“What are the Common Factors Which Contribute to Successful SMME’s in South Africa?”

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By

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This thesis is not confidential. It may be used freely by the University of Cape Town, Graduate School of Business.

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I certify that except as noted above the thesis is my own work and all references used are accurately reported in footnotes.

Signed:
“What are the Common Factors Which Contribute to Successful SMME’s in South Africa?”

Abstract
This study investigates the common factors which contribute to successful small, medium and micro enterprises (SMME) in South Africa. A literature review was used to determine which areas of SMME management were the most likely to impact business success and which were therefore most likely to occur in successful SMME's. Data was gathered through the distribution of a self-completion questionnaire, with questions also being based on the findings of the literature review, to a group of 52 SMME owners in the Western Cape, Gauteng, Kwa-Zulu Natal and the Eastern Cape. The research showed that various factors such as education, business and financial planning, motivation, operations and entrepreneurial traits, all contributed to SMME success.

KEYWORDS: SMME, South Africa, successful, common factors, education, business, financial, planning, motivation, operations, entrepreneurial traits
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1. Introduction

1.1 Research Area and Problem

This research report seeks to investigate and identify the common factors which contribute to successful Small, Medium and Micro-Enterprises (SMME’s) in the South Africa. A successful SMME was defined as being in operation for more than 3.5-years, having a revenue stream, being profitable and with less than 200 employees.

The National Small Business Act of 1996 categorizes SMME’s under four headings: Micro; Very Small; Small; and Medium. Prior to 1990, small-scale enterprises were supported almost solely for social reasons. They were regarded as an outlet for surplus labour and a means by which to provide income-earning opportunities for the informal sector. As such, the sector was marginalised and no effort was made to include it in the mainstream economy (Luiz, 2002).

However, post 1990, it has been shown that a dynamic SMME sector has a significant role to play in the economy and as such, efforts were begun to develop and integrate the sector into the mainstream business world-wide (Luiz, 2002). The South African small business sector was identified as having the potential to contribute to economic growth and job creation, while simultaneously helping to reverse the past imbalances by encouraging black participation (Luiz, 2002).

Following international trends and due to its recognition of the sectors potential, the South African government has also chosen to adopt a strategy of development in an effort to encourage the integration of SMME’s into the national economy. This is primarily due to the recognition of SMME’s potential contribution to economic growth, unemployment and poverty alleviation (Mahadea & Pillay, 2008). The current areas of particular interest is for government and the Department of Trade and Industry (DTI) is
the development of effective service delivery infrastructure to support SMME’s and the creation of an enabling environment (DTI Annual Report, 2008/9).

In the 'Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises', released by The Department of Trade and Industry (DTI) in 2005 (p.ii), the then Minister of Trade and Industry, Mandisi Mpahlwa stated that,

“The promotion of entrepreneurship and small business remains an important priority of the government of South Africa. Our commitment is to ensure that small businesses progressively increase their contribution to growth and performance of the South African economy in critical areas such as job creation, equity and access to markets.”

Maas & Herrington (2007) reinforce this viewpoint with reference to recent research which shows the positive impact entrepreneurship has had on regional economies. However, challenges are also identified, which hint at the reasons for South Africa’s generally poor entrepreneurial showing. Maas & Herrington (2007, p.7) state that “entrepreneurship is a multi-disciplinary concept which can make the application and implementation of this concept difficult”.

It is quite clear then that the SMME sector has the potential to provide significant input to the national economy and society in general and that it has rightfully remained a priority for South Africa’s government. In fact, the SMME sector grew by 27% between 2004 and 2007, with the largest growth being associated with medium-sized businesses at 208%. Micro, very small and small enterprises accounted for 27-34% of total GDP in 2006 (The DTI, 2008).

In many emerging economy populations, such as South Africa, there are several restrictions which limit entrepreneurial growth and survival rate of new businesses
(Urban, Van Vuuren & Barreira, 2008). There is a significant amount of literature available which has explored the primary challenges facing SMME's and their development in South Africa. These include for example, but are not limited, access to education and finance, regulatory conditions, tax issues, cultural norms and a lack of demand. The Global Competitiveness Report for 2009/10, where South Africa currently ranks 45th out of 133 nations, includes additional hindrances to doing business in South Africa. The most problematic of these are crime and theft, inadequately educated workforce, inefficient government bureaucracy, restrictive labour regulations, corruption, poor work ethic in national work force and inadequate supply of infrastructure.

The integrated strategy mentioned earlier, was designed specifically to address these challenges. Mandisi Mpahlwa, in the opening speech for the 2008 Small Business Summit, indicated six key areas for intervention.

- Improved access to business support information
- Increased access to business finance
- Improved access to markets
- Creation of partnerships for the establishment of business support infrastructure
- Creation of a suitable regulatory environment
- Improved small business support delivery

The entrepreneur is another important component of the SMME environment in South Africa which should be taken into account. The entrepreneurs management skills account for the greatest variance in growth of SMME's in South Africa (Mahadea & Pillay, 2008). No matter how sound and enabling the governments policies and regulatory environment, it is ultimately the entrepreneur who’s decision making skills and aptitude will determine the success or failure of the small business enterprise.
It is important to remember that despite the fact that there is a very high failure rate in start-up SMME's, there are still 20-30% which do succeed and go on to positively contribute to the nations economy. It is therefore the intention of this research report to conduct an explorative study to identify any common factors which contribute to various successful SMME's. The research hopes to develop a list of items for 'best practice' when establishing and managing an SMME. This list of 'best practice' items can hopefully be applied to new start-up firms or those which are in distress, with the view that through the implementation of one or more of the items, it will improve their likelihood of success.

This research should prove valuable to numerous stakeholders including national and local government, current and prospective SMME owners or managers, potential SMME investors and academia interested in the subject of entrepreneurship and SMME development.

The prioritisation and development of the SMME sector is a stated objective of the government. Initiatives such as the governments' integrated strategy, mentioned above, are testament to this fact. The various local governments must implement the policies determined at national level. Both government sectors would therefore put significant value in any research which is able to help facilitate their development of a successful SMME sector.

There are also numerous firms which have established themselves in South Africa with the specific intent to take advantage of or support the growing interest in the SMME sector. Organisations such as 'Business Partners' and their government equivalents such as Khula Enterprise Finance have invested millions of Rands in the South African SMME business sector. The decisions regarding which businesses to support is often very complex and challenging. Any framework which can assist this decision making process
will obviously improve the success ‘hit-rate’ in SMME investment. Nazeem Martin of ‘Business Partners’ includes careful analysis of the entrepreneur and his or her various attributes, as one of the three levels to the firms investment decision-making process (“Inventing Entrepreneurs, 2006).

Finally, it is clear, based on the amount of SMME related literature available, that the academic community of South Africa has a significant interest in the workings and development of the SMME sector. Most research has however focused on the reasons for failure, with specific reference to finance availability, the regulatory environment, access to education and training and the lack of demand.

1.2 Research Questions and Scope

The primary research question of the report is, “What are the common factors which contribute to successful SMME’s in South Africa?”

Data was collected through a series of self-completion questionnaires distributed nationally amongst various owners of successful SMME’s. A successful SMME was defined as being in operation for more than 3.5-years, having a revenue stream, being profitable and with less than 200 employees. Businesses 3.5-years and less are regarded as start-ups using the Global Entrepreneurship Monitor (GEM) definition. A target of 50-60 successful questionnaire responses was sought and successfully attained. The questionnaires were distributed primarily through the use of a SMME database. The distribution did not attempt to segment industry sectors, race, gender, age or language.

The questionnaire covered numerous aspects of the business operation and common factors were sought which contribute to the various examples. The interview questions included the aspects shown below in Table 1.
<table>
<thead>
<tr>
<th>Business variables</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance</strong></td>
<td>‘Does the SMME have rigorous traditional financial systems in place?’, ‘How was the business financed – investor equity, debt, private investment?’</td>
</tr>
<tr>
<td><strong>Product or Service</strong></td>
<td>‘Is the business product or service focused?’, ‘What type of product or service is offered? – eg: commodity (high volume/low margin) versus custom (low volume/high margin)’</td>
</tr>
<tr>
<td><strong>Technical skills</strong></td>
<td>‘Are the owner or managers technical skills matched to the business type?’, ‘Were technical skills sought through employees or training?’</td>
</tr>
<tr>
<td><strong>Management skills</strong></td>
<td>‘What level of management skills does the entrepreneur have or have access to?’, ‘Was extra management support sought?’</td>
</tr>
<tr>
<td><strong>Market Research</strong></td>
<td>‘Was any market or product research conducted before the business started and if so, how rigorous was it?’</td>
</tr>
<tr>
<td><strong>Business Plan</strong></td>
<td>‘Was a business plan drafted and if so, was it followed and was it used to secure financing?’</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td>‘Did the SMME employ other staff members and if so, what were the employment conditions?’, ‘Were staff employed on a permanent or temporary basis?’</td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td>‘To what degree was the business marketed?’</td>
</tr>
<tr>
<td><strong>Consultation or mentoring</strong></td>
<td>‘Was any specialist advice or mentorship sought during’</td>
</tr>
<tr>
<td>Category</td>
<td>Question</td>
</tr>
<tr>
<td>---------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Education and Training</td>
<td>‘Was any product or business specific education or training sought for the entrepreneur or the employees?’</td>
</tr>
<tr>
<td>Imports and exports</td>
<td>‘Were imports or exports an integral part of the business?’</td>
</tr>
<tr>
<td>Government support</td>
<td>‘Did the SMME make use of any governmental support initiatives or agencies and if so, which and were they helpful?’</td>
</tr>
<tr>
<td>Motivation</td>
<td>‘What motivated the entrepreneur to start his or her own small business?’</td>
</tr>
<tr>
<td>Locus of control</td>
<td>‘Is the small business owner internally or externally motivated?’</td>
</tr>
<tr>
<td>Previous experience</td>
<td>‘How many years of previous management experience does the SMME owner or manager have?’</td>
</tr>
<tr>
<td>Planning and goals</td>
<td>‘Were the business plans and goals clearly articulated, committed to writing and regularly updated?’</td>
</tr>
<tr>
<td>Support services</td>
<td>‘Were specialist support services, such as those of accountants and lawyers, utilised during the establishment of the business venture?’</td>
</tr>
</tbody>
</table>

The construction of the questionnaire utilising this list of core concepts provided a highly researchable topic. This is due to the fact that the various concepts were all sourced from SMME and entrepreneurial related literature.

The questionnaire based data collection process also encouraged the creation of a highly actionable research plan. The use of questionnaires ensured that the data collected was both readily and immediately available as the research was not reliant on an extended period of experimentation or observation. The potential costs were also
kept to a minimum as the data was freely available. Telephone and internet costs were the only monetary burden.

The research is limited in scope in that it only focuses on those SMME’s which are successful. This strategy no doubt eliminated a great many potential data sources as the number of SMME failures far outweighs the success stories. There may, for example, have been cases where successful small business enterprises were forced into failure due to forces out of their control. These otherwise potentially successful enterprises, and their potential knowledge generation, were not included in this study.

Other constraints on the research included demographic restrictions. The researcher found a selected demographic of the population to be more readily accessible through small business databases thus making the research more specific to that demographic sector and less representative of the true situation.

The research was also restricted by the actual number of questionnaires returned successfully. However, there were obvious constraints on the ability of the researcher to gather an unrestricted number of questionnaire samples due primarily to the time limit on the research period.

Another constraint, which had the potential to bias the data and thus the findings, is the fact that there may be a specific trait within selected respondents which make them more likely to complete the questionnaire and provide data in the first place and also the degree to which they are prepared to part with their knowledge and experience. This situation may have caused the data to be skewed by the sampling of an overly similar 'type' of SMME owner.

A final potential constraint was the fact that the questionnaire was distributed in English only, which may have excluded non-English speaking respondents.
1.3 Research Assumptions

The researchers’ ability to gather the required data was the most important factor impacting the success of the research. If the researcher was unable to gather the data it would have been irrelevant if there were any common factors between the various SMME’s, as they would not have been found.

There are numerous challenges when collecting data through a self-completion questionnaire format. For example, securing a sufficient number of quality data sources, to allow for a reliable observation to be made. Other smaller challenges include the restricted timetable, respondent schedules and poor quality data.

The researcher has made a number of assumptions in deciding on this topic of research. Firstly, it was assumed that the factors which contribute to SMME success, and which are found in the literature, are in fact common to a number of different and unrelated SMME’s.

Another assumption of the research method was that the researcher would be able to find willing respondents. This obviously had the potential to impact negatively on the researchers’ ability to gather the required data, which was identified as the greatest threat to the success of the study.
2. Literature Review

2.1 Discussion

2.1.1 The Environment

“Starting a new venture is not a smooth, continuous, orderly process but a disjointed, discontinuous, unique event, which requires understanding of the change in the antecedent variables that trigger such an event” (Urban, Van Vuuren & Barreira, 2008, p.59)

The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise is the guide by which the South African government hopes to unlock the potential of local entrepreneurs. Contained in the strategy, former Minister of Trade and Industry, Mandisi Mpahlwa (2005, p.ii) states that, "The promotion of entrepreneurship and small business remains an important priority of the government of South Africa. Our commitment is to ensure that small businesses progressively increase their contribution to the growth and performance of the South African economy in critical areas such as job creation, equity and access to markets”.

Herrington, Kew & Kew (2008, p.13) support this viewpoint stating that entrepreneurship "is considered to be an important mechanism for economic development through job creation, innovation and its welfare effect, which has lead to a burgeoning policy interest in national-level entrepreneurial activity.

The South African government has repeatedly reiterated their support for the SMME business sector in recent times. They have employed a multi-faceted strategy to encourage SMME development and sustainability, with the primary focus on creating an enabling regulatory environment and improving access to finance, training and education. The attention given to this sector is warranted, as it already contributes approximately 35% annually to the national GDP and has been growing at a rate of 7%
per year since 1995 (Mpahlwa, 2008). The SMME sector therefore has great potential to help alleviate the country’s severe unemployment issues while simultaneously making a significant contribution to the growth of the economy.

The South African government has in recent years, established additional governmental agencies, such as The Small Enterprise Development Agency, to further enhance the efforts to support SMME’s. Support from such agencies includes business registrations, business planning support, advisory and tender assistance, facilitation of access to finance, start-up advice and manufacturing, productivity and export training (Mpahlwa, 2008).

Morrison & Teixeira (2004, p.169) provide an elegant summary, presented in Table 2 below, of the internal and external contextual factors which influence small business performance.

<table>
<thead>
<tr>
<th>INTERNAL FACTORS</th>
<th>EXTERNAL FACTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-manager:</td>
<td>Competitive environment</td>
</tr>
<tr>
<td>• Socio-demographic profile</td>
<td>• Degree of embeddedness in community</td>
</tr>
<tr>
<td>• Business entry motivations</td>
<td>• Demand and seasonality</td>
</tr>
<tr>
<td>• Personal and business goals</td>
<td>• Geographic location</td>
</tr>
<tr>
<td>• Management capabilities</td>
<td>• Human and financial resources</td>
</tr>
<tr>
<td></td>
<td>• Infrastructure and business support</td>
</tr>
<tr>
<td>Business</td>
<td>• Micro/macroeconomy</td>
</tr>
<tr>
<td>• Family involvement</td>
<td>• Micro/macroeconomics</td>
</tr>
<tr>
<td>• Ownership and organisational structure</td>
<td>• Natural disaster</td>
</tr>
<tr>
<td>• Length of time in operation</td>
<td></td>
</tr>
<tr>
<td>• Involvement in a range of business activities</td>
<td></td>
</tr>
<tr>
<td>• Staff and skills</td>
<td></td>
</tr>
<tr>
<td>• Confines of size</td>
<td></td>
</tr>
</tbody>
</table>
2.1.2 The Entrepreneur

Kao (1991, p.14) defines entrepreneurship as,

"...the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skills to mobilize human, financial, and material resources necessary to bring a project to fruition."

At the core of entrepreneurship is passion and doing what you love. Entrepreneurship is about creating change through innovation and creativity. And finally, entrepreneurship is about facing up to challenges through persistence and sound planning (Allen, 1999, p.xix). Kao (1991, p.20) presents numerous entrepreneurial traits associated with successful entrepreneurs. These traits were distilled from 50 research studies and are included in Table 3 below,

**Table 3 - Traits associated with successful entrepreneurs**

<table>
<thead>
<tr>
<th>Entrepreneurial traits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total commitment, determination and perseverance</td>
</tr>
<tr>
<td>2. Drive to achieve and grow</td>
</tr>
<tr>
<td>3. Opportunity and goal orientation</td>
</tr>
<tr>
<td>4. Taking the initiative and personal responsibility</td>
</tr>
<tr>
<td>5. Persistent problem solving</td>
</tr>
<tr>
<td>6. Realism and a sense of humour</td>
</tr>
<tr>
<td>7. Seeking and using feedback</td>
</tr>
<tr>
<td>8. Internal locus of control</td>
</tr>
<tr>
<td>9. Calculated risk-taking and risk-seeking</td>
</tr>
<tr>
<td>10. Low need for status and power</td>
</tr>
<tr>
<td>11. Integrity and reliability</td>
</tr>
</tbody>
</table>
Allen (1999, p.6) later identified five key characteristics of successful entrepreneurs which support the findings above. 1) It is a myth that entrepreneurs are big gamblers. Rather they can be described as calculated risk-takers. 2) Entrepreneurs are proactive and goal-orientated. They have a need for achievement. 3) Entrepreneurs value their independence and are most comfortable operating with a high degree of autonomy. 4) Locus of control is the extent to which people believe that they control the events within their lives. Entrepreneurs typically have an internal locus of control, believing that they, rather than their environment, control the events in their life. 5) The entrepreneurial environment is often dynamic and uncertain. The successful entrepreneur therefore often has a high degree of tolerance for ambiguity.

Boyett & Boyett (2001, p.10) surveyed numerous successful entrepreneurs and identified five key themes which add to our understanding of the entrepreneur. In their view successful entrepreneurs must, embrace failure, reject money as their goal, be absolutely determined, sacrifice their personal life and believe passionately in their vision.

Muhanna (2007, p.97) has found additional entrepreneurial characteristics specific to the South African context which could potentially influence SMME success rates. Key among these are academic background and cognitive ability, personal confidence, greed, the willingness to take risks and a strong work-ethic.

Van Zyl & Mather-Helm (2008) conducted a study which included an assessment of performance indicators of small tourism businesses in South Africa. They found that “there are vital entrepreneurial characteristics that drive certain people to initiate and grow small tourism businesses successfully, while others fail” (Van Zyl & Mather-Helm, 2008, p.194). The study therefore found a direct link between entrepreneurial qualities and the small business performance. The study utilises systems thinking to clarify the complexity surrounding the various relationships between the entrepreneurial qualities.
These qualities are centred round entrepreneurial leadership and include self-leadership, ethical orientation, entrepreneurial orientation, market orientation and relationship marketing orientation. The study developed a model which confirmed the link between personal entrepreneurial leadership qualities and small business performance.

In their study investigating the influence of business knowledge and work experience on venture success, Urban, Van Vuuren & Barreira (2008, p.59) differentiate between opportunity and necessity entrepreneurs. Opportunity entrepreneurs are generally associated with high-expectancy/high-growth ventures, while necessity entrepreneurs are associated with low-expectation/low-growth ventures. The entrepreneurial decision, whether influenced by opportunity or necessity could potentially have an effect on future venture success.

The entrepreneur plays a vital role in determining the fortunes of the SMME. Supporting this notion, Friedrich (2004, p.51) holds that,

“In SMME’s of less than 50 employees the owner is typically the source of action in the firm. He/she is the one making important decisions regarding products and production methods, as well as offered services. The business owner deals with important customers, suppliers and employees”.

Friedrich (2004) goes on to suggest that up to 40% of the success of an SMME can be attributed to the entrepreneur due to a number of personal traits which have high and positive correlation with SMME success. These include initiative, pro-activity, innovation, learning, achievement orientation and goal setting. These then are examples of traits which were sought within the research report participants.
Entrepreneurship is a complex concept, but one which has been shown to play a significant role in the potential success of SMME’s. It is therefore important that one understands the concept fully in order that it be dealt with appropriately in the proposed research. The South African Global Entrepreneurship Monitor provides a good point of reference in this regard as one of its main focuses is the behaviour of individuals within the SMME sector. Maas & Herrington (2007), authors of the South African report, provide three generally accepted entrepreneurial principles.

- Encourages job creation and economic growth
- Explores new opportunities through creativity and innovation
- Entrepreneurs are able to live with ambiguity, which is in contrast to normal business

Building on the entrepreneurs role in the SMME sector, Pretorius, Millard & Kruger (2005) hold that creativity, innovation and the ability to implement are key to success. They argue that entrepreneurs must be creative to identify and take advantage of opportunities, innovative to provide a unique market proposition and then must have the ability to implement their strategy. These three key factors are supported by a number of underlying entrepreneurial characteristics including motivation, entrepreneurial skills and business acumen.

2.1.3 The Success Factors

As the research report utilised self-completion questionnaires with which to gather data, was important that one construct a questionnaire which adequately addressed all of the relevant issues. Numerous sources have been utilised to build a picture of the different factors which may influence the SMME environment and thus the individual business success.
“A new venture has few resources other than the knowledge of the entrepreneur. The entrepreneurs’ capacity to gain new knowledge and abilities during the start-up process is seen as critical to venture success. This knowledge is essential to control and apply to resources which may lead to a competitive advantage and superior performance” (Urban, Van Vuuren & Barreira, 2008, p.60). Entrepreneurial competency is therefore a vitally important component of the SMME success rate.

Urban, Van Vuuren & Barreira (2008) found that both business knowledge and work experience had a positive influence on the venture success of high-growth entrepreneurs. Unpacking their findings shows that education and numerous other competencies including, marketing, financial management, operations, HR, legal, communications, strategic planning and leadership skills, all have a significant influence on venture success. Industry experience especially, “contributes to success in attracting the correct mix of resources towards achieving favourable means of operating at profitable levels. Experience results in greater success with start-up problems such as generating sales, developing marketing strategies and tactics, obtaining external financing, dealing with internal financial and general management issues (Urban, Van Vuuren & Barreira, 2008, p.68)

Muhanna (2007, p.95) suggests three specific determinants that have a significant influence on entrepreneurial activity and success in South Africa. These are, the role of institutions, (economic, political, legal), the role of social networks (friends, family and business associates) and the role of personal characteristics. This specific study found the role of social networks to be of particular importance as entrepreneurship was “strongly associated with having a family background of entrepreneurs and being in a social circle with many entrepreneurs” (Mahanna, 2007, p.99). Urban, Van Vurren and Barreira (2008, p.61) define business networks as “the long-term business relationships that a firm has with its customers, distributors, suppliers, competitors and government”. They support the importance of these networks having found in their study that
“networking allows entrepreneurs to enlarge their knowledge of opportunities, to gain access to critical resources, and to deal with business obstacles” (Urban, Van Vuuren & Barreira, 2008, p.61)

Kropp, Lindsay & Shoham (2006) conducted a survey of international entrepreneurial business venture performance for over 500 entrepreneurs and managers in South Africa. Their findings were presented within a framework of three core success factors. These include entrepreneurial orientation, market orientation and learning orientation. Entrepreneurial orientation is defined as the processes, practices and decision-making activities employed by entrepreneurs where innovation, pro-activity and risk-seeking behaviour were found to be of highest importance to success. Market orientation measures the market focus of the business. Here the ability to respond to changes in customer needs and competitors movements was found to have the most significant impact on success. Finally, the learning orientation of a firm is defined as its ability to create, acquire and transfer knowledge, thereby allowing for the modification of behaviours to improve the likelihood of success.

Kropp, Lindsay & Shoham (2008) later expanded on the entrepreneurial orientation facet of the above study with specific focus on the start-up decision. In the second study proactiveness and risk-taking both had a positive relationship to the start-up decision, while innovativeness had no relationship.

Darroch & Clover (2005) conducted a study of 44 agribusiness SMME’s in KwaZulu-Natal, South Africa. Their findings indicated that ‘energiser behaviours’ such as planned expansion, previous experience and social network support all contributed positively to the entrepreneurial success rate. Lack of access to services however had a negative influence.
The government’s integrated strategy includes a summary, shown in Appendix 2, of the various factors thought to influence SMME success at various stages of their lifecycle. Some of these factors were used as a guide with which to help identify the trends linking successful SMME’s in the proposed research report.

The National Skills Research Agency showed in their 2008 Annual Review of Small Business in South Africa, that there are selected business sectors which have attracted higher levels of SMME activity. Manufacturing accounted for 11.3%, Wholesale and retail trade, repairs to motor vehicles, motor cycles, personal goods and household goods and hotels and restaurants together accounted for 22.9% and finally financial intermediation, insurance, real estate and business services accounted for 44.4%. There are perhaps certain traits associated with these business sectors, which make them more likely to succeed and which therefore were taken into account during the research.

A 2008 National Small Business Advisory Council report, mentioning numerous hurdles which the sector faces, provides an example of a feature seen among many government agency and academic research reports which deal with the SMME sector. These hurdles include poor access to finance, restrictive regulatory environment, little access to information and training and numerous others. Luiz (2002) also includes a deficient demand as often being the primary restriction to South African small businesses. Maas & Herrington (2007) provide numerous potential obstacles in addition to those already mentioned. These include, lack of turnover, competition, crime, poor planning, staff quality, stock control, location, marketing, technology advances, tax and political issues. The successful South African SMME’s are obviously able to overcome these challenges and the research report has thus taken this ability into account.

Bukula (2008) provides a list of support services which SMME’s tend to utilize. Interestingly, government institutions rank lowest in a list of eight potential service
providers. The other seven, in descending order are, accountants, banks, lawyers, customers and suppliers, business friends and relatives, general consultants and business associates. The research report attempts ascertain which of these support services, if any, were utilized by the respondents and if their use influenced the firms’ success.

Venture capitalism (VC) is often associated with the SMME sector. Venture capitalists will naturally attempt to select investments which provide an adequate return. A firm naturally has to be financially successful for it to provide a return. The criteria with which VC’s evaluate a firms’ potential should therefore provide some insight into what factors most often lead to success. Van Deventer & Mlambo (2009, p.33) found that “the criterion that carries the most weight in the venture capital decision-making process is related to the entrepreneur, his personality, integrity and experience.

Additional factors taken into consideration are insulation from competition during the start-up phase and market acceptance of the offering, whether it be product or service. Investors also have an extremely important role to play in the SMME sector as they provide the often much needed capital with which start-ups are able establish themselves. Finance Week (2006) suggests that there are three primary components which investors consider when selecting investment opportunities. These are viability (cash flow, revenue streams and expenditures), the entrepreneur (technical skills, management skills, integrity, commitment, willingness to invest own capital) and potential return based on risk. The research report has used these investment criteria as a guide with which to build the questionnaire and as comparisons once the findings were distilled. Finance Week (2006) goes on to list ten 'rules for entrepreneurs' (shown below in Table 4) which are associated with successful start-up firms and again which can be used as a guide during the research process.
Table 4 – Rules for entrepreneurs

<table>
<thead>
<tr>
<th>Rules for entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Choose a business option which is right for you – matches your lifestyle and personality.</td>
</tr>
<tr>
<td>2. Do market research</td>
</tr>
<tr>
<td>3. Draw up a business plan</td>
</tr>
<tr>
<td>4. Choose a specialist investor</td>
</tr>
<tr>
<td>5. Employ the right people</td>
</tr>
<tr>
<td>6. Market your business</td>
</tr>
<tr>
<td>7. Put in financial systems from the start</td>
</tr>
<tr>
<td>8. Manage your cash flow</td>
</tr>
<tr>
<td>9. Supplement your knowledge with specialist skills</td>
</tr>
<tr>
<td>10. Enjoy yourself!</td>
</tr>
</tbody>
</table>

The use of an investor, on its own, is a factor which was considered when analysing the data. This may have been a contributing factor to the success of the SMME which should be considered. In addition to their monetary contribution, investors are often able to provide additional management support or expertise.

2.2 Conclusion

“Studies worldwide have clearly shown the positive impact that entrepreneurship can have on regional economies. However, entrepreneurship is a multi-disciplinary concept which can make the application and implementation of this concept difficult” (Maas & Herrington, 2007, p.7)

Although there is a limited amount of literature which deals specifically with the proposed research topic, there is certainly a wealth of literature available which
investigates entrepreneurship and SMME's in general. A literature review which draws from related or parallel topics was therefore possible.

The literature review was primarily be used as a guide with which to identify areas of potential interest to be included in the research questionnaire. These areas included obstacles which successful SMME's have had to overcome or perhaps examples of traits which are generally associated with successful firms and entrepreneurs.
3. Research Methodology

3.1 Research Approach and Strategy

Bryman & Bell (2003, p.11) define deductive theory as, “The researcher, on the basis of what is known about a particular domain and of theoretical considerations in relation to that domain, deduces a hypothesis (or hypotheses) that must then be subjected to empirical scrutiny”.

The theory and the hypothesis therefore drive the data gathering process in a relatively linear, step-by-step sequence. The process can be summarised into 6 steps, namely, 1) Theory, 2) Hypothesis, 3) Data collection, 4) Findings, 5) Hypothesis confirmed or rejected and 6) Revision of theory (Bryman & Bell, 2003, p.11).

In this case the research report therefore followed a deductive approach and the hypothesis was thus the research question – “What are the common factors that contribute to successful SMME’s in South Africa?”. Here the assumption and theory was that there were in fact common factors contributing to successful SMME’s and that these would be identifiable through research.

In addition to the research approach, the researcher also considered the research strategy, being either quantitative or qualitative. Bryman & Bell (2003, p.28) define quantitative research as “a research strategy that emphasises quantification in the collection and analysis of data”. While qualitative research is defined as “a research strategy that usually emphasises words rather than quantification in the collection and analysis of data”.

Although unusual for a deductive research approach, the research report adopted a qualitative research strategy, underpinned by the questionnaire based data collection process. Bryman & Bell (2003, p.406) suggest an eight step plan for qualitative research which formed the framework within which the research was conducted. The eight steps are shown below in Table 5.
Table 5 – Qualitative research steps

<table>
<thead>
<tr>
<th>Qualitative Research Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General research questions</td>
</tr>
<tr>
<td>2. Selecting relevant site(s) and subjects</td>
</tr>
<tr>
<td>3. Collection of relevant data</td>
</tr>
<tr>
<td>4. Interpretation of data</td>
</tr>
<tr>
<td>5. Conceptual and theoretical work</td>
</tr>
<tr>
<td>6. Tighter specification of the research question(s)</td>
</tr>
<tr>
<td>7. Collection of further data</td>
</tr>
<tr>
<td>8. Writing up findings and conclusions</td>
</tr>
</tbody>
</table>

It was assumed that the self-completion questionnaire method of data collection was the soundest option for this research report, due to the sensitive nature of the information which was dealt with. This questionnaire based method lent itself naturally to a qualitative research strategy.

Bryman & Bell (2003, p.16) describe an epistemological issue as that which "concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline. A particularly central issue in this context is the question of whether or not the social world can and should be studied according to the same principles, procedures, and ethos as the natural sciences". Key to understanding this issue is the difference between 'positivism' and 'interpretivism'.

Bryman & Bell (2003, p.16) define positivism as “an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond”. Interpretivism, on the other hand, is defined as being “predicated upon the view that a strategy is required that respects the differences between people and the objects of the natural sciences and therefore requires the social scientist to grasp the subjective meaning of social action".
The research report is constructed primarily through qualitative research based on a questionnaire focused data collection process. This research strategy therefore demanded an interpretivism orientation. The issue with this epistemological consideration is that the researcher had to make sense and meaning of the data collected. This notion naturally leaves some opportunity for the research findings to be 'skewed' by the researchers subjective viewpoint and understanding of the data. Every effort was made to ensure that the meaning implied by respondents is clearly understood and articulated.

Bryman & Bell (2003, p.22) describe ontological considerations as being focused around the question of “whether social entities can and should be considered objective entities that have a reality external to social actors (objectivism), or whether they can and should be considered social constructions built up from the perceptions and actions of social actors (constructionism)".

The research report utilises a self-completion questionnaire of SMME owners as the primary source of data. This data was then analysed by the researcher, and the findings articulated. The data provided and the analysis thereof was naturally influenced by the attitudes, experiences and perceptions of the respondents and the researcher. The final results of the study can therefore not be considered as an absolutely definitive description of the research subject and area. This scenario is consistent with the constructionism viewpoint.

### 3.2 Research Design, Data Collection Methods and Research Instruments

Bryman & Bell (2003, p.39) describe research design as being related “to the criteria that are employed when evaluating business research. It is therefore, a framework for the generation of evidence that is suited both to a certain set of criteria and to the research question in which the investigator is interested”. 
There are five generally accepted types of research design, namely, experimental, cross-sectional (social survey), longitudinal, case study and comparative.

Bryman & Bell (2003, p.55) describe a cross-sectional research design as entailing “the collection of data on more than one case (usually quite a lot more than one) and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables (usually many more than two), which are then examined to detect patterns of association”.

It is clear that a cross sectional research design was not completely suitable for the proposed research report. The report is primarily qualitative and data was also collected over an extended period of time. However, there is a component of the cross-sectional design type which does correspond with the research strategy. Cross-sectional research design utilises questionnaires and/or interviews to gather data, in much the same way that was used with the study.

Bryman & Bell (2003, p.60) describe longitudinal research design as “typically used to map change" where a sample is surveyed on more than one occasion. In the context of business research, a longitudinal design is often seen as an extension of social survey or cross-sectional research, in that data is collected through interviews or self-completion questionnaire. Again, there are components of this research design which both contradict and suit the research strategy. The research report did not map change or survey a sample on more than one occasion, however it was conducted over an extended period of time and questionnaires were used for data collection.

A review of the various research designs above shows that the research strategy had to draw from components of both the cross-sectional and longitudinal research design types.
The research report used one primary data collection method, qualitative, self-completion questionnaires, shown in Appendix 1.

The questionnaire contains a combination of both open and closed questions. However, the questions are predominantly closed to facilitate an ease of analysis. The questionnaires were distributed via electronic mail. Care was taken to produce a questionnaire which is simple and easy to understand and complete.

Bryman & Bell (2003, p.241-243) provide some advantages and disadvantages to using a self-completion questionnaire. The advantages are that they are cheap and quick to administer, are unaffected by the interviewer and are convenient for the respondent. The disadvantages are that the researcher cannot prompt or probe, the respondent may become bored, certain types of questions cannot be asked, answers are sometimes not wholly independent, the incorrect person may complete the questionnaire, the amount of data that can be collected is limited, the number of questions is limited, some data may be lost due to non-response and response rates may also be low.

Wherever possible, existing questionnaires provided in a standard format, were utilised to avoid having to develop the questions and to save time. For example, a simple internet search revealed numerous ‘locus of control’ questionnaires available from online publications and educational institutions.

The use of the questionnaire data gathering method assumed that the researcher would be able to find enough willing participants in the study. The method then required that the participants responded both honestly and openly to the questions to ensure that the data gathering was successful.
3.3 Sampling

The population sampled for the research report are entrepreneurs who own successful SMME’s in South Africa, where success is defined as being in operation for more than 3.5-years, having a revenue stream and being profitable. This population was chosen as it constituted the highest likelihood of being able to provide the required data.

The research question focuses on the potential common themes which contribute to successful SMME’s in South Africa and the sampled population is regarded as being in the best position to provide the required data (first-hand insights into business operations) to produce a result from the research.

The larger the sample is, the lower the probability of a sampling error and the higher the probability of gathering quality data. The data gathering method of self-completion questionnaires had drawbacks as they limited the sample size.

The data gathering process was very time consuming and was influenced by outside variables, such as the participants’ schedule. It was therefore very difficult to conduct a large scale sampling process within the available timeframe as the researcher was one of only two data gatherers. The data was gathered through the surveying of members from a SMME database. Taking the factors above into consideration, the research report used a minimum sample size, which was successfully achieved, of approximately 50-60 participants. This sample size was realistically achievable for the research purposes and provided an adequate amount of data to draw a sound conclusion. The research report also attempted to draw from a representative sample of the population taking into consideration, business type and owner and manager demographics. This however proved to be more challenging than expected. The only viable data source found was a SMME database which inherently skews the demographic profile in South Africa, as very few African Black entrepreneurs are registered on databases.
3.4 Data Analysis Methods

The research report takes the form of a qualitative study with data being gathered from self-completion questionnaires. The data gathering technique lead to a fare amount of unstructured material that was challenging to analyse. In addition to this, there were no clearly defined rules which provide guidance on how to analyse qualitative data. Guarding against becoming 'lost' in the data was thus very important to ensure that a sound, usable analysis was achieved (Bryman & Bell, 2003, p.579).

There are also numerous different data analysis methods for quantitative research, but as the study is qualitative, none of these methods are appropriate.

The research report utilised a process of deduction and coding with which to analyse the data collected. The analysis followed the steps shown in the Figure 1 below and the data was coded into common factors prior to the analysis phase. The coding was utilised to make the identification of any common factors between the various SMME's easier. The common factors were 'cut-and-paste' into separate groups to facilitate the write-up process. Careful attention was paid during this process to ensure the source of the various 'pieces' was recorded and stored for later reference if required.
The major assumption underlying this data analysis method was that there were in fact common factors which contributed to different, successful SMME’s in South Africa. If these factors did not exist, the hypothesis would have been impossible to prove and the coding would have been ineffective. The analysis method was unable to mitigate the challenges associated with this scenario.
4. Research Findings, Analysis and Discussion

4.1 Research Findings

4.1.1 Demographics

Population Group

The research sample showed a strong bias towards white entrepreneurs, which correlates poorly with the actual population group split within South Africa. Table 6 below summarises the findings in comparison with the actual South African population.

Table 6 – Population group findings compared to the South African population

<table>
<thead>
<tr>
<th>Population group</th>
<th>Research results (%)</th>
<th>South African population (%)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>African Black</td>
<td>0.0</td>
<td>79.2</td>
</tr>
<tr>
<td>Asian</td>
<td>7.7</td>
<td>9.0</td>
</tr>
<tr>
<td>Coloured</td>
<td>3.8</td>
<td>2.6</td>
</tr>
<tr>
<td>White</td>
<td>88.3</td>
<td>9.2</td>
</tr>
</tbody>
</table>

*Mid-year population estimates 2008 (Statistical release PO302)

The primary reason for the biased sample was due to the use of a SMME database with which to gather the data. Very few African Black business owners are registered with these databases, a fact which was unforeseen prior to the data collection phase. Also, although there were in fact a number of African Black business owners who did respond to the survey, unfortunately they all had to be excluded, as their businesses did not fit the research criteria.

Gender

The 2008 GEM report for South Africa showed that males constituted 65% of established business owners, compared to females at 35%. The research findings showed a similar trend with 73.1% of business owners being male and 26.9% being female. These findings are summarised below in Table 7.
Table 7 – Gender comparison of entrepreneurial activity

<table>
<thead>
<tr>
<th>Gender</th>
<th>Research findings (%)</th>
<th>GEM 2008 findings (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>73.1</td>
<td>65</td>
</tr>
<tr>
<td>Female</td>
<td>26.9</td>
<td>35</td>
</tr>
</tbody>
</table>

Age

The majority of business owners surveyed (69.2%) were within two age brackets, 35-44 years and 45-54 years.

Figure 2 below shows the complete representation of the research sample.

![Figure 2 – Age distribution of business owners](image)

Education

All of the business owners had some form of education, with the lowest level being High School. There was relatively even distribution of highest education levels between High School and Tertiary Certificate, with 17.6% and 15.7% respectively. Most business owners (58.9%) had a Tertiary Diploma or Degree, while only 7.8% had a Masters Degree or higher. Figure 3 below summarises the findings.
Region

Figure 4 below shows the percentage of surveyed business owners from each region.

Figure 3 – Comparison of education levels

Figure 4 – Percentage of business owners from each region
4.1.2 Business size

**Turnover**
Annual turnover for each business varied between R60 000 and R100-million, with an average of approximately R10.5-million. It should be noted that only three of the businesses surveyed had a turnover greater than R20-million per year.

**Number of employees**
The number of employees utilised when the businesses were established varied between 0 and 35, with an average of 3.8.

The number of employees utilised at the time of the survey varied between 0 and 184, with an average of 17.4.

These findings are summarised in Table 8 below.

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Start of business</strong></td>
<td>0</td>
<td>35</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Time of Survey</strong></td>
<td>0</td>
<td>184</td>
<td>17.4</td>
</tr>
</tbody>
</table>

4.1.3 Business Planning

**Start versus Buy**
The survey showed that 88.5% of businesses were started, rather than having been bought as a going concern.
Table 9 – Percentages showing how many businesses were started versus being bought

<table>
<thead>
<tr>
<th>Start versus Buy (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Start</td>
<td>88.5</td>
</tr>
<tr>
<td>Buy</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Market research

The survey showed that 67.3% of business owners conducted market research prior to starting or buying their business (32.7% did not). Of those who did conduct market research, 65.7% stated the research was basic, while 34.3% conducted thorough research.

Table 10 – Market research prior to opening

<table>
<thead>
<tr>
<th>Market research (%)</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>67.3</td>
<td>32.7</td>
</tr>
<tr>
<td>Basic</td>
<td>65.7</td>
<td></td>
</tr>
<tr>
<td>Thorough</td>
<td>34.3</td>
<td></td>
</tr>
</tbody>
</table>
**Business Plan**

Numerous questions were posed to the survey participants regarding the use of a business plan. The results are summarised in Table 11 below.

**Table 11 – Business plan usage**

<table>
<thead>
<tr>
<th>Business plan usage (%)</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business plan used</td>
<td>59.6</td>
<td>40.4</td>
</tr>
<tr>
<td>Drafted by owner</td>
<td>66.7</td>
<td>33.3</td>
</tr>
<tr>
<td>Drafted by someone else</td>
<td>33.3</td>
<td>66.7</td>
</tr>
<tr>
<td>Plan followed</td>
<td>87.9</td>
<td>12.1</td>
</tr>
<tr>
<td>Used to secure financing</td>
<td>22.6</td>
<td>77.4</td>
</tr>
</tbody>
</table>

Those owners who did not draft a business plan quoted numerous reasons. Many stated they felt there was no need. Their justifications for feeling this way included having a clear idea of the plan in their head, a belief that the business was too small to justify it and having bought, not started the business. Table 12 below summarises the business owners reasons for not drafting a business plan.

**Table 12 – Reasons given for not drafting a business plan**

<table>
<thead>
<tr>
<th>Reasons for NOT drafting a business plan (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Felt there was no need</td>
<td>55.6</td>
</tr>
<tr>
<td>Not enough time</td>
<td>22.2</td>
</tr>
<tr>
<td>Unclear of business idea</td>
<td>5.6</td>
</tr>
<tr>
<td>Avoided formal plans intentionally</td>
<td>5.6</td>
</tr>
<tr>
<td>No knowledge or capability</td>
<td>11</td>
</tr>
</tbody>
</table>
**Government support**

When asked if they had made use of any government support agencies or initiatives, 17.6% of owners indicated they had, while 82.4% stated they had not. Of those who did use government support, 70% indicated that it was useful, while 30% stated that it was not.

Table 13 below summarises which government support agencies were used.

**Table 13 – Government support agencies utilised**

<table>
<thead>
<tr>
<th>Government support agencies (%)</th>
<th>Of total sample</th>
<th>Of those businesses which used a government agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDC – Industrial Development Corporation</td>
<td>3.8</td>
<td>33.3</td>
</tr>
<tr>
<td>SEDA – Small Enterprise Development Agency</td>
<td>1.9</td>
<td>16.7</td>
</tr>
<tr>
<td>Umsobomvu</td>
<td>1.9</td>
<td>16.7</td>
</tr>
<tr>
<td>ECDC – Eastern Cape Development Corporation</td>
<td>1.9</td>
<td>16.7</td>
</tr>
<tr>
<td>TEP – Tourism Enterprise Programme</td>
<td>1.9</td>
<td>16.7</td>
</tr>
</tbody>
</table>

**Technical skills**

Participants were asked if their technical skills matched their businesses when they started. 64% of respondents indicated that their technical skills had matched their business ventures, while 36% stated that it did not.

**Table 14 – Technical skills match to business at start**

<table>
<thead>
<tr>
<th>Technical skills match (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>64</td>
</tr>
<tr>
<td>No</td>
<td>36</td>
</tr>
</tbody>
</table>
Those participants who's technical skills did not match their businesses were asked what they had done to mitigate the problem. Their responses are summarised in Figure 5 below.

![Figure 5 - Mitigation of personal skills shortage of business owner](image)

**Goal setting**

When asked if business goals were explicitly stated and written down, 56% of business owners stated they were, while 44% stated they were not. For those who had explicitly stated goals, 65.3% indicated that the goals were reviewed and updated at least annually, and 34.7% stated they were not.

**Table 15 - Percentage of business owners with explicitly stated goals and those which are regularly updated**

<table>
<thead>
<tr>
<th>Goal setting (%)</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explicitly stated</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>Regularly updated</td>
<td>65.3</td>
<td>34.7</td>
</tr>
</tbody>
</table>
### 4.1.4 Finance

#### Financing

The figure below summarises the various financing options which were utilised by business owners when establishing their companies.

![Financing options utilised to establish or purchase the businesses](image)

**Figure 6** – Financing options utilised to establish or purchase the businesses

#### Financial systems

When participants were asked if they had rigorous, traditional financial systems in place, 80.4% replied that they did, while 19.6% stated they did not. These financial systems include examples such as the production of financial statements, the production of monthly management accounts, capital and expense budgeting and financial targeting for important figures.

**Table 16** – The use of financial systems

<table>
<thead>
<tr>
<th>Financial systems (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>
Those business owners who do not employ rigorous, traditional financial systems do so for the following reasons.

Table 17 - Reasons given for not employing rigorous, traditional financial systems

<table>
<thead>
<tr>
<th>Reasons given for not employing rigorous, traditional financial systems (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourced</td>
</tr>
<tr>
<td>Business and household finances combined</td>
</tr>
<tr>
<td>Business too small</td>
</tr>
<tr>
<td>Owner is operations focused – no time</td>
</tr>
<tr>
<td>No perceived need</td>
</tr>
</tbody>
</table>

4.1.5 Partnerships

Business owners were asked if they had business partners and 38.5% replied that they did, while 61.5% stated they did not. Of those owners who did have partners, half (19.2%) were Black Economic Empowerment (BEE) partners whose ownership in the business varied from 30-100%.

4.1.6 Business type

Business sector

Figure 7 below summarises the various business sectors which constitute the research sample. The service industry makes up the largest portion with 38.9%, while retail, manufacturing and IT are between 13-17% each. These findings are loosely matched to the findings of the DTI who found that financial intermediation, insurance, real estate and business services accounted for 44% of SMME activity. The next largest sector, as determined by the DTI, is broadly labelled as wholesale and retail trade, repair of motor vehicles, motor cycles and personal and household goods and Hotels and restaurants, which constitutes 23% (DTI, 2008).
Product type

Participants were asked to characterise their product or service offering as either commodity (high volume/low margin) or custom (low volume/high margin).

Table 19 below shows the results.

<table>
<thead>
<tr>
<th>Product type (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity</td>
<td>40.8</td>
</tr>
<tr>
<td>Custom</td>
<td>59.2</td>
</tr>
</tbody>
</table>

Importation and exportation

The degree to which the various businesses utilised either importation or exportation as an integral part of their operations was investigated. Most businesses (76.9%) did not use importation. However, of those businesses which did, 75% was for finished products for redistribution or use in manufacturing. The majority of businesses (88.2%) did not use exportation either. However, of those businesses which did, most (71%) again focused on finished products.

Table 20 and Figure 8 below summarises all the results.
Table 19 – Use of importation or exportation as an integral part of business operations

<table>
<thead>
<tr>
<th>Importation and Exportation (%)</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of importation</td>
<td>23.1</td>
<td>76.9</td>
</tr>
<tr>
<td>Use of exportation</td>
<td>11.8</td>
<td>88.2</td>
</tr>
</tbody>
</table>

Business entity

Participants were asked what type of legal entity their business operated in. The majority of respondents indicated that they utilised either a Close Corporation or Private Company, with 66.7% and 21.6% respectively. These findings match loosely those of the DTI who found that Close Corporations and Private Companies accounted for 80% and 19% respectively (DTI, 2008).

Figure 9 below summarises the responses.
4.1.7 Operations

Employee type

Business owners were asked what type of employee they utilised – permanent, casual or both. Table 21 below shows the results.

Table 20 – Type of employee usage

<table>
<thead>
<tr>
<th>Employee type (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent</td>
<td>58</td>
</tr>
<tr>
<td>Casual</td>
<td>14</td>
</tr>
<tr>
<td>Both</td>
<td>28</td>
</tr>
</tbody>
</table>

Marketing

Business owners were asked if they actively marketed their business and 78.8% indicated that they did, while 21.2% stated they did not. Of those businesses who did actively market, Figure 10 below summarises which channels were the most popular.
Those businesses who did not market actively accounted for the fact through the following reasons – see Table 22.

Table 21 – Business reasons for not marketing actively

<table>
<thead>
<tr>
<th>Reasons for not marketing (%)</th>
<th>Of total sample</th>
<th>Of those who did not market</th>
</tr>
</thead>
<tbody>
<tr>
<td>No perceived need</td>
<td>11.5</td>
<td>60</td>
</tr>
<tr>
<td>No time</td>
<td>1.9</td>
<td>10</td>
</tr>
<tr>
<td>Fear of alerting competition</td>
<td>1.9</td>
<td>10</td>
</tr>
<tr>
<td>Lack of capability and knowledge</td>
<td>1.9</td>
<td>10</td>
</tr>
<tr>
<td>Poor decision making</td>
<td>1.9</td>
<td>10</td>
</tr>
</tbody>
</table>

Support services

Business owners were asked if they utilised specialist support services during the planning and establishment phase of their businesses and currently. Examples of services providers include, lawyers, accountants, consultants and mentors. Figure 11 below shows which services were most popular to start with and which were used once the business was more mature.
Figure 11 - Specialist support services used during different phases of the business

Training

Business owners were asked if they had sought any industry specific training or education for themselves or their employees, prior to starting their business. Their responses are summarised in Figure 12 below.

Figure 12 – Industry specific training received prior to starting the business
**BEE compliance**

When asked if their business was BEE compliant, 56.9% confirmed their business was, while 43.1% stated that their business was not.

**Competition**

When asked if they had any significant competition, 90.4% of business owners replied that they did, while 9.6% stated they did not.

### 4.1.8 Motivation

**Opportunity versus Necessity**

Business owners were asked what had influenced their decision to start their own business – Opportunity or Necessity. The results are summarised below in Table 23.

<table>
<thead>
<tr>
<th>Influence on start-up decision (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Necessity (I had no other option)</td>
<td>18</td>
</tr>
<tr>
<td>Opportunity (I had a good or unique idea)</td>
<td>52</td>
</tr>
<tr>
<td>Uncertain</td>
<td>30</td>
</tr>
</tbody>
</table>

**Personal motivation**

Business owners were asked what their personal motivation was for starting their own business. The responses were varied and are summarised below in Table 24.
Table 23 – Business owners personal motivation for starting own business

<table>
<thead>
<tr>
<th>Personal motivation</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desire to run own business, pursue personal vision and</td>
<td>35.8</td>
</tr>
<tr>
<td>take control of own destiny</td>
<td></td>
</tr>
<tr>
<td>Identified a need or opportunity</td>
<td>28.3</td>
</tr>
<tr>
<td>Seeking work-life balance</td>
<td>11.3</td>
</tr>
<tr>
<td>Desire to get out of corporate life</td>
<td>9.4</td>
</tr>
<tr>
<td>Lost previous job</td>
<td>5.7</td>
</tr>
<tr>
<td>Seeking personal success and recognition</td>
<td>3.8</td>
</tr>
<tr>
<td>To make money</td>
<td>3.8</td>
</tr>
<tr>
<td>To get out of partnership</td>
<td>1.9</td>
</tr>
</tbody>
</table>

4.1.9 The Entrepreneur

Previous ownership experience

Business owners were asked if their current business was the first which they had owned – 62% stated that it was, while 38% stated it was not.

Of those who had owned businesses previously, the number of businesses varied between 1 and 10 (see Figure 13 below) – 55.6% of the owners sold or closed their previous business before starting their current venture, while 44.4% did not.

Figure 13 – Number of businesses owned previously by survey participants
Propensity for risk

Table 25 below summarises the business owners responses when question about their propensity for risk.

Table 24 - Business owners attitude towards risk

<table>
<thead>
<tr>
<th>Attitude towards risk (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gambler</td>
<td>6</td>
</tr>
<tr>
<td>Calculated risk taker</td>
<td>78</td>
</tr>
<tr>
<td>Risk averse</td>
<td>16</td>
</tr>
</tbody>
</table>

Social network

Business owners were asked if they had close friends or family who owned their own businesses – 86% stated they did, while 14% stated they did not.

Personal success factors

Business owners were asked what factors they considered to have the most influence on their current business success. The answers varied considerably and are summarised in Table 26 below.
Table 25 – Business owners personal success factors

<table>
<thead>
<tr>
<th>Success factors (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal or technical ability and experience</td>
<td>19.1</td>
</tr>
<tr>
<td>Hard work</td>
<td>17.0</td>
</tr>
<tr>
<td>Good service or product</td>
<td>11.7</td>
</tr>
<tr>
<td>Perseverance</td>
<td>11.7</td>
</tr>
<tr>
<td>Relationships</td>
<td>8.5</td>
</tr>
<tr>
<td>Honesty</td>
<td>5.3</td>
</tr>
<tr>
<td>Market – big or niche</td>
<td>5.3</td>
</tr>
<tr>
<td>Unique or positive attitude</td>
<td>5.3</td>
</tr>
<tr>
<td>Passion</td>
<td>3.2</td>
</tr>
<tr>
<td>Good employees</td>
<td>3.2</td>
</tr>
<tr>
<td>Focus on cash flow</td>
<td>2.1</td>
</tr>
<tr>
<td>Good product knowledge</td>
<td>2.1</td>
</tr>
<tr>
<td>Constant training and learning</td>
<td>2.1</td>
</tr>
<tr>
<td>Attention to detail</td>
<td>1.1</td>
</tr>
<tr>
<td>Good opportunity</td>
<td>1.1</td>
</tr>
<tr>
<td>Legislation, eg: BEE</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**Locus of Control**

A Locus of Control survey was added to the questionnaire. A Locus of Control survey attempts to measure the extent to which an individual believes his or her life is controlled or influenced by other people and the external environment. A person with an external Locus of Control believes that they have little control over the direction their life takes, while those with an internal Locus of Control believe that they control their own life and destiny.

Table 27 below shows the various levels of control and their respective 'scores', which exist based on the survey used.
### Table 26 – Levels of Locus of Control

<table>
<thead>
<tr>
<th>Locus of Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 15</td>
</tr>
<tr>
<td>Very strong external locus of control</td>
</tr>
<tr>
<td>20 – 35</td>
</tr>
<tr>
<td>External locus of control</td>
</tr>
<tr>
<td>40 – 60</td>
</tr>
<tr>
<td>Both internal and external locus of control</td>
</tr>
<tr>
<td>65 – 80</td>
</tr>
<tr>
<td>Internal locus of control</td>
</tr>
<tr>
<td>85 – 100</td>
</tr>
<tr>
<td>Very strong internal locus of control</td>
</tr>
</tbody>
</table>

The business owners survey scored an average of 90, which shows that they have a very strong internal Locus of Control.

### 4.2 Research Analysis and Discussion

#### 4.2.1 Demographics

The demographics of this research are most important when viewed in the context of collecting a representative sample of the population. The research does not attempt to ascertain which demographic factors influence entrepreneurial activity, but is rather focused on the entire entrepreneurial population. The degree to which the sample matches this population is thus the most important factor.

**Population group**

The research showed a strong association with the national population grouping for Asians and Coloureds. However, there was a large discrepancy between the national population groupings and the research results for African Blacks and Whites. Once the usable data was summarised, it became apparent that there were in fact no African Blacks within the sample, while Whites constituted 88.3%. All of the African Black respondents had to be excluded as their businesses did not match the research criteria. The findings were in complete contrast to the national population grouping, where African Blacks constitute 79.2% and Whites only 9.2% (Statistics South Africa, 2008). The research results for African Blacks and Whites were also very poorly matched with the
South African GEM report for 2008. The GEM report showed that African Blacks in fact constituted 69.9% of the total entrepreneurial population while Whites made up 15.3% (Herrington, Kew & Kew, 2008).

The large discrepancy is primarily due to the use of an electronic SMME database with which to gather the data. Very few African Black business owners are registered with such databases, a fact which was unforeseen when entering the data collection process.

**Gender**
The research findings for gender compared reasonably well with GEM findings for 2008. The sample is therefore considered to be a good representation of the national entrepreneurial population in this regard.

**Age**
The majority of the business owners sampled (69.2%) were between the ages of 35 and 54. This is not surprising considering that only successful small businesses which were at least 3.5-years old were surveyed. Other factors contributing to this situation are the fact that many business owners spend their early careers as an employee and that the lack of experience leads to a higher failure rate within younger entrepreneurs. The GEM 2008 report also supports these findings suggesting that the maturing entrepreneurial population in South Africa have begun to regard entrepreneurship as a career (Herrington, Kew & Kew, 2008). There were in fact no business owners in the survey between the ages of 18 and 24, a fact which further supports the findings above.

The age distribution of the sample is reasonably consistent with the GEM 2008 findings, however the GEM findings do show a more even age distribution amongst entrepreneurs. This is however to be expected as the GEM report focuses on early-stage entrepreneurial activity and businesses of 0 to 3.5-years.
There is a sharp drop-off in entrepreneurial activity after the age of 54 which does correspond well with the GEM 2008 findings. This can be attributed to the desire to start ones own business which reduces with age (Acs, Bosma & Strenberg, 2008).

**Education**

Formal education seemed to play an important role in business success for the research sample. All of the respondents had at least a high school certificate, but most interesting was that more than 80% of respondents had some form of Tertiary education. The level of education clearly plays a significant role in small business success among the research sample. This notion is supported by the GEM 2008 findings which identified the lack of proper education and training as being one of the three most significant constraining factors on SMME development in South Africa (Herrington, Kew & Kew, 2008).

**Region**

The three regions (Western Cape, Gauteng and Kwa-Zulu Natal) with the largest entrepreneurial activity according to the research, corresponds with the GEM findings for 2008. The percentages which each region occupy however is not consistent. Total entrepreneurial activity for Gauteng, Kwa-Zulu Natal and the Western Cape is 30%, 17% and 15% respectively according to GEM 2008 (Herrington, Kew & Kew, 2008). The research sample however shows 44.9% for the Western Cape, 20.4% for Kwa-Zulu Natal and 18.4% for Gauteng. This Western Cape bias may be due to the location of the company which supplied the SMME database used for the research in Cape Town. It may also be due to Western Cape business people being more willing to complete a research survey associated with a Western Cape educational institution.
4.2.2 Business size

**Turnover**
The annual turnover for each business varied considerably with a minimum of R60 000 and a maximum of R100-million. The average turnover was approximately R10.5-million per year. The annual turnover or lack thereof has the potential to negatively influence business success and is therefore an important factor to consider (Maas & Herrington, 2007).

Within the research context, revenue was also used to either include or exclude a business from the survey. To be regarded as success, a business had to meet certain criteria, one of which was having a revenue stream.

It should be noted that only three businesses within the sample had an annual turnover which exceeded R20-million.

**Number of employees**
The number of employees utilised when the various businesses were established, varied between 0 and 35, with an average of 3.8. This low average is indicative of the careful management of overheads and cash-flow which is required during early-stage entrepreneurial activity and is thus a factor which may have contributed towards the success of the surveyed business owners (Finance Week, 2006).

4.2.3 Business planning

**Start versus Buy**
A very large portion of almost 90% of businesses surveyed, were started by their current owners. Starting ones own business requires passion, dedication and commitment and it is these traits which may often have a positive influence on the success rate of new business ventures as owners feel a very personal connection to them (Kao, 1991). Based
on the very large portion of business owners who started their current ventures, and who have gone on to succeed, it is highly likely that starting ones own business has a strong influence on future success.

**Market research**

Approximately two-thirds of businesses owners stated that they had conducted market research prior to launching their business. Interestingly, approximately two-thirds of this group only conducted basic, rather than thorough research. Surprisingly, one third conducted no market research prior to starting their current ventures which is in contrast to much of the literature which advocates the use of good market research (Finance Week, 2006).

The amount of market research conducted by the survey group was therefore not always a good indicator of potential future business success. Many firms surveyed have gone on to be successful with little or no prior market research. The majority of firms did however conduct market research and its association with business success is therefore clear.

**Business plan**

The business plan is traditionally thought to be absolutely essential to future business success (Stutely, 2007). Almost 60% of business owners did in fact utilise a business plan when starting their businesses and in 66.7% of the cases the plan was drafted by the owner, rather than someone else.

However, just over 40% did not. This is a large portion of survey respondents who have gone on to operate success businesses with no formal plan in place. More than three-quarters of the owners who did not use a business plan felt there was no need or did not have the time to draft one. David Kirsch (2009) of Maryland University studied 700 start-up companies and concluded the following regarding the use of a business plan.
"Spending time and energy tweaking your business plan is a waste of resources. It’s a limited-use document that will in no way substitute for the hard work of actually building a business. You’re better off investing in your idea, your social network, finding potential investors, potential customers – the intangibles around your business that are going to make it more likely you succeed. Invest your time in any other business-building activity but working on your business plan."

This is not to assert that business plans aren’t important. For many business owners - in this case approximately 60% - they were very important and contributed positively to their success. However, there are times, as demonstrated by the research, when the use of a formal business plan is not always required.

Interestingly, relatively few, only 22.6% of those business owners who drafted a plan used it to secure financing. The vast majority of business plans were for personal use only.

**Government support**

Very few - only 17.6% - business owners utilised government support. This is indicative of the perception that government support programs add no real value and the fact that many business owners do not know they exist. The situation is unfortunate because of those owners who did utilise government support, 70% stated that it was beneficial and useful. However, for this particular group of business owners, government support was not vitally important to future business success.
**Technical skills**

In most cases the business owners technical skills were matched to their business. In the cases where there was a skills mismatch, almost 60% of business owners sought outside assistance or employed staff members with the required technical skills.

Whenever possible, the technical skills and experience of the business owner should be matched to the business as this has a significantly positive influence on success (Urban, Van Vuuren & Barreira, 2008). Where the skills are not matched, this fact should be mitigated.

**Goal setting**

Friedrich (2004) identifies goal setting as being one of the personal entrepreneurial traits which is closely related with business success.

Just over half of the survey respondents indicated that they had business goals explicitly stated and written down. There were however also a great many who did not. Of those business owners who did have explicitly stated goals, two-thirds updated them at least annually.

The research therefore shows that having stated goals can be beneficial and that they should be updated regularly, but they were not always associated with business success.

**4.2.4 Finance**

**Business financing**

In more than half the cases surveyed, business owners utilised private financing exclusively or in combination with other finance sources when starting their businesses. The use of private financing is a good indicator of the entrepreneurs commitment to the business. It is more likely to encourage the business owner to make the required personal sacrifices to ensure the success of the business than if financing was sought
purely from outside sources. Business owners are more likely to be highly motivated when they have a personal financial commitment ‘on the line’ (Finance Week, 2006).

**Financial systems**

The research showed that most of the business owners employed rigorous, traditional financial systems in their businesses, a factor which is often associated with business success (Finance Week, 2006). These financial systems include examples such as the production of financial statements, the production of monthly management accounts, capital and expense budgeting and financial targeting for important figures.

**4.2.5 Partnerships**

**Partnerships**

The influence of a business partnership on overall business success is difficult to determine. Within the research group, the majority of business owners did not have a business partner.

A business partner could both assist and hinder the success of a business, depending on the value of their contribution.

**4.2.6 Business Type**

**Business sector**

Although the service industry constitutes the largest sector within the sample, it is difficult to determine if this is a factor which has a direct influence on business success. This is due to the relatively small research sample size.

The elevated proportion of service industry businesses in the sample may be due to the fact that service type businesses have lower barriers to entry, low set-up costs and require fewer specific skills.
It is however doubtful that the business sector had any major influence on business success within the research sample.

**Product type**
The business owners characterised their product or service offering into two types - commodity (high volume/low margin) or custom (low volume/high margin). The research results showed a high percentage for both categories. Again, it is difficult to determine if either of the product or service types had a significantly larger influence on business success when compared to the other. The results are therefore inconclusive in this regard.

**Importation and Exportation**
Importation and exportation did not form an integral part of normal business operations for most of the surveyed business owners. It can therefore be deduced that for this particular sample, importation or exportation are not critical success factors. However, for those businesses which did engage in importation or exportation, approximately three-quarters did so with finished products. There is therefore an opportunity for small businesses to source finished products from overseas markets and utilise them in a manufacturing process or for retail purposes. Opportunities also exist to export finished products to overseas markets should a demand be identified.

**Business entity**
Approximately 90% of businesses owners utilised either a Close Corporation (CC) or Private Company as the vehicle through which to operate their business.

The Close Corporation is the simplest and most popular type of company, both within the sample (66.7%) and the South African context (Graham, 2007). The simple
accounting requirements and limited liability which the CC offers make it conducive to small business development.

The accounting and legal requirements for a private company are a little more onerous and hence the lower popularity. However, the Private Company is geared towards slightly larger firms and start-up SMME's may often convert from a CC to Private Company depending on their growth (Firer, Ross, Westerfield & Jordan, 2004).

4.2.7 Operations

Employee type

South Africa's restrictive employment regulations are one of the biggest challenges to small business development (Herrington, Kew & Kew, 2008). The type of employee which is utilised must therefore be carefully considered by the small business owners.

Approximately 60% of surveyed business owners utilised permanent employees only, while 28% used both permanent and casual employees.

Marketing

"There is only one valid definition of business purpose: to create a customer...[Therefore], any business enterprise has two – and only these two – basic functions: marketing and innovation. They are the entrepreneurial functions. Marketing is distinguishing, the unique function of the business"...Peter F. Drucker

When asked if they actively marketed their businesses, almost 80% of owners stated that they did. Only 21.2% of owners stated they did not actively market their business, mostly because there was no perceived need to do so. In these cases, businesses often had a captive market or could not take on any additional work as they were already at full capacity.
The research therefore showed that marketing played an important role in business success. The most popular marketing channels were via websites, print media, word-of-mouth, direct selling, e-mail and conferences and trade shows.

**Support services**
Small business owners should supplement their knowledge with specialist skills (Finance Week, 2006). Those that do tend to utilise service providers make use of lawyers, accountants, banks, general consultants and business associates (Bukula, 2008).

For surveyed business owners, the accountant was the most popular specialist service provider both during the establishment and operations phases. The accounting services are therefore an important component of a successful business operation and should not be neglected. Other specialist services providers or contributors included, lawyers, consultants and mentors.

**Training**
Education and training have consistently been identified as being absolutely crucial to small business development in South Africa, and the current lack thereof has been a major limiting factor (Herrington, Kew & Kew, 2008).

Surprisingly, 62.7% stated that they had not sought any industry specific training for either themselves or their employees. However, when viewed in context with other factors discussed previously, such as the level of formal education and degree of technical skills match to business operations, then the lack of additional training seems justified.
**BEE compliance**

The governments BEE initiatives are regarded as a supporting factor to small business development in South Africa (Herrington, Kew & Kew, 2008).

Many of the surveyed business owners (56.9%) indicated that their businesses were BEE compliant. A large portion (43.1%) however indicated that they were not. It is therefore difficult to determine if BEE compliance has a significant influence on ultimate business success for the survey sample.

The research was also unable to determine if the BEE compliance influenced the businesses ability generate sales or secure advantageous payment terms with their suppliers.

**Competition**

Over 90% of business owners surveyed stated that they faced significant competition in their chosen markets or industries. The presence of significant competitors in the market place should therefore not be an alarming factor to prospective new business owners, provided they have a sound strategy with which to overcome the challenge. Competition also helps to grow the size of the market and maintain service delivery and product standards.

**4.2.8 Motivation**

**Opportunity versus Necessity**

Opportunity entrepreneurs are generally associated with high-potential, high growth ventures, while necessity entrepreneurs are associated with low-potential, low growth ventures (Urban, Van Vuuren & Barreira, 2008).

Within the South African context, opportunity entrepreneurship accounted for 79% of total entrepreneurial activity in 2008, compared with only 21% for necessity
entrepreneurship. Opportunity entrepreneurship has the potential to make a far more significant contribution to the national economy than necessity entrepreneurship and its promotion is therefore vital (Herrington, Kew & Kew, 2008).

The research showed a similar trend to the national situation with the majority of business owners basing their ventures on opportunity, rather than necessity. Only 18% of respondents made a purely necessity based decision to start their own business.

**Personal motivation**

Entrepreneurs value their independence and are most comfortable operating with a high degree of autonomy (Allen, 1999). This summary of an entrepreneurial trait is confirmed by the research. The largest portion of respondents stated that they started their own business because they had a desire to run their own firm, pursue their personal vision and be in control of their own destiny. Other important reasons included the identification of a clear need or opportunity and the desire for improved work-life balance (more control/more flexibility).

The pursuit of monetary returns was not a major determining factor for business owners. Boyett & Boyett (2001) support this by including ‘the rejection of money as a goal’ as an important entrepreneurial trait.

Having the right personal motivation for wanting to start ones own business is therefore an important factor influencing ultimate business success.
4.2.9 The Entrepreneur

**Previous ownership experience**

“A new venture has few resources other than the knowledge of the entrepreneur” (Urban, Van Vuuren & Barreira, 2008, p.60). The business owners’ skills and experience are therefore an important component of the small business venture.

Business owners were asked if they had owned their own business, or businesses, prior to starting their current venture, in an effort to gauge their entrepreneurial experience. Most of the survey participants (62%) had not, while 38% stated that they had.

Past entrepreneurial experience was therefore not a major determining factor for business success within the research group.

**Propensity for risk**

Allen (1999) describes entrepreneurs as being calculated risk takers. Muhanna (2007) regards the willingness to take risks as an important entrepreneurial characteristic. Kropp, Lindsay & Shoham (2006) found that pro-activity and risk-seeking behaviour were synonymous with entrepreneurial success. Being able to deal with risk successfully is therefore an important entrepreneurial trait.

The research supported this notion, showing that 78% of successful business owners regarded themselves as being calculated risk-takers.

**Social network**

Social networks (friends, family and business associates) play an important role in entrepreneurial success in South Africa (Muhanna, 2007).

The research showed that 86% of business owners had close friends or family members who owned their own business, thereby highlighting the potentially important impact it
may have. The business owners social network has the potential to influence the business success as it is often used as a sounding board for ideas as well as for advice and assistance.

**Personal success factors**
The four most important factors identified by the research as contributing towards entrepreneurial success are, 1) personal or technical ability and experience, 2) hard work, 3) good service or product and 4) perseverance.

A strong work ethic (Muhanna, 2007), entrepreneurial knowledge and experience (Urban, Van Vuuren & Barreira, 2008), commitment and business viability (Finance Week, 2006) are all identified by the literature as being important to small business success.

The research also identified numerous other personal success factors which were less prevalent. Examples of these included relationships, honesty, passion, cash-flow focus and attention to detail.

**Locus of control**
Entrepreneurs typically have an internal Locus of Control, believing that they, rather than their environment, control their lives and the direction it takes (Allen, 1999).

The research produced strong support for this notion with business owners being rated, on average, as having a very strong internal Locus of Control. Based on these findings, Locus of Control can therefore be a very good indicator of potential future business success, when viewed in combination with other factors.
4.3 Research Limitations

The primary limitations in the research pertain to the demographics of the sample. The sample is a poor representation of the South African entrepreneurial population and the ‘generalisability’ of the research findings are therefore limited. The sample is biased towards white entrepreneurs in the Western Cape. The bias towards the White population may also influence other aspects of the research. The White population in South Africa, for example, has received better access to education due to the apartheid legacy. This fact may have influenced the education levels noted in the research.
5. Research Conclusions

The goal of the research was to identify the common factors which contribute to successful SMME's in South Africa. Once these had been identified, a list of ‘best-practice’ items for SMME owners was to be drafted, which could potentially act as a guide to prospective small business owners to help avoid the many pitfalls in starting ones own business.

The researched exposed a number of interesting factors which contributed to the SMME success.

1. The research showed that a formal education and the cognitive abilities which it promotes had a positive influence on SMME success. All of the respondents had some form of formal education with over 80% having a tertiary diploma or higher (Figure 3).

2. The research also showed that sound financial planning and implementation were enabling factors. Most SMME owners were careful to keep overheads at a minimum during the establishment phase of the business. An example of this was the limited employment of staff members, which averaged only 3.8 when starting a business (Table 8). The majority of businesses, over 80% in fact, also employed rigorous, traditional financial systems such as the production of financial statements, the production of monthly management accounts, capital and expense budgeting and financial targeting for important figures (Table 16).

3. The research found that factors which influence a business owners motivation have an influence on the SMME success. Examples of these findings were whether or not the business was started by the entrepreneur, thereby ensuring a personal attachment and whether or not the owner had contributed their own funds to the start-up capital. The contribution of own funds and the resulting
personal financial stake, was in fact shown to be quite important with over 50% of respondents having utilised their own private investment (Figure 6).

4. Further to this, the research showed that sound business planning had a positive influence on SMME success. Conducting some form of market research (Table 10), drafting your own business plan (Table 11), the use of appropriate government agencies (Table 13), matching your technical skills to your business (Table 14) and having explicitly stated goals (Table 15), were all shown to positively influence SMME success.

5. The research also revealed a number of operational factors which contribute to SMME success. SMME success can be promoted through active marketing in a well suited channel (Figure 10). The internet, print-media, word-of-mouth, direct selling, e-mail and industry conferences and trade shows were shown to produce the best results. The use of specialist support services was another operational factor shown to positively influence SMME success (Figure 11). Accountants, lawyers, consultants and mentors were all examples of support services utilised by respondents. The research also showed that training of any specialist skills required should be sought for either the business owner or employees (Figure 12).

6. Finally, the research showed a number of entrepreneurial traits which support SMME success. The research showed that successful SMME owners were calculated risk takers and were therefore not risk averse (Table 25). SMME owners also had a large social network and were very likely to have close relationships with other SMME owners. These relationships were able to influence SMME success through advice and support sought through the network. Successful SMME owners also had a very strong internal Locus of
Control, indicating that they had increased levels of self-confidence and a strong belief in their own capabilities and personal resources.

Table 28 below lists the ‘best-practice’ items which the research has shown to be the most important factors influencing SMME success.

**Table 27 - South African SMME ‘Best Practice’ Characteristics**

<table>
<thead>
<tr>
<th>South African SMME ‘Best Practice’ Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1) Demographics</strong></td>
</tr>
<tr>
<td>• A sound formal education will help to equip the entrepreneur with the required cognitive skills to successfully operate a small business</td>
</tr>
<tr>
<td><strong>2) Business size</strong></td>
</tr>
<tr>
<td>• Keep overheads, such as staff complement and salaries, low to start with</td>
</tr>
<tr>
<td><strong>3) Business planning</strong></td>
</tr>
<tr>
<td>• Starting, rather than buying, a business helps to maintain motivation</td>
</tr>
<tr>
<td>• Conduct market research prior to starting a business, even if it is only basic</td>
</tr>
<tr>
<td>• Draft your own simple business plan, but do not get caught up in working on your plan rather than your business</td>
</tr>
<tr>
<td>• Use government support if it is appropriate for your business</td>
</tr>
<tr>
<td>• Match your technical skills to your business. If there is a mismatch, seek outside assistance or employ skilled staff members</td>
</tr>
<tr>
<td>• Set explicit goals – write them down and update them at least annually</td>
</tr>
<tr>
<td><strong>4) Finance</strong></td>
</tr>
<tr>
<td>• Contribute your own personal finances towards the financing of the business</td>
</tr>
<tr>
<td>• Implement rigorous, traditional financial systems as soon as possible such as the production of financial statements, the production of monthly management accounts, capital and expense budgeting and financial targeting for important figures.</td>
</tr>
<tr>
<td><strong>5) Business type</strong></td>
</tr>
<tr>
<td>• Opportunities exist in importation and exportation</td>
</tr>
<tr>
<td>• Carefully consider which sector the business will operate in and what service or product it will provide</td>
</tr>
</tbody>
</table>
6) Operations
   - Carefully consider what mix, if any, of employee type you will utilise (permanent or casual)
   - Actively market the business – find the channel which is best suited to your business. Include various different channels such as the internet, print media, word-of-mouth, direct selling, e-mail and industry conferences and trade shows
   - Utilise specialist support services, such as accountants, lawyers, consultants and mentors
   - Seek training for yourself or your employees if it is required
   - Do not let the presence of significant competition deter you from entering a market (provided your offering is sound)

7) Motivation
   - Start a business based on a good opportunity, rather than out of necessity if possible
   - Start your own business for the right reasons (money is the wrong reason...)

8) The entrepreneur
   - Previous entrepreneurial experience will help you to succeed, but it is not absolutely vital
   - Be prepared to take calculated risks
   - Leverage your social and business network
   - Match your personal abilities to your business, work hard, deliver a good service or product, be persistent, build relationships and be honest
   - Have an internal Locus of Control – Self confident and strong belief in ones own abilities
6. Future Research Directions

A potential future research direction is to select a small number of the success factors identified in this study and to then investigate more thoroughly why these factors in particular (what is it about them?) have contributed to business success.

A further option may be to conduct a similar study with a larger, more demographically representative sample of successful small business owners to confirm if the results seen in this study are comparable.
7. References


Mpahlwa, M. (2008). *We have made big strides in supporting small enterprise development*. Durban: The Department of Trade and Industry


8. Appendices

8.1 Appendix 1 – Research Questionnaire

I acknowledge that I am participating in this study of my own free will. I understand that I may refuse to participate or stop participating at any time without penalty.*

☐ I accept the conditions above.
☐ I do not accept the conditions above.

RESPONDENT DETAILS

Last Name: ____________________________

First Name: ____________________________

Business Name and Address:

Name: ____________________________

Physical: ____________________________

Postal: ____________________________

Code: ____________________________

Province: ____________________________

Telephone:

Home: ____________________________

Work: ____________________________

Cell: ____________________________

RESEARCHER DECLARATION
RESPONDENT DEMOGRAPHICS

Race:
Select no more than 1 response.
- African Black
- Asian
- Coloured
- White

Gender:
Select no more than 1 response.
- Male
- Female

Age:
Select no more than 1 response.
- 18-24 years
- 25-34 years
- 35-44 years
- 45-54 years
- 55-64 years
- 65 years or older
Education (indicate highest level completed):
Select no more than 1 response.

- No Schooling
- Primary School
- High School
- Tertiary Certificate
- Tertiary Diploma
- Tertiary Degree
- Other, please specify

BUSINESS DETAILS

1. When did your business start operating?

2. What is your current annual turnover?

3. Did you start or buy your current business?
Select no more than 1 response.

- Start
- Buy
13. How was the business initially financed?
Select no more than 3 responses.
- Equity
- Debt
- Private Investment
- Combination of above

14. If you answered "Combination of above" to question 13, please provide the percentages for each?

<table>
<thead>
<tr>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity:</td>
</tr>
<tr>
<td>Debt:</td>
</tr>
<tr>
<td>Private Investment:</td>
</tr>
</tbody>
</table>

15. What share of the business do you currently hold?

16. Do you have any equity partners?
Select no more than 1 response.
- Yes
- No

17. If you answered "Yes" to question 16, what is their shareholding?

18. Do you have any BEE shareholders?
Select no more than 1 response.
- Yes
- No

19. If you answered "YES" to question 18, what is their shareholding?

20. What sector does your business operate in?
21. What does your business sell or offer?

22. How can your product/s or service/s best be characterised?
Select no more than 1 response.

- Commodity (high volume / low margin)
- Custom (low volume / high margin)

23. How many employees did you start the business with?

24. How many employees do you have now?

25. What type of employee do you use?
- Permanent
- Casual
- Both

26. If you answered "Both" to question 25, how many of each?

<table>
<thead>
<tr>
<th>Permanent</th>
<th>Casual</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

86
27. Does your organisation utilise importation as an integral part of the business?
Select no more than 1 response.
- Yes
- No

28. If you answered "YES" to question 27, then what do you import?
Select no more than 4 responses.
- Finished Products
- Materials
- Services
- Other, please specify

29. Does your organisation utilise exportation as an integral part of the business?
Select no more than 1 response.
- Yes
- No

30. If you answered "YES" to question 29, then what do you export?
Select no more than 4 responses.
- Finished Products
- Materials
- Services
- Other, please specify
What type of business entity is your business?
Select no more than 1 response.
- Private Company
- Sole Trader
- Partnership
- Close Corporation
- Other, please specify

Is your business BBBEE compliant?
Select no more than 1 response.
- Yes
- No

Do you have any significant competitors?
Select no more than 1 response.
- Yes
- No
34. Does your business currently have rigorous traditional financial systems in place?
Select no more than 1 response.
☐ Yes
☐ No

35. If you answered "YES" to question 34, in which year were they implemented?

36. If you answered "No" to question 34, why have rigorous traditional financial systems not been implemented?

37. Was any market research conducted prior to starting the business?
Select no more than 1 response.
☐ Yes
☐ No

38. If you answered "Yes" to question 37, then how much research was conducted?
Select no more than 1 response.
☐ Basic research
☐ Thorough research

39. Was a business plan drafted during the planning phase of the business?
Select no more than 1 response.
☐ Yes
☐ No

40. If you answered "Yes" to question 39, did you draft the plan or did someone else draft it for you?
☐ Myself
☐ Someone else
☐ Other, please specify
41. If you answered "Yes" to question 39, was the plan followed?  
Select no more than 1 response.
- Yes
- No

42. If you answered "Yes" to question 39, was the business plan used to help secure financing?  
Select no more than 1 response.
- Yes
- No

43. If you answered "No" to question 39, why was no business plan drafted?

44. Do you actively market your business?  
Select no more than 1 response.
- Yes
- No

45. If you answered "Yes" to question 44, then how do you market your business?

46. If you answered "No" to question 44, then why do you not market your business?
Did you utilise any specialist support services during the planning and establishment phase of the business?  
Select no more than 5 responses.
- Lawyer
- Accountant
- Consultant
- Mentor
- Other, please specify

Are you currently utilising any specialist support services?  
Select no more than 5 responses.
- Lawyer
- Accountant
- Consultant
- Mentor
- Other, please specify

Was any specialist training or education sought for either yourself or your employees prior to starting the business?  
Select no more than 1 response.
- Myself
- My employees
50. Did you make use of any government support agencies or initiatives? Select no more than 1 response.
- Yes
- No

51. If you answered "Yes" to question 50, then which did you use?

52. If you answered "Yes" to question 50, did you find the support or input useful?
- Yes
- No
- Other, please specify
54. Was your decision to start your own business influenced by...?
Select no more than 1 response.
- Necessity (I had no other option)
- Opportunity (I had a good or new idea)
- Both

55. Was your past business experience and technical skills matched to your new business when you started?
Select no more than 1 response.
- Yes
- No

56. If you answered "No" to question 55, did you seek outside assistance or employ staff members with the required skills or experience?
- Outside assistance
- Employed skilled staff members
- Both
- None of the above
- Other, please specify

57. Is your current business the first business you have owned?
Select no more than 1 response.
- Yes
- No

58. If you answered "No" to question 57, how many businesses have you owned previously?
. If you answered "No" to question 57, did you sell or close your previous business/es before starting your current business? 
Select no more than 1 response.

- [ ] Yes
- [ ] No

. Which of the following best describes your attitude towards risk?
Select no more than 1 response.

- [ ] Gambler
- [ ] Calculated risk taker
- [ ] Risk averse

. Do any of your close friends or family have their own businesses?
Select no more than 1 response.

- [ ] Yes
- [ ] No

. What factors do you consider to have had the most influence on your success with your current business?

. Are your business goals explicitly stated and written down?
Select no more than 1 response.

- [ ] Yes
- [ ] No

. Are your business goals regularly (at least annually) reviewed and updated?
Select no more than 1 response.

- [ ] Yes
- [ ] No
# LOCUS OF CONTROL SURVEY

Locus of Control Survey

<table>
<thead>
<tr>
<th></th>
<th>True</th>
<th>False</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I usually get what I want in life.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>2. I need to be kept informed about news events.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>3. I never know where I stand with other people.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>4. I do not really believe in luck or chance.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>5. I think I could easily win the lottery.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>6. If I do not succeed at a task, I tend to give up.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>7. I usually convince others to do things my way.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>8. People make a difference in controlling crime.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>9. The success I have is largely a matter of chance.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>10. Marriage is largely a gamble for most people.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>11. People must be the master of their own fate.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>12. It is not important for me to vote.</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>14. I never try anything that I am not sure of.</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
15. I earn the respect and honours I receive.
16. A person can get rich by taking risks.
17. Leaders are successful when they work hard.
18. Persistence and hard work usually lead to success.
19. It is difficult to know who my real friends are.
20. Other people usually control my life.

8.2 Appendix 2 - Business Life Stage versus Business Needs:

**Post-Establishment Survival:**
- Remedial needs relating to the gaps or inadequacies of the original business plan and in the preparation for going into business.
- Needs arising from unforeseen circumstances, such as changes in the environment, competition, customer needs, technology and government action.
- Needs relating to the development of adequate relationships with the support network and the environment, including banks, accountants, the legal profession, suppliers, customers, labour and trade associations.
- Needs relating to the development of adequate business systems and means of controlling cash, profit, production and sales.

**Running a Successful Micro-Business:**
- The need to keep abreast of changes in the statutory environment that may threaten the business.
- Needs relating to the broader non-legislative environment – keeping abreast of competition or changes in relevant trends in local, regional or national society that are likely to affect the demand for the product or service.
• Needs relating to the acquisition of basic management knowledge and skills, for example, managing marketing, production, people and finance.

• Needs relating to the development of personal capabilities, for example, problem solving, creativity, selling and negotiation skills, leadership and communication.

Managing First-Stage Growth:

• Identify clearly the business's position in the marketplace, its financial performance, and the efficiency and effectiveness of its physical and financial, production or service capability.

• Identify the potential for growth in terms of the availability and adequacy of: physical and financial resources, experience in new areas to be developed, the quality and strength of new-product ideas, leadership and basic management, organisation and control.

• Identify needs with respect to planning for the specific new market or product developments envisaged, covering markets, resource inputs, negotiations required, business planning, and sourcing of necessary assistance.

Managing Second-Stage Growth:

• Development of capable teams covering key functions in the business.

• Delegation, leadership and control.

• Managing diversified product and market growth.

• Introducing more sophisticated methods of functional management control.

• Dealing more effectively with the increasingly sophisticated environment of finance, technology and markets with which the larger business has to contend.

• Introducing and managing exporting, licensing and internationalisation.