

**AN INVESTIGATION INTO THE FACTORS THAT  
INFLUENCE THE SUCCESS OF SMALL BUSINESSES  
IN PORT ELIZABETH**

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## ABSTRACT

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South Africa has one of the highest unemployment rates in the world, currently 23.90%. One way for the government and policy-makers of South Africa to address this dire statistic is through the fostering and promotion of entrepreneurship and small business creation. The benefits of entrepreneurship are numerous and can include: increasing a country's productivity, enhancing the welfare and well-being of its citizens, reducing emigration rates, improving economic development and perhaps, most importantly, increasing employment rates. Worldwide, small businesses within the private sector have become indispensable to sustainable job creation and therefore it is of the utmost importance that small businesses in any economy develop, grow and succeed.

Despite the fact that research pertaining to small businesses has increased over the years, little empirical evidence has been established. In particular, research into what makes small businesses successful has been limited. Entrepreneurial activity in South Africa remains less than ideal and therefore it is appropriate that research into the success factors of small businesses in South Africa be investigated. Furthermore, the survival of South African small businesses beyond four to five years of being in operation is estimated at only 20.00%.

It is evident that a lack of knowledge exists and with respect to this research the factors found to be the most common determinants of success for small businesses in Port Elizabeth were determined and investigated. Convenience- and snowball sampling techniques were used to identify potential participants. In total 43 usable questionnaires were returned. Methodological triangulation was used to analyse the data, according to descriptive- and inferential statistics, as well as content analysis. This being so, the research was conducted within two paradigms, primarily, the positivist research paradigm and also the phenomenological research paradigm.

The key findings of this study indicate personal factors to be the most important success factor group, while the environmental success factor group is considered the least important. The most important factors attributable to the success of participants' small businesses include: maintaining good customer services skills and relationships; having a strong commitment to product/service quality; and having honest employees with sound professional

knowledge and a positive morale. The least important success factors include: trade exhibitions and business fairs; small business legislation; and industry structure and competition. Finally, the hypothesis tests indicate that significant differences only exist between: the relationship statuses and business factors and the business sectors and environmental factors.

The results of this research have significant practical implications for the various stakeholders of entrepreneurship. It is hoped that the results will add to the existing body of knowledge and in turn aid South Africa in becoming aware of the factors essential for small business success. In doing so, South Africa at large will be able to take full advantage of entrepreneurship and small business creation, which continue to remain well within its reach.

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*“Success is to be measured not so much by the position that one has reached in life  
as by the obstacles which one has overcome”*

***Booker T. Washington***

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# CHAPTER 1

## INTRODUCTION

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### 1.1 Background to the Study

The concept of entrepreneurship has become of the utmost importance to economies thriving in the 21<sup>st</sup> century. Entrepreneurship is concerned with taking risks; and it is a highly innovative and holistic process (Morrison, 2000: 62). It can serve as the means for a country to address its economic, social and environmental issues, and the numerous benefits which entrepreneurship can deliver to society at large remain well-established and cannot be overemphasised (Morris, Pitt and Berthon, 1996: 72).

Entrepreneurship in South Africa is particularly interesting. The country has survived a tumultuous history (Morris *et al.*, 1996: 63) and in turn its environment has become highly complex. At a national level, the political- and economic environments remain less than ideal, there are accelerating rates of disease and unemployment, crime and violence remain rife and stringent legislation continues, while at an international level, the country continues to experience the effects of the global economic slow-down (Keil, 2007: 48; Lombra, 2009: 4; Morris *et al.*, 1996: 63).

Recently the trend has shifted towards the promotion of entrepreneurship and small business creation as a means to address the issues mentioned above. Though this remains a fairly new concept for South Africa, it is of great importance to note that the bulk of new jobs which are created to maintain, or to grow, employment levels originate from small business creation and this being so, small businesses generally account for a relatively high proportion of a country's GDP (Gross Domestic Product) (Co and Mitchell, 2006: 349; Bridge, O'Neill and Cromie, 1998: 6-7; Morris *et al.*, 1996: 72; Nieman, 2001: 447). In South Africa there are approximately "2.8 million small, medium and micro-enterprises (SMMEs)" which contribute to nearly 61.00% of total employment and 50.00% of GDP overall (South African Government Information, 2011: 1). In spite of this fact, the country has "below-average entrepreneurial activity" (Herrington, Kew and Kew, 2010: 4).

The focus now has to shift to understanding why South Africa has less than desirable entrepreneurial activity. It has been estimated that about 80.00% of South African small businesses will not survive beyond the five-year mark (O'Connell, 2006: 2; van der Nest, 2004: 39). This presents an alarming result and potential reasons for this, over and above the already complex environment, include: the lack of entrepreneurial education offered (North, 2002: 25); the lack of small business support (Business Live, 2011: 1; SBP Business Environment Specialists, 2009: 3), in the form of adequate governmental policies and programmes; difficulty in securing funding (Headd, 2003: 52; Tambunan and Supratikno, 2004: 30; van der Nest, 2004: 39); and the lack of identifiable business opportunities for would-be small business persons (Farrington, Gray and Sharp, 2011: 3; North, 2002: 24). This being so, perhaps most importantly, small businesses fail because there is insufficient knowledge as to what makes them successful (Keil, 2007: 4).

## **1.2 Importance of the Study**

In the past there has been a tendency to neglect the differences in success among surviving organisations (Kalleberg and Leicht, 1991: 137). Very little empirical research has been conducted on small businesses, in particular, to identify the factors critical for small business success (Coy, Shipley, Omer and Khan, 2007: 181-183; Martin and Staines, 1994: 23; Rogoff, Lee and Suh, 2004: 365; Simpson, Tuck and Bellamy, 2004: 482; van Praag, 2003: 1). According to Rogoff *et al.* (2004: 365), “discovering which factors or practices lead to business success and which lead to failure is a primary, and as yet unfulfilled purpose of business research” and therefore it is highly relevant to investigate and understand the determinants of small business success (van Praag, 2003: 1).

With the research that has been conducted on small businesses, the general conclusion is that there is no simple pattern for success (Watson, Hogarth-Scott and Wilson, 1998: 222). The majority of the studies have concluded that small business success is “the result of a web of factors” (Luk, 1996: 68) as it is very difficult to attribute success or failure of a small business to a universal set of factors (Coy *et al.*, 2007: 184). Therefore it is essential that a range of criteria associated with success, such as organisational values, financial/performance measures and characteristics, background experiences and motivations of small business persons be investigated, as well as any other influencing factors within the internal and external environments of the businesses (Reijonen, 2008: 617; Simpson *et al.*, 2004: 481;

Watson *et al.*, 1998: 220). In turn the criteria identified will help distinguish such small businesses from others in the economically active population, as well as determine exactly which factors are conducive to small business success (Watson *et al.*, 1998: 222).

Furthermore, only limited data on entrepreneurship in developing nations exists as most of the previous studies, which identified the factors crucial for small business success, were conducted in the United States of America or in certain European countries (Coy *et al.*, 2007: 181; Huck and McEwen, 1991: 91; Luk, 1996: 68). Thus further research in developing nations is needed and South Africa is one of such nations (Prather-Kinsey, 2006: 142). It is also important to note that entrepreneurship programmes and strategies which have been successful in some developing nations may not be successful in others as cultural and governmental differences will require different approaches (Huck and McEwen, 1991: 91).

In light of the above, there is a need to educate individuals about the factors most likely to contribute, in particular, to the success of any new small business venture (Coy *et al.*, 2007: 183). Rogoff *et al.* (2004: 365) states that “a list of key indicators that would ensure business success or would avoid business failure” is necessary. Many small business persons are interested in discovering which factors in particular, as well as management strategies and personal characteristics are key but few researchers have actually consulted such individuals regarding their views on success (Simpson *et al.*, 2004: 481-483).

### **1.3 Focus of the Study**

Given the vast amount of literature available it appears that there is a discrepancy between the theories of small business success and what actually works in practise and therefore insight into how small businesses prosper is worthy of investigation (Lin, 1998: 43). It must be noted that, like Watson *et al.* (1998: 221), the study “should not be regarded as a comprehensive review – it merely serves to highlight some of the important issues” relating to the research topic.

This being so, this exploratory research will seek to identify and examine the factors which small business persons believe have contributed to their success as a small business (Huck and McEwen, 1991: 93; Luk, 1996: 68; Rogoff *et al.*, 2004: 365). The research will be conducted in the Eastern Cape province of South Africa with particular emphasis on Port

Elizabeth. According to Keil (2007: 13), there are different environmental factors in South Africa in comparison with other countries and it is therefore important to research which factors in South Africa contribute most to the success of small businesses, in order to correctly identify the means of increasing their numbers and success rates.

The Eastern Cape is one of the two poorest provinces in South Africa (Hayward and Ndamase, 2011: 1) and also has the third largest population estimate, comprising 13.50% of the total population (Statistics South Africa, 2011: 3). This being so, the Eastern Cape is reason for research. In addition to this, the province is familiar to the researcher whose hometown is Port Elizabeth. To date there is no significant research pertaining to this province and city with reference to this topic and the present study is therefore an attempt in that direction (Coy *et al.*, 2007: 183).

The research conducted will be of benefit and interest to the many stakeholders of entrepreneurship. These include: the authorities, namely the government and policy-makers of entrepreneurship and its development (Isakova, 1997: 87; Keil, 2007: 6; Rogoff *et al.*, 2004: 365; van Praag, 2003: 1); both existing and potential small business persons, who may be considering an entrepreneurial career (Isakova, 1997: 87; Keil, 2007: 6; Rogoff *et al.*, 2004: 365); educators and researchers of entrepreneurship and small business success (Rogoff *et al.*, 2004: 365); individual potential investors (Keil, 2007: 6; Rogoff *et al.*, 2004: 365); and commercially-oriented institutions, namely banks and other financial institutions.

The primary focus of this study is on small business persons and their businesses rather than on all the stakeholders mentioned above. This being so, the study will have significant practical implications for all the stakeholders and these are discussed later on. It is hoped that the findings will help promote the trend towards entrepreneurship (Huck and McEwen, 1991: 90) and small business development in Port Elizabeth and South Africa at large.

#### **1.4 Method of the Study**

Over a period of six weeks questionnaires were hand-delivered to and collected from small business persons within the Port Elizabeth region of the Eastern Cape. This process of personal visits allowed for a greater response rate as the participants became acquainted with the researcher. In doing so, the researcher was able to communicate the purpose of the study

to each participant and enquire about participation. Depending on the response, the researcher then explained the questionnaire to each participant, as well as instructions for collection.

The completed questionnaire was to be placed in a sealed envelope to await collection. It is important to note that the researcher made use of a field-worker to aid in this collection process as the researcher does not reside permanently in Port Elizabeth. The sealed envelopes ensured the confidentiality of the participants and these were only opened once all the completed questionnaires had been collected.

The questionnaire consisted of a cover letter, a participant consent form and the actual questions of the research, which were designed predominantly by the researcher. The questions were divided into three sections: the first concerned biographical information of the participants, the second involved business classifications of the participants' small businesses and the final section concerned the factors that contribute to the success of participants' small businesses.

Once all the questionnaires had been collected, the data was captured in a spreadsheet and thereafter it was statistically analysed using the R statistics programme (R Development Core Team, 2011: 1). The researcher used descriptive- and inferential statistics to analyse the data. Descriptive statistics include: graphical displays and the means and standard deviations of certain items, while inferential statistics include: frequency- and box plots and hypothesis tests. In particular, the tests applied to the hypotheses of this research include: the Welch's Two-sample T-test, the Wilcoxon Rank Sum test (non-parametric equivalent), the One-way Analysis of Variance (ANOVA) test and the Kruskal-Wallis test (non-parametric equivalent).

In addition to this, Cronbach's alpha reliability co-efficient was also used to test the reliability of the questionnaire, while content analysis was used to analyse certain open-ended questions of the questionnaire. This allowed for the counting of certain key words and phrases to identify themes and patterns in the responses, which aided in the interpretation of specific earlier questions.

## **1.5 Outline of the Study**

This study is divided into eight chapters; each will attempt to contribute in determining which factors are found to influence the success of small businesses within the city of Port Elizabeth. Overviews of each of the chapters which follow are discussed below:

Chapter two concerns entrepreneurship. The role of entrepreneurship is established, followed by insights into the definition of the term. A contrast is then made between entrepreneurial firms and small businesses and finally, entrepreneurship is explored within three separate contexts. These contexts include: an individual context, an organisational context and a cultural context. The individual context is of particular importance as the difference between an entrepreneur and a small business person is established therein, which is of great necessity to this research.

Chapter three concerns the cultural context of entrepreneurship, specifically within the South African environment. The chapter first explores the political climate and economy of the country. An examination of HIV and AIDS, as well as that of crime and violence within the country is then explored. Thereafter the need for and importance of BBBEE is discussed and lastly, the country's entrepreneurial activity is established. The entrepreneurial activity is influenced by the issues mentioned above and in turn this makes South Africa an interesting country for the likes of entrepreneurship and small business creation.

Chapter four concerns the success of small businesses. Insights into the definition of small business success are discussed and then the numerous authors and researchers of the factors essential for small business success are explored. Thereafter small business research is examined in order to determine whether there is further need for such research.

Chapter five provides an analysis of the methodology of this research. The chapter begins by establishing the aims and objectives of this research, followed by the two broad hypotheses. To follow is a discussion of the research process, which focuses on issues such as: the population and sample, the particular research paradigm, the research method, the research instrument including issues of validity and reliability and the data collection and analysis procedures. Thereafter the ethical aspects which were taken into account during the research are also discussed and lastly, the limitations to the study.

Chapter six concerns the results of this study. Firstly, the response rate is determined and then the reliability of the research instrument used in this study is determined according to Cronbach's alpha reliability co-efficient. Thereafter, the results are presented according to the research objectives. Descriptive statistics are used to determine the demographic information and business classifications of the participants. Following on from this, the remaining research objectives include: the definition of a successful business, the definition of a successful business in accordance with participants' businesses, the perceived degrees of success of participants' businesses and in comparison with their competitors, the ranking of the success factor groups, the success factors and the limiting factors to success. Thereafter hypothesis tests are applied to determine whether statistically significant differences exist between the demographic information and the business classifications, and the various success factor groups.

Chapter seven presents a discussion of the results of this research. This is in relation to existing literature, particularly that which is mentioned in chapters two, three and four. Again, the discussion is according to the research objectives though these are not explicitly stated. The discussion of the results identifies the similarities and dissimilarities with existing authors and researchers and possible explanations behind these are also proposed.

The final chapter, chapter eight, determines how the results of this research can contribute to the existing body of knowledge. The chapter concerns an overview of the results of this study, followed by a discussion of the implications of this research to the various stakeholders of entrepreneurship. These include: the government and policy-makers, existing and potential small business persons, educators of entrepreneurship, potential investors and banks and other financial institutions. Thereafter the recommendations for future research are explored and finally, an overall conclusion in respect of this research is established.

## CHAPTER 2

### ENTREPRENEURSHIP

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#### 2.1 Introduction

This chapter will focus on entrepreneurship; firstly, the importance of entrepreneurship to modern-day economies will be explored and thereafter an attempt will be made to define the concept of entrepreneurship in broad terms. Entrepreneurial firms will then be contrasted with small businesses in order to emphasise why small businesses are the focus of this study. Lastly, entrepreneurship will be discussed within three contexts, specifically an individual context, an organisational context and a cultural context. In particular, entrepreneurship within an individual context will be investigated with the object of establishing the difference between an entrepreneur and a small business person, so as to determine which term should be used for the purposes of this research.

#### 2.2 The Role of Entrepreneurship

In recent years the role of entrepreneurship has been given extensive attention and become a focus of growing importance throughout the world (Co and Mitchell, 2006: 349; Morris *et al.*, 1996: 59). This is largely due to globalisation and technological change, which are creating greater uncertainty in the world economy and rapidly causing the reshaping of the international economic landscape. In addition to this, the current worldwide economic crisis is compounding the situation further and it seems that a focus on entrepreneurship has become ever more important as according to the Organisation for Economic Co-operation and Development (OECD), it is “widely viewed as a key aspect of economic dynamism” (OECD, 2009: 5).

Economic growth, productivity, innovation and job creation are just a few of the benefits which entrepreneurship can deliver to society at large (Adenutsi, 2009: 2; OECD, 2009: 5; Reijonen, 2008: 616; The Aspen Institute, 2009: 1). In particular, job creation can be direct, whereby the small business person employs other individuals to work in his/her firm, or indirect, whereby income-earning opportunities are created for other small business persons

to emerge and offer subsidiary products/services (Adenutsi, 2009: 5). In turn job creation can aid a country in reducing its rates of emigration and unemployment (Adenutsi, 2009: 6).

Recently the role of entrepreneurship for economic advancement, welfare and well-being has become widely promoted and well-supported (Adenutsi, 2009: 2; Bridge *et al.*, 1998: xv; Donckels and Miettinen, 1997: xiii). Therefore with entrepreneurship being the only constant, it can serve as a means to meet these new economic, social and environmental challenges through the facilitation of global economic development and the widespread creation of wealth and employment (Davis, 2002: 2; Morris *et al.*, 1996: 59; Nieman, 2001: 445; OECD, 2009: 5; van der Nest, 2004: 41).

### **2.3 Defining Entrepreneurship**

The term ‘entrepreneurship’ has been used within a business context for well over two centuries, however, despite this, it remains a young and developing field which is thus susceptible to variations in meaning and therefore no single definition of the term has been generally agreed upon (Adenutsi, 2009: 5; Co and Mitchell, 2006: 349; Morris *et al.*, 1996: 60; North, 2002: 24; OECD, 2009: 6). This being so, the concept of entrepreneurship has evolved over time but it remains a broad term encompassing different meanings or features in different contexts (Davis, 2002: 4; The Aspen Institute, 2009: 1), for example, in an individual context, in an organisational context and in a cultural context. Therefore it is of great importance to explore such contexts which are discussed below.

Entrepreneurship is defined as a process which creates value by making unique combinations of resources to create new products, services, processes, organisational forms, sources of supply and markets in order to exploit an opportunity (Adenutsi, 2009: 6; Morris *et al.*, 1996: 60-61; OECD, 2009: 5). It is highly innovative and involves taking risks and co-ordinating ways of behaviour in order to operate as a holistic process (Morrison, 2000: 62). Adenutsi (2009: 5) defines entrepreneurship as “the identification of business opportunities and the mobilisation of economic resources to initiate a new business or revitalise an existing business, under the conditions of risks and uncertainties, for the purpose of making profits under private ownership”. Alternatively, in simpler terms, entrepreneurship involves innovative, profit-driven ideas and realistic efforts which make combinations of scarce resources possible, under private ownership (Adenutsi, 2009: 5).

## 2.4 Entrepreneurial Firms versus Small Businesses

Throughout much of the twentieth century the term ‘entrepreneurship’ was taken to be synonymous with small business start-ups and management (Morris *et al.*, 1996: 60). More recently, the difference between entrepreneurial- and small business ventures has become better documented in entrepreneurship literature (Nieman, 2001: 446). Morris *et al.* (1996: 61-62) summarize a number of these differences which are shown in Table 2.1. In general, small businesses tend to be more personal and family-oriented, demonstrate a preference for low-risk/low-return activities, typically concern generating a favourable lifestyle for the individual and the control of current resources by the business tends to dictate the business’s behaviour and goals concerning income levels for the individual (Morris *et al.*, 1996: 61). Alternatively, entrepreneurial firms tend to be more professionally-oriented and demonstrate a preference for high-risk/high-return activities. This means they are opportunity-driven with an emphasis on change and “will do whatever is necessary to obtain or leverage the resources necessary to capitalise on a perceived opportunity” (Morris *et al.*, 1996: 61). Entrepreneurial firms thus have more of an external and strategic focus which is also a source of continual turbulence within the organisation (Morris *et al.*, 1996: 61).

**Table 2.1 The Differences between Small Businesses and Entrepreneurial Firms**

<b>Small businesses</b>	<b>Entrepreneurial firms</b>
Stable	Unstable
Status quo-oriented	Change-oriented
Not aggressive	More aggressive
Socially-oriented	Commercially-oriented
Interaction between personal and professional activities	Clear separation of personal and professional activities
Involvement of family members	Involvement of professionals
More informal	More formal
Tactical	Strategic
Present-oriented	Future-oriented
Preference for low-risk/low-return activities	Preference for high-risk/high-return activities
Internally-oriented	Externally-oriented
Steady number of employees	Growing employee base with high potential for conflicts
Level resource needs	Expanding resource needs with ongoing cash shortages
Resource-driven	Opportunity-driven
Seek profit, income substitution	Seek growth and appreciation of business value

(Source: Morris *et al.*, 1996: 62)

It is evident that entrepreneurial ventures and small business ventures are distinctly different. It is important to note that the focus of this research is on small businesses not entrepreneurial firms as several of the participants operate family businesses, and there is also a definite interaction between the participants' personal and professional lives as mentioned in Table 2.1 above.

## **2.5 Entrepreneurship in an Individual Context**

According to Morrison (2000: 59), entrepreneurship is a highly personalised activity which can only emerge from "the degree to which a spirit of enterprise exists, or can be initiated" within individual members of society. It is apparent that entrepreneurship places much emphasis on individual initiative as a driver of economic success (Bridge *et al.*, 1998: xv). Indeed, some of the richest individuals in the world have been entrepreneurs (Adenutsi, 2009: 13). Therefore the role of the individual has become ever more important as career growth is

now no longer synonymous with advancement in a corporate organisation (Bridge *et al.*, 1998: xv; Ram, Deakins and Smallbone, 1997: 15).

Although entrepreneurship and small business creation remain reinforcing terms, an entrepreneur and a small business person do not represent the same individual. Many authors either support or challenge this, such as Schutte (1992: 9) who states that entrepreneurship relates to the process of owning one's own business venture (Schutte, 1992: 9). In further support of this, Brockhaus (1980: 510) and Reijonen (2008: 617) state that an entrepreneur is the major owner and manager of a business venture, who is omnipresent in every activity of the business venture and whose sole employment comes from the venture concerned. More recently, the term 'entrepreneur' has become tantamount to the term 'owner-manager' with much literature making use of both terms interchangeably (Brockhaus, 1980: 510; Gilmore, Carson and Grant, 2001: 7; Gilmore, Carson and O'Donnell, 2004: 349; Reijonen, 2008: 617; Watson *et al.*, 1998: 223). Therefore it seems that an entrepreneur represents an individual "who both owns and operates a business" (Fraboni and Saltstone, 1990: 107, cited in Schutte, 1992: 9).

On the contrary, it is said that being an entrepreneur is an entirely separate and distinct function which is in contrast to that of a manager (Faltin, 2001: 125). Moreover, an entrepreneur does not need to be the owner of the business; being "an innovative manager who has decision-making responsibility" is enough to make one an entrepreneur (Brockhaus, 1980: 510). Adenutsi (2009: 5) goes beyond this and states that whichever role an owner has to play in a business can be considered an entrepreneurial initiative, and that this role does not necessarily represent fully managing of the day-to-day activities of the enterprise.

In light of the above, it appears that varied definitions of the term 'entrepreneur' exist but there is definitely a difference between an entrepreneur and a small business person which needs to be further addressed. In simpler terms, a small business person denotes an individual who owns and operates a small business, while an entrepreneur "is a person who conceives, develops and operates a new business venture, assuming both the risk and reward for his or her effort. Entrepreneurs are often celebrated for their vision, derring-do and conviction to do it their way" (Wirtz, 2008: 14). More so, entrepreneurs use their personal values, vision and ambitions, together with their "product, service, market, technology and management" to examine and reshape their social environments in order to develop new business ventures

(Donckels and Miettinen, 1997: 33; Morrison, 2000: 63). The successful entrepreneur is someone with strong creativity and innovation, who possesses a need for achievement and who can correctly interpret and thereafter try and minimise the risk propensity of any potential new business venture (Brockhaus, 1980: 510; Gilmore *et al.*, 2004: 258; Nieman, 2001: 446; Schutte, 1992: 7).

Gilmore *et al.* (2004: 349) describe entrepreneurs as self-employed individuals, those who can identify a gap in the market and hence be the founders of new business ideas and ventures but according to Faltin (2001: 123), entrepreneurship is more than just self-employment and hard work – an emphasis on idea-generation and development is necessary to realise its full potential. The converse of this, that self-employment indicates entrepreneurship, does not necessarily hold true. For example, an individual operating as a trader in the informal sector is self-employed but cannot truly be termed a small business person or an entrepreneur for such activities “fall outside the formal net of registered, taxed, licensed, statistically documented, and appropriately zoned business enterprises” (Morris *et al.*, 1996: 59).

Another example is that of a franchise, whereby an individual, the franchisee, purchases an existing business idea from another individual, the franchisor. According to Ketchen, Short and Combs (2011: 587), there is more scepticism about whether franchisees can be considered entrepreneurs than there is about whether franchisors can be considered entrepreneurs. First of all, the franchisee cannot be an entrepreneur as they are purchasing an existing, rather than a new, business idea through the correct identification of a gap in the market. This means that both the risks and the rewards are shared with the franchisor who assists and supports the franchisee where possible. Furthermore, franchisees need to obey the rules and regulations of the franchise system in turn limiting their decision-making autonomy (Ketchen *et al.*, 2011: 584), which is a key aspect of being an entrepreneur. Indeed, the franchisee is a small business person but despite this self-employment, merely providing the capital for a business venture does not constitute an entrepreneur. The individual needs to operate, as well as manage the venture, as stated earlier (Brockhaus, 1980: 510). Conversely, Ketchen *et al.* (2011: 584) argue that franchisees can be regarded as entrepreneurs as they are willing to take risks and invest their own capital and “many times, all they own on the line for a business”.

Ketchen *et al.* (2011: 586) also state that a founding franchisor, meaning the individual who “identified the initial market opportunity, assumed considerable risk, and developed organisational processes and innovations to create value for the customer in a way that generates a profit”, is an entrepreneur. Such people are the creators of the business model and concept but the successor of this innovative franchise idea is not an entrepreneur, simply a small business person (Ketchen *et al.*, 2011: 587).

The difference between an entrepreneur and a small business person has been defined. It is evident that a small business person can denote an entrepreneur, an informal trader or even a franchisee, among others. Therefore for the purposes of this study, the term ‘small business person’ is used to denote an entrepreneur or a franchisee, as well as those individuals who both own and manage a small business, simply own a small business (business owner) or simply manage a small business (business manager) (Simpson *et al.*, 2004: 482).

## **2.6 Entrepreneurship in an Organisational Context**

Although the small business person is involved in the initiation of a business start-up, the skill of entrepreneurship is valuable not only to such people but also to major corporations (Morris *et al.*, 1996: 60; The Aspen Institute, 2009: 1). The 2011 Global Entrepreneurship Monitor (GEM) report states that “46 million employees had a leading role in entrepreneurial activities within existing organisations” in 52 of the economies measured (Kelley, Singer and Herrington, 2011: 4) and according to Saetre (2001: 9), the term ‘intrapreneurship’ (intra-organisational entrepreneurship) is used to define individuals’ innovations and entrepreneurship within a corporate setting. Increasingly, “innovations have been sparked by enterprising individuals and large corporations alike” (The Aspen Institute, 2009: 1) which proves that organisations, and not only individual business practitioners, demonstrate the skill of entrepreneurship. This is because it is valuable across a wide range of industries and in a variety of different business environments (The Aspen Institute, 2009: 1).

According to Brockhaus (1980: 510), as stated earlier, “an innovative manager who has decision-making responsibility” is considered an entrepreneur. This in turn means that large corporations can be considered entrepreneurial as they are operated and controlled by managers (Brockhaus, 1980: 510). The term intrapreneurship is used to define entrepreneurship or entrepreneurial activities practised inside large organisations, and is also

known as corporate entrepreneurship (Saetre, 2001: 10). Morris *et al.* (1996: 61) further describe this notion of entrepreneurship within an organisational context by referring to the entrepreneurial firm as one which proactively seeks growth and which is not limited by the resources it currently has under its control. Morrison (2000: 62) reinforces this and states that most major economies which flourished in the late 20<sup>th</sup> century have had in common a focus on entrepreneurship, specifically within a business culture or an organisational context.

In addition to this large organisations, which practise the principles of entrepreneurship, are able to better implement productive changes in order to improve their environmental performance, as well as their contributions to the local communities (The Aspen Institute, 2009: 1). Therefore entrepreneurship needs to be an ongoing function in organisations to maximise profits in return for correctly “addressing uncertainty and co-ordinating resources” (Morris *et al.*, 1996: 60).

## **2.7 Entrepreneurship in a Cultural Context**

According to Morrison (2000: 59), no single identifiable and universal entrepreneurial culture appears to exist in the world. This means that culture is important in any discussion of entrepreneurship as it “determines the attitudes of individuals towards the initiation of entrepreneurship” (Morrison, 2000: 62). Thus entrepreneurship within a cultural context is highly specific – it develops out of the current business environment of a country and differs across specific geographic locations (Morrison, 2000: 60-62).

Co and Mitchell (2006: 350) state that an entrepreneurial culture is essential in any society, and is one which requires the majority of its population “to participate in a more open, more accessible and more widespread culture of innovative entrepreneurship” (Faltin, 2001: 139). For many countries there exists considerable variance in the responses of their populations to entrepreneurship. This is a direct consequence of history and the resultant characteristics of the country concerned (Morrison, 2000: 66).

It is evident that a significant relationship exists between entrepreneurship and cultural specificity. A holistic approach is essential to foster an entrepreneurial culture as the cultural context in which individuals are rooted and socially developed is extremely influential in developing small business persons (Morrison, 2000: 67-68). Throughout the world,

governments have attempted to emphasise the importance of fostering an entrepreneurial culture through the use of policies. It must be noted though that these vary considerably from one country to the next, depending on policy needs and diverse perspectives on what is meant by the term ‘entrepreneurship’ (OECD, 2009: 5). Thus only through the participation of individuals, organisations and governments alike, can an entrepreneurial culture in any society “ensure the facilitation and actual establishment of enterprises” (Co and Mitchell, 2006: 350).

## **2.8 Conclusion**

This chapter has established the role and definition of entrepreneurship, as well as the difference between entrepreneurial firms and small businesses. Furthermore, the concept of entrepreneurship within three specific contexts, namely the individual, the organisational and the cultural has been explored and in particular, the difference between an individual entrepreneur and an individual small business person has been defined.

The chapter which follows will present the notion of entrepreneurship within a specific cultural context, namely the South African context. The political environment, economic environment, HIV and AIDS, crime and violence, BBBEE and entrepreneurial activity, all in South Africa, will be explored.

## CHAPTER 3

### ENTREPRENEURSHIP IN SOUTH AFRICA

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#### 3.1 Introduction

Following on from the previous chapter, the concept of entrepreneurship within the South African environment will now be explored. Thereafter specifically, the South African points of discussion will include: the political environment, the economic environment, Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS), crime and violence, Broad-Based Black Economic Empowerment (BBBEE) and finally, the country's entrepreneurial activity. The last mentioned of these is of particular importance as all the above have a profound effect on entrepreneurial activity, whether favourable or otherwise. Therefore entrepreneurship in a South African context presents an interesting challenge for both existing and potential small business persons.

#### 3.2 Entrepreneurship in a South African Context

To achieve success and global integration, a country requires a "favourable environment which combines social, political and educational attributes" (Morrison, 2000: 63). In particular there needs to be a culture that prizes entrepreneurship and in order to foster this, there needs to be an imperative to educate the population so that entrepreneurial potential is second to none. A government that generously supports the concept of entrepreneurship with enlightened policies and "enables schools to produce the best educated students in the world" is therefore essential (Morrison, 2000: 63; OECD, 2009: 5).

The South African economy has experienced tremendous turbulence over the years in its attempt to abandon the last vestiges of apartheid. The country remains in a state of internal transformation as its shift towards democracy and majority rule continues to unfold (Morris *et al.*, 1996: 63). This is by no means happening in isolation as South Africa encounters the impacts of the worldwide recession and unfavourable economic conditions, in addition to its own issues which include: accelerating rates of crime, violence, disease and unemployment (Keil, 2007: 48; Morris *et al.*, 1996: 63).

These issues all represent major concerns for the South African economy. One way to address such issues is through the promotion of entrepreneurship and small business creation, which remain reinforcing terms, as mentioned earlier. This is because flourishing economies and countries are “attuned to the needs of a changing market economy, receptive to changing demands, innovations, products, opportunities and technologies” (Morrison, 2000: 62). Thus the benefits of entrepreneurship must not be underestimated (Adenutsi, 2009: 6) and in turn South Africa, as an emerging market, will be able to “move forward and successfully integrate into the global economy” (FNB, 2010: 3).

To fully discuss entrepreneurship in a South African context the following areas need to be addressed. These include:

- Political environment
- Economic environment
- HIV and AIDS
- Crime and violence
- BBBEE
- Entrepreneurial activity

### **3.2.1 Political Environment**

South Africa is facing its next presidential elections in 2014, with the African National Congress (ANC) expected to win again as it remains the most popular choice among the majority of voters (Keil, 2007: 48). Nevertheless, what remains uncertain is who the ANC will choose to succeed the current president. Perhaps even more concerning is the fact that ANC Youth League (ANCYL) president, Julius Malema, has his eyes set on becoming the future president (Ellis, 2011: 1). Malema holds a highly controversial position in South Africa’s public and political life, having gained prominence with his support for the ANC president and later president of South Africa, Jacob Zuma. Malema has the potential to destabilise South Africa and spark racial conflict through the numerous controversial statements he has already made (Business Report, 2011: 1; Ellis, 2011: 1; Zimbio, 2011: 1). This will no doubt divert the ANC’s attention from the bigger issues requiring attention in the country.

Currently, the main issues facing the South African government's economic policy include: promoting BBBEE, correcting the social imbalance resulting from the apartheid era and creating employment. In theory, this should also help to slow-down the country's accelerating rates of crime and violence. Finally, combating HIV and AIDS remains another major social and economic challenge (Keil, 2007: 49).

In general, the historical political systems of Finland, Kenya, Slovenia and South Africa have served to promote an anti-entrepreneurial culture, or one which does not support individualistic wealth creation through entrepreneurship (Morrison, 2000: 66). Among these countries, the South African society is one which has a strong dependency on the State (Adenutsi, 2009: 3). In turn this has decreased the propensity for private enterprises and promoted the belief in strong communal and collective values (Morrison, 2000: 67).

According to Morrison (2000: 63), "throughout history, entrepreneurship has been found to be important and meaningful in society at points of transition". Societies which can harness entrepreneurship and foster small business persons who "have the potential to directly challenge many of the aspects associated with cultural tradition, continuity and stability in their countries" will find it highly beneficial and a commonly successful approach to solving dilemmas, to break away from old, hierarchical traditions and institutions and introduce new, innovative ways of behaviour (Morrison, 2000: 63). This is particularly true for South Africa, where the political climate has been a very turbulent and unstable one owing to the transition from apartheid to democracy (Morris *et al.*, 1996: 63). The apartheid regime began to collapse in the 1980s when a shrinking white minority, an increasing unemployed black majority coupled with continued black resistance and an economy suffering from international sanctions, finally convinced many South Africans that something needed to change (Levy, 1999: 1-2).

Consequently, the South African government has acknowledged the need to promote entrepreneurship within the country and has sought to achieve this through recognition of its own role in fostering small business creation and growth. This is confirmed through its formulation and implementation of sound entrepreneurial policies (The Department of Trade and Industry, 2005: 3) which are aimed at "developing means to promote the emergence of new business ventures and to support firm growth" (Reijonen, 2008: 616). The government needs to find a way of addressing its main issues simultaneously, as well as in a manner

which continues to foster and promote entrepreneurship and small business creation and growth throughout South Africa.

According to Keil (2007: 48), the stability and resolve achieved by the South African democracy has enabled the government to make substantial social and economic reforms in the past ten years. This is combined with sound macroeconomic policies, the classification of South Africa as the most competitive economy in sub-Saharan Africa, as well as the classification of South Africa as having strong investor confidence, at a time when trust in financial markets worldwide has been eroded (Keil, 2007: 49; World Economic Forum 2009: 12; World Economic Forum, 2011: 15).

### **3.2.2 Economic Environment**

South Africa's Gross Domestic Product (GDP) is worth 364 billion dollars, which constitutes only 0.59% of the world economy (Trading Economics, 2011a: 1). This fraction of a percentage is achieved from a country which had a mid-year population estimate of 50.59 million in 2011 (Statistics South Africa, 2011: 2) and which has an unemployment rate of 23.90% as of January 2012 (Trading Economics, 2011b: 1). This is exceptionally high in comparison with the top three economies worldwide, namely the United States of America, China and Japan. The United States of America currently has an unemployment rate of 8.30% (Trading Economics, 2011c: 1), while China had an unemployment rate of 4.10% in the third quarter of 2011 (Trading Economics, 2011d: 1) and Japan had an unemployment rate of 4.60% in the fourth quarter of 2011 (Trading Economics, 2011e: 1).

South Africa's high rate of unemployment is a result of a lack of education (Amos, Ristow, Ristow and Pearse, 2008: 172). Over the years, the nature of the workforce has changed dramatically in terms of age, ethnic and racial composition, family structure and job expectations (Chew, 2004: 13). Following from this, intellectual capital within South Africa has become an increasingly scarce commodity. Innovative potential in South Africa is also at increased risk with a university enrolment rate of only 15.00% (World Economic Forum, 2009: 12; World Economic Forum, 2011: 16). This idea may be fuelled by the fact that during the apartheid era many individuals were deprived of the opportunity to further their education and now the country is suffering from a poor supply of educated individuals (Amos *et al.*, 2008: 172; Morris *et al.*, 1996: 64-65).

Job creation within the country remains less than ideal. President Jacob Zuma declared 2011 to be the ‘year of job creation’ and the introduction of the New Growth Path by the ANC government was developed to achieve its five million jobs target by 2020, thereby reducing unemployment to 15.00% (Business Report, 2011: 1; South African Government Information, 2011: 1). Statistically, a total of 47 000 people were employed in the formal sector in the first quarter of 2011, while a total of 193 000 jobs were created from the second to the third quarter of 2011 (Business Report, 2011: 1; Roberts, 2011: 1). This shows that job creation by the ANC is on the increase, even though this may be at a slower pace than expected. According to the Democratic Alliance (DA), a more coherent jobs policy is required for South Africa in light of the “small increase in people employed in the first quarter of 2011 compared to the country’s jobs target” (Business Report, 2011: 1).

More recently, the global recession is another factor which has affected the South African economy. The United States of America began to enter a recession in late 2007 when its GDP rapidly decreased in the two years which followed (Lombra, 2009: 4-7). This decline caused the country’s financial system and economy to weaken, which was ultimately the catalyst for the start of the worldwide recession (Lombra, 2009: 4).

Of the many factors that gave rise to the financial crisis perhaps the most significant was the issuance of sub-prime mortgages to individuals, which resulted in significant losses for banks and financial markets (Bernanke, 2009: 2). The recession resulted in a decline in total spending by worried American consumers, which in turn reduced the country’s purchases of imported goods, and hence caused other countries to experience a drastic decline in their exports, which are a major component of a country’s GDP (Lombra, 2009: 4). Although the financial crisis began in the United States of America it spread to world markets and these regrettably suffered the same unfavourable economic consequences (Bernanke, 2009: 6). According to the Board of Governors of the Federal Reserve System (2009: 1) of the United States of America, “the pace of economic contraction is slowing” and conditions in financial markets worldwide seem to be improving.

The only seemingly hopeful ‘upside’ for small businesses affected by the global recession is that economic crises are historically times of industrial renewal, whereby new business models and new technologies, particularly those leading to cost reductions, emerge.

Furthermore, the benefit is that less efficient businesses will fail, while more efficient ones will emerge and expand during such unfavourable economic times (OECD, 2009: 5).

The World Economic Forum (2011: 16) states that South Africa's competitiveness outlook falls short when it comes to labour market efficiency; the country has "inflexible hiring and firing practices, a lack of flexibility in wage determination by companies and poor labour-employer relations" (World Economic Forum, 2009: 12). Nevertheless, the South African economy remains a productive and industrialised one that "exhibits many characteristics associated with developing countries, including a division of labour between formal and informal sectors and an uneven distribution of wealth and income" (Trading Economics, 2011a: 1). Again, this can be regarded as the effect of the turbulent political climate South Africa has experienced over the years which in turn has led to the existence of a highly concentrated capitalistic system within the country (Morris *et al.*, 1996: 64).

Conversely, the hosting of the 2010 FIFA World Cup by South Africa proved to be a major boost for the economy (South African Government Information, 2011: 1). South Africa's GDP recovered from -1.70% in 2009 to 2.80% in 2010, though this remains below our potential, estimated at 4.00% per annum. The belief is that GDP growth was driven primarily by a steady recovery in consumer spending, in spite of the effects of the worldwide recession, and this can be partially attributed to the 2010 FIFA World Cup (African Economic Outlook, 2011: 1).

South Africa is also the top destination for China's exports, as well as being China's leading source of imports. Many countries now use South Africa as a gateway to other African countries, which has led to the country becoming an official member of the BRICS (Brazil-Russia-India-China-South Africa) group in December 2010 – another major boost for the economy (African Economic Outlook, 2011: 1).

The challenge now remains for the government to maximise its engagement in being a member of the BRICS group. However, this cannot be achieved in isolation as the government still has many other responsibilities to South Africa at large. According to Keil (2007: 49), the primary objective of the government's medium-term programme in South Africa is to increase economic growth and direct foreign investment in order to create

employment, all “while broadening ownership of the post-apartheid economy” by encouraging BBBEE.

### 3.2.3 Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS)

Table 3.1 shows the prevalence estimates and the total number of people living with HIV from 2001 to 2011 in South Africa. The total number of people living with HIV increased from an estimated 4.21 million in 2001 to 5.38 million in 2011. This means that an estimated 10.60% of the total population is HIV-positive (Statistics South Africa, 2011: 5).

**Table 3.1 HIV Prevalence Estimates and the Number of People Living with HIV from 2001 to 2011**

Year	Prevalence of HIV		HIV Population (in millions)
	Percentage of Adults (15-49 years of age)	Percentage of Total Population	
2001	16.00%	9.40%	4.21
2002	16.20%	9.60%	4.37
2003	16.20%	9.70%	4.49
2004	16.20%	9.80%	4.59
2005	16.20%	9.90%	4.69
2006	16.60%	10.20%	4.87
2007	16.50%	10.20%	4.95
2008	16.40%	10.30%	5.02
2009	16.40%	10.40%	5.13
2010	16.50%	10.50%	5.26
2011	16.60%	10.60%	5.38

(Source: Adapted from Statistics South Africa, 2011: 5)

The statistics indicate an alarming prevalence of the HIV/AIDS epidemic in South Africa. Furthermore, the number of new HIV infections among the population, aged 15 years and older, was estimated at 316 900 for 2011 (Statistics South Africa, 2011: 2). This represents a major concern for South Africa as the disease has an impact on the health, welfare and education systems and the economy of the country (Keil, 2007: 49).

The impact of HIV/AIDS on the South African economy can be seen as three-fold as the responsibility to care for those infected increases, the number of orphans increases and the size of the labour force begins to diminish. Since the promotion of entrepreneurship is one of the front-runners to achieving the many economic, social and environmental challenges faced by the government, improvements in disease and poor health indicators are essential to enhance the country's competitiveness outlook (World Economic Forum, 2009:12). This is reinforced by the World Economic Forum (2011: 16) which states that the health of the South African workforce was ranked 129<sup>th</sup> out of 142 economies worldwide.

Small businesses are vital for an economy and are considered the main driver of employment in South Africa. In this situation, the shortage of labour could prove crippling to businesses and in addition to this, the capital and time spent in transferring entrepreneurial skills to an infected workforce is then wasted. A subsequent effect is that additional capital and time are needed to train new workers and often small businesses “do not have sufficient resources to keep training staff”, either in terms of capital or time needed to do so (Keil, 2007: 53-54).

### **3.2.4 Crime and Violence**

Everyone in South Africa is affected by the high levels of crime and violence, as well as the resultant sense of insecurity and fear that comes from living in the country. Some individuals encounter this directly, while others simply encounter it through the terrifying experiences of friends and family. Nearly all South Africans are exposed to the abundant violence through the media with its regular reminders of these atrocities, which in turn have come to characterise South African society (Silber and Geffen, 2009: 35).

As mentioned earlier, the South African economy is characterised by “an uneven distribution of wealth and income” (Trading Economics, 2011a: 1). Unsurprisingly, this has an effect on the security situation within the country, which at present, remains poor. This presents another important obstacle to conducting business in South Africa as the costs of crime and violence remain extremely high. Perhaps even more alarming is the fact that the South African Police Service (SAPS) is unable to provide protection from crime. In turn these particulars “do not contribute to an environment that fosters competitiveness” (World Economic Forum, 2009: 12).

As can be seen from Table 3.2 and according to the South African Police Service (2011: 3), the frequency of burglaries committed at business (non-residential) premises decreased from 71 773 in the 2009/2010 financial year to 69 082 in the 2010/2011 financial year, indicating a -3.70% decrease in this kind of crime. On the other hand, the frequency of robberies committed at business premises increased from 14 534 in the 2009/2010 financial year to 14 667 in the 2010/2011 financial year, indicating a marginal 0.90% increase in this particular crime (South African Police Service, 2011: 4).

**Table 3.2 The Frequencies of Serious Crimes at Business Premises during the 2003/2004 to 2010/2011 Financial Years**

Crime Category	Frequencies							
	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Burglary at Business Premises	64 629	56 048	54 367	58 438	62 995	70 009	71 773	69 082
Robbery at Business Premises	3 677	3 320	4 387	6 689	9 862	13 920	14 534	14 667

(Source: Adapted from South African Police Service, 2011: 3-4)

In Table 3.2 above, the frequencies and percentage changes from the 2009/2010 financial year to the 2010/2011 financial year do present a somewhat more favourable and positive outlook for small businesses in South Africa. According to the South African Police Service (2011: 16), over the past two years different business groups or associations, such as Business Against Crime (BAC) and the Consumer Goods Council, and so on, had already started to indicate that business crime was on the decrease. The downside to this is that this improvement only applies to members of these specific groups or associations, which are larger businesses, such as supermarkets and shopping malls, while “the smaller, single-owner and emerging black businesses in the old CBD areas, townships and even suburbs still remain vulnerable to this kind of crime, which can have a devastating impact on one of the primary job-creating sectors” in South Africa (South African Police Service, 2011: 16).

Table 3.3 indicates the types of businesses which are targeted by criminals. The specific type of business is represented as a percentage out of a total of 1 995 business robbery cases which were analysed for the period of January – March 2011 (South African Police Service, 2011: 16). The types of businesses with the greatest percentages appear to confirm that small to medium-sized businesses are more likely to operate on a cash-only basis and therefore are more likely to be the targets of the majority of business robberies (South African Police Service, 2011: 17).

**Table 3.3 The Types of Businesses Targeted**

<b>Type of Business</b>	<b>Percentage</b>	<b>Type of Business</b>	<b>Percentage</b>
Spaza/tuck shop	22.70%	Construction site/office	1.30%
Supermarket (all types)	13.10%	Motor vehicle dealer/car rental company	1.30%
General dealer	8.70%	Bar/pub	1.20%
Tavern	5.50%	Workshop/panel beaters	1.20%
Garage/petrol station	5.00%	Hotel/motel/guesthouse	1.20%
Clothing store	3.80%	Scrap metal dealer	1.10%
Fast food outlet	3.70%	Furniture shop	1.10%
Café	3.10%	Hairdresser/salon/cosmetics shop	1.10%
Liquor store	2.70%	Educational premises	1.00%
Cellular telephone shop/container	2.30%	Government institution	0.90%
Restaurant/coffee shop	1.70%	Warehouse/storage facility	0.90%
Butchery/dairy	1.70%	Plumbing/electrical services	0.80%
Medical institution (surgery, pharmacy, hospital)	1.50%	Hardware shop	0.80%
Factory	1.50%	Other (32 types)	7.70%
Office/office park	1.40%		

(Source: Adapted from South African Police Service, 2011: 17)

Therefore it is of great importance that small business persons not be misled by the statistics mentioned above. Small business persons cannot become complacent about the decrease in the frequency of burglaries committed at business premises from the 2009/2010 financial year to the 2010/2011 financial year (refer to Table 3.2), and the types of businesses targeted (refer to Table 3.3). Such individuals need to remain vigilant and ensure that security measures are put in place for their businesses (Keil, 2007: 55). They also need to insure their

businesses to safeguard against the high levels of crime and violence. Consequently, this is where the problems for most small businesses arise; small businesses have limited resources and this being so, their locations are often a determining factor in the crime and violence they experience. Furthermore, their capital is often insufficient to ensure adequate security measures are put in place. This means that small businesses are often more seriously affected by crime and violence than larger or medium-sized businesses (Keil, 2007: 55).

### **3.2.5 Broad-Based Black Economic Empowerment (BBBEE)**

Morris *et al.* (1996: 72) state that in South Africa the problem remains of not only to create large numbers of new jobs but also to find a way of achieving black economic empowerment. That was only two years after the first democratic elections in 1994 but the BBBEE Act (No. 53 of 2003) was only passed in 2003 as a means to address the problems and deficiencies of the past (Nieman, 2001: 445). The BBBEE Act, formerly the Black Economic Empowerment (BEE) Act, was “introduced to accelerate the entry of black people into the first economy and to tackle the shortcomings of the original narrow-based BEE” (BEE Empowered, 2012: 1).

As mentioned above, the BBBEE Act was promulgated to “establish a legislative framework for the promotion of black economic empowerment” (Republic of South Africa, 2003b: 2) in South Africa. This is because the historical, political, economic and social discrimination in the country, throughout the apartheid era, resulted in an undereducated black majority (Morris *et al.*, 1996: 65). Consequently, it was proposed that “South Africa’s economy performs below its potential because of the low level of income earned and generated by the majority of its people” (Republic of South Africa, 2003b: 2) and that through promulgation of that Act, effective participation of the majority of the population in the economy would be achieved (Republic of South Africa, 2003b: 2).

The economic activities of the individuals mentioned above were severely constrained during apartheid; limitations existed on where they could live, work and own land. Further limitations on their employment and trading hours, access to capital and credit from suppliers also existed. However, perhaps the biggest limitation which existed was the unavailability of education and training for them (Morris *et al.*, 1996: 65; Republic of South Africa, 2003b: 2).

The Department of Trade and Industry is responsible for administering the BBBEE Act of 2003 and on 9 February 2007 the Codes of Good Practice on Black Economic Empowerment were gazetted in the Government Gazette No. 29617 (BEE Empowered, 2012: 1; Standard Bank, 2011: 6). It is important to note that the BBBEE Act “provides the legislative framework that allows for the **development of the BEE Codes of Good Practice**”, while the Codes “provide a standard framework for the **measurement of Broad-Based BEE** across all sectors of the economy” (BEE Empowered, 2012: 1). These Codes represent a scorecard which encompasses seven elements to objectively measure a business’s BBBEE compliance. These include: Equity, Management, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development and Corporate Social Investment. The codes range from levels one to eight and the higher the BBBEE score or level, the greater the business’s chance at securing preferential procurement (The National Empowerment Fund, 2008: 1).

It is important to note that the Codes of Good Practice on Black Economic Empowerment are of particular benefit to small businesses since larger businesses need to practise preferential procurement. According to Standard Bank (2011: 20), only one category of business falls outside the scope of BBBEE legislation – this is any business which can prove it has a revenue of less than R5 million per annum. These businesses are known as ‘Exempted Micro Enterprises’ (EMEs) and are automatically classified as level four BBBEE contributors (Standard Bank, 2011: 3). This being so, large businesses can make use of small businesses, as suppliers, to achieve this acceptable level four of BBBEE compliance (Keil, 2007: 62).

### **3.2.6 Entrepreneurial Activity**

According to the DA, it is evident that South Africa’s job creation policy requires a rethink (Business Report, 2011: 1). Firstly, the labour market’s rules make it expensive to employ people and thus fewer individuals are employed (Engineering News, 2011: 1). Furthermore, those individuals who are employed have the necessary skills and experience, while the undereducated majority remain unemployed. It is too expensive and risky for businesses to even attempt to employ large numbers of unskilled, poorly educated and inexperienced individuals, “leading to South Africa sinking deeper into crippling unemployment” (Engineering News, 2011: 1). According to the Executive Director of the Centre for Development and Enterprise (CDE), “South Africa’s labour costs, which include wages as well as other regulatory and administrative costs, are higher than those of many other

developing countries, and they continue to rise” (Engineering News, 2011: 1). In addition to this, the introduction of new and more stringent labour legislation by the Minister of Labour looks set to discourage job creation further (Business Report, 2011: 1).

In light of this, it appears that the South African government’s attempt at correcting the social imbalance from the apartheid era remains futile. Adenutsi (2009: 6) states that in this modern world of globalisation “entrepreneurship and the development of productive capacities within the private sector have become indispensable to ushering countries into the global trading and developing network” and although the government is creating jobs, those in the private and formal sector are still lacking. Rather, the focus needs to shift to developing small businesses, which are the main driver of employment in South Africa (Business Report, 2011: 1; Engineering News, 2011: 1; Nieman, 2001: 445; South African Government Information, 2011: 1). The government and policy-makers must look to entrepreneurship, in combination with innovation, to return the country to a period of sustained economic growth, as well as meet the many other social and environmental challenges the country faces (Keil, 2007: 57; OECD, 2009: 5).

In general, the existence of small businesses in any country is vital as they make considerable and increasing contributions to economic activity and job creation (Farrington *et al.*, 2011: 2), “frequently accounting for up to 50.00% of total employment and 30.00% of manufacturing output” (Business Live, 2011: 1). Moreover, according to Porter (2000: 244), large businesses are increasingly diversifying into smaller units to function as smaller businesses. As mentioned above, entrepreneurship and small business creation can also reduce the rate of emigration in a country. This is particularly beneficial to South Africa, which is being adversely affected by the diminishing level of skills due to qualified individuals being offered attractive opportunities and incentives from organisations abroad (Lanigan, 2008: 48). Therefore it is of great importance to note that the bulk of new jobs being created to maintain, or to grow, employment levels originate from small business creation and small businesses now account for a relatively high proportion of a country’s GDP (Co and Mitchell, 2006: 349; Bridge *et al.*, 1998: 6-7; Morris *et al.*, 1996: 72; Nieman, 2001: 447).

In South Africa small businesses contribute to more than 50.00% of the country’s GDP (South African Government Information, 2011: 1). South African Government Information (2011: 1) estimates that there are approximately “2.8 million small, medium and micro-

enterprises (SMMEs)” in South Africa, which also contribute to nearly 61.00% of all employment in the country. It is nearly impossible to obtain accurate figures on each category of business (micro, small and medium) or on the various sectors of the economy as this information remains unavailable, both at national and provincial levels (Herrington, Kew and Kew, 2009: 13).

South Africa began its participation in the Global Entrepreneurship Monitor (GEM) in 2001. The GEM is an annual assessment which conducts major international research into both the extent and nature of entrepreneurship in various countries (Herrington, Kew and Kew, 2008: 4; Keil, 2007: 58). The countries are compared according to their levels of total entrepreneurial activity (TEA), which measures the number of adults involved in establishing or operating new businesses in the country (Keil, 2007: 58).

Subsequently, the 2011 GEM Report states that South Africa has a low TEA rate (Kelley *et al.*, 2011: 20) and according to the GEM 2010 Report, South Africa was ranked 29 out of the 59 participating countries with a TEA rate of 8.90%, “being below the average (11.90%) of all participating countries” (Herrington *et al.*, 2010: 4). However, this is still a significant improvement to its 2009 TEA rate of 5.90%, though this remained lower than the average for all efficiency-driven economies (11.70%), as well as significantly lower than the average for all middle-to-low-income countries (15.60%) (Herrington *et al.*, 2010: 4). Furthermore, the GEM 2010 report states that a country at South Africa’s stage of economic development should expect its TEA rate to be around 15.00%, which currently is “over 60.00% more than South Africa’s actual rate of 8.90%” (Herrington *et al.*, 2010: 4).

Considering South Africa’s 2010 TEA rate of 8.90%, it is evident that the country has “below-average entrepreneurial activity” (Herrington *et al.*, 2010: 4) despite having favourable statistics on SMMEs and as a result, becoming an entrepreneur or a small business person is not as popular in South Africa as it should be (Farrington *et al.*, 2011: 3; Herrington *et al.*, 2009: 15). Several possible reasons for this include: South Africa in general is not a highly favourable environment (SBP Business Environment Specialists, 2009: 3); the South African school system lacks entrepreneurial excellence (North, 2002: 25); there is not much, if even, appropriate support for small businesses (Business Live, 2011: 1; SBP Business Environment Specialists, 2009: 3); and finally, individuals who have the potential to become small business persons are challenged to identify viable business opportunities (Farrington *et*

*al.*, 2011: 3; North, 2002: 24). This is because the information channels for finding out about potential opportunities are largely informal, for example, recommendations from friends and family, and so on (Davis, 2002: 25).

As has been discussed, the South African environment presents an interesting challenge for individuals wanting to pursue an entrepreneurial career: the political climate is a highly unstable one, the economy is subject to continuous ebbs and flows, HIV and AIDS remain rife and the crime and violence towards individuals and small businesses at large are highly concerning. BBBEE legislation, however, remains favourable as many small businesses are exempt from its compliance (Keil, 2007: 57).

The introduction of entrepreneurship courses within the South African school system needs to be undertaken at primary, secondary and tertiary education levels (Farrington *et al.*, 2011: 11; Keil, 2007: 57; Nieman, 2001: 448) to ensure the development of entrepreneurial skills (Business Report, 2011: 1; Co and Mitchell, 2006: 348). According to Business Live (2011: 1), in order to foster economic growth South Africa needs appropriate technical and professional skills and this is only achieved by improving “the quality of information”. Furthermore, the formal education level which individuals receive is a key factor for them in “accomplishing a degree of sophistication in business operating practices” (Morris *et al.*, 1996: 72). Davis (2002: 19) states that taking initiative, creating a project or establishing one’s own business are exceptions rather than norms, for most young people. Therefore entrepreneurship education needs to be directed at young individuals who will be the future change agents of the country, in turn “providing the much needed entrepreneurs required in South Africa” (Nieman, 2001: 446). This being so, developing human potential remains a matter of the utmost importance (Davis, 2002: 13) and entrepreneurial projects which target the youth are essential, especially those which support innovative job creation (Business Live, 2011: 1).

Finally, more emphasis needs to be placed on creating additional support for small- and medium-sized enterprises (SMEs) (Business Live, 2011: 1; Business Report, 2011: 1) and small businesses in particular, “need external help at a viable price” (Porter, 2000: 244). Over the years, “the government has invested in a plethora of initiatives aimed at supporting and growing the SMME sector” (SBP Business Environment Specialists, 2009: 2). The Department of Trade and Industry established the necessary institutional framework to aid the

promotion of entrepreneurship, as well as the creation of various institutions to aid small business creation and growth through support services (Keil, 2007: 57; South African Government Information, 2011: 1). These include:

- the Small Enterprise Development Agency (SEDA) which subsequently replaced Ntsika. SEDA provides non-financial support to small and medium enterprises;
- Khula Enterprise Finance which provides financial support of between R10 000 and R250 000, to the underserved market;
- the South African Micro-Finance Apex Fund which provides micro-finance loans of less than R10 000;
- and the National Empowerment Fund which finances BBBEE transactions (SBP Business Environment Specialists, 2009: 2; South African Government Information, 2011: 1).

Furthermore, on the policy front, the National Small Business Act which was passed in 1996 (Republic of South Africa, 1996; SBP Business Environment Specialists, 2009: 2) opened the way for the Department of Trade and Industry to address SMME development in the country (Nieman, 2001: 446), while the National Small Business Amendment Act passed in 2003 (Republic of South Africa, 2003a) further supported this. Both Acts are highly specific and according to the National Small Business Act of 1996, a small business denotes a separate and distinct business entity, be it corporate or non-governmental, having at least one owner, which operates predominantly within any sector of the economy, as mentioned in the Act (Republic of South Africa, 1996: 2). Furthermore, the definition of a small business differs across the various sectors depending on the requirements satisfied, which include: the total annual turnover, the total gross asset value and the total full-time equivalent of paid employees, though this appears to be no more than fifty employees for a small business, irrespective of the sector (Republic of South Africa, 1996: 13-14).

Under these conditions, starting a small business in South Africa should not be a haphazard decision; it is a complicated undertaking which requires a substantial amount of thought, research and hard work. In order for South Africa to reap the benefits of small businesses and the contributions they make to a country and its economy, entrepreneurship needs to be “positioned as a highly desirable career option, and South Africans should be encouraged to pursue this option” (Farrington *et al.*, 2011: 3).

### **3.3 Conclusion**

This chapter has demonstrated that the South African environment, in particular, requires much attention and consideration for both existing and potential small business persons. The country's politics, economy, HIV and AIDs, crime and violence and BBBEE all have a significant influence on entrepreneurship and small business creation, and this is confirmed through South Africa's less than desirable entrepreneurial activity.

The next chapter will focus on success within a small business. Small business success will first be defined and thereafter the different factors necessary for small business success will be explored. The chapter will then review the research which has been conducted on the success of small businesses thus far, in order to determine whether or not a further need for small business research exists.

## CHAPTER 4

### SMALL BUSINESS SUCCESS

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#### 4.1 Introduction

The previous chapter has examined the concept of entrepreneurship with the complex South African environment. This chapter will first introduce the concept of small business success and then the many literatures and theories which emphasise the factors necessary for success, particularly in a small business, will be explored. It is important to note that in light of such literatures and theories, any similarities and dissimilarities that may appear between the numerous authors and researchers will only be discussed later on in chapter seven, in relation to the results obtained in this research. Thereafter insights into small business research will be explored.

#### 4.2 Defining Small Business Success

The word ‘success’ is derived from the Latin language and means “to go on well” (Holden, 2005: 102, cited in Keil, 2007: 27) but the implication of this is that success is not the arrival at a destination but rather the journey to this destination. Furthermore, success can even denote the quality of the journey with regards to progress or continuous improvement along the way. Success is also the attainment of goals and objectives necessary to achieve a specific task, ambition or want. Therefore success can also be defined as a process of constant motion and not a stabilised, permanent state of achievement; one is always advancing toward the task, ambition or want that is so desired. This being so, it can be argued that success is not attainment but rather the actual process one has to endure to reach it (Keil, 2007: 27-28).

The concept of success in a business context is highly complex as it is derived from many different perspectives (Heerwagen, 2000: 354). Success is defined as sustained stakeholder satisfaction (Headd, 2003: 52; Kalleberg and Leicht, 1991: 145) but perhaps more importantly, success is often viewed in terms of growth and profitability (Keil, 2007: 29; Rogoff *et al.*, 2004: 368; Simpson *et al.*, 2004: 483). This reinforces one of the most popular definitions of success in business, namely an above-average increase in revenues (CIBC

World Markets, 2004: 1). Success is also the collective sense of achievement within an organisation and recognition from competitors in the marketplace. This success is achieved by maintaining the provision of products and services to customers in the best manner possible, by ensuring that staff are content at work and customers enjoy favourable experiences with the organisation (Simpson *et al.*, 2004: 487-488).

It is important to note that there is no common and agreed-upon definition of business success and therefore every organisation measures success by its own criteria. This being so, much of the research has emphasised success as being the equivalent to continued trading or longevity and thus, the longer a business can survive and prevent involuntary exit, the more successful the business is (Headd, 2003: 51; Kalleberg and Leicht, 1991: 144; Rogoff *et al.*, 2004: 365; Simpson *et al.*, 2004: 483; van Praag, 2003: 1).

There is limited literature available on business failure and as with business success there is also no generally agreed-upon definition for business failure (Rogoff *et al.*, 2004: 365). Business closure or termination is commonly stated as being the “surrogate for failure” (Rogoff *et al.*, 2004: 365) but it is important to note that the failure criteria of a small business must reflect the principal stakeholder’s perspective (Coy *et al.*, 2007: 183).

Small business success presents another interesting challenge for those who try to define it. Interest in successful small businesses continues to grow but is limited by the different ways in which small businesses are categorised (Simpson *et al.*, 2004: 481). Furthermore, “there are very real problems with the term “success” and its various interpretations and perceptions in the small firm sector” (Simpson *et al.*, 2004: 483). In general, research has indicated that small business persons have their own individual and very different perceptions of what success means (CIBC World Markets, 2004: 1; Simpson *et al.*, 2004: 486) and this being so, “success in self-employment has no unique definition or measure” (van Praag, 2003: 2).

As with business success, small business success is defined as the ability to survive or to remain in business. This represents the simplest and most common definition of the term. This being so, by adopting business continuation as the basis for success it is assumed that profitable small business persons choose to remain in business, while those making a loss choose to exit the business. This is not necessarily the case though, as the decision to remain in business need not be a result of profit or non-profit. It could simply be a result of the

characteristics of the small business person (Simpson *et al.*, 2004: 483). Rogoff *et al.* (2004: 365) also debate this definition and state that while a business might continue to exist, and therefore be considered successful, it might continue to disappoint its owners by achieving only minimal profits, while another business might cease to exist but have left its owners wealthy because of the sale of its assets. A number of researchers have also defined small business success using criteria based on financial analyses, such as market share, sales growth, profitability, cash flow, return on capital employed or return on investment (ROI) and increasing shareholder value (Coy *et al.*, 2007: 183; Kalleberg and Leicht, 1991: 145; Keil, 2007: 29; Reijonen, 2008: 617). The problem, though, is that these are typically more appropriate measures for gauging the success of large, rather than small, organisations (Coy *et al.*, 2007: 183).

The success criteria of small organisations must reflect the small business person's perspective as he/she is the principal stakeholder of the business (Coy *et al.*, 2007: 183; Reijonen, 2008: 617). Qualities such as sound judgment, perseverance, knowledge of the industry and the world at large, as well as occupational knowledge gained through experience are essential for success in entrepreneurship (van Praag, 2003: 4). These criteria represent success in terms of individual owner characteristics but there are also criteria associated with organisational values and performance measures (Simpson *et al.*, 2004: 481). According to van Praag (2003: 2), "performance measures have been defined in terms of observed self-employment earnings, as firm size, as firm growth, and moreover as the probability that one has remained self-employed for a certain while". Growth with regards to the number of employees has also recently been accepted as a measure of small business success (Reijonen, 2008: 617; van Praag, 2003: 2).

In relation to the above-mentioned, with so much literature available on business- and small business success, the following questions (pertinent to this research) were raised: **how exactly do individuals, in particular, small business persons, define small business success or a successful business? And, in defining small business success or a successful business, how successful are small business persons in actually achieving this within their own small businesses?** As such, it was decided that such questions be represented as research objectives for this study (these are represented as research objectives 2 and 3 on page 56 of the thesis), in the hope that they would help confirm and expand on the literatures mentioned above. It is important to note that research objective 3 was formulated because

there is often disparity between what participants consider to be an ideal situation and what is actually happening in reality, and the researcher decided that this would be worthy of investigation.

Following on from the review of literature in Section 4.2 (Defining small business success), research objectives 4-6 (page 56 of the thesis) were also found to be of importance and hence worthy of investigation by the researcher. It is important to note that research objective 5 was formulated with regards to business success which concerns competitors (as stated by Simpson *et al.*, 2004: 487-488).

### **4.3 Factors of Small Business Success**

In business there are many factors which may lead to success, independent of the quality of the product/service and decisions made by the management team. Therefore it is all too common for small business persons to attribute the success of their small businesses to their own insights and managerial skills, and rather ignore or downplay the unplanned events and external factors which are beyond their control. It is highly tempting to credit oneself for the success achieved by the business, particularly in the case of small business persons, though these achievements may simply be a perchance of good luck or the result of their competitors' problems and downfalls (Gino and Pisano, 2011: 69).

Simpson *et al.* (2004: 483) state that the topic of success factors in small businesses amongst business researchers and small business persons alike has become increasingly popular in recent years. Many authors and researchers have put forth their own theories, each in an attempt to provide the definitive formula for success (Rogoff *et al.*, 2004: 365; Simpson *et al.*, 2004: 483). As mentioned above, there are numerous ways to measure small business success but this becomes more complicated when trying to determine the factors that lead to this success (Simpson *et al.*, 2004: 483). In addition to this, "previous research into the relationships between various factors and small business success has been lacking" (Simpson *et al.*, 2004: 483). This being so, the literature which follows will provide a comprehensive theoretical framework regarding the determinants of success and in turn a lack of such success factors may result in small business failure.

According to Heerwagen (2000: 354), the concept of “success” differs across many different perspectives. Despite this diversity, there are some general factors found to influence the success potential of small businesses. These include: product quality, customer satisfaction, capacity for innovation, quality of work life (including employee work attitudes and job satisfaction), employee retention, perceived value of goods and services, operational efficiency and social responsibility (Heerwagen, 2000: 354-355).

Research conducted by CIBC World Markets (2004: 2) identifies the main determinants of successful firms, which are those categorised as having “significantly higher than average revenue growth” than their counterparts over a three-year period. Small business success in Canada is attributable to: a high level of education, the use of advisors, incorporated small businesses, operating as an outsourced business, technology adoption and connectivity and a majority of Internet sales existing outside the small business’ “hometown” (CIBC World Markets, 2004: 2-3).

Small businesses operated by individuals with a post-secondary education were found to have higher revenue growth than those which were operated by individuals with only a high school education. **This raises the question: is level of education important for business success?** A potential reason for this could be a result of such individuals being able to cope with problems, make decisions and seize opportunities better, as a result of their higher educations. Small business persons who use external professional advisors on a regular basis, were also found have higher revenue growth than those small businesses without such advice (CIBC World Markets, 2004: 2-3). Small businesses which were incorporated also experienced higher revenue growth as they tended “to have a large support system, often with more resources and skills available” (CIBC World Markets, 2004: 3). Large organisations which outsourced their work to small businesses also aided in the achievement of higher revenue growth. The pace of business outsourcing is expected to increase in the future as outsourcing provides cost-cutting strategies, as well as “focus on core business” strategies for large organisations (CIBC World Markets, 2004: 3). Technology adoption and connectivity by the small businesses increased revenue growth. The use of electronic commerce (e-commerce) serves to “improve and strengthen customer relationships, enhance information availability and exchange, improve the company’s image, and, in some cases, level the playing field with large corporations” (CIBC World Markets, 2004: 3). Finally, those small businesses which

exported more than half of their Internet-based sales also had increased revenue growth (CIBC World Markets, 2004: 3).

In addition to this, the research found that the most successful small businesses were in the professional, science and technology industry, while those small businesses in the small finance, real-estate and health care sectors also performed well. **This raises the question: is business sector important for business success?** The relationship statuses of the small business persons had a positive effect on the revenue growth experienced by the small businesses. **This raises the question: is relationship status important for business success?** Gender, local versus foreign small business persons, business location and small businesses established due to negative economic circumstances, such as lay-offs, downsizing, restructuring, unemployment and retirement, had no effect on small business success (CIBC World Markets, 2004: 4-5). **This raises the questions: are gender, business location, and motivations for business start-up important for business success?**

Huck and McEwen (1991: 91-92) conducted a study to investigate the entrepreneurial competencies needed for small business success in Jamaica. The competency areas cited include: starting a business, planning and budgeting, management, marketing/selling, advertising and sales promotion, merchandising, finance and accounting, personnel relations, purchasing, production, facilities and equipment and controlling risks. It is believed that all twelve competency areas are necessary for small business success; but management, planning and budgeting and marketing/selling are the three most important, respectively. Furthermore, the most important competencies within these areas include: maintaining financial records, establishing good human relations and planning goals and objectives. The study also found that several differences exist between the genders, as the females gave certain competency areas a higher importance rating. **This raises the question: is gender important for business success?** The same is also true for several other competency areas where the small business persons, with previous business experience, gave higher importance ratings to such areas than those without previous business experience (Huck and McEwen, 1991: 92). **This raises the question: is previous work experience important for business success?**

Rogoff *et al.* (2004: 368) conducted a study on small business persons in the United States of America to identify the factors which both contribute and impede business success. The factors were categorised as either internal or external, with internal factors relating to the

small business person and external factors referring to the forces or conditions outside the small business person's control. The factors include: individual characteristics of the small business person (a hard work ethic, broad knowledge, dedication, professional service), management issues (an effective organisation, management skills), financing issues (good funding, availability of loans), marketing activities (advertising, good customer service, effective communication), human resource issues (finding and hiring quality employees, employees' honesty, turnover rate of employees), economic conditions (country's economy, income growth), product characteristics, competition, government regulation (legislation, taxes), technology and environmental factors. It was found that individual characteristics and marketing activities are the most popular success factors and that the vast majority of participants identified internal factors as contributing to success. Furthermore, government regulation is identified as the most popular impeding factor to business success, followed by human resource issues (Rogoff *et al.*, 2004: 370-372).

According to Dorfman (2007: 26-27), there are several success strategies for small businesses. The first focuses on customer service and being attentive to the customers' needs as this can be a strategic weapon to achieve business success. The experience a customer receives is the only way in which he/she can differentiate one small business from its competitors. Offering the best service is based on three key principles: hiring the right individuals and continually training them on delivering quality service, instilling a friendly, caring and problem-solving organisational culture and creating an exceptional service encounter from the viewpoint of the customer. The second strategy focuses on the creation of intimacy and trust which comes from knowing the customer. Creating customer intimacy is the cornerstone to building deep, loyal and lasting relationships and smaller businesses are often better able to achieve this, for example, by taking the time and effort to personally greet a customer when he/she walks in. The final strategy focuses on differentiating value for the business' most profitable customers. In other words, "winning, keeping and growing high-value small business customers is becoming increasingly difficult" (Dorfman, 2007: 29) and this being so, attracting and cultivating strong relationships with these customers is of great importance (Dorfman, 2007: 28).

There are many factors, both internal and external, which have been found to affect the success of small businesses. These include: industry structure and competition, entrepreneurial decisions, employee relations, entrepreneurial objectives, organisational

culture, education, training and previous experience, as well as various sub-factors which exist within such areas (Simpson *et al.*, 2004: 481). The research conducted by Simpson *et al.* (2004: 481) focuses on the unique perspectives of the small business person to identify the factors essential for small business success. Therefore the research focused on the characteristics of the small business person and the interviews conducted revealed four substantive categories to define each individual small business person. Properties such as the role of education, training, knowledge and previous experience, where appropriate, were also included to define these categories (Simpson *et al.*, 2004: 486). **This raises the questions: are level of education and previous work experience important for business success?**

The categories include: “The Empire Builder”, which is a small business person who believes that the recipe for success is a combination of growth, profitability and teamwork; “The Happiness Seeker”, which is a small business person who believes that success is to be happy at work and to ensure that both staff and customers enjoy their experiences with the firm; “The Vision Developer”, which is a small business person who believes that success is the collective sense of achievement within the firm and recognition from others in the marketplace, by focussing on shared values, vision, creativity and building on the firm’s strengths; and “The Challenge Achiever”, which is a small business person who also believes that achievement and recognition are critical for success but that this success is achieved by maintaining the best customer service possible (Simpson *et al.*, 2004: 486-488).

Lin (1998: 43-44) conducted a case-study survey to identify the success factors of 43 SMEs in Taiwan. The research made use of Leavitt’s well-known model developed in 1964 which proposes a “systematic view of structure, technology, and people” (Lin, 1998: 45). Changing an organisation’s structure entails rearranging its internal systems, for example, the lines of communication, the flow of work, the managerial hierarchy, and so on. In other words, the degree of complexity, formalisation, centralisation and organisational redesign were examined. Changing the organisation’s technology entails modifying its equipment, engineering processes, research techniques and production methods and therefore equipment and operating methods were examined. Finally, changing the organisation’s people entails improving the behaviour of employees and this being so, skills, attitudes, perceptions and expectations were examined. The final instrument consisted of three dimensions and nine factors therein, which include: structure, consisting of complexity, formalisation, centralisation and organisational design; technology, consisting of equipment and operating

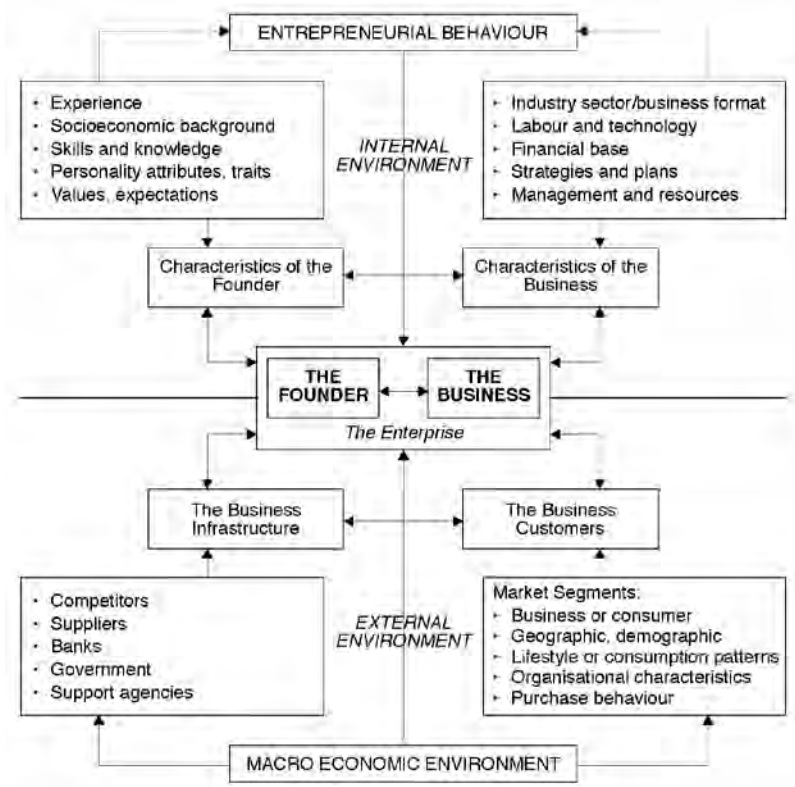
methods; and people, consisting of skills, attitudes and expectations (Lin, 1998: 45-46). The results show that the “softer” people-related issues are considered more important for success than the “harder” issues relating to structure and technology. A focus on customers, management skills and resource creation, rather than on technical skills, is also emphasised (Lin, 1998: 43).

Figure 4.1 illustrates some of the factors identified by Watson *et al.* (1998: 219) as being important in affecting business outcomes. The factors are both internal and external and all have an impact on business performance and therefore are also key determinants of business success. As with large organisations the business characteristics, the business infrastructure and the particular business customers the organisation serves, are all important factors which influence performance. This being so, with small businesses, it is the influence of the characteristics of the founder (small business person) which remains of paramount importance. In the figure, the enterprise is illustrated as representing the founder and the business, as the founder defines the business concept/idea and mode of operation to establish the business (Watson *et al.*, 1998: 220).

The internal factors consist of the founder characteristics and the business characteristics. The founder characteristics include: experience, socioeconomic background, skills and knowledge, personality attributes and traits and values and expectations. The business characteristics include: industry sector/business format, labour and technology, financial base, strategies and plans and management and resources. In turn entrepreneurial behaviour is influenced by both the characteristics of the founder and of the business (Watson *et al.*, 1998: 219).

The external factors consist of the business infrastructure and the business customers. The business infrastructure includes: competition, suppliers, banks, government and support agencies, while the business customers include: business or consumer customers, geographic and demographic customers, lifestyle or consumption patterns, organisational characteristics and purchase behaviour of customers. In turn the larger macroeconomic environment influences both the infrastructure and the customers of the business (Watson *et al.*, 1998: 219).

**Figure 4.1 The Factors Affecting Business Outcomes**



(Source: Watson *et al.*, 1998: 219)

The research conducted by Watson *et al.* (1998: 217) involves “an empirical study of business start-ups and their survival and growth, or conversely, their failure (exit) in the early years following start-up”. This being so, the start up, development and growth of new small businesses, as well as the factors associated with the various outcomes, were researched. Although the factors illustrated in Figure 4.1 represent both internal and external factors, the focus of the study was on small business persons and their businesses, as well as on the internal determinants of business performance, and not on the broader external environment (Watson *et al.*, 1998: 217-218). It was found that significant differences exist between: the participants’ personal backgrounds, experiences and problems encountered in operating their businesses, the motivations for business start-ups, the growth orientations and objectives for the development of the businesses, the levels of training and advice received from support agencies and the reasons for discontinuance of the businesses, where applicable (Watson *et al.*, 1998: 234). **This raises the question: are motivations for business start-up important for business success?**

According to Isakova (1997: 87-88), the theory and practice of small business management provides an extensive source of information on the key factors necessary for success and these can be classified into the following three groups: personal characteristics, business-related factors and environment-related factors. Personal characteristics consist of professional skills, business skills, family support, commitment, experience, financial resources and physical and emotional strengths. Business-related factors consist of quality, price, suppliers, capital, technology, location, distribution, markets and advertising. Lastly, environment-related factors consist of political system, legislation, taxation, banking, insurance, business associations/unions, business infrastructure and socio-psychological issues (Isakova, 1997: 88).

The results of the study conducted by Isakova (1997: 88) show that successful small business persons usually rely on their backgrounds, professional skills, former professional links and their overall knowledge, both broad and specific. It is also suggested that a potential small business person should thoroughly evaluate their personal characteristics and business-related factors before deciding on the business option he/she will pursue. Environment-related factors tend to be ignored in this instance as they are the same for all business options, to differing extents, or the difference is insignificant. Furthermore, the governments and policy-makers responsible for small business development must focus on environment-related factors, “with the idea to facilitate business entry for ordinary people, not just ‘business stars’” (Isakova, 1997: 90). Owning and operating a small business needs to be a career option for millions, otherwise it will not fulfil its social, environmental and economic functions (Isakova, 1997: 90).

Luk (1996: 69) made use of content analysis to identify the common factors pertinent to the successful performance of small businesses in Hong Kong. It must be noted, though, that the results of the study remain unique to the Hong Kong business environment and that the factors found to be important for the success of businesses used in this research may not be applicable to Western business experiences (Luk, 1996: 74). The research instrument employed was developed on the basis of the literature review and consisted of four categories each with specific success factors therein. The four categories identified include: personal factors, management factors, company factors and product and market factors. Each of the various success factors were measured according to their level of importance through personal in-depth interviews with successful small business persons (Luk, 1996: 69).

Personal factors consist of good decision-making skills, hard-working, sufficient relevant work experience prior to starting own business, persistent in achieving goals, good interpersonal skills, relevance of education, good analytical skills, good business connections before starting own business, willing and able to suffer stress, creative person, support from family, personality suited to the job, good communication skills and high level of education (Luk, 1996: 70). Management factors constitute good marketing techniques, good personal selling techniques, use of good quality production materials, good product management skills, manage to take advantage of the China factor, able to motivate employees and enjoy low turnover rate, secure supply of production materials, able to negotiate for funds in difficult conditions, able to conduct market research and identify customer needs and business trends, recruit right people, prepare business planning, good budget control, control stock level and able to manage cash flow (Luk, 1996: 71). The final two categories were merged into one, namely product, market and company factors and consist of penetrate target niche, establish company image, distinctive and unique product feature, able to respond to market change, establish and maintain good company customer relation, emphasis on customers' needs, good customer services skills, enjoy cost advantage, continuously introduce innovative product, flexibility, market expanded quickly and willing to invest in research and development (Luk, 1996: 73).

With regards to personal factors the results of the study show that “good decision making skills” was reported by the majority of the business persons as the most important factor in the performance of small businesses, followed by “hard working” and “sufficient relevant work experience prior to starting own business”, which were both of equal importance to the small business persons. The last mentioned of these two is particularly interesting as research indicates that a large number of successful small business persons develop their own businesses in the same industry in which they worked for several years (Luk, 1996: 70). Conversely, the importance placed on education in relation to other studies conducted appears to have been exaggerated, as “high level of education” was reported as being a highly unimportant factor in the performance of small businesses in this study, followed by “relevance of education” and “good business connections before starting own business” (Luk, 1996: 71). Keil (2007: 33) reinforces the lack of importance placed on education in China, and states that the Chinese population in general, has a lower level of education than other countries due to the fact that individuals are too busy to study and also “do not see the value of time management”.

With regards to management factors, “good marketing techniques” was reported as being the most important factor for small business success, followed by “good personal selling techniques” and then “use of good quality production materials” and “good product management skills”, which were both of equal importance to the business owners. Therefore it is assumed that most of the success achieved by small businesses is from marketing management factors, rather than from production and general management factors (Luk, 1996: 71-72). Keil (2007: 33) is in support of this once again, and states that many of the small businesses in China do not operate according to a business plan or a strategy aimed at operating and growing the business, which in turn makes the delegation of authority harder within the businesses.

Furthermore, the results of Luk’s study (1996) also show that many of the financial management considerations are the least important factors for small business success. A possible reason for this could be that although financial management considerations are essential for business survival, they do not necessarily denote business success. With good financial management skills, a small business person is able to keep the business in a favourable financial situation but there need to be additional aspects driving the business towards success (Luk, 1996: 71).

Lastly, with regards to product, market and company factors, the results show that “penetrate target niche” was reported as being the most important factor for small business success, followed very closely by “establish company image” and then “distinctive and unique product feature”. Being “able to respond to market change” was also reported as being important to successful participants in the study (Luk, 1996: 73). Such success factors were mentioned by many of the participants as being sources of competitive advantage; this is because in Hong Kong most small businesses are developed along the following path: first, establish the business within a carefully selected niche market, then compete tactically to secure and maintain a strong hold in the market and finally, diversify and branch into new markets for expansion (Luk, 1996: 72). Conversely, a willingness to invest in research and development was reported as being the most unimportant factor for small business success, followed by “enjoy cost advantage” and then “continuously introduce innovative product”.

Coy *et al.* (2007: 183) cites a number of factors responsible for attaining small business success. The factors include: dedication and devotion to business, hard work with long

working hours, growth potential, innovation, commitment to high quality products and services, flexibility in operations, operating efficiency, relevant managerial background, prior start-up experience, availability of labour, possession of an identifiable competitive advantage, advanced training, risk-taking behaviour, good customer service with appropriate responses to customer desires and requests, high employee spirit that encourages participation, good management-employee relations, ability to communicate well, devoting more time to planning and being an adaptive organisation (Coy *et al.*, 2007: 184).

The research conducted by Coy *et al.* (2007: 184) was aimed at small business persons in Pakistan and determined which factors are important for success. Demographic aspects such as age, education, type of business and degree of success were also investigated in relation to the factors using statistical analyses (Coy *et al.*, 2007: 189). **This raises the questions: are age, level of education, type of business and degree of success important for business success?** The research made use of a research instrument similar to the one used by Luk (1996) mentioned above. It consists of both internal and external factors which contribute to small business success: internal factors comprise personal, managerial and product, market and company characteristics, while external factors comprise structural and institutional characteristics in which business is conducted (Coy *et al.*, 2007: 185).

Personal factors consists of analytical skills, decision-making skills, persistence in achieving goals, level of education, relevance of education, relevance of work experience, interpersonal skills, communication skills, willingness to work hard and for long hours, willingness and ability to withstand stress, maintaining business connections and family support. As with Luk (1996), the final two groups of factors were merged into one, namely managerial factors, and consists of customer service, market research, commitment to product/service quality, attention to customer needs, adequate information system and ability to delegate and maintain well-defined organisational responsibilities. Finally, external factors consists of government-sponsored programmes, banking institutions, franchises, trade exhibitions and business fairs, courses/training programmes and the advice of family/friends (Coy *et al.*, 2007: 185).

The results of the study show that the factors ranked as the most important for small business success are “willingness to work hard and for long hours”, “customer service” and “attention to customer needs”, all of which were of equal importance to the participants. Conversely, the factors ranked as the least important for small business success are all external factors,

namely “franchises”, “government-sponsored programmes”, “trade exhibitions and business fairs” and “training programmes”, respectively. It must be noted the two last mentioned of these factors are both of equal importance to the participants (Coy *et al.*, 2007: 188).

Keil (2007) cites a number of factors attributable to small business success in the review of literature. Part of this includes research conducted by Nieuwenhuizen and Kroon (2002: 157) whose “study involved empirical research to identify the factors that contribute to the success of small and medium enterprises (SMEs)”, in order to determine the subject and curricula content for entrepreneurship courses offered at the university or tertiary education level (Keil, 2007: 35). The results indicate a strong correlation between small business success and the following success factors: creativity and innovation, financial management, financial understanding, bookkeeping for own advantage, involvement in the business, willingness to take risks, knowledge of competitors, high quality work enjoys priority, planning of business, sound human relations and skills and knowledge with regard to the enterprise (Nieuwenhuizen and Kroon, 2002: 159-160). Furthermore, it is suggested that the success factors identified be developed in both potential and existing small business persons through the development of adequate training and educational models, and that in turn a strong South African entrepreneurial culture will be established (Kiel, 2009: 36; Nieuwenhuizen and Kroon, 2002: 164).

The study conducted by Keil (2007) sought to investigate the factors responsible for small business success in the province of Gauteng, South Africa. The research instrument consists of 26 questions, divided into five sections which concern: success, entrepreneurial personality characteristics, use of management tools, resource availability and lastly, the classification of participants (Keil, 2007: 67).

With regards to the success of small businesses, the first question required the participants to consider their own personal definition of success choosing from a list of pre-selected factors which include: survival, being independent, creating employment, making a good profit, growth of the business (market share, branches and number of employees), status in the community, meeting set targets, ROI, establishing the brand, personal benefits (owning property and having holidays) and other factors not listed which may have described participants’ definition of success (Keil, 2007: 122). The results were analysed by combining the responses of the two highest response categories and show that “making a good profit” is

the best definition of success, followed by “being independent” and “establishing the brand”, both of which are of equal importance to the participants (Keil, 2007: 82).

The final question, which concerns success, required the participants to rate the strength of several factors in terms of what has contributed to the success of their small businesses. The success factors include: business knowledge, education, experience, luck, timing, government assistance, capital to start up, family support, entrepreneurial personality, a great team, a great product/service, persistence and determination and other factors not listed which may have attributed to participants’ success (Keil, 2007: 123). The results were also analysed by combining the responses of the two highest response categories and show that “persistence and determination” is the highest ranked success factor, followed by “experience” and then “a great product/service”. Interestingly enough, the lowest ranked success factor is “government assistance”, followed by “capital to start up” (Keil, 2007: 84).

Entrepreneurial personality characteristics required the participants to characterise themselves according to certain types of behaviours (Keil, 2007: 124-125). The results were analysed by combining the responses of the two highest response categories to determine the entrepreneurial personality characteristics of the participants. It was found that “worked for more than eight hours per day” is the highest ranked characteristic, followed by “felt enthusiastic” and then “remained positive of the ultimate success in the face of obstacles”. Furthermore, the lowest ranked characteristic is “read business-related books”, followed by “innovated a process of technology”. Therefore keeping up to date with business knowledge and innovations for this sample of participants is not a key priority of being a small business person (Keil, 2007: 87).

With regards to the use of management tools, these include: company vision, company values, company objectives/goals, business plan and marketing plan. Included in this section was a question which concerns paying attention to the external environment and keeping up to date with changes in: legislation, economic conditions (inflation and interest rates), social and political conditions, market place, suppliers and customers (Keil, 2007: 126). The results were analysed by combining the responses of the two highest response categories and show that the participants do keep up to date with changes in the external environment, particularly changes which concern customers, economic conditions and market place. Also ranked quite

highly were suppliers, as well as changes in legislation, while the lowest ranked environmental factor concerns changes in social and political conditions (Keil, 2007: 91-92).

The availability of resources was included to determine whether capital, or rather other factors, contribute to the success of small businesses. The results of the first question show that just less than half (49.60%) of the participants “borrowed some of the capital required” to start their businesses, followed by “have a family member that helped support the household until the business became established” and then “have financial assistance from a bank or government institution”. Only just over a fifth (21.00%) of the participants have all the necessary capital, while smaller percentages received financial assistance from another business or borrowed all of the capital required for start up (Keil, 2007: 93-94).

The results of the second question concerning resource availability show that the most frequently stated reason for the businesses that needed to borrow some of the capital required to start up, was “other” reasons and these results then needed to be reclassified. The revised results show that “insufficient sales (overestimating the market size and/or demand)” is the main reason for borrowing some of the start-up capital, followed by “insufficient capital to start or buy business (finance the purchase of initial stock, vehicles and equipment)” and then “overheads too high” (Keil, 2007: 95-96). It must be noted that the formulation and implementation of a sound business plan or marketing strategy might have prevented the situations of insufficient sales and very high overhead costs, and would have meant that over a third (39.50%) of participants’ reasons for borrowing capital would have been due to unrealistic or insufficient planning (Keil, 2007: 96).

The next two questions of resource availability concern the difficulty in obtaining finance and the time taken to receive financial assistance. The results show that approximately a third (32.40%) of the participants “experienced some or great difficulty in obtaining finance, which is contradictory to the perception of the general public, that it is generally very difficult to finance” a small business (Keil, 2007: 96-97). Furthermore, the results show that the time taken to receive financial assistance was within a three-month period as stated by two thirds (66.70%) of the participants (Keil, 2007: 97-98). The last two questions concern the time taken to acquire various business skills and thereafter the importance of such skills in achieving small business success. The business skills include: financial management, marketing management, sales, strategic management, technical (core business) and people

management (Keil, 2007: 128-129). The results of the final question were analysed by combining the responses of the two highest response categories and show that the participants do not consider strategic management and people management skills to be as important for success as technical (core business), sales, financial management and marketing management skills, respectively (Keil, 2007: 99-100).

It is evident that there is an abundance of literature concerning small businesses and entrepreneurship (Watson *et al.*, 1998: 218). Numerous authors and researchers have attempted to measure either small business success or failure or both. Subsequently, they all use their own definitions of the terms 'success' and 'failure', as well as their own methods to measure such terms and this being so, it would be impossible to list all the authors and researchers.

In relation to the above-mentioned, with so much literature available on the factors considered necessary for small business success, the following questions (pertinent to this research) were raised: **what are the most/least important factor groups necessary for small business success? And, in establishing these factor groups, why are they important or not important?** As such, it was decided that such questions be represented as research objectives for this study (these are represented as research objectives 7 and 8 on page 56 of the thesis), in the hope that they would help confirm and expand on the literatures mentioned above.

Following on from the review of literature in Section 4.3 (Factors of small business success), further questions (pertinent to this research) were raised: **what are the most important factors necessary for small business success? And, what are the least important factors necessary for small business success?** As such, it was decided that such questions be represented as research objectives for this study (these are represented as research objectives 9 and 10 on page 56 of the thesis), in the hope that they would help confirm and expand on the literatures mentioned above.

Following on from the review of literature in Section 4.3 (Factors of small business success), a further question (pertinent to this research) was raised: **what are the limiting factors to small business success, if any?** As such, it was decided that such a question be represented as a research objective for this study (this is represented as research objective 11 on page 56

of the thesis), in the hope that it would help confirm and expand on the literatures (in specific, Rogoff *et al.* (2004: 368) whose study concerned the factors that both contribute and impede business success and Watson *et al.* (1998: 217) who also conducted an empirical study which included business failure) mentioned above.

#### **4.4 Small Business Research**

Although research on small businesses has increased over the years, significant progress has not been made (Simpson *et al.*, 2004: 483). Generally, researchers have not acknowledged the many problems specific to small business research, such as the lack of a generally agreed upon theoretical framework for conducting research in this field, the difficulty in generalising any results obtained and the time required to conduct such meaningful studies (Rogoff *et al.*, 2004: 365; Simpson *et al.*, 2004: 483; Watson *et al.*, 1998: 218). Furthermore, small businesses exist within different industries and in turn have different characteristics and objectives (Simpson *et al.*, 2004: 481).

According to Bowen, Morara and Mureithi (2009: 16), the significance of SMEs within any country does not exempt them from the threat of failure as “starting and operating a small business includes the possibility of success as well as failure”. Therefore following an entrepreneurial career is high-risk; many new small businesses are believed to have high closure rates in their first few years of operation (Headd, 2003: 51; Kalleberg and Leicht, 1991: 138; van Praag, 2003: 1). This is because they are particularly vulnerable to factors and forces, both internal and external, in the infancy period following business start-up (Watson *et al.*, 1998: 217).

Therefore many new small business ventures are considered to be failures as they have not developed into the thriving, prosperous businesses of the future, on which countless economies depend (Headd, 2003: 51; Martin and Staines, 1994: 33; Watson *et al.*, 1998: 217). Potential reasons for these failures include: the faster pace of life today which many new small businesses cannot keep up with, a lack of governmental policies and programmes to aid small business development, a failure to secure adequate funding and more recently, the ripple effects of the worldwide recession, among others (Headd, 2003: 52; Tambunan and Supratikno, 2004: 30; van der Nest, 2004: 39).

It remains increasingly difficult to obtain comparable statistics on the failure rates of small businesses on a global scale (Lambe, 2002: 41) but past statistics have indicated that as many as three out of five small businesses fail within the first few months of operation (Bowen *et al.*, 2009: 16). Alternatively, it has been determined that between 50.00% and 80.00% of new small businesses have failed upon reaching the five-year mark (Lambe, 2002: 41) and furthermore, Brink, Cant and Ligthelm (2003: 1) state that the failure rate is even greater than this, being between 70.00% and 80.00%. This being so, it appears that the survival rate of small businesses in general is relatively low, with less than half of all newly established small businesses surviving beyond five years (Brink *et al.*, 2003: 2).

This is not only a common phenomenon worldwide but in South Africa as well, with hundreds of entrepreneurial failures occurring each year (Brink, *et al.*, 2003: 2; Farrington, 2011: 11; Naidoo, 2007: ii). Approximately 80.00% of small businesses in South Africa fail within four to five years of being in operation (O'Connell, 2006: 2; van der Nest, 2004: 39) and as a result, "millions of rand are lost on business ventures because of essentially avoidable mistakes and problems" (O'Connell, 2006: ii).

As mentioned, the benefits of small businesses cannot be overemphasised. Small businesses are often more fertile than larger organisations in terms of innovation and other key features, such as flexibility and problem-solving orientation (Lin, 1998: 43). Increasingly, the success of small businesses has also depended on a dequate capital and management provided predominantly by the small business person (Coy *et al.*, 2007: 182). This means that the management process of one small business to the next is highly unique and "bears little resemblance to processes found in larger organisations" (Coy *et al.*, 2007: 183).

#### **4.5 Conclusion**

In light of the above it is evident that despite the wealth of entrepreneurial literature and the many factors cited as critical for small business success, research into such topics remains limited. Understandably, there is a definite need for research into what makes small businesses successful, particularly within the South African environment, and it is hoped that this research will be able to achieve this.

The chapter which follows will look at the methodology of this study and, in particular, the following aspects of this research will be addressed: aims and objectives, hypotheses, population and sample, research paradigm, research method, research instrument, data collection and analysis, ethics and limitations.

## CHAPTER 5

### METHODOLOGY

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#### 5.1 Introduction

Following on from the principal literature review, the methodology of the research needs to be explored. In this chapter specific information pertaining to the methodology of the research will be discussed and critically analysed.

Firstly, the aims and objectives of the research will be defined, followed by the research hypotheses. Literature pertaining to the population and sample will then be discussed, with an emphasis on the population and sample specific to this study. The same will be true for the research paradigms, with a critical analysis on both the positivist and the phenomenological paradigms, and thereafter the research paradigm specific to this study will be explored. The particular research method implemented will then be looked at, followed by the research instrument which was developed predominantly by the researcher. Issues of validity and reliability will be discussed, with specific reference to the research instrument used in this study. Thereafter the intricate details of the data collection procedure and analysis techniques used will be discussed. Finally, the ethical considerations that were applied throughout the research process will be explored, followed by any limitations to the study encountered by the researcher.

#### 5.2 Aims and Objectives

As mentioned, the importance of this study originates from the discrepancy between the theories of what makes small businesses successful and what actually works in practise. Many small businesses in South Africa are unsuccessful despite “South Africa’s favourable regulatory environment” (Naidoo, 2007: ii) and this being so, the research problem is that there is insufficient knowledge regarding the factors which contribute to the success, and failure, of small businesses in South Africa (Keil, 2007: 4).

Therefore the aim of this exploratory study is to determine and investigate which of the pre-selected factors are found to be the most common determinants of success for small businesses in Port Elizabeth. To give effect to the research aim, the following research objectives were formulated based on the literature reviewed in this thesis (in particular, Chapter 4 – Small business success):

1. Describe the population in terms of the sample used in this study (with specific reference to the biographical details and business classifications).
2. Evaluate participants' definition of a successful business.
3. Evaluate the success of participants' small businesses in accordance with the definition of a successful business.
4. Establish participants' perceived degrees of success for their small businesses.
5. Establish participants' perceived degrees of success for their small businesses relative to their competitors' small businesses.
6. Explore the reasons for participants' success ratings in terms of individual success ratings and success ratings relative to their competitors.
7. Determine the success factor groups considered to be the most and least important contributors to the success of participants' small businesses.
8. Explore the specific success factor group rankings according to the grouped participant responses.
9. Determine the success factors considered to be the most important contributors to small business success.
10. Determine the success factors considered to be the least important contributors to small business success.
11. Determine if there are any limiting factors to the success of participants' small businesses, and if so, explore these limiting factors.
12. Investigate and determine if certain biographical details have an influence on any of the success factor groups.
13. Investigate and determine if certain business classifications have an influence on any of the success factors groups.

### **5.3 Research Hypotheses**

Subsequent to the research objectives the following two broad conceptual hypotheses were formulated for the purposes of this research. It must be noted that these research hypotheses

are analysed and discussed according to each of their various biographical details and business classification later on (in Chapter 6 (Results) (refer to page 89 and onwards)). These hypotheses were generated on the basis of the literature review and prior to the identification of the research population and sample. It must be noted that use of the mean in the hypotheses mentioned below is based on the fact that at this point in the research process, the population was not clearly identified and the sample not yet taken. Therefore, it was not known if the populations would be normally distributed, homo- or heteroscedastic or if the samples would be large. In support of this, hypothesis testing concerning the mean (be it a single mean, two related (dependent) means, two unrelated (independent) means or several means (ANOVA test)) are cited by Sekaran and Bougie (2010: 339-348), and further supported by Hair, Money, Samouel and Page (2007: 340-344), Sekaran (2003: 314-318) and Wegner (2007: 298).

Ho<sub>1</sub>: There is no statistically significant difference between the success factor groups and the various biographical details.

Ha<sub>1</sub>: There is a statistically significant difference between the success factor groups and the various biographical details.

The biographical variables identified in the literature review are indicated below. As an example, the null and alternate hypotheses for the variable gender are clearly stipulated. Similarly, the notion of testing the average success factor scores was adopted for hypotheses Ho<sub>1b</sub> – Ho<sub>1h</sub>. The hypotheses for each of the biographical variables (below) are clearly defined in Chapter 6 (Results) (refer to page 89 and onwards).

Ho<sub>1a</sub>: Gender

That is to say, we wish to test the belief that for each factor group the average success factor score for males (M) is significantly different to the average success factor score for females (F).

Ho<sub>1a</sub>:  $\mu_M = \mu_F$

Ha<sub>1a</sub>:  $\mu_M \neq \mu_F$

Ho<sub>1b</sub>: Relationship status

Ho<sub>1c</sub>: Age

Ho<sub>1d</sub>: Ethnic group

- Ho1<sub>e</sub>: Highest level of education
- Ho1<sub>f</sub>: Number of years as a small business person
- Ho1<sub>g</sub>: Position before being a small business person
- Ho1<sub>h</sub>: Motivations for business start-up

Ho2: There is no statistically significant difference between the success factor groups and the various business classifications.

Ha2: There is a statistically significant difference between the success factor groups and the various business classifications.

The business classification variables identified in the literature review are indicated below. As with the hypotheses mentioned above (Ho1<sub>a</sub> – Ho1<sub>h</sub>), the notion of testing the average factor scores was adopted for hypotheses Ho2<sub>a</sub> – Ho2<sub>g</sub>. The hypotheses for each of the business classification variables (below) are clearly defined in Chapter 6 (Results) (refer to page 89 and onwards).

- Ho2<sub>a</sub>: Type of business
- Ho2<sub>b</sub>: Franchise/Non-franchise business
- Ho2<sub>c</sub>: Age of business
- Ho2<sub>d</sub>: Location of business
- Ho2<sub>e</sub>: Number of employees in business
- Ho2<sub>f</sub>: Annual turnover of business
- Ho2<sub>g</sub>: Sector of business

#### **5.4 Population and Sample**

According to Welman, Kruger and Mitchell (2005: 52), “the population is the study object and consists of individuals, groups, organisations, human products and events, or the conditions to which they are exposed. A research problem therefore relates to a specific population and the population encompasses the total collection of all units of analysis about which the researcher wishes to make specific conclusions”. In simpler terms, the population

of any study represents the complete set of cases or potential participants, relevant to the research project, to whom you want to generalise the results of a study and from which a sample is drawn (Babbie and Mouton, 2001: 100; Collis and Hussey, 2003: 66; Hair, Babin, Money and Samouel, 2003: 209; Riley, Wood, Clark, Wilkie and Szivas, 2000: 76; Saunders, Lewis and Thornhill, 2000: 150; Welman *et al.*, 2005: 55). Frankfort-Nachmias and Nachmias (1996: 180) further state that a population “has to be defined in terms of (1) content, (2) extent, and (3) time”.

For many researchers it remains impossible to collect and analyse all the data available from a single population “owing to restrictions of time, money and often access” (Saunders *et al.*, 2000: 150). Sampling is defined as “the selection of participants from an entire population” (Durrheim, 2006: 49). There are numerous sampling techniques available to researchers and the selection of a sample enables the researcher to reduce the amount of data that needs to be collected as only data from the sub-group, rather than from all possible cases, is considered (Saunders *et al.*, 2000: 150).

Sampling techniques are divided into two types, namely probability sampling and non-probability sampling. With probability sampling the chance or probability of each case or participant being selected from the entire population is known and is usually equal for all cases. Conversely, with non-probability sampling it is impossible to specify this probability as the chance of each case being selected from the entire population is unknown (Saunders *et al.*, 2000: 152; Welman *et al.*, 2005: 56). The main advantage of probability sampling is that it enables the researcher to indicate, in differing degrees, the deviation of the sample from the corresponding population, for example, the degree to which the sample means differ from the population means (Welman *et al.*, 2005: 56). Probability sampling also enables the researcher to estimate the sampling error, a statistical term referring to the unrepresentativeness of a sample, while non-probability sampling does not and is more “frequently used for reasons of convenience and economy” (Welman *et al.*, 2005: 57). Examples of probability samples include: simple random samples, stratified random samples, systematic samples and cluster samples, while examples of non-probability samples include: accidental/incidental samples, quota samples, purposive samples, snowball samples, self-selection samples and convenience samples (Saunders *et al.*, 2000: 153; Welman *et al.*, 2005: 56).

#### **5.4.1 Population and Sample for this Research**

The population of this study includes all small business persons over 18 years of age in Port Elizabeth as of the beginning of 2010. Small businesses that exist within different sectors and which satisfy various requirements as per the research instrument were included. The small businesses had to have telephone, cell phone or e-mail access to contact the researcher concerning questionnaire completion. The last mentioned of these was particularly important for those participants who wanted to receive an electronic version of the final report. Furthermore, the small businesses had to comply with the stipulations as per the National Small Business Act of 1996, the most important stipulation being that a small business cannot employ more than fifty full-time paid employees, irrespective of the sector (Republic of South Africa, 1996: 13-14).

The sampling technique used in this study was non-probability sampling, specifically convenience sampling. A convenience sample involves haphazardly selecting cases or participants who are the easiest and most readily available to participate in the study, to receive the administration of the research instrument (a questionnaire, an interview, and so on) and to provide the information that is required (Durrheim, 2006: 50; Hair *et al.*, 2003: 217; Riley *et al.*, 2000: 87; Saunders *et al.*, 2000: 176; Terre Blanche, Durrheim and Painter, 2006: 558; Welman *et al.*, 2005: 69). The sample selection process is continued until the required sample size is reached (Saunders *et al.*, 2000: 176-177; Welman *et al.*, 2005: 69). The benefits of convenience sampling are that it saves time and money (Leedy and Ormrod, 2001: 219; Sha, 2006: 80) and “in many situations these non-probability samples are more than adequate for the research purposes” (Durrheim and Painter, 2006: 139). Although this sampling technique is widely used a major disadvantage is that it is prone to bias and influences beyond the researcher’s control. This is because the cases which appear in the sample are chosen solely on the basis of ease of accessibility. A sample is intended to represent an entire population and therefore use of an often biased convenience sample does not support subsequent generalisations, making it an unrepresentative sampling technique (Durrheim, 2006: 50; Saunders *et al.*, 2000: 177; Welman *et al.*, 2005: 69-70).

A further non-probability sampling technique, namely snowball sampling, was used for this study. A snowball sample involves the “gradual accumulation of relevant cases through contacts or references” (Terre Blanche *et al.*, 2006: 564). The researcher used participants

who were initially identified as members of the target population, through convenience sampling, to act as informants in order to identify other participants (acquaintances, friends, and so on) in the target population. This process was repeated until the sample size was reached and all subsequent participants had to possess the required characteristics necessary for the study (Hair *et al.*, 2003: 218; Riley *et al.*, 2000: 87; Welman *et al.*, 2005: 69). Snowball sampling is particularly useful where a list of cases or participants necessary for the study does not exist, as well as where the target population is very narrow and highly specific (Hair *et al.*, 2003: 218).

The use of convenience sampling in this study was based on practical reasons. Firstly, the researcher's hometown is Port Elizabeth; she had ease of access to the small businesses and was also partially acquainted with several of the participants. Secondly, no sampling frame which is "an accurate, complete listing of all the elements in the population" (Hair *et al.*, 2003: 211) was found to exist. The use of snowball sampling to access other small businesses which met the criteria, by asking participants already approached (Sha, 2006: 81), also proved appropriate for this study. It must be noted though that the snowball sampling technique did not yield very many subsequent participants.

For the purposes of this research a sample size of no less than 30 small businesses was deemed sufficient, as this is in accordance with previous research conducted on small businesses in the Eastern Cape, namely Sha (2006) and Sibanda (2011). Subsequently, the sample of this study comprised of 59 small businesses in Port Elizabeth and in total, 46 usable questionnaires were returned. This being so, three of the participants (9, 33 and 35) in the study used an anchor point 80.00% of the time, while participant 33 used an anchor point 100.00% of the time. An anchor point refers to an option of the scale of a question chosen predominantly more often than the other options. For example, for a question with the options of a five-point Likert scale as follows: '1 = very unimportant', '2 = unimportant', '3 = neutral', '4 = important' and '5 = very important', a participant who chooses option '4 = important' most of the time, in response to the questions, would unknowingly make this scale option his/her anchor point. Despite the small size of the data set, those participants who used an anchor point at least 80.00% of the time were removed from the data analysis. That is to say, participants 9, 33 and 35 were removed from the analyses entirely, as their responses proved highly unreliable. This being so, the total number of usable questionnaires in this study changed to 43.

## 5.5 Research Paradigm

A research paradigm is a model or pattern and is defined as the “basic belief system or world view that guides the investigation” (Guba and Lincoln, 1994: 62). Research paradigms provide the rationale for the research and compel researchers to adopt particular methods of data collection, observation and interpretation (Durrheim, 2006: 40). Paradigms are thus central to the design of the research as they influence the nature of the research, the manner in which it is to be conducted, analysed and even recorded in the final dissertation (Collis and Hussey, 2003: 47; Durrheim, 2006: 40).

There are two main research paradigms or philosophies, namely the positivist paradigm and the phenomenological paradigm (Collis and Hussey, 2003: 47). The positivist paradigm can also be referred to as the quantitative, objectivist, scientific, experimentalist or traditionalist paradigm, while the phenomenological paradigm can also be referred to as the qualitative, subjectivist, humanistic or interpretivist paradigm (Collis and Hussey, 2003: 47).

For a researcher a paradigm will define the nature of the research across three dimensions: ontology, epistemology and methodology. Ontology refers to the nature of the reality to be studied and what can be known about it, epistemology refers to the nature of the relationship between the researcher and what can be known or researched and methodology refers to the process of the research (Collis and Hussey, 2003: 48-50; Terre Blanche and Durrheim, 2006: 6). Table 5.1 shows the dimensions mentioned above across the two research paradigms. Collis and Hussey (2003: 48-50) state two more dimensions, namely the axiological dimension concerned with the role of values in the research and the rhetorical dimension which is concerned with the language of the research.

**Table 5.1 The Research Paradigms**

	<b>Ontology</b>	<b>Epistemology</b>	<b>Methodology</b>
<b>Positivist Paradigm</b>	Stable, external reality Law-like	Objective Detached observer	Experimental Quantitative Hypothesis testing
<b>Phenomenological Paradigm</b>	Internal reality of subjective experience	Empathetic Observer subjectivity	Interactional Interpretation Qualitative

(Source: Adapted from Terre Blanche and Durrheim, 2006: 6)

### **5.5.1 Positivist Paradigm**

Positivism is typically associated with the “gathering of information about social facts in an objective and detached manner” (Terre Blanche *et al.*, 2006: 562). The subjective state of the individual is given little regard and instead, the researcher works with an observable social reality in the hope of discovering laws or law-like generalisations applicable to all individuals and at all times (Collis and Hussey, 2003: 52; Remenyi, 1996: 29; Welman *et al.*, 2005: 7). Thus, logical reasoning is applied to the research so that absolute accuracy and objectivity by the researcher is achieved (Collis and Hussey, 2003: 52).

Positivism tends to adopt a quantitative approach to research which emphasises: a highly structured methodology that facilitates replication, researcher-independence, determinism (cause and effects), the ability to generalise or model (Durrheim, 2006: 47; Durrheim and Painter, 2006: 137; Remenyi, 1996: 29; Saunders *et al.*, 2000: 85; Terre Blanche *et al.*, 2006: 562; Welman *et al.*, 2005: 6) and “quantifiable observations which lend themselves to statistical analyses” (Remenyi, 1996: 29).

### **5.5.2 Phenomenological Paradigm**

According to Collis and Hussey (2003: 53), “the phenomenological paradigm developed as a result of criticisms of the positivist paradigm” and for a phenomenologist the world is socially constructed and a focus on meaning or social phenomena, rather than on measurement, is emphasised (Collis and Hussey, 2003: 53; Remenyi, 1996: 31).

The phenomenological paradigm tends to adopt a qualitative approach to research which emphasises: rich, thick descriptions of the data and a far less structured, detailed methodology (Remenyi, 1996: 31). The researcher is an intrinsic part of the research and each situation is regarded as being totally unique and as a result of the circumstances and the individuals involved. The subjective state of the individual is given considerable regard and therefore the derivation of laws or law-like generalisations is of little interest (Collis and Hussey, 2003: 53; Remenyi, 1996: 31). Thus, experiences, instincts and intuition are key to investigating the research problem (Collis and Hussey, 2003: 52). Table 5.2 outlines the main differences between the positivist and the phenomenological paradigms.

**Table 5.2 Features of the Two Main Paradigms**

<b>Positivist Paradigm</b>	<b>Phenomenological Paradigm</b>
Tends to produce quantitative data	Tends to produce qualitative data
Uses large samples	Uses small samples
Concerned with hypothesis testing	Concerned with generating theories
Data is highly specific and precise	Data is rich and subjective
The location is artificial	The location is natural
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalises from sample to population	Generalises from one setting to another

(Source: Collis and Hussey, 2003: 55)

### **5.5.3 Research Paradigm for this Research**

In order to conduct statistical analyses to determine whether significant differences exist between the success factor groups and the various biographical details and business classifications, the methodology used and the data required needed to be quantitative in nature and this research was conducted primarily within the positivist paradigm. A qualitative approach to several of the questions was also adopted through the use of content analysis. Therefore this research was also conducted within the phenomenological paradigm as rich and subjective descriptions of the data were sought.

## 5.6 Research Method

Table 5.3 demonstrates the numerous research methodologies available to researchers though these are often dependent on the research paradigm followed. As mentioned, this research was conducted predominantly within the positivist paradigm and specifically the survey method of research was used.

**Table 5.3 Associated Methodologies of the Two Main Paradigms**

<b>Positivist Paradigm</b>	<b>Phenomenological Paradigm</b>
Cross-sectional studies	Action research
Experimental studies	Case studies
Longitudinal studies	Ethnography
Surveys	Feminist perspective
	Grounded theory
	Hermeneutics
	Participative enquiry

(Source: Adapted from Collis and Hussey, 2003: 60)

According to Hair *et al.* (2003: 130), “a survey is a procedure used to collect primary data from individuals”. It is used extensively in business and management research and is useful in collecting data regarding opinions, attitudes and behaviours of participants, as well as human characteristics such as biographical information (Cox, 2006: 33; Remenyi, 1996: 34; Saunders *et al.*, 2000: 93; Welman *et al.*, 2005: 152). Hair *et al.* (2003: 130) distinguish between two survey methods: panel surveys and questionnaires. Panel surveys collect data from the same group of participants over a specific period of time, which is also referred to as a longitudinal panel study. Questionnaires collect data, usually in numerical form, from participants according to a set of predetermined questions (Hair *et al.*, 2003: 130-131). Saunders *et al.* (2000: 94) also cite questionnaires, structured observations and structured interviews as part of the survey method of research, while Struwig and Stead (2001: 41) argue that a personal interview is only a technique used to complete a questionnaire. Further techniques are also cited, namely online/electronic questionnaires, postal/mail questionnaires, telephone questionnaires and delivery and collection questionnaires (Frankfort-Nachmias and Nachmias, 1996: 225; McDonald and Adam, 2003: 85; Saunders *et al.*, 2000: 308-311;

Welman *et al.*, 2005: 153). This being so, use of any of the techniques mentioned above can be regarded as data collection techniques and are discussed later on.

In general the use of a questionnaire gives a researcher more control over the research process as he/she can either design their own questionnaire or make use of an existing one. The use of predetermined and a standard set of questions with a limited set of answers to the questions makes the comparison of responses easier. It also enables the collection of large quantities of data and this data is also often easier to understand. Every day, newspapers and other news bulletins publish the results of questionnaires conducted, for example, that a certain percentage of the population belong to a specific ethnic group, think or behave in a certain manner or have voted for a particular political party, among others (Hair *et al.*, 2003: 131; Remenyi, 1996: 34; Saunders *et al.*, 2000: 94).

Conversely, if a researcher chooses to design their own questionnaire, more time is needed to design and pilot it. The analysis of the data is also time-consuming and often has to be in conjunction with appropriate computer and software programmes (Cox, 2006: 34; Saunders *et al.*, 2000: 94). Although use of a questionnaire enables a large amount of data to be collected this may not be as wide-ranging as other qualitative research methods. This is because there is a limit to the number of questions which can be posed in order to maintain the goodwill of participants, though this is not explicitly stated (Saunders *et al.*, 2000: 94).

In consideration of the advantages and disadvantages mentioned above, the questionnaire survey method was identified as the most appropriate for the purposes of this research. Furthermore, a questionnaire “is a scientifically developed instrument for measurement of key characteristics of individuals, companies, events, and other phenomena” (Hair *et al.*, 2003: 130) and this statement supports the very aim of this research, to determine and investigate the factors found to be the most common determinants of small business success in Port Elizabeth.

## **5.7 Research Instrument**

With reference to Appendix A, a questionnaire which consists of a cover letter, participant consent form and Sections A-C was used for this research. The questionnaire was designed predominantly by the researcher following the principal literature review and corresponding

theories, and partially adapted from an existing questionnaire (Keil, 2007) which concerned the success factors of small businesses in Gauteng. Sections A and B refer to biographical information and business classification, respectively and Section C concerns the factors that influence the success of participants' small businesses.

Each questionnaire is preceded by a cover letter which communicates the nature and purpose of the study, a proposed response time period, various ethical issues, the due date for completion and details of the researcher and research supervisor if participants required any clarification.

The participant consent form, supported and approved by the Department of Management Human Research Ethics Committee, was adapted to satisfy the requirements of this research and made use of the Ethical Guidelines followed by Rhodes University.

Sections A and B of the questionnaire were designed to enable the generation of comparisons among participants through the use of selected biographical details and business details. These details were also essential for the statistical analyses which followed. Section C was designed in a manner that would facilitate a specific thought-process for the participant completing it. That is to say, for Section C the first question requires participants to consider their own definition of success from a list of eleven statements, while the second question requires participants to consider the success of their small businesses in accordance with those same eleven statements. The two questions which follow then require participants to consider the success of their small businesses and in relation to their competitors' small businesses. Participants are also able to elaborate on the answers given if need be. The fifth question requires participants to rank the four success factor groups in their order of importance, in terms of their attribution to small business success. Once again participants are able to elaborate on the answers given to this question if need be. The sixth question is perhaps the most important question as it is directly concerned with the factors that contribute the most and least to small business success. The final question of Section C allows participants to state any limiting factors to the success of their small businesses and to elaborate thereon if need be.

With reference to Appendix A, the four success factor groups and the 20 success factors used were developed from the principal literature review and concern the literatures of numerous

authors, specifically CIBC World Markets (2004), Coy *et al.* (2007), Huck and McEwen (1991), Isakova (1997), Keil (2007), Lin (1998), Luk (1996), Rogoff *et al.* (2004), Simpson *et al.* (2004) and Watson *et al.* (1998). Personal factors refer to the characteristics or abilities specific to the small business person, for example, does he/she have a willingness to work hard or good family support; managerial factors refer to the managerial processes and procedures of the business and its small business person, for example, the ability to recruit and select quality employees or demonstrate good stock/product management; business factors refer to the people, brand and product/service of the business, for example, having an identifiable competitive advantage or unique operating methods; and environmental factors refer to all the factors outside the control of the business, for example, competitors and government legislation and regulations. The original list of success factors far exceeded 20 and in order to maintain the goodwill of participants and satisfy the proposed response time period, the factors were narrowed down at the researcher's discretion and were based on the number of times each was cited. Appendix B demonstrates each success factor group with its corresponding five success factors and their authors.

### **5.7.1 Validity and Reliability**

To assess the quality of any research instrument issues of validity and reliability must be addressed. An instrument is considered valid when the data collected accurately represents what is happening in reality or rather, whether the measuring instrument actually measures what it is supposed to (Collis and Hussey, 2003: 58; Riley *et al.*, 2000: 126; Saunders *et al.*, 2000: 290). An instrument is considered reliable when the data collected consistently produces the same results (Collis and Hussey, 2003: 58; Durrheim and Painter, 2006: 152; Hair *et al.*, 2003: 170; Saunders *et al.*, 2000: 290). In other words, reliability is concerned with replication, being able to repeat or reproduce the results obtained. Reliability is a measure of "the relationship between the number of item statements in the survey and the strength of the correlations between them. In any field of endeavour the more items used the more room there is for error and therefore the more unreliable the results" (Riley *et al.*, 2000: 126). Statistical analyses conducted on unreliable measuring instruments will provide misleading information which in turn leads to incorrect statistical conclusions (Schwab, 2005: 245).

### 5.7.2 Validity and Reliability for this Research Instrument

Conducting research is costly and it is always advisable to “conduct a pilot study before implementing the final research design” (Van der Riet and Durrheim, 2006: 94). This questionnaire was pilot-tested on several individuals prior to being used. The individuals included academics with extensive knowledge and experience in the field of research (Cox, 2006: 36), questionnaire professionals and potential participants. The purpose of a pilot-test is to improve the quality of a research instrument through the identification of problematic areas and misleading questions, which then also serves to improve data capture. Thereafter the questionnaire is refined to increase its validity and reliability, as well as to make it as user-friendly as possible (Keil, 2007: 69; Saunders *et al.*, 2000: 305; Van der Riet and Durrheim, 2006: 94).

For this research, the success factor groups and success factors shown in Appendix B are addressed to some extent in the literatures and past studies reviewed, i.e. CIBC World Markets (2004), Coy *et al.* (2007), Huck and McEwen (1991), Isakova (1997), Keil (2007), Lin (1998), Luk (1996), Rogoff *et al.* (2004), Simpson *et al.* (2004) and Watson *et al.* (1998). In addition to this, the reliability of the final questionnaire was determined through a statistical analysis, namely Cronbach’s alpha reliability co-efficient, which measures the internal consistency of a research instrument (Botha, 2001: 110). That is to say, the results of the Cronbach’s alpha reliability co-efficient test indicate that the research instrument used in this research achieved an acceptable level of reliability (refer to p.82 in Chapter 6 – Results). As mentioned, the research instrument was partially adapted from a previous study (Keil, 2007) and although reference to Cronbach’s alpha reliability co-efficient, as well as reliability and validity were made mention of in the study, no physical evidence thereof was found to exist. That is to say, initially Keil (2007: 23) states that analyses regarding validity and reliability “**will be**” conducted, while later on Keil (2007: 70) states that “validity and reliability analysis **were done** according to acceptable research standards”, however no detailed reports of validity and reliability were found within the dissertation (Keil, 2000). According to Keil (2007: 71), Cronbach’s Alpha test was “performed on the data”, however no statistical evidence (figures) of this was found to be included in the dissertation or as an appendix. Keil (2007: 103) then states that “the statistical tests done on the research data, using Cronbach’s Alpha test, indicate that there is a strong correlation between entrepreneurial personality, use of management tools and resource availability and the

success and sustainability of small businesses, therefore the research propositions were found to be false”, but again, no statistical evidence (figures) thereof was found to exist. In addition to this, no mention of factor analysis is made within the dissertation itself (Keil, 2007), despite the facts that the study concerns the success factors of Gauteng-based small businesses, and that the formulation of the questionnaire was by the researcher herself “from the literature survey” (Keil, 2007: 22).

## **5.8 Data Collection and Analysis**

As mentioned, there are a number of data collection techniques available to researchers. Personal interviews are most appropriate when there are many questions that need to be answered, when the questions are open-ended or complex in nature and when the order of questioning needs to be varied. Furthermore, both the researcher and the participants need to be generous with their time (Saunders *et al.*, 2000: 248-249). McDonald and Adam (2003) highlight the advantages and disadvantages of online versus postal data collection methods. Despite the numerous advantages associated with online questionnaires, the study found that “the postal data collection method resulted in a response level more than twice that of the online data collection method” (McDonald and Adam, 2003: 89). Unfortunately, online questionnaires are often too complex for participants to complete and participants are often concerned about a perceived lack of security and misuse of the information obtained (McDonald and Adam, 2003: 86-90). Telephone questionnaires involve interviews, conducted telephonically, rather than in person. This being so, the same advantages and disadvantages for personal interviews were considered, as well as the fact that telephone questionnaires depend on the researcher’s ability to conduct interviews, which in turn can affect the quality of the data collected (Saunders *et al.*, 2000: 311).

In light of the above and at the researcher’s discretion, use of delivery and collection questionnaires were the most appropriate method of data collection for this particular study. Saunders *et al.* (2000: 311) state that this technique is similar to that of a postal questionnaire, except that the researcher or field-worker will deliver and collect the questionnaire. Although this method does increase costs, in the form of the researcher’s time and printing costs and the loss of time experienced by the participants in completing the questionnaire, the response rate is much higher than with other data collection techniques, sometimes even as much as 98.00% (Saunders *et al.*, 2000: 311).

The questionnaire was self-administered, meaning that the researcher delivered the questionnaire by hand to each participant (Saunders *et al.*, 2000: 280). This ensured that the researcher had personal contact with each participant, which helped to increase the perceived importance of the study (Saunders *et al.*, 2000: 308). During these personal visits the researcher communicated the nature and purpose of the study to each participant and then asked if he/she would participate in the study. Depending on the outcome, the researcher then explained the cover letter, the participant consent form and the questionnaire to each participant, as well as instructions for collection. Each participant was to place his/her completed questionnaire in a sealed envelope to ensure confidentiality and was assured that the sealed envelopes would only be opened once all the responses had been collected. Details of the field-worker who would collect the sealed envelopes from participants, should the researcher be unable to, were also explained. Upon completion, participants contacted the researcher either via telephone calls, cell phone calls and messages or e-mails and the researcher made arrangements to collect the questionnaires, personally or not, at a suitable time for the participants (Cox, 2006: 38).

The initial data collection period consisted of three weeks and started in the last week of March until mid-April. Thereafter the collection period was extended to six weeks in order to maximise the response rate. Those participants who had failed to complete the questionnaire for collection by the due date were followed up with another personal visit by the researcher. Once again, such participants were informed of the purpose of the research and asked for their participation.

Once all the questionnaires had been collected the sealed envelopes were opened and each questionnaire was numbered. The numbering of each questionnaire helped the researcher to locate those questionnaires found to have discrepancies in their answers during data capture (Cox, 2006: 39). The participant consent forms and the answers to the questionnaires were then checked so that consent forms not signed and any questions not answered could be removed from data capture. The remaining questionnaires were then captured in a Microsoft Excel spreadsheet, meaning that the written-in answers of the questionnaires were transferred to a computer, and awaited data analysis (Babbie and Mouton, 2001: 101).

Data analysis refers to the statistical analyses that are performed on the captured data to describe scores on single variables, identify relationships that may exist between different

variables and to draw conclusions which reflect on the interest, ideas and theories that first initiated the research (Babbie and Mouton, 2001: 101; Schwab, 2005: 6). With regards to the data analysis for this study, the researcher used descriptive statistics in Microsoft Excel in the form of graphical displays and the calculation of certain numerical measures, such as the mean scores and standard deviations (Radloff, 2009: 3). Thereafter with the help of a professional statistician (Keil, 2007: 70) and use of the R Language and Environment for Statistical Computing programme (R Development Core Team, 2011: 1). Suitable inferential statistics were calculated and analysed. The inferential statistics include a test to ascertain the reliability of the research instrument used, using Cronbach's alpha reliability co-efficient (Cox, 2006: 39; Sekaran, 2003: 205), as well as frequency plots, box plots and various hypothesis tests at the 5.00% (0.05) significance level. Finally, the researcher interpreted the results from these statistical analyses.

Cronbach's alpha reliability co-efficient was used to determine the reliability of the success factor groups used in this study. The Cronbach's alpha reliability co-efficient values range from zero to one (Frankfort-Nachmias and Nachmias, 1996: 516) and according to Sekaran (2003: 205), "the closer the value is to one, the greater the internal consistency or reliability of the measuring instrument is". When calculating the Cronbach's alpha reliability co-efficient, it must be noted that values less than 0.6 are considered to be poor, those within the 0.6-0.7 range are considered to be acceptable and those values greater than 0.8 are considered to be good (Sekaran, 2003: 205).

The various tests applied to the hypotheses of this research are of particular importance as they are used to determine whether a statistically significant difference exists between the population parameters or not. As is evident in Table 5.4, both parametric and non-parametric tests were used to analyse the data collected in this study because "for each of the main parametric techniques there is a non-parametric counterpart" (Tomkins, 2006: 24). According to Tomkins (2006: 20), "non-parametric statistics are another group of tests for statistical inference, which do not make strict assumptions about the population from which the data have been sampled, and may be used for studies with small sample sizes, nominal or ordinal level data, and non-normally distributed variables". In addition to this, comparative studies between parametric and non-parametric statistical techniques show that non-parametric tests are typically as powerful as parametric tests, especially with studies involving small sample

sizes (Blair and Higgins, 1980, cited in Tomkins, 2006: 25; Conover and Iman, 1981, cited in Tomkins, 2006: 25).

No rule of thumb exists for assessing when unequal sample sizes and heterogeneity (populations having unequal variances) are sufficient to violate the robust nature of a One-way Analysis of Variance (ANOVA) test. Van Hecke (2010) argues that in asymmetrical populations the Kruskal-Wallis test performs better than the parametric equivalent, being the One-way ANOVA test. Moder (2010) considers various statistical methods to be used for assessing the equality of the population centres when the population variances are not equal. Moder (2010) concludes that Hotelling's  $T^2$  test is most appropriate if the sample sizes are equal. In the univariate context of this research, Hotelling's  $T^2$  statistic is analogous to the univariate t-test (Johnson and Wichern, 2007: 213). However, Moder (2010) further notes that the Kruskal-Wallis test is conservative and does not exceed the nominal level of significance, unlike the F-test (One-way ANOVA test) if the sample sizes are not equal and the populations heteroscedastic.

**Table 5.4 Statistical Techniques for this Research**

<b>Parametric Tests</b>	<b>Non-parametric Equivalent Tests</b>
Welch's Two-sample T-test	Wilcoxon Rank Sum test
One-way ANOVA test	Kruskal-Wallis test

The Welch's Two-sample T-test is applied to assess the hypotheses about the mean value of a variable ( $H_0: \mu_1 = \mu_2$  and  $H_a$ : Either  $\mu_1 > \mu_2$  or  $\mu_1 < \mu_2$  or  $\mu_1 \neq \mu_2$ , where  $\mu_1$  denotes the mean of population 1, and  $\mu_2$  denotes the mean of population 2) when there are only two populations and when both of these populations are normally distributed or when both samples are large (at least 30 observations) (Hair *et al.*, 2003: 267; Riley *et al.*, 2000: 205; Saunders *et al.*, 2000: 357; Welman *et al.*, 2005: 231). This test makes use of the mean score which is the centre of normally distributed populations (Saunders *et al.*, 2000: 370). An additional criterion, namely the equality of the populations' variance parameter, needs to be considered when utilising the Welch's Two-sample T-test (Kitchens, 1998: 564). If the population variances are equal, a pooled estimate of the variance is used in the calculation of the test statistic. If the population variances are unequal, separate estimates are used to estimate the difference in the variance when computing the Welch's Two-sample T-test. The

equality of the variances can be tested as  $H_0: \sigma_1^2 = \sigma_2^2$  and  $H_a: \sigma_1^2 \neq \sigma_2^2$ , where  $\sigma_1^2$  is the variance of the first population, and  $\sigma_2^2$  is the variance of the second population, by performing, for example, Levene's test. The normality of a population can be assessed by testing the hypotheses ( $H_0$ : population is normal and  $H_a$ : population is not normal) using, for example, the Shapiro-Wilk test (Kitchens, 1998; Saunders *et al.*, 2000). The non-parametric equivalent of the Welch's Two-sample T-test, namely the Wilcoxon Rank Sum test, is applied when at least one of the two populations is not normal or when either sample is too small (Riley *et al.*, 2000: 205; Welman *et al.*, 2005: 230) and hence makes use of the median score which is the centre of populations that are not symmetrical or normally distributed, i.e. in this case the median is tested (Saunders *et al.*, 2000: 370).

The One-way ANOVA test is applied to the hypotheses about the mean of a variable ( $H_0: \mu_1 = \mu_2 = \dots = \mu_k$  and  $H_a$ : Not all the means are equal, where  $\mu_1$  denotes the mean of population 1,  $\mu_2$  denotes the mean of population 2, and so on) when there are three or more populations and when the populations are normally distributed and when the variances are equal between the populations in question (Saunders *et al.*, 2000: 357; Welman *et al.*, 2005: 230). Bartlett's K-squared test is applied to determine the equality of the variances when there are more than two populations in question. The non-parametric equivalent of the One-way ANOVA test, namely the Kruskal-Wallis test, is applied when the variances are not equal between the different populations (Welman *et al.*, 2005: 230) and the sample sizes are not equal (Moder, 2010; Van Hecke, 2010).

It is important to note that specific questions of Section C of the questionnaire used in this research were analysed qualitatively using content analysis. The questions included: the follow-on questions of Questions 4 and 5 and Question 7 (refer to Appendix A). Methodological triangulation is used to define data collection where both quantitative and qualitative methods are used (Collis and Hussey, 2003: 78). Content analysis is a qualitative technique which is useful in determining the reasons why certain views or ideas have been expressed (Riley *et al.*, 2000: 105). In this respect, and in the case of this research, when content analysis is used in conjunction with quantitative analysis it can add "to the meaning and interpretation of frequencies" and in turn offer significant breakthroughs in explanations (Riley *et al.*, 2000: 105).

Content analysis “involves identifying and counting certain key words or phrases in a piece of writing or in the recording of an interview, conversation, or surveys which include unstructured responses” (Riley *et al.*, 2000: 104). For the purposes of this research the identification of themes, categories and patterns from the responses was sufficient for the specific questions concerned (Collis and Hussey, 2003: 49; Saunders *et al.*, 2000: 383). The frequency of each theme was manually counted and allowed the researcher to deduce the importance of each and aided in the interpretation of the earlier questions (Riley *et al.*, 2000: 104; Saunders *et al.*, 2000: 383).

## **5.9 Ethical Considerations**

According to Cox (2006: 40), “researchers have a responsibility and commitment to conduct and document their research and data ethically”. Throughout this research various ethical issues were considered which include: nonmaleficence, beneficence, informed consent, confidentiality and dissemination of the research.

Nonmaleficence “requires the researcher to ensure that no harm befalls research participants as a direct or indirect consequence of the research” (Wassenaar, 2006: 67). Any harm to a participant includes the act of being wronged by the research and all research should avoid and minimise the potential of harms and wrongs to participants. This ethical consideration was relatively minimal for this research; nevertheless, it was achieved through informed consent and voluntary participation discussed below.

Beneficence refers to the maximisation of benefits that will accrue to any participant in the research. The risks and benefits of a proposed study must be thoroughly assessed before any research can begin. It is important to note that the payment of participants is not considered a benefit, and instead direct benefits such as better skills and a better knowledge of the topic question, and so on, need to be considered (Wassenaar, 2006: 67). Participants in this research did not receive payment for their participation but it was hoped that upon completion of the research, there would be an improved knowledge of the factors that influence the success of small businesses for each participant.

Participants in any research need to be “thoroughly and truthfully informed” about the purpose of any study (Welman *et al.*, 2005: 201) before choosing to participate or not. Therefore informed consent refers to the process of informing potential participants about the

research, together with the assurance that participation is voluntary, usually through the provision of a detailed cover letter and consent form (refer to Appendix A) (Van der Riet and Durrheim, 2006: 107; Wassenaar, 2006: 72).

Confidential information, such as biographical details and business classifications of the participants, was held in the strictest of confidence and only the researcher had access to the raw data. Participants also understood that upon completion of the research the data would be stored by the researcher's supervisor (refer to Appendix A). Anonymity was not an ethical consideration in this regard because each questionnaire had to be numbered to determine collection purposes. In spite of this, the risk to participants remained minimal as linking numbers to small businesses was at the researcher's discretion and in the utmost of confidence (Van der Riet and Durrheim, 2006: 107).

Participants understood that use of the raw data was for the researcher only and gave consent for the research results to be made available and for future publishing purposes in academic press, if need be (Van der Riet and Durrheim, 2006: 107).

Lastly, for the purposes of this research before the collection of data could begin, the research had to be approved by the Faculty of Commerce Higher Degrees Committee, as well as comply with the Department of Management Human Research Ethics Committee and this is stated in the cover letter of the questionnaire (refer to Appendix A).

### **5.10 Limitations to this Research**

A major limitation to this research is that no database of small businesses within the Eastern Cape, and specifically within Port Elizabeth, exists. A request for such information was e-mailed to the Port Elizabeth Regional Chamber of Commerce and Industry (PERCCI) by the researcher but no response was received (refer to Appendix C.1). Additionally, the researcher e-mailed two well-known and established academics in the field of entrepreneurship and small businesses from Nelson Mandela Metropolitan University (NMMU) in Port Elizabeth (refer to Appendix C.2). The reply e-mail from one of the academics can be seen in Appendix C.3 and it was confirmed that no such database exists. The academic then added that her research is usually conducted with the help of field-workers and advised the researcher of

this, or alternatively, to make use of the Yellow Pages, a directory of the addresses and contact numbers of businesses within a specific city.

As a direct result of the lack of a small business database in Port Elizabeth, the researcher used non-probability sampling, namely convenience- and snowball sampling. As mentioned, convenience sampling does not always yield a representative sample (Farrington, Venter and Boshoff, 2010: 25) as it “introduces a source of potential bias into the study” and in turn makes generalisations impossible (Farrington *et al.*, 2011: 12). In light of this, Section A Question 4 of the questionnaire used in this research produced a highly unbalanced data set with 93.02% of participants belonging to a certain ethnic group (refer to Appendix A), which could be attributable to the convenience sampling technique used and the locality in which the research was conducted. Therefore it is reasonable to expect that replication of this research may result in different participants being selected and in turn different results being obtained (Cox, 2006: 41). In the future the development of a “comprehensive database from which probability samples can be drawn” (Farrington *et al.*, 2011: 12) would have a significant impact on research conducted within the entrepreneurial and small business disciplines. In addition to this, the use of delivery and collection questionnaires meant that the study relied on the disclosures or self-reporting of individual participants adding to the potential bias of the study (Farrington *et al.*, 2011: 12).

Despite the conduction of a pilot study, several limitations to the questionnaire itself were identified after data collection and analysis. With reference to Appendix A, Section A Question 7 should have had another scale option representing ‘owner’ as this was a popular answer under the ‘other’ scale option; the instructions for Section A Question 8 were phrased incorrectly, making inferential statistics for this question impossible; the business sectors for Section B Question 7 were used from the National Small Business Act of 1996 (Republic of South Africa, 1996: 13-14) but they were too broad for the purposes of this research; and Section C Question 5 had incomplete instructions, which impacted on the number of responses that could be used. In addition to this incomplete questionnaires were another limitation to this research (Cox, 2006: 41) but this was minimised by the fact that any unsigned consent forms and incomplete or unusable questionnaires were immediately removed from data capture.

A final limitation to this research was that of time (Collis and Hussey, 2003: 118; Saunders *et al.*, 2000: 150), as well as personal circumstances of the researcher. Even though the data collection period was increased the delivery and collection of self-administered questionnaires meant that fewer responses than desired were obtained, though this still exceeded the minimum number of responses, being 30. A further limitation to the number of responses was the fact that concurrently a similar study was being conducted by a Port Elizabeth university, which the researcher, initially, was unaware of. Although this legitimised the need for the research in general it limited participation for this study.

With regards to the above-mentioned, it is apparent that the researcher encountered great difficulty in trying to identify the population for this research. Consequently, this meant that trying to identify the sample for this research would also prove difficult, which it did, and this is justified through the use of the non-probability sampling techniques used. As such, it was assumed that the sample size for this research would never be large enough to facilitate factor analysis and hence factor analysis was never considered applicable to assess the validity of this study. According to Williams, Onsman and Brown (2010: 4), the authors state that Tabachnick's rule of thumb requires at least 300 cases for factor analysis. Williams *et al.* (2010: 4) also state that according to a number of textbooks, the sample sizes for factor analysis are as follows: "100 as poor, 200 as fair, 300 as good, 500 as very good, and 1000 or more as excellent". In support of this, the conduction of factor analysis generally requires a substantial sample size (DeVellis, 2003: 94; Hair *et al.*, 2003: 360), that (sample size) which is typically five times the number of items used in the study (Hair *et al.*, 2003: 360) or in other words, "a 20:1 subject to item ratio" (Costello and Osborne, 2005: 7). More so, despite the limitations to the questionnaire as well as those relating to time and personal circumstances of the researcher, the researcher was still able to sample almost double the minimum sample size, this being 59 small businesses to be exact. However, even if the researcher had wanted to conduct factor analysis following data collection, the sample size still would not have satisfied the requirements for factor analysis (mentioned above) and according to DeVellis (2003: 94), the use of too few participants can compromise the factor analysis process entirely.

## **5.11 Conclusion**

This chapter has presented the methodology of the research. The aims and objectives of the study have been defined, as well as the broad research hypotheses. The chapter has also explained the population and sample, research paradigm, research method, research instrument, data collection and analysis techniques, ethical issues and limitations specific to this research, through a critical analysis of each.

The chapter which follows will present an overview of the results obtained from the study in terms of the response rate, descriptive statistics, research objectives, hypothesis testing and the reliability of the research instrument used in this research.

## CHAPTER 6

### RESULTS

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#### 6.1 Introduction

The previous chapter outlined the methodology of this study and provided specific information which concerns the aims and objectives, research hypotheses, population and sample, paradigm, method and instrument of the research, data collection and statistical analyses applied, ethical considerations and lastly, any limitations to the research.

This chapter will discuss the results of this study under a number of sub-headings. Firstly, the exact response rate will be discussed and thereafter the reliability of the questionnaire designed for this research will be determined, with reference to Cronbach's alpha reliability co-efficient. The means to increasing this reliability will then be investigated. Thereafter the results will be explored according to the research objectives. Biographical information and business classifications of the participants will be determined in the form of descriptive statistics, followed by the remaining research objectives which were all determined according to the literature reviewed in this research. In particular, the last two research objectives will be discussed according to hypothesis tests which were applied during the statistical analyses.

#### 6.2 Response Rate

With reference to the limitations to this research (refer to p.76), in particular the difficulty in identifying the population and subsequently the sample for this study, a total of 59 small businesses were approached to participate in this research. Seven of these declined participation immediately; four of these failed to respond about the research after agreeing to participate and upon follow-up; one of the completed questionnaires got lost upon collection; one of the completed questionnaires had unanswered questions; and finally, as mentioned, three of the participants who used an anchor point at least 80.00% of the time were removed from the data analysis. This being so, the total number of usable questionnaires in this study is 43, yielding a response rate of 72.88% (the number of participants / the sample of the study).

### 6.3 Reliability

#### 6.3.1 Cronbach's Alpha Reliability Co-efficient

Table 6.1 indicates the Cronbach's alpha reliability co-efficients for each of the four success factor groups used in this research instrument.

**Table 6.1 The Cronbach's Alpha Reliability Co-efficients for the Success Factor Groups**

Success Factor Groups	Cronbach's Alpha Reliability Co-efficient	Evaluation as per Sekaran (2003: 205)
Personal factors	0.7928	Acceptable
Managerial factors	0.8102	Good
Business factors	0.7087	Acceptable
Environmental factors	0.7451	Acceptable

#### 6.3.2 Increasing the Cronbach's Alpha Reliability Co-efficient

The Cronbach's alpha reliability co-efficient is improved upon by removing certain statements from the research instrument. In this case the removal of some of the success factors belonging to each of the four success factor groups used in the study will result in the achievement of either an unchanged, a lesser or a greater level of reliability. As shown in Appendix D, 'alpha drop' is an indication of the reliability of the research instrument if an item is dropped from the scale.

Personal factors has a Cronbach's alpha reliability co-efficient of 0.7928 denoting an acceptable level of reliability. Only the removal of the success factor, 'high level of education of the owner/manager', will achieve a fairly significant and greater level of reliability (0.8435) whereas removal of any of the remaining success factors belonging to this group will only lower the reliability (refer to Appendix D.1).

Managerial factors has a Cronbach's alpha reliability co-efficient of 0.8102 denoting a good level of reliability already. Removal of any of the success factors belonging to this group will only lower the reliability (refer to Appendix D.2).

Business factors has a Cronbach's alpha reliability co-efficient of 0.7087 denoting an acceptable level of reliability. Only the removal of the success factor, 'location/position of the business', will result in a greater level of reliability (0.7333) whereas removal of any of the remaining success factors belonging to this group will only lower the reliability considerably (refer to Appendix D.3).

Environmental factors has a Cronbach's alpha reliability co-efficient of 0.7451 denoting an acceptable level of reliability. Only the removal of the success factor, 'general economic conditions', will result in a slight increase in reliability (0.7636) whereas removal of any of the remaining success factors belonging to this group will only lower the reliability (refer to Appendix D.4).

Overall, the reliability of this measuring instrument appears to be acceptable and removal of only three of the twenty success factors used in this research instrument will achieve marginally greater levels of reliability. In spite of this acceptable level of reliability, future researchers may want to consider removal of the success factors mentioned above if they choose to make use of this questionnaire.

## **6.4 Research Objectives**

### **6.4.1 Descriptive Statistics**

These results are relevant to research objective 1, concerning biographical details and business classifications of participants. As mentioned, the final sample size is 43 participants. All percentages indicated in the histograms and Appendices E and G, as well as the table in Appendix F correspond to 43 as all questions were compulsory. It must be noted that both questions regarding the numbers of employees in the businesses and the annual turnovers of the businesses were included to be able to eliminate any participants who did not meet the criteria of a small business, as per the National Small Business Amendment Act of 2003 (Republic of South Africa, 2003a: 8-10).

Of the participants, 18 (41.86%) were male, whilst the remaining 25 (58.14%) were female. The majority of participants, being 32, were married (74.42%) and most of the participants, being 13, were between 46 and 55 years of age (30.23%). Similarly, 40 (93.02%) of the

participants were White indicating a highly unbalanced data set, which again, could be attributable to the convenience sampling technique used and the locality in which the research was conducted.

The most common level of education held by 16 (37.21%) of the participants was a diploma/certificate. Only 11 (25.58%) of the participants had 0-5 years experience as a small business person, while 18 (41.86%) of the participants were employees prior to this. The desire for self-employment was the first most common motivation for starting a small business, by 30 (34.88%) of the participants, followed by the identification and satisfaction of a gap in the market by 17 (19.77%) of the participants as the second greatest motivation for starting a small business. Regarding the combinations of the motivations for business startups (refer to Appendix F) combinations '1, 5' and '5, 7' received the majority of participants each, being ten. These combinations include: identifying a gap in the market and satisfying it with a new product/service (1), having the desire for self-employment (5) and starting the business to increase financial wealth (7).

The most common type of business was that of a close corporation, being 18 (41.86%) of the participants. Of the participants' small businesses, 38 (88.37%) were non-franchise businesses with most of the participants' businesses having existed for more than 20 years belonging to 12 (27.91%) of the participants. Most of the small businesses, 40 (93.02%), were located in Port Elizabeth only and 30 (69.77%) of the participants had 1-5 employees. Approximately half of the participants, being 22 (51.16%), had turnovers between R1.1-R10 million annually and 11 (25.58%) of the businesses belonged to the 'Retail and Motor Trade and Repair Services' business sector.

#### **6.4.2 The Definition of a Successful Business**

These results are relevant to research objective 2, concerning the definition of a successful business according to the participants. Table 6.2 shows the ten individual statements which participants had to rate in terms of how they define a successful business. The statements are ranked in descending order according to their importance as determined by their mean scores across the participant responses.

**Table 6.2 The Most Important Statements for the Definition of a Successful Business**

<b>Rank</b>	<b>Individual Statements</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
1	Making a profit	4.60	0.69
2	Having cash reserves and a positive cash flow within the business	4.47	0.83
3	Having a balanced work and private life	4.42	0.88
4	Job satisfaction and personal fulfilment	4.23	0.97
5	Survival of the business	4.00	1.13
6	Meeting set targets	4.00	0.98
7	Growing the business	3.88	1.03
8	Creating employment for others	3.21	1.25
9	Community status/engagement	3.16	0.92
10	Establishing the brand and creating franchisee opportunities	3.12	1.29

Table 6.2 shows the ranked statements with the mean scores out of five. For supporting evidence, the frequency of responses for the top three ranked statements can be consulted in Appendix H. It shows that statements 1, 2 and 3 achieved the highest frequency of responses for the ‘best describes’ scale option, and that these three statements also all received zero responses from participants for the ‘does not describe’ scale option.

**6.4.3 The Definition of a Successful Business in accordance with Participants’ Businesses**

These results are relevant to research objective 3, which evaluates the success of participants’ small businesses according to the definition of a successful business. Table 6.3 shows the ten individual statements which participants had to rate in accordance with their businesses and their perceived degrees of success. The statements are ranked in descending order according to their importance as determined by their mean scores across the participant responses.

**Table 6.3 The Most Important Statements in accordance with the Success of Participants' Businesses**

<b>Rank</b>	<b>Individual Statements</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
1	Job satisfaction and personal fulfilment	4.19	0.85
2	Survival of the business	4.14	0.83
3	Having a balanced work and private life	4.07	1.01
4	Making a profit	3.98	0.89
5	Having cash reserves and a positive cash flow within the business	3.93	0.96
6	Meeting set targets	3.81	0.85
7	Growing the business	3.37	1.00
8	Creating employment for others	3.23	1.07
9	Community status/engagement	3.07	0.77
10	Establishing the brand and creating franchisee opportunities	3.00	0.95

Table 6.3 shows the ranked statements with the mean scores out of five. For supporting evidence, the frequency of responses for statements 1, 2 and 3 can be consulted in Appendix I. It shows that these statements achieved the highest frequency of responses for the 'very successful' scale option. These statements also all received high frequencies of responses for the 'successful' scale option, as well as all only having received one response each for the 'very unsuccessful' scale option.

#### **6.4.4 The Perceived Degrees of Success of Participants' Businesses and in comparison with their Competitors**

These results are relevant to research objectives 4 and 5. These objectives are concerned with establishing the success of participants' small businesses, first in isolation, and then relative to their competitors. Appendix J shows how participants rated the success of their own businesses, as well as how they rated the success of their businesses relative to their competitors' small businesses. The findings show that there is a decrease in the percentage of participants who consider their businesses to be successful, when compared with their competitors (responses change from 67.44% to 62.79%). However, there is a significant increase in the percentage of participants who consider their businesses to be very successful, when compared with their competitors (responses change from 9.30% to 20.93%).

#### 6.4.5 The Reasons for Participants' Success Ratings

These results are relevant to research objective 6, being to explore the reasons for the success ratings. Table 6.4 shows the reasons why participants rated the success of their businesses as they did, in isolation, as well as in comparison with their competitors. As can be seen from Table 6.4, the findings do not distinguish between the reasons for the individual success ratings or the success ratings relative to competitors. It must be noted that only approximately half (22) of the participants chose to answer this follow-on question and that a lot of the participants stated more than one reason for their particular success ratings.

**Table 6.4 The Reasons for Participants' Success Ratings**

<b>Number of Participants</b>	<b>Reasons for Success Ratings</b>
5	Business reputation
2	Customer base
2	Growth
2	Overhead costs
2	Business premises
2	Quality
2	Specialisation/niche market
2	No concern for competition
1	Attitude
1	Cash flow
1	Customer feedback
1	Customer satisfaction
1	Ethics
1	Exchange rates
1	Hard work
1	Marketing
1	Pricing
1	Reliability
1	Service delivery
1	Survival

#### 6.4.6 The Ranking of the Success Factor Groups

These results are relevant to research objectives 7 and 8, which are concerned with determining the most and least important success factor groups, as well as exploring the responses for such rankings. Appendix K shows the histograms which illustrate the overall order of importance for each of the success factor groups. These are ranked on a scale of 1-4

and each scale ranking was only supposed to be used once. That is to say, rankings 1, 2, 3 and 4 were each supposed to represent a success factor group, depending on their importance in attributing to the success of participants' businesses. As mentioned earlier, this was a limitation to the research and therefore only 24 usable responses were received for this question.

With reference to Appendix A, the questionnaire asked the participants to indicate why they ranked the success factors groups in the specific order that they did. The participants' responses can be seen in Appendix L. It is important to note that the responses are grouped according to the specific rankings. Also, only 19 participants chose to answer this follow-on question and those rankings marked with a \* will be pertinent in discussing the overall success factor group ranking later on.

In support of the ranking of the success factor groups, the mean scores of the four success factor groups according to the 20 success factors of Section C Question 6 were also calculated. Table 6.5 shows the most important success factor groups, ranked in descending order with their mean scores out of five.

**Table 6.5 The Most Important Success Factor Groups**

<b>Rank</b>	<b>Success Factor Groups</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
1	Personal Factors (PF)	4.23	0.65
2	Business Factors (BF)	4.20	0.63
3	Managerial Factors (MF)	4.18	0.69
4	Environmental Factors (EF)	3.17	0.82

#### **6.4.7 The Success Factors**

These results are relevant to research objectives 9 and 10, being to determine the most and least important factors to small business success. Table 6.6 shows the 20 individual success factors which participants had to rate in terms of what has attributed to the success of their businesses. The factors are ranked in descending order according to their importance as determined by their mean scores across all the participant responses.

**Table 6.6 The Most Important Success Factors**

<b>Rank</b>	<b>Success Factor Group</b>	<b>Individual Success Factors</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
1	Managerial	Maintain good customer services skills and relationships	4.81	0.66
2	Business	Strong commitment to product/service quality	4.58	0.76
3	Business	Honesty, professional knowledge and morale of employees	4.53	0.77
4	Personal	Good interpersonal skills of the owner/manager	4.49	0.83
5	Personal	Dedication and persistence in achieving goals	4.42	0.85
6	Personal	Ability to communicate well	4.33	0.87
7	Personal	Ability to make decisions	4.28	0.83
8	Managerial	Maintain good management-employee relationships	4.26	0.95
9	Managerial	Ability to plan and budget for the business	4.21	0.83
10	Business	Location/position of the business	4.19	1.07
11	Managerial	Good marketing/personal selling techniques	4.02	0.96
12	Business	Ability to innovate the products/services by adapting to changes in the market (diversification)	3.93	0.74
13	Business	Ability to penetrate a niche market/have an awareness of your market	3.77	1.19
14	Environmental	General economic conditions	3.74	1.16
15	Personal	High level of education of the owner/manager	3.65	1.02
16	Managerial	Possess a sound financial base/have the ability to negotiate for funds in difficult conditions	3.60	1.09
17	Environmental	Favourable relationships with banking institutions	3.33	1.25
18	Environmental	Industry structure and competition	3.23	1.02
19	Environmental	Legislation concerning small businesses	2.86	1.25
20	Environmental	Trade exhibitions and business fairs	2.67	1.15

Table 6.6 shows the mean scores of the success factors out of five. For supporting evidence, the frequency of responses for all the success factors can be consulted in Appendix M. It shows that success factors ranked 1, 2 and 3 achieved the highest frequency of responses for the ‘very important’ scale and these success factors also all received only one response each for the ‘very unimportant’ scale. Success factors ranked 18, 19 and 20 obtained four, eight and nine responses, respectively, for the ‘very unimportant’ scale and although this is not exceptionally high in comparison with the maximum frequency of responses, they all received a low frequency of responses for the ‘very important’ scale and even more importantly, a significantly higher frequency of responses for the ‘neutral’ scale.

#### 6.4.8 The Limiting Factors to Small Business Success

These results are relevant to research objective 11, concerning any limiting factors to the success of participants' small businesses. Table 6.7 shows the potential limiting factors to the success of participants' businesses. It must be noted that only 32 participants chose to answer this question and that most of the participants stated more than one limiting factor to success.

**Table 6.7 The Limiting Factors to Success**

Number of Participants	Limiting Factors
13	General economic conditions: <ul style="list-style-type: none"> <li>• Global recession</li> <li>• Business start-up time</li> <li>• Electricity increases <ul style="list-style-type: none"> <li>• Fuel increases</li> </ul> </li> <li>• Location of the business</li> <li>• Nature of the business</li> </ul>
5	Quality of staff: <ul style="list-style-type: none"> <li>• Specialised business field</li> </ul>
4	Business premises
3	Access to capital
3	Work-life balance
2	Delayed payment by customers
2	Government legislation
2	Operating period
2	Customer base
2	Road works
2	Cash flow
2	Service from suppliers
1	Competition
1	Consent to trade
1	Limited opportunity to trade
1	Price of final product/service
1	Price of materials
1	Type of management
1	Type of production
1	Value of the service

#### 6.4.9 Hypothesis Testing

These results are relevant to research objectives 12 and 13. These objectives are concerned with investigating whether any of the biographical details and business classifications have an

influence on the success factor groups. As mentioned, there are two broad hypotheses in this research. The first hypothesis concerns determining whether a significant difference exists between the success factor groups and the various biographical details (a–h), while the second hypothesis concerns determining whether a significant difference exists between the success factor groups and the various business classifications (a–g). These hypotheses have since been deconstructed to represent each single biographical detail and business classification used in this research, which are discussed in the tables below. Based on the literature, it was assumed that either the variables of interest in the populations would be normal or the samples taken from these populations would be sufficiently large; hence the hypotheses are stated in terms of the mean. Clearly the sample for this research is small (refer to Section 5.10 (Limitations to this research) on p.78) and therefore the central limit theorem does not apply for a number of variables under consideration. In these cases, a parametric hypothesis testing procedure should only be used if the variables of interest in the relevant populations are normally distributed. Where the variables of interest are not normally distributed or the variables of interest are from non-symmetric, heteroscedastic populations and the sample sizes are small and not equal, the non-parametric equivalent tests were used to assess hypotheses relating to the median (refer to Chapter 5 – Methodology under Section 5.8 (Data collection and analysis), specifically pages 70-75 of the thesis). Therefore, where non-parametric equivalent tests are used the term ‘mean’ needs to be understood to also incorporate the other measures of central tendency, specifically the ‘median’. The Analysis of Variance (F) indicates the observed F-value for the analyses, while the highlighted p-value in each specific table indicates the significance of the difference. All significant differences are marked with a \* (Hayward, 2005: 74).

#### **6.4.9.1 Ho<sub>1a</sub>: Gender**

Ho<sub>1a</sub>: The mean score on each factor group for males is equal to the mean score on each factor group for females.

Ha<sub>1a</sub>: The mean score on each factor group for males is significantly different to the mean score on each factor group for females.

The sample sizes (for males and females) were not equal and with reference to the box plots in Appendix N (i.e. personal factor scores by gender, managerial factor scores by gender,

business factor scores by gender and environmental factor scores by gender), it can be seen that the populations (for both males and females) are (generally) not symmetrically distributed, and hence unlikely to be normally distributed.

As is evident from Table 6.8, the Shapiro-Wilk test results indicate that only the EF factor group is normally distributed. Levene's test in Table 6.9 shows that the variances between the genders for each of the factor groups (PF, MF, BF and EF) are significantly different. As a result, it was concluded that the hypotheses relating to groups PF, MF and BF should be analysed using a non-parametric approach, while a parametric approach should be adopted for group EF. As is evident from Table 6.9, none of the median scores (for factor groups PF, MF and BF) or the mean score (for factor group EF) were significantly different between males and females.

That is to say, in Tables 6.8 and 6.9, the results of the individual Wilcoxon Rank Sum tests and the Welch's T-test indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis ( $H_{01a}$ ). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor group scores and males or females, for all four success factor groups.

**Table 6.8 Distributions of the Populations for Gender**

<b>Success Factor Group</b>	<b>Shapiro-Wilk – Male</b>	<b>p-value (S-W)</b>	<b>Distribution of Population</b>	<b>Shapiro-Wilk – Female</b>	<b>p-value (S-W)</b>	<b>Distribution of Population</b>	<b>Statistical Technique</b>
PF	0.8943	0.0457	Not normal	0.7607	1e-04	Not normal	Non-parametric
MF	0.9184	0.1212	Normal	0.8532	0.0020	Not normal	Non-parametric
BF	0.9451	0.3535	Normal	0.8397	0.0011	Not normal	Non-parametric
EF	0.9578	0.5592	Normal	0.9231	0.0603	Normal	Parametric

**Table 6.9 Individual Parametric Test (Welch’s Two-sample T-test) and Non-parametric Equivalent Tests (Wilcoxon Rank Sum tests) for Gender**

Success Factor Group	Equality of Variance (Levene)	df - Male	df - Female	p-value	Evaluation of Variance	Wilcoxon Rank Sum	p-value
PF	0.3642	17	24	0.0358	Unequal	234.50	0.8229
MF	0.2157	17	24	0.0020	Unequal	232.00	0.8717
BF	0.4758	17	24	0.1186	Equal	241.00	0.7009
						<b>Welch’s T-test</b>	<b>p-value</b>
EF	0.6864	17	24	0.4282	Equal	0.6111	0.5446

**6.4.9.2 Ho<sub>1b</sub>: Relationship Status**

Ho<sub>1b</sub>: The average success factor scores on each factor group are not significantly different between the various relationship statuses.

Ha<sub>1b</sub>: The average success factor scores on each factor group are significantly different between the various relationship statuses.

The sample sizes (for the various relationship statuses) were not equal and with reference to the box plots in Appendix O (i.e. personal factors scores by relationship statuses, managerial factor scores by relationship statuses, business factor scores by relationship statuses and environmental factor scores by relationship statuses), it can be seen that the populations (for the various relationship statuses) are (generally) not symmetrically distributed, and hence unlikely to be normally distributed.

As is evident from Table 6.10, the Bartlett’s K-squared test results indicate differences in the variances between the various relationship statuses for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to groups PF and MF should be analysed using a non-parametric approach, while a parametric approach should be adopted groups BF and EF.

In Table 6.10, the results of the individual Kruskal-Wallis tests and the ANOVA tests indicate that the success factor groups PF, MF and EF have p-values greater than alpha

(0.05), meaning that we fail to reject the null hypothesis ( $H_{0b}$ ). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the various relationship statuses, regarding personal factors, managerial factors and environmental factors.

However, for business factors, the p-value (0.0129) is less than alpha (0.05), meaning that we reject the null hypothesis ( $H_{0b}$ ). These data do provide sufficient evidence to conclude that this success factor group does have an effect on the response and hence significant differences in the average business factor scores exist between the various relationship statuses (refer to Appendix O.3 for the relevant box plot).

**Table 6.10 Individual Parametric Tests (ANOVA tests) and Non-parametric Equivalent Tests (Kruskal-Wallis tests) for the various Relationship Statuses**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	13.0075	4	0.0112	Unequal	Non-parametric	6.9509	4	0.1385
MF	9.7192	4	0.0454	Unequal	Non-parametric	1.1797	4	0.8814
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
BF	6.6797	4	0.1538	Equal	Parametric	3.6569	4	0.0129*
EF	7.4241	4	0.1151	Equal	Parametric	0.2932	4	0.8806

#### 6.4.9.3 $H_{0c}$ : Age

$H_{0c}$ : The average success factor scores on each factor group are not significantly different between the various age groups.

$H_{a1c}$ : The average success factor scores on each factor group are significantly different between the various age groups.

There is only one observation for '18-25 years'; hence this scale option was removed for these hypotheses as it fails to show any variance in responses.

Following the same processes as detailed in the hypotheses Ho1<sub>a</sub>: Gender and Ho1<sub>b</sub>: Relationship Status (i.e. but now with reference to the box plots for the various age groups), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.11, the Bartlett's K-squared test results indicate differences in the variances between the various age groups for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to groups PF, MF and BF should be analysed using a non-parametric approach, while a parametric approach should be adopted for group EF.

In Table 6.11, the results of the individual Kruskal-Wallis tests and the ANOVA test indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis (Ho1<sub>c</sub>). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the various age groups, for all four success factor groups.

**Table 6.11 Individual Parametric Test (ANOVA test) and Non-parametric Equivalent Tests (Kruskal-Wallis tests) for the various Age Groups**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	11.6621	4	0.0201	Unequal	Non-parametric	2.7174	4	0.6062
MF	11.8658	4	0.0184	Unequal	Non-parametric	1.8191	4	0.7690
BF	17.0014	4	0.0019	Unequal	Non-parametric	3.4842	4	0.6258
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
EF	2.5978	4	0.6272	Equal	Parametric	1.3442	4	0.2720

#### 6.4.9.4 Ho1<sub>d</sub>: Ethnic Group

Ho1<sub>d</sub>: The average success factor scores on each factor group are not significantly different between the various ethnic groups.

Ha1<sub>d</sub>: The average success factor scores on each factor group are significantly different between the various ethnic groups.

The data set for these hypotheses is highly unbalanced (refer to Appendix E) (as mentioned, this could be attributable to the convenience sampling technique used and the locality in which the research was conducted) and therefore it was inappropriate to test for significant differences in the average success factor scores on each factor group.

#### **6.4.9.5 Ho1<sub>e</sub>: Highest Level of Education**

Ho1<sub>e</sub>: The average success factor scores on each factor group are not significantly different between the highest levels of education.

Ha1<sub>e</sub>: The average success factor scores on each factor group are significantly different between the highest levels of education.

There is only one observation for ‘Short courses’; hence this scale option was removed for these hypotheses as it fails to show any variance in responses. The same is true for ‘Incomplete Grade 12/Matric’ and ‘Self-educated’, as these scale options both have zero observations.

Following the same processes as detailed in the hypotheses Ho1<sub>a</sub>: Gender and Ho1<sub>b</sub>: Relationship Status (i.e. but now with reference to the box plots for the highest levels of education), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.12, the Bartlett’s K-squared test results indicate differences in the variances between the highest levels of education for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to group PF should be analysed using a non-parametric approach, while a parametric approach should be adopted for groups MF, BF and EF.

In Table 6.12, the results of the individual Kruskal-Wallis test and the ANOVA tests indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis (Ho1<sub>e</sub>). These data do not provide sufficient evidence to

conclude that significant differences exist between the average success factor scores and the highest levels of education, for all four success factor groups.

**Table 6.12 Individual Parametric Tests (ANOVA tests) and Non-parametric Equivalent Test (Kruskal-Wallis test) for the Highest Levels of Education**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	13.0269	3	0.0046	Unequal	Non-parametric	3.9968	3	0.2618
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
MF	3.0999	3	0.3765	Equal	Parametric	0.0101	3	0.9986
BF	7.2700	3	0.0638	Equal	Parametric	0.4756	3	0.7012
EF	0.5610	3	0.9053	Equal	Parametric	0.5578	3	0.6462

#### 6.4.9.6 Ho1<sub>f</sub>: Number of Years as a Small Business Person

Ho1<sub>f</sub>: The average success factor scores on each factor group are not significantly different between the numbers of years as a small business person.

Ha1<sub>f</sub>: The average success factor scores on each factor group are significantly different between the numbers of years as a small business person.

Following the same processes as detailed in the hypotheses Ho1<sub>a</sub>: Gender and Ho1<sub>b</sub>: Relationship Status (i.e. but now with reference to the box plots for the numbers of years as a small business person), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.13, the Bartlett's K-squared test results indicate differences in the variances between the numbers of years as a small business person for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to group PF should be analysed using a non-parametric approach, while a parametric approach should be adopted for groups MF, BF and EF.

In Table 6.13, the results of the individual Kruskal-Wallis test and the ANOVA tests indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail

to reject the null hypothesis ( $H_{0f}$ ). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the numbers of years as a small business person, for all four success factor groups.

However, it must be noted that personal factors obtained a p-value very close to alpha (0.0535) but this is still not low enough to indicate a significant difference. This is reinforced by the relevant box plots (refer to Appendix P.1) which indicate that personal factors has several box plots which are lower, but not significantly.

**Table 6.13 Individual Parametric Tests (ANOVA tests) and Non-parametric Equivalent Test (Kruskal-Wallis test) for the Numbers of Years as a Small Business Person**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	13.1073	5	0.0224	Unequal	Non-parametric	10.8965	5	0.0535
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
MF	6.7063	5	0.2434	Equal	Parametric	0.7768	5	0.5727
BF	10.3054	5	0.0670	Equal	Parametric	1.6137	5	0.1806
EF	2.4168	5	0.7890	Equal	Parametric	0.4785	5	0.7899

**6.4.9.7  $H_{0g}$ : Position before being a Small Business Person**

$H_{0g}$ : The average success factor scores on each factor group are not significantly different between the positions before being a small business person.

$H_{1g}$ : The average success factor scores on each factor group are significantly different between the positions before being a small business person.

Following the same processes as detailed in the hypotheses  $H_{0a}$ : Gender and  $H_{0b}$ : Relationship Status (i.e. but now with reference to the box plots for the positions before being a small business person), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.14, the Bartlett's K-squared test results indicate differences in the variances between the positions before being a small business person for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to groups PF and EF should be analysed using a non-parametric approach, while a parametric approach should be adopted for groups MF and BF.

In Table 6.14, the results of the individual Kruskal-Wallis tests and the ANOVA tests indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis ( $H_{0g}$ ). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the positions before being a small business person, for all four success factor groups.

**Table 6.14 Individual Parametric Tests (ANOVA tests) and Non-parametric Equivalent Tests (Kruskal-Wallis tests) for the Positions before being a Small Business Person**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	9.2347	2	0.0099	Unequal	Non-parametric	2.1913	2	0.3343
EF	7.0966	2	0.0288	Unequal	Non-parametric	0.2751	2	0.8715
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
MF	3.8829	2	0.1435	Equal	Parametric	0.6042	2	0.5514
BF	5.5282	2	0.0630	Equal	Parametric	1.2945	2	0.2853

#### 6.4.9.8 $H_{0h}$ : Motivations for Business Start-up

$H_{0h}$ : The average success factor scores on each factor group are not significantly different between the motivations for business start-ups.

$H_{a1h}$ : The average success factor scores on each factor group are significantly different between the motivations for business start-ups.

The data set for these hypotheses is too inaccurate to conduct statistical analyses on as a result of the incorrect phrasing of the question posed. This limitation meant that it was inappropriate to test for significant differences in the average success factor scores on each factor group.

#### **6.4.9.9 Ho<sub>2a</sub>: Type of Business**

Ho<sub>2a</sub>: The average success factor scores on each factor group are not significantly different between the various types of businesses.

Ha<sub>2a</sub>: The average success factor scores on each factor group are significantly different between the various types of businesses.

There is only one observation for 'Trust'; hence this scale option was removed for these hypotheses as it fails to show any variance in responses.

Following the same processes as detailed in the hypotheses Ho<sub>1a</sub>: Gender and Ho<sub>1b</sub>: Relationship Status (i.e. but now with reference to the box plots for the various types of businesses), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.15, the Bartlett's K-squared test results indicate differences in the variances between the various types of businesses for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to groups PF, MF and BF should be analysed using a non-parametric approach, while a parametric approach should be adopted for group EF.

In Table 6.15, the results of the individual Kruskal-Wallis tests and the ANOVA test indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis (Ho<sub>2a</sub>). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the various types of businesses, for all four success factor groups.

**Table 6.15 Individual Parametric Test (ANOVA test) and Non-parametric Equivalent Test (Kruskal-Wallis test) for the various Types of Businesses**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	19.7932	3	0.0002	Unequal	Non-parametric	1.7338	3	0.6294
MF	8.1540	3	0.0429	Unequal	Non-parametric	1.4146	3	0.7021
BF	9.6872	3	0.0214	Unequal	Non-parametric	1.9299	3	0.5871
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
EF	0.8398	3	0.8399	Equal	Parametric	0.2658	3	0.8496

**6.4.9.10 Ho<sub>2b</sub>: Franchise/Non-franchise Business**

Ho<sub>2b</sub>: The mean score on each factor group for franchise businesses is equal to the mean score on each factor group for non-franchise businesses.

Ha<sub>2b</sub>: The mean score on each factor group for franchise businesses is significantly different to the mean score on each factor group for non-franchise businesses.

Following the same processes as detailed in the hypotheses Ho<sub>1a</sub>: Gender and Ho<sub>1b</sub>: Relationship Status (i.e. but now with reference to the box plots for franchise/non-franchise businesses), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.16, the Shapiro-Wilk test results indicate that none of the factor groups (PF, MF, BF and EF) are normally distributed. Levene's test in Table 6.17 shows that the variances between franchise/non-franchise businesses for each of the factor groups (PF, MF, BF and EF) are significantly different. As a result, it was concluded that the hypotheses relating to groups PF, MF, BF and EF should be analysed using a non-parametric approach. As is evident from Table 6.17, none of the median scores (for factor groups PF, MF, BF and EF) were significantly different between franchise and non-franchise businesses.

That is to say, in Tables 6.16 and 6.17, the results of the individual Wilcoxon Rank Sum tests indicate that all the success factor groups have p-values greater than alpha (0.05), meaning

that we fail to reject the null hypothesis ( $H_{0b}$ ). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and franchise or non-franchise businesses, for all four success factor groups.

**Table 6.16 Distributions of the Populations for Franchise or Non-franchise Businesses**

Success Factor Group	Shapiro-Wilk – Franchises	p-value (S-W)	Distribution of Population	Shapiro-Wilk – Non-franchises	p-value (S-W)	Distribution of Population	Statistical Technique
PF	0.9570	0.7869	Normal	0.7687	0.0000	Not normal	Non-parametric
MF	0.7683	0.0435	Not normal	0.8536	2e-04	Not normal	Non-parametric
BF	0.9020	0.4211	Normal	0.8697	4e-04	Not normal	Non-parametric
EF	0.9609	0.8140	Normal	0.9398	0.0414	Not normal	Non-parametric

**Table 6.17 Individual Non-parametric Equivalent Tests (Wilcoxon Rank Sum tests) for Franchise or Non-franchise Businesses**

Success Factor Group	Equality of Variance (Levene)	df – Franchises	df – Non-franchises	p-value	Evaluation of Variance	Wilcoxon Rank Sum	p-value
PF	0.5099	4	37	0.5425	Equal	73.50	0.4216
MF	0.1747	4	37	0.1000	Equal	92.50	0.9390
BF	0.1538	4	37	0.0798	Equal	92.50	0.9392
EF	0.0688	4	37	0.0180	Unequal	96.00	0.9848

#### 6.4.9.11 $H_{0c}$ : Age of Business

$H_{0c}$ : The average success factor scores on each factor group are not significantly different between the various ages of the businesses.

$H_{a2c}$ : The average success factor scores on each factor group are significantly different between the various ages of the businesses.

Following the same processes as detailed in the hypotheses Ho1<sub>a</sub>: Gender and Ho1<sub>b</sub>: Relationship Status (i.e. but now with reference to the box plots for the various ages of the businesses), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.18, the Bartlett's K-squared test results indicate differences in the variances between the various ages of the businesses for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to groups PF, MF and BF should be analysed using a non-parametric approach, while a parametric approach should be adopted for group EF.

In Table 6.18, the results of the individual Kruskal-Wallis tests and the ANOVA test indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis (Ho2<sub>c</sub>). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the various ages of the businesses, for all four success factor groups.

**Table 6.18 Individual Parametric Test (ANOVA test) and Non-parametric Equivalent Tests (Kruskal-Wallis tests) for the various Ages of the Businesses**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	17.6208	4	0.0015	Unequal	Non-parametric	6.6190	4	0.1574
MF	13.4035	4	0.0095	Unequal	Non-parametric	1.9201	4	0.7505
BF	10.6222	4	0.0312	Unequal	Non-parametric	1.2687	4	0.8667
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
EF	7.6604	4	0.1048	Equal	Parametric	0.9975	4	0.4208

#### 6.4.9.12 Ho2<sub>d</sub>: Location of Business

Ho2<sub>d</sub>: The mean score on each factor group for businesses located in Port Elizabeth is equal to the mean score on each factor group for businesses located in Port Elizabeth and other locations.

Ha2<sub>d</sub>: The mean score on each factor group for businesses located in Port Elizabeth is significantly different to the mean score on each factor group for businesses located in Port Elizabeth and other locations.

It must be noted that there are only three participants whose businesses exist both in Port Elizabeth, as well as in other locations (refer to Appendix G). This being so, care must be taken when interpreting these results as the data set is considerably smaller than those of other items in the research.

Following the same processes as detailed in the hypotheses Ho1<sub>a</sub>: Gender and Ho1<sub>b</sub>: Relationship Status (i.e. but now with reference to the box plots for the locations of the businesses), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.19, the Shapiro-Wilk test results indicate that only the EF factor group is normally distributed. Levene's test in Table 6.20 shows that the variances between the locations of the businesses for each of the factor groups (PF, MF, BF and EF) are significantly different. As a result, it was concluded that the hypotheses relating to groups PF, MF and BF should be analysed using a non-parametric approach, while a parametric approach should be adopted for group EF. As is evident from Table 6.20, none of the median scores (for factor groups PF, MF and BF) or the mean score (for factor group EF) were significantly different between the locations of the businesses.

That is to say, in Tables 6.19 and 6.20, the results of the individual Wilcoxon Rank Sum tests and the Welch's T-test indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis (Ho2<sub>d</sub>). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the locations of the businesses, for all four success factor groups.

However, it must be noted that managerial factors and environmental factors obtained p-values close to alpha (0.0675 and 0.0611, respectively) but these are still not low enough to indicate a significant difference for each of the success factor groups. This is reinforced by the relevant box plots (refer to Appendix P.2) which indicate that managerial factors and environmental factors have box plots which are lower, but not significantly.

**Table 6.19 Distributions of the Populations for the Locations of the Businesses**

Success Factor Group	Shapiro-Wilk – P.E.	p-value (S-W)	Distribution of Population	Shapiro-Wilk – P.E. and other	p-value (S-W)	Distribution of Population	Statistical Technique
PF	0.7933	0.0000	Not normal	0.7500	0.0000	Not normal	Non-parametric
MF	0.8505	1e-04	Not normal	0.9643	0.6369	Normal	Non-parametric
BF	0.8700	3e-04	Not normal	0.7500	0.0000	Not normal	Non-parametric
EF	0.9456	0.0534	Normal	0.9643	0.6369	Normal	Parametric

**Table 6.20 Individual Parametric Test (Welch’s Two-sample T-test) and Non-parametric Equivalent Tests (Wilcoxon Rank Sum tests) for the Locations of the Businesses**

Success Factor Group	Equality of Variance (Levene)	df – P.E.	df – P.E. and other	p-value	Evaluation of Variances	Wilcoxon Rank Sum	p-value
PF	33.0769	39	2	0.0595	Equal	27.5	0.1233
MF	5.1473	39	2	0.3516	Equal	21.5	0.0675
BF	7.9418	39	2	0.2359	Equal	59.00	0.9809
						<b>Welch’s T-test</b>	<b>p-value</b>
EF	7.5066	39	2	0.2487	Equal	-2.4337	0.0611

**6.4.9.13 Ho<sub>2e</sub>: Number of Employees in the Business**

Ho<sub>2e</sub>: The average success factor scores on each factor group are not significantly different between the numbers of employees in the businesses.

Ha2<sub>e</sub>: The average success factor scores on each factor group are significantly different between the numbers of employees in the businesses.

There are no observations for '>50 employees'; hence this scale option was removed for these hypotheses as it fails to show any variance in responses. As mentioned above, this was included purely for legislative purposes in order to eliminate the use of participants who satisfied having more than fifty employees.

Following the same processes as detailed in the hypotheses Ho1<sub>a</sub>: Gender and Ho1<sub>b</sub>: Relationship Status (i.e. but now with reference to the box plots for the numbers of employees in the businesses), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.21, the Bartlett's K-squared test results indicate differences in the variances between the numbers of employees in the businesses for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to groups PF and BF should be analysed using a non-parametric approach, while a parametric approach should be adopted for groups MF and EF.

In Table 6.21, the results of the individual Kruskal-Wallis tests and the ANOVA tests indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis (Ho2<sub>e</sub>). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the numbers of employees in the businesses, for all four success factor groups.

**Table 6.21 Individual Parametric Tests (ANOVA tests) and Non-parametric Equivalent Tests (Kruskal-Wallis tests) for the Numbers of Employees in the Businesses**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	11.7836	2	0.0028	Unequal	Non-parametric	4.5347	2	0.1036
BF	Inf.	2	2.2e-16	Unequal	Non-parametric	1.7693	2	0.4129
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
MF	4.9835	2	0.0828	Equal	Parametric	0.1024	2	0.9029
EF	2.0209	2	0.3641	Equal	Parametric	0.0261	2	0.9742

#### 6.4.9.14 Ho<sub>2f</sub>: Annual Turnover of Business

Ho<sub>2f</sub>: The average success factor scores on each factor group are not significantly different between the annual turnovers of the businesses.

Ha<sub>2f</sub>: The average success factor scores on each factor group are significantly different between the annual turnovers of the businesses.

There are no observations for '>R32m'; hence this scale option was removed for these hypotheses as it fails to show any variance in responses. As mentioned above, this was included purely for legislative purposes in order to eliminate the use of participants who satisfied having an annual turnover greater than R32 million. There is also only one observation for '>R20m' and two observations for 'R10m-R20m'; hence these three responses were combined into one new scale option, namely 'R10.1m-R20m'.

Following the same processes as detailed in the hypotheses Ho<sub>1a</sub>: Gender and Ho<sub>1b</sub>: Relationship Status (i.e. but now with reference to the box plots for the annual turnovers of the businesses), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.22, the Bartlett's K-squared test results indicate differences in the variances between the annual turnovers of the businesses for each of the factor groups (PF,

MF, BF and EF). As a result, it was concluded that the hypotheses relating to groups PF, MF, BF and EF should be analysed using a parametric approach.

In Table 6.22, the results of the individual ANOVA tests indicate that all the success factor groups have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis ( $H_{02f}$ ). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the annual turnovers of the businesses, for all four success factor groups.

**Table 6.22 Individual Parametric Tests (ANOVA tests) for the Annual Turnovers of the Businesses**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Analysis of Variance (F)	df	p-value
PF	4.8877	4	0.2990	Equal	Parametric	0.5152	4	0.7249
MF	3.1258	4	0.5370	Equal	Parametric	0.6634	4	0.6213
BF	5.1311	4	0.2741	Equal	Parametric	0.0858	4	0.9863
EF	4.2167	4	0.3775	Equal	Parametric	0.4630	4	0.7624

#### 6.4.9.15 $H_{02g}$ : Sector of Business

$H_{02g}$ : The average success factor scores on each factor group are not significantly different between the various business sectors.

$H_{a2g}$ : The average success factor scores on each factor group are significantly different between the various business sectors.

There is only one observation each for 'Manufacturing', 'Construction' and 'Transport, Storage and Communications'; hence these scale options were removed for these hypotheses as they fail to show any variance in responses. The same is true for 'Agriculture', 'Mining and Quarrying' and 'Electricity, Gas and Water' as these scale options all have no observations.

Following the same processes as detailed in the hypotheses Ho1<sub>a</sub>: Gender and Ho1<sub>b</sub>: Relationship Status (i.e. but now with reference to the box plots for the various business sectors), parametric or non-parametric statistical procedures were adopted.

As is evident from Table 6.23, the Bartlett's K-squared test results indicate differences in the variances between the various business sectors for each of the factor groups (PF, MF, BF and EF). As a result, it was concluded that the hypotheses relating to group PF should be analysed using a non-parametric approach, while a parametric approach should be adopted for groups MF, BF and EF.

In Table 6.23, the results of the individual Kruskal-Wallis test and the ANOVA tests indicate that the success factor groups PF, MF and BF have p-values greater than alpha (0.05), meaning that we fail to reject the null hypothesis (Ho2<sub>g</sub>). These data do not provide sufficient evidence to conclude that significant differences exist between the average success factor scores and the various business sectors, regarding personal factors, managerial factors and business factors.

However, it must be noted that personal factors and managerial factors obtained p-values very close to alpha (0.0585 and 0.0565, respectively) but these are still not low enough to indicate a significant difference for each of the success factor groups. This is reinforced by the relevant box plots (refer to Appendix P.3) which indicate that personal factors and managerial factors have several box plots which are lower, but not significantly.

However, for environmental factors, the p-value (0.0148) is less than alpha (0.05), meaning that we reject the null hypothesis (Ho2<sub>g</sub>). These data do provide sufficient evidence to conclude that this success factor group does have an effect on the response and hence significant differences in the average environmental factor group scores exist between the various business sectors (refer to Appendix P.3 for the relevant box plot).

**Table 6.23 Individual Parametric Tests (ANOVA tests) and Non-parametric Equivalent Test (Kruskal-Wallis test) for the various Business Sectors**

Success Factor Group	Bartlett's K-squared	df	p-value	Evaluation of Variance	Statistical Technique	Kruskal-Wallis	df	p-value
PF	20.3713	5	0.0011	Unequal	Non-parametric	10.6634	5	0.0585
						<b>Analysis of Variance (F)</b>	<b>df</b>	<b>p-value</b>
MF	9.0759	5	0.1061	Equal	Parametric	2.4107	5	0.0565
BF	9.2911	5	0.0980	Equal	Parametric	1.8679	5	0.1260
EF	6.7826	5	0.2373	Equal	Parametric	3.3330	5	0.0148*

## 6.5 Conclusion

This chapter has presented the empirical results of this study. The response rate was determined and the research sample was discussed in terms of biographical- and small business information. The results of the Cronbach's alpha reliability co-efficient indicate that the reliability of the research instrument used in this research is of an acceptable standard. Thereafter the various research objectives were explored and hypothesis tests were conducted on two of the research objectives. The hypothesis tests do not confirm many significant differences. Significant differences are only found to exist between the various relationship statuses and the business factor group (p-value = 0.0129) and between the various business sectors and the environmental factor group (p-value = 0.0148). Consequently, there are several results which are close to showing a difference in responses but these are all still not significant.

The chapter which follows will seek to discuss the results mentioned above, by referring in particular, to the literature reviewed in the earlier chapters of this study.

## CHAPTER 7

### DISCUSSION

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#### 7.1 Introduction

The previous chapter has presented the results of this study. This chapter will consider these results in light of the literature reviewed in chapters two, three and four of this research. The discussion of results will seek to provide an answer to the aim of this research, which is to determine and investigate which factors are found to be the most common determinants of success for small businesses in Port Elizabeth, through careful consideration of the results and according to the research objectives (refer to p.56). The results will also be compared to the existing body of knowledge to determine how they support or challenge similar studies, in particular, those which are mentioned in the principal literature review. Furthermore, potential reasons for these similarities or differences will also be explored.

#### 7.2 Research Objectives

According to the participants, a successful business is defined as one which is profitable, has sufficient cash reserves and favourable cash flow; and which enables the small business persons to maintain and enjoy a balance between their work and private lives. Job satisfaction and personal fulfilment; and survival of the business are also considered to be of some importance to the definition of a successful business. In contrast to this, engagement with the surrounding communities and establishment of the small business' brand to create potential franchisee opportunities are the two lowest ranked statements, respectively (refer to Table 6.1 on p.81).

These results support the definitions of success in Section 4.2 (refer to p.34) stated by CIBC World Markets (2004: 1), Keil (2007: 29), Rogoff *et al.* (2004: 368) and Simpson *et al.* (2004: 483) whereby success of a business is most popularly defined in terms of profitability and greater than average increases in revenue. More importantly, the success of a small business in terms of profitability is clearly defined by Coy *et al.* (2007: 183), Keil (2007: 29) and Reijonen (2008: 617). Similarly, self-employment earnings is stated by van Praag (2003:

2), while cash flow is defined by Coy *et al.* (2007: 183) (refer to Section 4.2 on p.34). Reijonen (2008: 617) further supports job satisfaction as being important in the definition of a successful business and states that because success “is examined from the perspective of the small business owner”, it includes financial and non-financial measures of success with job satisfaction being a vital non-financial measure of small business success. Furthermore, the highest ranked statement, making a profit, is also the most relevant statement (80.50% of responses) in Keil’s (2007: 82) study for a question which concerned the definition of success. It is also interesting to note that for this research community status/engagement is ranked ninth out of ten in terms of importance, which is in agreement with Keil (2007: 82) whereby “status in the community” is the lowest ranked statement (26.50% of responses) regarding the definition of success.

Heerwagen (2000: 354-355) states that social responsibility is a factor which can influence the success potential of a small business. In general, small businesses are less concerned with corporate social responsibility (CSR) and engagement with their communities as this is typically associated with larger organisations and corporations. This is because shareholders “want to see financial gains from their firms’ investments in CSR initiatives” (O’Brien, 2001: 3-4). Additionally, many governments have also been in support of CSR and require “large companies to conduct business in ways that make significant contributions to national and regional social and economic development” (O’Brien, 2001: 3-4).

The definition of a successful business in accordance with participants’ small businesses produced fairly similar results to those of the definition of a successful business. It was found that participants regard their businesses as highly successful when it comes to achieving job satisfaction and personal fulfilment, ensuring survival of the business; and enabling the small business persons to maintain and enjoy a balance between their work and private lives (refer to Table 6.2 on p .84). This is particularly interesting because the two highest ranked statements concerning the definition of a successful business (refer to Table 6.1 on p .81) became lower ranked in accordance with the success of participants’ businesses. Making a profit and issues regarding cash flow represent the two best statements to define a successful business but in reality, job satisfaction and personal fulfilment; and survival of the business become of greater importance in order to achieve success.

A potential reason for this could be a direct result of the global recession that has significantly impacted most economies worldwide, and South Africa in particular has also experienced these unfavourable economic conditions (Bernanke, 2009: 6). In turn this has meant that businesses have had to become successful in terms of merely surviving, rather than in terms of making a profit. According to van Praag (2003: 2), survival remains a key measure of performance for any small business in terms of the likelihood and the period that the small business person has managed to remain self-employed and, ultimately, survive in the market.

In addition to this, the importance placed on job satisfaction and personal fulfilment is in support of the motivations for business start-ups (refer to Appendix E) whereby self-employment was the greatest motivation for starting a small business (34.88% of responses). Keil's (2007: 81) study also found that the need for independence was the single greatest motivation for starting a small business. Ultimately, these statements seem to be interconnected in some manner and the literature states that self-employed individuals have more freedom and independence than paid-employees, and thus job satisfaction and the incentives for personal fulfilment are greatly increased (Adenutsi, 2009: 6; Bradley and Roberts, 2004: 38; Cassar, 2010: 3; Hessels, Millán, Román and Thurik, 2011: 2; Vecernik, 2009: 192).

Finally, the lowest ranked statement for both of the questions mentioned above (being the definition of a successful business, and how successful the participants' businesses are in accordance with the definition of a successful business) is the establishment of the brand and the creation of franchisee opportunities (refer to Table 6.1 on p.81 and Table 6.2 on p.84). This shows that small business persons do not consider this statement to define what a successful business is or consider their businesses to be successful in achieving it. This statement may be considered as a means to expand the business but in doing so, the impartation of the very innovative and profit-driven ideas of the entrepreneurs who first identified and chose to exploit an opportunity in the market under the condition of private ownership (Adenutsi, 2009: 5; Morris *et al.*, 1996: 61), seems contradictory to the very essence of what entrepreneurship entails.

According to Appendix J, it can be seen that 67.44% of participants consider their businesses to be successful, while 62.79% of participants consider their businesses to be successful in

light of their competitors. On the other hand, only 9.30% of participants consider their businesses to be very successful without taking their competitors into account, while just over a fifth (20.93%) of participants consider their businesses to be very successful relative to their competitors. This study aims to investigate the factors which influence the success of small businesses and the vast majority of businesses do appear to be successful. Furthermore, for both of the questions, none of the participants consider their business to be very unsuccessful and only 2.33% of responses, for each question, chose the 'unsuccessful' scale option. This being so, the reasons for these particular success ratings need to be explored (refer to Table 6.3 on p.85).

Most of the participants state that the reputation of their business is the most important reason for their success ratings. This may be a direct result of the loyalty of their customers who continue to favour and support their businesses over similar competitors and long-established companies. The following are also stated as common reasons for the particular success ratings:

- having a broad customer base and with customers from a wide economic spectrum;
- reaching set targets to enable business growth and having a high percentage growth;
- having low overhead costs;
- having favourable premises and being located in premises that have too many businesses;
- having a focus on all-round high quality;
- and being a specialised business and operating within a niche market.

Other reasons for the particular success ratings include:

- having a positive attitude toward business;
- having a favourable cash flow within the business;
- ensuring customers are always satisfied;
- behaving ethically and conducting business in an ethical manner;
- having a favourable exchange rate in comparison with competitors;
- working hard at one's business;
- having favourable marketing campaigns;
- having the correctly priced products/services;
- being a reliable business;

- ensuring good service delivery;
- and merely surviving in the market is also considered reason for success.

One participant stated that the reason for the particular success ratings is a result of “unsolicited customer feedback” he had received and one of the participants stated that her business exists only to deliver a service and not to compete, while the other simply did not wish to compare his business to those of his competitors.

With reference to Appendix K, it is evident that 41.67% of participants ranked personal factors as the most important success factor group. The second most important group is business factors (41.67% of responses) and managerial factors is the third most important group (33.33% of responses). Environmental factors is ranked as the least important success factor group by 75.00% of participants. More so, the results of Table 6.4 (refer to p.86) support the rankings of the success factor groups as personal factors has the highest mean score (mean = 4.23), followed by business factors (mean = 4.20), then managerial factors (mean = 4.18) and lastly, environmental factors (mean = 3.17). This being so, with reference to Table 6.5 (refer to p.87), it is evident that of the 20 success factors the most important success factor comes from the managerial factor group, followed by two success factors from the business factor group and then several factors from the personal factor group. More so, of the five environmental factors, four are ranked as 17, 18, 19 and 20 in terms of their importance in attributing to small business success and this is then in accordance to the rankings and mean scores mentioned above.

Potential reasons stated by the participants for ranking personal factors as the most important success factor group include: an emphasis on the personal approach to business; an emphasis on hard work and commitment by the small business person and his/her employees; and the fact that a small business is most often a direct representation of the small business person’s intellectual property. An emphasis on the personal, rather than on the profit-driven approach, means that a small business person takes more of an interest in the business and therefore with the customers themselves. In turn customers find themselves having a favourable experience with the business (Simpson *et al.*, 2004: 487-488). Again, this is consistent with the literature mentioned by Dorfman (2007: 26-27) whereby the experience a customer receives is the only measure of differentiation he/she will have in relation to competing small

businesses. Personality and the ability to work with the products and materials available, in other words intellectual property, and the employment of family members are also significant in the ranking of this success factor group (refer to Appendix L).

Furthermore, the results mentioned above are in support of the following studies mentioned in Section 4.3 (refer to p.37): Rogoff *et al.* (2004: 370-372) who found that individual characteristics (personal factors) are the most popular factor for small business success; Lin (1998: 43) who found that people-related factors are more important for success; Watson *et al.* (1998: 220) who maintain that entrepreneurial characteristics remain of the utmost importance to the success of a small business; and Isakova (1997: 88) who found that personal factors are necessary for small business success.

The reasons for business factors being ranked as the second most important success factor group are as follows: possession of an identifiable competitive advantage, being one of only two such businesses in the province; having a unique product; and having superior quality products/services relative to competitors, another identifiable competitive advantage. More so, one of the participants operates a franchise business which demands a certain number of staff leading to increased operating costs – a major business factor to the success of a small business (refer to Appendix L).

Although the results of Isakova's (1997: 88) study do not find business factors to be of such importance, it is emphasised that a focus on business factors is nevertheless essential for any would-be small business person. Watson *et al.* (1998: 219) also found that the importance placed on personal characteristics cannot be in isolation to business characteristics. This being so, business factors are also of great importance, which helps to explain their position as second out of the four rankings in this research.

Managerial factors as the third most important success factor group is due to an emphasis on strict managerial processes and procedures, such as good cash flow management, good stock control and a limited staff turnover. The last mentioned of these can be achieved through the use of quality and trustworthy employees and one participant in particular highlighted the fact that without such employees it becomes impossible to produce quality products/services which leads to unsatisfied customers. Finally, the existence of managerial factors in any small

business is necessary as they help to minimise the risks of theft and loss of income (refer to Appendix L).

The results of Huck and McEwen's (1991: 92) study show that management is the top entrepreneurial competency out of twelve, which are important for small business success. Although the results mentioned above are not completely in support of this, it does show that managerial factors are still considered more important than certain other factors.

Environmental factors is the least important success factor group and most of the participants stated that such factors have little effect on their businesses. One of the reasons for this is that by focusing on the remaining success factor groups, a small business will be able to deal better with such uncontrollable factors. Another participant stated that a primary focus on environmental factors is not necessary because all small business persons in the specific industry/market are equally affected by such factors, not one small business person in isolation (refer to Appendix L). A prime example of this is the unfavourable economic situation South Africa began to experience in 2009 as a result of the worldwide recession (Bernanke, 2009: 6; Lombra, 2009: 4).

The results mentioned above are supported by Isakova (1997: 88) who found that environment-related factors are not of importance to small business success as they remain the same for all business options pursued by the participants. For Luk's (1006: 70) study it was found that many successful small business persons start their own businesses in the very industry in which they have been previously employed (refer to Section 4.3 on p.37). This fact alone might help to explain why environmental factors are ranked as the least important success factor group. Perhaps the small business persons have become familiar with the industry-specific environmental factors and how to manage them, that when it comes time to handle them within their own business capacity this is nothing new and nothing that requires too much consideration.

Table 6.5 (refer to p.87) provides the most and least important contributors to small business success. It is evident that an emphasis on exceptional customer service and the fostering of good customer relationships is considered to be the most important factor for success. Thereafter a commitment to superior product/service quality is considered important, followed by the employment of individuals who are honest, have a sound knowledge of the

business and industry and have great enthusiasm for the work that they do. Interestingly, the four success factors which follow all belong to the personal factor group and these include: good interpersonal skills of the small business person (4<sup>th</sup>), dedication and persistence in achieving goals (5<sup>th</sup>), the ability to communicate well (6<sup>th</sup>) and the ability to make decisions (7<sup>th</sup>). Again this shows that despite not being ranked in the top three positions, personal factors are nevertheless considered of great importance to the success of any small business.

According to Dixon, Freeman and Toman (2010: 118), although customer service does not guarantee customer loyalty it does guarantee customer disloyalty. In their research they found that customers are four times more likely to leave a service encounter disloyal, rather than loyal. Customer loyalty is largely influenced by product/service quality and the brand and only minimally by good customer service. Conversely, unfavourable customer service is the single greatest contributor to customer disloyalty. In other words, customers will support a business with “a compelling brand” and which offers good quality products/services but they will boycott a business which fails to deliver good customer service (Dixon *et al.*, 2010: 118). This is reiterated by the fact that customer service is important “in increasing product quality, gaining competitive advantage, gaining profitable opportunities, and as a result increasing sales and income” (Jahanshahi, Gashti, Mirdamadi, Nawaser and Khaksar, 2011: 254). In light of this, it is understandable why the most important success factor for small business persons in this study concerns having good customer services skills and maintaining favourable relationships with the business’ customers.

Chang and Horng (2010: 2415-2416) state that customers are educated to ask for excellent quality products and services. In turn if a business can satisfy this it will ultimately increase its customer loyalty (Jahanshahi *et al.*, 2011: 259). This being so, it is evident that a commitment to product/service quality is of great significance to small businesses in general, as well as in this study, and furthermore, that this is closely linked to customer loyalty which is influenced by customer service (Dixon *et al.*, 2010: 118).

Foster and Milen (2010: 5) state that “the value of employees is the key to successful operations within your working environment” and therefore it is fairly reasonable for “good quality” employees to be ranked as the third most important success factor. For any business to grow and prosper, its operations need to be conducted ethically and honestly (Schmitt, 1999: 24). Not only must the small business person be honest but he/she must also demand

the same high standard of honesty from his/her employees. An emphasis on honest employees must not be underestimated as hiring someone means that the small business person is entrusting him/her with their livelihood, reputation and future (Schmitt, 1999: 24). Nowadays, the skills and professional knowledge of employees are a prime source of intellectual capital within a small business (Furedi, 2005: 22) in addition to those of the small business person. Finally, both small business persons and their employees need to understand that small business success is dependent on “knowledge, motivation, and organisational skills” (Foster and Milen, 2010: 5).

Additionally, the results mentioned above are consistent with Gilmore *et al.* (2004: 355) who states that “nurturing relationships with existing customers is accorded the highest priority” for many small business persons; Lin (1998: 43) who emphasises a focus on the customer; and Dorfman (2007: 26-27) who states that a focus on customer service will realise business success. More importantly, this is often achieved through the employment of the correct individuals who are able to offer exceptional service (Dorfman, 2007: 26-27). The results of Luk’s (1996: 73) study show that an emphasis on the customers’ needs and offering good customer services skills are ranked sixth and seventh, respectively, out of 12 product, market and company factors. In addition to this, Heerwagen (2000: 354) states that continuously satisfying customers and having an emphasis on product/service quality will help to increase small business success. Keil’s (2007: 84) study also found that a superior product/service is ranked third out of 12 factors which contribute to success and according to Luk (1996: 71), the use of good quality production materials to ensure a high quality product/service is ranked as the third most important management factor, out of 14, to small business success.

With regards to the personal factors ranked 4-7 in this research, persistence and determination is the highest ranked success factor in Keil’s (2007: 84) study. Van Praag (2003: 4) also states that perseverance is an entrepreneurial quality essential for success. Good decision-making skills were reported by Luk (1996: 70) as being the most important personal factor in the performance of small businesses, while being persistent in achieving goals is ranked fourth out of 14 factors.

As mentioned, the four least important success factors all come from the environmental factor group with favourability with financial institutions ranked as 17<sup>th</sup> out of 20, followed by industry structure and competition (18<sup>th</sup>), then small business legislation and regulations

(19<sup>th</sup>) and finally, trade exhibitions and business fairs (20<sup>th</sup>) (refer to Table 6.5 on p .87). Rogoff *et al.* (2004: 370-372) found that government regulation is the single greatest impeding factor to small business success. Keil's (2007: 84) study found that an environmental factor is the lowest ranked success factor, namely government assistance, while capital to start up is ranked 11<sup>th</sup> out of 12. This relates to success factor 17 in this research which indicates that the provision of capital, for whatever reason, and sustained favourable relationships with institutions that can provide such capital are not necessarily of great importance to the success of a small business.

Finally, the most and least important factors of small business success found in this study are considerably similar to the results produced by Coy *et al.* (2007). One of the three most important factors for business success in Coy's (2007) study is working hard and for long hours, which is inconsistent with the most important success factor found in this study. This being so, excellent customer service and paying attention to the needs of the customers are the other two most important factors, out of 24. Thereafter good communication skills is the second most important factor; followed by product quality (3<sup>rd</sup>) and interpersonal skills (3<sup>rd</sup>), which are both of equal importance to the participants; then persistence (5<sup>th</sup>); and then decision-making skills (6<sup>th</sup>). The least important success factors are all external (environmental) factors with franchises ranked as 24<sup>th</sup> out of 24; followed by government programmes (23<sup>rd</sup>); and then trade exhibitions (22<sup>nd</sup>) and training programmes (22<sup>nd</sup>), which were both of equal importance to the participants (Coy *et al.*, 2007: 188). Evidently, most of the results mentioned above are in support of the results produced in this research.

With reference to Table 6.6 (refer to p.88), the following limiting factors to the success of small businesses were stated by many of the participants. In turn exploration of such factors has helped to explain and justify some of the answers received to questions which were discussed earlier.

The first major limiting factor which was identified is general economic conditions with subsequent limiting factors which include: the effects of the global recession, the start-up times of the businesses, the increases in electricity and fuel and the locations and natures of the businesses. Participants stated that the local, national and international slow-down in the economy has naturally not been favourable to small business success. Foster and Milen (2010: 5) support this and state that "many different industries are experiencing the effects of

the economic recession”. Organisations have had to discharge employees, eliminate jobs or outsource other jobs; all while work responsibilities have remained on the increase. Furthermore, this has had a profound effect on employee morale, which has been “difficult to maintain at a positive level” (Foster and Milen, 2010: 5) and overall, such outcomes have been compounded for the small business. A participant in this study stated these “tough economic times have hampered sales by approximately 10.00% per annum”, while another stated that the current economical state did seem to be improving in comparison with the previous year (2010).

The start-up times of the businesses also limited success. One of the participants opened a business before the recession had started, while another chose to start a business during the recessionary times. Many of the other participants simply had to continue operating during the global recession but now with lower turnovers than usual.

The uncontrollable increases in specific costs to businesses also limited success. This includes the major increases in electricity, as well as the lack of back-up power during power cuts or “load shedding” throughout the country. Also, the major increases in fuel hampered businesses’ abilities to maintain sufficient stock levels. Von Ketelhodt and Wöcke (2008: 4) conducted a study on SMEs in Cape Town during the electricity crises in South Africa and agree that small businesses “are one of the most vulnerable sectors to an unstable environment and policy shifts” and unlike large businesses, they “generally lack the resources necessary to invest in alternative sources of energy”. It was found that entrepreneurs and small businesses are those most adversely affected by the electricity crises – they still have to cover their overhead costs despite a loss of trade and productivity as a result of the power cuts. Furthermore, 80.00% of the SMEs stated that they had lost business due to the lack of stable electricity (Von Ketelhodt and Wöcke, 2008: 5-8).

Economic factors in the Eastern Cape also proved limiting. The participants stated that if their businesses were located elsewhere, for example, in the Western Cape or the Gauteng province, they believe their success rates would be dramatically higher. The participants complained of poor business conditions and a poor municipality in the Eastern Cape which does not seem to attract tourists and holiday-makers. Coupled with this is the notion that “business in general in Port Elizabeth is quiet” and that the city requires major developments for its harbour, beachfront and Marine Drive areas. Participants also believe that more

government investment in the Coega Deepwater Harbour will result in greater business success. Consequently, PetroSA (South Africa's state-owned oil company) has committed to building an oil refinery at the industrial port of Coega but a final investment decision will only be made sometime in 2012 (Cape Business News, 2010: 1; Coega, 2011: 1). The project is expected to generate 27 500 jobs during construction and over 18 000 jobs during operation, all of which will be highly beneficial in the "regeneration and sustainability of the Eastern Cape economy" (Cape Business News, 2010: 1).

Two of the participants stated that the nature of their businesses are limiting to success. This is because the "luxury industry" is a highly sensitive one which unfortunately is the first non-essential expense to be eliminated from customers' budgets when general economic conditions are not favourable.

The next major limiting factor which was identified is the quality of staff available with a subsequent limiting factor which includes: specialised business fields. Participants complained of a lack of skilled staff due to the limited resources of the businesses or the poor ability of recruitment agencies in Port Elizabeth to hire employees with the correct values and skills. This lack of quality staff in turn leads to poor quality workmanship, affecting the success of businesses. Furthermore, being a specialised business means that the ability to recruit suitably qualified staff is limited. As one participant stated, the only limiting factor is that his business cannot produce income without his presence and input, and that hiring a suitably qualified person to replace him will not produce the same results.

Another major limiting factor concerns the premises of the businesses. The participants complained of high rentals, either in relation to the poor conditions of the premises or being located in a shopping centre which demands relatively high overhead costs. One participant also stated that despite the many customers her business satisfies, she still feels exploited by the high rentals demanded by the landlord. A further disadvantage to businesses is that the landlords are solely responsible for all decisions made. This is the case for one of the participants who had to move her business to temporary premises for several months while the landlord refurbished his building. She now had to satisfy the same expenses with depressed sales. Furthermore, upon return to the original premises, but now in a new shop space location, the business has lost 95.00% of its foot trade which has greatly affected its success.

The inability to access capital is a limiting factor to success for several of the participants. According to a participant, no overdraft facilities are offered to small businesses by the banks, while another also stated that they “do not want to extend a helping hand” to businesses during unfavourable times. Debus (2007: 9) supports this and states that small businesses are generally “more inclined to face financing barriers than larger ones”, while the studies conducted by Hormozi, Sutton, McMinn and Lucio (2002: 759) and Watson *et al.* (1998: 228) both found that obtaining finance is one of the most significant challenges faced by small businesses. Another participant in this research stated that due to the type of business she operates, the access to capital for development is virtually non-existent as “financial institutions view pharmacies as high-risk”.

Maintaining a balance between one’s work and one’s private life is also limiting to business success. Family responsibilities may add to this, regarding the raising of children and organising of a home, which in turn limits a small business person’s time even more and can result in greater financial insecurity for the business. Morrison (2000: 65) states that “a characteristic of entrepreneurship is that it tends to pervade family life, with the entrepreneur being unable to divorce business from social living”. According to one of the participants, being a sole proprietor means that one is never “off duty” and that work continues at home, during all hours and on all days. Although the rewards from the business may be worthwhile, it is still at a huge cost to one’s personal life in terms of having time available for leisure and relaxation. Thus, maintaining this balance is highly important as “success in business can lead to failure in one’s personal life”.

The delayed or non-payment of accounts by customers is another limiting factor to success which was identified. Small businesses are highly vulnerable to “bad debts” and need to actively implement strategies to control debt. A participant advised that small businesses must refrain from accepting large orders from customers as they are often the ones who are the “payment culprits”, but this is naturally easier said than done as these large orders are what can ensure a business’s success.

Government legislation is also limiting to business success. This is with specific reference to the new medical aid legislation which has hampered the success of many pharmacies as this highly regulated environment has increased the operating costs of the businesses.

Another major limiting factor concerns the operating periods of the businesses. One of the participants found that the months of February and March are slower with regards to business, due to customers having increased expenses over Christmas and the holiday season. The December to January operating period is renowned for a lack of business as it is when most customers take their annual leave. Coupled with this is a further limiting success factor which concerns the business's customer base. Firstly, there appears to be a "relative lack of moneyed customers in Port Elizabeth", while one of the participants stated that her customer base comprises mainly of members of the High Court; hence the December to January operating period yields no business for her.

The next major limiting factor which was identified is the building of roads and the closure of roads in preparation for the 2010 F IFA World Cup. Several of the businesses which participated in this research are situated along one of the main roads in Port Elizabeth and were subjected to road works for approximately fifteen months prior to the 2010 FIFA World Cup. As a result, this influence on the flow of traffic caused much inconvenience and the inaccessibility experienced by customers, suppliers, and so on, to the businesses proved highly limiting to their success. Of course this depended on the ages of businesses as those businesses which had not been in existence for long i.e. one year or less, would potentially not be familiar with success and hence would notice the difficulty more. Conversely, businesses which were more established and possibly more familiar with success would not be as affected by the difficulty.

In turn this led to another limiting factor, namely the existence of positive cash flows within the businesses. According to Hormozi *et al.* (2002: 759), having a favourable cash flow is of vital importance as many businesses might be profitable on paper but have no cash available to pay their creditors and employees. In turn this results in a borrowing of cash from elsewhere and can lead to even greater interest payments for the business (Hormozi *et al.*, 2002: 759). The inconvenience and inaccessibility mentioned above resulted in severe cash flow problems for the businesses as it meant that there was no cash available to spend on marketing once the road works were completed. Another participant stated that "cash flow is the most important factor to business success which, if not available, is the greatest limiting factor". This was with specific reference to importation where quantity requirements demand high value and readily available cash flows.

The service and support that small businesses receive from their suppliers is also limiting to success. Motivating the suppliers requires constant attention because in most cases, the small business is not their primary source of income.

One participant cited strong competition in the industry as a limiting factor to success. This is in accordance with Debus (2007: 9) who states that the nature of the competition faced by SMEs is extremely diverse and complex; it not only includes competing small- and medium-sized businesses but micro businesses and large corporations as well.

Other limiting factors to the success of small businesses include:

- obtaining consent from neighbours to trade, with regards to parking, noise, and so on;
- limited opportunities to trade as the business is a specialised one and thus not required frequently by customers;
- the price of the final product/service. The business is a franchise and therefore the final price is externally guided and relatively higher than normal;
- the sourcing and price of materials needed to make the final product. Economies of scale warrant lower prices but being a small business means that it is more difficult to negotiate competitive prices;
- being a relational manager which has a significant impact on productivity. The manager is unable to take charge and implement rules and regulations for the staff, regarding punctuality and time allowed on their cell phones;
- the inability to mechanise production in order to increase product output. As stated by one participant, “the business is dependent on manual production, which while it provides employment for others, is a drawback as far as meeting supply demands”;
- and the perception of the value of the service by customers.

The results of the hypothesis tests do not show many significant differences in responses. There are several scores which are close to showing a difference in opinion but these are all still not significant. These include: numbers of years as a small business person and personal factors (p-value = 0.0535), locations of the businesses and managerial factors (p-value = 0.0675), locations of the businesses and environmental factors (p-value = 0.0611), the various business sectors and personal factors (p-value = 0.0585) and lastly, the various business sectors and managerial factors (p-value = 0.0565). Only two statistically significant

differences are found to exist with regards to: the various relationship statuses and business factors (p-value = 0.0129) and the various business sectors and environmental factors (p-value = 0.0148), both of which will be discussed below.

The significant difference between the various relationship statuses and business factors concerns: the location/position of the business; the honesty, professional knowledge and morale of the employees; a strong commitment to product/service quality; the ability to penetrate a niche market or be fully aware of a business's market; and the ability to innovate the products/services by adapting to changes in the market (diversification). A possible reason for this could be the work-life balances encountered by small business persons in different relationship statuses i.e. single, in a relationship, married, divorced or widowed. Although relationship statuses are found to have a positive effect on small business success, in terms of revenue growth (CIBC World Markets, 2004: 4-5), the probability of such success is greatly influenced by the quality of the work life (Heerwagen, 2000: 354). Furthermore, the importance placed on maintaining a favourable work-life balance is emphasised earlier; this statement is ranked as the third most important statement to define a successful business, as well as being ranked as the third most successful statement in terms of participants' being able to achieve this. This importance is again emphasised as it is stated as being one of the many limiting factors to the success of small businesses.

Potentially, a small business person who is single might be able to devote more time to his/her small business than one who is, for example, married or more so, one who is recently divorced or widowed (CIBC World Markets, 2004: 5). Such small business persons (divorced or widowed) might find themselves subject to legal proceedings and formalities, in addition to the emotional stress already faced. This is consistent with the research conducted by CIBC World Markets (2004: 5); it was found that over a period of three years single small business persons experienced 48.30% revenue growth, married small business persons experienced 26.00% revenue growth and separated/divorced/widowed small business persons experienced 17.90% revenue growth.

As shown in the results earlier, the business factor group is ranked as the second most important factor group, as well as having the second highest mean score overall. This success factor group is one which requires constant attention and research, perhaps more so than the other factor groups. Business factors pertain to the people, the brand and the product/service

of the business. A considerable amount of time and attention, as well as constant research, needs to be invested in such factors. Personal factors pertain to the characteristics or abilities inherent in each small business person, managerial factors pertain to managerial processes and procedures put in place by the business to operate successfully and environmental factors, though they require small business persons to keep up-to-date with them, are factors outside of the business' and small business persons' control.

According to Vecernik (2009: 192), entrepreneurship allows for greater levels of freedom and job satisfaction and also increases the incentives for personal fulfilment. These are by no means in isolation though, as entrepreneurship also allows for greater levels of stress and problems for the individual small business person (Vecernik, 2009: 192). Greenhaus, Collins and Shaw (2003: 514) support this and state that an imbalance in work-life commitments will lead to higher levels of stress for the individual, detract from his/her quality of life and ultimately, reduce his/her work productivity and effectiveness. This being so, for a small business person, maintaining a balance between work and private life is of great importance but remains increasingly difficult. As one participant stated "success in business can lead to failure in one's personal life" and more so, the demands placed on small business persons in various relationship statuses can compound the achievement of this balance even further.

The significant difference between the various business sectors and environmental factors concerns: the industry structure and competition of a small business; having favourable relationships with banking institutions; benefiting from trade exhibitions and business fairs; small business legislation; and general economic conditions. The last two mentioned of these may be considered general environmental factors. This being so, such factors will nevertheless affect small businesses differently, depending on the specificity of the business i.e. type of business, business industry, business sector, and so on. Therefore the environmental factors mentioned above will remain unique to the small business concerned and it is understandable why a difference in opinion exists between the small business sectors and environmental factors.

Daft, Murphy and Willmott (2010: 140) reinforce this and state that the external environment is a source of major threats facing the businesses of today; it has significant impacts on the choices that managers and small business persons alike make for their businesses. Furthermore, the external environment is said to comprise of various areas, which are all

analysed specifically to the business in question. These include: industry, raw materials, human resources, financial resources, market, technology, economic conditions, government, socio-cultural and international (Daft *et al.*, 2010: 140). The major reason for this is that although each and every small business is faced with environmental factors, each has different factors of the environment to which it “is sensitive and must respond to survive” (Daft *et al.*, 2010: 140).

### **7.3 Conclusion**

This chapter has discussed the results of this research in relation to the research objectives and to existing literature, specifically that mentioned in the principal review of literature in chapters two, three and four. Potential reasons for the agreements or disagreements with the existing literature have also been explored.

The final chapter which follows will provide: an overview of the results, the implications of the research, the recommendations for future research and finally, an overall conclusion to the research.

## CHAPTER 8

### CONCLUSION

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#### 8.1 Introduction

Now that the results of this research have been discussed, it is necessary to consider what these results mean, by way of adding to the existing body of knowledge. This chapter will present a summary of the results obtained, followed by the implications of the research to the many stakeholders of entrepreneurship, then any recommendations for further research will be explored and lastly, an overall and final conclusion in light of the research which has been conducted will be made.

#### 8.2 Overview of Results

It is necessary to recap the results of this study in order to remain mindful of what the research intended to achieve (Sibanda, 2011: 145) and so that the final implications, recommendations and conclusion are in accordance with this. This study sought to determine and investigate which factors are found to be the most important contributors to the success of small businesses in Port Elizabeth. The final response rate for this research was 72.88% and the summarised results are as follows:

- The three most important statements to define a successful business include: making a profit (1<sup>st</sup>); having cash reserves and a favourable cash flow (2<sup>nd</sup>); and having a balanced work and private life (3<sup>rd</sup>).
- The three least important statements to define a successful business include: establishing the brand and creating franchisee opportunities (10<sup>th</sup>); community status/engagement (9<sup>th</sup>); and creating employment for others (8<sup>th</sup>).
- The three most important statements concerning the success of participants' businesses in accordance with the definition of a successful business include: job satisfaction and personal fulfilment (1<sup>st</sup>); survival of the business (2<sup>nd</sup>); and having a balanced work and private life (3<sup>rd</sup>).

- The three least important statements concerning the success of participants' businesses in accordance with the definition of a successful business include: establishing the brand and creating franchisee opportunities (10<sup>th</sup>); community status/engagement (9<sup>th</sup>); and creating employment for others (8<sup>th</sup>).
- Overall, the participants regard their businesses as more successful when compared to their competitors.
- Most of the participants cite the reputation of their business as a key reason for the success ratings given.
- In terms of which success factor groups attribute the most and least to the success of small businesses, personal factors is the most important factor group, followed by business factors (2<sup>nd</sup>), then managerial factors (3<sup>rd</sup>) and environmental factors is the least important factor group.
- With regards to the success factor group rankings mentioned above, the various participant responses for such rankings can be seen in Appendix L.
- The mean scores of the success factor groups also show that personal factors has the highest mean score, followed by business factors, then managerial factors and lastly, environmental factors has the lowest mean score.
- The three most important success factors include: maintain good customer services skills and relationships (MF) (1<sup>st</sup>); strong commitment to product/service quality (BF) (2<sup>nd</sup>); and honesty, professional knowledge and morale of employees (BF) (3<sup>rd</sup>).
- The three least important success factors include: trade exhibitions and business fairs (EF) (20<sup>th</sup>); legislation concerning small businesses (EF) (19<sup>th</sup>); and industry structure and competition (EF) (18<sup>th</sup>).
- The most common limiting factor to the success of participants' businesses is general economic conditions with its subsequent limiting factors. The quality of staff is another common cited limiting factor to success, followed by business premises, and so on.
- The results of the hypothesis tests show that no significant differences exist between the average scores, for all four success factor groups, and the following: gender, age groups, highest levels of education, numbers of years as a small business person, positions before being a small business person, types of businesses, franchise/non-franchise businesses, ages of the businesses, locations of the businesses, numbers of employees in the businesses and annual turnovers of the businesses.

- The hypothesis tests show that significant differences exist between the average success factor scores and the following: relationship statuses and business factors and business sectors and environmental factors.

### **8.3 Implications of this Research**

In light of the results achieved in this study the implications to the various stakeholders of entrepreneurship (refer to Section 1.3 on p.3) need to be discussed.

#### **8.3.1 Government and Policy-makers**

This study shows that in South Africa many factors have colluded to make it difficult for a small business to succeed but at the same time it is believed “that much energy and money is being spent by government and the private sector to improve the situation” (Keil, 2007: 62). Furthermore, the numerous institutions which have been established to support small business creation and growth (refer to Section 3.2.6 on p. 28) do not seem to be sufficient for South African small business persons. Unlike large organisations that “can provide their own internal business support and development; small businesses need external help” (Porter, 2000: 244). The participants complained of the difficulty in obtaining financing for their businesses and though this relates to banks and other financial institutions, it also relates to such governmental institutions. More so, government legislation established for small businesses is the second least important factor contributing to small business success (refer to Table 6.5 on p.87).

The reality is that in a country so dependent on entrepreneurship and the small business sector, not enough is being done to foster this. Employment is perhaps the biggest benefit a country gains from entrepreneurship and according to Reijonen (2008: 627), “although in a small business there are only a few employees, together all the small businesses can be regarded as significant creators of employment”. Therefore small businesses deserve more acknowledgement and the South African government and policy-makers need to focus their efforts on mechanisms that support and facilitate entrepreneurial activity more (Morris *et al.*, 1996: 72; Nieman, 2001: 449; Reijonen, 2008: 627). Not only must governments and policy-makers provide small businesses with favourable policies but some form of management

consultation and training programmes as well. Without this, small businesses are not able to grow and expand and further contribute to the South African economy (Keil, 2007: 34).

The fact that environmental factors are considered the least important success factors and factor group means that they require greater allocations of funds to increase awareness and improve education pertaining to the external environment. In turn environmental factors can become a more important contribution to the success of small businesses. Another potential avenue for the South African government and policy-makers to pursue could be a focus on existing, rather than new, small businesses. With a new small business the capital to start-up is high and there is often no guarantee of success. By focusing their attention and support on existing businesses, it could mean greater investments and in turn greater benefits to South Africa. On the other hand, by using the results obtained in this research the government and policy-makers will be able to support new small businesses, in addition to existing small businesses, as the factors vital for success are known.

Therefore it is hoped that the results of this research will provide the government and other policy-makers of South Africa with valuable information which can serve as the basis for all future policies concerning small business development, growth and support within the country (Sha, 2006: 117).

### **8.3.2 Existing and Potential Small Business Persons**

The results of this research can provide present and future small business persons with valuable information which can serve as the basis for operating a successful small business. In addition to this, a focus on which success factor groups are more important will help such individuals concerning where to direct their efforts and attention. Furthermore, by identifying the potential pitfalls to success such individuals will be able to demonstrate forward planning and possibly develop contingency plans for the greater risks to success. Through discussions with fellow small business persons, and even competitors, existing and potential small business persons will be able to minimise the effects of such limiting factors, helping to ensure the continued success of their small businesses.

### 8.3.3 Educators of Entrepreneurship

According to Farrington *et al.* (2011: 11), “educators of entrepreneurship at primary, secondary and tertiary level, as well as career guidance counsellors, play a vital role in providing a realistic perspective of what it is like to embark on an entrepreneurial career and business ownership”. Given that a high level of education of the small business person is not found to be an important factor in the success of small businesses (refer to Table 6.5 on p.87), the importance may extend beyond this to entrepreneurial training and mentorship programmes offered later on in an entrepreneurial career.

What is evident is that education lies at the heart of entrepreneurship but this, together with training programmes and courses offered in South Africa, appears to be lacking in standard. In general, the governments exercise a significant influence over education and training within their countries as the development of human potential remains a highly pertinent topic “and one with a range of opinions on the best means to accomplish this goal” (Davis, 2002: 13).

Nieman (2001: 449) states that the training for most SMEs in South Africa is based on conventional management training, rather than on entrepreneurial training. Education and training on entrepreneurship needs to focus on business skills training, technical skills training and entrepreneurial skills training. Business skills training refers to conventional management areas, technical skills training refers to the use of specific knowledge and techniques to accomplish something and entrepreneurial skills training refers to the “birth and growth of a business enterprise” (Nieman, 2001: 446). Gerber (2001: 3) reinforces this idea and states that what is needed for small business success is an individual who is able to encompass three roles, namely a manager, a technician and an entrepreneur. The manager represents order and planning, the technician represents the physical aspect of the business and the entrepreneur represents vision and creativity.

This being so, it is important that small business training is closely linked to the small business environment and not the environment and management of large organisations. More so, the training programmes and courses offered must to be based on the needs of the small business persons themselves (Nieman, 2001: 449). This is because the requirements of each business venture need to be considered at an individual level, to enable appropriate

assessments of each small business person's training and business advice needs (Watson *et al.*, 1998: 237). Finally, it is also the responsibility of small business persons to educate themselves on the key areas of entrepreneurship and small business management (Sibanda, 2011: 147). Therefore it is hoped that the results of this particular study will be useful to such individuals, as well as be incorporated to provide valuable information to the parties responsible for entrepreneurial- and training programmes in South Africa (Coy *et al.*, 2007: 197).

#### **8.3.4 Potential Investors**

Potential investors, be it individuals or larger organisations, can use the factors identified as key to success in determining which small business idea, small business start-up or small business already in existence, to support through investment, thereby creating a mutually beneficial relationship between the small business person and the investor concerned. For example, a small business in a prime location/position and which satisfies a niche market will not be as favourable an investment as one which either demonstrates good customer service, demonstrates a strong commitment to product/service quality and has "good quality" and enthusiastic employees, as found in this study.

#### **8.3.5 Banks and other Financial Institutions**

Since financial institutions are not particularly interested in aiding the small business sector (refer to Section 7.2 on p.110), an understanding of the success factors of small businesses can be used as the basis for decision-making when considering which new small business start-ups to support with a loan (Keil, 2007: 6; van Praag, 2003: 1). For existing small businesses faced with financial difficulty, banks and other financial institutions can thoroughly review the small business in concern by establishing how the small business operates, and in turn determine where the strengths and weaknesses of the business lie. This will help to give an indication of what the success factors of the business are, which can again be used as the basis for decision-making. It is important to note that such institutions will need to expend greater efforts on "educating themselves about the South African entrepreneur and the small business sector" (Sibanda, 2011: 147).

#### **8.4 Recommendations for Future Research**

The scope of this study is limited to 43 small businesses in Port Elizabeth and a major problem with this research is that this sample is not racially diverse enough. As mentioned, very little empirical research has been conducted on small businesses with reference to the factors critical for success (Coy *et al.*, 2007: 181-183; Martin and Staines, 1994: 23; Rogoff *et al.*, 2004: 365; Simpson *et al.*, 2004: 482; van Praag, 2003: 1), making this a highly pertinent topic to research (van Praag, 2003: 1). Further replications of this research are needed to fully understand this topic. In particular, use of a larger and more racially diverse sample and one which covers a wider geographical area might be more beneficial (Bogomolova, 2011: 808; Reijonen, 2008: 627; Rogoff *et al.*, 2004: 374).

Using the same items for research, potential researchers can include separate samples, according to geographical classifications i.e. towns or cities (Botha, 2001: 131). The use of provinces as a classification will denote research performed on a national scale (Cox, 2006: 65). In this way, the results obtained for each of the samples can be compared and contrasted and one can then ascertain whether small business persons in different towns, cities or provinces of South Africa cite the same, or different, factors responsible for the success of small businesses (Bogomolova, 2011: 808; Botha, 2001: 131). Additionally, the classification of businesses according to the National Small Business Act (Republic of South Africa, 1996: 12-14) will identify separate samples of micro, very small, small and medium-sized businesses and this might also be worthy of investigation in the future.

The small sample size of this research and the particular sampling techniques used meant that generalisations are not possible. As mentioned, the lack of a comprehensive small business database in Port Elizabeth, or the Eastern Cape even, meant that convenience- and snowball sampling had to be implemented. Even though such techniques worked well for this research, it is advisable for researchers in the future to make use of the Yellow Pages to choose their sample or alternatively, consult with banks and other financial institutions to see if it is possible to obtain databases of small businesses listed for loan purposes. Furthermore, although this proved to be unsuccessful for this research, the various Chambers of Commerce can also be contacted. Sha's (2006: 81) study obtained the names and contact numbers of SMEs "fitting the criteria for inclusion" as participants from the Port Elizabeth, King William's Town, East London, Border-Kei region, Queenstown and Umtata-Butterworth

region Chambers of Commerce. Use of any of the techniques mentioned above are also advisable for potential researchers who do not reside in Port Elizabeth and are not acquainted with some of the participants. Furthermore, a bigger sample size might have yielded more significant differences during the hypothesis testing as there were several box plots and p-values which were close to showing a difference but these were all still not significant.

Finally, for future researchers use of this research instrument will entail modifying certain questions, while several of the 20 success factors will need to be removed in order to achieve a marginally better level of reliability, according to the Cronbach's alpha reliability coefficients and drops.

## **8.5 Conclusion**

Despite the limitations to this study (refer to Section 5.10 on p.76), it has addressed a highly pertinent and relatively untapped topic of research. The present study has attempted to add to the existing body of knowledge concerning entrepreneurship and small businesses, through the provision of insights into the numerous research objectives first proposed. It is believed that this research has addressed such objectives and it is evident that the findings of this research both support and challenge existing studies and literatures.

The key findings demonstrate that the participants believe that their small business success is most attributable to the personal success factor group. The findings also reveal the importance placed on: good customer services skills and relationships; a strong commitment to product/service quality; and honesty, professional knowledge and morale of employees, in contributing to the success of a small business. Consequently, the apparent lack of importance placed on environmental factors is also strongly emphasised, and in the future more consideration needs to be expended on such factors as they too are important for success, no matter how negligible it may seem. The limiting factors to success which were identified can serve as fore-warning to both existing and potential small business persons. Finally, the findings demonstrate that gender, age, education, entrepreneurial experience, previous work experience, type of business, franchise/non-franchise business, business age, business location, number of employees and annual turnovers do not statistically determine which success factor groups have a difference in opinion. Rather, it was found that a statistical difference in opinion exists between the relationships statuses and the business

factor group and business sectors and the environmental factor group. Subsequently, the implications of this research to the various stakeholders of entrepreneurship, as well as the recommendations for future research have also been documented.

In conclusion, this study is an important step towards understanding the factors most important for the success of small businesses within a South African context. This being so, a focus on additional research into the success factors and success factor groups is essential to fully understand this topic and to improve the success of small businesses in Port Elizabeth, and South Africa as a whole. Most importantly, this study has suggested that existing and potential small business persons have far “less to fear than what is commonly believed” (Headd, 2003: 59) and in turn this will hopefully further promote the trend towards entrepreneurship and small business creation for many South Africans. This is because “an entrepreneurial culture for social and economic development is an act of creation that involves everyone and begins with each of us” (Davis, 2002: 34).

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## APPENDIX A

### The Research Instrument

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March 2011

Survey Request for Masters' Degree Dissertation

Dear Sir / Madam

#### **AN INVESTIGATION INTO THE FACTORS THAT INFLUENCE THE SUCCESS OF SMALL BUSINESSES IN PORT ELIZABETH**

For the completion of my Master of Commerce at Rhodes University, I am conducting research on the factors that make small businesses successful. The aim of the research is to identify the most common determinants of success for small businesses.

It would be greatly appreciated if you could complete the attached questionnaire which should not take longer than 20-30 minutes. The questionnaire is structured as follows:

Section A: Biographical details of participant

Section B: Business classification

Section C: The factors that influence the success of small businesses in Port Elizabeth

Please note that participation in this study is voluntary and your information will remain confidential. The data will be used for research purposes only. Once the research has been conducted, the data will be handed over to my research supervisor, Mr Trevor Amos, for storage. The research has been approved by the Faculty of Commerce Higher Degrees Committee and the Department of Management Human Research Ethics Committee.

Please complete the questionnaire for collection by no later than **15 April 2011**. If you wish to clarify any matter pertaining to the questionnaire and my research, please contact either myself or my supervisor.

Thank you for your time and assistance in this regard.

#### **Ms Chloé Wilmot**

Mobile: 072 219 0870

E-mail: g06w1882@campus.ru.ac.za

#### **Mr Trevor Amos**

Telephone: 046 603 8250

E-mail: t.amos@ru.ac.za

**PARTICIPANT CONSENT**

Project Title: **An Investigation into the Factors that Influence the Success of Small Businesses in Port Elizabeth**

- I have received information about this research project and understand the purpose of the research and my involvement in it.
- I hereby certify that the information provided in this questionnaire is correct to the best of my knowledge.
- I hereby give consent to the researcher to use the information contained in this questionnaire for the purpose of completing her research project, and/or publishing the study.
- I understand that I will not be identified and all personal results will be kept confidential.
- My participation in this research is voluntary and I understand that I will not receive any payment for participating in this study.
  
- If you wish to receive an electronic version of the report, please tick the box below and provide an e-mail address:  
 Yes, I wish to receive an electronic version of the report.  
My e-mail address is:  
.....

Signature of Participant.....

Date.....

- I have provided information about the research to the research participant and believe that he/she understands what is involved.

Signature of Researcher.....

Date.....

The following sections serve to gather information which will be used for statistical purposes only. The information obtained will be held in the strictest of confidence so please answer all the questions honestly and to the best of your ability.

**SECTION A: BIOGRAPHICAL DETAILS OF PARTICIPANT**

Please select the appropriate block by marking it with an X:

**1. Gender:**

Male	Female
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**2. Relationship status:**

Single	In a relationship	Married	Divorced	Widowed
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**3. Age:**

18-25 years	26-35 years	36-45 years	46-55 years	56-65 years	>65 years
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**4. Ethnic group:**

Black	Coloured	Indian	White	Other
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**5. Highest level of education:**

Incomplete Grade 12/Matric	Completed Grade 12/Matric	Diploma/ Certificate	Bachelor's degree
Postgraduate degree	Short courses	Self-educated	

**6. Number of years as an entrepreneur/business owner/business manager:**

0-5 years	6-10 years	11-15 years	16-20 years	21-25 years	>25 years
-----------	------------	-------------	-------------	-------------	-----------

**7. Previous to being an entrepreneur/business owner/business manager, which of the following best describes your position?**

Employee	Manager	Other (please indicate):
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**8. Which TWO of the following best describe your motivation to start your own business:**

I saw a gap in the market and decided to satisfy it with a new product/service	
I was retrenched and decided to start my own business to earn money	
I was unemployed and could not find any other employment	
I had a desire to work with my friends/family	
I wanted to be self-employed due to the independence and satisfaction one's own business gives one	
I inherited the business from a family member	
I started my own business as a means to increase my financial wealth	
I started my own business due to the government assistance available	
My business started as hobby but then grew into a business	
I had a large sum of money and used it for my own business investment	
My business started as the sole possibility to carry out a profession	
I started my own business as a means to reach international markets	

## **SECTION B: BUSINESS CLASSIFICATION**

Please note that if you own more than one small business, the following must be answered based on the business that is most important to you, or alternatively, the business that is the largest.

Please select the appropriate block by marking it with an X:

**1. Type of business:**

Sole proprietor	Partnership	Close corporation	Company
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**2. Indicate if business is a franchise/non-franchise:**

Franchise	Non-franchise
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**3. Age of business:**

0-3 years	4-6 years	7-10 years	11-19 years	>20 years
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**4. Location of business:**

Port Elizabeth	Port Elizabeth and other locations
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**5. Number of employees in business:**

1-5 employees	6-20 employees	21-50 employees	>50 employees
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**6. Annual turnover of business (m = million):**

<R200 000	R200 000 – R500 000	R501 000 – R1m	
R1.1m – R10m	R10.1m – R20m	>R20m	> R32 m

**7. Sector of business:**

Agriculture	
Mining and Quarrying	
Manufacturing	
Electricity, Gas and Water	
Construction	
Retail and Motor Trade and Repair Services	
Wholesale, Trade, Commercial Agents and Allied Services	
Catering, Accommodation and other Trade	
Transport, Storage and Communications	
Finance and Business Services	
Community, Social and Personal Services	
Other (please indicate):	

**SECTION C: THE FACTORS THAT INFLUENCE THE SUCCESS OF SMALL BUSINESSES IN PORT ELIZABETH**

**1. Please indicate how accurately each of the following statements best describes your *definition of a successful business*, by marking each with an X:**

1 = does not describe; 2 = slightly describes; 3 = neutral; 4 = strongly describes; and 5 = best describes

	1	2	3	4	5
Survival of the business					
Creating employment for others					
Making a profit					
Growing the business (market share, branches etc.)					
Community status/engagement					
Meeting set targets (budget adherence, achieving sales volumes etc.)					
Establishing the brand and creating franchisee opportunities					
Job satisfaction and personal fulfilment (owning property, having holidays etc.)					
Having cash reserves and a positive cash flow within the business					
Having a balanced work and private life					
Other (please indicate):					

**2. Now, please rate the *success of your business* by marking each of the following statements with an X:**

1 = very unsuccessful; 2 = unsuccessful; 3 = neutral; 4 = successful; and 5 = very successful

	1	2	3	4	5
Survival of the business					
Creating employment for others					
Making a profit					
Growing the business (market share, branches etc.)					
Community status/engagement					
Meeting set targets (budget adherence, achieving sales volumes etc.)					
Establishing the brand and creating franchisee opportunities					
Job satisfaction and personal fulfilment (owning property, having holidays etc.)					
Having cash reserves and a positive cash flow within the business					
Having a balanced work and private life					
Other (please indicate):					

**3. Overall, how successful do you consider your business?**

1 = very unsuccessful; 2 = unsuccessful; 3 = neutral; 4 = successful; and 5 = very successful

1	2	3	4	5
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**4. How successful do you consider your business *relative to your competitors*?**

1 = very unsuccessful; 2 = unsuccessful; 3 = neutral; 4 = successful; and 5 = very successful

1	2	3	4	5
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**Please elaborate on the answer given above (if applicable):**

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**5. Which of the following factors have *attributed* most and least to the success of your business? Please rank the factors in order of importance using the scale below:**

1 = most important and 4 = least important

<i>Personal factors:</i> Characteristics or abilities specific to the owner/manager of the business, eg. family support; a willingness to work hard etc.	
<i>Managerial factors:</i> Managerial processes and procedures put in place by the business and its owner/manager, eg. finding and recruiting quality employees; demonstrating good product management/stock control etc.	
<i>Business factors:</i> Factors pertaining to the people, brand and product/service of the business, eg. possession of an identifiable competitive advantage; operating methods of the business etc.	
<i>Environmental factors:</i> Uncontrollable factors from outside the business, eg. legislation; competition etc.	

**Please elaborate on the answer given above (i.e. why you ranked the factors in that specific order):**

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6. Please indicate how important you consider each of the following statements, in terms of what has *attributed* to the success of your business, by marking each with an X:

1 = very unimportant; 2 = unimportant; 3 = neutral; 4 = important; and 5 = very important

SUCCESS STATEMENTS	1	2	3	4	5
Industry structure and competition					
Location/position of the business					
Maintain good management-employee relationships					
High level of education of the owner/manager					
Favourable relationships with banking institutions					
Honesty, professional knowledge and morale of employees					
Maintain good customer services skills and relationships					
Dedication and persistence in achieving goals					
Trade exhibitions and business fairs					
Strong commitment to product/service quality					
Good marketing/personal selling techniques					
Ability to make decisions					
Legislation concerning small businesses					
Ability to penetrate a niche market/have an awareness of your market					
Ability to plan and budget for the business					
Ability to communicate well					
General economic conditions					
Ability to innovate the products/services by adapting to changes in the market (diversification)					
Possess a sound financial base/have the ability to negotiate for funds in difficult conditions					
Good interpersonal skills of the owner/manager					

7. Were there any limiting factors to the success of your business? If YES, please elaborate on what the limiting factors were.

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**Thank you for sharing these important views!**

## APPENDIX B

### Success Factor Groups with Corresponding Success Factors and Authors

Success Factor Group and Individual Success Factor	Authors
PERSONAL FACTOR GROUP	Coy <i>et al.</i> (2007), Isakova (1997), Lin (1998), Luk (1996) and Watson <i>et al.</i> (1998).
1. High level of education of the owner/manager	CIBC World Markets (2004), Coy <i>et al.</i> (2007), Luk (1996) and Simpson <i>et al.</i> (2004).
2. Dedication and persistence in achieving goals	Coy <i>et al.</i> (2007), Isakova (1997), Luk (1996) and Rogoff <i>et al.</i> (2004).
3. Ability to make decisions	Coy <i>et al.</i> (2007) and Luk (1996).
4. Ability to communicate well	Coy <i>et al.</i> (2007), Luk (1996) and Rogoff <i>et al.</i> (2004).
5. Good interpersonal skills of the owner/manager	Coy <i>et al.</i> (2007), Huck and McEwen (1991), Luk (1996) and Simpson <i>et al.</i> (2004).
MANAGERIAL FACTOR GROUP	Coy <i>et al.</i> (2007) and Luk (1996).
1. Maintain good management-employee relationships	Coy <i>et al.</i> (2007) and Simpson <i>et al.</i> (2004).
2. Maintain good customer services skills and relationships	Coy <i>et al.</i> (2007), Luk (1996) and Rogoff <i>et al.</i> (2004).
3. Good marketing/personal selling techniques	Huck and McEwen (1991), Isakova (1997), Luk (1996) and Rogoff <i>et al.</i> (2004).
4. Ability to plan and budget for the business	Coy <i>et al.</i> (2007), Huck and McEwen (1991), Luk (1996) and Watson <i>et al.</i> (1998).
5. Possess a sound financial base/have the ability to negotiate for funds in difficult conditions	Coy <i>et al.</i> (2007), Huck and McEwen (1991), Isakova (1997), Luk (1996) and Rogoff <i>et al.</i> (2004).
BUSINESS FACTOR GROUP	Isakova (1997) and Watson <i>et al.</i> (1998).
1. Location/position of the business	Huck and McEwen (1991) and Isakova (1997).
2. Honesty, professional knowledge and morale of employees	Coy <i>et al.</i> (2007), Luk (1996), Rogoff <i>et al.</i> (2004) and Simpson <i>et al.</i> (2004).
3. Strong commitment to product/service quality	Coy <i>et al.</i> (2007), Isakova (1997) and Luk (1996).
4. Ability to penetrate a niche market/have an awareness of your market	Coy <i>et al.</i> (2007), Isakova (1997) and Luk (1996).
5. Ability to innovate the products/services by adapting to changes in the market (diversification)	Coy <i>et al.</i> (2007) and Luk (1996).
ENVIRONMENTAL FACTOR GROUP	Coy <i>et al.</i> (2007) and Isakova (1997).
1. Industry structure and competition	Isakova (1997), Simpson <i>et al.</i> (2004) and Watson <i>et al.</i> (1998).

2. Favourable relationships with banking institutions	Coy <i>et al.</i> (2007), Rogoff <i>et al.</i> (2004) and Watson <i>et al.</i> (1998).
3. Trade exhibitions and business fairs	Coy <i>et al.</i> (2007).
4. Legislation concerning small business	Keil (2007), Isakova (1997) and Rogoff <i>et al.</i> (2004).
5. General economic conditions	Keil (2007) and Rogoff <i>et al.</i> (2004).

## APPENDIX C

### Data Collection E-mails

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#### C.1 E-mail to PERCCI

**Date:** Thu, 12 Aug 2010 17:34:04 +0200 [08/12/2010 17:34:04 SAST]  
**From:** chloe margo wilmot <g06w1882@campus.ru.ac.za>  
**To:** info@pechamber.org.za  
**Subject:** Request for information: small businesses in the Bay  
**Message-ID:** <20100812173404.51011rxh7ff6q6bo@mail.ru.ac.za>

Dear Ms Maswana

I am a Management Masters? student studying at Rhodes University in Grahamstown, under the supervision on Mr Trevor Amos (contact number: 046 603 8250). My proposed research seeks to investigate the most common determinants of success for small businesses in Nelson Mandela Bay.

It is in respect of this that I am sending you this e-mail, to request your assistance in obtaining a possible list of small businesses in Nelson Mandela Bay. I am struggling to find a database/directory of small businesses and as such any assistance in this regard would be greatly appreciated. The list will assist in my data collection, concerning the completion of a questionnaire by small business owners/managers, which has been ethically adhered to and approved by the Department of Management, Rhodes University.

I thank you for your time and assistance once again.

Yours sincerely

Miss Chloe Wilmot  
Full-time Masters? student  
Department of Management  
Rhodes University  
Contact number: 0722 190 870

## C.2 E-mails to NMMU

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**Date:** Thu, 12 Aug 2010 17:29:14 +0200 [08/12/2010 17:29:14 SAST]  
**From:** chloe margo wilmot <g06w1882@campus.ru.ac.za>  
**To:** elmarie.venter@nmmu.ac.za  
**Subject:** Request for information: small businesses in the Bay  
**Message-ID:** <20100812172914.99266zfp3wg6mdc0@mail.ru.ac.za>

---

Dear Prof. Venter

I am a Management Masters? student studying at Rhodes University in Grahamstown, under the supervision of Mr Trevor Amos (contact number: 046 603 8250). My proposed research seeks to investigate the most common determinants of success for small businesses in Nelson Mandela Bay.

My supervisor has advised me to contact you as I am struggling to find a database/directory of small businesses. I am aware that you have conducted much research on entrepreneurship, small businesses and family businesses and as such am requesting your assistance. I would like to enquire as to how you went about choosing your sample (if in Nelson Mandela Bay) and whether or not you were able to obtain a physical list of small businesses in the Bay please?

I am requiring this list to assist in my data collection, concerning the completion of a questionnaire by small business owners/managers, which has been ethically adhered to and approved by the Department of Management, Rhodes University.

Any assistance in this regard would be greatly appreciated.

Yours sincerely

Miss Chloe Wilmot  
Full-time Masters? student  
Department of Management  
Rhodes University  
Contact number: 0722 190 870

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**Date:** Thu, 12 Aug 2010 17:30:47 +0200 [08/12/2010 17:30:47 SAST]  
**From:** chloe margo wilmot <g06w1882@campus.ru.ac.za>  
**To:** shelly.farrington@nmmu.ac.za  
**Subject:** Request for information: small businesses in the Bay  
**Message-ID:** <20100812173047.63295jbn0tx4a8x4@mail.ru.ac.za>

---

Dear Dr Farrington

I am a Management Masters? student studying at Rhodes University in Grahamstown, under the supervision of Mr Trevor Amos (contact number: 046 603 8250). My proposed research seeks to investigate the most common determinants of success for small businesses in Nelson Mandela Bay.

My supervisor has advised me to contact you as I am struggling to find a database/directory of small businesses. I am aware that you have conducted much research on entrepreneurship, small businesses and family businesses and as such am requesting your assistance. I would like to enquire as to how you went about choosing your sample (if in Nelson Mandela Bay) and whether or not you were able to obtain a physical list of small businesses in the Bay please?

I am requiring this list to assist in my data collection, concerning the completion of a questionnaire by small business owners/managers, which has been ethically adhered to and approved by the Department of Management, Rhodes University.

Any assistance in this regard would be greatly appreciated.

Yours sincerely

Miss Chloe Wilmot  
Full-time Masters? student  
Department of Management  
Rhodes University  
Contact number: 0722 190 870

### C.3 Response E-mail from NMMU

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**To:** chloe margo wilmot <g06w1882@campus.ru.ac.za>  
**Subject:** RE: Request for information: small businesses in the Bay  
**Message-ID:** <76D28CDF003B85408BAB2EC4B90258C80428ECBDFD@Corsica.nmmu.ac.za>  
**X-Spam-Score:** -0.0 (/)

---

Dear Chloe

Unfortunately we do not have a database - our research is usually done by fieldworkers who go out and request SB's to participate. You could always get a sample out of the yellow pages - then phone and ask if they are a SB and whether they will participate?

regards

---

From: chloe margo wilmot [g06w1882@campus.ru.ac.za]  
Sent: 12 August 2010 05:30 PM  
To: Farrington, Shelley (Dr) (Summerstrand Campus South)  
Subject: Request for information: small businesses in the Bay

Dear Dr Farrington

I am a Management Masters? student studying at Rhodes University in Grahamstown, under the supervision of Mr Trevor Amos (contact number: 046 603 8250). My proposed research seeks to investigate the most common determinants of success for small businesses in Nelson Mandela Bay.

My supervisor has advised me to contact you as I am struggling to find a database/directory of small businesses. I am aware that you have conducted much research on entrepreneurship, small businesses and family businesses and as such am requesting your assistance. I would like to enquire as to how you went about choosing your sample (if in Nelson Mandela Bay) and whether or not you were able to obtain a physical list of small businesses in the Bay please?

I am requiring this list to assist in my data collection, concerning the completion of a questionnaire by small business owners/managers, which has been ethically adhered to and approved by the Department of Management, Rhodes University.

Any assistance in this regard would be greatly appreciated.

Yours sincerely

Miss Chloe Wilmot  
Full-time Masters? student  
Department of Management  
Rhodes University  
Contact number: 0722 190 870

## APPENDIX D

### Cronbach's Alpha Reliability Co-efficient Drops for the Success Factor Groups

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#### D.1 Alpha Drops for the Personal Factor Group

<b>Personal Factors:</b> Cronbach's Alpha Reliability Co-efficient (0.7928)	<b>Alpha Drop</b>
High level of education of the owner/manager	0.8435
Dedication and persistence in achieving goals	0.7443
Ability to make decisions	0.7076
Ability to communicate well	0.7361
Good interpersonal skills of the owner/manager	0.7271

#### D.2 Alpha Drops for the Managerial Factor Group

<b>Managerial Factors:</b> Cronbach's Alpha Reliability Co-efficient (0.8102)	<b>Alpha Drop</b>
Maintain good management-employee relationships	0.7590
Maintain good customer services skills and relationships	0.7976
Good marketing/personal selling techniques	0.7411
Ability to plan and budget for the business	0.7594
Possess a sound financial base/have the ability to negotiate for funds in difficult conditions	0.8052

#### D.3 Alpha Drops for the Business Factor Group

<b>Business Factors:</b> Cronbach's Alpha Reliability Co-efficient (0.7087)	<b>Alpha Drop</b>
Location/position of the business	0.7333
Honesty, professional knowledge and morale of employees	0.6441
Strong commitment to product/service quality	0.6284
Ability to penetrate a niche market/have an awareness of your market	0.6460
Ability to innovate the products/services by adapting to changes in the market (diversification)	0.6495

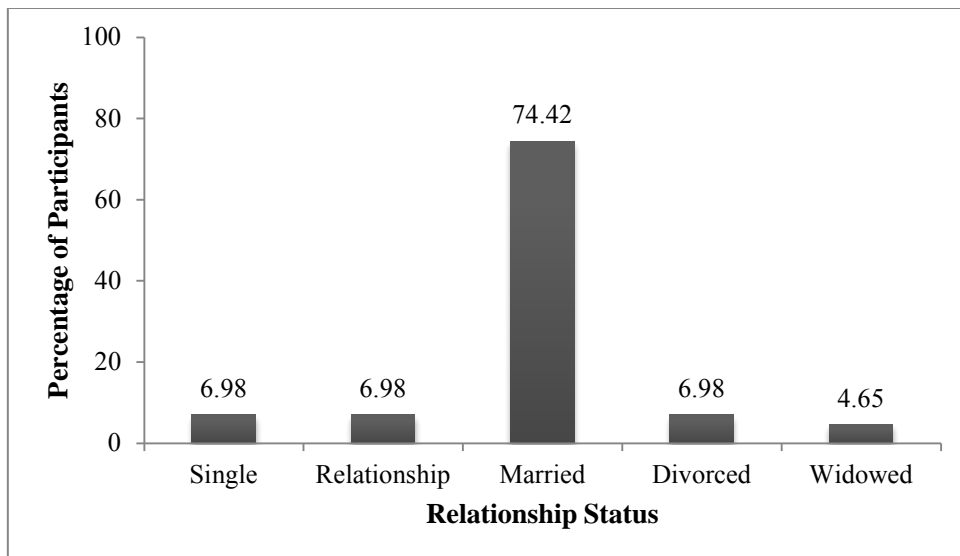
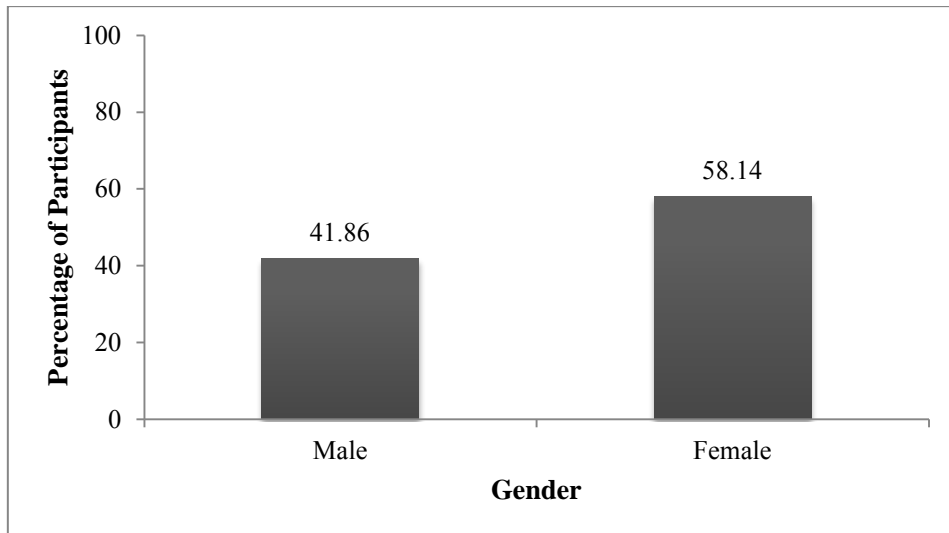
#### D.4 Alpha Drops for the Environmental Factor Group

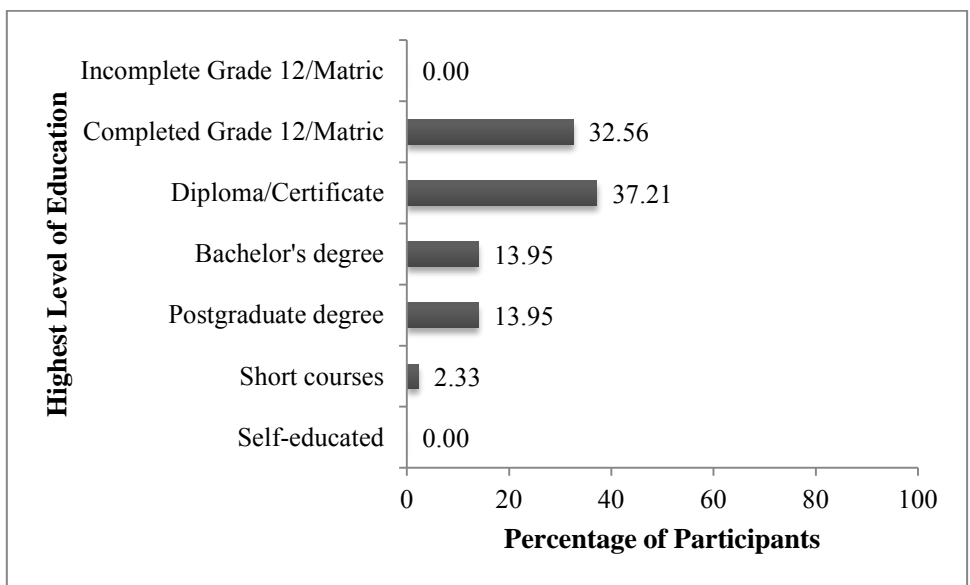
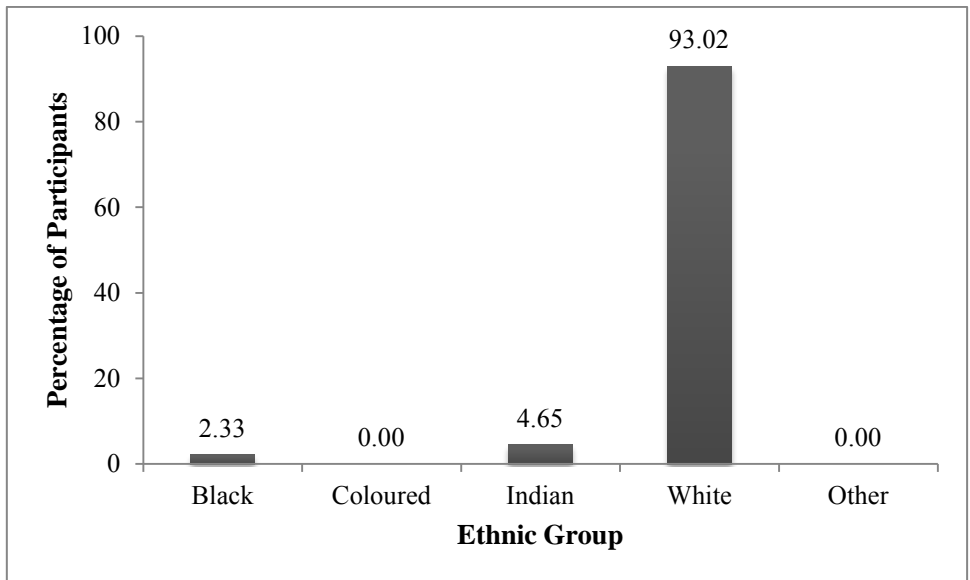
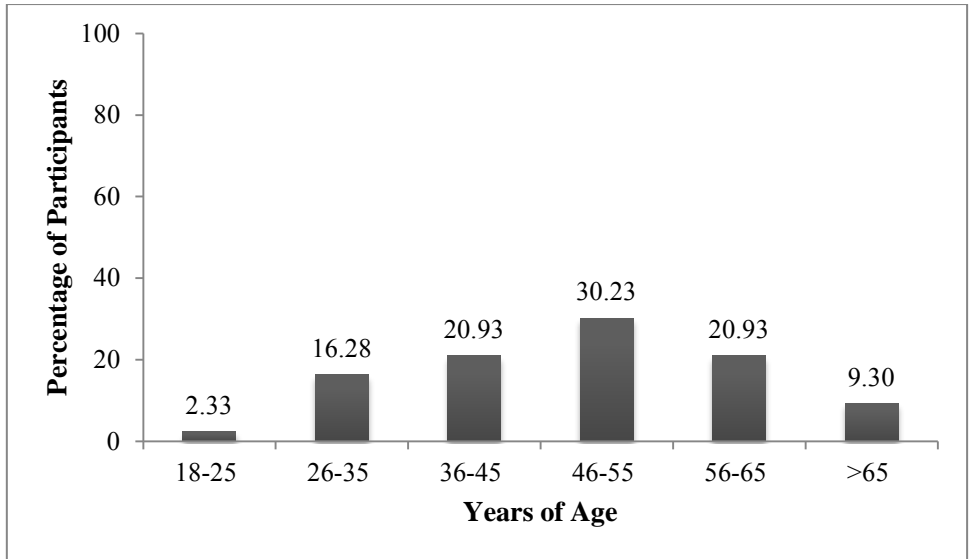
<b>Environmental Factors: Cronbach's Alpha Reliability Co-efficient (0.7451)</b>	<b>Alpha Drop</b>
Industry structure and competition	0.6746
Favourable relationships with banking institutions	0.7008
Trade exhibitions and business fairs	0.7035
Legislation concerning small businesses	0.6472
General economic conditions	0.7636

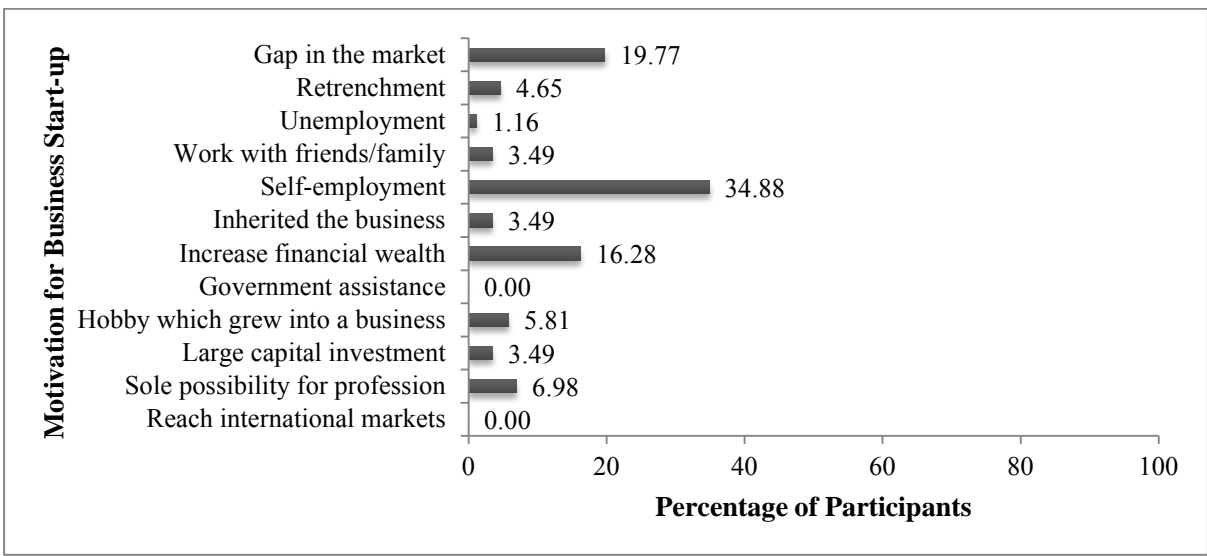
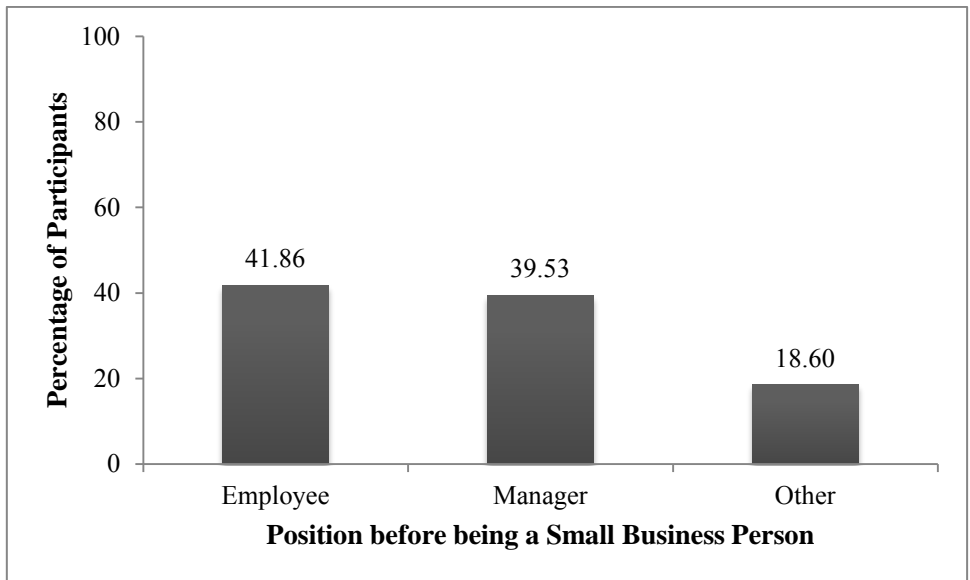
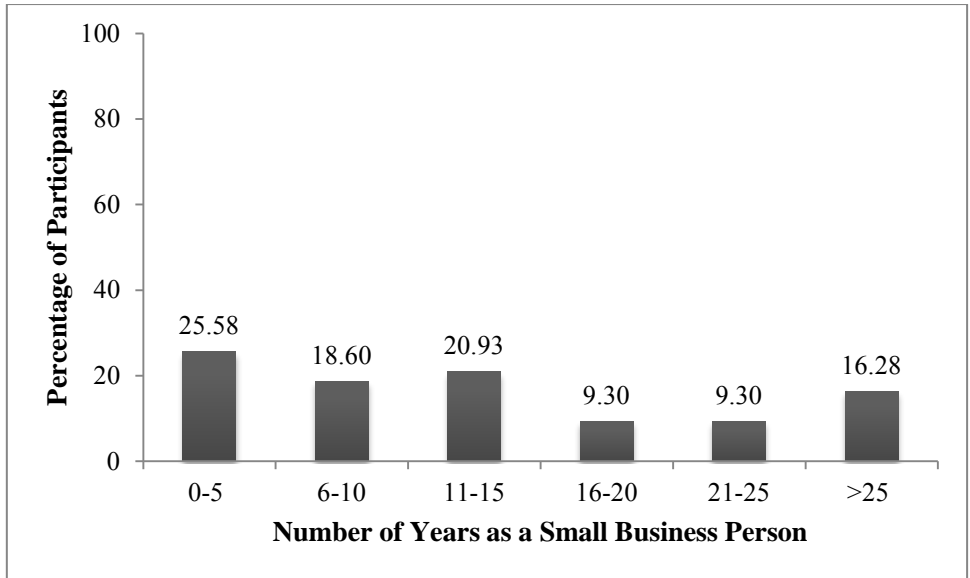
## APPENDIX E

### Histograms illustrating the Biographical Details of Participants

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## APPENDIX F

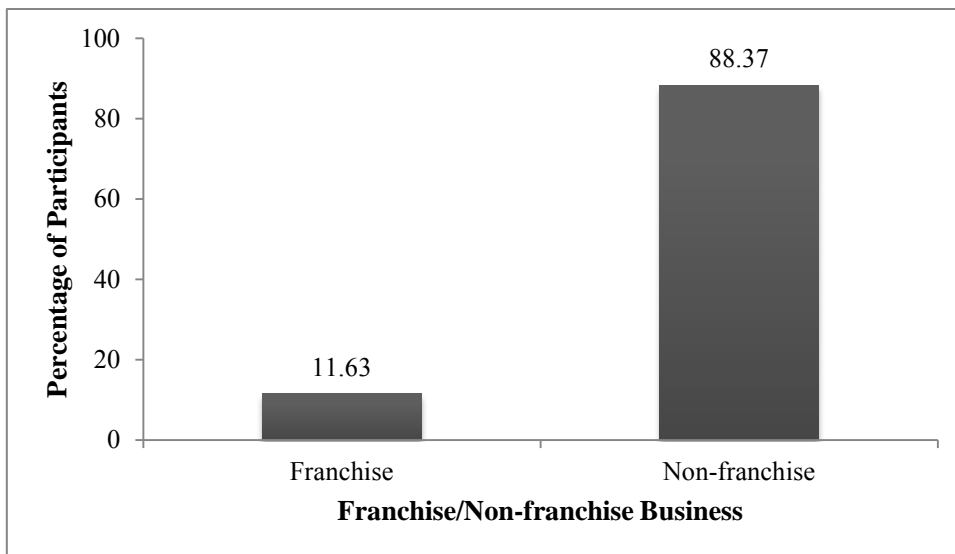
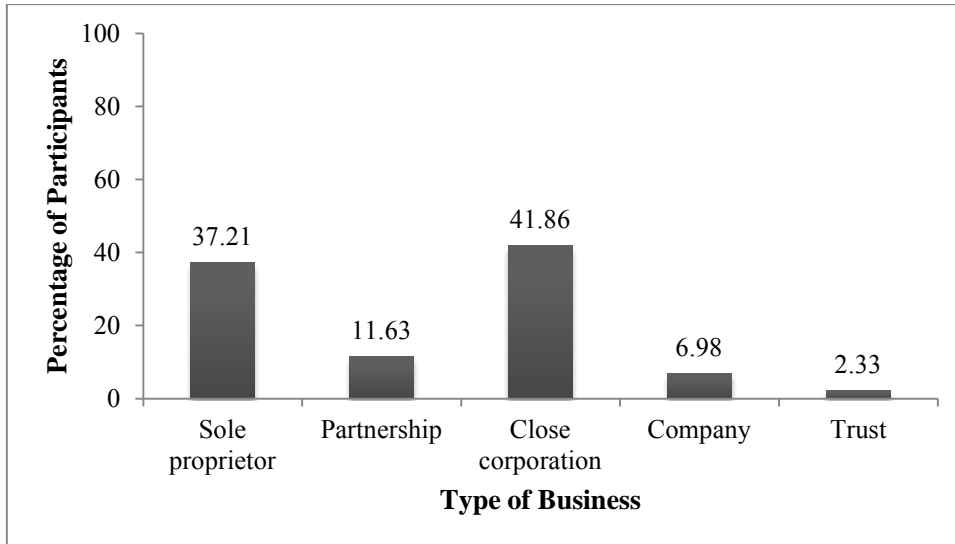
### Combinations of the Motivations for Business Start-ups

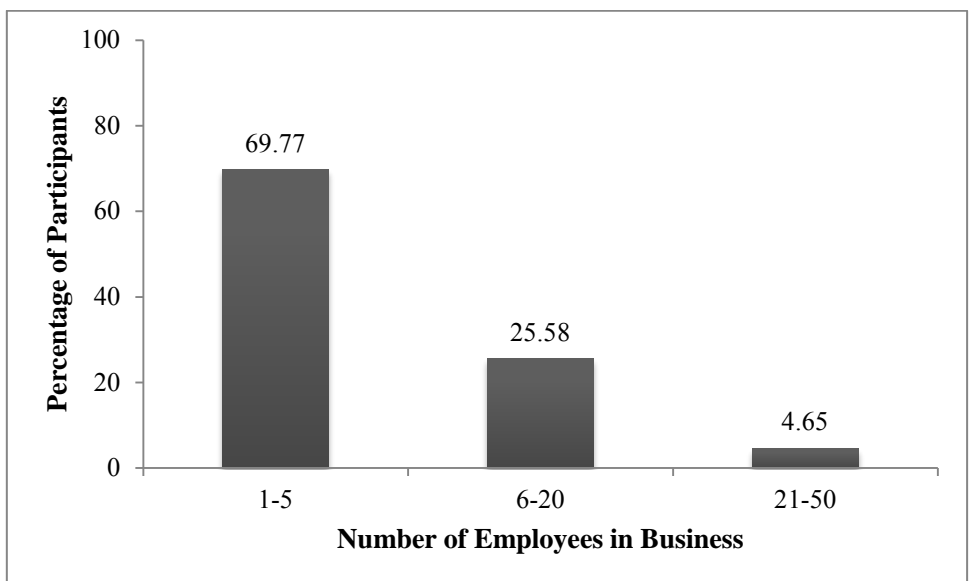
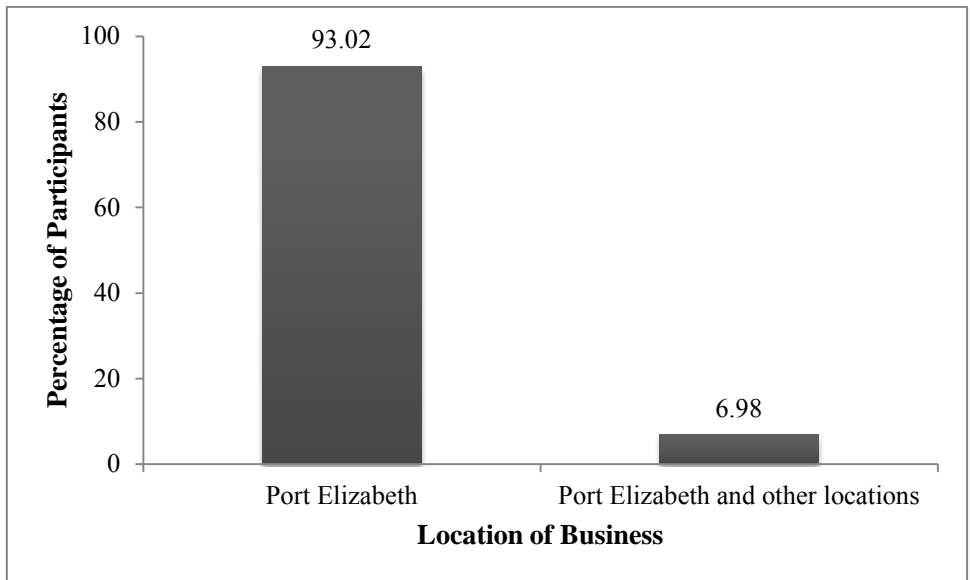
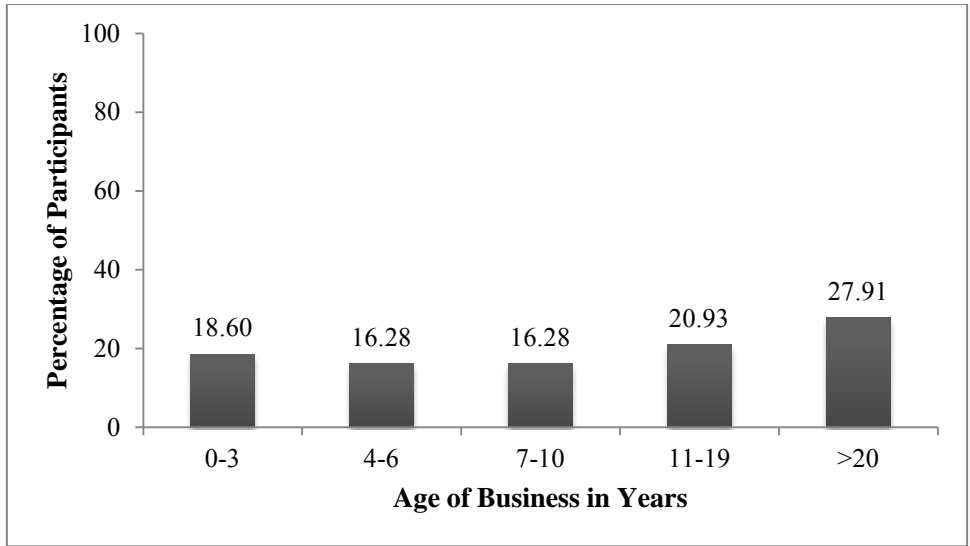
Combination	Motivation for Business Start-up	Number of Participants
1 5	Gap in the market and satisfied it with a new product/service Desire for self-employment from having one's own business	10
5 7	Desire for self-employment from having one's own business Business started to increase financial wealth	10
1 1	Gap in the market and satisfied it with a new product/service Gap in the market and satisfied it with a new product/service	3
5 11	Desire for self-employment from having one's own business Business started as sole possibility to carry out a profession	3
2 9	Retrenchment which prompted the start of the business Business started as a hobby but then grew into a business	2
5 9	Desire for self-employment from having one's own business Business started as a hobby but then grew into a business	2
7 10	Business started to increase financial wealth Had a large capital investment which started the business	2
4 6	Desire to work with friends/family Inherited the business from a family member	1
5 5	Desire for self-employment from having one's own business Desire for self-employment from having one's own business	1
7 7	Business started to increase financial wealth Business started to increase financial wealth	1
1 11	Gap in the market and satisfied it with a new product/service Business started as sole possibility to carry out a profession	1
2 3	Retrenchment which prompted the start of the business Unemployment which prompted the start of the business	1
2 5	Retrenchment which prompted the start of the business Desire for self-employment from having one's own business	1
4 11	Desire to work with friends/family Business started as sole possibility to carry out a profession	1
4 5	Desire to work with friends/family Desire for self-employment from having one's own business	1
5 10	Desire for self-employment from having one's own business Had a large capital investment which started the business	1
6 6	Inherited the business from a family member Inherited the business from a family member	1
9 11	Business started as a hobby but then grew into a business Business started as sole possibility to carry out a profession	1

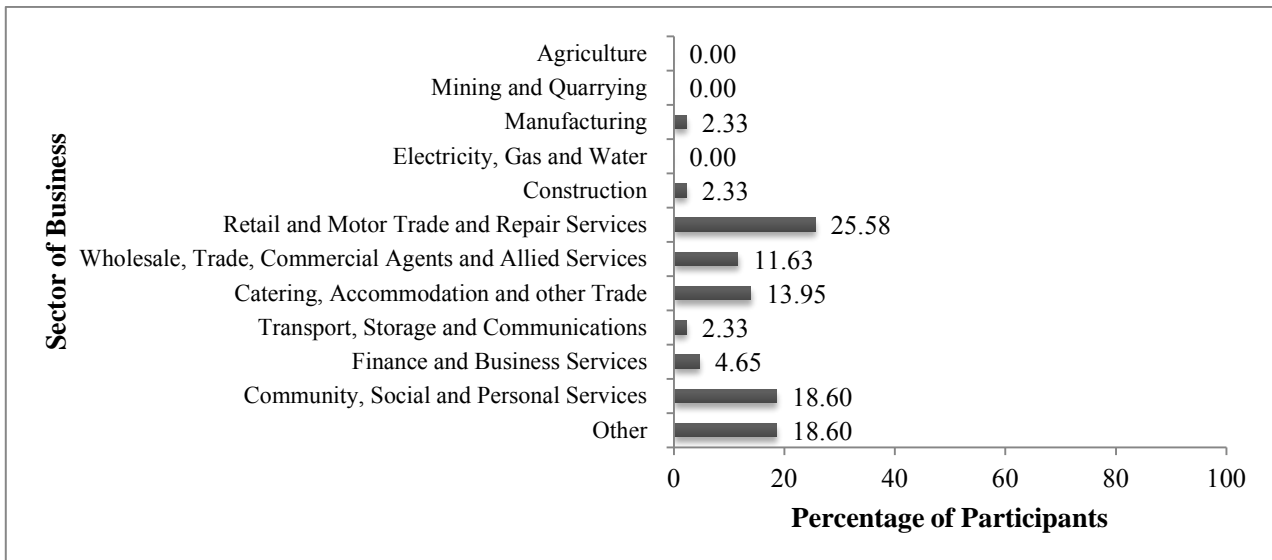
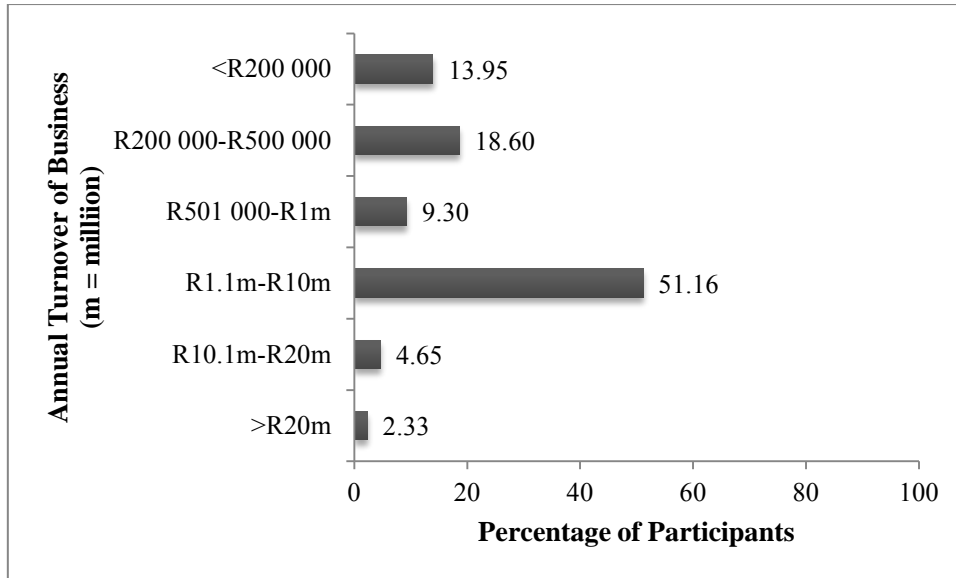
## APPENDIX G

### Histograms illustrating the Business Classifications of Participants

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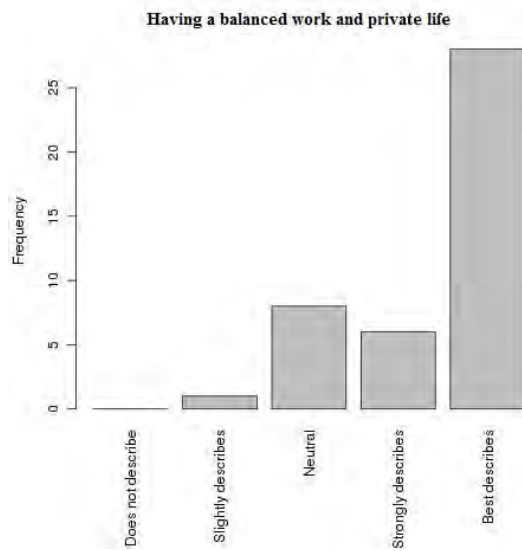
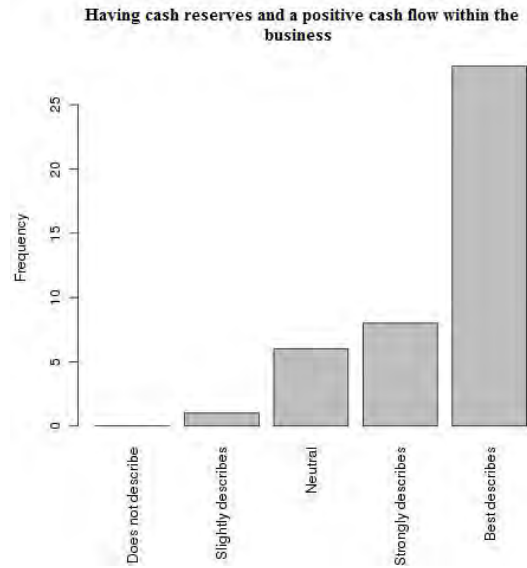
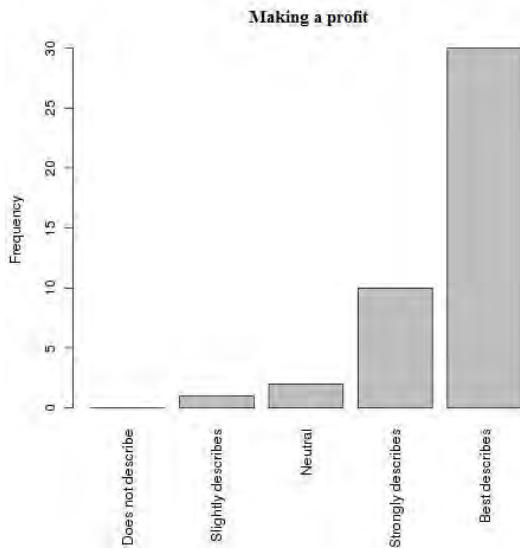




## APPENDIX H

### Frequency Plots of the Three Most Important Statements for the Definition of a Successful Business

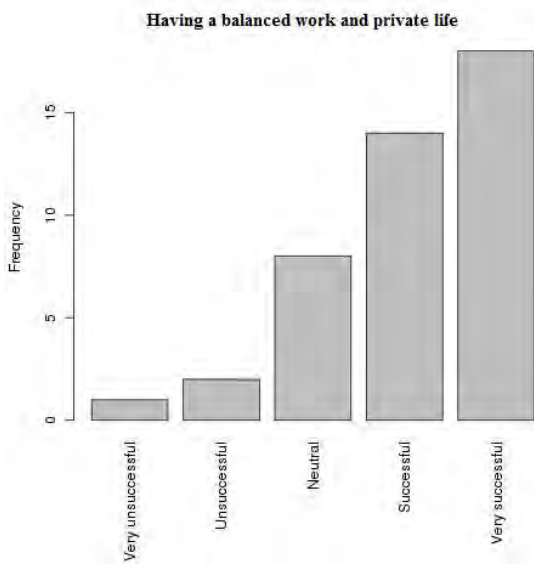
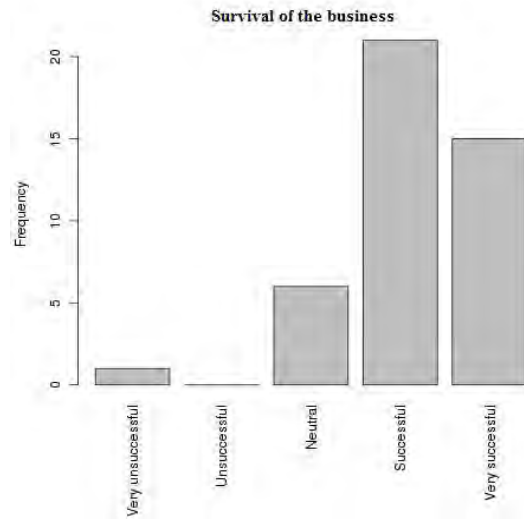
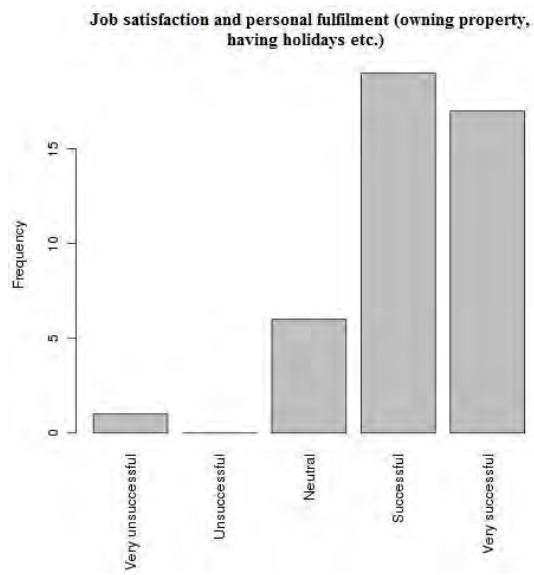
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## APPENDIX I

### Frequency Plots of the Three Most Important Statements in accordance with the Success of Participants' Businesses

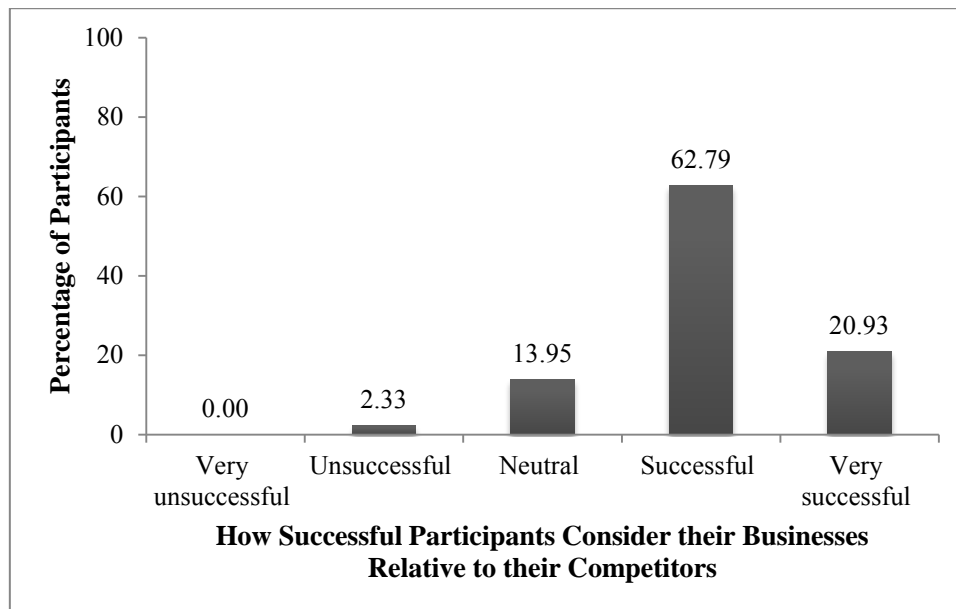
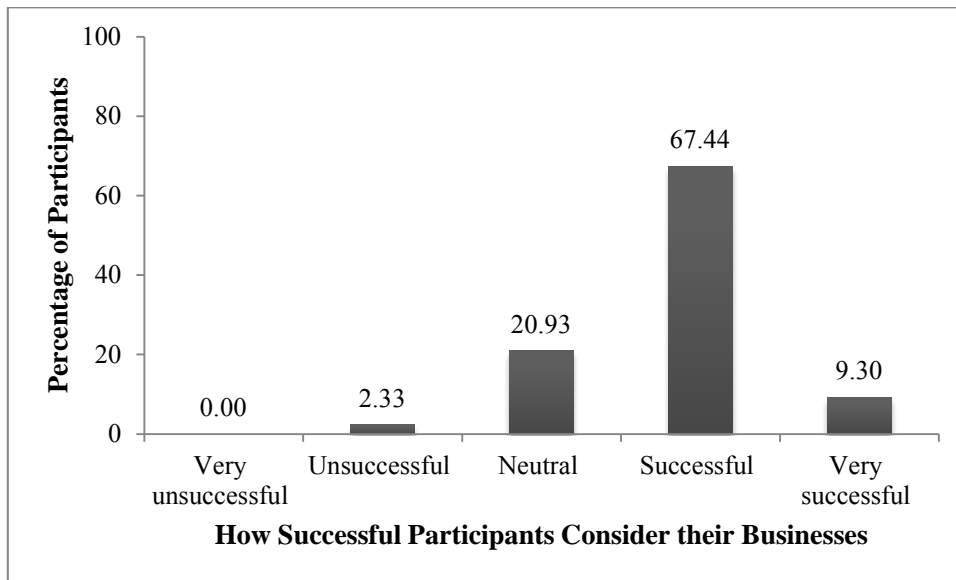
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## APPENDIX J

### Histograms illustrating the Perceived Degrees of Success of Participants' Businesses and in comparison with their Competitors

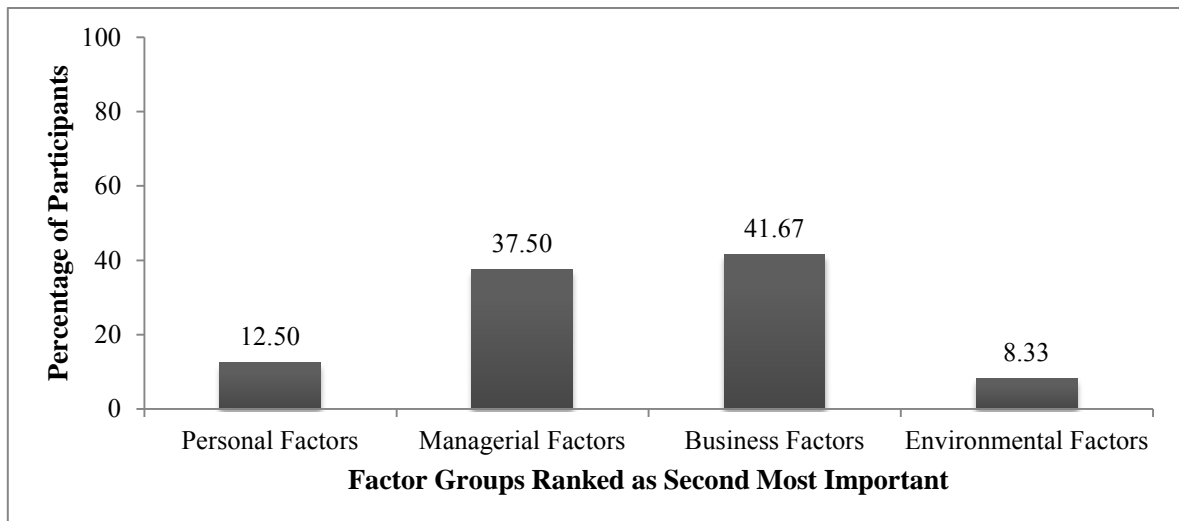
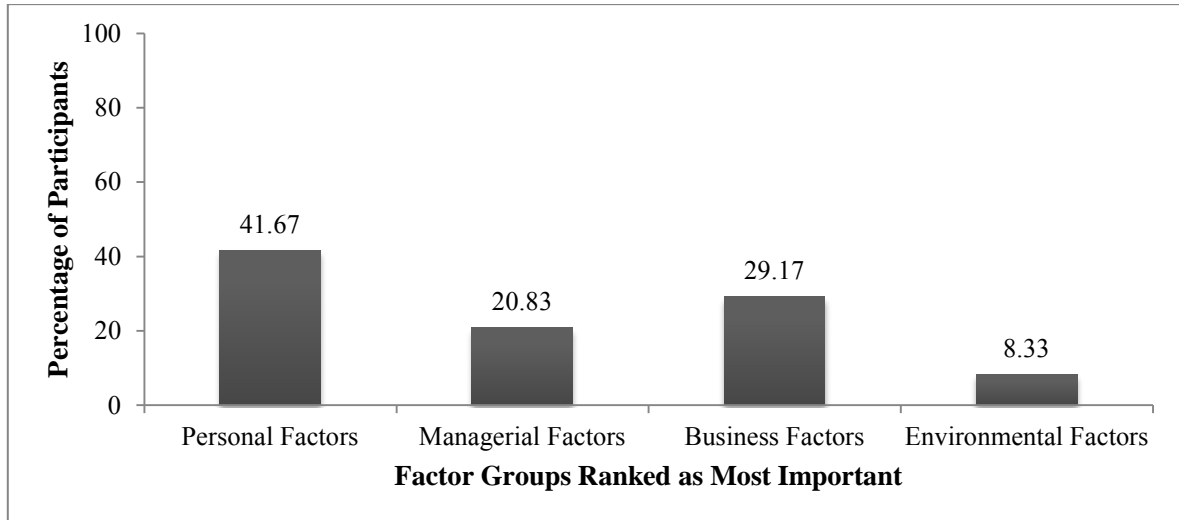
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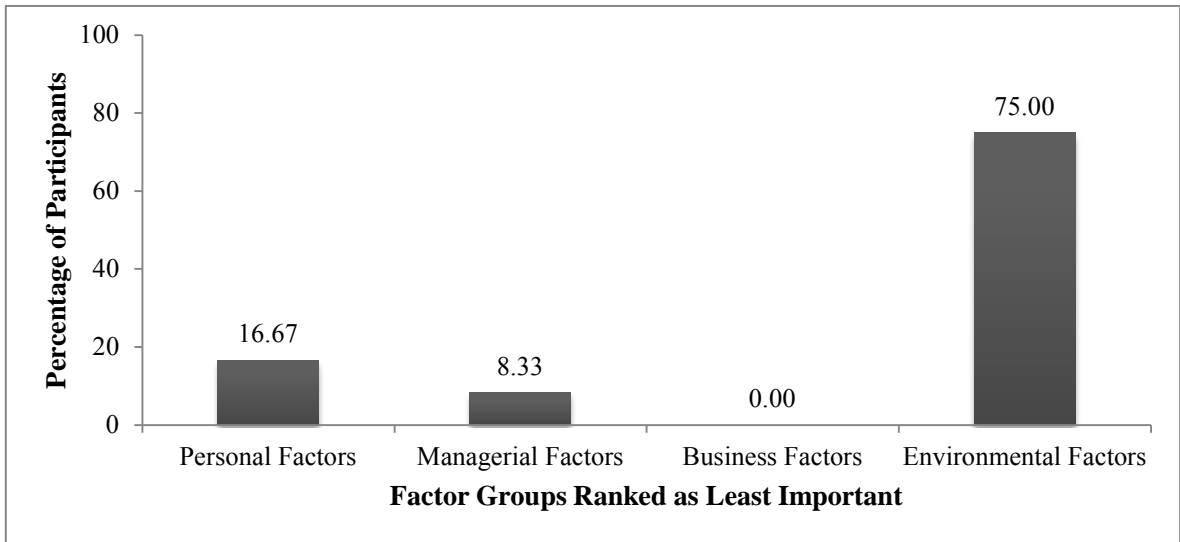
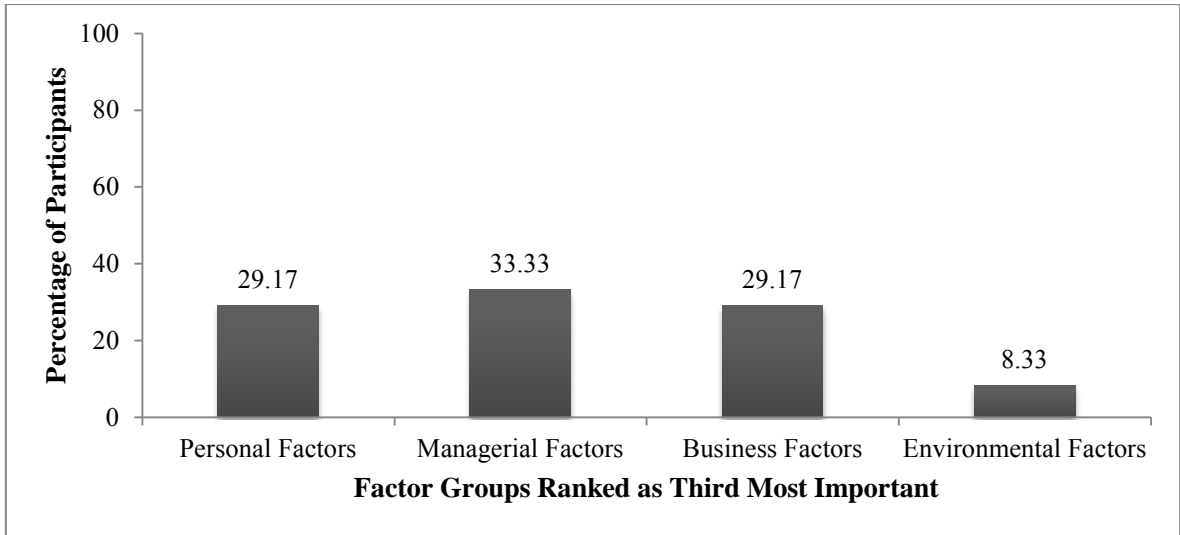


## APPENDIX K

### Histograms illustrating the Order of Importance of the Success Factor Groups

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## APPENDIX L

### Grouped Participant Responses for each of the Specific Success Factor Group Rankings

Number of Participants	*PF Ranking	MF Ranking	BF Ranking	*EF Ranking
4	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
	<p>*Internal factors far outweigh the external factors. The personal approach is what has determined business success, and as one participant stated “customers prefer that the owner shows an interest by consulting with them when they visit the business”. The owner’s personal ability to work with the products and materials available, as well as the owner’s personality are also of key importance (PF). Furthermore, an interest in the business itself rather than on a “money-driven approach” to business proved more motivating for one participant and in turn for his customers.</p>			
	<p>Managerial factors (MF) and business factors (BF), by means of offering great service and competitive prices, are also very important.</p>			
	<p>*Uncontrollable factors are of the least importance as these will not affect the participant only but rather all in the profession equally. The present economic situation is also cause for concern; however, environmental factors (EF) still remain the least important factor group.</p>			

Number of Participants	*PF Ranking	*MF Ranking	*BF Ranking	*EF Ranking
2	1 <sup>st</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	4 <sup>th</sup>
	<p>*Personal factors (PF), referring to hard work and personal commitment, are of vital importance and according to the two participants, “the more one puts in, the more one gets out”, likewise, “one reaps what one sows in a business”. Family employment by the business also helps to minimise costs and reduce any possible “red tape”.</p>			
	<p>*Business factors (BF) are the second most important as one of the participants has an identifiable competitive advantage, being one of only two such businesses in the Eastern Cape.</p>			
	<p>*Managerial factors (MF) are important for staff control, cash flow and</p>			

	stock control as without them, the business suffers theft, loss of income, and so on.
	*Environmental factors (EF) have a minor effect – a business can structure around them and still comply.

<b>Number of Participants</b>	<b>*PF Ranking</b>	<b>MF Ranking</b>	<b>*BF Ranking</b>	<b>EF Ranking</b>
1	1 <sup>st</sup>	4 <sup>th</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
	*The business is the owner’s “intellectual property”, thus personal factors (PF) are the determining factor for success.			
	*Thereafter business factors (BF) are important and refer to a product which is unique to the South African market.			
	Lastly, both managerial factors (MF) and environmental factors (EF) have little effect on the success of this business at this point in time.			

<b>Number of Participants</b>	<b>PF Ranking</b>	<b>MF Ranking</b>	<b>BF Ranking</b>	<b>*EF Ranking</b>
1	2 <sup>nd</sup>	1 <sup>st</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
	The business needed direction, thus a focus on managerial factors (MF) are of the utmost importance, specifically cash flow and management. This helped to ensure the success of the business unlike its many competitors.			

<b>Number of Participants</b>	<b>PF Ranking</b>	<b>*MF Ranking</b>	<b>BF Ranking</b>	<b>*EF Ranking</b>
2	2 <sup>nd</sup>	3 <sup>rd</sup>	1 <sup>st</sup>	4 <sup>th</sup>
	Business factors (BF) are the most important as the brand is well-known and highly trusted by the customers. The other participant specialises in the manufacture of made-to-order quality products which guarantees total customer satisfaction. A highly favourable price is ensured as there is no third party retailer involved. For one of the participants, her business’s location enables an edge over competing manufacturers which operate from their home premises.			
	Personal factors (PF) are the second most important as total dedication, a hands-on approach and hard work are required for the success of the businesses.			

	*The demonstration of good stock management and cash flow are also important, as well as the use of trusted employees and a strict managerial programme (MF).
	*Environmental factors (EF) have little effect for these small businesses.

<b>Number of Participants</b>	<b>PF Ranking</b>	<b>MF Ranking</b>	<b>*BF Ranking</b>	<b>*EF Ranking</b>
3	3 <sup>rd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	4 <sup>th</sup>
	To be effective, a business needs to have proper processes, quality staff, demonstrate strict stock control and have readily available stock, making managerial factors (MF) the most important.			
	*Excellent quality products that are superior to competitors mean that business factors (BF) are of second importance.			
	Personal factors (PF) are not of such importance because “no matter how willing one is or how hard one is prepared to work, this will not determine success, but merely efficiency”. Conversely, two of the participants agree that hard work is what has created success, meaning that PF is of somewhat importance.			
	*One of the participants operates “in a tightly controlled legal environment which can negatively impact on profitability”, referring specifically to new medical aid policies. However, environmental factors (EF) still remain the least important factor group for these participants.			

<b>Number of Participants</b>	<b>PF Ranking</b>	<b>MF Ranking</b>	<b>BF Ranking</b>	<b>*EF Ranking</b>
3	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	4 <sup>th</sup>
	A unique product or brand which captures a niche market is of foremost importance (BF). Having a number of years experience in the industry also ensures that service delivery remains a priority.			
	Thereafter a business with sound systems and protocol and which recruits quality employees able to uphold the business’s vision is of second importance (MF).			
	Personal factors (PF), referring specifically to hard work and family support, is important. A hands-on approach by the owner ensures that standards are maintained.			

	*In turn the rankings mentioned above enable the business to deal with environmental factors (EF), being legislation, competition, and so on.
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<b>Number of Participants</b>	<b>PF Ranking</b>	<b>MF Ranking</b>	<b>BF Ranking</b>	<b>EF Ranking</b>
1	4 <sup>th</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	3 <sup>rd</sup>
The business produces a product highly acceptable to the current market trends and which is correctly priced to reflect both favourable and unfavourable economic times (BF).				

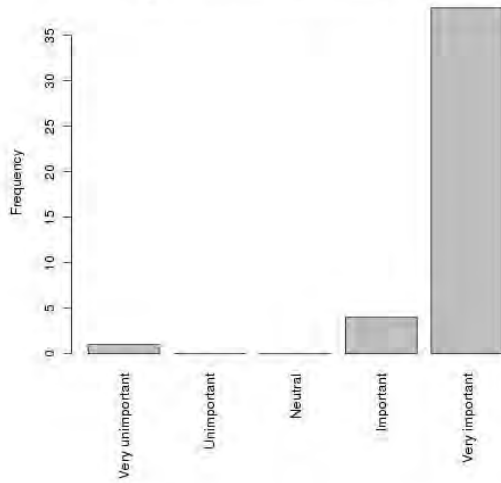
<b>Number of Participants</b>	<b>PF Ranking</b>	<b>*MF Ranking</b>	<b>*BF Ranking</b>	<b>EF Ranking</b>
2	4 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>
Environmental factors (EF) are the most important as one of the participants is an importer and therefore has no control over exchange rates duties and shipping rates. The other participant's business was subjected to road works in preparation for the 2010 FIFA World Cup, which in turn caused a huge loss of income for the business as it had no control over them.				
*Business factors (BF) are also important as a competitive advantage is good product/service quality which "negates price to some extent". One of the participants operates a franchise business which specifically demands a high number of staff and which therefore increases operating costs.				
*In turn this influences managerial factors (MF) as this demand has to be met with a lack of quality employees and results in poor quality products/services and therefore unsatisfied customers.				
Personal factors (PF) are of the least importance as hard work becomes redundant if customers are unable to reach the business premises due to road works. Furthermore, the small sizes of the businesses enables a hands-on approach, however "working hard is not a factor of success – it is working smartly."				

## APPENDIX M

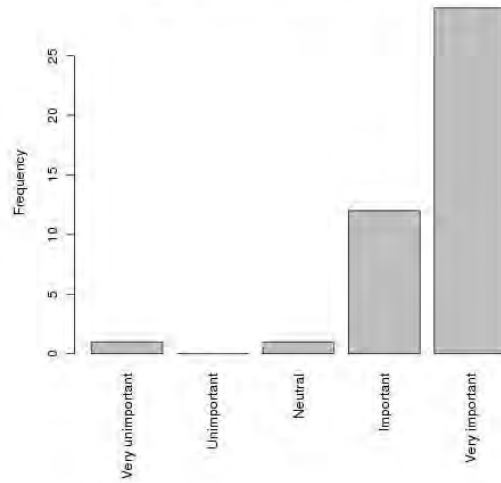
### Frequency Plots of the Success Factors according to their Importance

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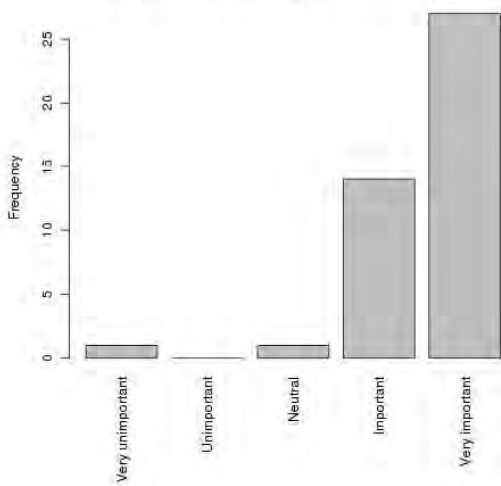
**Maintain good customer services skills and relationships**



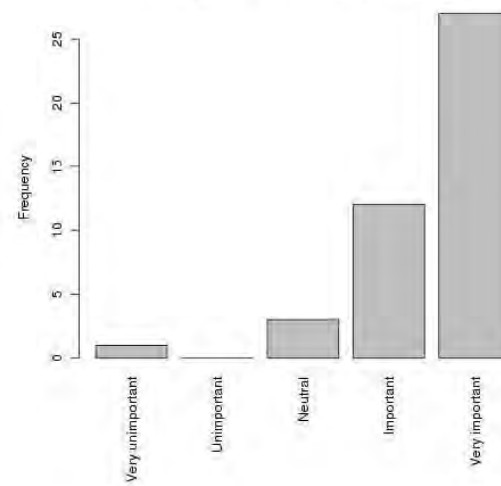
**Strong commitment to product/service quality**

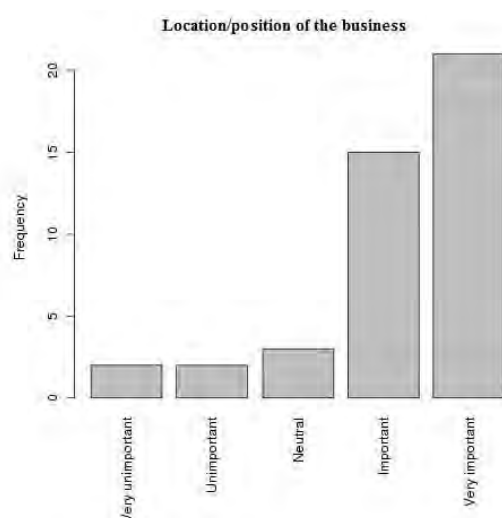
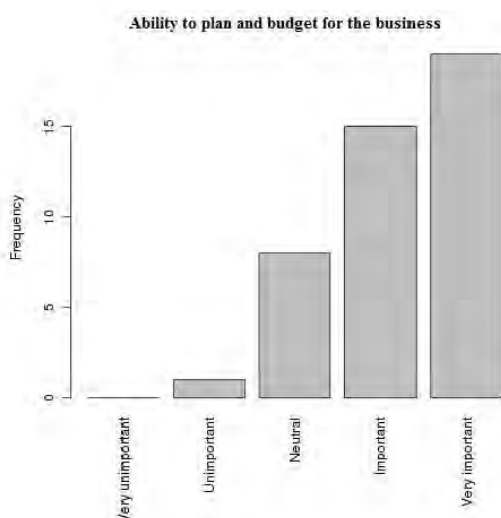
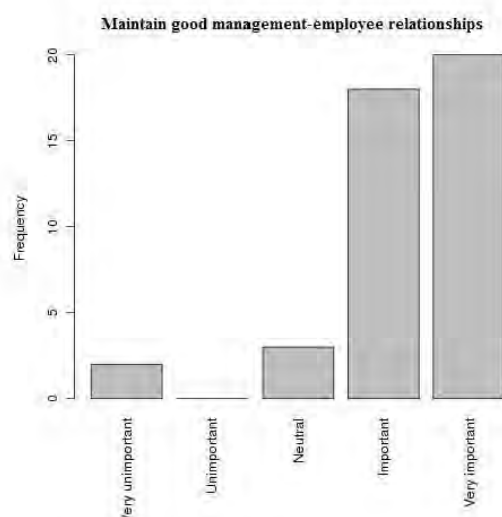
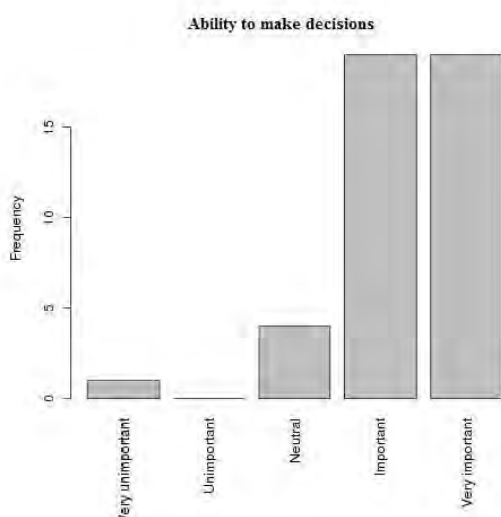
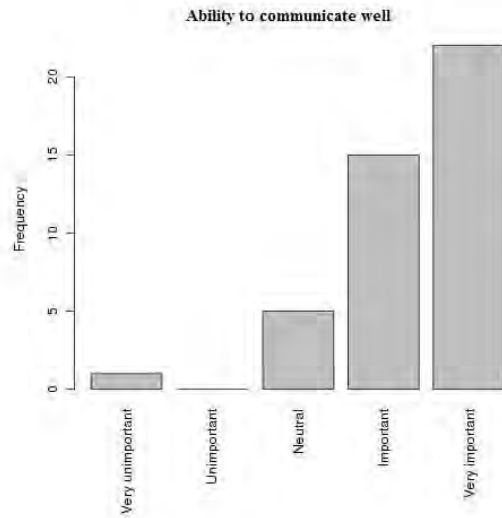
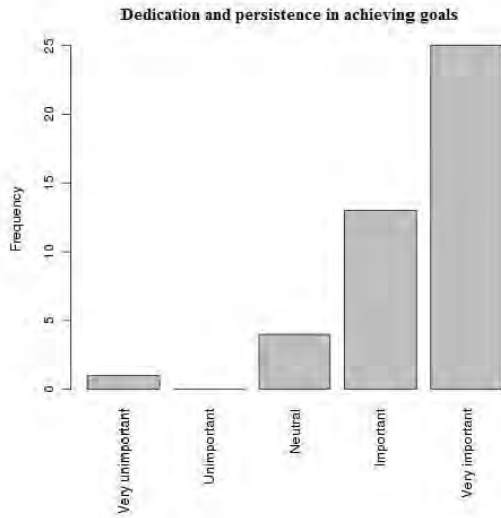


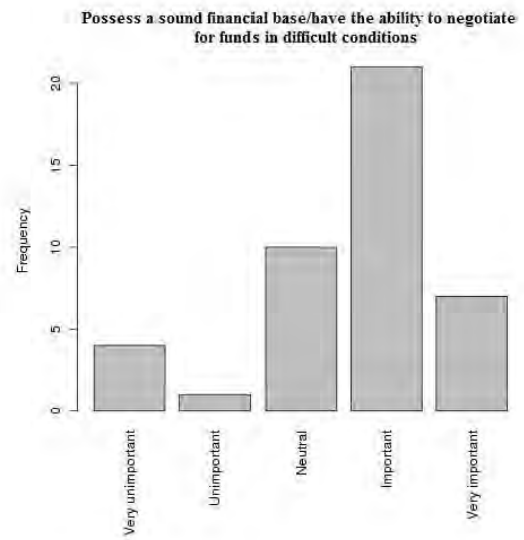
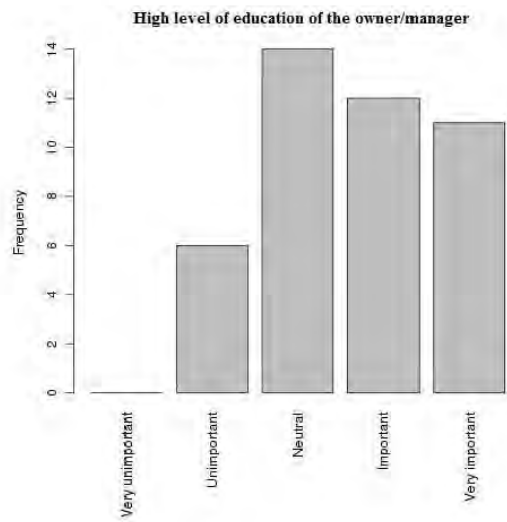
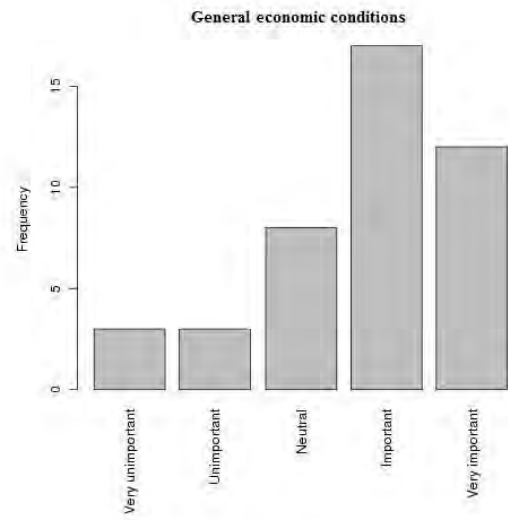
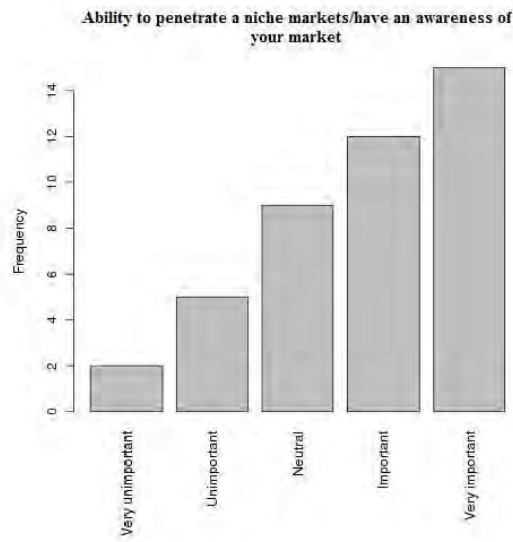
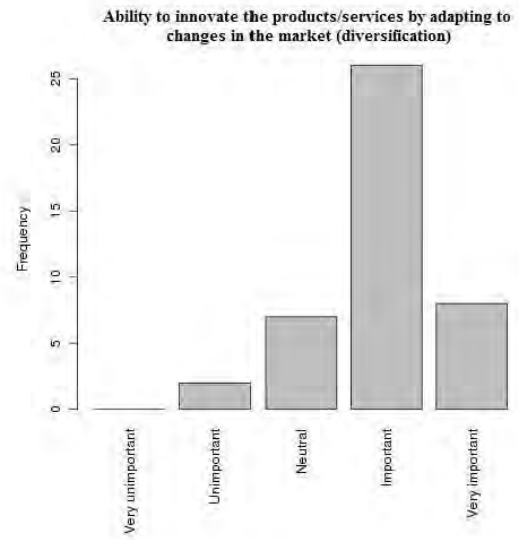
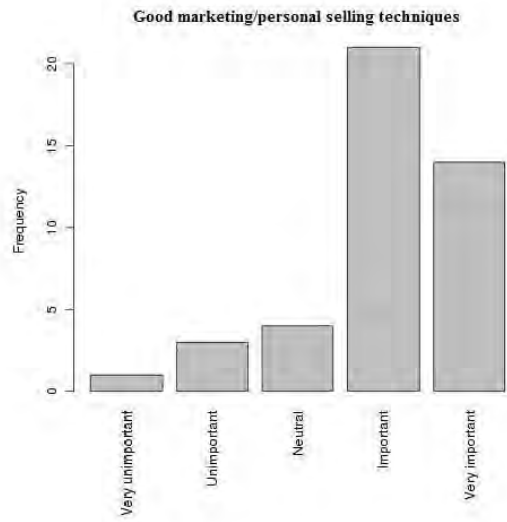
**Honesty, professional knowledge and morale of employees**



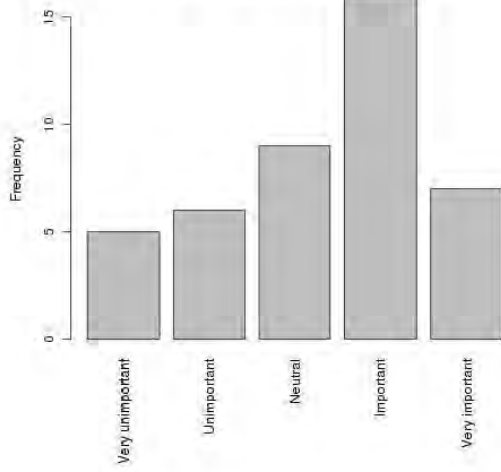
**Good interpersonal skills of the owner/manager**



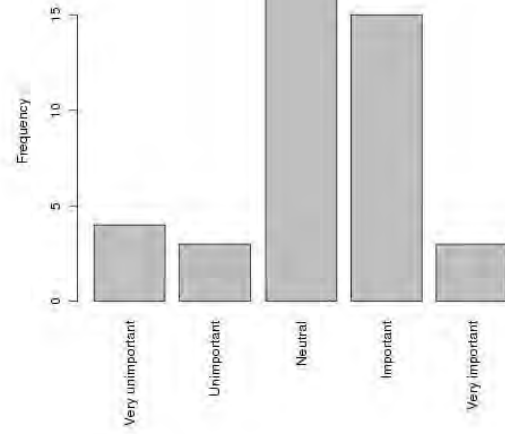




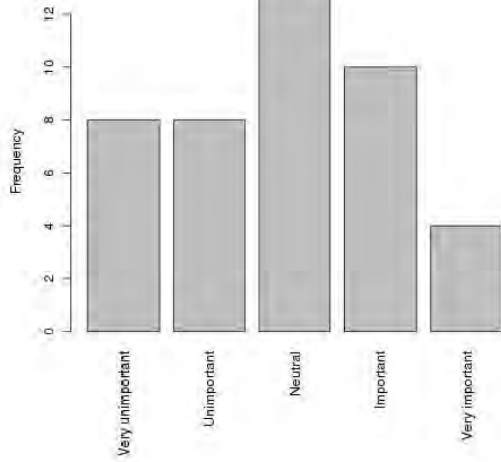
**Favourable relationships with banking institutions**



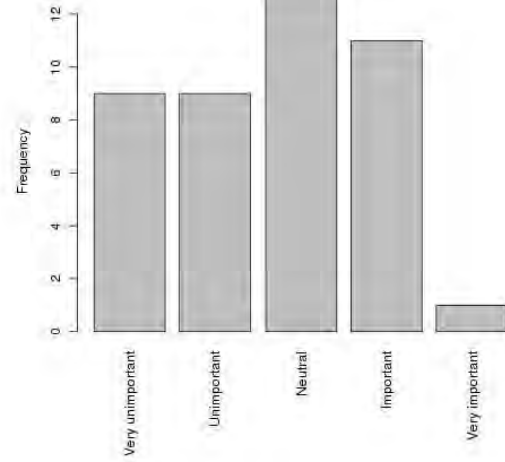
**Industry structure and competition**



**Legislation concerning small businesses**



**Trade exhibitions and business fairs**

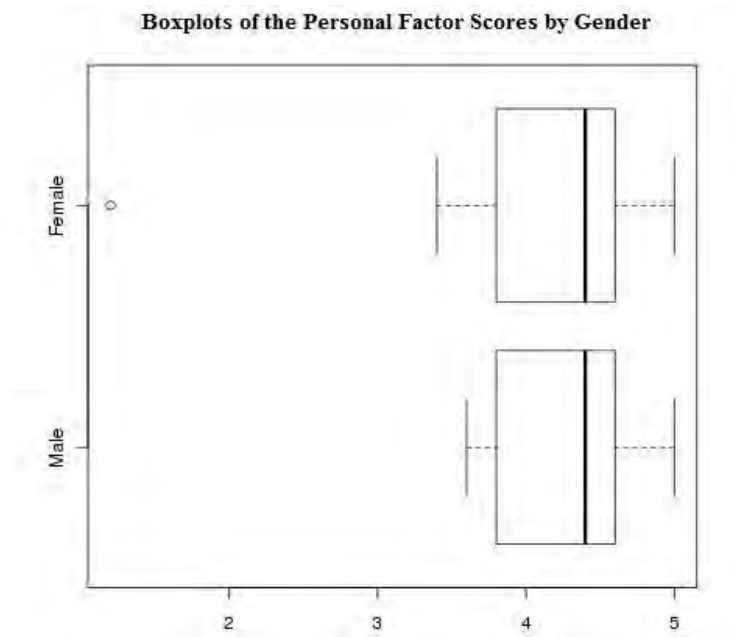


## APPENDIX N

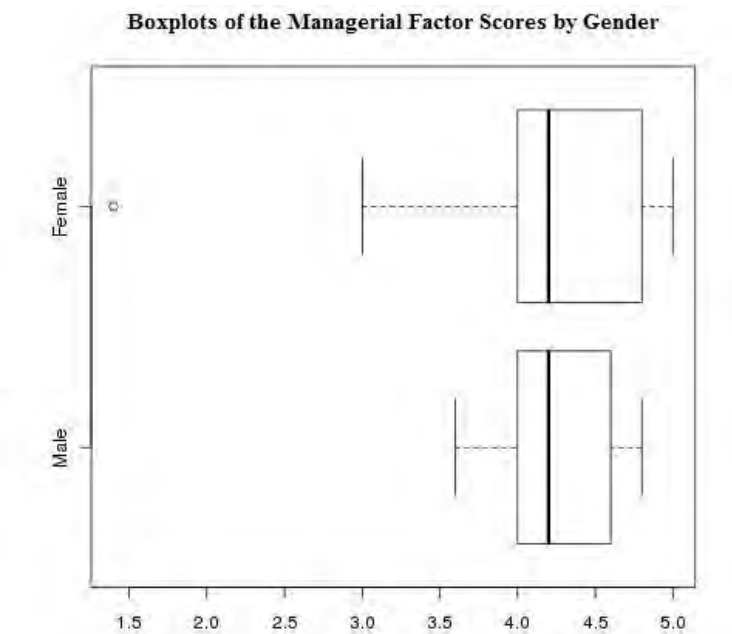
### Box Plots for Ho1<sub>a</sub>: Gender

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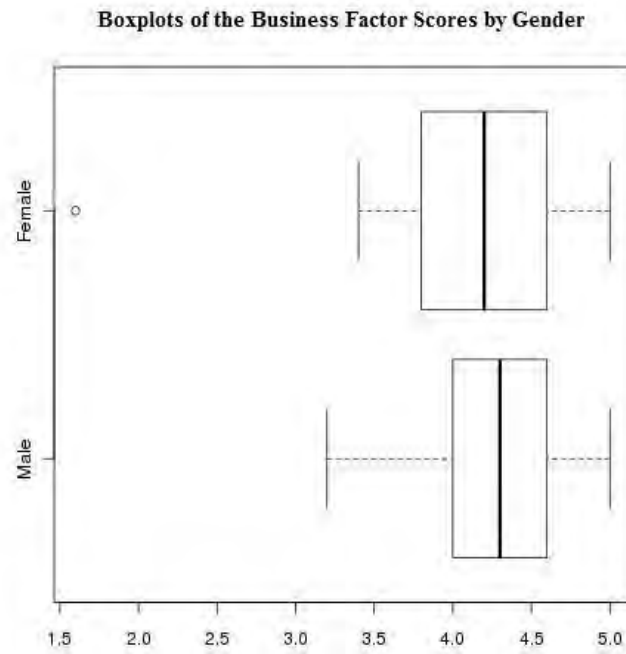
#### N.1 Personal Factors



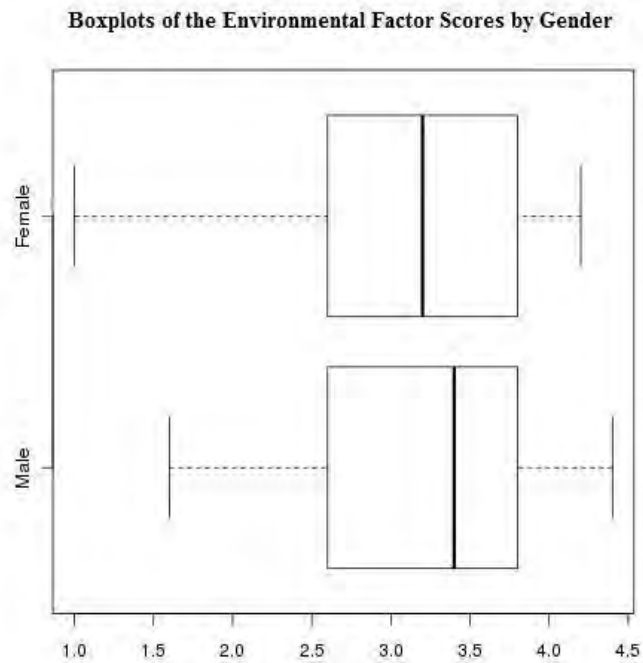
#### N.2 Managerial Factors



### N.3 Business Factors



### N.4 Environmental Factors



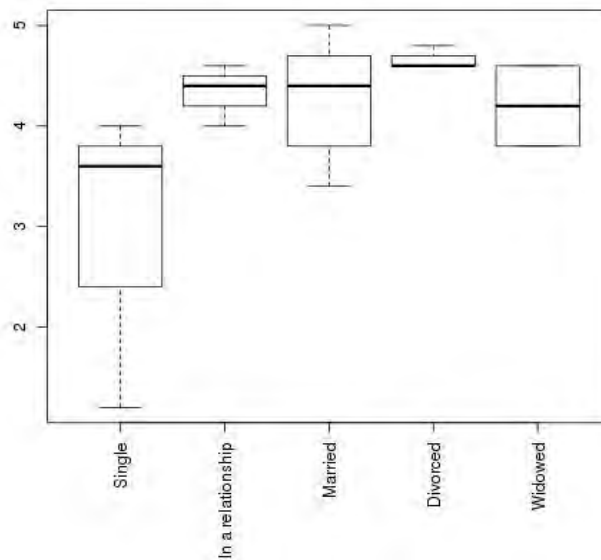
## APPENDIX O

### Box Plots for Ho1<sub>b</sub>: Relationship Status

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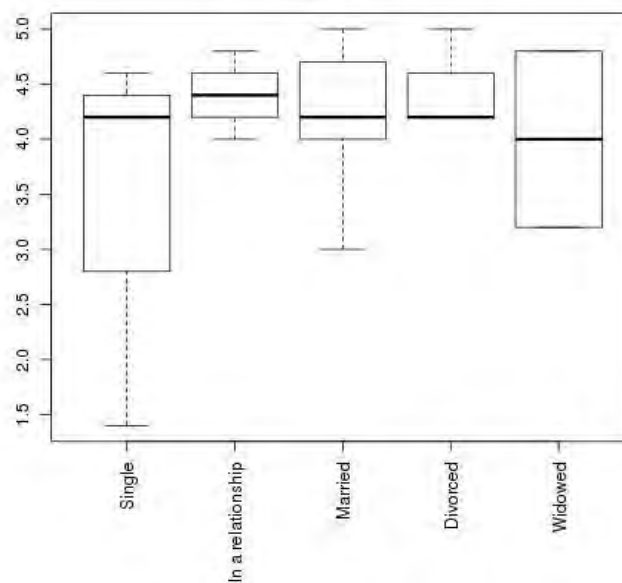
#### O.1 Personal Factors

Boxplots of the Personal Factor Scores by Relationship Statuses



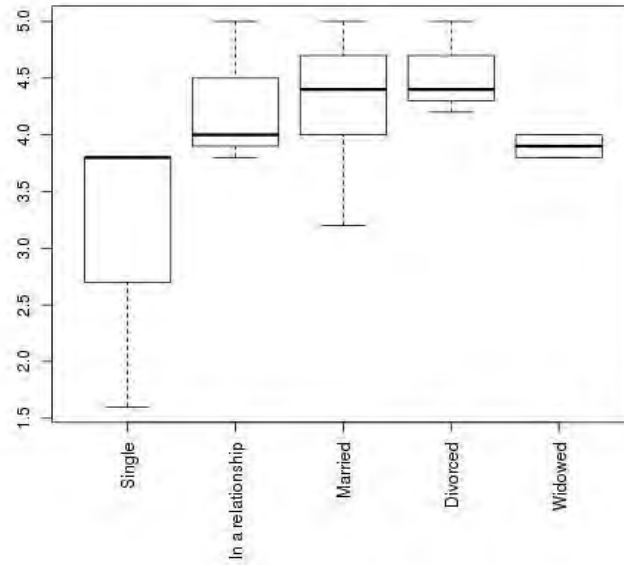
#### O.2 Managerial Factors

Boxplots of the Managerial Factor Scores by Relationship Statuses



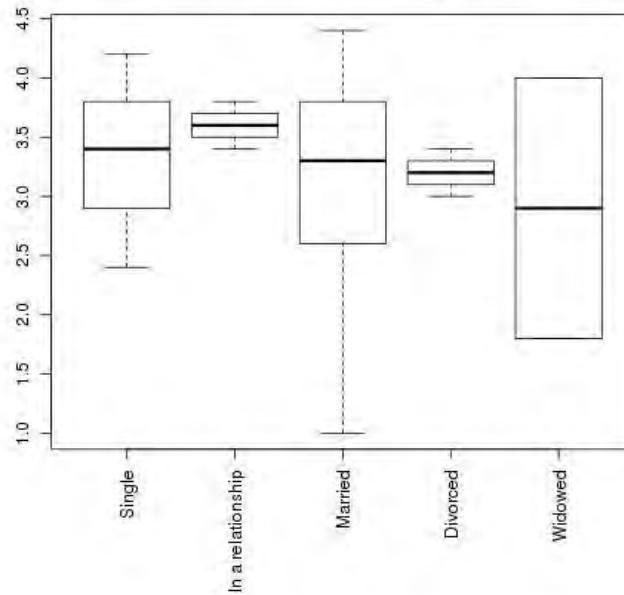
### O.3 Business Factors

Boxplots of the Business Factor Scores by Relationship Statuses



### O.4 Environmental Factors

Boxplots of the Environmental Factor Scores by Relationship Statuses

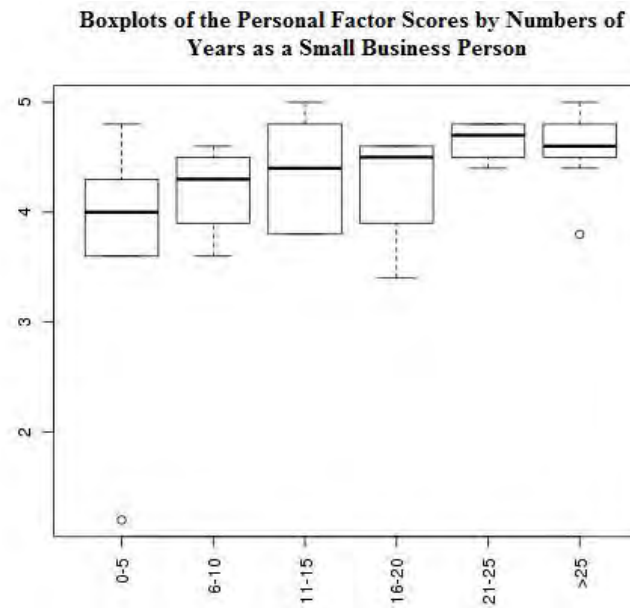


## APPENDIX P

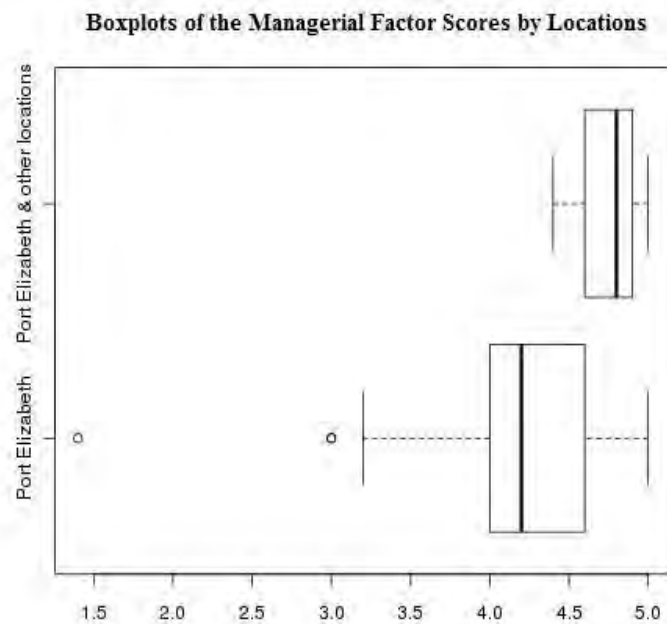
### Box Plots for the Relevant Hypotheses

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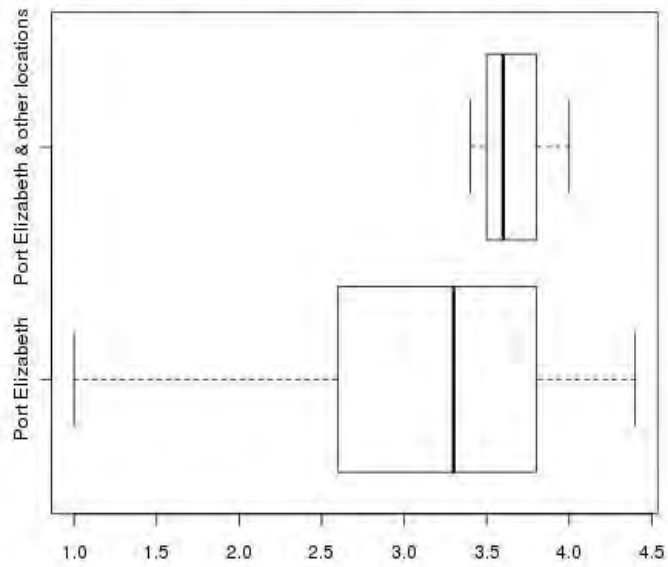
#### P.1 Ho1<sub>f</sub>: Number of Years as a Small Business Person



#### P.2 Ho2<sub>d</sub>: Location of Business

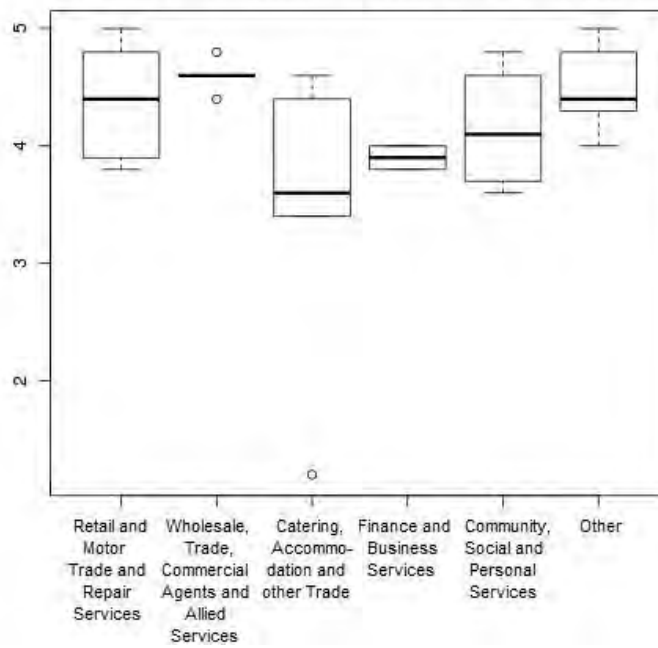


**Boxplots of the Environmental Factor Scores by Locations**

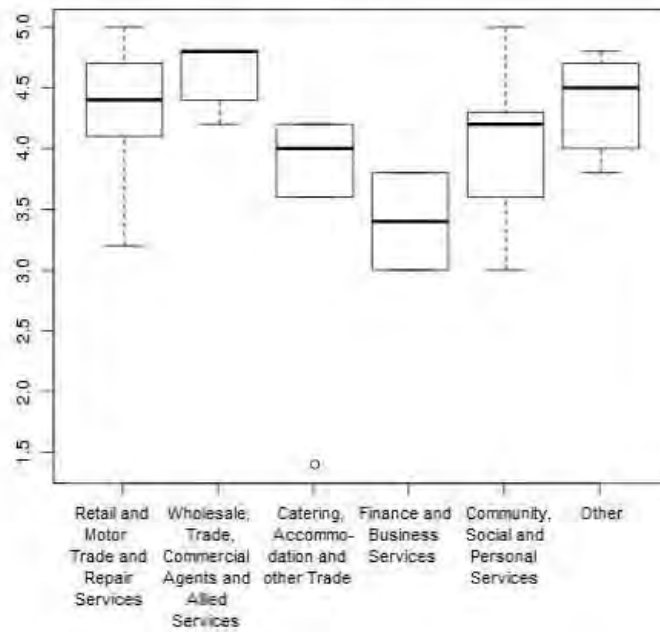


**P.3 Ho2g: Sector of Business**

**Boxplots of the Personal Factor Scores by Business Sectors**



**Boxplots of the Managerial Factor Scores by Business Sectors**



**Boxplots of the Environmental Factor Scores by Business Sectors**

