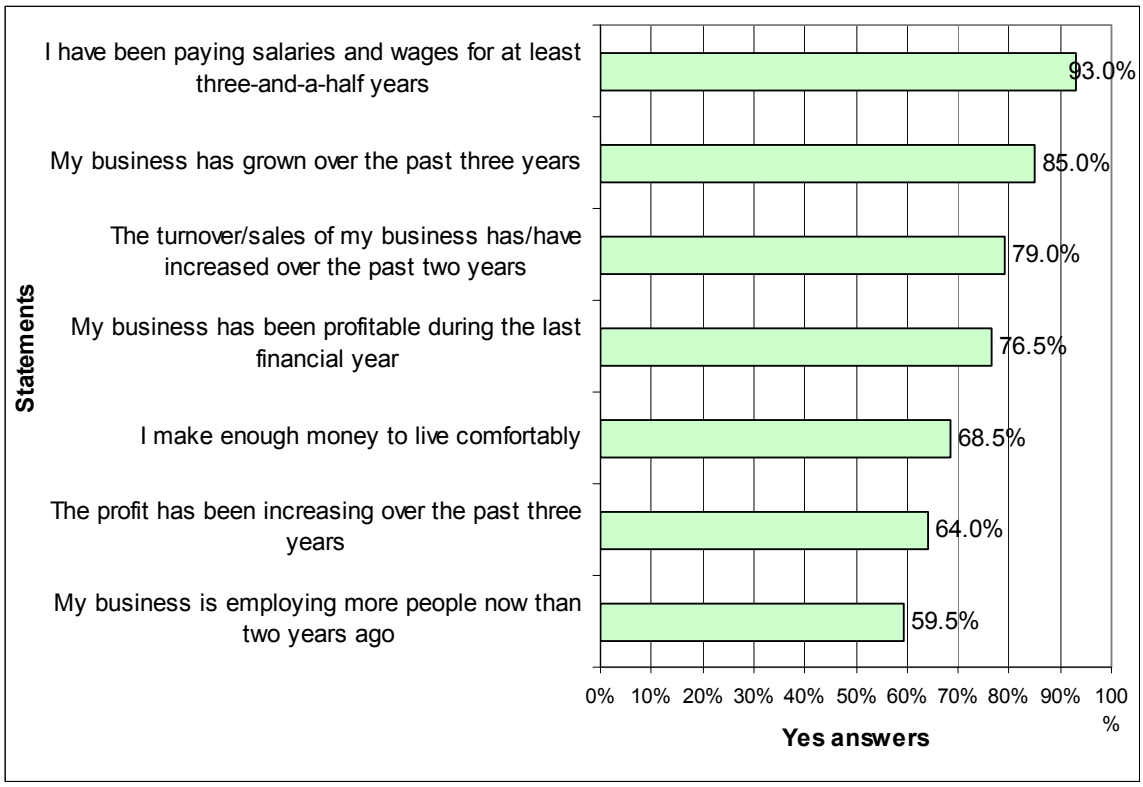
Tables 6.47 to 6.54 (see appendix B) show the respondents' responses to the statements mentioned above. The tables indicate how many of the 200 respondents answered "yes" and how many answered "no" to each statement. Table 6.5 is a summary of the information contained in these tables.

Table 6.5 Summary of the percentage of "yes" answers from tables 6.47 to 6.54

Statement	Percent
My business has been profitable during the last financial year	76.5
My business has grown over the past three years	85
The profit has been increasing over the past three years	64
I have been paying salaries and wages for at least three-and-a-half years	93
I make enough money to live comfortably	68.5
My business is employing more people now than two years ago	59.5
The turnover/sales of my business has/have increased over the past two years	79

Figure 6.2 graphically illustrates percentage of "yes" answers in table 6.5.

Figure 6.2 Percentage "yes" answers to statements regarding success of respondents' businesses



Observations

The responses to the first seven statements were overwhelmingly positive. Most of them had been paying salaries and wages for at least three-and-a-half years, had grown over the past three years and had been profitable during the previous financial year. The turnover/sales of their businesses had also increased over the past two years. If this is compared with the definitions of a successful business, it is clear that the majority of the respondents feel that they were running successful businesses.

Although the first statement, "most of them had been paying salaries and wages for at least three-and-a-half years" is mentioned as an indicator of success, it is only an indication that the business had been in existence for that period of time. The high "yes" percentage answers to the following three statements however is

an indication that most of the businesses in this study were successful. This verifies the majority of positive responses (although these responses were only perceptions) to question 2 of the questionnaire where the respondents were asked to indicate, on a continuous rating scale of 1 to 7, how successful they thought their businesses were (see figure 6.3).

The researcher did not do a factor analysis because of the internal consistency between the variables indicated in figure 6.2.

Only 9% of the respondents indicated that their businesses were unsuccessful.

Overall, the responses seem to be extremely positive. If they had been unsuccessful and stopped doing business, they would obviously not have been around to be interviewed. However, one must keep in mind that the economy grew continuously in the preceding few years and this situation probably enhanced the respondents' chances of being generally successful.

The respondents were also asked to indicate, on a continuous rating scale of 1 to 7, how successful they thought their businesses were. A rating of 1 indicated a perception of "not being successful at all" while a rating of 7 indicated a perception of being "very successful". Table 6.6(a) depicts frequencies of the respondent's perceptions of how successful their businesses were on a scale of 1 to 7. Table 6.6(b) shows the grouped (explained in the next section) frequencies and percentages of the responses, while table 6.6(c) shows the descriptive statistics of these responses.

Once the respondents provided the ratings, the line was divided into the following three categories of satisfaction:

- Scores of 1-3 were classified as "dissatisfied".
- Scores of 4-5 were classified as "satisfied".
- Scores of 6-7 were classified as "delighted".

Table 6.6(a): How successful do you think your business is?

		Frequency	Percent	Valid percent	Cumulative percent
Valid	1	2	1.0	1.0	1.0
	3	15	7.4	7.5	8.5
	4	42	20.8	21.0	29.5
	5	83	41.1	41.5	71.0
	6	42	20.8	21.0	92.0
	7	16	7.9	8.0	100.0
Total		200	100.0		

Table 6.6(b): How successful do you think your business is?

		Frequency	Percent
Valid	Dissatisfied (0-3)	17	8.5
	Satisfied (4-5)	125	62.5
	Delighted (6-7)	58	29.0
	Total	200	100.0

Table 6.6(c): How successful do you think your business is?

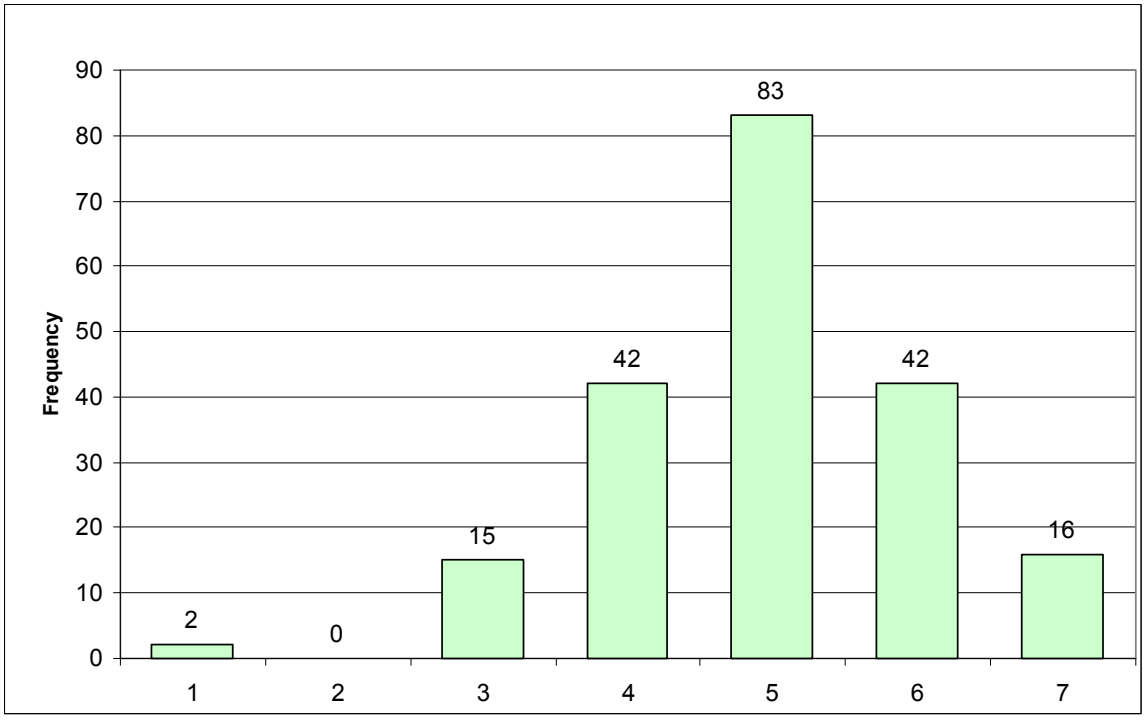
Statistics		
N	Valid	200
	Missing	2
Mean		4.97
Std. error of mean		.078
Std. deviation		1.098
Variance		1.205
Skewness		-.378
Std. error of skewness		.172
Kurtosis		.802
Std. error of kurtosis		.342
Range		6
Minimum		1
Maximum		7

Observations

Table 6.6(b) indicates that 29% of the respondents were "delighted", and another 62% were "satisfied" with their business performance, adding up to a total of 91% of the respondents having the perception that their businesses were successful. Only 9% of the respondents were "dissatisfied" with their business performance and indicated that their businesses were unsuccessful.

Figure 6.3 graphically illustrates the respondents' perception of how successful their businesses were. A seven-point Likert scale was chosen where the respondents were to indicate on a scale of 1 to 7 how successful they thought their businesses were. 1 would indicate that the owner thought the business was not successful at all and 7 would indicate that the owner thought that the business was very successful.

Figure 6.3: Respondents' perception of how successful their businesses were



Observations

The arithmetic **mean** or the average score, which is the most commonly used measure of central tendency, was 4.97. **Standard deviation** measures statistical dispersion and indicates how widely the values in a data set are spread. The standard deviation in this case was 1.098. This means that 83.5% of the scores or values fell between one standard deviation to both sides of the mean. The standard deviation was very small, which indicates that the majority of respondents fell around the mean of 4.97.

Table 6.6(c) shows a negative value (-.378, negatively skewed) for the coefficients of skewness and a positive value (.802, positive kurtosis or leptokurtic) for the coefficient kurtosis. The negatively skewed distribution indicates that the larger frequencies were towards the higher end of the variable.

The skewness of the sample indicates that perceived successful small business owners/managers dominated the data and the results. Although this makes comparisons with unsuccessful businesses impossible, the focus of this study was on the interventions of the perceived successful business owners. The researcher needed successful businesses what had been assisted for the purpose of this study. This issue was also addressed in section 7.2, where the objectives of this study are evaluated.

To validate the data set and check for reliability, the Cronbach alpha value was calculated. The Cronbach alpha value in this case was 0.68, which, according to Nunnally (1978:245), is an acceptable reliability coefficient. Cronbach's alpha measures how well variables measure a single unidimensional latent construct. When data have a multidimensional structure, Cronbach's alpha will usually be low. Technically speaking, Cronbach's alpha is not a statistical test - it is a coefficient of reliability (or consistency).

The alpha coefficient ranges in value from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous (i.e., questions with two possible answers) and/or multipoint formatted questionnaires or scales (i.e. rating scale: 1 = poor, 7 = excellent). The higher the score, the more reliable the generated scale is. Nunnally (1978:245) indicated 0.7 to be an acceptable reliability coefficient, although lower thresholds are also acceptable. The value in this case of 0.68 is extremely close to 0.7 and is acceptable. This means that the generated scale is reliable.

6.3.2 Number of employees permanently employed in the businesses

The respondents were asked about the size of their businesses in terms of the number of permanent employees working for them. The responses are indicated in table 6.7. This information was elicited to determine whether the researcher was indeed looking at SMEs as per definition. The definition used for an SME in this study refers to a figure of fewer than 250 full-time paid employees.

Table 6.7: The number of permanent employees in the business

		Frequency	Percent
Valid	Fewer than 10	85	42.5
	11 to 49	86	43.0
	50 to 100	19	9.5
	More than 100 but fewer than 250	10	5.0
	Total	200	100.0

Observations

The sample included 42.5% businesses with fewer than 10 employees and a similarly large percentage of 43% of the businesses with 11 to 49 employees, indicating that the majority of businesses in this study (85.5%) had fewer than 50 employees. Only 9.5% of the respondents had between 50 and 100 employees and 5% more than 100 but fewer than 250 employees. The respondents in this

study were clearly owners and/or managers of SMEs as per the definition of SMEs in South Africa.

6.4 THE AREAS AND DETAILS OF ASSISTANCE PROVIDED TO THE RESPONDENTS

All the respondents had received some form of assistance at some stage of their business venture. This was determined at the beginning of each interview by asking the respondents the following question:

"Since opening your business, have you received any form of assistance in relation to business matters? This assistance is any form of assistance such as training or advice, specialist consultations, expert assistance from a family member or friend or organisation." Interviews were terminated when respondents indicated that they had had no such experience.

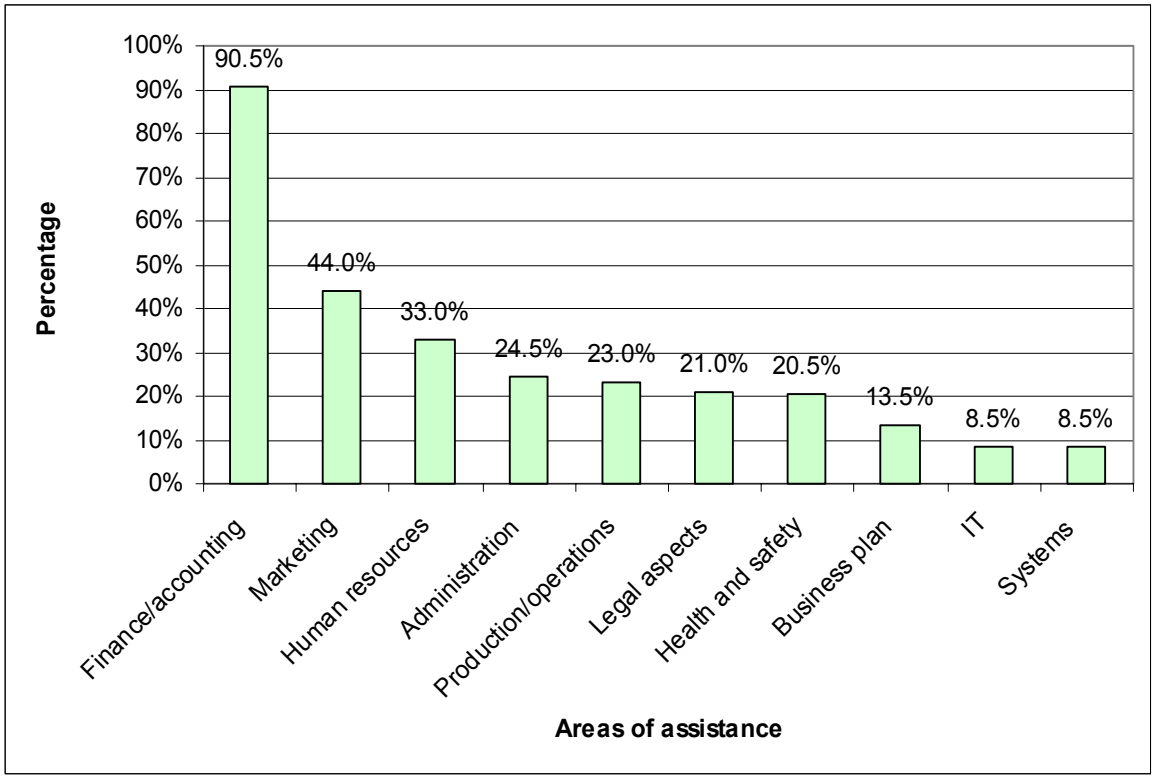
This section focuses on the details of the assistance received by the respondents and includes the following information on the assistance rendered:

- the functional areas in which assistance was received
- the most important functional areas in which assistance was received
- the time in the business cycle when the assistance was received
- the ways in which the respondents were assisted
- who presented the assistance
- the timeframe of the assistance received

6.4.1 Areas/functions of the business in which the respondents received or are receiving external assistance

SME owners were assisted in many areas of the business. Figure 6.6 indicates in which functional areas of the business the respondents received or are receiving assistance. The areas are ranked from the highest to the lowest. The highest is that area or function in the business in which most respondents sought assistance and the lowest that area in which the smallest number of respondents sought assistance. Each respondent was asked to indicate the three most important areas in which assistance had been received. The first, second and third most important areas mentioned were added together and the totals for each area displayed in the table.

Figure 6.4: Areas in which respondents received assistance



Observations

It is clear that assistance was generally sought on the subject of finance. Of the 200 respondents, 90.5% had received assistance in finance, 44% in marketing and 33% in human resources. Less than 25% of the respondents had sought assistance in most of the other areas and less than 10% in the areas of IT, systems, and others.

In 7.5% of the cases, respondents sought assistance in areas not mentioned in the list provided. These areas are listed in table 6.8.

Table 6.8: Areas of assistance mentioned under the "other" option

		Frequency	Percent
Valid	Management	4	2.0
	Training and productivity	4	2.0
	Customer service	2	1.0
	Human relations	2	1.0
	Finance	1	0.5
	What to do	1	0.5
	Total	14	7.0

Observations

Once again these could probably have been listed under the options provided, such as "customer service" and "human relations", which could have been listed under marketing and human resources. The small amount of "other" options given does not merit further discussion.

6.4.2 Respondents' perceptions of the most important areas of receiving assistance

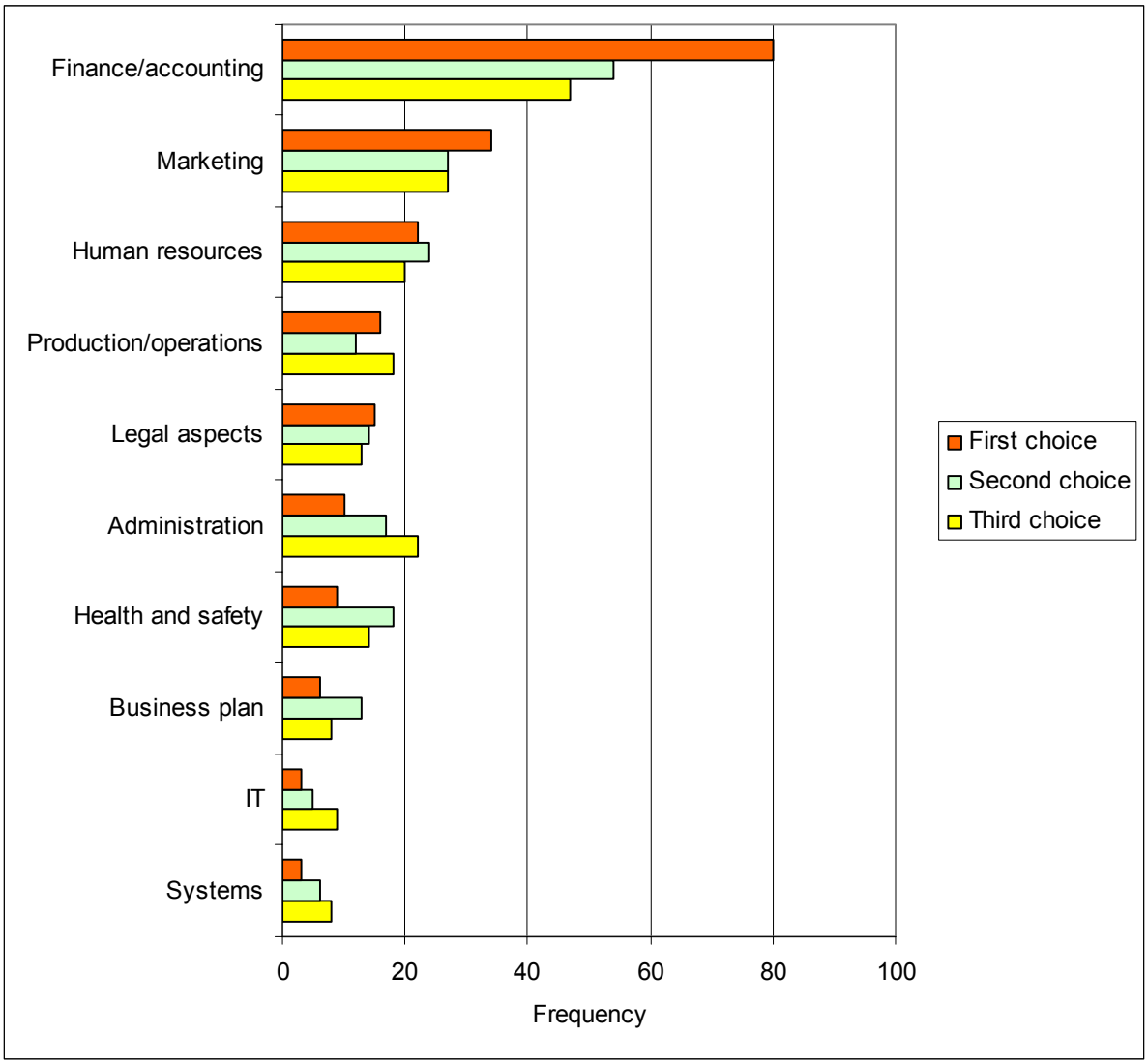
In the previous section the respondents indicated in which areas they had been receiving assistance. They were also asked to indicate the three most important areas in which they received assistance. They were requested to indicate the

most important, the second most important and the third most important areas in which they had received assistance.

Figure 6.5 (also see table 6.55 in appendix B) shows the respondents' responses for each area of assistance listed in question 5 of the questionnaire. Every area of assistance is examined separately in this table.

Each subsection in the table indicates the area of assistance. It also specifies the frequency and percentage of responses that indicated that specific area of assistance as being the first, second and third most important areas of assistance received.

Figure 6.5: Summary of respondents' perceptions of the most important areas of receiving assistance



Observations

Of the 200 respondents, 90.5% mentioned that **finance/accounting** was the most important, second most important or third most important area in which they had received assistance. Of these, 44% ranked finance/accounting as the most important, 30% ranked it as second most important, and 26% ranked it as third most important area in which they had received assistance.

Of the 200 respondents, 44% mentioned that marketing was the most, second most or third most important area in which they had received assistance. Of these, 38.6% ranked marketing as the most important, 30.7 as second most important and 30.7% as third most important area in which they had received assistance.

Of the 200 respondents, 33% chose human resources as the most, second most or third most important area in which they had received assistance.

The remainder of the areas could also be interpreted in the same way. The least important areas of assistance as perceived by the respondents were those of systems and IT.

Summary of respondents' perceptions of the most important areas of receiving assistance (see fig. 6.5)

(1) Ranked most important area of receiving assistance

Finance/accounting was the area that the most respondents (40%) ranked first as the most important area in which they had received assistance. The area that the second most respondents (17%) ranked first was marketing.

(2) Ranked second most important area of receiving assistance

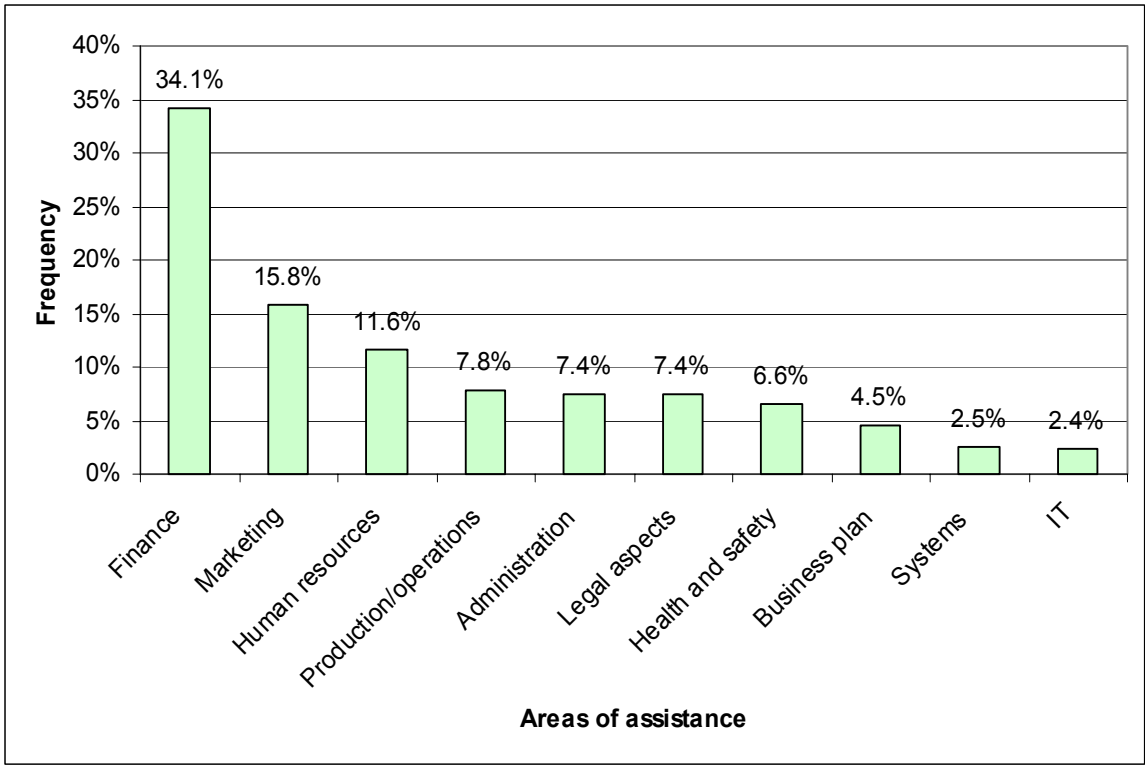
Finance/accounting was also the area that was ranked second most important by 27% of the respondents. The area of marketing was once again the second most important choice, with 13.5% of the respondents ranking it second.

(3) Least most important area of receiving assistance

According to the respondents, systems and IT were the least important areas in which they had received assistance.

However, to give another view of the respondents' perceptions of the most important areas of receiving assistance, the weighted averages for each area were calculated by multiplying the number of first choices by 3, the number of second choices by 2 and the number of third choices by 1. Figure 6.6 shows the result.

Figure 6.6: The respondents' perceptions of the most important areas of receiving assistance by using weighted averages



Observation

Once again financial issues had the largest number by a factor of more than 100% than the second one, namely marketing. This is of major concern. Although the areas of finance/accounting, marketing and human resources were high on the list of assistance received, they were also the areas in which the most shortcomings were identified. This issue is discussed under the "observation" of Figure 6.11 later in this chapter.

6.4.3 Time in the business cycle in which the assistance was provided

Any SME goes through a number of stages in its life cycle. Life cycle refers to the succession of stages a business passes through during its time of existence. For the purpose of this study, the business life cycle as described by Nieman, Hough and Nieuwenhuizen (2003:238-240) was used as a reference. The different stages described in this cycle are start-up, growing and mature/declining. However, the names of these stages were altered to ensure that the respondents all had the same interpretation of each stage, and to obtain accurate information.

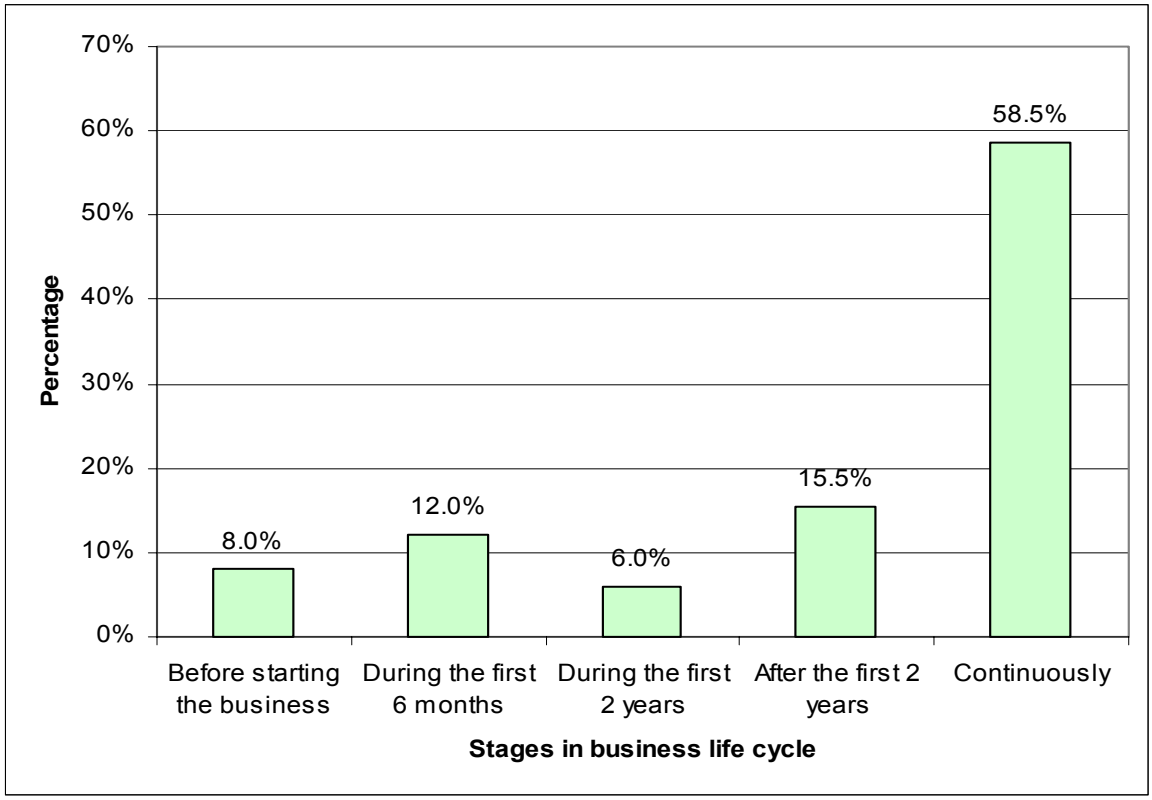
The life cycle was divided into four time zones as indicated below and in figure 6.7.

- before starting your business (this was included to elicit specific information on this time)
- during the first six months (correlating with the start-up phase)
- during the first two years (correlating with the growing phase)
- after the first two years (correlating with the mature or declining phase)

An option of "continuously" was also added to accommodate those respondents who had been assisted continuously and not only during one or two phases.

Each stage poses different problems, and depending on the knowledge and skills of the business owner or manager, assistance might or might not have been needed. The respondents were asked to indicate when they had made use of the assistance referred to in the previous point. Figure 6.9 shows the responses in this regard.

Figure 6.7: When the assistance was provided



Observations

The majority of respondents indicated that assistance was sought during every phase. Of the respondents, 58.5% sought assistance on a continuous basis during the entire life cycle of the business. Since the majority of these businesses were successful, this type of continuous assistance could be one of the causes.

If the phases are studied separately, 15.5% sought assistance only after the first two years of being in business, 6% only during the first two years, 12% only during the first six months and 8% only before starting a business.

This section indicates at what stage of the business cycle the assistance was actually provided. However, that stage might not have been the best time or the only time. A post facto evaluation was also done. The respondents were required to indicate during which stage of the business cycle they thought the best time would be to seek assistance. The response to this issue is dealt with in section 6.6.3.

6.4.4 Ways in which the respondents were assisted

Since all the respondents were assisted in some way, they were asked to indicate what type of assistance they had received. This means the following:

- Were they given advice by anyone including specialists, consultants and experts?
- Were they trained on the job?
- Did they outsource any part of the business to specialists?
- Did they make use of consultants in their businesses?
- Did they attend formal training courses?

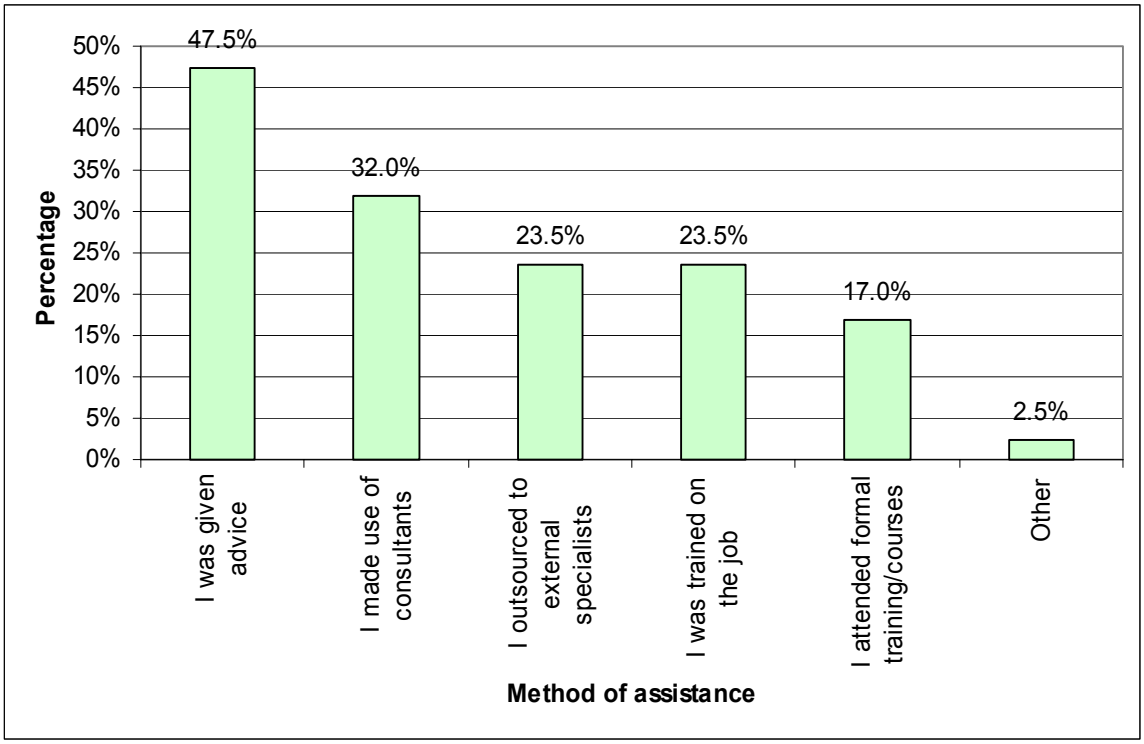
Their responses are indicated in table 6.9.

Table 6.9: The ways in which the respondents were assisted

I was given advice			
		Frequency	Percent
Valid	YES	95	47.5
	NO	105	52.5
	Total	200	100.0
I was trained on the job			
		Frequency	Percent
Valid	YES	47	23.5
	NO	153	76.5
	Total	200	100.0
I outsourced some functions to external specialists			
		Frequency	Percent
Valid	YES	47	23.5
	NO	153	76.5
	Total	200	100.0
I made use of consultants to assist me			
		Frequency	Percent
Valid	YES	64	32.0
	NO	136	68.0
	Total	200	100.0
I attended formal training/course(s)			
		Frequency	Percent
Valid	YES	34	17.0
	NO	166	83.0
	Total	200	100.0
Other			
		Frequency	Percent
Valid	YES	5	2.5
	NO	195	97.5
	Total	200	100.0

Figure 6.8 is a summary of the tables above, showing the different ways in which the respondents were assisted.

Figure 6.8: Summary of the different ways in which the respondents were assisted



Observations

The respondents made use of all the different ways of assistance mentioned. Nearly half of them (47.5%) were given advice or sought advice from someone (possibly consultants, specialists or even family members) as a means of assistance. Another 32% specifically made use of consultants to assist them. Of the respondents, 23.5% indicated that they were trained on the job and another 23.5% indicated that they had outsourced some functions to external specialists. Only 17% of the respondents had attended formal training courses.

In this case, the respondents could choose more than one option. There were 292 responses in total. This means that 92 additional responses were made.

Respondents who made use of two or even three of the given options made these 92 responses.

Only five respondents chose the option “other". The other ways in which they were assisted were as follows:

- a friend
- external auditors
- self-training
- refinancing the loan to make the payments
- a government subsidy

6.4.5 Formal training and/or courses attended by respondents

The 34 respondents from the previous section who indicated that they had attended formal training or formal courses were also asked to specify the type of training or the name of the course attended. Of these, 32 responded and the training/courses are listed in table 6.10.

Table 6.10: Formal training and/or courses attended by respondents

The name of the training/course attended			
		Frequency	Percent
Valid	Marketing	4	2.0
	Accounting (Pastel)	2	1.0
	B.Com	2	1.0
	Business	2	1.0
	Client relationship	2	1.0
	Computer	2	1.0
	Health and safety	2	1.0
	Veterinary studies	2	1.0
	A course at Spoornet	1	0.5
	Audit tax	1	0.5
	Franchise training	1	0.5
	General workshops	1	0.5
	Hospitality	1	0.5
	Can't remember	1	0.5
	In-house at Protea Hotel	1	0.5
	Investment	1	0.5
	Management	1	0.5
	Manufacturing	1	0.5
	MBL	1	0.5
	Project management	1	0.5
	Retail	1	0.5
	Teacher	1	0.5
	Total	32	16.0
Total		200	100.0

Observations

The formal training or courses attended by the respondents were dissimilar. Four of the 32 who responded were trained in or had done a marketing course. Two each had done training/courses in accounting, B.Com, business, client relationship, computer, health and safety and veterinary studies. Only one respondent each had attended 13 other and different formal training/courses, ranging from in-house courses at larger companies to a master's degree in business leadership and teacher training.

It would seem that the respondents did not attempt to be trained in the areas they regarded as the most important and did not seek much assistance in these areas, namely accounting, finance, marketing and human resources (see fig. 6.6). One can only assume that they focused on the core business or service they provided and preferred to make use of external assistance in managing these specialist functional areas.

6.4.6 The person/institution who provided the assistance

Assistance is available in so many different forums and can be sought from so many different sources. The literature (ch. 3, sec. 3.5) reviewed that SME owners can be assisted by different government bodies, training institutions, consultants, advisors (such as attorneys, accountants, banks) and general business consultants.

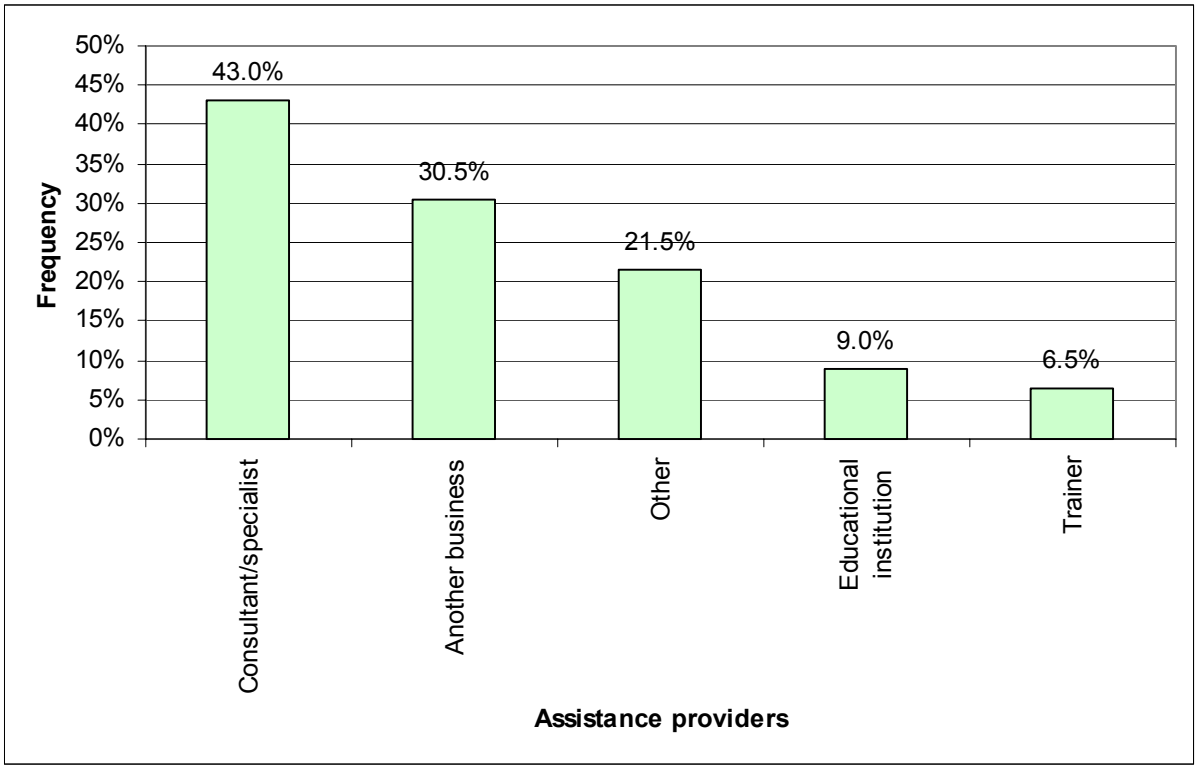
Table 6.11 indicates the different sources from which the respondents received assistance.

Table 6.11: Who rendered assistance to the respondents

Another business			
		Frequency	Percent
Valid	YES	61	30.5
	Total	200	100.0
Consultant/specialist			
		Frequency	Percent
Valid	YES	86	43.0
	Total	200	100.0
Trainer			
		Frequency	Percent
Valid	YES	13	6.5
	Total	200	100.0

Educational institution			
		Frequency	Percent
Valid	YES	18	9.0
	Total	200	100.0
Other			
		Frequency	Percent
Valid	YES	43	21.5
	Total	200	100.0

Figure 6.9: Summary of different bodies that rendered the assistance



Observations

From the information in table 6.11 it is clear that the respondents generally used consultants or specialists when seeking assistance. Consultants or specialists were used by 43% of the respondents, 30.5% of them made use of assistance from another business, 9% from educational institutions and 6.5% from trainers. Another 21.5% of the respondents made use of assistance from other sources.

Some of the respondents mentioned sources of assistance such as accountants, bookkeepers and financial advisors under the "other" option in question 8 of the questionnaire (appendix A). The “other sources” were not investigated but one can assume that some of these could also have been specialists and would have increased the number of respondents using specialists.

Some of the respondents (10.5%) used more than one source of assistance.

The other sources of assistance used by the respondents are listed in table 6.12.

Table 6.12: Other sources of assistance specified

		Frequency	Percent
Valid	Friend or partner or family members	13	6.5
	Accountant or CA	4	2
	Cofesa	4	2
	Manager or owner	4	2
	Bank	3	1.5
	Member of the franchise	3	1.5
	Social institute	2	1
	Bookkeeper	1	0.5
	Don't know	1	0.5
	Financial advisor	1	0.5
	In-house training	1	0.5
	Internet	1	0.5
	Lawyers	1	0.5
	Plastic Federation	1	0.5
	Pretoria Day-care Mother Society	1	0.5
	Self-training	1	0.5
	Technician	1	0.5
	Total	43	21.5

Observations

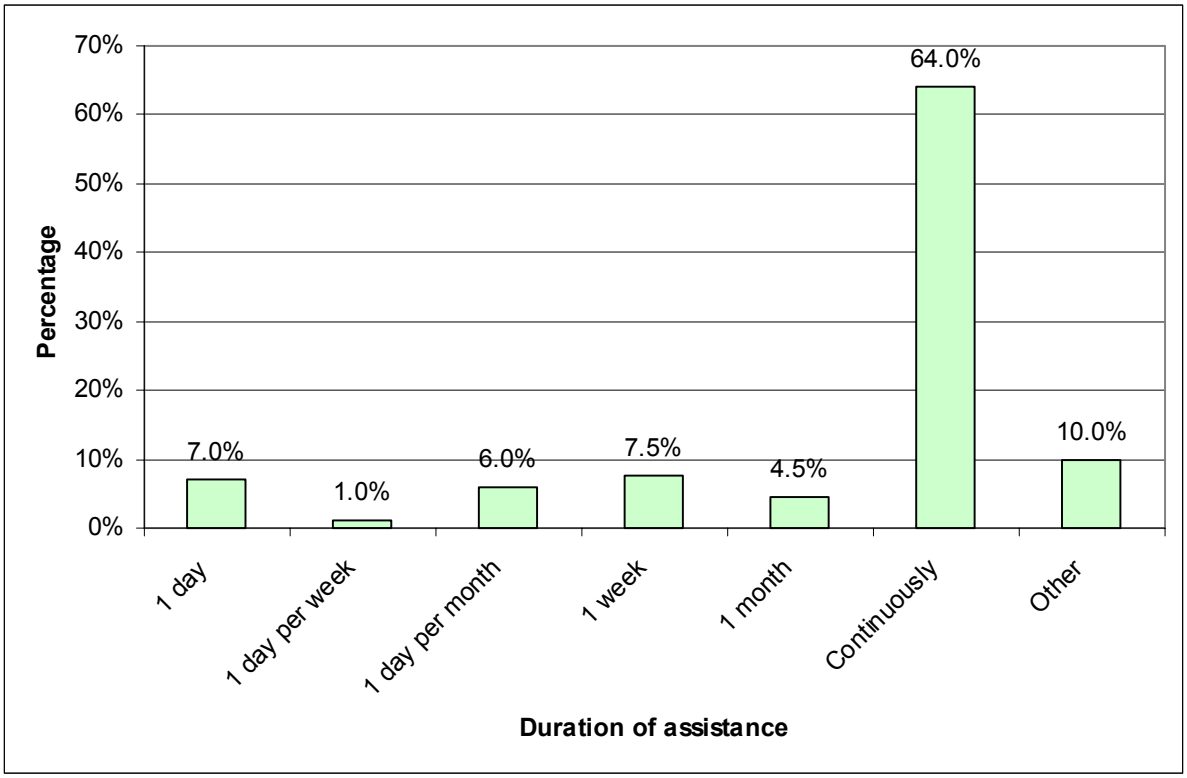
As table 6.12 indicates, 6.5% of the respondents made use of assistance from friends, partners or family members. Two percent used accountants, 2% Cofesa and another 2% assistance from the manager/owner (referring to another person in the business).

As mentioned earlier in this section, some of these sources of assistance, such as accountants, bookkeepers and financial advisors, should probably have been mentioned under "specialists" in table 6.11.

6.4.7 Duration of the assistance

SME owners seek assistance from different sources at different stages of their business life cycle. In this section the duration of the assistance was determined. Figure 6.10 indicates the responses in this area.

Figure 6.10: Summary of the duration of assistance



Observations

An overwhelming number of respondents (64%) indicated that they were using assistance in some form or other "continuously". This could mean that they were being assisted for one day per week, one day per month or any time period on a continuous basis.

The remainder of the respondents enjoyed assistance in different ways. Some (7.5%) received assistance for one week, 7% for one day, 6% for one day per month, 4.5% for one month and only 1% for one day per week.

Some respondents also indicated that they made use of assistance in another way, as already mentioned. Their responses are indicated in table 6.13.

Table 6.13: Other timeframes of assistance specified

		Frequency	Percent
Valid	9 years	2	1.0
	4 years	1	0.5
	3 years	2	1.0
	Every year	1	0.5
	3 months/3-4 times a year	3	1.5
	6 months/twice a year	2	1.0
	18 months	1	0.5
	2-3 days	2	1.0
	It depends on how soon different companies pay	1	0.5
	Only when we need something	4	2.0
	Not often	1	0.5
Total		20	10.0

Observations

The "other" timeframes specified by the respondents ranged from nine years to "not often". While some specified the period of time they had been assisted such as three and four years, others indicated that they were assisted for two to four times every year. The most frequent "other" option (mentioned by four respondents) was "only when we need something".

6.5 SHORTCOMINGS IN THE ASSISTANCE RECEIVED

The literature study on the assistance available to SME owners in South Africa indicated that SME owners are being assisted in many different ways and by many different bodies. The question that arose is whether this assistance is actually enhancing the success rate of SMEs. The literature researched did not disclose this, which is why the shortcomings (if any) were investigated in the whole process of assistance.

Assistance that is unsuccessful or inadequate could either result in business failure or the owner seeking alternative assistance. All the respondents in this study had received assistance and the majority of the respondents had

successful businesses. This could indicate that the assistance the respondents received had generally been successful. The respondents did not indicate too many shortcomings in the process of assistance and seemed generally happy with the assistance they had received.

6.5.1 General shortcomings

The respondents were asked to indicate any shortcomings they had experienced with regard to the assistance they had received. Table 6.14 shows their responses.

Table 6.14: General shortcomings identified during the process of assistance

		Frequency	Percent
Valid	Happy - got what I needed	79	39.5
	None	61	30.5
	The assistance is not enough	7	3.5
	Bank costs	6	3.0
	Not always 100% accurate	5	2.5
	Budgeting and control	5	2.5
	It is not relevant to me	4	2.0
	Difficult to reach the right person	4	2.0
	It is taking too long	4	2.0
	Execution of the business plan	2	1.0
	Inefficient CCMA	2	1.0
	The laws are not suitable to protect employers	2	1.0
	Staff and turnover	2	1.0
	Never received the funds	2	1.0
	I need a more business approach	2	1.0
	Its not specific, its more general	2	1.0
	Poor administration	1	0.5
	To apply the information practically	1	0.5
	It is too narrow minded to always understand it	1	0.5
	The kind of person to enter the market for hunting	1	0.5
	Misunderstanding of the nature of the business	1	0.5
	Its too late to rectify something	1	0.5
	Supervisor skills level	1	0.5
	Trust in your abilities	1	0.5
	Control of costing	1	0.5
	The distance from the person who is training me	1	0.5
	Marketing changes so rapidly, so have to keep training	1	0.5
	Total	200	100.0

Observations

Of the 200 responses, 39.5% respondents indicated that they were "happy with the assistance" they had received and that they "got what the needed", while 30.5% could not identify any shortcomings in the assistance they had received. Of the respondents, 3.5% also indicated that the assistance was inadequate.

If the respondents who were happy with the assistance they had received and those who got what they wanted are ignored, the remainder (30%) of the respondents identified shortcomings in the process of assistance. The list of shortcomings is indicated in table 6.14. This list could probably be summarised as follows in table 6.15:

Table 6.15: Summary of shortcomings identified during the process of assistance

	Area of shortcoming	Frequency	Percent
Valid	Assistance not 100% accurate, efficient, relevant, applicable or enough	30	15
	Cost related shortcomings, including budgeting and control	14	7
	Time issues (assistance being too long, too late and needed too often because of environmental changes)	5	2.5
	Other such as legal shortcomings, internal staff issues and poor administration	11	5.5

Observations

The main shortcoming identified (table 6.15) by 15% of the respondents was that the assistance provided had not always been 100% accurate, efficient, relevant, applicable or enough. The reasons for this were not identified, but these respondents should have endeavoured to communicate this to the providers for more efficient assistance in the future.

Another 7% of the respondents identified cost-related issues as a shortcoming. A few also mentioned that the assistance they had received was too long, sought too late and one even mentioned that rapidly changing marketing had forced

him/her to "keep training". Additional issues such as legal shortcomings, internal staff issues and poor administration were also mentioned.

Although 30% of the respondents identified shortcomings in the process of assistance, only 8.5% of the respondents were unsuccessful. These shortcomings should be investigated and rectified, but they did not seem to influence the success rate of the businesses that much, since so many of the respondents were still successful.

Even the unsuccessful businesses were generally satisfied with the assistance they received and few of them identified any shortcomings. Table 6.44 shows the cross-tabulation of unsuccessful businesses and the shortcomings identified by the owners of these businesses.

6.5.2 Specific shortcomings in each area of assistance

The areas or functions in which the respondents were assisted as mentioned in section 6.3.1 (Areas/functions of the business in which the respondents received or are receiving external assistance) were also studied separately to determine what type of shortcomings were identified in each area or function. Table 6.16 indicates the shortcomings for each area, as perceived by the respondents.

Table 6.16: Shortcomings as perceived by the respondents for each area

Shortcomings for finance/accounting			
		Frequency	Percent
Valid	Happy - got what I needed	29	36.3
	None	25	31.3
	The assistance is not enough	4	5.0
	Not always 100% accurate	3	3.8
	Bank costs	3	3.8
	Budgeting and control	3	3.8
	It's not specific, it's more general	2	2.5
	It is taking too long	2	2.5
	Never received the funds	2	2.5
	It is not relevant to me	1	1.3
	Difficult to reach the right person	1	1.3
	The assistance is not enough	1	1.3
	To apply the information practically	1	1.3
	Trust in your abilities	1	1.3
	I need a more business approach	1	1.3
	Its too late to rectify something	1	1.3
	Total	80	100.0

Shortcomings for marketing			
		Frequency	Percent
Valid	Happy - got what I needed	15	44.1
	None	9	26.5
	Not always 100% accurate	3	8.8
	Bank costs	2	5.9
	Inefficient CCMA	1	2.9
	The distance from the person training me	1	2.9
	Marketing changes so rapidly, so have to keep training	1	2.9
	Execution of the business plan	1	2.9
	Control of costing	1	2.9
	Total	34	100

Shortcomings for human resources			
		Frequency	Percent
Valid	Happy - got what I needed	8	36.4
	None	6	27.3
	Difficult to reach the right person	2	9.1
	The laws are not suitable to protect employers	2	9.1
	It is not relevant to me	1	4.5
	The assistance is not enough	1	4.5
	Inefficient CCMA	1	4.5
	Budgeting and control	1	4.5
	Total	22	100.0

Shortcomings for production/operations			
		Frequency	Percent
Valid	None	7	43.8
	Happy - got what I needed	5	31.3
	It is not relevant to me	1	6.3
	Staff and turnover	1	6.3
	It is taking too long	1	6.3
	Supervisor skills level	1	6.3
	Total	16	100

Shortcomings for legal aspects			
		Frequency	Percent
Valid	None	8	53.3
	Happy - got what I needed	3	20.0
	Difficult to reach the right person	1	6.7
	Not always 100% accurate	1	6.7
	Bank costs	1	6.7
	Budgeting and control	1	6.7
	Total	15	100.0

Shortcomings for administration			
		Frequency	Percent
Valid	Happy - got what I needed	7	70.0
	It is taking too long	1	10.0
	None	1	10.0
	Poor administration	1	10.0
	Total	10	100.0

Shortcomings for health and safety			
		Frequency	Percent
Valid	Happy - got what I needed	4	44.4
	None	3	33.3
	The assistance is not enough	1	11.1
	Staff and turnover	1	11.1
	Total	9	100.0

Shortcomings for business plan			
		Frequency	Percent
Valid	Happy - got what I needed	3	50.0
	Execution of the business plan	1	16.7
	None	1	16.7
	I need a more business approach	1	16.7
	Total	6	100.0

Shortcomings for IT			
		Frequency	Percent
Valid	It is not relevant to me	1	33.3
	Happy - got what I needed	1	33.3
	none	1	33.3
	Total	3	100.0

Shortcomings for systems			
		Frequency	Percent
Valid	Happy - got what I needed	3	100.0

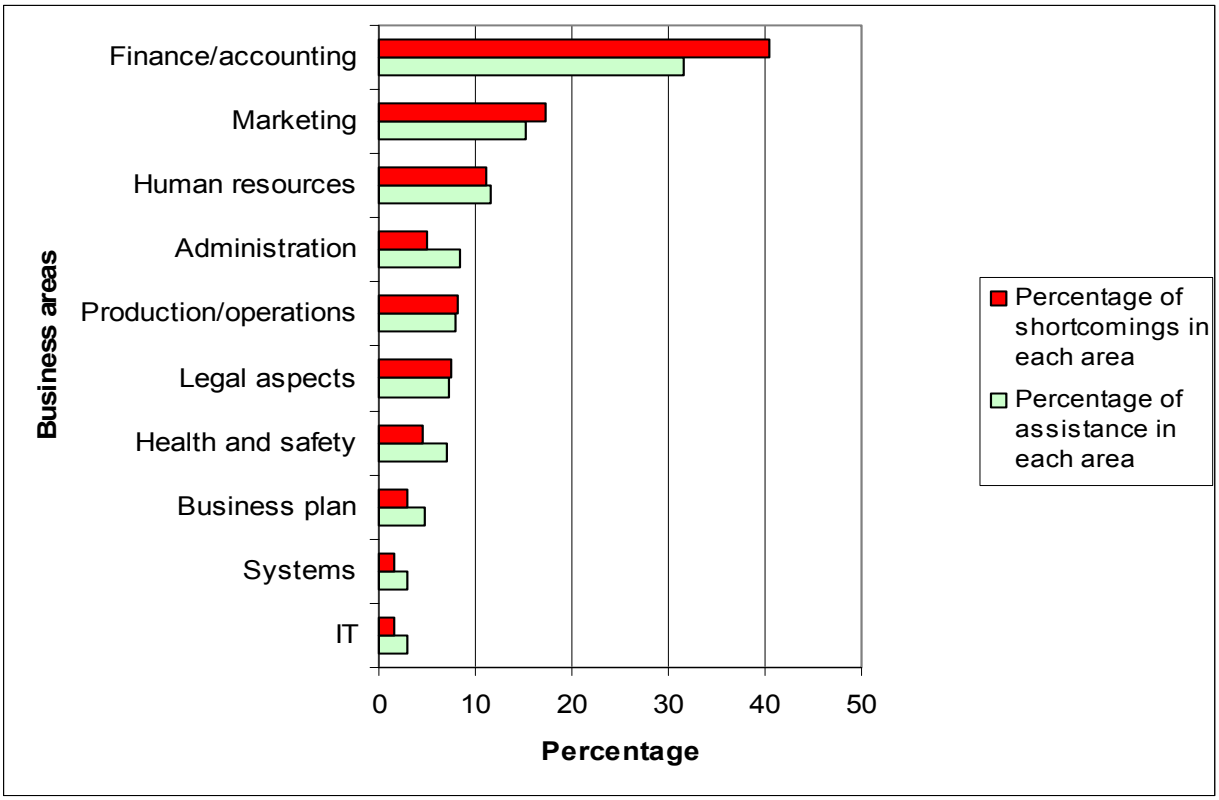
Observations

The most shortcomings were found in the areas of finance, marketing and human resources. However, these were also the areas in which respondents had received the most assistance. The least shortcomings were found in the areas of IT and systems. In table 6.17 and in the graphical representation below, the two variables, "A*ssistance received in each area"* and *"Shortcomings in each area"* are compared.

Table 6.17: Comparison of the areas in which respondents were assisted and the shortcomings in those areas

		Percentage of shortcomings in each area	Percentage of assistance in each area
Valid	IT	1.5	3.0
	Systems	1.5	3.0
	Business plan	3.0	4.7
	Health and safety	4.5	7.1
	Legal aspects	7.6	7.3
	Production/operations	8.1	8.0
	Administration	5.1	8.5
	Human resources	11.1	11.5
	Marketing	17.2	15.3
	Finance/accounting	40.4	31.5

Figure 6.11: Graphical representation of Table 6.17



Observations

The graph clearly indicates a relationship between the assistance provided in each area of the business and the shortcomings in that specific area. In most areas the number of shortcomings is in proportion to the amount of assistance rendered.

However, there are some areas in which the percentage shortcomings were higher than in others. The areas in which the percentage of shortcomings was the highest are finance/accounting (40.4%), marketing (17.2%) and human resources (11.1%). Although the areas of finance/accounting, marketing and human resources were high on the list of assistance received they were also of the areas in which the most shortcomings were identified. The question that arises is whether the SMEs were receiving the type of assistance they really need.

On the lower end of the scale are the areas of IT and systems, indicating that there were few or no shortcomings in the process of assistance.

There appears to be a general failure in respect of the assistance in finance/accounting and marketing. Although only 31.5% of the respondents received assistance in finance/accounting, 40.4% of the shortcomings was identified in this area. A similar but less severe difference was found in marketing where 15.3% of the respondents received assistance in marketing and 17.2% of the shortcomings was identified in the marketing area. Finance/accounting and marketing were the areas with the highest priorities of assistance and also the areas in which there was the greatest mismatch between what was expected and what was received. These areas need more specific assistance focusing on solutions to their problems.

Although not much assistance was rendered in the areas of IT and systems, it was mostly relevant, efficient, and accurate and/or what was needed.

6.6 FACTORS CONTRIBUTING TO THE SUCCESS OF SMEs

Most of the businesses in this study were successful. There could be many factors contributing to the success of these businesses.

6.6.1 Respondents' perception of the most important factors that contributed to the success of their business

The respondents were asked to indicate the three most important factors they thought contributed to their success. They were given some options and also afforded the opportunity to specify any other contributing factors. Their responses are indicated in table 6.18. The numbers shown in that table under

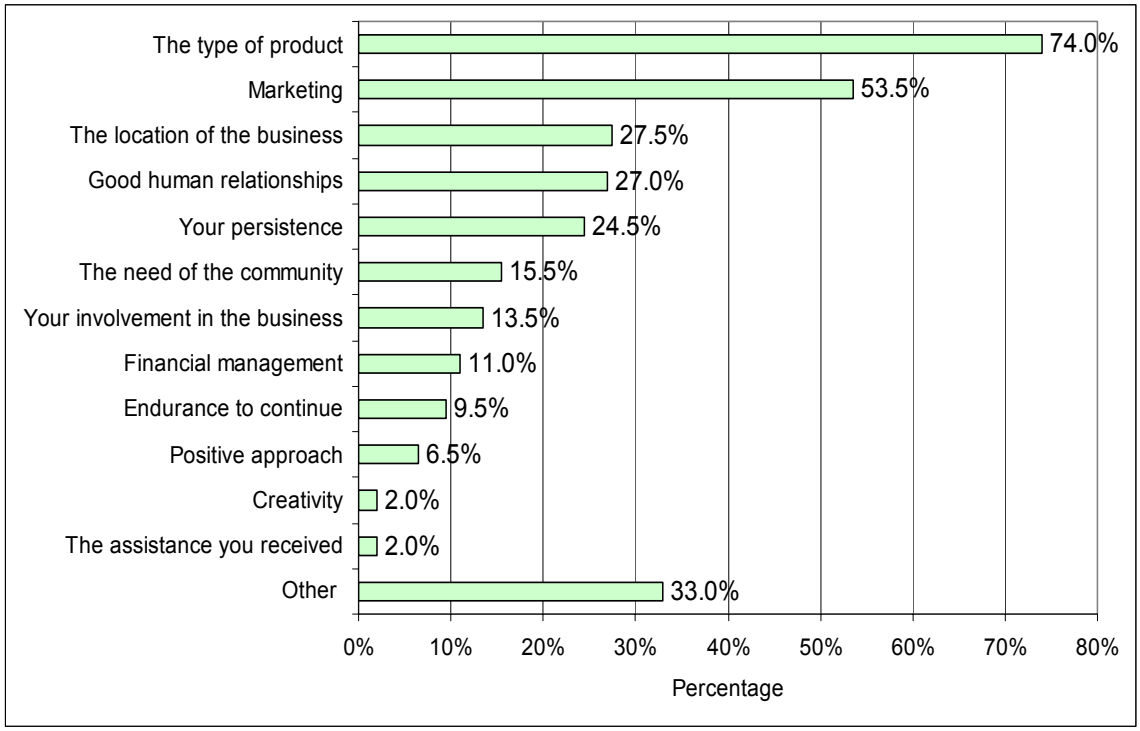
the "frequency" heading refer to the total number of times the respondents mentioned the specific factor as first, second and third most important factor.

The areas are ranked from highest to lowest, the highest being that area or function in the business that the respondents indicated as the most important factor contributing to their success, and the lowest that area they thought contributed least to their success.

Table 6.18: Factors that contributed to the success of the respondents' businesses

		Frequency	Percent
Valid	The type of product	148	74.0%
	Marketing	107	53.5%
	The location of the business	55	27.5%
	Good human relationships	54	27.0%
	Your persistence	49	24.5%
	The need of the community	31	15.5%
	Your involvement in the business	27	13.5%
	Financial management	22	11.0%
	Endurance to continue	19	9.5%
	Positive approach	13	6.5%
	The assistance you received	4	2.0%
	Creativity	4	2.0%
	Other	66	33.0%

Figure 6.12: Graphical representation of table 6.18



Observations

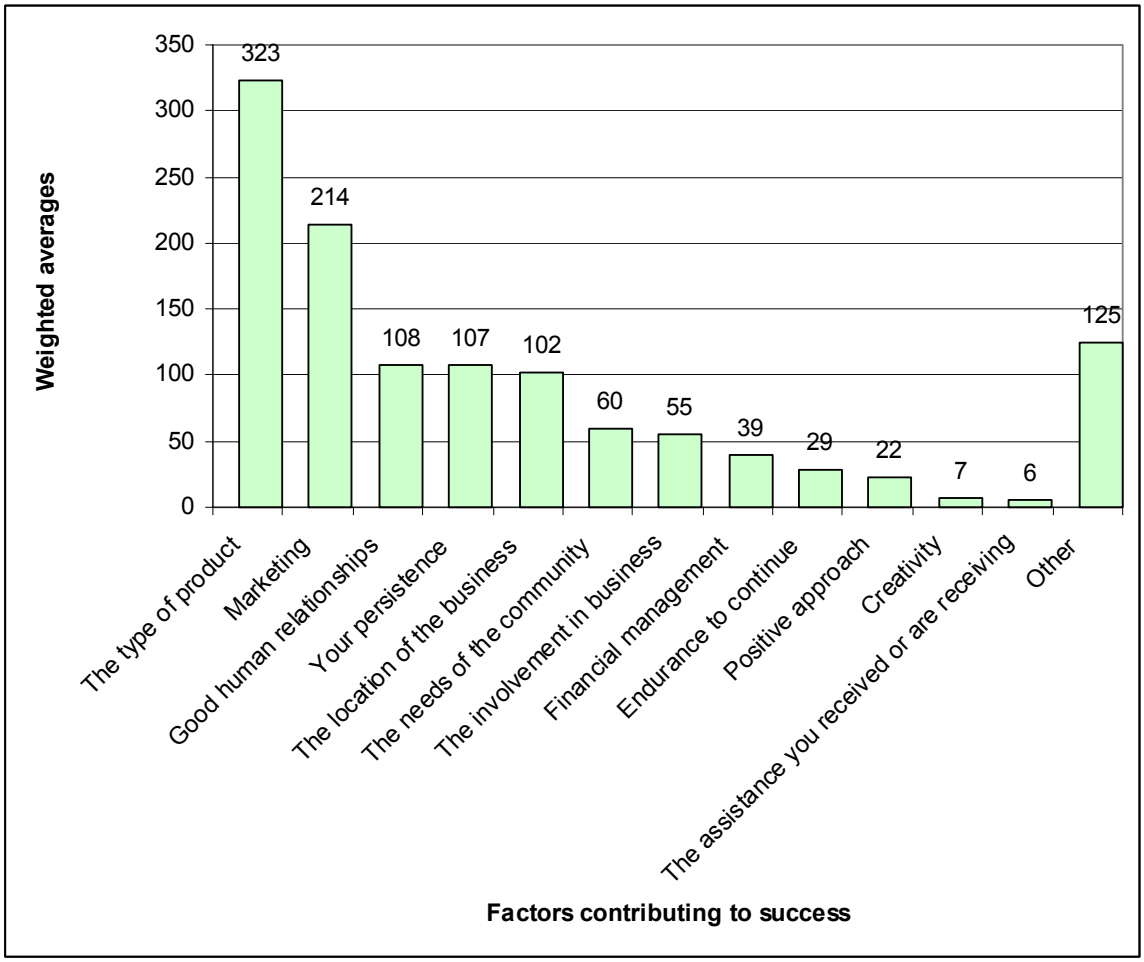
According to the respondents, the type of product, including the quality of the product they provided, was by far the most important factor contributing to the success of their businesses. Of the 200 respondents, 74% chose this factor as one of the most important factors.

The second most important factor chosen by 53.5% of the respondents as contributing to their success was marketing. Three factors were perceived as similarly important (the % in brackets indicating the percentage of respondents choosing that factor). The factors were the location of the business (27.5%), good human relationship, (also seen as a form of marketing), (27%) and the persistence of the owner (24.5%). Marketing had already been identified as an important factor for success - hence SMEs need for more relevant marketing assistance.

The factors that the respondents perceived as least important were a positive approach (6.5%), creativity (2%) and the assistance they had received or are receiving (2%).

As mentioned at the beginning of this section, the respondents were also asked to indicate the three most important factors they thought contributed to their success. Table 6.56 (see appendix B) indicates the different factors contributing to the success of the respondents' businesses as well as the responses showing the number of respondents choosing the specific factor as first, second and third most important. To make this information more meaningful, the weighted averages were calculated and are presented in figure 6.13.

Figure 6.13: The weighted averages of the different factors contributing to the success of the respondents' businesses



Observation

The two most important contributing factors are quite clear. According to the respondents they were the type of product and the marketing. The following three factors were all similarly rated. These factors were persistence, good human relations and the location of the business. The only other outstanding factor was the "other" choice.

One should bear in mind that the respondents were asked to give only three factors contributing to the success of their businesses and that the concentration of responses was around the first or similar factors, as indicated in table 6.56.

It is worth noting that 33% of the respondents also mentioned other factors contributing to their success. These are indicated in table 6.19.

Table 6.19: "Other" factors mentioned that contributed to success

Other			
		Frequency	**Percent**
Valid	Price of product/service	11	5.5
	Quality staff (including commitment and honesty)	11	5.5
	Cash flow	3	1.5
	Human resources	3	1.5
	The availability of after-sales staff	3	1.5
	Cleanliness	2	1.0
	Clientele or client base	2	1.0
	Good system or information on the system	2	1.0
	Keeping up to date with technology	2	1.0
	Management	2	1.0
	Product knowledge	2	1.0
	Research and development or demand for the product	2	1.0
	Sales	2	1.0
	Timeous approach	2	1.0
	Communication	1	0.5
	Correct ratio of labour rates	1	0.5
	Creditworthiness	1	0.5
	Economic growth	1	0.5
	Flexibility	1	0.5
	Health and safety	1	0.5
	I don't know	1	0.5
	Internal control	1	0.5
	International approach	1	0.5
	Manufacturing	1	0.5
	Profit	1	0.5
	Resource management	1	0.5
	Team work	1	0.5
	The love and care of children	1	0.5
	The vet	1	0.5
	Type of business	1	0.5
	Weather conditions	1	0.5
Total		66	33.0

Observations

The price of the product/service and quality staff (including the traits of commitment and honesty) were by far the most important "other" factors influencing the success of a business. These two factors were each mentioned by 5.5% of the respondents. Others worth mentioning were cash flow, human resources and the availability of after-sales staff, as mentioned by 1.5% of the respondents.

The fact that the respondents did not regard the assistance they had received or were receiving as an important contributing factor to their success does seem inconsistent, seeing that most of them thought that assistance was important and that they needed assistance on a continuous basis. Again assistance was seen as a support function.

They might have regarded assistance as being important but the assistance was not the factor that made them successful. The factors mentioned such as product quality and marketing were critical to their success.

Another interesting fact is that although the respondents deemed finance to be one of the most important areas in which assistance was needed, they did not see it as a contributing factor to their success. Finance by itself could probably not determine the success of the business in the same way as the right product at the right quality and with the right marketing strategies. Finance is a vital supporting factor and the finances of the business could be managed as well as possible, but if the business did not work in terms of the factors mentioned, the best financial practices would not have saved it.

Success depends on many factors as indicated by the respondents of which assistance probably plays a minute role. Unfortunately there was no control group who did not receive assistance to measure against. The period of the

study also coincided with high economic growth which suggests higher success levels anyway. This could imply that the respondents could have been successful without having received assistance in any case. However, the fact that they sought assistance indicated that there was a need for assistance.

6.6.2 The respondents' perception of the consequences of the assistance received

The question was then put to the respondents whether they thought that the assistance they had received actually caused their businesses to be more successful. Table 6.20 shows their responses.

Table 6.20: Is your business more successful because of the assistance you received or are receiving?

		Frequency	Percent
Valid	Yes	144	72.0
	No	56	28.0
	Total	200	100.0

Observations

Of the 200 respondents, 72% mentioned that their businesses were more successful because of the assistance they had received.

6.6.3 Respondents' recommendations about when assistance should be sought

Earlier during the study (question 6 of the questionnaire in appendix A) the respondents were asked when they had actually received the assistance they had mentioned.

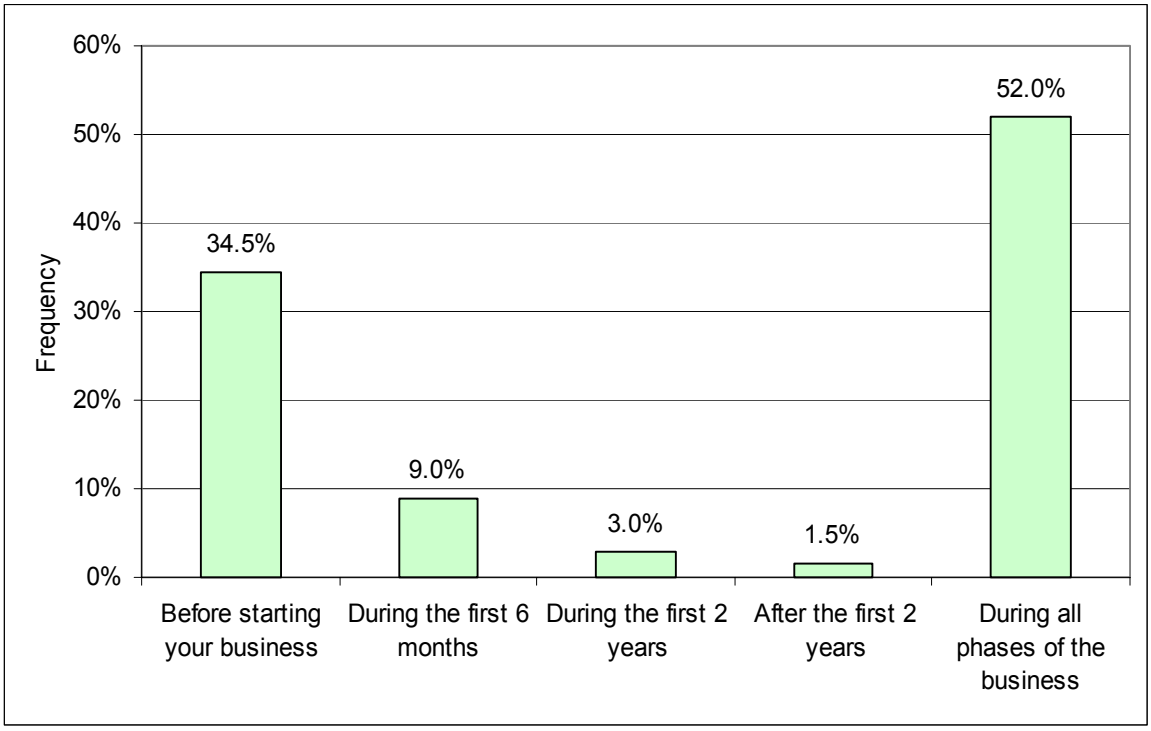
The respondents in this study were generally successful and all of them had been assisted in some way. Because of this one may assume that they were in some

position to indicate the best time to seek assistance. This question was put to them and their responses can be seen in table 6.21 and figure 6.14.

Table 6.21: According to you, when should a person seek assistance similar to what you have mentioned?

		Frequency	Percent
Valid	Before starting your business	69	34.5
	During the first six months	18	9.0
	During the first two years	6	3.0
	After the first two years	3	1.5
	During all phases of the business	104	52.0
	Total	200	100.0

Figure 6.14: Graphical representation of table 6.21

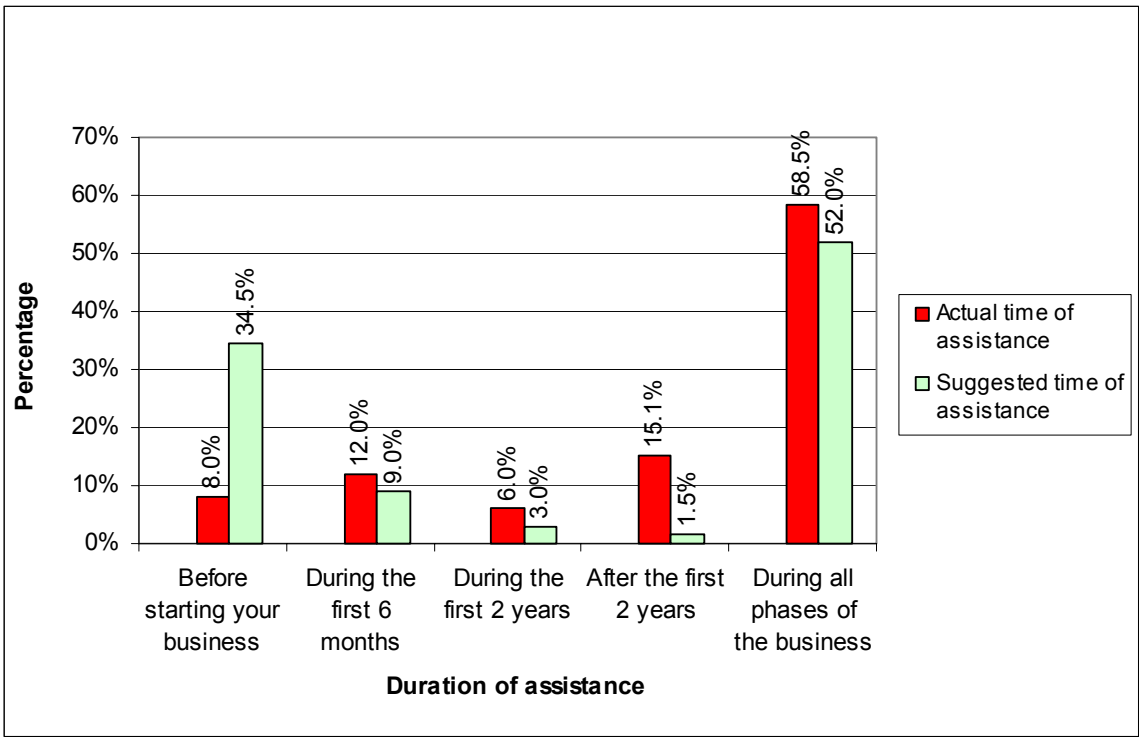


Observations

Of the 200 respondents, 52% indicated that SME owners should seek assistance similar (see sec. 6.4) to what they had mentioned. Another 34.5% indicated that SME owners should seek assistance before starting their businesses, and while only 12% thought that assistance is only needed during the first six months (9%) and first two years (3%). Assistance after the first two years of the existence of a SME does not seem to have value, since only 1.5% of the respondents felt that it should be sought at that stage.

It was interesting to compare the two answers to questions 6 and 13 in the questionnaire. In question 6, the respondents were asked to indicate "when they actually received the assistance" they had mentioned, while in question 13, they were asked how they felt about "when the best time would be" to seek and receive assistance as an SME owner. Figure 6.15 provides a graphical comparison of these two responses.

Figure 6.15: Comparison of when the assistance was received with the respondents' suggestion about when the best time would be to receive assistance



Observations

The main difference between these two responses is about receiving assistance before starting a business. Only 8% of the respondents actually made use of assistance before starting their businesses, while 34.5% of them thought that SME owners should make use of assistance before starting a business. This appears to be perfect hindsight! – "learning from one's mistakes".

The respondents did not seem to make use of assistance earlier in the business cycle, but were forced to seek assistance after some time. If business owners were to seek assistance before starting a business it would not be necessary to seek so much assistance at a later stage or to prevent some of the problems they experience.

The second largest difference was the in timeframe of "after two years". Although many (15.5%) made use of assistance during this time, few (1.5%) thought that this was the time to seek assistance.

An equally large percentage of 58.5% of the 200 respondents had actually received assistance and 52% suggested that SME owners should be assisted during all phases of the business.

From the above it is clear that there was general consensus among the respondents that successful businesses should make use of assistance during all the stages of the life cycle of the business.

6.7 CORRELATIONS AND CROSS-TABULATIONS (initial classification)

In this section the researcher used cross-tabulation tables (contingency tables) to indicate different relationships between two or more categorical (nominal or ordinal) variables.

A cross-tabulation (cross-tab) is a table in which each cell represents a unique combination of values. This technique describes the relationships between variables and measures the extent to which a change in one variable is attributed to a change in another (Welman & Kruger, 2001:209-212). This allows you to visually analyse whether one variable's distribution is contingent on another's. It provides you with a visual view of comparative data (Byrne, 2007:41).

If the proportions of individuals in the different columns vary between rows, it implies that the table shows contingency between the two variables. If there is no contingency, then the two variables are independent. The degree of association between the two variables can be assessed by a number of coefficients: the simplest is the phi coefficient. If both variables are nominal and dichotomous, phi

coefficient is a measure of the degree of association between two binary variables.

Cross-tabulations involve numerous statistics. In section 6.8, a proportional reduction of error (PRE) measure known as lambda (symbolised by the Greek letter λ) will be used to determine and measure the strength of the association between the variables.

Lambda has a possible range of 0 to 1. A value of 0 means that the information supplied by the independent variable does not improve the ability to predict the dependent variable. Hence there is no association between the variables. A value of 1 means that the independent variable predicts the dependent variable perfectly and that there is an association between the variables (Anon, 2007).

Values between 0 and 1, say 0.7 have a direct and meaningful interpretation. These values can be seen as indices of the extent to which one variable helps to predict another. When multiplied by 100, the value of lambda indicates the percentage reduction in error and therefore the strength of the association. A lambda of 0.7 would be interpreted by concluding that knowledge of the independent variable improves the ability to predict the dependent variable by a factor of 70%. In other words, the researcher is 70% better off knowing the independent variable (such as size of the business) when attempting to predict the dependent variable (such as the success of the business) than someone else who does not know what the independent variable is (Anon, 2007).

Chi-square was not used because the cross-tabulation matrix was unbalanced in most of the above cases. The differences in the cell values were too large, violating one of the assumptions upon which chi-square is based.

Several cross-tabulations were done. These are discussed below. All the tables that are not displayed but are referred to in this section are provided in appendix B: Tables mentioned but not included in chapters.

Important note on the correlations and cross-tabulations in this section:

In most of the correlations and cross-tabulations, the variable for the success of the businesses will be used. The respondents were required to answer question 2 of the questionnaire, indicating on a scale of 1 to 7 how successful they thought their businesses were. The responses are provided in figure 6.4.

In the **first part of this section** (sec. 6.7: correlations and cross-tabulations [initial classification]) the responses/ratings were divided into the following categories:

Table 6.22 Initial classification of ratings

Rating by respondents	Classification as a measure of success	Frequency	Percentage
1-3	**Dissatisfied (unsuccessful)**	17	8.5
4-5	**Satisfied**	125	62.5
6-7	**Delighted**	58	29

These categories were used to do some correlations and cross-tabulations. However, owing to the fact that the base size was too small (only 17) for the “dissatisfied” category, it was not possible to perform any test of significance. An acceptable base size for significance differences is 30, and for accurate and reliable significance tests a base size of 50 is required.

The categories of “delighted/satisfied/dissatisfied” were used for the first part because it was necessary to distinguish between the "unsuccessful" (dissatisfied category) and the "successful" businesses and more meaningful comparisons could be made.

In the **second part of this section** (sec. 6.8: correlations and cross-tabulations [adjusted classification]) the responses/ratings were divided into the following categories:

Table 6.23 Adjusted classification of ratings

Rating by respondents	Classification as a measure of success	Frequency	Percentage
1-4	**Least successful**	59	29.5
5	**Satisfied**	83	41.5
6-7	**Very successful**	58	29

The seven-point Likert scale (see figure 6.3 – Respondents' perception of how successful their businesses were) was specifically chosen in order to assist in the categorisation of the perceived success variables. With a mean of 4.97, a median of 5, a mode of 5 and a skewness of -.378, it was necessary to categorise the data as indicated in table 6.23.

This reason for dividing the responses into these categories with more equal frequencies is to enable the researcher to perform tests of significance. This will be possible because the base sizes of the different categories are similar. Since the base sizes are now > 50, reliable significance tests can be performed.

The classifications are also changed as indicated above. The reasons for changing the classifications are as follows:

- Changing "dissatisfied" to "least successful". A respondent choosing a rating of 1 to 3 could be regarded as dissatisfied and unsuccessful. The new classification includes the 4 ratings. On a scale of 1 to 7, a rating of 4 is surely not unsuccessful. This category is therefore called "least successful" in a relative sense to the others.

- Those respondents who rated their success as a 6 or 7 were obviously not only delighted, but also "very successful", and this group constitutes a large enough number to work with.

- The respondents who rated their success as 5 were also obviously "satisfied".

To summarise the change in the classification structure, note the following:

Table 6.24 Classifications (initial and adjusted) of ratings as percentages

Rating by respondents (initial)	Rating by respondents (adjusted)	Classification (initial)	Classification (adjusted)	Percentage (initial)	Percentage (adjusted)
1-3	1-4	Dissatisfied	Least successful	8.5	29.5
4-5	5	Satisfied	Satisfied	62.5	41.5
6-7	6-7	Delighted	Very successful	29	29

Although the data was manipulated to get an even distribution, the focus was on the more successful, or as indicated in table 6.24, the satisfied and very successful responses. The “unsuccessful” responses will be discussed separately in section 6.9.

6.7.1 The areas of assistance (sec. 1, Q5) and the success of the businesses (sec. 1, Q2)

Table 6.57 (appendix B) illustrates the relationship between areas of assistance, and the extent to which the respondent felt that his/her business was successful. However, the following was done to simplify the discussion of this section, and make it more meaningful:

Table 6.31 was created, classifying the "delighted" and "satisfied" splits for satisfaction with the success of the business as "**successful businesses**" and the "dissatisfied" splits as "**unsuccessful businesses**". The responses were

ranked from most assistance received to least assistance received. For the remainder of this section (secs. 6.7.1-6.7.6), the principle will be used of combining the "delighted" and "satisfied" splits as "**successful businesses**".

The reason for using only two categories in this section is that the researcher did not see the need to distinguish between the different levels of success. It was a matter of comparing the successful businesses with the less successful businesses in each correlation.

Table 6.25: Summary of cross-tabulation of successful/unsuccessful businesses and areas of assistance

	Successful businesses		**Unsuccessful businesses**		**Total**	
	n	%	n	%	n	%
Financial	76	95.0%	4	5.0%	80	100%
Marketing	32	94.1%	2	5.9%	34	100%
Human resources	20	90.9%	2	9.1%	22	100%
Production/operations	14	87.5%	2	12.5%	16	100%
Legal aspects	13	86.7%	2	13.3%	15	100%
Administration	9	90.0%	1	10.0%	10	100%
Health and safety	6	66.7%	3	33.3%	9	100%
Business plan	6	100.0%	0	0.0%	6	100%
Systems	3	100.0%	0	0.0%	3	100%
IT	2	66.7%	1	33.3%	3	100%

Observations

Of the respondents who mentioned financial as the number one area in which they had received assistance, 95% felt that their businesses were successful and only 5% felt that their businesses were unsuccessful.

Those who mentioned marketing as the number one area in which they had received assistance, 94.1 % of them felt that their businesses were successful, while 5.9% felt that their businesses were unsuccessful.

6.7.2 The time in the business cycle in which assistance was used (sec. 1, Q6) and the success of the businesses (sec. 1, Q2)

Table 6.26 illustrates the relationship between the time in the business cycle in which assistance was used and the success of the businesses.

Table 6.26: The time in the business cycle in which assistance was used of and the success of the businesses

	Successful businesses		Unsuccessful businesses		Total	
	Count	%	Count	%	Count	%
Before starting your business	16	100.0%	0	0.0%	16	100%
During the first 6 months	20	83.3%	4	16.7%	24	100%
During the first 2 years	10	83.3%	2	16.7%	12	100%
After the first 2 years	30	96.8%	1	3.2%	31	100%
Continuously	107	91.5%	10	8.5%	117	100%
Group total	183	100.0%	17	100.0%	200	100%

Observations

Of the 117 respondents who had used assistance continuously throughout the life cycle of the business, 91.5% had successful businesses. Another 31 respondents made use of assistance after the first two years. Of these, 97% had successful businesses. Of the 24 that used assistance during the first six months, 83% had successful businesses.

All of the respondents who made use of assistance before starting their businesses were successful. Although these are small numbers, they do indicate that seeking assistance before the problem arises helps SMEs to be successful – hence the adage of “prevention is better than cure” still applies.

6.7.3 The way in which the respondents were assisted (sec. 1, Q7) and the success of the businesses (sec. 1, Q2)

Table 6.27 indicates only the "yes" answers to the options given regarding the way in which the respondents were assisted and the successful and unsuccessful businesses.

Table 6.27: Summary of the way the respondents were assisted and the success of the businesses

	Successful		Unsuccessful		Total	
	n	%	n	%	n	%
I was given advice	85	89%	10	11%	95	100%
I was trained on the job	44	94%	3	6%	47	100%
I outsourced some functions to external specialists	45	96%	2	4%	47	100%
I made use of consultants to assist me	60	94%	4	6%	64	100%
I attended formal training/course(s)	32	94%	2	6%	34	100%
Group total	266	100%	21	100%	287	100%

Observations

Although some options were used more than others, all the businesses showed a similarly high percentage of success. Only in the category of "I was given advice" did the respondents (89%) indicate a lower than 90% success rate for their businesses.

6.7.4 The assistance provider (sec. 1, Q8) and the success of the businesses (sec. 1, Q2)

Table 6.28 indicates only the "yes" answers to the options regarding the presenters of the assistance and the successful and unsuccessful businesses.

Table 6.28: Summary of the assistance providers and the success of the businesses

	Successful		Unsuccessful		Total	
	n	%	n	%	n	%
Another business	57	93%	4	7%	61	100%
Consultant/specialist	79	92%	7	8%	86	100%
Trainer	13	100%	0	0%	13	100%
Educational institution	17	94%	1	6%	18	100%
Group total	166	100%	12	100%	178	100%

Observations

More than 90% of the businesses that had made use of other businesses and consultants/specialists for assistance were successful.

6.7.5 The duration of actual assistance (sec. 1, Q9) and the success of the businesses (sec. 1, Q2)

Table 6.29 indicates the duration of assistance and the successful and unsuccessful businesses.

Table 6.29: The duration of the actual assistance and the success of the businesses

		Successful		Unsuccessful		Total	
		n	%	n	%	n	%
	1 day	11	78.57%	3	21.43%	14	100%
	1 day per week	2	100.00%	0	0.00%	2	100%
	1 day per month	10	83.33%	2	16.67%	12	100%
	1 week	15	100.00%	0	0.00%	15	100%
	1 month	8	88.89%	1	11.11%	9	100%
	Continuously	118	92.19%	10	7.81%	128	100%
	Other	19	95.00%	1	5.00%	20	100%
Group total		183	91.50%	17	8.50%	200	100%

Observations

The numbers of respondents who made use of assistance for one day per week, one week, only one day and for one day per month are so small that they are not really meaningful.

Of the 118 respondents who received continuous assistance, 92.19% had successful businesses, which proves the point that continuous assistance does help SMEs to survive and grow.

6.7.6 Shortcomings identified by the respondents (sec. 1, Q10) and the success of the businesses (sec. 1, Q2)

Table 6.30 indicates the shortcomings identified by the respondents and the success of their businesses.

Table 6.30: The shortcomings identified by the respondents and the success of the businesses

	Successful		Unsuccessful	
	n	%	n	%
Happy - got what I needed	73	39.89%	6	35.29%
None	55	30.05%	6	35.29%
Bank costs	6	3.28%	0	0.00%
Budgeting and control	4	2.19%	1	5.88%
It is taking too long	4	2.19%	0	0.00%
Not always 100% accurate	4	2.19%	1	5.88%
The assistance is not enough	6	3.28%	1	5.88%
Difficult to reach the right person	4	2.19%	0	0.00%
It is not relevant to me	4	2.19%	0	0.00%
It is not specific, its more general	2	1.09%	0	0.00%
Never received the funds	2	1.09%	0	0.00%
Control of costing	1	0.55%	0	0.00%
Execution of the business plan	2	1.09%	0	0.00%
I need a more business approach	1	0.55%	1	5.88%
Inefficient CCMA	1	0.55%	1	5.88%
It is too narrow-minded to always understand it	1	0.55%	0	0.00%
It is too late to rectify something	1	0.55%	0	0.00%
Marketing changes so rapidly, so have to keep training	1	0.55%	0	0.00%
Misunderstanding of the nature of the business	1	0.55%	0	0.00%
Staff and turnover	2	1.09%	0	0.00%
Supervisor skills level	1	0.55%	0	0.00%
The distance from the person training me	1	0.55%	0	0.00%
The kind of person to enter the market for head-hunting	1	0.55%	0	0.00%
The laws are not suitable to protect employers	2	1.09%	0	0.00%
To apply the information practically	1	0.55%	0	0.00%
Trust in your abilities	1	0.55%	0	0.00%
Poor Administration	1	0.55%	0	0.00%
Group total	**183**	**100.00%**	**17**	**100.00%**

Observations

The respondents identified many different shortcomings. Although 128 of the respondents indicated that there were no shortcomings in the assistance they had received, 9.4% of these still had unsuccessful businesses. Although numerous shortcomings were identified, the businesses were generally successful.

6.7.7 The respondents' perception of their business being more successful after having received assistance (sec. 3, Q12) and the success of the businesses (sec. 1, Q2) (Table 6.31)

From here on and for the remainder of this section, the "delighted/satisfied/dissatisfied" responses regarding success were used to indicate whether the assistance received by the respondents had actually influenced the success of their businesses.

Table 6.31: The respondents' perception of their business being more successful after having received assistance and the success of the businesses

		Delighted		Satisfied		Dissatisfied		Group total	
		n	%	n	%	n	%	n	%
	Yes	46	79.3%	87	69.6%	11	64.7%	144	72%
	No	12	20.7%	38	30.4%	6	35.3%	56	28%
Group total		58	100%	125	100%	17	100%	200	100%

Observations

Of the respondents, 79.3% who were delighted with the success of their businesses also indicated that the business was more successful because of the assistance they had received, while only 20.7% indicated that they the success of their business was not because of the assistance they had received.

Of the respondents, 69.6% who were satisfied with the success of their businesses indicated that the business was more successful because of the assistance they had received, while 30.4% indicated that they the success of their business was not because of the assistance they had received.

Of the 17 respondents who were dissatisfied with the success of their businesses, 64.7% indicated that their businesses were actually more successful than before because of the assistance, while six indicated that the assistance they had received did not influence the success of their business.

6.7.8 The time when assistance should be sought (sec. 3, Q13) and the success of the businesses (sec. 1, Q2) (Table 6.32)

Table 6.32 shows the responses regarding when assistance should be sought (not when it actually happened) and the success of the businesses. Once again the "delighted/satisfied/dissatisfied" responses regarding success were used to make some observations.

Table 6.32: When assistance should be sought and the success of the businesses

		Delighted		Satisfied		Dissatisfied		Group total	
		n	%	n	%	n	%	n	%
	Before starting your business	21	36.2%	42	33.6%	6	35.3%	69	34.5%
	During the first 6 months	5	8.6%	12	9.6%	1	5.9%	18	9.0%
	During the first 2 years	3	5.2%	3	2.4%			6	3.0%
	After the first 2 years			3	2.4%			3	1.5%
	During all phases of the business	29	50.0%	65	52.0%	10	58.8%	104	52.0%
Group total		58	100%	125	100%	17	100%	200	100%

Observations

Of the 58 respondents who were delighted with the success of their businesses, 36.2% indicated that assistance should be sought before starting a business, while 50% indicated that assistance should be sought during all the phases of the business cycle. Only a few respondents (8.6%) suggested that assistance should be sought during the first six months, while no-one suggested seeking assistance after the first two years. The responses were similar from those respondents who were satisfied with the success of their businesses. The small differences are hardly worth mentioning.

Of the 17 respondents who were dissatisfied with the success of their businesses, 58.8% suggested seeking assistance during all the phases of the business cycle, while 35.3% proposed asking for assistance before starting a business.

6.7.9 The qualifications of the respondents (sec. 4, Q14) and the success of the businesses (Sec. 1, Q2) (Table 6.33)

Table 6.33 depicts the highest qualifications of the respondents and the success of the businesses. The researcher used the "delighted/satisfied/dissatisfied" responses regarding success to make the observations.

Table 6.33: The qualifications of the respondents and the success of the businesses

		Delighted		Satisfied		Dissatisfied		Total	
		n	%	n	%	n	%	n	%
	Below grade 10	3	5.2%	1	0.8%			4	2.0%
	Grade 10 to 12	20	34.5%	35	28.0%	4	23.5%	59	29.5%
	Certificate	9	15.5%	13	10.4%	3	17.6%	25	12.5%
	3-year diploma/degree	18	31.0%	62	49.6%	5	29.4%	85	42.5%
	Honours degree	5	8.6%	10	8.0%	3	17.6%	18	9.0%
	Master's degree	2	3.4%	4	3.2%	1	5.9%	7	3.5%
	Doctorate	1	1.7%			1	5.9%	2	1.0%
Group total		58	100%	125	100%	17	100%	200	100.0%

<u>Observations</u>

Of the 58 respondents who were delighted with the success of their businesses, 34.5% had a qualification of grade 10 to 12, 31% a three-year diploma/degree and 15.5% a certificate.

Of the 125 respondents who were satisfied with the success of the business, 49.6% had a three-year diploma/degree, 28% a qualification of grade 10 to 12 and 10.4% a certificate.

It is quite significant to note that nearly half of the respondents who were satisfied with the success of their businesses had a three-year diploma/degree. This is much higher than any other category in this table.

Of the 17 respondents who were dissatisfied with the success of their business, 29.4% had a three-year diploma/degree, 23.5% a qualification of grade 10 to 12, 17.6% a certificate and another 17.6% an honours degree.

This shows that there was no difference between the level of education and success.

6.8 CORRELATIONS AND CROSS-TABULATIONS (adjusted classification)

In this second part of correlations and cross-tabulations (as explained at the beginning of sec. 6.7) the ratings that were provided are divided into the following three categories of business success:

Table 6.34: How successful do you think your business is?

		Frequency	Percent
Valid	Least successful (1-4)	59	29.5
	Satisfied (5)	83	41.5
	Very successful (6-7)	58	29.0
	Total	200	100.0

To determine and measure the strength of the association of the variables, a proportional reduction of error (PRE) measure known as ”lambda” or “Goodman-Kruskal lambda”, was calculated.

6.8.1 The type of business the respondents own/manage (sec. 1, Q4) and the success of the businesses (sec. 1, Q2) (Table 6.35)

Table 6.35 represents the cross-tabulation of the success of the businesses and the type of business the respondents own/manage. The null hypothesis (H_o^1) is that there is no relationship between the types of businesses owned/managed by the respondents and the success of the businesses.

A lambda value of 0.055, with an approximate significance level of 0.247, was calculated. When looking at the 5% level of significance, the probability is thus 0.247 and is larger than 5% ($p>0.05$). In other words, H_o^1 is accepted at the 5% level of significance.

Hence, owing to the acceptance of the null hypothesis (H_o^1), this test indicates that the type of business the respondents own/manage does not improve the ability to predict the success of the business. Thus there is no relationship between these two variables.

Using inferential statistics it is now clear that the type of business does not seem to make any significant difference with regard to the success of the businesses, using this survey of Cofesa members.

Table 6.35: Q4. What type of business do you manage or own? Q2. How successful is your business? Cross-tabulation

Count

		Q4. What type of business do you manage or own?											To=tal
		a Agriculture	b Mining and quarrying	c Manufacturing	d Electricity, gas and water	e Construction	f Retail and motor trade repair services	g Wholesale trade, commercial agents, etc	h Catering, accommodation and other trade	i Transport, storage and communication	j Finance and business services	k Community, social l and personal services	
Q2. How successful is your business?	Least successful	6	1	15	0	2	15	6	2	2	3	7	59
	Satisfied	5	0	17	2	7	19	4	7	3	3	17	84
	Very successful	4	0	12	1	4	7	1	6	1	2	19	57
Total		15	1	44	3	13	41	11	15	6	8	43	200

Directional Measures

			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.055	.047	1.158	.247
		Q2. How successful is your business? Dependent	.052	.067	.751	.453
		Q4. What type of business do you manage or own? Dependent	.058	.051	1.103	.270
	Goodman and Kruskal tau	Q2. How successful is your business? Dependent	.051	.019		.435(c)
		Q4. What type of business do you manage or own? Dependent	.015	.008		.059(c)

a Not assuming the null hypothesis.
b Using the asymptotic standard error assuming the null hypothesis.
c Based on chi-square approximation

6.8.2 The time in the business cycle in which assistance was used (sec. 1, Q6) and the success of the businesses (sec. 1, Q2) (Table 6.36)

Table 6.36 represents the cross-tabulation of the success of the businesses and the time in the business cycle in which assistance was used. The null hypothesis

(H_o^2) states that there is no relationship between the periods in the business cycle in which the assistance was provided and the success of the businesses.

A lambda of 0.01 with an approximate significance level of 0.617 was calculated. When looking at the 5% level of significance, the probability is thus 0.617 and is larger than 5% ($p>0.05$). In other words, H_o^2 is accepted at the 5% level of significance.

Hence, owing to the acceptance of the null hypothesis (H_o^2), this test indicates that the time in the business life cycle in which the respondents used assistance did not improve the ability to predict the success of the business. Thus there is no relationship between these two variables.

It would seem that the time in the business life cycle in which assistance is provided does not make any significant difference with regard to the success of the businesses.

Table 6.36: Q6. When did you make use of the assistance? Q2. How successful is your business? Cross-tabulation

Count

		Q6. When did you make use of the assistance?					Total
		Before starting your business	During the first 6 months	During the first 2 years	After the first 2 years	Continu= ously	
Q2. How successful is your business?	Least successful	1	9	3	8	38	59
	Satisfied	9	7	6	13	49	84
	Very successful	6	8	3	10	30	57
Total		16	24	12	31	117	200

Directional Measures

			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.010	.020	.500	.617
		Q2. How successful is your business? Dependent	.017	.034	.500	.617
		Q6. When did you make use of the assistance? Dependent	.000	.000	.(c)	.(c)
	Goodman and Kruskal tau	Q2. How successful is your business? Dependent	.018	.010		.530(d)
		Q6. When did you make use of the assistance? Dependent	.008	.007		.588(d)

a Not assuming the null hypothesis.
b Using the asymptotic standard error assuming the null hypothesis.
c Cannot be computed because the asymptotic standard error equals zero.
d Based on chi-square approximation

6.8.3 The way in which the respondents were assisted (sec. 1, Q7) and the success of the businesses (sec. 1, Q2) (Table 6.37)

Note: This cross-tabulation was done by making use of only 135 of the 200 respondents. These 135 chose only one method of assistance. The other 65 were not included because they mentioned more than one method of assistance. Some attempts were made to group together the different combinations, but there were so many that it did not produce any meaningful results. The test was done anyway because the 135 were still relatively evenly spread over the three classifications of the variable regarding the success of the business with all the frequencies >30.

Table 6.37 represents the cross-tabulation of the success of the businesses and the way in which the respondents were assisted. The null hypothesis (H_o^3) is that there is no relationship between the way in which the respondents were assisted and the success of the businesses.

A lambda of 0.012 with an approximate significance level of 0.731 was calculated. When looking at the 5% level of significance, the probability is thus 0.731 and is larger than 5% ($p>0.05$). In other words, H_o^3 is accepted at the 5% level of significance.

Hence, owing to the acceptance of the null hypothesis (H_o^3), this test indicates that the method of assistance does not improve the ability to predict the success of the business. Thus there is no relationship between these two variables.

It would seem that the way in which the respondents were assisted did not make a significant difference with regard to the success of the businesses.

Table 6.37: Q7. How were you assisted? Q2. How successful is your business? Cross-tabulation

Count

		Q7. How were you assisted?					Total
		Given advice	Trained on the job	Outsourced functions	Consul= tants	Formal training	
Q2 How successful is your business?	Least successful	15	5	8	13	5	46
	Satisfied	17	7	17	11	5	57
	Very successful	14	7	1	6	4	32
Total		46	19	26	30	14	135

Directional Measures

			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.012	.035	.343	.731
		Q2 How successful is your business? Dependent	.026	.074	.343	.731
		Q7. How were you assisted?Dependent	.000	.000	.(c)	.(c)
	Goodman and Kruskal tau	Q2 How successful is your business? Dependent	.043	.022		.172(d)
		Q7. How were you assisted?Dependent	.024	.012		.124(d)

a Not assuming the null hypothesis.
b Using the asymptotic standard error assuming the null hypothesis.
c Cannot be computed because the asymptotic standard error equals zero.
d Based on chi-square approximation

6.8.4 The assistance provider (sec. 1, Q8) and the success of the businesses (sec. 1, Q2) (Table 6.38)

Note: This cross-tabulation was done by making use of only 186 of the 200 respondents. These 186 chose only one assistance provider. The other 14 were not included because they mentioned more than one provider. The test was done anyway because the 186 were still representative and evenly spread over the three classifications of the variable regarding the success of the business.

Table 6.38 represents the cross-tabulation of the success of the businesses and the assistance provider. The null hypothesis (H_o^4) is that there is no relationship between the assistance providers and the success of the businesses.

A lambda of 0.27 with an approximate significance level of 0.255 was calculated. When studying the 5% level of significance, the probability is thus 0.255, which is larger than 5% ($p>0.05$). In other words, H_o^4 is accepted at the 5% level of significance.

Hence, owing to the acceptance of the null hypothesis (H_o^4), this test indicates that the assistance provider does not improve the ability to predict the success of the business. Thus there is no relationship between these two variables.

It would seem that the assistance provider did not seem to make any significant difference with regard to the success of the businesses.

Table 6.38: Q2. How successful is your business? Q8. Who presented you with the assistance? Cross-tabulation

Count

		Q8. Who provided the assistance?					Total
		Another business	Consultant/ specialist	Trainer	Educational institution	Other	
Q2. How successful is your business?	Least successful	16	21	0	2	17	56
	Satisfied	24	32	5	6	11	78
	Very successful	11	20	3	4	14	52
Total		51	73	8	12	42	186

Directional Measures

			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.027	.024	1.138	.255
		Q2. How successful is your business? Dependent	.056	.048	1.138	.255
		Q8a. Another business Dependent	.000	.000	.(c)	.(c)
	Goodman and Kruskal tau	Q2. How successful is your business? Dependent	.028	.014		.229(d)
		Q8a. Another business Dependent	.012	.008		.370(d)

a Not assuming the null hypothesis.
b Using the asymptotic standard error assuming the null hypothesis.
c Cannot be computed because the asymptotic standard error equals zero.
d Based on chi-square approximation

6.8.5 The duration of assistance (how long the assistance lasted) (sec. 1, Q9) and the success of the businesses (Sec. 1, Q2) (Table 6.39)

Table 6.39 represents the cross-tabulation of the success of the businesses and the duration of assistance. The null hypothesis (H_o^5) is that there is no relationship between the duration of assistance and the success of the businesses.

A lambda of 0.032 with an approximate significance level of 0.155 was calculated. When analysing the 5% level of significance, the probability is thus 0.155 and is larger than 5% ($p>0.05$). In other words, H_o^5 is accepted at the 5% level of significance.

Hence, owing to the acceptance of the null hypothesis (H_o^5), this test indicates that the duration of assistance does not improve the ability to predict the success of the business. Thus there is no relationship between these two variables.

It would seem that the duration of assistance does not seem to make any significant difference to the success of the businesses.

Table 6.39: Q9. For how long were you assisted? Q2. How successful is your business? Cross-tabulation

Count

		Q9. For how long were you assisted?							Total
		1 day	1 day per week	1 day per month	1 week	1 month	Continuously	Other	
Q2. How successful is your business?	Least successful	6	0	6	4	1	39	3	59
	Satisfied	3	1	3	9	5	52	11	84
	Very successful	5	1	3	2	3	37	6	57
Total		14	2	12	15	9	128	20	200

Directional Measures

			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.032	.022	1.421	.155
		Q2. How successful is your business? Dependent	.052	.036	1.421	.155
		Q9. For how long were you assisted? Dependent	.000	.000	.(c)	.(c)
	Goodman and Kruskal tau	Q2. How successful is your business? Dependent	.032	.016		.388(d)
		Q9. For how long were you assisted? Dependent	.008	.005		.675(d)

a Not assuming the null hypothesis.
b Using the asymptotic standard error assuming the null hypothesis.
c Cannot be computed because the asymptotic standard error equals zero.
d Based on chi-square approximation

6.8.6 The number of employees in the business (the size of the business) (sec. 1, Q3) and the success of the businesses (Sec. 1, Q2) (Table 6.40)

Table 6.40 represents the cross-tabulation of the success of the businesses and the number of employees permanently employed in the business. The null hypothesis (H_o^6) is that there is no relationship between the size and the success of the businesses.

The calculations show that 29.5% of the respondents had less successful businesses, 41.5% had successful businesses and 29% had very successful businesses.

A lambda of 0.078 with an approximate significance level of 0.131 was calculated. When examining the 5% level of significance, the probability is thus 0.131, which is larger than 5% ($p>0.05$). In other words, H_o^6 is accepted at the 5% level of significance.

Hence, owing to the acceptance of the null hypothesis (H_o^6), this test indicates that there is no relationship between the size and success of the businesses.

The conclusion is that the size of the business does not make any significant difference to the success of a business.

Table 6.40: Q3. How many employees are permanently employed in the business? Q2. How successful is your business? Cross-tabulation

Count

		Q3. How many employees are permanently employed in the business?				Total
		Fewer than 10	11 to 49	50 to 100	More than 100	
Q2. How successful is your business?	Least successful	30	25	3	1	59
	Satisfied	40	33	5	6	84
	Very successful	15	28	11	3	57
Total		85	86	19	10	200

Directional Measures

			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.078	.050	1.509	.131
		Q2. How successful is your business? Dependent	.052	.034	1.509	.131
		Q3. How many employees are permanently employed in the business? Dependent	.105	.094	1.064	.287
	Goodman and Kruskal tau	Q2. How successful is your business? Dependent	.038	.018		.020(c)
		Q3. How many employees are permanently employed in the business? Dependent	.027	.015		.014(c)

a Not assuming the null hypothesis.
b Using the asymptotic standard error assuming the null hypothesis.
c Based on chi-square approximation

6.8.7 The most important area in which assistance was received (sec. 1, Q5) and the success of the businesses (sec. 1, Q2) (Table 6.41)

Table 6.41 represents the cross-tabulation of the success of the businesses and the most important area in which assistance was received. The null hypothesis (H_o^7) is that there is no relationship between the most important areas in which assistance was received and the success of the businesses.

A lambda of 0.085 with an approximate significance level of 0.005 was calculated. When examining the 5% level of significance, the probability is thus 0.005 and is smaller than 5% ($p<0.05$), meaning that (H_o^7) is rejected at the 5% level of significance.

The null hypothesis (H_o^7) is rejected in favour of the alternative hypothesis (H_a^7), indicating that there is a relationship between the most important areas in which assistance was received and the success of the businesses.

The area in which assistance was received does seem to make a significant difference to the success of the businesses.

Although so many respondents received assistance with finance, 27.5% still chose finance as the most important area of assistance in the "least successful" category. The other three areas that showed large percentage differences were systems (66.6%), administration (60%) and production/operations (56.2%) – in other words the percentages of businesses that regarded these areas as the most important areas of assistance and are categorised as "least successful" businesses.

The above-mentioned areas probably contributed to the businesses being less successful and/or are the areas in which the respondents felt they needed assistance when their businesses were not doing well. The areas of firstly

finance, and then systems, administration and production/operations did not yield results and probably required attention.

Table 6.41: Q5. What is the most important area in which you received assistance? Q2. How successful is your business? Cross-tabulation

Count

		Q5 - Here is a list of business areas. Can you please tell me what the 3 most important areas are in which you received assistance?										
		Finance	Marketing	Human resources	Production/ operations	Administration	Legal aspects	Health & safety	Business plan	Systems	IT	Total
Q2. How successful is your business?	Least successful	22	5	6	9	6	3	3	0	4	1	59
	Satisfied	41	17	5	5	2	6	1	4	2	1	84
	Very successful	17	11	11	2	2	6	5	2	0	1	57
Total		80	33	22	16	10	15	9	6	6	3	200

Directional Measures

			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.085	.029	2.828	.005
		Q2. How successful is your business? Dependent	.172	.057	2.828	.005
		Q5 - Here is a list of business areas, can you please tell me what the 3 most important areas are in which you have received assistance? Dependent	.000	.000	.(c)	.(c)
	Goodman and Kruskal tau	Q2. How successful is your business? Dependent	.087	.027		.010(d)
		Q5 - Here is a list of business areas, can you please tell me what the 3 most important areas are in which you have received assistance? Dependent	.023	.010		.001(d)

a Not assuming the null hypothesis.
b Using the asymptotic standard error assuming the null hypothesis.
c Cannot be computed because the asymptotic standard error equals zero.
d Based on chi-square approximation

6.8.8 The respondents' highest qualification (sec. 4, Q14) and the success of the businesses (sec. 1, Q2) (Table 6.42)

Table 6.42 represents the cross-tabulation of the success of the businesses and the respondents' highest qualification. The null hypothesis (H_o^8) is that there is no relationship between the respondents' qualifications and the success of the businesses.

A lambda value of 0.039 with an approximate significance level of 0.255 was calculated. When looking at the 5% level of significance, the probability is thus 0.255 and is larger than 5% ($p>0.05$) – that is, H_o^8 is accepted at the 5% level of significance.

This means that that the qualifications of the owners/managers of the businesses did not improve the ability to predict the success of the business, hence there is no relationship between these two variables.

The results show that the qualification of a business owner does not determine the success of the business.

Table 6.42: Q2. How successful is your business? Q14. What is your highest qualification? Cross-tabulation

Count

		Q14. What is your highest qualification?							Total
		Below grade 10	Grade 10 to 12	Certifi= cate	3-year diploma/ degree	Honours degree	Master's degree	Doctorate	
Q2. How successful is your business?	Least successful	0	19	9	21	6	3	1	59
	Satisfied	1	20	7	47	7	2	0	84
	Very successful	3	20	9	17	5	2	1	57
Total		4	59	25	85	18	7	2	200

Directional Measures

			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.039	.034	1.138	.255
		Q2. How successful is your business? Dependent	.052	.043	1.181	.238
		Q14. What is your highest qualification? Dependent	.026	.052	.493	.622
	Goodman and Kruskal tau	Q2. How successful is your business? Dependent	.044	.020		.128(c)
		Q14. What is your highest qualification? Dependent	.025	.015		.002(c)

a Not assuming the null hypothesis.
b Using the asymptotic standard error assuming the null hypothesis.
c Based on chi-square approximation

Summary of the results of the hypotheses tests:
H_o accepted: • There is no relationship between the types of businesses owned/managed by the respondents and the success of the businesses (H_o^1). • There is no relationship between the periods in the business cycle in which the assistance was provided and the success of the businesses (H_o^2). • There is no relationship between the way the respondents were assisted and the success of the businesses (H_o^3). • There is no relationship between those who provided the assistance and the success of the businesses (H_o^4). • There is no relationship between the period of time of assistance and the success of the businesses (H_o^5). • There is no relationship between the size and the success of the businesses (H_o^6). • There is no relationship between the qualifications of the respondents and the success of the businesses (H_o^8).
H_a accepted • There is a relationship between the most important areas in which assistance was received and the success of the businesses (H_o^7).

6.9 THE UNSUCCESSFUL BUSINESSES

Although there were only 17 (8.5%) unsuccessful businesses (those respondents who chose 1, 2 or 3 on a scale of 1-7 of how successful their businesses were) in the sample, the researcher thought it relevant to look at some statistics regarding these. Cross-tabulation tables were used to indicate relationships between the unsuccessful businesses and the different variables as indicated.

6.9.1 Unsuccessful businesses (sec. 1, Q2) and the types of businesses in the different sectors (sec. 1, Q4)

Table 6.43 shows the unsuccessful businesses and the types of businesses owned/managed by the respondents.

Table 6.43: Q2. Unsuccessful businesses Q4. What type of business do you manage or own? Cross-tabulation

	Q4. What type of business do you manage or own?						
	Agriculture	Mining and quarrying	Manufacturing	Retail and motor trade repair services	Finance and business services	Community, social and personal services	Total
Unsuccessful businesses	2	1	4	8	1	1	17
Total in sectors	15	1	44	41	8	43	200
Percentage in sector	13.33	100.00	9.09	19.51	12.50	2.33	8.50

Observations

Table 6.43 indicates that 8 of the 17 unsuccessful businesses in the sample were in the retail and motor trade repair services sector. There were also four unsuccessful businesses from the manufacturing sector and two from the agricultural sector.

There were no unsuccessful businesses in the following sectors of this sample: electricity, gas and water, construction, wholesale trade, commercial agents and allied services, catering, accommodation and other trade, transport, storage and communication, and community, social and personal services.

6.9.2 Unsuccessful businesses (sec. 1, Q2) and the shortcomings identified with the process of assistance (sec. 2, Q10)

Table 6.44 shows the unsuccessful businesses and the shortcomings the respondents identified in the process of assistance.

Table 6.44: Q2. Unsuccessful businesses Q10. What shortcomings can you identify with this process? Cross-tabulation

	What shortcomings can you identify in this process?							Total
	The assistance is not enough	Happy - got what I needed	Inefficient CCMA	Not always 100% accurate	None	I need a more business approach	Budgeting and control	
Unsuccessful businesses	1	6	1	1	6	1	1	17

Observations

Although these businesses were unsuccessful, the respondents were generally happy with the assistance they had received and very few of them identified any shortcomings. The single shortcomings identified are hardly worth mentioning.

It would seem that the assistance (regarding whatever aspect) was not the cause of their failure. (The causes of their failures are discussed in sec. 6.9.5.)

6.9.3 Unsuccessful businesses (sec. 1, Q2) and the time in the business cycle during which assistance should be sought (sec. 3, Q13)

Table 6.45 shows the unsuccessful businesses and their owners' indication of the best time in the business life cycle in which to seek assistance.

Table 6.45: Q2. Unsuccessful businesses Q13. According to you, when should a person seek assistance similar to what you have mentioned? Cross-tabulation

	Q13. According to you, when should a person seek assistance similar to what you have mentioned?			Total
	Before starting your business	During the first six months	During all phases of the business	
Unsuccessful businesses	6	1	10	17

Observations

It is clear that unsuccessful business owners would seek assistance before starting their businesses as well as during all phases of the business life cycle. This is in line with the responses of the successful business owners.

6.9.4 Unsuccessful businesses (sec. 1, Q2) and the respondents' highest qualification (sec. 4, Q14)

Table 6.46 shows the unsuccessful businesses and the highest qualifications of the owners.

Table 6.46: Q2. Unsuccessful businesses Q14. What is your highest qualification? Cross-tabulation

	Q14. What is your highest qualification?						Total
	Grade 10 to 12	Certificate	3-year diploma/ degree	Honours degree	Master's degree	Docto= rate	
Unsuccessful businesses	4	3	5	3	1	1	17
Total	59	25	85	18	7	2	200
Percent	6.78	12.00	5.88	16.67	14.29	50.00	8.50

Observations

Whatever the qualification, there was a proportionally equal number of unsuccessful businesses in each case.

The qualifications of the owners did not seem to make a difference in the success of a business.

6.9.5 The reasons for failure

The respondents hardly had any problems with the assistance they had received. Hence the researcher decided to try and find out the reasons for their failure.

Two months after the initial interview, all the unsuccessful business owners/managers were called again and asked the following questions (with the responses) regarding their businesses:

- *Why are you not as successful as you would like to be?*

Various problems were mentioned that prevented these businesses from being as successful as they probably could have been.

The main problem or the problem that most of them mentioned related to the employees. The respondents complained about local labour being too expensive and about the low productivity of the workers.

The second most mentioned problem was cheap imports from China. Businesses can import certain goods from China at a lower cost than they can be manufactured in South Africa. This obviously refers indirectly to the high cost of local labour. This problem is also further influenced by the value of the rand. If the rand is strong, imports become even less expensive, while local manufacturing costs remain the same.

The remainder of the problems that the respondents mentioned were as follows:

- There is not much work around.
- The image of the business is old and the shareholders do not want to invest more.
- The business is near a taxi rank and clients are scared to go there (this problem obviously relates to location).
- Crime cannot be ignored.
- The CCMA renders poor service (also a labour/regulatory problem).
- Telkom's service is poor – there are no lines for long periods of time.

- The roads are bad.
- There is price regulation in the medical profession.

- *What can you do to rectify the problem?*

The respondents did not know what to do to solve the labour problems of high cost and productivity. Many blamed the government for not doing enough for SMEs and suggested that government should address issues that hinder business and ensure less "red tape". Some suggested a surcharge on imports. The respondents in the medical profession suggested putting an end to price regulation. The respondent with the location problem realised that he would have to relocate his business, while another respondent actually changed his product. One business was actually sold.

- *Would assistance of any kind make a difference?*

The respondents all agreed that assistance from Cofesa, specialists or consultants would not make a difference in their cases. They needed assistance from government in the specific issues of labour, imports and price regulation. Only one respondent thought that a management programme could probably help him to manage his business more profitably.

Research conducted in Canada has indicated that inexperienced management is the main reason for failure. The managers of unsuccessful firms usually lack experience, knowledge or vision to run their businesses. In the initial stages of the business life cycle, failures are caused by basic internal skills such as general and financial knowledge, control, communications, supervision of staff and market development. As the business grows, additional new problems arise associated with the increased complexity of running a growing firm. The issues prevalent in this stage are poor use of outside advisors, a lack of emphasis on

quality, an unwillingness to delegate responsibility, the departure of key personnel and personal problems with the owner/manager (Cruise, 2001:12-14).

The respondents from Cofesa generally blamed the government for their failures and expect government to do something about it. The problems they referred to were mainly about human resources (labour issues) and finance (imports and price regulation). This correlates with the areas in which assistance is sought by most of the respondents in this study (see sec. 6.4.1). When studying the Canadian research into failures, it is obvious that inexperienced management is the main reason for failure. Is this not the Cofesa respondents' problem as well? Surely the South African government could assist with some of the problems mentioned? However, when looking at the Canadian research, it is possible that the Cofesa respondents do not acknowledge their own shortcomings in managing their businesses and probably need assistance in this matter instead of blaming only government.

In a small business survey conducted in Northeast Iowa (USA) on small business consulting needs, Pelham (1985:11) found that half of small business owners cited internal problems (such as cash flow sales and marketing) as the primary cause of small business failure, while only one-third blamed external factors (such as interest rates, inflation and taxes).

6.10 CONCLUSION

In this chapter, Microsoft Excel and SPSS 14.0 for Windows were used to conduct the statistical analysis of the questionnaire. The results were presented according to the questions posed in the questionnaire, indicating the frequencies of the results. Thereafter cross-tabulations were done between some of the variables. The responses on the success of the respondents' businesses were then recategorised to enable the researcher to determine and measure the

strength of the association of the variables by making use of lambda (also known as the Goodman-Kruskal lambda). Finally, a further investigation into the unsuccessful businesses was made in order to determine the reasons for their limited success.

Interesting and useful information emerged from this study. The evaluation of the study objectives, concluding remarks and recommendations will be discussed in the next chapter.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

Policy makers worldwide are turning to small business to drive economic growth and development. Small business, inter alia, is reported as the primary creator of jobs and economic stability. In South Africa, the government has committed itself to the promotion and growth of the small, medium and micro enterprises (SMME) sector to stimulate economic growth as a means of reducing unemployment. The aims of government are to increase the number of new ventures and to create an enabling environment to ensure the survival and growth of small and medium enterprises (SMEs).

Many support entities were created specifically to promote the SMME sector. Corporate South Africa and parastatals have embraced procurement policies that support black economic empowerment (BEE) and foster the development of a vibrant SMME sector. Apart from government interventions, SME owners also make use of consultants and advisors such as attorneys, accountants, banks and business consultants to assist them in various areas of their business.

With all this "assistance" in place, to date these efforts have not proved to be very successful because there are still too many failures. The question that motivated the researcher to do this study is: "Is the assistance rendered to SME owners accurate, efficient, relevant and applicable to enable them to manage their businesses effectively to make them successful in the long run?" If not, what type of intervention could have a positive effect on their success?

If the above question can be answered, not only consultants, but also the government and SME owners, in particular could save a lot of money and spend

the available effort, time and money on those types of interventions that would probably increase the success rate of their businesses and help them grow profitably.

The research results were discussed in chapter 6. In this final chapter the researcher evaluates the research objectives, draws conclusions and makes recommendations. The chapter concludes with proposals for further research.

7.2 EVALUATING RESEARCH OBJECTIVES

In this section the primary and secondary objectives of the study are evaluated against the outcomes of the research findings. The objectives will be stated and the outcome of the research results discussed, indicating whether or not the objective was realised. The primary objective will be evaluated first, whereafter the researcher will evaluate the secondary objectives as stated in chapter 1.

Interventions include all different types of assistance such as consulting, training, support and advising the SME owner about any facet of the business and its environment, be it before starting the business or during its existence, with the aim of making the business successful or more successful. SME owners in South Africa are assisted by different government bodies, training institutions, consultants, advisors and general business consultants. There are also shortcomings in the process and because of this, all assistance does not necessarily have a positive impact on the success of a business.

The study first provided valuable information on the profiles of the Cofesa respondents, including the location of their businesses, the types of businesses they own and/or manage, their highest qualifications and their occupations before becoming involved in the business.

Secondly, it provided the researcher with the general business information of the respondents including their perceptions of the success of their businesses, the number of employees permanently employed in the businesses, the areas and detail of assistance they received, the areas in which they received assistance, their perception about the most important areas of receiving assistance, the time in the business cycle in which the assistance was provided, the ways in which the respondents were assisted, the formal training and/or courses attended by respondents, the person/institution who rendered the assistance and the duration of assistance.

The researcher also managed to determine the shortcomings that the respondents identified regarding the assistance received. Finally, the most important factors contributing to the success of their businesses, the consequences of the assistance received as well as the respondents' recommendations about when assistance should be sought were presented.

PRIMARY OBJECTIVE

The primary objective of this study was to analyse business interventions and to determine their effect on the perceived success of South African SMEs.

As indicated in the literature study, many SMEs are unsuccessful and there are probably many reasons for their failures. On the other hand, there are so many interventions taking place and there are so many providers of assistance. The question that arose is how these interventions take place and whether they play any role in the success of small businesses.

The interventions, according to this study, were mostly done in the functional areas of finance, marketing and human resources. The interventions were mostly done on a continuous basis throughout the business life cycle. Although only 8% of the respondents actually made use of assistance before starting their businesses, more than one third of them suggested that new business owners should make use of assistance before they start their businesses. The interventions were mainly done and assistance was mainly provided by consultants, specialists and other businesses. The respondents thought that the process of assistance was very good and hardly had any negative comments regarding it.

All the respondents had received assistance and most of them had successful businesses. One may therefore assume that they were successful because of the assistance they received. However, when the respondents were asked about the most important factors that had contributed to the success of their business, they mentioned the type and quality of the product, marketing and the location of the business. Except for “marketing”, the factors that contributed to their success did not correlate at all with the areas in which assistance was received.

Although the respondents regarded finance as one of the most important areas in which assistance is needed, they did not see it as a contributing factor to their success. Finance per se probably does not determine the success of a business in the same way as the right product at the right quality and the right marketing strategies.

Finance is a key supporting factor, and the finances of the business should be in place and should be properly managed. Many SME owners also required assistance with finance, but if the business does not work in terms of the success factors mentioned, the best financial practices will not save the business.

Assistance is a contributory factor to success but not the reason for it. The success of an SME mainly depends on other factors such as the type of product, product quality and marketing. Assistance, however, is important and should first be provided in those areas that determine the success of a business, and thereafter and continuously in the areas identified by the respondents in this study (mainly finance, marketing and human resources).

In this study there was no control group of, firstly, unsuccessful businesses and secondly, business owners who had not received any assistance, to measure against. (Unsuccessful businesses that are still in business hardly exist.) The period of the study also coincided with high economic growth which suggests higher success levels anyway. This could imply that the respondents could have been successful without having received assistance in any case. However, the fact that they sought assistance indicated that there was a need for assistance.

The following secondary objectives are evaluated:

SECONDARY OBJECTIVE
To determine in which **functional areas** the SME owners have received assistance.

The survey findings revealed that 90.5% of the respondents were actually assisted or are being assisted in the financial area of the business. The other areas in which much assistance was received were those of marketing (44%) and human resources (33%). It is also the area in which the respondents identified the most shortcomings, indicating that the financial service rendered was inadequate.

It is clear that most of the respondents needed some sort of assistance in the area of finance. The study also revealed that finance was by far the area that the respondents felt was the primary area in which assistance was required, once

again placing marketing and human resources second and third. The respondents also indicated that they were extremely satisfied with the assistance they had received. This indicates that financial assistance in different forms seems to be available in South Africa and that it is meeting the needs of SMEs.

Numerous government entities assist SMEs in the different areas of finance. Most of the professional assistance rendered by banks, attorneys and accountants also focuses on the supply of finance and accounting.

These findings correspond with other studies done regarding the areas of assistance, such as the following:

- Penning (2004:46), stated that according to a survey in 2002, the most frequent skill deficiency in the SME sector in New Zealand was marketing, while another study done in New Zealand by Lewis, et al. (2007:555-557) indicated that accountants were the source that respondents contacted and made use of the most.

- In a study done by Berry, Sweeting and Goto (2006:36-38) in the UK, external accountants were the most common sources of business support. Most of the respondents in this study (70%) made use of accountants for statutory advice and less than half of this percentage (33%) saw the role of accountants as one of business management advisors.

As is the case with this study and also in other studies it is found that SME owners and managers mostly need assistance with finance (mostly referring to accounting) and marketing.

SECONDARY OBJECTIVE
To determine the amount of **time** the consultants (including all those assisting the SME owner) spend with the business

From the study it is evident that most of the respondents (64%) made use of assistance "continuously". This could imply, for example, that they make use of assistance for one day a month or for one week a month. Whatever the case, they do so on a continuous basis.

"Continuous assistance" is absolutely in line with other studies done such as the following:

- According to Hetherington (1985:30-31) the success rate seems to have been caused by the "continuous", practical and on-the-spot counselling by the Small Enterprises Development Company established in Swaziland (sec. 3.4.6).

- In all of the "success" cases described in sec. 3.5.4, the consultant was involved with the owner on a continuous basis and "became part of the business" for some time.

- Van der Merwe (2004) reports that women on the Women Entrepreneurship Programme (WEP) at the University of Pretoria have a greater need for "on-going support" once they have started their businesses because they lack management experience and access to networks (sec. 4.3.4).

- The Business Mentors New Zealand, a mentoring program, indicated that their mentoring sessions last from 1.5 to 2 hours and that many of the mentoring relationships can be active for a number of years (Anon, 2006b: 60).

SECONDARY OBJECTIVE

To determine during which **stage** of the business life cycle the assistance is rendered.

The survey findings revealed that most of the respondents (58.5%) made use of assistance on a continuous basis throughout the business life cycle. The remainder made use of assistance before starting their businesses, during the first six months and during and after the first two years.

However, it was interesting to note how these statistics of the actual duration of assistance differed from that revealed by the respondents when they were asked when they thought the best time would be to make use of assistance. Although most of them still suggested that they would make use of assistance during all the phases of the business life cycle, one-third of the respondents indicated that they would have made use of assistance before they started their business.

The researcher can only assume the following reasons for this change of mind among the respondents:

- Respondents who did not make use of assistance earlier in the business cycle were forced to seek assistance after some time.
- If business owners seek assistance before starting a business it would not be necessary to seek so much assistance at a later stage.
- Once the respondents have experienced the benefit of assistance, they can advise other new business owners to make use of assistance at an earlier stage, that is, especially before starting a business.

Most successful businesses make use of assistance on a continuous basis during all the stages of the business life cycle.

The fact that SME owners should make use of assistance before or at the start of the business life cycle corresponds with other research in this field, as highlighted below:

- In the USA and Canada, the Small Business Development Centre was noted as being best suited to providing consultancy services when the business was young or *first starting out* (Jones et al., 1990:3).

- In a study with entrepreneurs from Dhaka, Bangladesh, the analysis involved a comparison of the creation of new venture by entrepreneurs, who received outside assistance, and those who did not receive any assistance. The researcher found an overall positive influence of outsider assistance on these entrepreneurs in the creation of new ventures, that is, *early in their venture creation* (Sarder, 2002:1).

- In Australia where the failure rate is also unacceptably high, many SME owners indicate that government should do more to ensure that people receive at least basic training in business management *before they start a business* (Campbell, 2003:8691-8692).

- In another study done in New Zealand by Lewis, et al. (2007:564) the respondents mostly received assistance *at the start of the business cycle* and then again at a more mature stage of the business.

SECONDARY OBJECTIVE

To determine **a profile of the provider** of the assistance.

The respondents mainly approached consultants/specialists for assistance. Surprisingly, many of the respondents also made use of other businesses to assist them. The respondents did not make much use of educational institutions and trainers to assist them.

The assistance referred to in the previous section, was provided in different ways. In some cases only advice and no specific type of assistance such as training and consulting was given to the respondents. For example, of the 43% who indicated that they made use of consultants, 25% of those only made use of advice given by the consultants.

Although not many of the respondents indicated that they made use of educational institutions and trainers to assist them, 23.5% were trained on the job and 17% attended formal training courses.

SECONDARY OBJECTIVE

To identify any **shortcomings** in the process of assistance.

Seventy-two percent of the respondents thought that their businesses were more successful after having received assistance. The results also show that 91.5% of the respondents had successful businesses. This could indicate that the assistance helped them to be successful, but if one looks at the responses gathered by asking the respondents what factors contributed to their success, only 2% of them indicated that it was the assistance they received. One-third of those who indicated that they were satisfied with the assistance they had received indicated that their businesses were not more successful because of the assistance. Although the assistance probably played some part in their success, their success was mostly the results of other factors.

Even the owners of the unsuccessful businesses were generally satisfied with the assistance they had received and very few of them identified any negative issues regarding the assistance they had received.

Seventy percent of the respondents indicated that they were either satisfied with the assistance they had received and got what they needed or identified no shortcomings in the assistance they had received.

However, the following shortcomings (grouped by the researcher under the related headings) were identified by the respondents:

Shortcomings relating to the type of assistance	• The assistance is not enough • The assistance is not always 100% accurate • It is not relevant to me • I need a more business approach • It is not specific, it is more general • Difficult to apply the information in a practical manner • Misunderstanding of the nature of the business
Shortcomings relating to the period of assistance	• It takes too long • It is too late to rectify something • Marketing changes so rapidly, so have to keep training
Shortcomings relating to the person providing the assistance	• Difficult to reach the right person • It is too narrow minded to always understand it • The distance from the person training me
Shortcomings relating to the cost issues	• Bank costs too high • Never received the funds (presumably from government incentives or banks) • Control of costing
Shortcomings relating to the governmental bodies and related laws	• Inefficient CCMA • The laws are not suitable to protect employers • Poor administration

The success rate would probably increase if the shortcomings were taken into account during the process of assistance in some of the cases where the above shortcomings were identified.

One may conclude that the assistance was not the cause of any failures nor was it the main cause of their success, but it does play a supporting role in managing an SME successfully.

Although the respondents of this study did not rate the assistance they received as an important factor contributing to their success, it was found in a study by Berry, et al. (2006:43), that SMEs whose owners/managers made use of a range of business advice were also those that were growing (one of the characteristics of a successful SME as defined in chapter 1) most quickly.

The South African government has established many bodies to support the start-up and growth of SMEs. Although much of this support is in the form of financial assistance, its impact is still unsatisfactory.

The support bodies in South Africa are extremely fragmented and in the hands of so many role players. The interventions aimed at personal motivation and entrepreneurial skills are the exception rather than the rule (Nieman in Nicolaides & Reddy, 2004:207).

One may conclude that the shortcomings identified by the respondents did not seem to have an influence on the success of their businesses. Even the unsuccessful SME owners were satisfied with the assistance they had received. Their failures must have been caused by other factors as described in section 6.9.5.

SECONDARY OBJECTIVE (as required by Cofesa)
To determine to what extent the respondents rate Cofesa as a provider of assistance.

No specific question was asked about the assistance provided by Cofesa. The purpose of this was to find out how Cofesa members rate or whether they even perceive Cofesa to be one of the assistance providers.

According to the Cofesa website, this organisation is primarily a professional service organisation of advisors in different areas of business. Their members are small businesspeople who have acquired the assistance of specialists. Initially Cofesa focused on labour-related issues, but in the last six years, it has been assisting its members in other functional areas of business as well, making use of advisors and specialists. In addition to other types of assistance, they have a hotline for entrepreneurs requiring help in different areas.

The researcher was under the impression that the members of Cofesa were informed about the fact that they could be assisted in different areas of business and not only labour-related issues. If they had been informed, they were not making much use of this service. Only 2% of the respondents indicated that they used Cofesa as a source of assistance.

Finally, Cofesa members generally did not know that they could be assisted by Cofesa in different areas of business or they did not to want be assisted by Cofesa. They primarily became members of Cofesa to obtain access to CCMA representation in labour-related cases and to obtain labour-related advice and assistance.

Summary of the results of the study:

Of the 200 respondents in this study, 91.5% indicated that they had successful businesses, located all over South Africa, most of them (40.5%) in the Gauteng area. Their businesses were in all the sectors of the economy, but primarily in manufacturing, community service, community, social and personal services and retail and the motor trade repair services. Most of them employed fewer than 50 people. The reader is reminded that the sample is not representative of the entire population of SMEs in South Africa, but was used for the reasons mentioned in section 5.3.2.

The businesses generally received assistance in the areas of finance, marketing and human resources and the respondents also indicated that these were the most important areas receiving assistance. Most of them received assistance on a continuous basis, but when they were asked what they would suggest about the period of assistance, more than one-third indicated that they would have sought assistance before starting their businesses. Many simply received advice from others, but also made use of consultants/specialists, outsourced some functions and received training. The assistance was mainly sought from consultants/specialists, and many sought assistance from other businesses. (Surprisingly few mentioned Cofesa as an assistance provider.)

Only a few respondents identified shortcomings in the process of assistance. Even the unsuccessful ones were satisfied with the assistance they had received.

All the respondents had received assistance and most of them perceived their businesses as being successful. Although the respondents regarded finance as one of the most important areas in which assistance is needed, they did not see it as a contributing factor to their success. Finance per se probably does not determine the success of a business in the same way as the right product at the right quality and the right marketing strategies.

Assistance is a contributory factor to success but not the reason for it. The success of an SME mainly depends on other factors such as the type of product, product quality and marketing. Assistance, however, is important and should first be provided in those areas that determine the success of a business, and thereafter and continuously in the areas identified by the respondents in this study (mainly finance, marketing and human resources).

7.3 SUMMARY OF CONCLUSIONS

Cross-tabulations were done to determine whether there were any relationships between the chosen variables. The following conclusions were drawn:

- All of the respondents who had used assistance before they started their businesses were successful.

- All the respondents who were trained on the job were successful.

- The type of business, the length of time of assistance, the presenter of the assistance, the length of time of assistance and the size of the business do not seem to make any significant difference with regard to the success of the businesses.

- The qualifications of the business owner did not determine the success of the business.

  Although this study indicates that a qualification does not make a difference to the success of a business, one must keep in mind that the qualifications obtained by the respondents were probably not business related. An example

of this is the 16 business owners in the sample who had been teachers prior to starting their businesses.

South Africa's aspirant SME owners simply do not have the skills and attitude to succeed. They need training, a relevant qualification and/or continuous assistance in order to be successful. Not only would a qualification in the relevant field (say, small business management) be helpful, but also knowledge and experience in the field of business.

- The primary reason for unsuccessful businesses in this study was the labour-related issues, including the high cost and low productivity of labour.

The SME population in South Africa is huge and diverse. The sizes of the SMEs range from one-person concerns to businesses with up to 250 employees. The businesses are all in different stages of development, some are more complex than others, requiring more refined and extensive skills. The businesses are also located in many different areas with different characteristics and needs. Additionally, the business owners/managers are all different people with a variety of skills. Because of all these differences, the need for assistance in all areas varies a great deal and the researcher will not attempt to generalise.

Because of the population used for this study, the results and conclusions are not representative of the SMEs in South Africa. However, this study gives a clear indication of the factors that contributed to the success of the business owners who are members of Cofesa. It also shows clearly what type of assistance is needed once the basic factors for success are in place. The fact that SME owners are being assisted by consultants does not make them successful. Other factors determine their success.

7.4 RECOMMENDATIONS

Based on the results of the study, the following recommendations are made:

7.4.1 The areas of assistance

Most of the respondents in this study had successful businesses at the time of the study. The areas which assistance was mainly sought were finance, marketing and human resources. However, most of them also mentioned that other factors were responsible for their success. It is recommended that SME owners should first seek assistance in those areas that seem to have caused these respondents to be successful. The primary areas are the following:

- the type and quality of product
- marketing
- the location of the business
- good human relationships

Once these are in place, the SME owner would probably need assistance in the other areas, as indicated by the respondents of this study. These areas are finance, human resources and the other less important areas, as mentioned in chapter 6.

7.4.2 Stage in the business life cycle in which assistance should be sought and the duration thereof

Assistance should be sought even before starting a SME. During this stage, aspirant SME owners should make sure about the product/service they wish to sell, the quality of the product, the marketing strategies and the location of the business. If these issues are not in order before starting a business, it will be difficult to make a success of the business.

It is strongly recommended that SME owners should also seek assistance before starting a business as well as on a continuous basis. The continuous assistance could range from, say, one day a week to one day a month. A provider of such assistance could even be employed on the basis of one day a week or one day a month in order to be available continuously.

7.4.3 Assistance providers

Obviously this would depend on the specific need of the business owner. Before starting a business, aspirant business owners should seek assistance (in the form of advice) from business consultants and even other business owners. The literature study identified many such providers as highlighted in section 3.5.

Business owners might also need more information on the actual management of a business. To satisfy this need, aspirant business owners would probably benefit by undergoing some training in the management of a small business or study a business management course. Once again there are many providers that can be contacted to satisfy this need.

More dedicated courses offered by tertiary institutions are needed to equip aspirant SME owners with the relevant knowledge and skills to start, manage and grow a successful SME.

Vocational training programs should be tailor-made to meet the needs of the SME sector. It is obvious from this research that consultants are under-utilised by SMEs. The reasons for this might be the lack of awareness about the role of consultants, the inaccessibility of consultants or the cost of consultants for this sector (Pansiri & Temtime, 2008:259).

The South African government can and should learn from the USA where the use of the Small Business Administration (SBA) is highly successful in providing assistance to small businesses (discussed in sec. 3.4.1).

Finally, consultants and other providers must make sure that their assistance meets the need of the business owner. According to Abraham and Allio (2006:6), many consulting projects are only "band-aids that fail to add long-term value for clients". Often business owners are left alone to implement recommendations made by the consultants. The skill and knowledge transfer between the consultant and business owner is not sufficient, leaving the client continually dependent on consulting advice and technology. Lastly, the researchers found that there is huge variability in the quality of consulting advice and the expertise of consultants, mainly because of low entry barriers to the consulting profession. Consultants are often managers who have lost or left their jobs to become consultants, often taking on assignments far outside their experience or expertise

Concerning strategic business advice, Abraham and Allio (2006:4-12), found that there is rising consumer dissatisfaction with much of the "strategic-business-advice industry", the latter referring to the institutions and thinkers that publish the business journals, do corporate consulting, edit the business books, teach the MBAs, perform the business research, and write the journal articles related to strategy. Top managers are not happy and are frustrated with most of the strategic-business-advice. The main problems seem to be that clients are not involved in implementation and that consultants do not satisfy the real needs. The suggestions are that consultants should focusing on the real need and not on what they have to sell, create more value by transferring process skills to clients and share more responsibility for implementation, creating value with their clients.

7.4.4 The respondents' recommendations during their interviews

Government should somehow keep record of new businesses starting up and offer assistance and support before new business owners apply for or request assistance. Business owners often only realise that they need assistance when it is probably too late. According to the respondents, this would ensure that all possible aid is provided to SMEs to enable them to succeed.

Government assistance should also be supplied to new business owners who made use of their own money to start their businesses. Some of the respondents were people who had either been retrenched or had used their pension funds to start a SME. They felt that they did not receive the necessary assistance from government because they had made use of their own money to start a business. They felt that no financial aid was available to them.

It is furthermore recommended that SME owners should not attempt to handle every aspect of and function in the business themselves. They should focus on their core business and seek assistance in those areas indicated in this study, especially when their business is growing.

The aim of the Small Business Administration (SBA) in the USA and other similar institutions is basically the same all over the world, namely to assist SME owners in different ways to survive and be more successful. South Africa is in dire need of such an institution.

7.5 RELIABILITY AND VALIDITY OF THE STUDY

Reliability refers to the extent to which the scores obtained may be generalised to different measuring occasions, measurement/test forms and measurement/test administrators (Welman & Kruger, 2001:139). Joppe, in Golafshani (2003:598)

also defines reliability as the extent to which results are consistent over time, while an accurate representation of the total population under study is referred to as reliability. If the results of a study can be produced using a similar methodology, then the research instrument is considered to be reliable. According to Ali (2003:319), reliability is mainly concerned with the accuracy, consistency and predictability of the research findings.

The research findings of this study are reliable for the SME owners who are members of Cofesa (see details in sec. 5.3.2).

Validity in its simplest form indicates whether or not the measuring instrument tests what it is supposed to test (Statsoft, in Ali, 2003:316). The term applies to measuring instruments that show the extent to which differences in scores on the measurement reflect true differences between individuals, groups or situations in the characteristic they seek to measure, or reflect true differences in the same individual, group or situation from one occasion to another, rather than constant or random errors (Tustin et al, 2005:296).

To validate the data set and to check for reliability, the Cronbach alpha value was calculated. The Cronbach alpha value in this case was 0.68, which according to Nunnally (1978:245) is an acceptable reliability coefficient.

Completeness was validated, that is all the necessary tables to answer objectives were present. The base for each table was validated and is correct. The standard breaks (splits) were validated and are correct. There are no blank tables. Frequency counts prior to running tables, to ensure the accuracy of data and to determine base sizes for subgroups, were validated. All the statistical techniques used were accurate and appropriate.

7.6 PROPOSALS FOR FURTHER RESEARCH

This study covered a wide area in which different aspects of assistance were researched. The details of some of these results could and should be researched to supply SMEs with even more useful information on the entire process of assistance. These include the following:

- Although the study revealed that finance was the area in which most of the respondents received assistance, the details of the assistance were not determined. Assistance in finance has many forms, from receiving money to starting the business to receiving advice to manage the financial issues of the business. The researcher suggests that further research could be undertaken to determine the specific assistance the respondents needed in the area of finance to make them more successful. If they receive money, as the tendency seems to be, they should be assisted by showing them how to use the money wisely. Simply giving money to an aspirant SME owner would lead to more unsuccessful businesses (Wood, in Van Vuuren, 2007:4).

- The respondents did not make much use of educational institutions and trainers to assist them. The reasons for this could be investigated. This information could help educational institutions such as Unisa to adjust their small business qualifications to suit the need in this industry. (Unisa is a distance learning institution in which business owners can study part time while managing their businesses.)

- Aspirant business owners often do not know what type of business they should start, what product they should produce or sell or what service they should render. The primary factor contributing to the success of a business identified by the respondents in this study is the type of product. If they can start by getting the product right, they have a much better chance of succeeding. Research could be done to determine the following:

- in which sectors of the economy there is a need for a specific product or service
- what the needs are in specific areas of the country regarding products and services

- Although some research has been conducted in other countries such as Canada on this issue (Cruise, 2001:24), the type of assistance that would be needed during the different stages of the business life cycle could also be further researched.

- Many of the unsuccessful respondents complained about the labour situation in South Africa, especially about high labour costs, the low productivity of the labour force and insufficient assistance from the CCMA and government. The influence of institutions such as the CCMA on SMEs needs to be investigated. Research should be conducted on labour practices as well as on the efficiency of the government institutions that are involved in assisting SMEs.

- Further research is also needed to determine the success factors for SMEs in South Africa.

- Finally, Cofesa and other similar institutions should conduct research on the marketing of their services, especially to their members and other SME owners.

Only when more is known about the support available to SMEs in South Africa will there be a better chance of them succeeding.

This research outlined the process of interventions. It also indicated that interventions per se will not cause SMEs to be successful. Success is determined firstly by success factors as indicated by the respondents. Once these factors are in order, assistance in functional areas such as finance and

marketing probably contributes to the success of the business. Seeing that management was identified as the main cause of failure of SMEs, SME owners and managers need assistance in all the above matters, even before starting a business and continuously during the life-cycle of the business. As there was no control group to measure against, it was not possible to indicate whether the SMEs in this study were more successful because of the assistance they received.

The study has value for both the presenters of assistance (including tertiary institutions) and SME owners/managers. This study will surely assist with helping both these parties to rethink their approach to the entire consulting process. In managing a business, owners and managers hardly have all the management skills needed to be successful. This study will give owners and managers of SMEs a definite guideline to follow in making use of assistance and interventions so that the businesses they own or manage have a better chance of survival.

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APPENDIX

APPENDIX A: SURVEY QUESTIONNAIRE

(Researcher registered for degree purposes at UNISA.)

(Cofesa database used as population for survey.)

(Ask Afrika telephonically collected the data required.)

General Information

Interviewing method	*CATI*
Interview length	*10-12 minutes*
Copy	*Final*
Interviewing dates	*10 May – 24 May, 2007*
General notes	*UNISA small business survey. Research done for degree purposes. Collaboration with UNISA and COFESA in order to establish to what extent assistance in any form affects business success.*

Objectives of the Study and Conceptual Model

A critical review of successful interventions of South African small and medium businesses:

The study explores the extent to which assistance (in any form from any person) influences the success of small and medium businesses.

The study is done for degree purposes and is a collaboration between UNISA and COFESA. The results will be used to influence government policy and other role players with regard to small and medium business assistance.

Introduction

Good day, my name is <name>, and I'm calling from Ask Afrika an independent research company, we are not selling anything. We are currently conducting a survey on behalf of UNISA and in co-operation with COFESA. The results will be used to establish what support government should render to make entrepreneurs, such as yourself, more successful. By allowing us to interview you, you will contribute to this process. The interview will take approximately 10 minutes.

I1. Would you be willing to participate?

1 Yes		*Continue to the screener section*
2 No		*Thank respondent and terminate interview, capture reason.*

Screener Section

S1. Are you the manager or owner of the business?

1 Manager		*Continue to S2*
2 Owner		*Continue to S2*
3 Other (e.g. employee, secretary etc.)		*Ask to speak to Manager or Owner. If not available try to make an appointment for another time that is convenient. If manager or owner is not available terminate interview.*

S2. Since opening your business, have you received any form of assistance in relation to business matters? This assistance is any form of assistance e.g. training or advice, specialist consultations, expert, assistance from a family member or friend or organisation.

1 Yes		*Continue to Section 1*
2 No		*Terminate Interview*

Section 1: General Business Information

1. I am going to read out a list of statements, if any of these statements are true of your business, simply tell me 'yes'. If it is not true, say 'no'.
   Interviewer Note: Only mark statements that are true – "yes" responses

	Yes	No	Code
My business has been profitable during the last financial year			a
My business has grown over the past three years			b
The profit has been increasing over the past three years			c
I have been paying salaries and wages for at least three and a half years			d
I make enough money to live comfortably			e
My business is employing more people now than two years ago			f
The turnover/sales of my business have increased over the past two years			g
My business is not successful			h

2. On a scale of 1 to 7 how successful do you think your business is? 1 would mean you think it is not successful at all and 7 would mean you think it is very successful.

Question	0	1	2	3	4	5	6	7	-98Not applicable	-99 Don't know
2. On a scale of 1 to 7 how successful do you think your business is?										

3. How many employees are permanently employed in the business?
Interviewer Note: Interviewer Note: Wait for respondent to answer and fill in category, only read out list if it is not obvious in which category the business falls. Single mention

	x	CODE
Less than 10		a
11 to 49		b
50 to 100		c
More than 100		d

4. What type of business do you manage or own?
   Interviewer Note: Wait for respondent to answer and fill in category, only read out list if it is not obvious in which category the business falls. Single mention

	x	CODE
Agriculture		a
Mining and quarrying		b
Manufacturing		c
Electricity, gas and water		d
Construction		e
Retail and motor trade repair services		f
Wholesale trade, commercial agents and allied services		g
Catering, accommodation and other trade		h
Transport, storage and communication		i
Finance and business services		J
Community, social and personal services		k

5. I am going to read out a list of business areas; can you please tell me what the three most important areas are in which you have received assistance? Please can you also tell me what is the most important, second most important and third most important.
   Interviewer Note: prompt with definition of assistance if respondent is unsure. Mark as 1st, 2nd, 3rd.

	1,2,3	CODE
Accounting		a
Administration		b
Business plan		c
Finance		d
Health and safety		e
Human resources		f
Insurance		g
IT		h
Legal aspects		i
Marketing		j
Product		k
Production/Operations		l
Sales		m
Systems		n
Technology		o
Research		p
Other: (Please list)		q

6. When did you make use of the assistance?
   Interviewer Note: If participant asks to which of the three mentioned it applies, ask for the most important mentioned. Read out list. Single mention.

	x	CODE
Before starting your business		a
During the first six months		b
During the first 2 years		c
After the first 2 years		d
Continuously		e

7. In what way were you assisted?
   Interviewer Note: If participant asks to which of the three mentioned it applies, ask for the most important mentioned. Read out list. Multi-mention

	x	CODE
I was given advice		a
I was trained on the job		b
I outsourced some functions to external specialists		c
I made use of consultants to assist me		d
I attended formal training/course(s). Please specify the name of the course		e
Other: (Please specify)		f

8. Who presented you with the assistance?
Interviewer Note: If participant asks to which of the three mentioned it applies, ask for the most important mentioned. Read out list. Multi-mention

	x	
Another business		*Continue to question 9*
Consultant/specialist		*Continue to question 9*
Trainer		*Continue to question 9*
Educational institution		*Continue to question 9*
Other (Please specify here)		*Continue to question 9*

9. How long were you assisted for?
Interviewer Note: Read out list. Single mention. If participant asks to which of the three mentioned it applies, ask for the most important mentioned

	x
1 day	
1 day per week	
1 day per month	
1 week	
1 month	
Continuously (For example: one day per week/month for a whole year)	
Any other: (Please specify)	

Section 2: Shortcomings

10. When you think about the assistance you received with regard to <1st mentioned in Q5>, what shortcomings can you identify with this process?
Interviewer Note: Capture response verbatim.

	x
It is not relevant to me	
It isn't always possible to reach the right people	
The assistance isn't enough	
It is taking too long	
There are no shortcomings, I got what I needed	
Any other: (Please specify)	

Section 3: Successful Interventions

11. Can you please tell me what the three most important things are that contributed to the success of your business? This can be anything, for example the type of product you sell, your persistence, intense marketing or the location of your business. Please tell me what is the 1st, 2nd and 3rd most important

Interviewer Note: Keep spontaneous, prompt with examples if necessary.

	1,2,3	CODE
The type of product		a
The assistance you received or are receiving		b
Your persistence		c
The location of the business		d
The need of the community		e
Marketing		f
Client services		g
Financial management		h
Your involvement in the business		i
Endurance to continue		j
Creativity		k
Positive approach		l
Quality of service/product		m
Good human relationships		n
Other (Please specify)		o

12. Is your business more successful due to the assistance you received or are receiving?

	x	Trigger
Yes		*Continue to Question 14*
No		*Continue to Question 15*

13. According to you, when should a person seek assistance similar to that you have mentioned?
Interviewer Note: Read out list. Single mention.

	x	CODE
Before starting your business		a
During the first six months		b
During the first 2 years		c
After the first 2 years		d
During all phases of the business		e

Section 4: Demographics

14. What is your highest qualification?
Interviewer Note: Read out list. Single mention.

	x	CODE
Below grade 10		a
Grade 10 to 12		b
Certificate		c
3 year Diploma/Degree		d
Honours degree		e
Masters degree		f
Doctorate		g

15. What was your occupation before you got involved in this business?

Capture response verbatim:

Name:

Thank you for your time. Have a nice day

APPENDIX B: FIGURES AND TABLES MENTIONED BUT NOT INCLUDED IN THE CHAPTERS

Figure 6.16: Frequency of the location of respondents' businesses

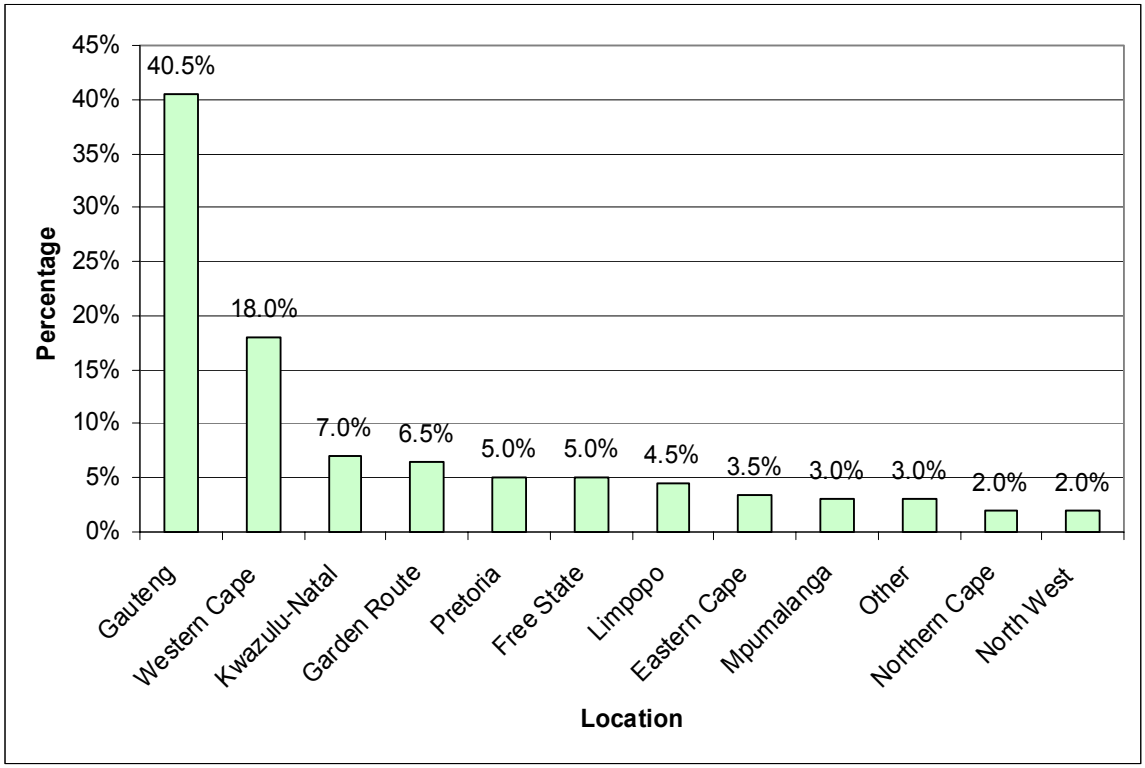

Figure 6.17: Frequency of the types of businesses of the respondents

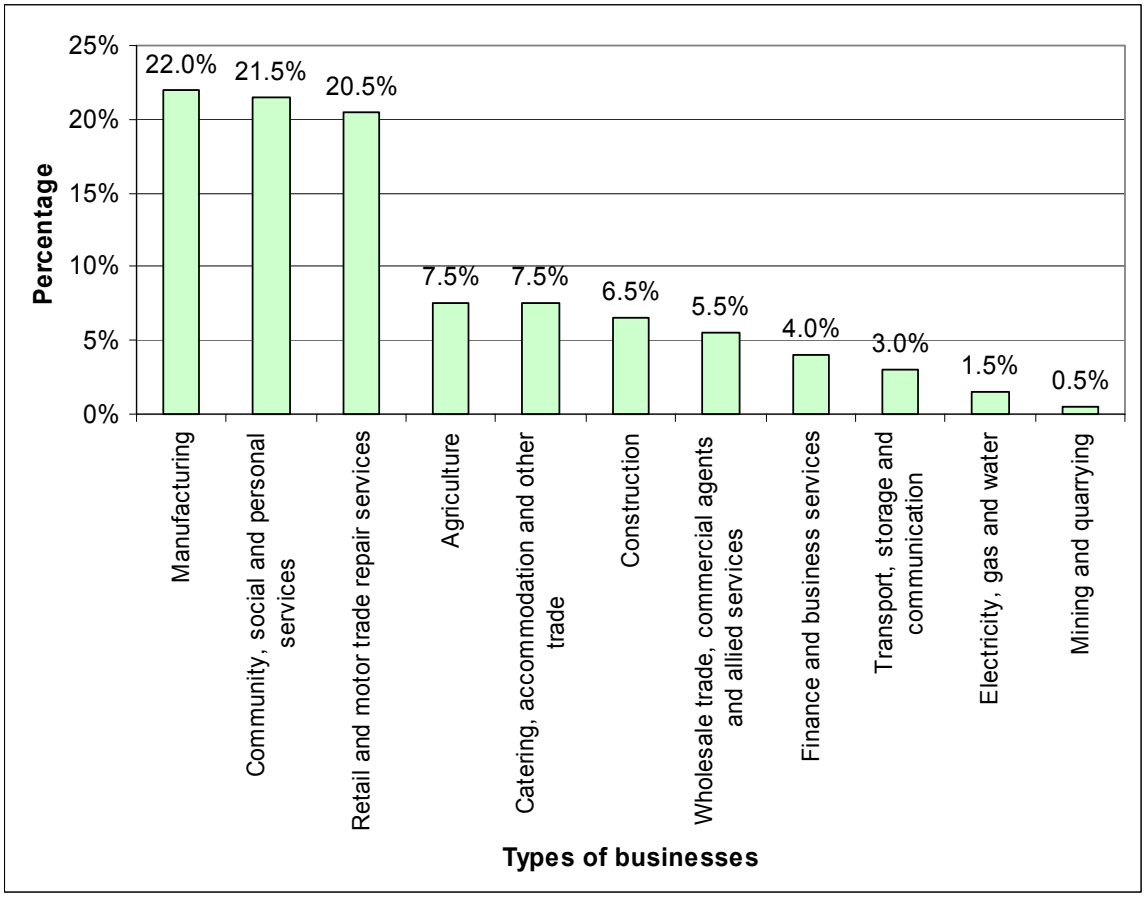

Figure 6.18: Graphical representation of table 6.56

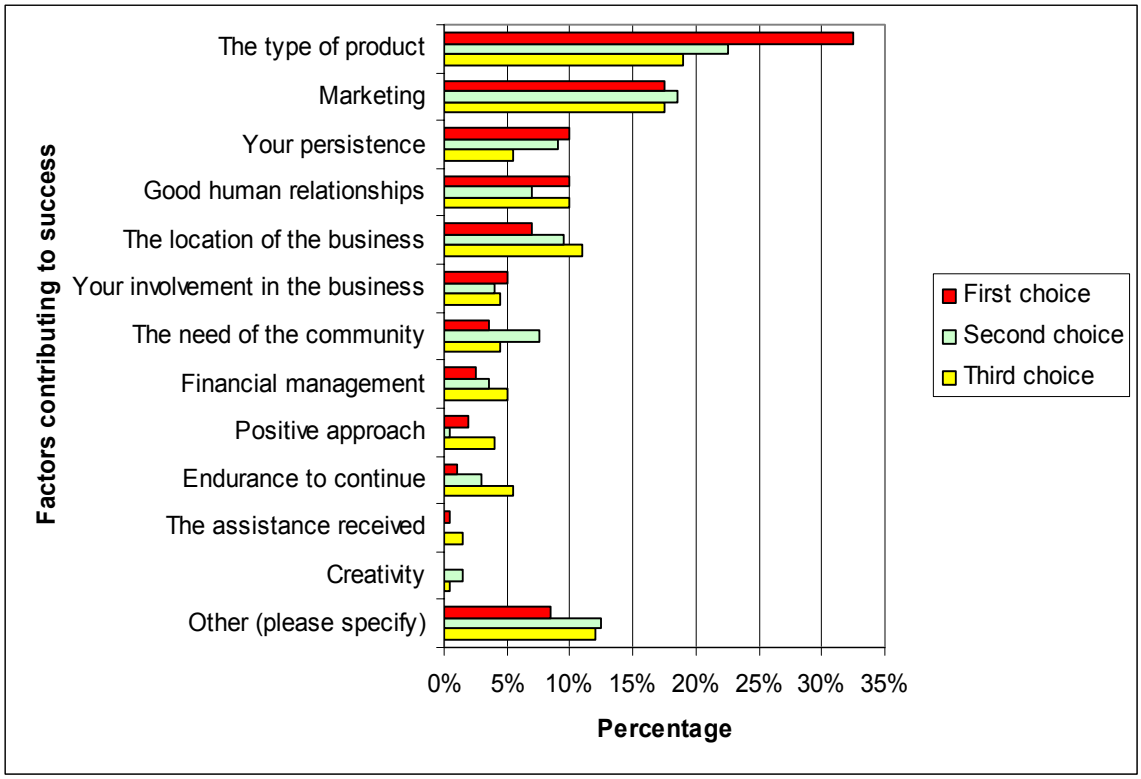

Table 6.47: My business has been profitable during the last financial year

		Frequency	Percent
Valid	YES	153	76.5
	NO	47	23.5
	Total	200	100.0

Table 6.48: My business has grown over the past three years

		Frequency	Percent
Valid	YES	170	85.0
	NO	30	15.0
	Total	200	100.0

Table 6.49: The profit has been increasing over the past three years

		Frequency	Percent
Valid	YES	128	64.0
	NO	72	36.0
	Total	200	100.0

Table 6.50: I have been paying salaries and wages for at least three-and-a-half years

		Frequency	Percent
Valid	YES	186	93.0
	NO	14	7.0
	Total	200	100.0

Table 6.51: I make enough money to live comfortably

		Frequency	Percent
Valid	YES	137	68.5
	NO	63	31.5
	Total	200	100.0

Table 6.52: My business is employing more people now than two years ago

		Frequency	Percent
Valid	YES	119	59.5
	NO	81	40.5
	Total	200	100.0

Table 6.53: The turnover/sales of my business has/have increased over the past two years

		Frequency	Percent
Valid	YES	158	79.0
	NO	42	21.0
	Total	200	100.0

Table 6.54: My business is unsuccessful

		Frequency	Percent
Valid	YES	18	9.0
	NO	182	91.0
	Total	200	100.0

Table 6.55: Respondents' perceptions of the first, second and third most important areas of receiving assistance

Finance/accounting			
		Frequency	Percent
Valid	1	80	40.0
	2	54	27.0
	3	47	23.5
	Mentioned 1 to 3	181	90.5
Total		200	100.0
Marketing			
		Frequency	Percent
Valid	1	34	17.0
	2	27	13.5
	3	27	13.5
	Mentioned 1 to 3	88	44.0
Total		200	100.0
Human resources			
		Frequency	Percent
Valid	1	22	11.0
	2	24	12.0
	3	20	10.0
	Mentioned 1 to 3	66	33.0
Total		200	100.0
Production/operations			
		Frequency	Percent
Valid	1	16	8.0
	2	12	6.0
	3	18	9.0
	Mentioned 1 to 3	46	23.0
Total		200	100.0
Administration			
		Frequency	Percent
Valid	1	10	5.0
	2	17	8.5
	3	22	11.0
	Mentioned 1 to 3	49	24.5
Total		200	100.0
Legal aspects			
		Frequency	Percent
Valid	1	15	7.5
	2	14	7.0
	3	13	6.5
	Mentioned 1 to 3	42	21.0
Total		200	100.0

Health and safety			
		Frequency	Percent
Valid	1	9	4.5
	2	18	9.0
	3	14	7.0
	Mentioned 1 to 3	41	20.5
Total		200	100.0

Business plan			
		Frequency	Percent
Valid	1	6	3.0
	2	13	6.5
	3	8	4.0
	Mentioned 1 to 3	27	13.5
Total		200	100.0

Systems			
		Frequency	Percent
Valid	1	3	1.5
	2	6	3.0
	3	8	4.0
	Mentioned 1 to 3	17	8.5
Total		200	100.0

IT			
		Frequency	Percent
Valid	1	3	1.5
	2	5	2.5
	3	9	4.5
	Mentioned 1 to 3	17	8.5
Total		200	100.0

Table 6.56: The different factors contributing to the success of the respondents' businesses

The type of product			
		Frequency	Percent
Valid	1	65	32.5
	2	45	22.5
	3	38	19.0
	Mentioned 1 to 3	148	74.0
Total		200	100.0
Marketing			
		Frequency	Percent
Valid	1	35	17.5
	2	37	18.5
	3	35	17.5
	Mentioned 1 to 3	107	53.5
Total		200	100.0
Your persistence			
		Frequency	Percent
Valid	1	20	10.0
	2	18	9.0
	3	11	5.5
	Mentioned 1 to 3	49	24.5
Total		200	100.0
Good human relationships			
		Frequency	Percent
Valid	1	20	10.0
	2	14	7.0
	3	20	10.0
	Mentioned 1 to 3	54	27.0
Total		200	100.0
The location of the business			
		Frequency	Percent
Valid	1	14	7.0
	2	19	9.5
	3	22	11.0
	Mentioned 1 to 3	55	27.5
Total		200	100.0
Your involvement in the business			
		Frequency	Percent
Valid	1	10	5.0
	2	8	4.0
	3	9	4.5
	Mentioned 1 to 3	27	13.5
Total		200	100.0

The needs of the community			
		Frequency	Percent
Valid	1	7	3.5
	2	15	7.5
	3	9	4.5
	Mentioned 1 to 3	31	15.5
Total		200	100.0

Financial management			
		Frequency	Percent
Valid	1	5	2.5
	2	7	3.5
	3	10	5.0
	Mentioned 1 to 3	22	11.0
Total		200	100.0

Positive approach			
		Frequency	Percent
Valid	1	4	2.0
	2	1	0.5
	3	8	4.0
	Mentioned 1 to 3	13	6.5
Total		200	100.0

Endurance to continue			
		Frequency	Percent
Valid	1	2	1.0
	2	6	3.0
	3	11	5.5
	Mentioned 1 to 3	19	9.5
Total		200	100.0

The assistance you received or are receiving			
		Frequency	Percent
Valid	1	1	0.5
	3	3	1.5
	Mentioned 1 to 3	4	2.0
Total		200	100.0

Creativity			
		Frequency	Percent
Valid	2	3	1.5
	3	1	0.5
	Mentioned 1 to 3	4	2.0
Total		200	100.0

Other (Please specify)			
		Frequency	Percent
Valid	1	17	8.5
	2	25	12.5
	3	24	12.0
	Mentioned 1 to 3	66	33.0
Total		200	100.0

Table 6.57 The areas of assistance (section 1, question 5) and the success of the businesses (section 1, question 2)

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted **(3)**		Satisfied **(3)**		Dissatisfied **(4)**		n **(2)**	%
		n **(2)**	%	n **(2)**	%	n **(2)**	%		
Accounting **(1)**	1	9	47.4%	28	59.6%	2	25.0%	39	52.7%
	2	6	31.6%	11	23.4%	5	62.5%	22	29.7%
	3	4	21.1%	8	17.0%	1	12.5%	13	17.6%
Group Total		19	100.0%	47	100.0%	8	100.0%	74	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Administration	1	2	11.1%	7	26.9%	1	20.0%	10	20.4%
	2	7	38.9%	6	23.1%	4	80.0%	17	34.7%
	3	9	50.0%	13	50.0%			22	44.9%
Group Total		18	100.0%	26	100.0%	5	100.0%	49	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Business plan	1	2	15.4%	4	28.6%			6	22.2%
	2	7	53.8%	6	42.9%			13	48.1%
	3	4	30.8%	4	28.6%			8	29.6%
Group Total		13	100.0%	14	100.0%			27	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Finance	1	8	32.0%	28	49.1%	2	40.0%	38	43.7%
	2	10	40.0%	16	28.1%			26	29.9%
	3	7	28.0%	13	22.8%	3	60.0%	23	26.4%
Group Total		25	100.0%	57	100.0%	5	100.0%	87	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Health and safety	1	5	35.7%	1	4.5%	3	60.0%	9	22.0%
	2	6	42.9%	11	50.0%	1	20.0%	18	43.9%
	3	3	21.4%	10	45.5%	1	20.0%	14	34.1%
Group Total		14	100.0%	22	100.0%	5	100.0%	41	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Human resources	1	11	47.8%	9	23.1%	2	50.0%	22	33.3%
	2	6	26.1%	18	46.2%			24	36.4%
	3	6	26.1%	12	30.8%	2	50.0%	20	30.3%
Group Total		23	100.0%	39	100.0%	4	100.0%	66	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Insurance	1	1	20.0%	2	13.3%			3	15.0%
	2	1	20.0%	5	33.3%			6	30.0%
	3	3	60.0%	8	53.3%			11	55.0%
Group Total		5	100.0%	15	100.0%			20	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
IT	1	1	25.0%	1	9.1%	1	50.0%	3	17.6%
	2	2	50.0%	3	27.3%			5	29.4%
	3	1	25.0%	7	63.6%	1	50.0%	9	52.9%
Group Total		4	100.0%	11	100.0%	2	100.0%	17	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Legal aspects	1	6	60.0%	7	28.0%	2	28.6%	15	35.7%
	2	1	10.0%	11	44.0%	2	28.6%	14	33.3%
	3	3	30.0%	7	28.0%	3	42.9%	13	31.0%
Group Total		10	100.0%	25	100.0%	7	100.0%	42	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Marketing	1	6	33.3%	10	33.3%			16	32.0%
	2	5	27.8%	12	40.0%			17	34.0%
	3	7	38.9%	8	26.7%	2	100.0%	17	34.0%
Group Total		18	100.0%	30	100.0%	2	100.0%	50	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Product	1	1	50.0%	5	33.3%			6	31.6%
	2	1	50.0%	5	33.3%	1	50.0%	7	36.8%
	3			5	33.3%	1	50.0%	6	31.6%
Group Total		2	100.0%	15	100.0%	2	100.0%	19	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Production/ Operations	1	1	14.3%	7	38.9%	2	100.0%	10	37.0%
	2	2	28.6%	3	16.7%			5	18.5%
	3	4	57.1%	8	44.4%			12	44.4%
Group Total		7	100.0%	18	100.0%	2	100.0%	27	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Sales	1	4	57.1%	10	47.6%	1	50.0%	15	50.0%
	2	1	14.3%	6	28.6%	1	50.0%	8	26.7%
	3	2	28.6%	5	23.8%			7	23.3%
Group Total		7	100.0%	21	100.0%	2	100.0%	30	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Systems	2	1	100.0%					1	50.0%
	3			1	100.0%			1	50.0%
Group Total		1	100.0%	1	100.0%			2	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Technology	1			3	30.0%			3	20.0%
	2	2	50.0%	2	20.0%	1	100.0%	5	33.3%
	3	2	50.0%	5	50.0%			7	46.7%
Group Total		4	100.0%	10	100.0%	1	100.0%	15	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%

		Split between Delight, Satisfaction and Dissatisfaction with the success of his/her business						Group Total	
		Delighted		Satisfied		Dissatisfied		n	%
		n	%	n	%	n	%		
Research	1			2	28.6%	1	100.0%	3	37.5%
	2			2	28.6%			2	25.0%
	3			3	42.9%			3	37.5%
Group Total				7	100.0%	1	100.0%	8	100.0%
Table Total		58	100.0%	125	100.0%	17	100.0%	200	100.0%