AN INVESTIGATION INTO PROBLEMS FACING SMALL-TO-MEDIUM SIZED ENTERPRISES IN ACHIEVING GROWTH IN THE EASTERN CAPE:

ENHANCING THE STRATEGY FOR DEVELOPING SMALL 'GROWTH POTENTIAL' FIRMS IN THE EASTERN CAPE

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ABSTRACT

As the world economy continues to move towards increased integration, some of the greatest opportunities for Small-to-Medium Sized Enterprises (SMEs) will derive from their ability to participate in the global marketplace. It is generally accepted that SMEs are becoming increasingly important in terms of employment, wealth creation, and the development of innovation. However, there are considerable doubts about the quality of management in this sector with policy-makers suggesting that there are particular weaknesses in innovation, a lack of financial acumen, marketing, entrepreneurial flair, practical knowledge, and human resource management. As a result, many firms do not reach their full potential and fail to grow.

According to organisational life cycle models, the introductory phase is particularly important since it is generally known and accepted that there is a high mortality rate of SMEs within the first two years.

Given this high failure rate, it becomes vital to research the factors/characteristics/management abilities that are required to enable the SME to survive and indeed progress to the growth phase of the organizational life cycle.

This research seeks to investigate the internal and external factors that are consistent in the success of SMEs who have reached the growth phase. A significant contribution to the enhancement of the growth potential of a firm will be made through the understanding of these factors.

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CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 INTRODUCTION

It is clear that as the world economy continues to move toward increased integration because of advances in communications technology, growth in developing countries, and reductions in trade barriers, some of the greatest opportunities for small businesses will derive from their ability to participate in the global marketplace (Alvarez, 1999). Within the developed and developing countries of the world, it is now generally accepted by policy-makers at local, regional and national level, that small-to-medium sized enterprises (SMEs) are becoming increasingly important in terms of employment, wealth creation and the development of innovation (Nieman, Hough and Nieuwenhuizen, 2003; Vesper, Boden, and Roman in Carland, Carland and Ciptono, 1999).

On the other hand, there are considerable doubts about the quality of management in this sector, with policy-makers suggesting that there are particular weaknesses in innovation, lack of financial acumen, marketing, entrepreneurial flair, practical knowledge, and human resource management (Hodgetts and Kuratko, 1995). As a result, many firms do not reach their full potential and fail to grow, resulting in lost jobs and wealth for their region in which they are based.

A closer look at the organisational life cycle theory models reveals that there are between three to five stages that most organisations will go through. The Churchill and Lewis model (Timmons, 1990) suggests that four critical stages exist in the life of a SME where the stages are determined by the length of time the firm has been operative. Churchill and Lewis (Timmons, 1990) estimate the duration of each stage to be as follows: Stage 1 is the start-up phase and is 0-3 years in duration; Stage 2 is the growth phase and is 4-6 years in duration; Stage 3 is the maturity phase and is 6-9 years in duration; and Stage 4 being the stability phase is approximately 10+ years in duration. Coupled to each of these stages is a different set of business characteristics, challenges, managerial abilities and entrepreneurial needs that small businesses will have to face (Kuratko and Hodgetts, 1995).

In order to survive in the marketplace, Hall (1995) has suggested that longevity is linked to age of the firm and its ability to grow. From the literature, it is known that individuals cannot control the external environment whilst they can control the internal environment (Hunger and Wheelen, 2003). Owner-managers will be required to take note of the shifts in the external environment, especially how these shifts will impact upon their organizations, and position their organizations accordingly. Research informs us that the major reason for small firm failure is poor management of the business which falls within the internal environment which is directly controllable by the owner-managers (Megginson, Byrd and Megginson, 2003). This would therefore suggest that if we can identify and isolate the factors from the internal environment that contribute to business failure, measures can be put in place to avoid these pitfalls for start-ups.

Hall (1995) argues that the early stages are of particular importance to the small business since Stage 1 has a very high failure rate. Given the high failure rate within the small firm sector, it becomes vital to research the factors, characteristics, or management abilities that are required to enable the SME to survive and indeed to progress to Stage 2 (the growth stage). It is during this growth phase that a small business usually needs to make critical decisions that affect its future (Kuratko and Hodgetts, 1995) and it is for this reason that this study seeks to investigate the growth phase in the life of a SME. In this regard, Hall (1995) has identified certain factors which he regards may support future success in this stage. These factors include personal characteristics of the owner; availability of outside assistance; motivation; strategic management; marketing policy; financial management; market characteristics.

This research project will seek to investigate the extent to which small firms engage in management practice to ensure its future survival from the introductory phase to the growth phase of the organizational life cycle. By identifying firms who find themselves in the growth phase having defied the high failure rate of the introductory phase, we may examine the management practices highlighted by Hall (1995) as having contributed to their continued existence. The various functional areas of management and the extent to which these small firms engage in these areas will be examined together with other areas highlighted by Hall (1995). This research will be centred on these factors in order to explore the extent to which owner-managers engage in best practice from a management point of view.

1.2 RATIONALE FOR CONDUCTING THE STUDY

From a South African perspective, the importance of small-to-medium sized enterprises in contributing to national wealth is critical. At the time of conducting this research, the South African economy was growing at a rate of 1.7% per annum (Statistics South Africa, 1999) whilst the population was growing at a rate of 2.8% per annum. For South Africa to maintain its existing level of wealth, it is generally accepted by economists that the economy needs to grow at twice the rate of its population growth rate per annum. In this instance it means the economy is required to growth at approximate 5.6% per annum. Various strategies can be formulated by government and business aimed at achieving this growth rate but the need to stimulate the growth of small-to-medium sized enterprises is widely acknowledged as having the best potential to achieve the required growth (DTI, 1995). For this reason, policy-makers need to seriously look at the growth potential of SMEs. With this in mind, there is a need to:

- Undertake a detailed examination of the management of small firms with respect to the linkages between the owner-manager; their competencies (experience and expertise); the resources available to the firm and the management of these internal and external resources; and the effect of the external environment and how the entrepreneurs manage change;

- Understand the regional context of the development of small firms in a peripheral region and the problems specific to such firms;

- Examine how policies could be improved to make small businesses more efficient and effective in their management techniques, to address their weaknesses and build on their strengths.

Despite many European and American studies in this area, there is still a lack of understanding regarding the processes of management of small firms within the South African context. In particular, there is little published data on those firms with growth potential and on which the future development of many of the regions within South Africa will be based (Lunsche and Barron, 1998). In particular, no specific region by region study has been undertaken in the South African context of the problems faced by SMEs. Such a study would be invaluable in creating wealth and employment opportunities in the local areas. Given the need to conduct such research, the purpose of this study is to explore the difficulties SMEs face when starting up. This research focuses on the firms who have survived their first two years and who have moved into the growth phase of their organizational life cycle. Understanding the reasons for failure and researching the firms who find themselves in the growth phase, a framework can be established to present to start-ups to minimise the difficulties they might experience through lack of management skills in managing their businesses.

1.3 IMPORTANCE OF THE STUDY

The main goal of the research is to establish the factors that are consistent in the success of SMEs who have reached Stage 2 of the organisations life cycle. In particular, the research will focus on the internal factors since these are directly controllable by the owner-manager of a SME. By focusing on the controllable factors, a framework can then be devised to assist the owner-managers of start-ups to overcome the high failure rate during the first two years and provide them with the opportunity to get to the growth phase of their organizational life cycle. Mention will be made of the external factors and the influence these have on SMEs but will not be the primary focus of this study.

The ancillary goals are:

- To build a managerial profile of the successful owner-manager in the transition from Stage 1 to Stage 2 so that future start-up businesses can follow the same model;

- To clarify imbalances/problem areas with respect to the growth phase of SMEs so that support agencies (such as the Department of Trade and Industry) can address/rectify them.

1.4 STUDY DELIMITATIONS

The research attempts to explore the extent of management practice, based on prior research, of the growth characteristics of small-to-medium sized enterprises in the Province of the Eastern Cape. Small-to-medium sized enterprises are defined as companies who employ a minimum of ten and a maximum of fifty persons for this research. In addition, only those firms in existence for three to eight years and with a manufacturing focus will be considered for inclusion in the study. This motivation for the age criteria is that this study is exploring firms’ management practice who have succeeded in getting to the growth phase and writers have identified three to eight year old firms as being in the growth phase given their age (Churchill and Lewis, 1983; Timmons, 1990).

1.5 STRUCTURE OF THE THESIS

Chapter 1: Introduction

This chapter provides an overall perspective of the thesis and motivates the purpose of the study.

Chapter 2: Entrepreneurship and the Small Business Sector

This chapter examines the evolution of entrepreneurship through the ages, presents a number of different definitions and explores the importance of entrepreneurship. In order to make sense of the definitions, the various approaches to the evolution of entrepreneurship are briefly presented. At the conclusion of the multitude of definitions, a set of dimensions is presented to form a framework for the understanding of the term. Various definitions are presented from a number of major countries to illustrate the differences in the classification of businesses. Very brief statistics are provided in terms of the contribution of small businesses to the economy of a country. This chapter also provides the context, relationship and nature of the small business sector within the entrepreneurship paradigm.

Chapter 3: Management of SMEs

This chapter focuses on the effective management of SMEs. Various statistics indicate that a high percentage of SMEs fail within the first two years of start-up. The environment or context in which businesses operate is illustrated and the impact this environment has on the small business owner-manager is highlighted. A clear distinction is made between that which the owner-manager is able to control and that which they cannot control. The overriding reason for failure is a lack of management skills in running the ventures. The lack of management skills in running their ventures is linked to the business environment and discussed in some detail through a thorough literature review.

Chapter 4: Managing Growth

What is growth? How do we define growth? This chapter briefly explores an organizational life cycle model and synthesizes the various stages together with the typical management challenges faced by owner-managers during each of the stages. The chapter further explores the value and importance of the organizational life cycle model in trying to understand and appreciate the complexities of managing growth in the SME context. Understanding these management needs is paramount to sustaining growth of the firm and by highlighting the future challenges during the various stages of the organizational life cycle, it is hoped that owner-managers will be better positioned to deal with these challenges and in fact prepare themselves adequately as well.

Chapter 5: Research Methodology

In this chapter the methodology of the study is presented. The chapter begins by discussing the research paradigm that the study is conducted in followed by a discussion on the research process. This discussion focuses on issues such as the sample size and selection, data collection, the research instrument, data analysis and the ethical aspects of conducting the research.

Chapter 6: Findings and Discussion

The findings of the research are presented in this chapter and are discussed in relation to existing literature.

Chapter 7: Recommendations and Areas of Further Study

Based on the literature review and the finding from chapter 6, recommendations will be made in term of what owner-managers have done to get from the introductory phase of the organizational life cycle to the growth phase. The focus will be on the extent of the management abilities and practices.

References

A complete list of references used for this study is presented in this section.

Appendices

This section will include a copy of the research instrument used to gather the data from the owner-managers.

CHAPTER TWO

ENTREPRENEURSHIP AND THE SMALL BUSINESS SECTOR

2.1 INTRODUCTION

With the advent of democracy in South Africa and globalisation, entrepreneurship, with its manifestation in the small business sector, has became a vehicle that could be used to promote economic liberation amongst ordinary South Africans (DTI, 1995). Kesper (2000) highlights the important role that the small business sector has played in developed countries, which now experience prosperous economic development.

This chapter will synthesize the various definitions of entrepreneurship into a set of dimensions or elements that will best describe this concept. The majority of definitions presented an outline of entrepreneurship from a specific viewpoint or approach, that is, an economic view, sociological view, or behaviourist view to name just a few. The discussion will progress to a focus on the small business sector.

2.2 ORIGINS AND EVOLUTION OF THE CONCEPTS OF THE ENTREPRENEUR AND ENTREPRENEURSHIP

It is commonplace to find the terms of entrepreneurship and small business used interchangeably in the literature, however, Thurik and Wennekers (2004), Longenecker, Moore and Petty (2003) and Burns (2001) suggest the two terms are related but not synonymous.

Most texts on entrepreneurship start by defining, or at least attempt to define entrepreneurship. However, by screening the multitude of definitions, one realises that there is no generally accepted or agreed upon definition for the term entrepreneurship, despite all the interest shown in this discipline (Kirby, 2003; Hisrich and Peters, 2002; Gray, 2002; Bygrave and Hofer, 1991; Chell, Haworth and Brealey, 1991;). Kuratko and Hodgetts (1995: 7) caution readers by noting that “the study of entrepreneurship is still emerging” and as such the debate must be encouraged and thus the fact that there is no one correct and accepted definition will further encourage debate.

Kuratko and Hodgetts (1995: 16) contend that entrepreneurship is an “interdisciplinary concept” and this is evidenced in the multitude of definitions. The interdisciplinary nature of entrepreneurship implies various approaches to aid the understanding of this field. It is necessary to briefly mention these approaches in order to better understand the concept of entrepreneurship. However, this study does not purport to present an all inclusive list but would focus on the approaches pertinent to it.

By considering entrepreneurship in a vacuum, one is likely to ignore the rich texture of its contribution through the ages (Rwigema and Venter, 2004). It is not necessary to list every single name and stipulate the exact dates, but rather to list some of the major contributors to the development of entrepreneurship.

From the documented evidence, entrepreneurship has been around from as far back as 2500BC (Carland, Carland and Ciptono, 1999). Carland *et al* (1999) believe that entrepreneurship is one of the oldest established activities of human society. They believe that from the earliest writings (approximately 2500 BC), business activities involving the lending of money at a specified interest rate, were in existence. Many of the Babylonian Laws, dating 2100 BC, regulated and protected businesses (Carland *et al*, 1999). From 1271 to 1295 AD when Marco Polo established trade routes to the Far East, it is believed that he was acting as an entrepreneur by securing contracts to sell goods on behalf of another individual at a price (Rwigema and Venter, 2004; Hisrich and Peters, 2002; Osborne, 1995).

In the 17th century, Richard Cantillon in 1725 developed one of the early theories on entrepreneurship by focusing on the individual. He defined the entrepreneur to be an individual who assumes risk, by buying at a certain price and selling at an uncertain price (Hisrich and Peters, 2002; Outcalt, 2000). At the time of the Industrial Revolution (1830), Jean-Baptiste Say expanded the definition of an entrepreneur to include the possession of managerial skills (Outcalt, 2000). Say believed that the entrepreneur was able to coordinate and combine factors of production. Binks and Vale (1990) provide an overview of the Austrian and Neo-Austrian contributions. They include the views of Carl Menger (1840-1921), Friedrich Von Wieser (1851-1926), and Israel Kirzner (1973). Binks and Vale (1990) and Deakins (1999) suggest that the motive of the Austrians in defining entrepreneurship reflected the need to provide an identity to the decision-maker who was responsible for pursuing the ever-elusive equilibrium between supply and demand; elusive because demand and supply conditions are always changing.

In the following sections, more recent definitions of entrepreneurship will be presented. Dollinger (1999) cites a number of authors who have defined entrepreneurship over a period of time. Table 2.1 provides the different definitions.

Table 2.1: Definitions of entrepreneurship

Source	**Definition**
Knight (1921)	Profits from bearing uncertainty and risk
Hoselitz (1952)	Uncertainty bearing …. Coordination of productive resources …. Introduction of innovations and the provision of capital
Cole (1959)	Purposeful activity to initiate and develop a profit-oriented business
McClelland (1961)	Moderate risk taking
Casson (1982)	Decisions and judgments about the coordination of scarce resources
Gartner (1985)	Creation of new organisations
Stevenson, Roberts and Grousbeck (1989)	The pursuit of opportunity without regard to resources currently controlled

No discussion on entrepreneurship is complete without considering the contribution of Joseph Schumpeter (1883-1950). Schumpeter's entrepreneur could not be placed in one category of person but rather introduced the concepts of 'new combinations' which involve a change in product or process and that existed for as long as the introduction of new combination of inputs was underway (Deakins and Freel, 2003; Deakins, 1999; Binks and Vale, 1990).

In 1964, Peter Drucker defined entrepreneurship to be the maximising of opportunities (Hisrich and Peters, 2002). Harvey Leibenstein's (in Binks and Vale, 1990) observations in 1968, suggest that a successful entrepreneur needs to synchronise inputs from several different markets, which implies that two types of entrepreneurs can be identified. The first type refers to Schumpeter's entrepreneur, who arranges new combinations. The second type refers to an entrepreneur who performs a managerial function by establishing or organising traditional combinations (Binks and Vale, 1990). In 1982, Mark Casson defined an entrepreneur to be someone who specialises in taking judgmental decisions about the coordination of scarce resources (Deakins and Freel, 2003; Deakins, 1999; Binks and Vale, 1990).

Dollinger (1999) defines entrepreneurship to be the creation of an innovative economic organisation (or network of organisations) for the purpose of gain or growth under conditions of risk and uncertainty. However, Bateman and Snell (1996) define entrepreneurship to be the act of forming a new organisation of value. According to Bartol and Martin (1998) entrepreneurship entails the creation of a new enterprise. Hisrich and Peters (1998) define entrepreneurship to be the process of creating something new of value, by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence. Van Aardt, Van Aardt and Bezuidenhout (2000) define entrepreneurship as "the act of initiating, creating, building and expanding an enterprise or organisation, building an entrepreneurial team and gathering other resources to exploit an opportunity in the marketplace for long-term growth." Timmons and Spinelli (2003) suggest that entrepreneurship is a way of thinking, reasoning, and acting which is opportunity obsessed, holistic in approach, and leadership balanced. Rwigema and Venter (2004: 6) propose entrepreneurship to be "the process of conceptualising, organising, launching, and – through innovation – nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment."

It is evident from the multitude of definitions that entrepreneurship is a composite of the person who engages in some type of behaviour.

2.3 SCHOOLS OF ENTREPRENEURSHIP THOUGHT

Entrepreneurship is seen as being interdisciplinary and, given its nature, various approaches or schools of thought can be used to gain a better understanding of this concept (Kuratko and Hodgetts, 1995). The various schools of thought provide a means of examining the diversity of viewpoints about entrepreneurship (Kuratko and Hodgetts, 1995 and Deakins and Freel, 2003).

It is not the intention of this study to investigate the details and motivations of the multitude of approaches to understanding entrepreneurship. The approaches have been included to illustrate that numerous perspective/approaches/paradigms exist attempting to contextualise or define entrepreneurship. These are as follows:

2.3.1 Environmental School of Thought

According to Kuratko and Hodgetts (1995), this approach deals with the positive and negative external factors that affect a potential entrepreneur's lifestyle in terms of moulding of entrepreneurial desires. Both the social environment and work environment can influence the desire to become an entrepreneur. For example, the support and encouragement of friends and family might very well influence an individual's desire to become an entrepreneur.

2.3.2 Financial/Capital School of Thought

This approach deals with the whole entrepreneurial venture from a financial management perspective where decisions involving finances are taken during the entire life cycle of the business. Every phase of the venture is viewed in terms of capital. For example, the start-up phase requires seed capital or venture capital resources and the decision is to proceed or abandon the venture depending on the availability of capital (Kuratko and Hodgetts, 1995). This view suggests that an individual would engage in an entrepreneurial venture if capital was readily available.

2.3.3 Displacement School of Thought

Ronstadt (in Kuratko and Hodgetts, 1995: 21) noted that "individuals will not pursue a venture unless they are prevented or displaced from doing other things." Three major types of displacement include political, cultural and economic displacement. An example of political displacement might be the introduction of laws that limit a particular industry. An example of cultural displacement might be the issues of race, religion, ethnic background and sex that afflict minority groups who might feel persecuted and move towards an entrepreneurial venture (Kuratko and Hodgetts, 1995). An example of economic displacement might be an individual who is retrenched and this might give rise to entrepreneurial pursuits.

The first three approaches are classified as the Macro View by Kuratko and Hodgetts (1995) and present a number of factors that relate to the success or failure in modern day entrepreneurial ventures. Two important points are worth noting: firstly, these factors are external to the individual; and secondly, they are beyond the control of the individual. This approach is also called the External Locus of Control. The Macro View will aid and improve the understanding of entrepreneurship because the individual will have gained a broader understanding of issues like economics, cultural influences, government policies, financial matters, and the like.

The next three approaches are called the Micro View (Kuratko and Hodgetts, 1995). This paradigm focuses on the factors specific to the entrepreneur. They are also called the Internal Locus of Control because the individual has direct control or influence on its outcome.

2.3.4 Entrepreneurial Trait School of Thought

Researchers and writers from this school of thought have been interested in identifying those traits that are common to successful entrepreneurs in order to develop a profile of a successful entrepreneur. According to Kuratko and Hodgetts (1995) this approach is grounded in the study of successful entrepreneurs who tend to exhibit similar behaviour patterns and if emulated will lead to success. For example, achievement, creativity, determination, and technical knowledge are factors common to successful entrepreneurs (Kuratko and Hodgetts, 1995).

Deakins and Freel (2003) acknowledge there being some dispute over whether entrepreneurial characteristics can indeed be identified. If it is claimed that these traits are inherent then it becomes pointless to encourage new entrepreneurs to start new ventures. Deakins and Freel (2003) mention the various criticisms of this approach. Firstly, it is inappropriate to search for a significant single trait; secondly, it ignores environmental factors that may be more important than personality. The other reasons include that the approach comprises an essentially static analysis approach to the more dynamic process of entrepreneurship; and it ignores the role of learning, preparation and serendipity in the process of entrepreneurship.

2.3.5 Venture Opportunity School of Thought

This particular school of thought focuses on the opportunity aspect of venture development (Kuratko and Hodgetts, 1995). The focus is on the process the entrepreneur goes through from the search and development of ideas and concepts through to the implementation of venture opportunities.

Creativity and market awareness is essential and developing the right idea at the right time for the right market is key to entrepreneurial success (Kuratko and Hodgetts, 1995).

2.3.6 Strategy Formulation School of Thought

Steiner (in Kuratko and Hodgetts, 1995: 24) suggested that the "strategy formulation approach in entrepreneurial theory emphasises the planning process in successful venture development." This particular approach encompasses a breadth of managerial capabilities that requires an interdisciplinary approach and Steiner (in Kuratko and Hodgetts, 1995) believes that strategic planning is inextricably interwoven into the process of management. Ronstadt (in Kuratko and Hodgetts, 1995) views this approach as the leveraging of unique markets, unique people, unique products, or unique resources are identified, used, or constructed into effective venture formations.

Another way of viewing entrepreneurship is through a Process approach that attempts to structure the entrepreneurial process and its various factors (Kuratko and Hodgetts, 1995). The next three schools of thought are the most common process approaches.

2.3.7 Entrepreneurial Events approach

Bygrave (in Kuratko and Hodgetts, 1995) views entrepreneurship as a series of continuous processes and not a series of isolated activities. This approach is primarily concerned with the processes the entrepreneur would undertake in terms of planning, implementing, and controlling of their entrepreneurial activities.

2.3.8 Entrepreneurial Assessment Approach

Ronstadt (in Kuratko and Hodgetts, 1995) proposed the Assessment approach which entails assessments being made qualitatively, quantitatively, ethically, and strategically with regards to the entrepreneur, the environment and the venture. The results of the assessments must be compared to appropriate phase of the entrepreneurial career, that is, whether the individual is at the beginning stage, the middle stage or the late stage of their entrepreneurial career.

2.3.9 Multidimensional Approach

This is a more detailed approach to entrepreneurship involving a complex framework, which emphasises the individual (for example, need for achievement), the environment (for example, presence of experienced entrepreneurs), the organisation (for example, type of firm), and the venture process (for example, the entrepreneur locates a business opportunity) (Kuratko and Hodgetts, 1995). It is the complex interaction among the four major dimensions that moves the entrepreneur from a segmented approach to a dynamic interactive process approach.

2.3.10 Economic Approach

This approach focuses on the role of the entrepreneur in economic development and the application of economic theory. According to

Deakins and Freel (2003) the entrepreneur can be viewed as someone who coordinates different factors of production, but the important difference is that this role is seen as a non-important one. In this instance the entrepreneur is seen as a pure risk-taker with the reward being the ability to appropriate profits. Consensus emerged amongst the proponents of this approach in that in conditions of uncertainty and change, that the entrepreneur is a key player in the economy (Deakins and Freel, 2003).

It is hoped that by presenting the various schools of thought on entrepreneurship that the reader will gain a better understanding of the emergence of a body of knowledge that is dynamic and ever-changing. There is no right or wrong approach. This dynamic concept of entrepreneurship is viewed from numerous perspectives which give rise to some of the approaches mentioned. The list is by no means exhaustive but provides the reader with some of the major contributions in the field of entrepreneurship.

2.4 DIMENSIONS OF ENTREPRENEURSHIP

Considering the discussion on the different definitions of entrepreneurship as well as the various conceptual frameworks or approaches to entrepreneurship, this section attempts to derive a set of elements comprising entrepreneurship as a concept. However, it is not the value placed on the words that describe entrepreneurship, but rather on the mindset that must be developed should the individual decide to engage in the process of entrepreneurship. Stevenson (in Birley and Muzyka, 2000) suggests that entrepreneurship is neither a set of personality traits nor an economic function, but rather a cohesive pattern of managerial behaviour.

In spite of these different definitions and approaches, there are a number of common aspects or dimensions (Hisrich and Peters, 2002) and by embracing these dimensions of entrepreneurship, a culture or mindset of entrepreneurship can be initiated. These dimensions will fluctuate in importance, depending on the context in which the entrepreneur finds herself.

The dimensions adapted from Hisrich and Peters (2002) include the following:

1. New venture creation – the potential or opportunity to create a new venture;
2. Risk taking (financial, psychic, social) and uncertainty about the venture and the environment within which it is to operate;
3. Resources (human and non-human) and their allocation;
4. Opportunity – identifying and exploiting the opportunity;
5. Innovation and Development (new products, services, productions processes, organisation);
6. Long-term sustainable growth;
7. Environment – understanding the external environment and how it affects the venture;
8. The individual (satisfaction, independence) – the motivation for starting a venture;
9. Profits – the ability of the venture to generate profits.

The researcher proposes that entrepreneurship is a culture – a mindset quite different from the everyday understanding of the term. This view is supported by Timmons and Spinelli (2003). Carland, Carland and Hoy (in Carland *et al*, 1999) describe entrepreneurship as a propensity (a tendency) within the individual to entrepreneurial. Rather than trying to provide a succinct definition, the researcher believes it is pertinent to focus on the elements or dimensions of entrepreneurship, in order to gain a better understanding of what this term means. The general dimensions are arrived at by scrutinising the multitude of definitions of the term, rather than reinventing the term.

This study is concerned with entrepreneurial activities within the small business sector of the economy. This does not necessarily mean that entrepreneurship is only present in small firms. Should entrepreneurial activity be present in a large corporation it is generally termed intrapreneurship (Hisrich and Peters, 2002, Carland *et al*, 1999; Deakins, 1999; Osborne, 1995). Harper (1984: 13) goes on to state that "entrepreneurship is a quality which is by no means only associated with small-scale enterprise, and which is as necessary in government and public or co-operative enterprise as it is in private business."

A question that must be asked is the following: 'How does entrepreneurship manifest itself?"

It is important to note that the answer can take many different forms and this is largely due the multitude of definitions as discussed earlier. For the purposes of this study, the manifestation of entrepreneurship will take the form of the small business sector. The small business sector provides a vehicle to promote entrepreneurship and will thus present the benefits of such endeavour to a country's economy and its people. Given the flexibility of small firms, the direct contact they have with their customers, the speed at which they can embrace change, and the hands-on approach of the owner-manager, this puts them in an ideal situation to embrace and promote entrepreneurship.

2.5 THE SMALL BUSINESS SECTOR

Policy makers who have been confronted with growing concerns about the increases in unemployment, lack of job creation, poor economic growth and globalisation believe that entrepreneurship is the solution to these concerns (Thurik and Wennekers, 2004; Vesper, Boden, and Roman in Carland *et al*, 1999).

Storey (2000) noted that politicians around the globe have, over the past decade, emphasised the importance of small enterprises as mechanisms for job creation, innovation, and the long-term growth and development of economies. However, the media coverage in the European economy on business, in general, contains over 95% of column space for large businesses even though, in the European economy 95% of all firms are in fact small and provide more than half of all jobs in Europe, yet little media coverage is afforded to these entities.

There are a number of terms used when referring to a small business. These include the term Small Medium and Micro sized enterprise (SMME) as in the case in South Africa, Small Medium sized enterprise (SME) and, the generic term, small business or small firm. This study focuses on SMEs since they are regarded as the ones with the potential for job creation and makes a substantial contribution (35%) to GDP of South Africa (Rwigema and Venter, 2004; Small Business Project, 2003).

The “small firm”, like the term entrepreneurship, has numerous definitions (Culkin and Smith, 2000). The ‘objective’ measures which one would want to use to define a small firm cannot be agreed upon by the various researchers. For example, the different sectors of an economy will have different interpretations of the word ‘small’. Some authors use turnover as a measure; some use the number of employees; some use profitability or net worth as a measure. Some researchers use a combination of measures like number of employees and turnover.

In order to overcome the conflicting opinions of a small firm, the Department of Trade and Industry in the UK (Culkin and Smith, 2000) provided the following definitions or classifications of small, micro, medium and large sized enterprises:

Micro-firm: 0 - 9 employees;
Small firm: 0 - 99 employees (includes micro);
Medium firm: 50 - 249 employees; and
Large firm: over 250 employees.

Culkin and Smith (2000) and Deakins (1999) realised that the UK could not ignore the European Union dimension and expanded their classification to be determined by at least two out of three criteria from Table 2.2 below. Also illustrated below in Table 2.3 is the European classification.

Table 2.2: UK definition of SMEs

Criteria	Small Firm	Medium Firm
Turnover	Not more than £2.8 million	Not more than £11.2 million
Balance Sheet	Not more than £1.4 million	Not more than £5.6 million
Employees	Not more than 50	Not more than 250

Deakins (1999)

Table 2.3: EU SME definitions

Criteria	Micro	Small	Medium
Maximum employees	9	49	249
Max annual turnover	-	€7 million	€40 million
Max balance sheet	-	€5 million	€27 million

Burns (2001)

Table 2.4: Small Business Administration of the USA - SME definitions

Criteria	Very Small	Small	Medium	Large
Number of employees	Under 20	20 – 99	100 – 499	500 or more

Megginson, Byrd and Megginson,(2003)

Table 2.5: RSA SME definitions for the Manufacturing Sector focusing solely on the number of employees (Rwigema and Venter, 2003)

Criteria	Micro	Very Small	Small	Medium
Number of employees	Less than 5	Less than 20	Less than 50	Less than 200

Rwigema and Venter,(2003)

The tables above illustrate the lack of consistency in trying to arrive at a definition of a Small Medium and Micro size Enterprises. In some instances, such as South Africa and the USA, the definitions differ within the country depending on the sector of the economy, which makes consensus even more difficult (Rwigema and Venter, 2004; Longenecker, Moore and Petty, 2003).

Harper (1984) believes that there is a real benefit to be gained in trying to produce a universally, or even nationally, acceptable definition or classification for small businesses. According to Harper (1984), the main motivation for wanting a quantitative definition of a small firm is to exclude other larger firms from preferential assistance programmes, which are essentially designed to assist the small firms.

In order to gauge the contribution the small firms make to the economy of a country, the task might be made easier if a consistent definition was formulated. One could then compare different countries and the contributions of its small firm sectors. Be that as it may, there are many positive contributions that these firms make in a country’s economy.

2.5.1 The small firm

When discussing the nature of the small firm we need to ask the question as to what makes small firms different from large firms?

“Small firms are not just scaled down versions of large ones” Burns (2001: 9). The manner in which small firms go about their business differs from larger organisations. In fact, Burns (2001) goes further by stating that small firms go about their business in fundamentally different ways.

Katz and Green (2007), Burns (2001) and Storey and Sykes (in Burns and Dewhurst, 1996) highlight the following characteristics of a small firm, which distinguishes it from larger firms:

1. small firms are always short of cash which limits their strategic options;
2. their approach to risk and uncertainty is not rational;
3. the owner-manager’s characteristics fundamentally influences the firm;
4. the small firm is seen as a social entity and often revolve around personal relationships;
5. they require their business options to provide a quick payoff to offset the cash constraints;
6. because of point 5 the majority of their decisions are short-term decisions;
7. small firms generally operate in a single market offering a limited range of products and services;

8. because of point 7, they become over-reliant on a few customers which makes them vulnerable to failure should a key customers discontinue doing business with the small firm;
9. decisions are more judgemental, involving fewer people and therefore made much quicker;
10. they are more responsive to changes in the marketplace; and
11. they are less likely to influence developments in the marketplace but can respond or adjust to changes in the marketplace much quicker than larger firms.

2.5.2 The role of the small firm

Garavan, Ó Cinnéide, Fleming, McCarthy and Downey (1997) suggest that small firms, in contrast to larger organisations, are the most prolific source of innovation practices in many sectors, and their importance to the vigour and health of an industrial economy is widely recognised.

Sweeney (1981) concurs that the small firm is the primary source for entrepreneurship and innovation in the economy. Sweeney (1981) continues by stating that existing evidence points to a strong and broadly based small firm sector as the essential ingredient for economic prosperity, resilience and innovative growth and believes that a strong small firm sector can only lend stability to an economic system. In contrast, Sweeney (1981) argues that an economic system dominated by a few large firms can have catastrophic consequences should one or more of them fail. Sweeney (1981) goes on to mention that a diversified system through small to medium sized firms cushions the impact of any market or technical change.

Sweeney (1981: 33) concludes by arguing that “they (small firms) give resilience and redundancy to the economic system.”

While entrepreneurship is behaviour focusing on opportunities rather than resources, this type of behaviour is present in both small and large firms alike (Thurik and Wennekers, 2004). Small businesses can be seen as the simple running of a firm for a living, such as shopkeepers, professional people, and franchisees. However, if the small firms engages in the introduction of new products and processes that change the industry, these firms are identified as Schumpeterian in nature (Thurik and Wennekers, 2004), which, by implication, would make them entrepreneurial in nature. Rwigema and Venter (2004) warn that not all small firms are entrepreneurial, despite making a significant contribution to the economy. The average shopkeeper, selling everyday items, is not classified as entrepreneurial due to the absence of innovation and change.

This observation implies that small firms can be vehicles for entrepreneurship, since entrepreneurship has as a dimension of innovation (Thurik and Wennekers, 2004; DTI, 1995). Thurik and Wennekers (2004) observed that, during the first decades of the last century and more than ever in today’s times, that small businesses are vehicles for entrepreneurship contributing not only to employment and social and political stability, but also to innovative and competitive power.

Acs (1992) claims that small firms play a critical role in the economy by serving as agents of change in terms of their entrepreneurial activities. He identifies four consequences of the new found importance of entrepreneurship, namely a vehicle for small business development; routes of innovation; industry dynamics; and job creation.

2.5.3 SME contribution

There has been a tremendous increase in the number of small firms operating in most of the advanced countries around the globe since the late 1960's (Burns, 2001) with North America, Asia and Western Europe "undergoing an entrepreneurial renaissance" (Calvin, 2002: 1). These small firms are considered, by many governments, as critical for the creation of employment and ultimately for the creation of wealth.

2.5.3.1 The United States of America

Longenecker *et al* (2003), Elmuti and Kathawala (1999) and Alvarez (1998) provide statistics indicating that the USA's 23 million small businesses continue to be a strong driving force in their economy. The small businesses absorb 52% of the private work force and contribute 51% to GDP in the USA (Longenecker *et al*, 2003; Calvin, 2002; Burns, 2001). Elmuti and Kathawala (1999) also suggest that a study conducted by the Small Business Administration in the USA reveal that small business accounted for half of all new innovations in the USA.

2.5.3.2 The United Kingdom and the European Community

According to Burns (2001) and Day (2000) small firms in the United Kingdom employs 62% of the labour force and contribute 25% to GDP. In the European Community as a whole, small firms employ 66% of the work force. Burns emphasises the major role small firms' play in the European Community, by citing the employment generated by small firms in various European countries. He suggests that small businesses contribute 79%, 63% and 60% to employment creation in Italy, France and Germany respectively. According to SENET (2004) over 99% of the 3.2 million businesses in the UK are small medium sized enterprises (SMEs) and they account for more than two thirds of the business turnover.

2.5.3.3 The Republic of South Africa

The Department of Trade and Industry (1995) of South Africa suggest that there are more than 800 000 SMEs, absorbing approximately a quarter of the labour force of 15 million people. This is in addition to approximately 3.5 million people who are involved in some type of survivalist venture. The DTI (1998) believe that small businesses in South Africa account for 60% of all employment and for 40% of GDP.

Commonwealth Resources (1998) indicate that agriculture contributes 5% towards South Africa's GDP and employees 10% of total labour, manufacturing contributes 25% towards GDP and employees 28% of total labour, and mining contributes 7.7% towards GDP.

2.5.3.4 People's Republic of China

According to the US Embassy (2002) the growing significance of SMEs in China's economy is worth noting. Chinese and foreign experts estimate that SMEs are now responsible for approximately 60% of China's industrial output, and employ around 75% of the workforce in China's cities and towns. It is believed that SMEs are responsible for creating most new urban jobs, and have created opportunities for workers laid-off from state-owned enterprises that re-enter the workforce.

The brief overview of the contribution that small businesses make towards the economies of the abovementioned countries emphasises the importance of the small business sector. Governments around the world have realised just how important this sector of the economy is for the future growth of their respective countries. For the South African government, the growth and development of the small business sector is also playing a major role in addressing the imbalances of the past (DTI, 1995) as it is seen as a vehicle to create much needed employment and wealth.

The strong interest in entrepreneurship is largely due to finding that new business enterprises are the primary source of new employment opportunities (Boshoff, Theron and Schutte, 1998; Lunsche, 1997), and this is vindicated by Ndwandwe (1998) who reported that SMMEs account for 60% of all employed people in South Africa.

McClelland (1987) and Harper (1991) (both cited in Boshoff *et al*, 1998) suggest that entrepreneurship has a critical role to play in the economic development of especially poorer nations of the world. This view is supported by Sweeney (1981: 32) who suggests that "the ability of an economy to adapt to change and to continue economic progress would seem to be weakened if there is not a continuing infusion into the total economic system, at a numerically high level, of new products, new markets and new jobs generated by small firms. In addition, a strong small firm sector provides for the widespread and rapid diffusion of technical change and innovation on which economic growth is ultimately based."

In summary, recent evidence (Hill and McGowan, 1999) does indicate that small firms and entrepreneurship do indeed play a major role in the world economy (Timmons, 1994) and that they do constitute the bulk of enterprises in most economies around the globe (Storey, 1994).

2.6 Chapter summary

In this chapter the focus has been on understanding the concepts of entrepreneurship and small business. This was done by way of extracting from the multitude of definitions and approaches, a set of dimensions. While we 'agree' on what entrepreneurship is we need to identify a suitable vehicle to drive this culture. We identified the small business sector as a viable vehicle and went on to describe the small business sector by looking at its definition, what makes it different from other sectors, and its role in the economy supported by relevant statistics.

While we 'agree' on the importance of the small business sector we must also take note of the shortcomings. In this sense this particular sector has a tremendously high failure rate within the start-up phase of their life cycles. One of the main reasons for the high failure rate is the lack of management skills to run the small businesses effectively (Elmuti and Kathawala, 1999). The next chapter will consider the essential areas of management necessary for the continued survival of small businesses.

CHAPTER 3

MANAGEMENT OF SMES

3.1 INTRODUCTION

This chapter focuses on the management of SMEs. The management of a small firm differs greatly in context, style and behaviour to its larger counterparts. In the small firm, management activities are focused on predicting and controlling the operating environment and reacting to the constant pressures from the external environment. The nature of the small firm is such that it has limited resources and primarily focuses on short-term operational gains.

Statistics indicate that a high percentage of SMEs fail within the first two years of start-up (LeBrasseur, Zanibbi and Zinger, 2003; Littunen, Storhammar and Nenonen,. 1998; Hall, 1995; Kuratko and Hodgetts, 1995). Storey (in Burns, 2001) suggests that younger firms are more likely to fail than older ones and states that 50 percent of firms cease trading within the first three years. Rwigema and Venter (2004: 68) state that "in most countries, the rate of business failure far exceeds that of success." In South Africa, a survey indicated that between 70 to 80 percent of start-ups fail within 5 years (Rwigema and Venter, 2004). The overriding reason for failure is a lack of management skills in running the ventures (Kuratko and Welsch, 2004; Rwigema and Venter, 2004; Longenecker, Moore and Petty, 2003; Megginson, Byrd and Meginnson, 2003; Storey (in Burns, 2001); Elmuti and Kathawala, 1999).

3.2 MANAGING THE SMALL BUSINESS: AN OVERVIEW

During the introductory phase of the firm's life cycle, the owner-manager will be actively involved and adopt a hands-on approach. It is during this critical phase that the role and personality of the owner-manager greatly impacts on the successful management of the small firm. It would be difficult to separate the personality set, experience and training of the owner-manager from that of the management style and behaviour evident in the small firm (Jennings and Beaver, 1997).

"As we move through the first half of the 1990s, organisation failures continue to attain record levels" (Richardson, Nwankwo and Richardson, 1994: 9), noting the situation in the UK. According to Megginson *et al*, (2003) and Calvin (2002) 60% of new businesses fail within the first two years and 70% fail within the first five years in the USA. Detwiler (1996) and Jansen and Van Wees (1994) provide similar statistics for the USA suggesting that more than 50% of start-ups will fail within the first three years and more than 75% will not last five years. There is no reason to believe that this trend is any different in other parts of the world. In fact the failure rates in other parts of the world could be much higher given the position of their economies relative to that of the USA. South Africa is characterised as a developing/emerging economy going through a transitional period in terms of democracy, is part of the global market, and its firms are now experiencing increased competition due to globalisation. As a result of this, Hendricks (in Rwigema and Venter, 2004: 68) suggests that "between 70 to 80 percent of South African businesses fail within the first 5 years."

Given the high failure rate of SMEs, internationally and locally, it is essential that the reasons for failure be investigated and a framework be developed to reduce the failure rate among start-ups. It is generally accepted that lack of management skills is the primary cause for failure (Kuratko and Welsch, 2004; Rwigema and Venter, 2004; Longenecker, Moore and Petty, 2003; Megginson *et al*, 2003; Storey (in Burns, 2001); Elmuti and Kathawala, 1999).

According to Sutton (1984), it is vital to have a well balanced owner-manager or a well balanced team to run a small business in terms of their respective managerial skills. Unfortunately, most small business, during the introductory and early growth phases will not be in a position to hire skilled management staff due to financial constraints. Sutton (1984) believes that if the owner-manager is good at managing a small business, then they can do exceptionally good things in terms of ensuring the continued survival and operation of the business.

The owner-manager of a small business has a wide and varying job description encompassing a wide range of tasks and, in some instances, unrelated tasks. Owner-managers of small business start out with a hands-on approach and, as the business grows in terms of the number of employees, there is a shift from being hands-on to managing people to managing managers. It implies that the owner-manager of a small business would be placed under severe pressure and would often be faced with time and financial constraints. Under these circumstances the owner-manager of a small business cannot devout the required time and effort that their duties demand and are doomed for failure (Eisenhardt and Bourgeois III, 1988).

Given that the small business operates in a dynamic and competitive environment, the owner-manager can be compared to someone managing reactively as opposed to managing proactively. This notion is vindicated by the shifts in the external environment which will impact on the small business and success depends on the ability of the small business to respond quickly to such shocks. Furthermore, Eisenhardt and Bourgeois III (1988) suggests that owner-managers who jump from one crisis to the next spend too much time dealing with the day-to-day operations such that planning for the future suffers and this is another reason for business failure.

Given that this study focuses on firms in the growth phase of the organisational life cycle, it is fair to assume that they may have experienced growth in their firms in the form of increases in revenue, increases in the number of employees, increases in their customer base, and the like. Owner-managers start moving from doing to managing when growth is taking place in a typical firm. The typical owner-manager suffers from the inability to delegate responsibility and this may be due to a number of reasons such as the unavailability of suitable staff to delegate to; or to the fear of loss of control over the firm; or to the fear that the individual would be unable to successfully perform the delegated task in an efficient manner (Curran and Stanworth, 1988). The efficient management of the business is critical to its survival and as the firm grows it is necessary to delegate responsibilities to others in the firm in order for the owner-manager to focus on the strategic issues facing the firm.

In terms of surveying the external environment, the owner-manager requires information in order to position the firm given shifts in the external environment and the impact this could have on the firm. Sutton (1984) discovered that small firm owner-managers are always short of pertinent and or relevant information. Given the predicament of the small firm in terms of it lack of financial resources, buying in data from research agencies is not a viable option for most small firms due to the enormous cost of the research. Consequently, planning suffers and sometimes is even non-existent (Sutton, 1984).

3.3 THE ROLE OF THE BUSINESS ENVIRONMENT IN THE CONTEXT OF THE SMALL-MEDIUM SIZED ENTERPRISE

SMEs like most businesses operate in a competitive environment. Rwigema and Venter (2004) state that the entrepreneur must consider the business as a whole and be fully aware of its place within the market it operates in. Rwigema and Venter (2004) also believe that viewing the business in its totality will provide the entrepreneur with a long-term perspective for future growth and sustainability.

Research indicates that the interaction between the business environment and the small and medium sized enterprise becomes a focal point for its continued existence in the marketplace (Lee and Peterson, 2000; Coetzee, Havenga and Visagie, 1993). They (Lee and Peterson, 2000; Coetzee *et al*, 1993) believe that the entrepreneur must develop closer relations with the business environment because their opportunities and resources emanates from this environment. Coetzee *et al* (1993) put forward the view that the small firm may be regarded as an open system and as such is affected by its environment. If the firm is unable to adjust to these forces from its environment and, depending on the strength and nature of these forces, it will be faced with either difficulties or opportunities which could potentially destroy the business or provide it with growth avenues.

The context of the SMEs takes the form of an internal environment, an external environment, comprising the task and macro environments, (illustrated in Figure 3.1), and the characteristics of the entrepreneur. The internal environment is controlled by the entrepreneur whilst the external environment is beyond the control of the entrepreneur. It is the interaction the SME has with its environment that will determine its failure or success. The major factors impacting on the failure of the SME will be derived from the entrepreneur and the internal and external environments.

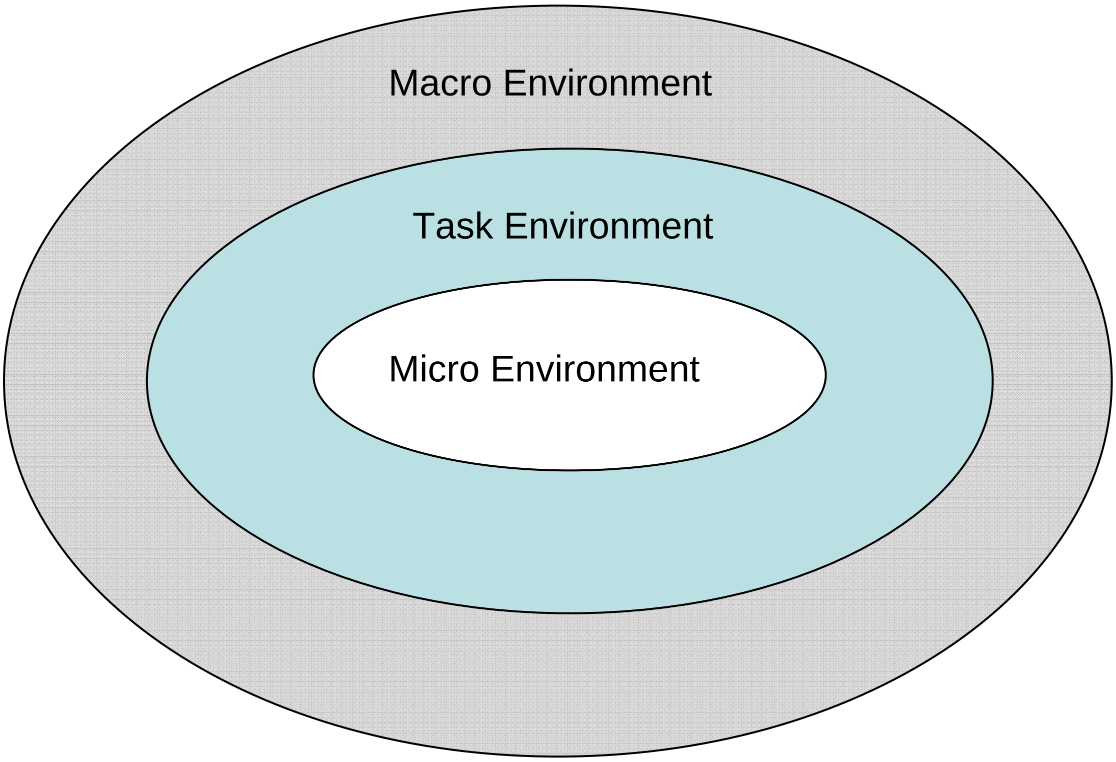


Figure 3.1: The Business Environment - Adapted from Hunger and Wheelen (2003)

3.3.1 The Macro Environment

Hunger and Wheelen (2003) and Coetzee and Visagie (1993) describe the macro environment, also called the societal environment, as comprising of a number of forces, namely:

- political/legal forces that allocate and provide constraining and protecting laws and regulations;

- economic forces which regulate the exchange of materials, money, energy, and information;
- socio-cultural forces which regulate the values, mores, and customs of society; and
- technological forces that generate problem solving inventions.

These forces from the macro environment generally affect the long-run decisions of an organisation. Small organisations have very little, if any, influence over the forces of the external environment and this can be attributed to the limited resource of the small firm (Tibbits, 1979). Shifts in the forces within the external environment, impact upon all organisations, big and small. In terms of resources, the larger organisations are better positioned to absorb the shifts in the forces of the external environment compared to their smaller counterparts. It becomes critical for the owner-manager to be attuned to the external environment in order to minimise any negative shocks emanating from this environment. Also, the owner-manager must be able to quickly adapt to take advantage of the shifts which present themselves as opportunities.

3.3.2 The Task Environment

The task environment includes those elements or groups of elements that directly affect the organisation and, which in turn, are affected by it (Hunger and Wheelen, 2003; Coetzee and Visagie, 1993). The elements include governments; local communities; suppliers; creditors; customers; employees and labour unions; special interest groups; and trade organisations.

The task environment can be thought of as the industry in which the small firm operates. According to Hunger and Wheelen (2003), both the macro and task environments must be monitored closely so that those forces that are likely to have a strong impact on the firm's success or failure, can be detected and the organisation positioned accordingly.

3.3.3 The Micro Environment

The micro environment (also referred to as the internal environment) of the firm allows for the inputs to be processed into outputs. Coetzee and Visagie (1993) suggest that this process does not exist in a vacuum and that it is governed by laws and regulations, economic conditions, competitors, changing consumer preferences and advances in technology.

However, for the purposes of this study, the view of Hunger and Wheelen (2003) will be adopted when discussing the internal environment, given that the internal environment consists of the controllable elements of the business environment. Recall that small firm failure within the first two years after start-up is due to poor management skills which are part and parcel of the controllable internal environment.

Hunger and Wheelen (2003) suggest that the firm focuses on the following management areas, namely, marketing; finance; research and development; operations; and human resources management. An understanding of these management areas will provide the owner-manager with the requisite managerial skills to better manage the small firm and in so doing minimise the probability of failure.

Osborne (1995: 4) states that "the essence of entrepreneurial success is found in the strategies that link the company and its environment". This view is supported from a South African perspective by Coetzee, Havenga, and Visagie (1993: 1) who state that "the interaction between the environment and small and medium enterprises (SMEs) becomes a focus point for continued existence".

Osborne (1995) believes that it is in the nature of entrepreneurs to challenge conventional wisdom and that this is what defines the entrepreneurial mindset. The context to be considered when challenging conventional wisdom would imply that the entrepreneur is, at the very least, familiar with their environment, that is, unmet marketplace needs a thorough understanding of the economic, social, demographic, technological and political trends that reshape the environment (Osborne, 1995). Observing the trends in the external environment would be the entrepreneur's source for new ideas and opportunities and this environment will also determine the limits of the SMEs activities (Coetzee *et al*, 1993).

It is unfortunate that the business environment is also the cause for the high failure rate amongst small businesses within the first two years of start-up (Elmuti and Kathawala, 1999). Analysing the various research reports, it becomes clear that the most common reasons for small business failure can be found in the internal environment, in other words, that which the firms can control.

The next section will discuss some of the pertinent reasons or causes for this high failure rate of small business. This study contends that the effective management of these areas or elements causing the high failure rate will result in longevity of small business. The skills required can be learnt over a period of time but the basics need to be in place.

3.4 REASONS FOR FAILURE OF SMALL BUSINESSES

It has been mentioned in Chapter Two the unique contribution which small firms make to the economy though there are a number of problems that affect their smooth running more than their larger counterparts. The word ‘failure’ must be understood within a certain context. Failure is not necessarily used only in the negative sense, but a business could voluntarily decide to close its doors due to the owner-manager deciding to enter another industry, or due to legal changes, or a family’s decision to close the business (Megginson *et al*, 2003; Kuratko and Hodgetts, 1995).

The Jovanovic’s model (in Hall, 1995) suggests that failure would be less probable in the presence of levels of education and management experience. The fact that small firms fail due to their limited portfolio of managerial skills implies that firms fail for different reasons at different stages of their development (Hall, 1995).

Argenti’s (in Hall, 1995) research cited as the most common reasons for failure the following:

- One-man rule – owner-manager who dominates colleagues rather than leading them;
- A non-participating board which implies support for one-man rule; (not always relevant to small firms);

- An ‘unbalanced top team’, with respect to its skills base;
- A weak finance function;
- Lack of management depth;
- The owner-manager who is the only one with power and authority and who does not have a superior.

Businesses suffering from the above causes of failure will likely use poor financial information, overtrade and respond badly to change, and will embark on projects that would put the business at constant risk (Argenti, in Hall, 1995)

Megginson *et al* (2003), Kuratko and Hodgetts (1995) and Hall (1995) postulate that the reasons for failure are not always known but research indicates the main reasons or causes to include, firstly, the **lack of capital**. This seems to be the primary reason for business failure and it is considered to be the greatest problem facing small business owners. From a business viewpoint without adequate financing, the business will be unable to maintain and acquire facilities, attract and retain capable staff, produce and market a product, or do any of the other things necessary to run a successful operation (Megginson *et al*, 2003).

Secondly, **inadequate management** is another commonly cited reason. This particular problem is broad but includes weaknesses in terms of business knowledge, a lack of management skills, poor or inadequate planning, and inexperience. There is an over-reliance on the single owner-manager of most small firms and there is a reluctance to move away from this managerial tendency on the part of the owner-manager. This translates into poor human resources practices where no new qualified staff is hired or authority and responsibility delegated to other employees. According to Megginson *et al* (2003), most small firms are started because one particular individual is good at some activity or trade and not because they possess managerial skills. Managers of small firms must thus be generalists rather than specialist (Megginson *et al*, 2003) and are thus responsible for allocating limited resources and cannot afford to make poor decisions. Kuratko and Hodgetts (1995: 15) believe that “owners simply do not know how to run the enterprise”. Jennings and Beaver (in Andersen, Cobbold and Lawrie, 2001) found that the root cause of either small business failure or poor performance is almost invariably a lack of management attention to strategic issues.

3.4.1 Burdensome government regulations

There was a time when small firms were exempt from a number of government regulations but things have changed to the extent that the same regulations faced by larger corporation are now applicable to small firms. The regulations are very often complex and contradictory which is why small firms find it so difficult to comply with (SACOB, 1999).

The South African government has created new channels of bureaucracy which were regarded as major obstacles for small firms to do business in South Africa (Small Business Project, 2003).

3.4.2 Market Structure

According to Hall (1995) many researchers in the field of small business have often ignored market structure as a reason for failure because it is such an obvious factor to consider. The segments of the market in which small businesses compete primarily on price, competition is generally fierce. The market will see the entrance of new firms and this puts pressure on the existing firms to perform. Hall (1995) makes a very important point by stating that small firms do not have the luxury of economies of scale which in itself could act as a potent barrier to entry for potential new entrants. Research has found that there exists a strong correlation between low barriers to entry and fast overcrowding in market segments (Dunne, Roberts and Samuelson, in Hall, 1995).

Hall (1995) goes further to state that a lack of knowledge of the market is also an important factor that contributes to failure. However, given sufficient time, knowledge can be acquired. In some instances knowledge (in the form of qualifications) is a prerequisite in some industries. For example, to start-up a law firm you need to have a formal legal qualification but to start-up a home décor business you can acquire the knowledge as you grow.

3.4.3 Age and Size

The Jovanovich model (Hall, 1995) explicitly proves the reduced probability of failure with increases in the firm's age and size. Those firms entering the product market realise after a short period of time that their product is not finding market acceptance, but they continue in the hope that things will improve or until their capital is exhausted (Hall, 1995). Over time the management of a small firm will meet increasingly less novel problems and will thus be able to draw on its experience to deal with problems and threats (Hall, 1995).

3.4.4 Personal Characteristics

Hall (1995) state that ‘human capital’ is a broad term which includes all the capabilities of a single person. The age of the owner when they started the business is believed to be positively correlated to the probability of survival (Hall, 1995). Bates (in Hall, 1995) found the optimum age for a sample of American entrepreneurs to be 45-55 years of age.

The level of education and the attendance of management training courses is also an important aspect in terms of small firm survival. Coupled to this is whether the owner had previous management experience in terms of having owned a business or had managed one and whether or not the business had failed (Hall, 1995). It is also important to know the skills level of the workforce as this would greatly enhance the volume of human capital in the business (Hall, 1995).

3.4.5 Outside Assistance

Where a shortage of expertise in a small business exists, this could easily be supplemented by employing experts or consultants on an *ad hoc* basis and there exists empirical evidence to demonstrate the benefits of such an intervention (Hall, 1995). Very often the owner-manager is the one who tries to solve problems without considering outside assistance: the problem is compounded by the limited resources at the disposal of the small business to employ such experts.

3.4.6 Motivation

According to Hall (1995:53) “the motivation of owners for starting or assuming control of their business may play some part in determining their success”. Though this study will not focus on this aspect, it must be mentioned as a factor influencing the success or failure of a small firm.

3.4.7 Marketing

Marketing is the one and only functional area that links the products or services of a business to its customers. It is vitally important to ensure that this function is properly performed. Hall (1995) believes that firms are more likely to survive the highly vulnerable start-up period the less uncertainty about the initial level of demand they would face. Hall (1995) goes further by stating that the means by which business was secured is vital for the small firm.

3.4.8 Financial Management

This must be regarded as one of the most important aspects of business. Small firms have limited resources and cannot afford to make mistakes unlike their larger counterparts. Hall (1995) believes that the financial information available to the owner-manager must be detailed; must be separate from their personal accounts; whether their financial information was derived from a cashbook, bank statement, double entry bookkeeping, monthly or quarterly management accounts, and whether their financial system was computerised.

Hall (1995) found amongst small business owners that the expectation was that the use of sophisticated information would be associated with a greater probability of survival. Hall (1995) went further to suggest that the availability of information is not any indication of the uses to which it is put. Hall (1995) realised that those owner-managers who collected financial information primarily to assist in the running of the business were more likely to survive than those limiting its use to assisting in their negotiations with external businesses.

Another important aspect regarding financial management is the frequency with which the information is collected and the more frequently information is gathered the better (Hall, 1995). Hall (1995) believes that the person responsible for the collection of the information is also important and that this task ought to be left to an expert like an accountant. The financial information collected must also be of quality.

The management of cash flow and surpluses, in particular, has a major impact on the survival of the firm. The greater the amount of surplus cash ploughed back into the business, rather than taken as remuneration by the owner, the better the chances of survival (Hall, 1995).

3.4.9 Strategy

All firms undertake strategy whether or not they would use the term to describe what they were doing. Firms need to decide on their operating hours, location, product lines, etc. all of which are strategic decisions. The ability of the owner-manager to communicate his or her long term view (vision) to their employees is vitally important Klemm, Sanderson and Luffman, 1991; Hunger and Wheelen, 2003).

The very essence of understanding the business environment is what strategy is all about. Being aware of the impact of the elements on the small firm is critical for the continued existence of the small firm given that they have limited resources and cannot absorb the implications of making mistakes. Hall (1995) found that formal strategic planning is not common among small firms. He goes further to suggest that for some owner-managers formal planning is a help if only because of the comfort that something is being done.

According to Kuratko and Hodgetts (1995) businesses fail for a number of reasons and the failure rates differs across industries and regions. For the purposes of this study the most common reason will be cited.

In summary the most common reasons according to Kuratko and Hodgetts (1995) are:

1. Incompetence – lack of knowledge to manage the business;
2. Unbalanced experience – the owners do not have well-rounded experience in the major activities of the business, such as finance, purchasing, selling, and production; this refers to the functional areas of management;
3. Lack of managerial experience – the owners simply do not know how to manage there staff;
4. Lack of experience in the line – the owner might have entered into a sector of the economy which is he or she has very little knowledge of; and

5. Other common causes are fraud, neglect and natural disasters.

3.5 FACTORS CONTRIBUTING TO BUSINESS SUCCESS

Studies have been conducted to establish the most common characteristics of successful entrepreneurs and Kuratko and Hodgetts (1995) suggest the ten most common. They do caution stating that the list is not all-inclusive:

1. Technical competence
2. Mental ability
3. Opportunity orientation
4. Initiative and responsibility
5. Integrity and reliability
6. Tolerance of failure
7. Internal locus of control
8. Human relations skills
9. High achievement drive
10. Creativity

Kuratko and Hodgetts (1995) believe that four factors help account for business success, firstly, the existence of a business opportunity. It is fair to believe that you to have customers in the marketplace who want to buy the goods and services on offer. One of the main factors in the success of any small business is the existence of a real business opportunity. It is not enough that the business opportunity exist, but of more importance is the manner in which the opportunity is exploited or seized.

The second factor is the management ability. The ability of the owner-manager to allocate scarce resources effectively and efficiently is a question of management's abilities. Researchers such as Kuratko and Welsch (2004), Rwigema and Venter (2004), Longenecker, Moore and Petty (2003), Megginson, Byrd and Meginnson (2003), Storey (in Burns, 2001) and Elmuti and Kathawala (1999) have all reported the lack of management ability as the most common reason for small business failure.

Another factor is adequate capital and credit. Kuratko and Hodgetts (1995) believe that the greater the amount of capital the owners invest in a business, the greater the chances of survival and vice versa. They go on to mention that banks are generally risk averse when small business owners require loans. Ndwandwe (1998) reports that South African banks continue to display a crippling preoccupation with avoiding risk when dealing with loan applications from small businesses. Small businesses rely on their suppliers to provide them with credit for periods of up to 60 days. This arrangement ensures the survival of small businesses (Kuratko and Hodgetts, 1995). Under-capitalization is a problem synonymous to small businesses, in other words, lack of capital invested in a business on the part of the owner or owners. Those businesses which are under-capitalized and expanding too fast find themselves running into serious financial difficulties.

The final factor is the existence of modern business methods. According to Kuratko and Hodgetts (1995) firms must endeavour to use modern business methods, efficient equipment and procedures where available.

Making use of modern business methods will ensure that small businesses remain competitive and efficient relative to its competitors.

3.6 Chapter summary

In this chapter the focus was on identifying and understanding the impact of the factors that contribute to the failure of SMEs. Like all organizations, SMEs also operate in an environment comprising the internal and external environment. The internal environment is under the control of the owner-manager of the SME while the owner-manager has little, if any, control over the external environment.

It is the factors from these environments that lead to the high failure rate amongst SME during the first two years of start-up. From the chapter, the lack of management skills/abilities was the major contributor to SME failure. This chapter highlights the source where these management skills are to be found, namely the internal environment. The link is established in terms of the control of these abilities.

This chapter goes further to highlight the reasons for SME failure and what this means in terms of the functional areas of management, that is, marketing, financial management, human resources management, operations, and strategy. The other contributing factors are also discussed, namely motivation, outside assistance, market structure, government regulations, age and size of the firm, and some of the personal characteristics of the owner-manager.

The chapter concluded by pointing out some of the factors that contributes to business success. The next chapter deals with the management of growth from a SME perspective and uses organizational life cycle models to illustrate the requisite management challenges and skills necessary at the various stages.

CHAPTER 4

MANAGING GROWTH

4.1 INTRODUCTION

According to Evans (in Hall 1995), the probability of a firm's survival increases positively with an increase in its size and its age, suggesting that a 1% change in firm size leads to a 7% change in probability of survival and a 1% change in age leads to a 13% change in the probability of survival. Burns (2001) believes that the owner-manager must be able to change as the business grows adding that, the more rapid the growth, the more difficult this task becomes. Burns (2001) goes on to state that to successfully manage change, it is important to apply the functional areas of management, which include marketing, accounting (finance) and people management.

The development, growth and continued survival of a small firm are dependent on the owner-manager possessing competencies and skills to manage and steer the small firm in the right direction (Churchill and Lewis, 1983). The competencies and skills needed will depend on the stage of organisational development the small firm finds itself in. This chapter will examine prominent growth models that provide further insight into the characteristics of the Organisational Life Cycle and the necessary skills and competencies at the various stages of the Organizational Life Cycle.

4.2 MANAGING GROWTH IN THE SMALL FIRM

The business needs to change the way it operates and must become more formal without becoming too bureaucratic (Burns, 2001) and these changes must be properly managed if the firm is to grow successfully. Hall (1995) states that over time a business will change and that some changes will reflect the need to respond to new threats or opportunities, which can arise in even the most stable environments. Some changes will reflect a failure to meet a threat or the change may result from the fruits of success. Hall (1995) goes further to mention that other changes can occur, to varying degrees, autonomously of what is happening in the environment and that these can affect the running of the firm. Examples of this include the grandest strategies, the organisational structure, down to the time of its coffee breaks.

Burns (2001) believes the growth models that seek to describe the changes faced by the entrepreneurs will also provide them with ways and means of managing such change. Dodge and Robbins (1992) point out the development of any business organisation, large or small, tends to follow a predictable pattern that is usually characterised by sequential and progressive phases. From the various research (see for example Churchill and Lewis, 1983; Scott and Bruce, 1987; Burns and Dewhurst, 1996) conducted on growth models, the problems and challenges the firms face as it grows, suggest that the owner-manager needs to display different managerial talents and skills when dealing with these issues. The firm can be compared to an organism suggesting that it can flourish only if it adapts to environmental changes (Tyebjee, Bruno and McIntyre, 1983). Similarly, a small business can flourish if it is able to adapt to shifts in it external environment.

The various organisational life cycle models suggest that there are different challenges to overcome as the organisation moves from one phase to the next. In order for the small business to grow successfully, the owner-manager must develop the requisite skills to enable their business to progress to the next phase.

Churchill and Lewis (1983) and Birley and Gibb (1984) believe that there are a number of reasons for developing such a model of the organisation life cycle, namely:

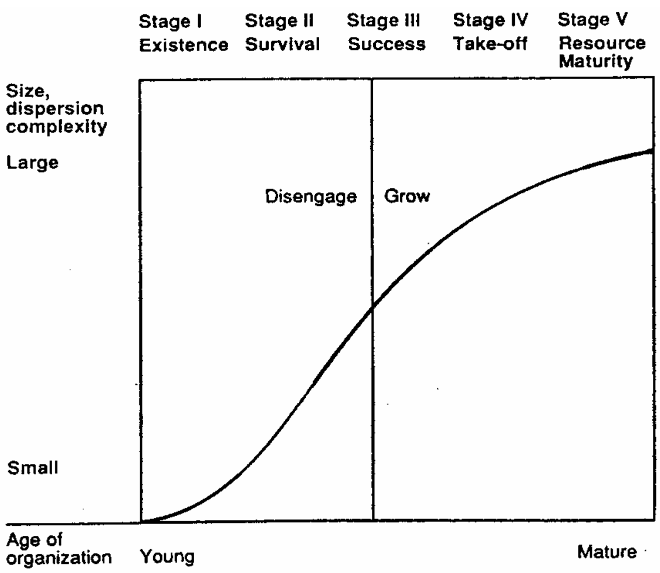
- It can assist in assessing current challenges;
- It can aid in anticipating key requirements at the various stages;
- It assists in diagnosing problems and it matches solutions to the problems;
- It provides a basis for evaluating the impact of present and potential shifts emanating from the external environment; and
- It provides a guideline to the content and level of sophistication of material to be attempted within each of the phases.

A number of organisational life cycle models exists which serves to illustrate the changes a firm undergoes as it progresses from initial concept through to the decline stage. Four of the more popular models are that of Greiner (1972), Churchill and Lewis (1983), Scott and Bruce (1987) and Burns (in Burns and Dewhurst, 1996), however, for this study, the Churchill and Lewis (1983) will be presented. The Churchill and Lewis

(1983) growth model is the preferred model for the purposes of this study. It is a widely used model covering the most common phases of a typical life cycle model.

4.2.1 The Churchill and Lewis Growth Model

According to Halttunen (1999), many scholars have described the growth path of a SME as a lifecycle model which is usually based on the size of the business and its maturity where the chronological stages in the model represent the growth phases in the firm's development. Churchill and Lewis (1983) developed a growth model (see figure 4.1), which explains the predictable growth pattern of a small-to-medium sized enterprise.



(Source: Churchill and Lewis, 1983:31)

Figure 4.1 represents a theoretical view of the process of growth of new ventures and the transitions that occur at various time intervals.

The model developed by Churchill and Lewis (1983) has five stages, namely existence, survival, success, take-off and resource maturity. In the existence stage, the key focus is on obtaining customers and as such the extent of formal systems is minimal and in some cases non-existent. In addition, the organisational structure is flat and therefore the owner-manager adopts a management style where there is direct supervision of those working in the business. As the business progresses to the second stage, survival, the business begins to employ some formal systems as the organisational structure develops more levels and hence, the owner-manager begins to delegate some of the responsibilities to employees.

The success stage is characterized by the owner-manager deciding either to keep the business at its current operational level or to use the business to launch into some form of growth. The decision to will be driven by the owner-manager's motivation, opportunity recognition and resources. Functional managers are usually used in this stage, as the business would normally have grown for the organisation to have employees taking even more management responsibility. In addition, the business has basic systems such as finance, marketing, and operations.

In the fourth stage, take-off, the key management issues confronting the owner-manager includes determining the rate of growth and financing of the desired growth. Embedded in making these decisions are issues of delegation where the owner-manager would have to allow for even greater delegation to functional managers to improve organisational effectiveness and availability and access to financial resources required to support the desired growth.

The final stage is resource maturity where the main concern for owner-managers includes managing the financial gains resulting from growth and maintaining the benefits associated with small business such as flexibility, responsiveness to customers' changing needs and entrepreneurial behaviour. A business in this stage would typically have well-established organisational systems.

Timmons (1994: 210) cautions that the smooth S-shaped curved in the figure is rarely, if ever, replicated in the real world and if one were to track the progress of most firms over time, the "curve" would be a line with many ups and downs. Figure 4.1 shows the various stages of growth of a firm in terms of sales over time and at boundaries between the stages, firms will experience transitions (Timmons, 1994). Several researchers have noted that the firms going through these transitions will be faced with certain management issues. The key issue is how the entrepreneurs/owner-managers actually cope with these transitions (Timmons, 1994). Hall (1995) suggests that the transitions that a firm might go through are of an internal nature and usually occurs as the firm grows in size. The progression of the firm from one stage to the next is not necessarily a given (Nieman, Hough and Nieuwenhuizen, 2003; Halttunen, 1999). Halttunen (1999) adds that it was a weakness of earlier growth models to assume that a firm will go through all the stages.

4.2.2 Generic stages of firm growth

Though many of the models have a number of similarities, there are also areas where they do differ such as the number of stages or phases, the duration of each phase and the terminology used to describe each phase.

The most significant difference is the number of phases or stages of the life cycle. Some authors suggest 4 stages while others suggest 5 stages. For the purposes of this study the following stages have been identified as providing a complete view of the various models.

- Stage 1: Introductory
    - Idea Conceptualisation
    - Start-up
    - Existence/Survival
- Stage 2: Growth
- Stage 3: Maturity/Stability
- Stage 4: Decline

Instead of discussing each of the different models in detail, the author will use the five stages outlined as common to the various models and discuss the contribution of the various models relevant to the different stages.

4.2.2.1 Stage 1: Introductory

This stage is comprised of the idea conceptualisation, start-up, and the existence or survival stages.

Idea Conceptualisation

This stage is also referred to as the start-up stage or conception stage of the organizational life cycle. Timmons (1994) and Hall (1995) stress that this is the most perilous stage and is characterised by the direct and exhaustive drive, energy, and entrepreneurial talent of the owner-manager and a key team member or two. During this stage the critical mass of people, market and financial results, and competitive resilience are established while investor, banker, and customer confidence is earned (Timmons, 1994). The mortality rate of firms during this stage is as high as 60% (Timmons, 1994).

While most of the available literature begins with the actual formation of the firm, a few authors, Kuratko and Hodgetts (1995), Scott and Bruce (1987) and Greiner (1972), identify the first stage in the organisational life cycle as being the identification of a new business idea on which to establish the firm and it requires an amount of creativity on the part of the owner-manager.

While termed a 'new' business idea it need not be entirely original and may be a modification of existing products available in the market. According to Bhide (1992), few entrepreneurs start businesses with a completely original concept. Entrepreneurs predominantly make use of 'me too' strategies but rely on superior execution and energy to generate profits. Bhide (1992) goes further to suggest that entrepreneurs go with their instinct and believe that's more important than planning and foresight in a new venture start-up.

Though this stage requires a fair amount of creativity, Kuratko and Hodgetts (1995) also stress the need for analysis. The creativity needed in arriving at a new product concept needs to be balanced with the analytical skills to determine the initial feasibility of the concept, either to screen out concepts that are not viable or to assess the relative merits of those concepts that appear viable.

Bhide (1994) suggests that entrepreneurs have guidelines they follow, namely:

- Screen opportunities and quickly remove unpromising ones;
- The analysis undertaken should be parsimonious, focusing only on a few issues critical to the project; and
- Integration of action with analysis. In other words, not waiting until every question has been answered before taking action as well as being ready to change course.

Greiner (1972) sees a characteristic of this stage as being the founder's technical or entrepreneurial orientation which results in the product absorbing both their physical and mental energies. The firm at this stage is emerging, concentrating on obtaining customers with generally a single or basic product.

The management style is personalised based on the behaviour of the entrepreneur who also closely supervises all activities. The main problems arsing from this stage are the creative ability to identify potentially viable product ideas and the ability to assess the merits of investigating the initial feasibility of establishing a business founded on the initial business idea.

Start-up

The transition from stage 1 to this stage requires converting the product idea into an actual business activity. This stage requires a more thorough analysis of the business in the form of a business plan from which the owner-manager can work when establishing and setting up the business.

While creativity was a critical success factor in stage 1, Greiner (1972) points out that in order for the firm to develop the founder must provide leadership and tackle the various management issues that arise. This will be particularly difficult for owner-managers who enjoyed the initial creative phase with its informality. However, if the owner-manager can provide the requisite leadership for the firm, they can begin the process of charting the direction in which they want the business to move.

Kuratko and Hodgetts (1995) see the two most important considerations during this phase as being the identification of the businesses' competitive advantage and the location of a feasible source of finance. A further consideration during this phase is the type of marketing being pursued by the owner-manager of the business. According to Tyebjee, Bruno and McIntyre (1983) they would expect the owner-manager to be making use of entrepreneurial marketing which essentially taps into the personal networks of the owner-manager such as relatives and friends and they tend to form the bulk of the initial sales. While servicing the personal networks, the business would also produce specialised products for customers whose needs are not currently being met. The cause of this type of marketing is largely due to the poor marketing skills of the owner-manager even though they have a high degree of technical skills. Though this type of activity allows the business the opportunity to establish itself, it does have a number of drawbacks, namely:

- Too small a customer base;
- Too customised a product line;
- An over-extension of key people; and

- An over-extension of the owner-manager.

As far as the financial situation is concerned, the potential stress factor is the possibility of the firm being undercapitalised with the major source of finance being the owner-manager(s) (Kuratko and Hodgetts, 1995). There is, therefore, clearly a need for financial planning at this stage with research by Dodge and Robbins (1992) finding this problem catering for 72% of financial problems at this stage of the OLC.

Existence/Survival

During the previous stage the owner-manager was more concerned with the establishment of the firm as well as trying to gain market acceptance. The thrust is now to get enough customers so as to make the business economically viable and Burns and Dewhurst (1996) go further by stating that owner-managers need to focus on solvency with the task of monitoring cashflow and meeting break-even as being of prime importance. This view is also supported by Churchill and Lewis (1983) who also suggest as a primary strategy that the owner-manager attempts to keep the business solvent long enough for the customer base to be expanded. At this stage of the organisation life cycle, the owner-manager still does everything in addition to directly supervising staff (Churchill and Lewis, 1983). The primary strategy is simply to stay alive.

Burns and Dewhurst (1996) also suggest that the margins that were initially projected are indeed achieved and that the owner-manager must focus on developing the products unique selling proposition based on the initial reaction from the customers.

During this phase there is a shift in emphasis away from establishing the firm in the market towards identifying new customers, that is, a greater shift towards the marketing function (Tyebjee *et al*, 1983). Also, the firm has built up credibility in the marketplace and has established the technical capabilities of its product offering. The need to improve internal reporting and to improve financial control systems becomes a priority and this is largely due to the economies of scale taking effect since the firm's product lines become more standardised and attract a wider array of customers (Tyebjee *et al*, 1983)

In terms of managing the firm, product planning and pricing are still the responsibility of the owner-manager. Since the product offering attracts a wider array of customers, new distribution channels have to be developed. Product and market research is still a low priority within the firm.

As the customer base begins to expand, it is important for the owner-manager to consider systems and controls. While up to this point they could monitor all aspects of the business personally, continued growth will make this increasingly difficult necessitating the introduction of basic systems and controls. While the direct hands-on style of management of the owner-manager was important in getting the business established, Greiner (1972) sees this as resulting in a 'crisis' of autonomy. In essence, it creates a situation where the employees find themselves restricted by the owner-manager's attempts to monitor everything and, as they understand their role in the organisation, they need autonomy and freedom from the owner-manager's watchful eye. Therefore, so as to avoid disenchantment and, in order to motivate their employees, the owner-manager must delegate authority and give their employees more responsibility. This will enable them to be more responsive and allow them to take initiative without having to have everything checked by the owner-manager. According to Burns and Dewhurst (1996) the owner-manager should be monitoring margins, cashflow and break-even. Churchill and Lewis (1983) emphasise the importance of having sufficient cashflow to allow the firm to expand to an economically viable size.

Hutchinson and Ray (in Curran, Stanworth and Watkins, 1986) warn that failure to deal with the problems identified during this stage of the organisational life cycle, business failure will result due to 'overtrading'. Scott and Bruce (1987) recommend two solutions to overcoming the problems of this stage, namely, the firm has to curb growth thus remaining in the survival stage or promote growth.

4.2.2.2 Stage 2: Growth

This is also referred to as the high growth stage, rapid growth stage or take-off stage of the organizational life cycle. The length of time it takes to go through this stage, as well as the magnitude of change occurring during this period, varies greatly (Timmons, 1994). It is suggested by Timmons (1994) that this is the most difficult challenge for the founding entrepreneur when they find it necessary to let go of power and control over key decisions that they have always made. Other challenges may arise like the ability of a firm to grow as rapidly as the market opportunities.

A major change in entrepreneurial strategy is required on the part of the owner-manager during this stage of the OLC. Should the business be entering this stage and having survived the previous stage, it clearly indicates that the product has proved its viability through gaining repeat sales and by meeting the needs of a growing number of consumers. During this stage, if managed properly by the owner-manager, the firm will face a period of rapid growth in sales as the product is accepted and adopted by a growing number of consumers. The owner-manager must not only manage the increase in sales but also the resultant problems of an increasingly complex organisational structure.

It is during this stage that the owner-manager must take heed by keeping a close eye on new entries into the market. Larger competitors are likely to react to the entry of new firms into the market, by way of product modification or new product development which is a critical decision area for the owner-manager. Burns and Dewhurst (1989) suggest the adoption of more control systems along with the recruitment of more skilled staff in preparation for this increase in growth. The issue of control also emerges as an important area according to Greiner (1972) as a direct result of the delegation of authority which was necessary in the previous stage. It is also during this stage that the feeling of losing control emerges as a result of the delegation of authority from the previous stage. This culminates in an attempt by the owner-manager to regain control (Greiner, 1972).

With the firm growing and with the introduction of control systems, there is a need to coordinate the systems more effectively which ought to result in the efficient allocation of the firm's limited resources. Burns and Dewhurst (1989) and Churchill and Lewis (1983) suggest that the owner-manager must now manage the allocation of the limited resources as well as engage in strategic planning to cope with the expansion and the resultant drain on the firms cashflow.

The greatest need identified during this phase, is the need for the effective delegation of authority (Kuratko and Hodgetts, 1995; Burns and Dewhurst, 1989; Churchill and Lewis, 1983, Tyebjee *et al*, 1983) and not the mere allocation of duties by the owner-manager. The firm has grown sufficiently in size so as to require ‘professional’ management and should the owner-manager be lacking in the necessary management skills, this could lead to business failure. The choices offered by Burns and Dewhurst (1989) are either to sell the firm or installing suitably qualified professional management. This view is supported by Churchill and Lewis (1983) who refer to this as the “disengagement” option where the business is firmly established in the market by allowing control to be relinquished by the owner-manager in favour of professional management. Another option available to the owner-manager is the development of their own managerial skills and competencies necessary for the successful management of the firm (Kuratko and Hodgetts, 1995; Burns and Dewhurst, 1989; Churchill and Lewis, 1983, Tyebjee *et al*, 1983).

The high growth experienced by the business will eventually begin to slow down due largely to the increase in the number of competitors attracted to the market. Tyebjee *et al* (1983) identified market saturation as the major cause for the slowing down the growth which requires the firm to pursue other product positions in order to sustain the growth. Dodge and Robbins (1992) noted the narrowing gap between the actual and potential market as an increasing proportion of the relevant customer segments are catered for.

McMahon (1998) identified the financial gap as a problem that occurs very often during this phase. The financial gap comprises of the finance related problem such as the raising of capital and initial government grants ceasing as the firm is established while the firm is still regarded as too small and risky by financial institutions. According to Burns (2001) and McMahon (1998) the main sources of finance at this stage is the owner-manager, suppliers and commercial financial institutions. Owner-managers at this stage of the organisational life cycle find that they are unwilling or unable to make the necessary personal and business changes to grow the business further which results in the demise of the business or the owner-manager leaves to start another venture. McMahon (1998) believes that a major stress factor faced by the owner-manager is the possibility of loss of control resulting from the need for an infusion of equity capital by selling a portion of the business.

4.2.2.3 Stage 3: Maturity/Stability

This stage is also referred to as resource maturity stage or stability stage of the organizational life cycle. The key issue according to Timmons (1994) for the firm is no longer survival, but rather one of steady profitable growth. Hall (1995: 116) adds that it is during this stage that a firm will have the advantages of size, financial resources and managerial talent.

After the rapid growth and expansion of the business in the preceding stage along with the increase in competition, this stage is characterised by stability (Churchill and Lewis, 1983). The role of the owner-manager changes during this stage and must re-directed from one that focuses on growth to ensuring that the company consolidates its position in the market place and looks strategically to the future rather than complacently reaping the fruits derived from past successes (Burns, 2001).

Kuratko and Hodgetts (1995) suggest that this stage is the one that will either propel the firm onward to a higher level of profitability or condemn it to decline and failure. This responsibility is highly dependent on the actions of the owner-manager. It is believed that innovation is critical to reduce the impact of failure during this stage (Kuratko and Hodgetts, 1995).

One of the potential pitfalls identified by Greiner (1972) is an increase in “red tape’ due to abundance of control and coordinating system implemented during the earlier stages. Greiner (1972) believes that their proliferation exceeds their utility in that procedures may take precedence over problem solving and innovative behaviour if allowed. A solution to this problem is to narrow the gap through collaboration between the owner-manager and lower levels of management which may have been caused by the proliferation of red tape. Dodge and Robbins (1992) see the need for innovative behaviour to be exhibited by the owner-manager as a basis on which to build the future viability of the business.

While the life cycle concept provides valuable information on how a firm develops and evolves through the various stages of development, it is necessary to be aware of some of the limitations imposed upon it.

Storey (1994) has cited four limitations. Firstly, while implied by the models, not all firms move sequentially through all stages due to business failure. It is accepted that not all firms progress sequentially through all stages but not all models expect it to, either implicitly or otherwise. Models such as the Scott and Bruce model (in Burns, 2001) indicate that firm failure may occur a number of times during the stages. Also, the Eggers and Leahy (1995) model depicts the firm moving forward and regressing, omitting some stages entirely. Secondly, the firm's management style may be more advanced than the firm's organisational structure, which means they are not moving in parallel as suggested by the models. Greiner (1972) admits that this could potentially be a problem if the owner-manager attempted to institute an inappropriate organisational structure, for example, an over-use of controls when the emphasis ought to be on creativity. This problem is with the owner-manager more than with the models themselves. The owner-manager might not even realise the stage the firm is going through or even consciously think what they ought to be doing. By using the organisational life cycle models as a guide, the appropriate managerial style might emerge as a solution to the problem.

Thirdly, firms may reach one particular stage and remain at that stage. It is difficult to see how this can be a limitation. Churchill and Lewis (1983) offer numerous scenarios in which this situation occurs. As long as the owner-manager is happy to accept the stage they are in then the models have served their purpose in guiding the owner-managers behaviour through change to a stage where they are content to remain. While the models could have been of more use should the owner-manager wish to continue through the stages, it should not be seen as a limitation of the model. Finally, some models (Greiner, 1972; Churchill and Lewis, 1983; Scott and Bruce (in Burns, 2001)) suggest transition between stages is caused by crises. Storey (1994) sees this as an untested and untestable hypothesis. Rather than looking at the models as comprising a number of distinct and discrete stages, each heralded and identifiable by crises, it may be possible to look on the models and their stages as a simplification to help an understanding of a process, which is essentially continuous rather than discrete.

The life cycle notion can be viewed as important as it represents the exogenous determinant of the potential size of the firm. Thus, market demand and industry structure characteristics of the form life cycle approach determine the scope for understanding small business growth. This life cycle approach evaluates the small firm from a change in the role of the owner-manager to the emergence of some formal management structure where the owner-manager begins to delegate their operating role and then some management roles (Churchill and Lewis, 1983; Greiner, 1972). These structure adaptations are necessary for the continued growth and success of the business. It could also be implied that the development of a managerial division of labour (structure) may be a consequence and an instigator of successful growth.

O'Gorman and Cunningham (1997) cite figures from the UK which indicate four out of one hundred small business start-ups will grow rapidly and that ten years after start-up these fastest growing four firms will account for half of the all employment in those firms that have survived.

4.2.2.4 Stage 4: Decline Stage

This stage is characterised by the slight decline in sales over time. The thrust during this stage is the management of managers. Nieman, Hough and Nieuwenhuizen (2003) this stage is not necessarily inevitable but should rather serve as a warning against complacency on the part of the owner-manager. The challenge during this stage for the owner-manager is to either create an environment that is conducive to creativity so that the venture can be rejuvenated (Nieman, Hough and Nieuwenhuizen, 2003) or allow the venture to continue to slip into decline.

4.3 CHAPTER SUMMARY

The organisational life cycle models provide an insight into the various elements of growth as the firm moves through its development cycle in terms of age and size. The small firm sector is heterogeneous in nature resulting in the growth process being complex and often difficult for the owner-manager to understand and manage and it is in most instances the owner-manager who will determine and define growth and decide on the process of growth in their enterprise.

This chapter presented the Churchill and Lewis model as its primary model and then utilised the contributions of the Greiner model, Scott and Bruce model, and the Burns model to eventually present a generic model for the purposes of simplifying discussion of the organizational life cycle of the SME.

By integrating the various contributions and the management skills and challenges faced by the owner-manager as they move through the different phases are illustrated, owner-managers will be in a position to better prepare themselves for challenges as they move through the organizational life cycle. The next chapter deals with the research methodology of this study.

CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 INTRODUCTION

The purpose of the research was to gain insight in the management processes of small businesses in South Africa by exploring and describing the internal factors that influence the entrepreneur. The chapter provides an overview of the study's research methodology which lies within the quantitative paradigm. The chapter discusses the study's research design – the survey design, focusing on namely the data collection, data management and data analysis procedures. The chapter concludes with a discussion on the reliability and validity issues for the study.

5.2 THE QUANTITATIVE RESEARCH PARADIGM

According to Guba and Lincoln (1994: 107), a research paradigm is a "set of basic beliefs, which represents a worldview that defines … the nature of the world and the individual's place in it, and the range of possible relationships to that world" for an individual. This worldview is represented in the quantitative paradigm as an investigation of a phenomenon by testing a theory that can be measured numerically and analysed statistically (Creswell, 1994). To this end, the issue of what is considered real or the truth can be measured objectively using, for example, a questionnaire where the researcher remains independent of what is being studied and the research process is deductive in nature (Creswell, 1994). The quantitative paradigm was appropriate for this study for two reasons. Firstly, the research instrument that was being used in the study has been developed and tested in a different context and secondly, the issues in this particular research have been studied by other researchers hence a substantial body of literature exists.

5.3 THE RESEARCH METHOD: SURVEY

Bless and Higson-Smith (1995) suggests that in conducting explorative and descriptive research, the survey design can be used to collect information from several units of analysis. Although some information was known about the management of small businesses, the study was still exploratory in that it was being conducted in a different context (the South African context) and more information was needed before developing a theoretical framework (Sekaran, 2003). In addition, the study was descriptive in that the study was conducted to determine and describe "the characteristics of the variables of interest" in terms of small business management. The researcher selected the survey design to conduct the study as an existing instrument was being used in the study although the instrument was modified to suit the South African context.

5.4 DATA COLLECTION PROCEDURES

The following section discusses the data collection procedures and begins with a description of the participants – the units of analysis. This is followed by a discussion of the sampling strategy, the data collection methods, the research instrument, ethical considerations for the study, and finally, data management issues.

5.5 SAMPLING STRATEGY

Although the study was conducted within the quantitative paradigm and hence probability sampling techniques would normally be used, non-probability sampling techniques were used as the study was relatively small and the generalisation of results was not the goal. The researcher selected two purposeful sampling strategies, namely criterion and convenience sampling. The researcher used convenience sampling as it had the advantages of saving time and money (Creswell, 1998). This is because only those manufacturing businesses that met the criteria were included in the sample. The criteria included, businesses had to be (a) manufacturing concerns; (b) located in the Eastern Cape; (c) between three and seven years of existence; and (d) meet the definition of small business as set out in the National Small Business Act of 1996. The reason for selecting firms that are between 3 to 7 years of age is that these firms fall into the growth phase of the organisational life cycle as advocated by Churchill and Lewis (Timmons, 1990). In addition, the researcher used snowballing in an attempt to access other businesses that met the criteria by asking owner-managers that the researcher had contacted. However, this sampling technique yielded no further businesses to be included in the study as businesses named businesses that were already included in the study by the researcher.

The Registrar of Companies was initially approached in order to obtain a list of registered businesses from which those firms which have been in existence for longer than 3 years but less than 7 years can be ascertained. This particular approach yielded nothing in terms of a possible sample as the telephone numbers of the businesses in the Eastern Cape region had in fact changed thus rendering the database obtained from the Registrar of Companies useless. In addition, it was expected that not all of the businesses fitting the criteria for inclusion in the sample would be formally registered. It was thought that the list from the Registrar of Companies could have been used to cross-reference it with a list obtained from the Chambers of Commerce in the various areas selected within the Eastern Province indicating which small businesses in the area employ between 10 and 50 people. Because the Registrar of Companies' list proved to be useless, the researcher pursued the option of approaching the various Chambers of Commerce for access to their database.

Given the criteria for inclusion in the sample, it became evident that not many of the small businesses in the Eastern Cape would be part of the research sample. For the requirements of this study, a sample size of 30 was deemed sufficient. The Chambers of Commerce in Port Elizabeth, King Williamstown, East London, Border-Kei region, Queenstown, and the Umtata-Butterworth area all provided names and contact numbers for firms fitting the criteria for inclusion as respondents.

5.6 ACCESSING OWNER-MANAGERS: ETHICAL CONSIDERATIONS

Hall (1995: 68) suggests that because of the nature of small businesses the owner-manager of the business is best suited to have a thorough knowledge of the business since they are involved in the growth of the business from the early stages. For this reason, the owner-manager will constitute the primary source of information. Thirty owner-managers participated and represented a variety of manufacturing businesses. Before undertaking interviews with the owner-managers, the researcher gained access to the individuals by telephoning them personally and seeking permission to interview them. The researcher informed the potential interviewees that their information had been obtained from a database provided to the researcher by their local Chamber of Commerce. However, it was stressed that the only information that had been provided by the Chamber of Commerce was their contact details as well as the type of industry that the business operated in.

To determine if the business was eligible for the interview, the researcher asked the owner-managers firstly, the number of years that the business had been operating; secondly, if the business was a manufacturing concern; and lastly, to confirm if the business employed between 10 and 50 people. The age of the business was of importance as the study was only interested in interviewing owner-managers whose businesses were between three and seven years – the growth phase of a small business according to Churchill and Lewis (1983). The owner-managers were informed about the nature of the study and its purpose. On the interview day, interviewees were informed before the interview took place that the information provided would be kept confidential and be used for academic purposes.

5.7 DATA COLLECTION TECHNIQUES

The survey instrument that was used in the study was modified from the instrument developed by a panel of experts lead by Professor Dylan Jones-Evans of the University of Wales. The instrument was modified to suit the South African context. When the instrument was developed the intention was for it to be used in a comparative study between Wales, Morocco and South Africa. The main modifications to the instrument were in terms of currency denominations, areas in the study and omitting questions that focused on a specific region in Wales. At the time of writing this report, no known findings from the other two countries were available.

Permission to use the questionnaire was obtained from the developers of the questionnaire prior to modification and administration. The reliability and validity of the questionnaire was not established, as it was not tested in Wales. However, a panel of experts in Wales who have studied management issues in small businesses designed the questionnaire. The objective of the questionnaire was to identify best practice in the management of small businesses in South Africa. The sections that were included in the questionnaire included (a) owner-manager information; (b) business characteristics; (c) business strategy; (d) marketing; (e) operations; (f) people management (human resources management); and (g) finance.

Structured, face-to-face interviews were conducted with the owner/managers who constituted the primary data source for the research as it was known from the beginning of the research the information needed (Sekaran, 2003). As this study was using an existing questionnaire, structured interviews were the most appropriate because the questionnaire would be presented to all participants in the same way. In so doing, Bless and Higson-Smith (1995: 10) argue that “the role and influence of the interviewer” is reduced thereby enabling “a more objective comparison of the results.” The questionnaire was administered by the researcher in a structured interview where owner-managers where asked questions and the researcher filled in their responses.

The advantages of using a structured interview approach where it would be administered by the researcher in this case, included firstly, the level of incomplete questionnaires would be reduced because all the questions would be asked and answered (Kumar, 1996). Secondly, the researcher was able to clarify any queries concerning the questions (Kumar, 1996). The owner-managers were interviewed for a relatively short time with interviews lasting between 30 – 45 minutes. However, Bless and Higson-Smith (1995) note some disadvantages of this method indicating the high costs and time spent in collecting the data, which in turn may result in the researcher selecting a small sample. Secondly, the presence of the interviewer may impede on the respondents ability to answer freely and openly especially where sensitive information is required. Finally, interviewer bias may be introduced when the researcher is explaining any queries that may arise during the interview.

5.8 DATA DOCUMENTATION AND STORAGE

A spreadsheet was used to store the data collected from the questionnaires. As descriptive statistics where being used, the use of a spreadsheet was appropriate. The information gathered from each questionnaire was entered onto the spreadsheet after the interview and because the questionnaires were administered by the researcher, all the data fields were complete.

5.9 THE DATA ANALYSIS PROCEDURE

Descriptive statistics were used to analyse the data and were appropriate given the relatively small sample size. Crosstabulations were done on some of the variables in the study and these enabled the researcher to explain the meaning of the data better (Vos, Strydom, Fouché and Delport, 2002) because of the associations between the data (Davis, 1999).

5.10 RELIABILITY AND VALIDITY OF THE INSTRUMENT

Bless and Higson-Smith (1995) highlight that reliability is “concerned with the consistency of measures”, thus, the level of an instrument’s reliability is dependent on its ability to produce the same score when used repeatedly (Babbie and Mouton, 1998). The questionnaire used for the purposes of this study was designed by a panel of experts at the University of Wales.

For the reliability of the questionnaire three academics were used to review the questions and categories listed in the original questionnaire and to administer the questionnaire to determine the length of time required to complete the interview. The academics were also requested to recommend any alterations to the questionnaire for its use in South Africa.

Validity on the other hand refers to whether an instrument actually measures what it is supposed to measure, given the context in which it is applied (Babbie and Mouton, 1998; Bless and Higson-Smith, 1995). The questionnaire used in this study was given to three independent experts in consultation with a statistician to evaluate it for face and content validity as well as for conceptual clarity and investigative bias.

In terms of using the information gathered through the questionnaire, it must be emphasised that no summative scores were used for interpretation purposes but rather the answers to individual items in the questionnaire.

According to Polit and Hungler (1997), a pre-test is a trial run to determine whether an instrument solicits the type of information envisioned by the researcher. The three academics who initially evaluated the instrument also performed a pre-test on respondents who were not part of this study. No major problems were experienced and the information received reconciled with what it was intended to collect.

5.11 CHAPTER SUMMARY

The chapter outlined the research methodology process the researcher followed in the study. A discussion of the study's survey research design was presented and its adoption was justified. The researcher in an interview to obtain the data administered a questionnaire. Descriptive statistics where used to analyse the data given the study's small sample. Finally, issues of reliability and validity concerning data collection and analysis for the study were discussed.

CHAPTER 6

RESEARCH FINDINGS AND DISCUSSION

6.1 INTRODUCTION

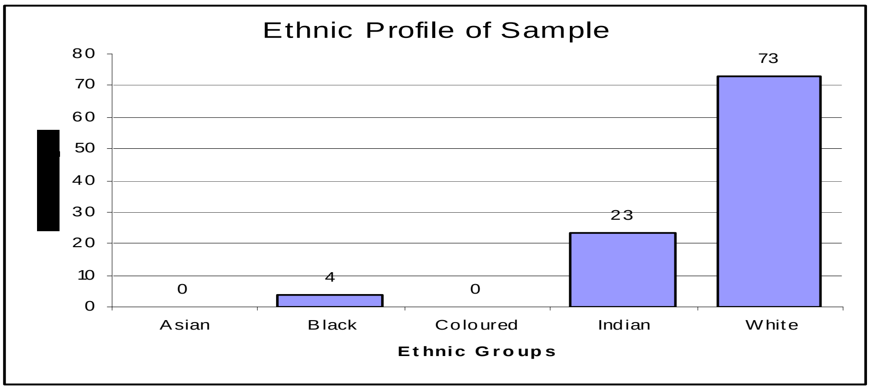
The previous chapter explained the method of data collection and alluded to the issues pertaining to the actual process of data collection. Once the data was collected from the respondents and coded, descriptive statistics and crosstabulations were performed on the data. The data collection instrument, as mentioned in the previous chapter, was designed by a panel of experts thus ensuring reliability of the instrument. The statistical analyses conducted illustrated the extent to which management practice is prevalent amongst the owner-managers of small businesses. The results of the statistical analyses are presented in this chapter. The implications of the findings are discussed in light of the literature reviewed in the first four chapters of this research.

It must be emphasised that the context and content of the findings of this study is focused on the micro environment (see section 3.3.3).

6.2 THE DESCRIPTIVE AND FREQUENCY STATISTICS OF THE RESEARCH FINDINGS

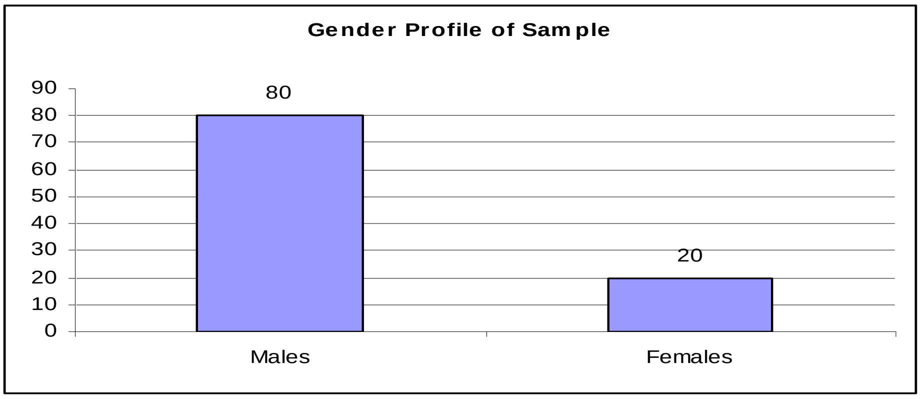
6.2.1 The Owner-manager

Graph 1: Ethnic Profile



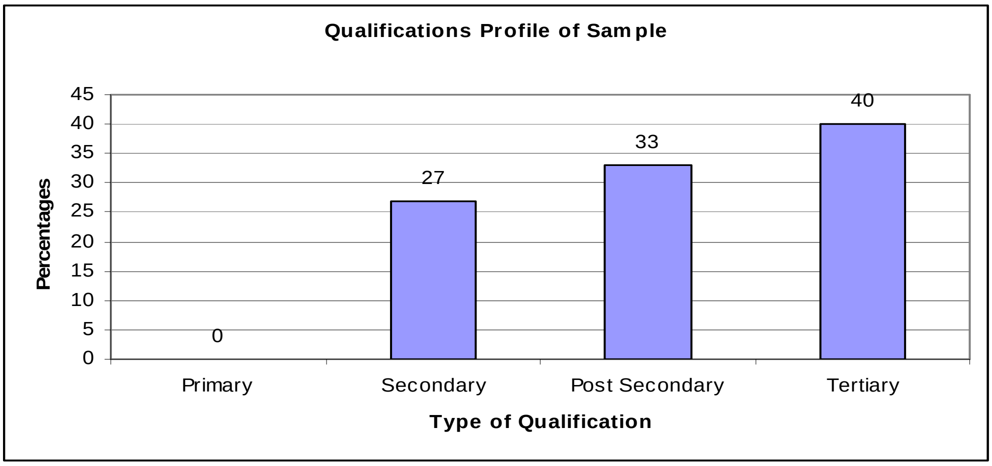
From graph 1, 73% of the respondents were White and 23% were Indian with the remaining 4% comprised of Coloureds, Blacks and Asians.

Graph 2: Gender Profile



Graph 2 illustrates the gender profile of the sample. In terms of gender 80% were male and 20% female.

Graph 3: Highest Qualification



Graph 3 illustrates the variety of qualifications across the sample. The majority (73%) of the respondents had a post secondary qualification (technical diploma or bachelors' degree) while 27% only had a high school qualification. Hall (1995) suggested that the level of education and the attendance of management training courses is also an important aspect in terms of small firm survival. All the respondents have working experience either as ordinary employees (37%), or at the managerial level (23%), or as entrepreneurs (23%) while 17% have indicated they have worked in other capacities.

The average age of the owner-manager at start-up of the venture was 37.6 years with the median at 38 years of age which indicates the age to be normally distributed. The youngest individual was 23 years of age and the oldest at 59 years of age. Contrary to Bates' findings (in Hall, 1995) that the optimum age for American entrepreneurs is between 45 to 55 years of age, the finding of this exploratory study show that the average age of the South African entrepreneur in the Eastern Cape who participated in this study, was approximately 38 years of age during the start-up phase of the organizational life cycle.

The respondents regarded themselves mainly skilled in the area of Finance (40%), Marketing (53.3%) and Operations/Production management (50%). This study indicated that 33% of the respondents made use of consultants and in this case the consultants took the form of accountants. However, an interesting finding is that although the main reasons for starting their businesses were financial (20%), independence (20%) and self employment (20%) and given the fact that equity contributed 66% of the start-up capital, it is interesting to note that only 40% of the respondents regarded themselves as skilled in the area of finance. Research suggested that one of the major reasons for SME failure is a lack of financial management acumen. Given Kuratko and Hodgetts (1995) belief that the greater amount of owner's investment in their business venture leads to a higher chance of survival and Hall's (1995) postulation that the collection of financial information in the managing of the business could lead to the continued survival, it is then interesting that such a small percentage of respondents are skilled in financial management.

They regarded themselves particularly weak in the areas of Strategy (80%), Human Resources Management (77%), General Management (70%), and Administration (77%). Of the seven areas listed in the questionnaire, on average the respondents were skilled in three of the seven areas though the median indicated two of the seven areas as the central tendency. It can be seen that in terms of skills, the weaknesses in strategic management, human resources management, general management and administration, are manifested in the significant weakness in financial management. This study indicates that a severe weakness in the area of strategy is cause for concern and this is vindicated by the view of Jennings and Beaver (in Anderson, Cobbold and Lawrie, 2001) who suggested that the root cause for failure and poor performance is the lack of management attention on the part of the owner-manager to strategic issues.

In terms of problems when starting their businesses, 60% of the respondents stated that access to finance was a problem but only half of the respondents listed it as a problem three years after start-up. Megginason *et al* (2003), Kuratko and Hodgetts (1995) and Hall (1995) have cited the lack of capital as one of the major reasons for business failure. This study indicates that after three years of business activity, that the problem of capital is not as severe as at start-up.

It is clear that as a business established itself in the market place, so did its initial problems subside. For example, initially 17% of the respondents indicated that sourcing suppliers was a problem but three years later this figure reduced to 7%. Also, 37% of the respondents noted that accessing customers was a problem, but three years on only 17% listed it as a problem. On the other hand, the problem of recruiting staff was listed by 13% of the respondents as a problem at start-up and after three years the problem was worse with 27% of the respondents listing it as a problem. If you take into account the fact that virtually all (97%) of the respondents indicated that the existing labour legislation does not assist the employer, then one could assume that this might be the reason the recruiting of staff has worsened over a three year period.

Considering that all the respondents in this study were placed in the growth phase of the organizational life cycle, Timmons (1994) suggests that this is the most difficult stage for the owner-manager as they have to let go of their power and control over key decisions that they always made. This study indicated that 93% of the respondents delegated authority to their subordinates though all the key decisions were still made by the owner-manager 77% of the time. A critical feature of this stage is the need for effective delegation of authority and not the mere allocation of duties (Kuratko and Hodgetts, 1995; Burns and Dewhurst, 1989; Churchill and Lewis, 1983; Tyebjee *et al*, 1983) and this study indicated that 93% of the respondents delegated authority.

According to Kuratko and Hodgetts (1995), Burns and Dewhurst (1989), Churchill and Lewis (1983), and Tyebjee *et al* (1983), an option available to the owner-manager is the development of managerial skills and competencies and in this study 83% of the respondents were involved in training and development.

6.2.2 Business Characteristics

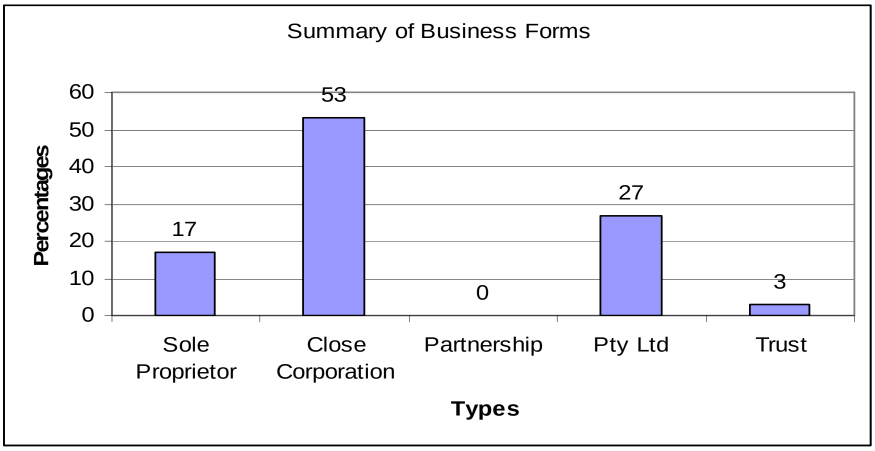
The average age of the businesses was 5.73 years and the median was 5.50 years which indicates the average age category to be a normally distributed sample. The average age of these firms would indicate that they are roughly in the middle of the growth phase of the organizational life cycle. In some instances the growth phase is divided into the early growth phase and the rapid growth phase. Judging from the average age of these firms they would be exiting the early growth phase and entering the rapid growth phase.

The average number of full-time employees at start-up was 20 individuals which increased to 24 individuals three years after start-up. The average number of part-time employees at start-up was 4 individuals which increased to 5 individuals after three years. This finding supports Bridge's (1998) definition on growth in terms of an increase in the number of employees.

This study was conducted in the Eastern Cape amongst the manufacturers who met the criteria for selection to the sample. From this sample it is evident that the businesses derived that bulk (61%) of their turnover from their local markets with 26% from the regional market; 9% from the national market and 4% from international markets.

The vast majority (90%) of the respondents had a controlling interest in the business and hence the fact that owner-managers were responsible for 90% of the key decisions in purchasing.

Graph 4: Forms of Business



From graph 4, the most popular business forms of the respondents were Close Corporation (53%), Private Company (27%), Sole Proprietor (17%), and Trusts (3%).

6.2.3 Business Strategy

Of the respondents, 63% indicated they had a short term business plan which was in the form of an annual budget (42%), cash budget (5%), pro-forma statements (21%), other (32%). Megginson *et al* (2003) believes that the owner-managers' ability to plan is imperative for future growth and survival of the business venture. The fact that the respondents (67%) indicated that they do evaluate variances from their budgets and they do this monthly (85%) while others (15%) do it quarterly also provides evidence of their ability to plan.

Approximately half (57%) of the respondents have a five year plan with 27% of the respondents focusing on high growth and another 30% focusing on aggressive growth. This study indicated that 27% of the respondents revise their plans annually or semi-annually despite the fact that 77% of them conduct SWOT analysis. This implies that they are not making accurate assessments of their environment and is supported by the fact that 80% of them regarded themselves weak in the area of strategy.

The overwhelming majority (90%) of the respondents have vision/mission for their businesses but their ability to translate their vision into their planning is lacking given that 27% change their long term plans within the first year. A positive finding is that 57% of the respondents do have a five year plan which is indicative of their ability to plan and their ambition to pursue growth objectives.

6.2.4 Marketing

The majority (67%) of the respondents described the degree of competition in their market place as being high, while a few (13%) described it as moderate and 20% described it as limited. According to Hall (1995) failure to pay attention to the market structure in terms of the level of competition is often ignored and may lead to business failure. Despite the fact that the respondents regarded themselves as weak in the area of strategy, 77% of the respondents conducted SWOT analysis which implies they are aware of the industry conditions.

The majority (63%) of the respondents relied on key customers with varying degrees of dependency, namely, 40% very dependent on the key customers, 20% moderately dependent and 40% not reliant at all on key customers. Greiner (1972) suggests that firms will be acquiring customers during the idea stage of the organizational life cycle model and the fact that 63% of the respondents are reliant on key customers indicates they have acquired customers and have moved into a different phase of the organizational life cycle.

Even though there is an appreciable number (63%) of respondents reliant on key customers only 27% of them have a formal system for evaluating customer satisfaction notwithstanding that 90% of the respondents offering after sales service. Should there be reason to deal with customer complaints, 87% of the respondents will do so by paying the customer a personal visit.

All the respondents make use of some form of promotion with the bulk of the effort going to leaflet drops (30%), trade shows (20%), in-store promotions (17%), and word of mouth (13%).

The overwhelming majority (90%) of the respondents have a clearly thought out marketing plan with 52% focusing on their target market, 15% focusing on niche products, 15% focusing on some form of competitive advantage they have, 11% focusing on growth, and 7% focusing on other efforts.

Burns and Dewhurst (1996) and Churchill and Lewis (1983) suggest that during the growth phase the owner-manager will be required to engage in strategic planning to cope with the expansion and resultant drain on the finances of the business. In this study, 80% of the respondents had a strategy for developing new business even though 80% of the respondents regarded themselves as particularly weak in the area of strategy.

6.2.5 Operations

Only 57% of the respondents have a quality control system in place with 37% of the respondents having a recognised quality control system, like SABS or ISO, in place. The findings of this study show that 70% of the respondents indicated that price and quality were there main sources of competitive advantage. Fifty seven percent of the respondents have a quality control system in place and this has been a source of competitive advantage for the firms.

Firms in the growth phase will also have a number of control systems in place (Burns and Dewhurst, 1996). The findings from this study indicate that 57% of the firms have systems in place to analyse their production performance which is consistent with Burns and Dewhurst (1996). The findings also indicate that these production performance systems provide the owner-manager with feedback taking place on a daily basis in 47% of the respondents while 24% receive feedback on a weekly basis. Of the respondents, 29% receive feedback at other intervals determined by the firms' owner-managers.

Quality of the product (83%), continuity of supply (73%), and pressure to reduce costs (57%) were the main determinants of choice of suppliers.

With respect to Information Technology systems being used, 100% of the respondents made use of some form of communication device, 97% made use of computers and 97% made use of some or other computer software packages. The overwhelming majority (93%) of the respondents indicated that the use of Information Technology systems simplified their role as managers. Considering the need for accurate financial information, Hall (1995) suggested that the use of Information Technology will improve the efficiency in terms of the gathering and processing of information and this study indicated that 93% of the respondents make use of such systems.

6.2.6 People Management

The respondents (93%) indicated that they delegated authority to their managers even though 93% of the respondents indicated that the important decisions are made by the owner-manager.

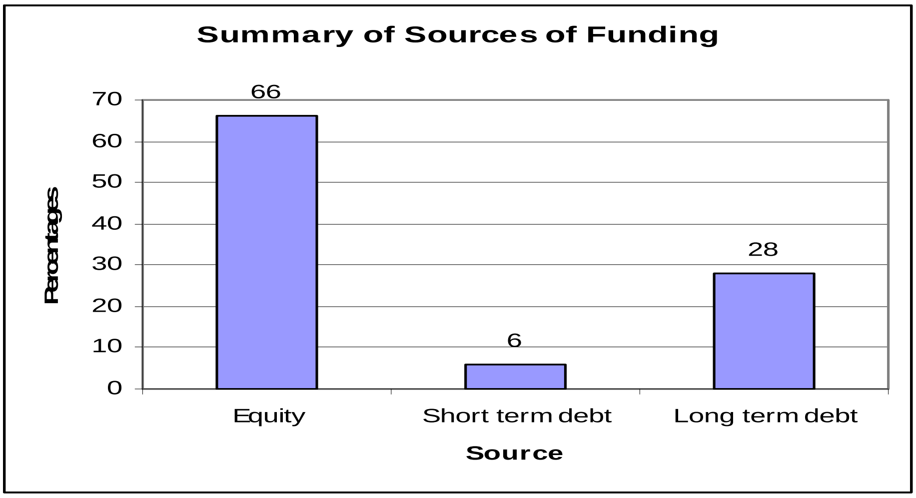
A large majority (73%) of the respondents identified that lack of financial expertise as being a major constraint on the development of the business. Of the respondents (83%) indicated that they engaged in training and development.

Respondents communicate with staff using staff meetings as their main medium (80%) of imparting information to. In addition, 70% of the respondents have a formal procedure for dealing with employee issues or problems. Only 33% of the respondents had a unionised workforce and only 3% of the respondents believed that existing labour legislation assists employers.

Staff (63%) work across different tasks meaning there is a fair amount of job rotation and that staff are skilled in a number of different areas. The respondents (63%) indicated they had a formal staff appraisal system in place and that 47% staff appraisals take place on an on-going basis; 26% take place annually; 21% take place semi annually, while 5% taking place whenever the need arises.

6.2.7 Finance

Graph 5: Sources of Funding



From graph 5, equity financing comprised 66% of the business finance, short term debt accounts for 28% and long term debt 6%. Given these figures one could surmise that a considerable majority of the finance for the business comes by way of owners' equity. However, 57% of the respondents indicated that the availability of finance was a constraint on the business which is typical of firms in the growth phase of the organizational life cycle (McMahon, 1998). Only 43% of the respondents indicated that the availability of finance was not a constraint on the business.

The overwhelming majority of respondents (80%) indicated that the owner-manager was responsible for the finances of the business and 73% of the respondents make use of computer software packages to assist them in their businesses. The most widely used (55%) software package amongst the respondents is Pastel Accounting.

In terms of reporting of the financials, 77% of the respondents have monthly financial reports. The remaining 23% have their financial reports prepared on a weekly basis. The majority of respondents (77%) indicated that they required full financials to be reported while 13% required a trial balance, and 6.7% required an income and expenditure report.

Only 60% of the respondents constructed a budget for the business. Of these 50% constructed a production budget, 6% an annual budget, and 44% had drawn up budgets for a wide variety of uses.

When asked how they measured the success of a business, 67% supported the view of looking at profits, 13% supported the view of looking at growth, and 20% supported the view of looking at the cash balance.

Of the respondents, 60% indicated they calculated prices on a cost plus basis, 33% by looking at competitive pricing, and 7% using other methods to calculate prices.

The majority (70%) of the respondents offered credit terms to their customers and 80% of the respondents used a formal system for invoicing. The majority (86%) of the respondents offered credit terms of 30 days. Of the respondents with a debt collection policy, 71% had a 30 day policy though 43% of respondents indicated that debtors typically took 30 days to settle their outstanding debt despite 70% of the respondents having a monitoring system in place to monitor the payment performance of the debtors. Typically, respondents (86%) would telephone debtors regarding their outstanding payments. This could put a fair amount of pressure on the cash flow of the business as suggested by Hall (1995).

6.3 THE CROSSTABULATIONS

Crosstabulations are used to summarise data in a way that reveals the relationship between two variables (Sweeny, Williams and Anderson, 2006).

Table 6.1:

		Problems with access to finance 3 years after start-up?					
Problems with access to finance at start-up?		Yes		No		TOTAL	
	Yes	10	56%	8	44%	18	100.0%
	No	0	0%	12	100%	12	100.0%
	TOTAL	10	33%	20	67%	30	100.0%

Table 6.1 indicates the difficulty owner-managers experienced when trying to access finance and compares it to their situation three years later. According to Table 6.1, eighteen respondents experienced difficulty accessing finance at start-up but only ten respondents have indicated that it remains a problem three years later. There is thus a marginal drop-off of owner-managers having difficulty accessing finance.

From Table 6.1, the twelve respondents who did not experience difficulty accessing finance at start-up still do not have any problems accessing finance three years later.

Table 6.2:

		Problems with access to suppliers 3 years after start-up?					
Problems with access to suppliers at start-up?		Yes		No		TOTAL	
	Yes	1	20%	4	80%	5	100.0%
	No	1	4%	24	96%	25	100.0%
	TOTAL	2	7%	28	93%	30	100.0%

Table 6.2 illustrates that owner-managers have very little, if any, difficulties in sourcing suppliers at start-up and the situation was the same three years after start-up.

Table 6.3:

		Problems with access to customer 3 years after start-up?					
Problems with access to customers at start-up?		Yes		No		TOTAL	
	Yes	3	27%	8	73%	11	100.0%
	No	2	10%	17	90%	19	100.0%
	TOTAL	5	17%	25	83%	30	100.0%

Table 6.3 illustrates that of the eleven respondents who had problems at start-up, that three respondents (27%) still have problems accessing customers three years later. This also suggests that of the nineteen respondents who did not have any problems accessing customer at start-up, that only two respondents (10%) have experienced some difficulty three years later. This trend of having fewer difficulties accessing customer three years later is indicative of the market accepting the product offering of a firm. This is a marketing issue and as long as the trend is such that more customers are being accessed, that the owner-manager is marketing the business appropriately.

Table 6.4:

		Problems recruiting staff 3 years after start-up?					
Problems recruiting staff at start-up?		Yes		No		TOTAL	
	Yes	3	75%	1	25%	4	100.0%
	No	5	19%	21	81%	26	100.0%
	TOTAL	8	27%	22	73%	30	100.0%

Table 6.4 indicates that of the four business that had difficulty recruiting staff at start-up, that three of them (75%) of them have difficulties recruiting staff three years later. Could this mean that there aren't any

people available? Or does the firm not have the necessary finances to afford staff? Twenty six businesses indicated they did not have problems recruiting staff at start-up and three years later five of the businesses have experienced difficulty recruiting staff. Could this be because the great majority (97%) of the respondents believe that the existing labour legislation does not assist them as employers?

Table 6.5:

		What are your growth ambitions per annum?											
Do you have a 5 year plan?		a		b		C		d		e		TOTAL	
	Yes	1	6%	0	0%	4	24%	4	24%	8	46%	17	100.0%
	No	7	54%	1	8%	0	0%	4	31%	1	8%	13	100.0%
	TOTAL	8	27%	1	3%	4	13%	8	27%	9	30%	30	100.0%

a = 0 – 3% (no to low growth) b = 3.1 – 5% (slow growth) c = 5.1 – 10% (medium growth)
d = 10.1 – 25% (high growth) e = 25.1% + (aggressive growth)

Table 6.5 illustrates that businesses with a five year plan have growth ambitions ranging from a lowly 3% to over 25% annually. Table 6.5 also highlights that thirteen of the businesses who did not have a five year plan at start-up still lack ambitious growth three years later with 54% having a no to low growth ambition (0 to 3% growth). If one takes into account that 90% of the respondents indicated they had a vision/mission for the business, this is not translated into ambitious growth projections. It must also be added that 67% of the respondents indicated they operated in a highly competitive market place. This could possibly explain the lack of vigorous growth ambitions of the businesses.

Table 6.6:

		How often to you revise your five year plan?									
Do you have a 5 year plan?		a		b		c		d		TOTAL	
	Yes	6	35%	0	0.0%	3	18%	8	47%	17	100.0%
	No	1	8%	1	8%	1	8%	10	76%	13	100.0%
	TOTAL	7	23%	1	3%	4	13%	18	61%	30	100.0%

a = annually b = semi-annually c = never d = at other intervals

The findings of this study highlighted that 67% of the respondents operated in a highly competitive market. Keeping this in mind, table 6.6 illustrates that of the seventeen respondents that had a five year plan, six respondents (35%) revised their plan annually; three (18%) never revised their plan; eight respondents (47%) revised their five year plan at other interval. The fact that the respondents change their five year plans at least once a year could be linked to their highly competitive market in which they compete. This also implies that the owner-managers are responding to the changing circumstances of their external environment and positioning their firms accordingly. Thirteen of the thirty respondents did not have a five year plan. This is alarming in that the owner-managers are not focused on the future which would imply they are not prepared for growth.

Table 6.7:

		Is the availability of finance a constraint on the business?					
Do you have a vision/ mission for your firm?		Yes		No		TOTAL	
	Yes	12	44%	15	56%	27	100.0%
	No	1	33%	2	67%	3	100.0%
	TOTAL	13	43%	17	57%	30	100.0%

From table 6.7, of the twenty seven businesses that had a vision/mission at start-up, only twelve businesses experienced the availability of finance as a constraint on their businesses three years later with the remaining 56% not experiencing financial problems. If this is the case, looking at table 6.4, then one can postulate that if businesses do not have financial constraints three years after start-up, that availability of staff is then the problem.

Table 6.8:

		Degree of competition in the market place?							
Do you rely on key customers?		a		b		c		TOTAL	
	Yes	10	53%	3	16%	6	31%	19	100.0%
	No	10	91%	1	9%	0	0%	11	100.0%
	TOTAL	20	67%	4	13%	6	20%	30	100.0%

a = high b = moderate c = limited

Table 6.8 indicates that of the nineteen respondents that rely on key customers, ten respondents (53%) operate in a highly competitive environment, three respondents (16%) operated in a moderately competitive environment while six respondents (31%) operated in an environment with limited competition.

Table 6.9:

		How dependent are you on your key customers?							
Do you rely on key customers?		a		b		C		TOTAL	
	Yes	12	63%	5	26%	2	11%	19	100.0%
	No	0	0%	1	9%	10	91%	11	100.0%
	TOTAL	12	40%	6	20%	12	40%	30	100.0%

a = very dependent b = moderately dependent c = not at all

From table 6.9, nineteen of the businesses that rely on key customers, only twelve respondents (63%) are very dependent on key customers; five respondents (26%) are moderately dependent on key customer while the remaining two respondents (11%) are not at all reliant on key customers. It becomes critical for the owner-managers to look after their customers especially if they are very dependent on these customers. Customer relationship marketing issues come into play and owner-managers need to understand how important it is to be looking after their key customers.

Table 6.10:

		Do you have a formal system for evaluating customer satisfaction?					
Do you rely on key customers?		Yes		No		TOTAL	
	Yes	6	32%	13	68%	19	100.0%
	No	2	18%	9	82%	11	100.0%
	TOTAL	8	27%	22	73%	30	100.0%

This study indicated that 67% of the respondents operate in a highly competitive market place and 63% of them are very dependent on key customers, then how do they ensure that these key customers remain loyal to their businesses? Table 6.10 reveals that of the nineteen businesses that are reliant on key customers that only 32% have a formal system for evaluating customer satisfaction. This must be cause for concern that owner-managers do not have formal systems for evaluating the level of customer satisfaction considering that of the eleven businesses that are not reliant on key customers, that two (18%) of them have a formal system for evaluating customer satisfaction. If eleven of the respondents that are not reliant on key customers then why do they have a formal system for evaluating customer satisfaction? Is it the need to look after all your customers whether reliant on their patronage or not?

Table 6.11:

		Do you offer customers after sales service?					
Do you rely on key customers?		Yes		No		TOTAL	
	Yes	17	89%	2	11%	19	100.0%
	No	10	91%	1	9%	11	100.0%
	TOTAL	27	90%	3	10%	30	100.0%

From table 6.11, of the nineteen businesses reliant on key customer, seventeen respondents (89%) offer their customer after sales service. Of the eleven respondents who are not reliant of key customers, ten respondents (91%) offer their customer after sales service. It is evident from this table that whether you rely on key customers or not, it is vitally important to offer your customers after sales service. Offering your customers after sales service is a step in the direction of developing a customer relationship marketing plan.

Table 6.12:

		Handling of customer complaints by?					
Do you rely on key customers?		a		b		TOTAL	
	Yes	17	90%	2	10%	19	100.0%
	No	9	82%	2	18%	11	100.0%
	TOTAL	26	87%	4	13%	30	100.0%

a = personal visit by owner-manager b = salesperson visiting customer

Table 6.12 provides interesting figures indicating that of the nineteen businesses reliant on key customers, that seventeen respondents (90%) handle customer complaints by paying the affected customer a personal visit by the owner-manager. This particular table illustrates that twenty six owner-managers (87%) do indeed care for their customers by paying them a personal visit when complaints do arise. This is yet another positive effort on the part of the owner-manager to develop a customer relationship marketing effort.

Table 6.13:

		Do you have a formal system for managing *repeat* sales process?					
Do you rely on key customers?		Yes		No		TOTAL	
	Yes	10	53%	9	47%	19	100.0%
	No	10	91%	1	9%	11	100.0%
	TOTAL	20	67%	10	33%	30	100.0%

Table 6.13 illustrates that of the nineteen businesses reliant on key customers, that ten (53%) of them have a formal system for managing repeat sales. Of the eleven businesses not reliant on key customers, 91% of them have a formal system for managing repeat sales. Overall, twenty of

the thirty respondents (67%) had a formal system for managing repeat sales.

Table 6.14:

		Main competitive advantage is Price/Quality					
Do you rely on key customers?		Yes		No		TOTAL	
	Yes	11	58%	8	42%	19	100.0%
	No	10	91%	1	9%	11	100.0%
	TOTAL	21	70%	9	30%	30	100.0%

Table 6.14 shows that of the nineteen businesses reliant on key customer that 57.9% indicated that their main competitive advantage was their pricing and the quality of their product. Of the eleven respondents not reliant on key customers, 90.9% derived their competitive advantage from their pricing structure and the quality of their product. Overall, 70% of the respondents indicated that price/quality provided their firms with competitive advantage.

Table 6.15:

		Main competitive advantage is Speed to market					
Do you rely on key customers?		Yes		No		TOTAL	
	Yes	3	16%	16	84%	19	100.0%
	No	1	9%	10	91%	11	100.0%
	TOTAL	4	13%	26	87%	30	100.0%

Table 6.15 indicates that of the nineteen businesses reliant on key customer that only three respondents (16%) indicated that speed to market provided them with a competitive advantage. Of the respondents not reliant on key customers a mere 9% of them indicated that speed to market provided them with a competitive advantage. So overall, 13% of the respondents indicated that speed to market provided them with competitive advantage.

Table 6.16:

		Main competitive advantage is Technology					
Do you rely on key customers?		Yes		No		TOTAL	
	Yes	8	42%	11	58%	19	100.0%
	No	1	9%	10	91%	11	100.0%
	TOTAL	9	30%	21	70%	30	100.0%

Table 6.16 shows that of the nineteen businesses reliant on key customer that eight respondents (42%) indicated that technology provided them with competitive advantage and that only one respondent (9%) not reliant on key customers indicated that technology provided them with competitive advantage. Overall, technology provided 30% of the respondents with competitive advantage.

Table 6.17:

		Main competitive advantage is Other (Service)					
Do you rely on key customers?		Yes		No		TOTAL	
	Yes	10	53%	9	47%	19	100.0%
	No	8	73%	3	27%	11	100.0%
	TOTAL	18	60%	12	40%	30	100.0%

Table 6.17 illustrates that of the nineteen businesses reliant on key customer, ten respondents (53%) indicated that service provided them with competitive advantage. Of the eleven respondents not reliant on key customers, eight respondents (73%) indicated that service provides them with competitive advantage. Overall, service accounted for 60% of the respondents' competitive advantage.

From tables 6.14, 6.15, 6.16 and 6.17, it is clear that, in order of importance, price/quality (70%), service (60%), technology (30%), and speed to market (13%) are the sources of competitive advantage for the respondents. It is also clear that service is an important element to have in a highly competitive market and the owner-managers, from this study, have indicated this as a source of competitive advantage.

Table 6.18:

		Who makes all the important decisions for the company?							
Do you delegate certain authority to managers?		a		b		c		TOTAL	
	Yes	21	75%	5	18%	2	7%	28	100.0%
	No	2	100%	0	0%	0	0%	2	100.0%
	TOTAL	23	77%	5	16%	2	7%	30	100.0%

a = owner-manager b = manager c = other

Table 6.18 shows that of the twenty eight respondents who delegate authority to managers, that twenty one respondents (75%) indicated that all the important decisions for the company are made by the owner-managers. Of those respondents who do not delegate authority to managers, all (100%) important decisions are made by the owner-manager. Taking both groupings into account, 77% of all important decisions in the business are made by the owner-manager.

Table 6.19:

		Do you engage in training and development?					
In which functional areas of management is level of expertise a constraint of development of the firm?		Yes		No		TOTAL	
	0	2	50%	2	50%	4	100%
	Finance	20	91%	2	9%	22	100%
	Marketing	1	50%	1	50%	2	100%
	Production	0	0%	0	0%	0	0%
	Strategy	0	0%	0	0%	0	0%
	Human Resources	2	100%	0	0%	2	100%
	TOTAL	25	83%	5	17%	30	100%

From table 6.19 it is clear that finance, marketing and human resources management are the three functional areas of management that places the greatest constraint on the development of the businesses even though 83% of the respondents indicated they engaged in training and development.

One could only surmise that the training and development will more than likely be related to the technical side of the business more so than the management of the business.

Table 6.20:

		Does the existing labour legislation assist you as an employer?					
Do you have a formal system for dealing with employee issues?		Yes		No		TOTAL	
	Yes	1	5%	20	95%	21	100.0%
	No	0	0%	9	100%	9	100.0%
	TOTAL	1	3%	29	97%	30	100.0%

From table 6.20, twenty one of the respondents who had a formal system for dealing with employee issues, only one respondent (5%) suggested that the existing labour legislation assists them as employers. All the businesses not having a formal system for dealing with employee issues indicated that the existing labour legislation does not assist them as employers. Overall, a mere 3% of the respondents indicated that the existing labour legislation assists them as employers while an overwhelming majority (97%) of the respondents indicated the contrary.

Table 6.21:

		Do you draw up a budget for the business?					
Is the availability of finance a constraint on the business?		Yes		No		TOTAL	
	Yes	8	62%	5	38%	13	100.0%
	No	10	59%	7	41%	17	100.0%
	TOTAL	18	60%	12	40%	30	100.0%

From table 6.21 it is evident that of the thirteen firms where the availability of finance is a constraint on the business, that eight respondents (62%) prepared a budget for the business. Of the seventeen firms who do not face the finance constraint, that ten respondents (59%) of them also prepared a budget for the business. Overall, 60% of the respondents prepare budgets. From the figures in table 6.21 it is evident that the majority of the businesses engage in financial planning. Financial management is a crucial aspect of survival and the fact that 60% of the respondents engage in budgeting is a positive outcome.

Table 6.22:

		Do you offer credit terms?					
Is the availability of finance a constraint on the business?		Yes		No		TOTAL	
	Yes	10	77%	3	23%	13	100.0%
	No	11	65%	6	35%	17	100.0%
	TOTAL	21	70%	9	30%	30	100.0%

In terms of cash flow, from table 6.22, where availability of finance is a constraint on the business for 13 respondents, ten respondents (77%) offer credit terms while eleven (65%) of the seventeen respondents firms not facing the financial dilemma, offer credit terms as well. Overall, 70% of the businesses offer credit terms and this could potentially give rise to cash flow problems where availability of finance is seen as a constraint on the business. Added to this, 70% of the businesses have pricing and quality as their competitive advantage and that 67% (table 6.2.8) compete in a highly competitive market place. This could further add to their cash flow problems notwithstanding their reliance on key customers for 63% of the businesses.

Table 6.23:

		What are the actual terms that debtors typically take?									
Is the availability of finance a constraint on the business?		a		b		c		d		TOTAL	
	Yes	3	30%	4	40%	1	10%	2	20%	10	100.0%
	No	6	55%	3	27%	1	9%	1	9%	11	100.0%
	TOTAL	9	43%	7	33%	2	10%	3	14%	21	100.0%

a = 30 days b = 45 days c = 55 days d = other

From table 6.23, of the ten businesses facing financial problems, only three respondents (30%) typically have their debtors pay within 30 days with seven respondents (70%) indicating that others take anything from 45 or more days to settle their debt. This is a further reason why businesses might have the availability of finance as a major constraint on the business. Cash flow is key in any business. It is vitally important for owner-managers to ensure that debtors settle their accounts within a timeframe which provides the respondents with the necessary to settle their creditors.

Table 6.24:

		Do you monitor payment performance of your debtors?					
Is the availability of finance a constraint on the business?		Yes		No		TOTAL	
	Yes	10	77%	3	23%	13	100.0%
	No	11	65%	6	35%	17	100.0%
	TOTAL	21	70%	9	30%	30	100.0%

Table 6.24 suggests that of the thirteen respondents indicating the availability of finance as a constraint on the business, that ten respondents (77%) do monitor the payment performance of their debtors. Even the seventeen firms who do not have the availability of finance as a constraint on the business, that eleven (65%) of them still monitor the payment performance of their debtors. Overall, 70% of respondents monitor the payment performance of their debtors.

Table 6.25:

			How do you monitor payment performance of your debtors?										
Is the availability of finance a constraint on the business?		a		b		c		D		e		TOTAL	
	Yes	8	80%	0	0%	0	0%	1	10%	1	10%	10	100.0%
	No	10	91%	0	0%	1	9%	0	0%	0	0%	11	100.0%
	TOTAL	18	85%	0	0%	1	5%	1	5%	1	5%	21	100.0%

a = phone   b = personal visit   c = letters   d = automatic   e = other

Table 6.26 illustrates that the ten firms where the availability of finance is a constraint on the business, that eight respondents (80%) indicated that they contacted their debtors by telephone as a means of informing them of their poor payment performance. Ten (91%) of the eleven firms not faced with the financial constraint also contact debtors by telephone where payment performance is poor.

6.4 CHAPTER SUMMARY

This chapter focused on the actual findings of the study and presented the extent to which owner-managers engaged in management best practice. The statistical nature of the findings alluded to the management practice of the owner-managers. There is sufficient evidence to believe that the respondents of this study were engaged in management best practice but here is also evidence that are lacking in other areas which might compromise their businesses.

Based on the finding of this study, the recommendations will be presented in the next chapter.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

If we have linked entrepreneurship and the small business sector then by definition entrepreneurship is concerned with long-term sustainability and growth. And if we link the existence of the business to the organizational life cycle then we need to look at the various stages of the organizational life cycle. If we accept that there are different challenges and management activities during the various stages of the organizational life cycle then it stands to reason that the entrepreneur must be made aware of these challenges.

By firstly focusing on the external environment we highlight potential barriers to growth. Managers and owners need to identify these and read the signs and learn to manage the effects of the shocks from the external environment.

Next we move onto the internal environment and try to highlight the areas in which more attention must be placed for success in the marketplace. We look at the various factors as presented by Hall (1995). This also sets up the framework to be used for the 'development' of the questionnaire.

We touch on the characteristics of the owner-manager how these might impact on the firm. This area is treated in a superficial manner due to the vast nature and material that ought to be covered. It is not the aim of this study to focus in-depth on the characteristics of the entrepreneur.

7.2 CONCLUSION OF THIS STUDY

The findings of this research suggests that those SMEs who have managed to successfully reach the growth phase of the organizational life cycle, that they have indeed overcome the significant obstacles posed during the introductory phase where the mortality rate is significantly high in South Africa as well as other parts of the world.

The overriding reason for failure is the lack of management skills to manage the businesses. The business environment also contributes to the success or failure of the SMEs but this study focused on the factors controlled by the owner-manager, that is, the management skills.

Policy makers the world over have indicated the significance of the small to medium sized enterprise and the contribution they make to the well being of a country. It is the policy makers who must also play a role in contributing to the success of the SME sector by putting policies in place that will enable SMEs to thrive. They also need to provide the necessary support entities to assist start-ups in getting through the first three years of their existence since these are the critical years for future success.

Research has provided models and frameworks to highlight the potential threats to the continued existence of SMEs. Policy makers and the owner-managers need to take notice of these models and frameworks and implement its findings and in so doing contribute to the reduction in the mortality rate of SMEs during their first three years of existence. Policy makers in government need to consider some of the burdensome government regulations affecting SMEs and need to reconsider it policies regarding SMEs. Policy makers are in an ideal position to create an environment conducive for SMEs.

This study has managed to capture the extent of management practice of owner-managers who have successfully reached the growth phase of the organizational life cycle. Research has also indicated that the age of the firms has a significant role to play in its continued existence.

7.3 RECOMMENDATIONS

The recommendations presented address the final aim of the study, which was to establish the factors consistent in the success of SMEs who have reached the growth phase of the organizational life cycle and to highlight these factors for SMEs to heed at the introductory phase of the organizational life cycle.

7.3 .1 Recommendations to the owner-managers of SMEs

- That owner-managers attend management development courses to enhance their knowledge and skills in terms of managing their businesses.

- That owner-managers understand models such as the Churchill and Lewis model in terms of the management challenges during each of the phases.

- That owner-managers understand the significance of financial management. That this function is not outsourced to an accountant where the owner-manager is over-reliant on the accountant's role. Financial acumen is vital to the continued existence of the business and owner-managers need to address this. Cash flow can be hampered if credit terms are offered to customer who do not settle their debts within the specified period.

- That owner-managers understand the significance of marketing management. The reliance on key customers requires owner-managers to develop strong customers relationship but also that they continually assess the state of their relationship by regularly conducting formal customer satisfaction surveys.

- That owner-managers understand the significance of strategic management, human resources management, general management and administration of the business. They need a thorough understanding of these areas to make a positive impact on their businesses. It is during the growth phase of their life cycle that businesses need to focus seriously on strategic planning. Owner-managers must acquire the necessary skills to conduct strategic planning.

- That owner-managers delegate authority together with the authority to make important decisions as this is a typical requirement during the growth phase. Owner-managers must be aware of this before reaching the growth so that someone in the business can be groomed and prepared for such responsibility.

- That owner-managers take a long term view of their businesses and establish a three to five year growth plan.

- During the growth phase of the of the organizational life cycle control systems play a major role in the firm and owner-managers need to adopt an early focus on quality. In adopting such a system, owner-manager must consider becoming accredited through SABS or ISO.

- Owner-managers must contribute equity to the business as research has shown that where this is the case, firms perform much better.

- Owner-managers must develop plans for growth but need to address the issue of their financial management ability.

7.3.2 Recommendations to policy makers and others

- Access to finance is a problem. Government agencies need to address this problem together with the financial institutions. Growth generally requires resources and owner-managers need to have access to these resources in order to grow.

- Government need to address restrictive labour laws which seems to favour the employee.

- Government need to provide support services to SMEs through qualified service providers to allow for growth amongst SMEs.

- To utilize frameworks like the Churchill and Lewis model for a better understanding of the needs of SMEs during the various phases of the model.

- To accountants to make a concerted effort to understand the nature and needs of owner-managers of SMEs.

7.3.3 Recommendations for future research

- A framework to ease the compliance burden on SMEs currently in place on the part of government.
- A study on the impact the personal characteristics of the owner-manager will have on growth of the business.

- A comparative study between the retail, manufacturing and services sectors on the issues of growth.

7.4 LIMITATIONS OF THIS STUDY

This study was confined to the manufacturing sector in the Eastern Cape, South Africa. For the purposes of this study a sample size of thirty was deemed sufficient. The findings of this study cannot be generalized beyond those who participated in the study. The major focus in this study was the management practice of the owner-managers of firms in the growth phase of the organizational life cycle. The characteristics of the owner-manager, the external environment, the nature of the economy, and any other significant focus areas were not discussed in any detail in this study.

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APPENDIX A

Developing World Class SMEs

Objective of the questionnaire is to identify best practice in the management of SMEs

YES = 1 NO = 2

A. THE OWNER/MANAGER

1. Race:

Asian = 1 Black = 2 Coloured = 3 Indian = 4 White = 5

2. Gender:

Male = 1 Female = 2

3. Education: (Highest level)

Primary = 1 Secondary = 2 Post Secondary = 3 Tertiary = 4

4. Age at start-up:

5. Previous work/management/entrepreneurial experience

Worked = 1 Managerial Level = 2 Entrepreneur = 3 Other = 4

6. In which area of management do you regard yourself as most skilled?

6.1 = Fin 6.2 = Mkt 6.3 = Ops/Prods 6.4 = Strat 6.5 = HR 6.6 = Gen Mgt 6.7 = Admin

7. Motivation for starting the business?

Financial reasons = 1 Could not find work = 2 Independence = 3 Self Employment = 4 Other = 5

8. Problems when starting the business:

8.1	accessing finance	
8.2	sourcing suppliers	
8.3	accessing customers	
8.4	recruiting staff	
8.5	Other (state)	

9. Problems after the first three years:

9.1	accessing finance	
9.2	sourcing suppliers	
9.3	accessing customers	
9.4	recruiting staff	
9.5	Other (state)	

10. Do you have difficulty in delegating authority? YES/NO

B. BUSINESS CHARACTERISTICS

1. Number of years since start-up?

2. Location

P.E./Uitenhage	1
Albany	2
E.L./King Williamstown.	3
Umtata	4
Queenstown	5

3. Business sector

Retail	1
Manufacturing	2
Service	3

4. Benching financial and competitive performance

	3 yrs after start-up	At Start-up
Approximate Turnover (in Rands)	4.1	4.2
Number of employees Full-time Part-time	 4.3 4.5	 4.4 4.6

1= <500000 **2=** >5000001 but <1m **3=** 1.1m to 2.5m **4=** 2.6, to 5.0m **5=**>5.1m

5. Percentage of **turnover** in following markets:

5.1 = Local	%
5.2 = Regional	%
5.3 = National	%
5.4 = International	%
	100 %

6. What is the form of the business?

Sole Prop = 1 CC = 2 Partnership = 3 Pty Ltd = 4 Trust = 5

7. Why did you choose this form of business?

Limited Liability = 1 Tax Reasons = 2 Upon Advice = 3 Other = 4

8. Do you have a controlling interest in the business? YES/NO

C. BUSINESS STRATEGY

1.1 Do you have a formal short term business plan? YES/NO

1.2 If YES, what is it?

Annual budget = 1	Cash budget = 2	Pro-forma statements = 3	Other = 4

2.1 Do you evaluate variances from actual from budgeted on a regular basis? YES/NO

2.2 If YES, at what intervals?

Monthly = 1	Quarterly = 2	Semi-annually = 3	Annually = 4

3. Do you have a five year plan? YES/NO

4. If YES, what are your growth ambitions for the business for next five years?

No growth or Low growth (0 to 3% p.a.)	1
Slow growth (3.1% to 5% p.a.)	2
Medium growth (5.1% to 10% p.a.)	3
High growth (10.1% to 25% p.a.)	4
Aggressive growth (25.1% p.a. or more)	5

5. Do you conduct a SWOT analysis for your business? YES/NO

6. How often do you revise your five year plan?

Annually = 1	Semi- Annually = 2	Never = 3	Other = 4

7. How important are environmental issues to you and your business?

very and act accordingly	1
are aware of them but take no action	2
are not of concern	3

other reaction	4

8. Do you have a mission/vision for your business?   YES/NO

D. MARKETING

1. How would you characterise the Degree of competition in the market place?

High = 1	Moderate = 2	Limited = 3

2. Do you rely on your key customers? YES/NO

3. How dependent are you on your key customers?

Very dependent = 1	Moderately = 2	Not at all = 3

4. Do you have a formal system for evaluating the customer satisfaction? YES/ NO

5. Do you offer customers after sales services? YES/ NO

6.1 Do you have a formal system for handling customer complaints? YES/ NO

6.2 If YES, by?

personal visit by owner-manager	1
personal visit by salesperson	2
technical staff	3
other	4

7. Do you have a formal system for managing the *repeat* sales process? YES/ NO

8. What type of marketing/selling promotion do you use?

8.1-Word of mouth	
8.2-In-store promotions	

8.3-Trade shows	
8.4-Leaflet drops	
8.5-Mailshots	
8.6-Print advertising	
8.7-Radio advertising	
8.8-TV advertising	
8.9-Other/None	

9. What external supports do you use?

9.1-PR agency	
9.2-Advertising agency	
9.3-Paid for state support	
9.4-Consultants	
9.5-Product design experts	
9.6-Packaging consultants/experts	
9.7-Other	

10.1 Have you got a clearly thought out marketing strategy?YES/ NO

10.2 If YES, what is it?

niche product	1
target market	2
competitive advantage	3
growth	4
Other (state)	5

11. What is your main competitive advantage?

Price/Quality = 1 Speed to market = 2 Tech = 3 Other = 4

12. How did you gain this competitive advantage?

Hard Work = 1 Experience = 2 Other = 3

13.1 Do you have a strategy for developing new sales/business ? YES/ NO

13.2 If YES, describe it...

Geographic Expansion = 1 New Prod Development = 2 Other = 3

14. Are you are involved in importing/exporting? YES/NO

15. How are overseas customers / markets managed? e.g. use an overseas office, etc.

Overseas Office = 1 Agents = 2 Other = 3 Not Applicable = 4

E. OPERATIONS

1. Do you have a quality control system? YES/NO

2.1 Do you have a recognised quality standard? YES/NO
2.2 If YES, please specify

SABS = 1 ISO = 2 Other = 3

3.1 Do you analyse the *firm's* production performance? YES/ NO
3.2 If YES, how often?

Daily = 1 Weekly = 2 Monthly = 3 Other =4

4. What measures do you use?

Wastage = 1 Production times = 2 Ordering inventory levels = 3 Other = 4

5. Who is responsible for purchasing?

Owner = 1 Manager = 2 Other = 3

6. What are the main determinants of choice of suppliers?

6.1-pressure to reduce costs	
6.2-technological development	
6.3-quality of product/service	
6.4-to ensure continuity of supply	
6.5-existing sourcing arrangements	

6.6-create a new market	
6.7-preference for local suppliers	

7. What IT systems/resources do you use?

Computers	7.1
1-Desktop PC	
2-Laptop PC	
Communications	7.2
3-Fax machine	
4-Mobile telephone	
5-Pager	
6-E-mail	
7-internet (your own Web page)	
8-electronic data interchange	
9-bar coding	
Computer Packages	7.3
10-word processing	
11-spreadsheets	
12-database management	
13-manufacturing control package	
14-CAD or CAM	

8. Has the use of IT simplified your role as a manager? YES/NO

F. People Management (HRM)

1. Do you have a formal organogram for your business? YES/NO

2. Do you delegate certain of the authority to your managers? YES/NO

3. Who makes all the important decisions for the company?

Owner = 1	Manager = 2	Other = 3

4. In which functional areas of management is the level of expertise a constraint on the development of the firm?

4.1 = Fin	4.2 = Mkt	4.3 = Ops/Prod	4.4 = Strat	4.5 = HR

5.1 Do you engage in training and development? YES/ NO

5.2 If NO, what prevents training and development of managers and staff?

cost = 1	staff time = 2	courses not relevant = 3	Other =4

6. Approximately what proportion of turnover is spent on training and development?

0 - 10% = 1	11 - 30% = 2	31% + = 3

7. How do you reward

7.1 managers?	Salary =1 Equity = 2 Profit related bonuses = 3 Other = 4
7.2 staff?	Individual performance related pay = 1 Other = 2

8. How do you communicate with staff regarding business development, business performance, new initiative, etc. ?

Staff meeting = 1	Notice boards = 2	Staff parties = 3
E-mail = 4	Other = 5	

9. Describe staff working practices. Are they

staff perform a single skill = 1
staff work across different tasks / skill categories = 2
staff work in formal teams = 3
individuals have discretion to manage their own work = 4
Other = 5

10. Do you have formal or informal policies and procedure to deal with employee issues / problems?

Formal = 1 Informal = 2

11.1 Do you have formal or informal staff appraisal ? YES/ NO
11.1 If YES, how often?

Annually = 1 Semi Annually = 2 Quarterly = 3 On-going = 4 Other = 5

12. Is the workplace Unionised? YES/NO

13. Do you feel that the existing labour legislation assists you as an employer? YES/NO

G. Finance
1. How is the business financed (approximate percentage)?

1.1-Equity	
Debt	
1.2-Long	
1.3-Short	

2. Is availability of finance a constraint on the business? YES/NO

3. Who is responsible for monitoring the finances of the firm?

Owner-manager = 1 Fin director = 2 Other staff member = 3 External accountant = 4 Bank manager = 5

4.1 Do you make use of a computer package? YES/ NO

4.2 If YES, specify name

Range 1 -13

5.1 Are your finances reported on a monthly basis? YES/ NO

5.2 If NOT, at what frequency?

Daily = 1 Weekly = 2 Quarterly = 3 Semi-annually = 4 Other = 5

6. If YES, what information is presented?

Full Financials = 1 Trial Balance = 2 Income & Expenditure = 3 Other = 4

7.1 Do you draw up a budget for the business? YES/ NO

7.2 If YES, which specific budgets?

Production = 1 Annual Budget = 2 Other = 3

8. How do you measure the success of the business?

8.1-Profits	
8.2-Growth	
8.3-Cash balance	
8.4-Other	

9. How do you calculate prices?

cost plus	1
competitive pricing	2
Other	3

10.1 Do you have a formal system for invoicing? YES/ NO

10.2 If YES, name it

Range 1 -13

11.1 Do you offer credit terms? YES/ NO

11.2 If YES, what are they?

30 days = 1 60 days = 2 90 days = 3 Other = 4

12.1 Do you have a debt collection policy? YES/ NO

12.2 If YES, what is it?

30 days = 1	60 days = 2	90 days = 3	Other = 4

13. What are the actual terms that debtors typically take?

30 days = 1	45 days = 2	55 days = 3	Other = 4

14.1 Do you monitor the payment performance of your debtors?
YES/ NO

14.2 If YES, how?

Phone = 1	Personal visit = 2	Letters = 3	Automatic = 4
Other = 5			