THE INFLUENCE OF PERSONALITY ON SMALL BUSINESS SUCCESS: TWO SOUTH AFRICAN CASE STUDIES

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DECLARATION

I declare that this thesis is my own work and has not been submitted
for a degree at any other university.

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ABSTRACT

This study is concerned with the start - up of small business ventures and the ultimate success of these small businesses. Research was carried out in the Limpopo Province of South Africa, which is mainly a very rural, under - developed province. Unemployment is high and much of the population is faced with the challenge of earning income from means other than in formal employment. However, the failure rate of the small business start - ups is extremely high. The study addresses the question whether or not there are leading indicators that will help to predict future success in business, specifically whether the personal profile can indicate the probability of future success.

In summary the research found that no significant correlation existed between business growth and personality profile when measured with the established business group, when using the DISCUS™ personality profile test. This could be due to either one or both the following reasons:

- No correlation exists between personality profile, success and growth, or
- the DISCUS™ personality profile test's **entrepreneurial** category job match is not valid and reliable, and an alternative personality profile for this particular job match category needs to be developed.

Secondly, a significant relationship was found to exist between level of literacy and start-up success according to the longitudinal study of a student group. No correlation was found to exist between level of numeracy and start-up success. Although there was a correlation between personality profile test results and start-up success with the student group, it can not be stated at this stage that this is a leading indicator for future business growth and sustainability, as success was only measured at start-up. These start-up businesses need to be monitored at least over the next three years in order to measure the internal growth of the businesses as compared to those achieved by the established business group. This is an area for further research.

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CHAPTER 1

1. INTRODUCTION, BACKGROUND AND MOTIVATION FOR THE STUDY

1.1 Introduction

This study is concerned with the start-up of small business ventures and the measurement of their performance in order to establish whether or not there is a leading indicator that will predict the probability of future success and, specifically, whether the profile of the small business owner-founder will give any indication of the probability of success.

This study has been conducted in the Limpopo Province of South Africa, one of the nine provinces of the country. The province is faced with an unemployment rate of close to fifty percent and the majority of the population is rurally based.

The term, **'small business'** is used throughout the study. It includes micro-enterprises and small enterprises, as defined later in this chapter, in terms of number of employees supported by the business. The owner-founder is assumed to be part of the workforce of the small business. The authors cited in the literature review, refer to various terms describing small business, both internationally and nationally. These terms are expanded upon and clarified in the thesis.

1.2 Background and motivation for study

The American Economic Development Council (AEDC) has defined economic development as the "process of creating wealth through the mobilisation of human, financial, capital, physical and natural resources to generate marketable goods and services" (AEDC 1994:18).

Gray cites Lumpkin & Ireland, who assert that the development of small business will help to alleviate the high rates of unemployment through a resultant employment growth (1998:16). Meyer reinforces this notion when he suggests that small

businesses are the engines for sustainable economic development and growth (2000:1). Bingham believes high rates of small business formation is a key to the growth process (1993: 266). The current policy focus on small business in South Africa is based on its perceived potential to contribute to sustainable growth and thereby alleviate the excessively high rate of unemployment within the country.

Currently the trend for big business is to downsize and right-size. Given its need to continually reduce its cost structure, big business is supporting less employment per rand of turnover. Through this process many jobs are becoming redundant and bigger companies are reducing employment numbers. Many individuals are unable to find further employment within the larger corporate sector and are therefore forced into searching for employment with smaller firms, or alternatively starting up a small business of their own in order to survive. This is one reason why government focus is being placed on small business and its potential to absorb a workforce that cannot find work with, and indeed is being shed by, the larger companies.

Given this scenario, one way of contributing to job creation, is the promotion of small business. Small business can be a very essential contributor to the economic prosperity of a country and Gross Domestic Product is said to be three to four times higher in countries with a high entrepreneurial activity compared to those with low entrepreneurial activity (Meyer 2000: 7).

However, in many places in Africa, including the South African situation, entrepreneurs are unable to do more than survive in business and basically support only themselves. The real test of success is whether or not the entrepreneur is able to achieve more than mere survival in business and go on to a point where wealth is created. This will ultimately result in increased employment and economic growth.

1.3   International enthusiasm for small business

As far back as 1981, it was reported that small businesses were generating 80% of

the new jobs that were being created in the United States (Birch 1987: 24). More recently, Meyer (2000:7) noted that in the United States

- Two out of three new jobs were created by small businesses
- 29% of the gross domestic product was produced by small businesses
- 90% of all radical technological innovations were invented by small businesses.

According to the Australian Bureau of Statistics, in 1995 - 1996, small business employed 60% of the Australian workforce (Walker 2000:1). Small business in the United Kingdom employed 50% of the workforce in 1997 (Williams & Turnbull 1997:1). The World Bank (1984) stated that the issue of employment had become a development issue in itself, as the modern or formal sector on the African continent is unable to absorb the increasing number of job seekers, particularly the rural-urban migrants. Small business could provide this section of the population, namely the lower income earners, the chance to earn an income as well as to supply their basic needs (Page & Steel 1984:6).

1.4   South African enthusiasm for small business

Currently South Africa is faced with a situation where the rate of unemployment in many of our provinces exceeds 35% (Central Statistical Services 1997: P137) The Limpopo Province has an unemployment rate of 46%; that is, 487 000 people of the economically active population are unemployed. This means that in order to reduce the unemployment rate of the province to below the national average by the year 2004, 97 000 new jobs will have to be created each year until 2004 in the Limpopo Province. This is estimated to require a growth of Gross Geographic Product (GGP) of 11,25 % per annum. According to the Development Bank Base of South Africa, an average employment factor is calculated at 50 jobs per million of GGP, which means that R1 000 000 of GGP translates into the 50 jobs (Development Bank of Southern Africa 1990:5 - 9).

The South African Minister of Finance, Trevor Manuel, has agreed that

> "A small, medium and micro enterprise (SMME) represents an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world one finds that SMME's are playing a critical role in absorbing labour, penetrating new markets and expanding economies in creative and innovative ways" (Manuel, 1995).

On 20 March 1995, the Department of Trade and Industry tabled a White Paper on a national strategy for the Development and Promotion of Small Business in South Africa. The National Business Act, Number 102, was promulgated in 1996 and provided for the creation of a national framework in support of the small business sector. Specific objectives of the framework included:

- The facilitation of a greater equalisation of income, wealth and economic opportunities.
- The creation of long - term jobs.
- The stimulation of economic growth.
- The strengthening of the cohesion between small businesses.
  (IBM Consulting Group 1998: 25)

2   Premises for the study

From the foregoing, it is evident that further research needs to be conducted in this field on how to maximise the rewards and returns through the establishment of small businesses. However, a matter for concern remains the very high failure rate of small business start-ups.

According to John Freislich , a consultant to the South African small business sector, the vast majority of small businesses fail within three years (Sunday Times, 9 April 2000). This problem is not limited to South Africa. Most small businesses in the United Kingdom do not grow, and fail within five years (Reynolds & Day 2000:2). Up to 60% of new enterprises fail within the first three years in Australia (Reynolds, Savage & Williams 1989:23).

Given the high failure rate of small businesses, one of the dilemmas for financial institutions and Government support agencies is the question of who to finance. Financial agencies can in no way, prior to start - up, predict whether a business is likely to be successful. A central question regarding small business is whether it is a bad business or whether it is the wrong individual running the business? Could someone else have made a success of the same business?

This study investigates the possibility of developing leading indicators for successful small businesses, which, if present in a new venture start-up, would predict a high probability of the new venture being sustainable as well as having the potential to grow. The findings will be useful for policy formulation and a useful tool for financial institutions in the initial screening of potential entrepreneurs applying for start - up finance. Presently, the business plan forms the main tool for evaluating a future business on application for finance, but such a plan in no way evaluates the entrepreneurial capacity of the individual proposing to start the business.

Much research has been carried out in order to determine and delineate certain characteristics, behavioural patterns and managerial skills which could identify a potentially successful new venture. However to date no clear picture has been obtained. Gray cites Low & MacMillan, who concluded that as at the mid 1990's, attempts to develop a personality profile for an entrepreneur had been unsuccessful (Gray 1998:16). However, much recent work has been done in this area and profiles have been developed. This study makes use of one such personality profile test where individual characteristics are measured against a profile of an entrepreneur.

3 Hypothesis and aim of study

3.1 Hypothesis

The basic hypothesis of this study is that if the prospective entrepreneur has a personality profile that correlates to the entrepreneurship category in the profile test applied, there will be a high probability of success being achieved in a business venture. To accept or reject this hypothesis, the following questions will be investigated:

1. How significant is the personality profile of the entrepreneur in determining success of the business, and

2. How important are the other determinants of success, for example prior experience and knowledge, age and gender of the entrepreneur in the success of the business?

3.2 Objective

The overall objective of this study is to uncover the crucial factors which determine the success of small business entrepreneurs in South Africa, with special reference to those entrepreneurs operating in the Limpopo Province of South Africa. In meeting this objective, particular attention will be paid to examining the relative importance of the personality profile of the entrepreneur compared with prior experience, and business skills training.

The specific aims are:

1. To briefly review previous theoretical and empirical studies concerning the importance of small business, and how performance in small business can be measured;

2. To review previous studies of the factors which appear to determine small business success and failure;

3.   To attempt to develop a theoretical profile of the successful entrepreneur which can be used as a measuring tool; and

4.   4.1   To measure internal growth of the established business group in terms of various indicators identified in the literature study.

4.2   To conduct a personality profile test on the established business in order to establish if a correlation exists between success in business (as measured by internal growth of the business) and results of the personality profile test

4.3   To conduct the same personality profile test on a student group in order to establish if a correlation exists between personality profile score and the level of start-up success

4.4   To determine the importance of business skills training and the compilation of a business plan in achieving   initial success at the start-up of a small business

4.5   To attempt to determine if previous experience has any impact on reasons for starting-up a small business and success rates of start-ups.

5.   To evaluate present policy towards small business in the light of these findings.

4   Research procedure and methodology

4.1   Methodology

The research begins by a preview of the relevant literature on small business, particularly the apparent determinants of their success. The research then moves to primary data collection, based on a sample of existing small businesses from the Limpopo Province which was analysed. The data for the study were collected over three years 1999-2001 and consists of three parts:

1.   A questionnaire was administered to these small business entrepreneurs asking for information relating to performance indicators identified in the literature study.

2. The entrepreneurs were requested to complete a personality profile test questionnaire in order to establish whether the entrepreneur matched the entrepreneurial job category of the profile test being applied. The data collected from the questionnaires was summarised into a spreadsheet on Microsoft EXCEL which brought together personality profile and business performance data.

3. A third component to the research is a longitudinal study conducted on a group of small business students who enrolled for a one-year certificate course in Small Business Management and Entrepreneurship, at Technikon Pretoria, City of Polokwane Campus in 2001. The author co-ordinates this course. The significance of this longitudinal study was to establish whether the results obtained, correlated with the group of established businesses, particularly as regards to the type of person; the type of business; prior experience; education level and prior learning of the entrepreneur. Can such characteristics predict future success in business and serve as a guide to the future selection procedure of students wanting to study entrepreneurship and small business?

The group was made up of fifty students and is considered representative of the young population within the Limpopo Province, who are considering starting up small businesses. These students were required to complete the same personality profile test as the previous group. Final examination results as well as the success of established small businesses was assessed at the end of the 2001 academic year. These results were captured and analysed. Continuous monitoring of these businesses was conducted during 2002.

5   Clarification of terms

Certain relevant terminology used in this thesis needs to be defined.

Entrepreneurship - Entrepreneurship is the process through which individuals and teams create value by bringing together unique packages of resource inputs to

exploit opportunities in the environment. It can occur in any organizational context, and results in a variety of possible outcomes, including new ventures, products, services, processes, markets and technology (Morris 1997:17). Meyer states that entrepreneurship results in the creation of new products, services, processes, markets and industries where markets did not exist before (2000:7)

Entrepreneur - A person who creates value through resource inputs to exploit opportunities in the environment (Pretorius 1999:29). Another description of an entrepreneur is a person who can recognise an opportunity in the marketplace and is willing to marshal the resources necessary to exploit that opportunity for long-term personal gain (Sexton & Bowman-Upton 1991:11).

Entrepreneurial thinking - Entrepreneurial thinking involves being innovative, pro-actively searching for opportunities, looking beyond the usual or customary solutions to problems, seeking potentially profitable risks, and willingness to change (Akin, Shipley & Tatum 1998:3).

Small Scale Enterprises - Defining 'small scale' is relative. One economy may interpret 'small' quite differently from another. Page & Steel suggest a broad definition that includes "enterprises engaged in activities involving barriers to entry in the form of human or physical capital that do not have ready access to institutionalised credit without special assistance" (1984:13).

The National Business Act of South Africa (number 102 of 1996) defines business in terms of size category and class. This information is summarised in Table 1. Column one consists of the different sectors or sub sectors in the South African economy as classified in accordance with the Standard Industrial Classification. Column two classifies the business into one of the following categories: medium, small, very small or micro. Column three defines the size / class of business as defined in column two in terms of the total full-time employees employed by the business at the present time.

Table 1: **Classification of businesses by size-class.***(National Small Business Act of South Africa, no. 102 of 1996)*

Size - Class Sector or Sub-sectors in accordance with the Standard Industrial Classification (SIC)	Size - Class	Total full - time equivalent of paid employees. Less than
Agriculture	Medium	100
	Small	50
	Very small	10
	Micro	5
Mining and Quarrying	Medium	200
	Small	50
	Very small	20
	Micro	5
Manufacturing	Medium	200
	Small	50
	Very small	20
	Micro	5
Construction	Medium	200
	Small	50
	Very small	20
	Micro	5
Retail and Motor Trade and Repair Services	Medium	100
	Small	50
	Very small	10
	Micro	5
Wholesale Trade, Commercial Agents and Allied Services	Medium	100
	Small	50
	Very small	10
	Micro	5
Catering, Accommodation and Other Trade	Medium	100
	Small	50
	Very small	10
	Micro	5
Transport, Storage and Communications	Medium	100
	Small	50
	Very small	10
	Micro	5

Size - Class Sector or Sub-sectors in accordance with the Standard Industrial Classification (SIC)	Size - Class	Total full - time equivalent of paid employees. Less than
Finance and Business Services	Medium	100
	Small	50
	Very small	10
	Micro	5
Community, Social and Personal Services	Medium	100
	Small	50
	Very small	10
	Micro	5

In terms of the White paper on Economic Development (1995:9), the small business sector in South Africa is categorised as survivalist, micro, small and medium enterprises. For the purposes of this study, the following definitions from the White Paper are accepted:

Survivalist enterprises - Survivalist enterprises are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises.

Micro-enterprises - Micro-enterprises are very small businesses, often involving only the owner, some family member(s) and at the most, paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. Many micro-enterprises advance into viable small businesses.

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Small enterprises - Small enterprises constitute the bulk of the established businesses, with employment ranging between five and about fifty. The enterprises will usually be owner-managed or directly controlled by the owner-community. They are likely to operate from business or industrial premises, be tax registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.

Medium enterprises - Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner / manager - controlled, though the shareholding or community control base could be more complex. The employment of two hundred capital assets (excluding property) of about five million rands is often seen as the upper limit.

Small Business Failure - Watson (2000:3) suggests that failure can be defined in one of two ways: termination to prevent further losses and failure to 'make a go of it'. To expand on the above definitions, failure can be seen as any discontinuance of a business for any reason. Discontinuance would include any change in ownership or closure and when a business ceases to operate. However, the liquidation or sale of a business does not imply business failure. The business may have been given up for other reasons such as retirement, illness or alternative opportunities (Watson, 2000:3).

Success - The term 'success' can be defined in many ways. The measurement of 'success' is relative and therefore open to different interpretations. For the purposes of this study, success will be defined according to various indicators of performance which will be discussed and explained in the following chapter. It can however be stated that success means going further than mere survival. Success means the ability to grow the business and therefore the economy.

The established businesses are considered successful on that they have continued to operate. The degree of success can be measured in terms of:

- Growth in employee numbers,
- Growth in turnover of the business and
- Growth in asset values of the business.

When applying a stricter definition of success, it can be stated that if a business show positive growth in at least two of the above performance indicator categories, they are already successful. Businesses that show growth in only one of the categories are not classified as real successes, but rather as sustainable businesses.

Personality - For the purposes of this study, 'personality' is defined in terms of the DISC profiling system.

> "At the core of this definition lie the ideas of stimulus and response. Sets of circumstances or individual events (stimuli) cause people to react (respond) to them. Different people, however have different responses to particular stimuli. In any given situation, we can expect that different people will react in different ways. DISC defines a 'personality' as the sum of all a person's varying response styles to varying stimuli" (DISCUS 1994: 60)

The DISCUS Profiling System - DISCUS is a computerised personality analysis and assessment tool, designed to produce a detailed picture of a personality. DISCUS Professional Personality Profiler is one of various personality profiler tools available in the market that can be used for job match and position personality. The decision to use DISCUS is supported by a recent South African study which found the DISCUS instrument to be extremely reliable (Roodt & Robert 2000: 1).

6   The structure of the study

Chapter one consists of the introduction and background on the importance of entrepreneurship and small business development; it notes the prevailing view that small business start-ups are one of the ways to promote economic growth and help to alleviate high employment rates. Terms and phrases used in the study are

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defined and clarified in this chapter. Thereafter, the hypothesis and aim as well as the methodology and the structure of the study are outlined.

In chapter two a brief history of the origins of entrepreneurship and the various schools of thought on the subject are discussed.

Chapter three includes a literature study on the elements associated with successful business start ups both internationally and locally, including performance indicators identified and the measurement thereof. This chapter provides an explanation of how internal growth is measured for the purposes of this study. An explanation is given for each formula derived and applied in the study.

Chapter four is an overview of the demographics of the Limpopo Province where the study was conducted. The purpose of this chapter is to highlight the unique nature of the province within South Africa, in terms of education levels, unemployment figures and the classification of the population into urban-based and rural based.

Chapter five describes the research methodology. The choice of a sample is discussed as well as the instruments used. Statistical methods and techniques used are discussed.

Chapter six consists of the results of the empirical study of the established small businesses within the province.

Chapter seven consists of the results of the longitudinal study conducted on the small business student groups at Technikon Pretoria, City of Polokwane Campus.

Chapter eight consists of a discussion of the results obtained in and conclusions drawn from this study, as well as recommendations for future research.

CHAPTER 2

1. A BRIEF HISTORY OF THE ORIGINS OF ENTREPRENEURSHIP

1.1 Introduction

This chapter considers the literature on the origins of entrepreneurship and related economic theory that deals with the schools of thought regarding entrepreneurship. The goals, objectives and behaviour of firms are discussed, with a special focus on various schools of thought. Although the theories may or may not differentiate between the large and the small firm or business, it is relevant to discuss the different schools of thought and how they relate to the performance of the business.

1.2 The Origins of Entrepreneurship

The word *entrepreneurship* comes from the French verb *"entreprendre"* and translates directly into English as 'to undertake'. The word originates from sixteenth Century France where Frenchmen who organised and managed military explorations and expeditions were commonly referred to as *entrepreneurs.* These individuals were seen to provide valuable services. These entrepreneurs were also responsible for supplying the men and materials that were needed by the feudal lords of France to wage war against their enemies. They were able to identify opportunities in the marketplace and followed their intuition in order to turn these opportunities into viable, profitable business ventures. These individuals were not risk takers as these business activities were conducted on a part-time basis, in addition to their day-to-day employment. However, the emergence of these small business ventures and the individual responsible for their creation were noticed, and hence the word *entrepreneur* became associated with anyone founding a new business or alternatively owning a small business (Sexton & Bowman-Upton1991:7).

2   Development of Economic Thought and Theory

Daniel Jennings reviews multiple perspectives on entrepreneurship, and in so doing cites the works and theories of many economists, over several centuries. He is of the opinion that there is no generally acceptable theory of entrepreneurship and that economists have attempted to characterise the entrepreneur in many different ways. Joseph Schumpeter argued that innovation develops from entrepreneurship. He stated that entrepreneurs "may also be capitalists, managers or inventors, but as entrepreneurs they provide a recombination of preexisting factors of production where the outcome of this recombination cannot be clearly predicted." Schumpeter went on to say that it took an individual who was in possession of unusual traits and will to "found a private kingdom, a drive to overcome obstacles, a joy in creating, and satisfaction in exercising one's ingenuity" to become an entrepreneur (Jennings 1994:11).

As cited in Jennings (1994), Robert Hebert and Albert Link identified twelve distinct entrepreneurial roles in the economic literature, namely:
- Assumer of risk associated with uncertainty.
- Supplier of financial capital.
- Innovator.
- Decision maker.
- Industrial leader.
- Manager or superintendent.
- Organiser and coordinator of economic resources.
- Owner of an enterprise.
- Employer of factors of production.
- Contractor.
- Arbitrageur.
- Allocator of resources among alternatives used.

They recognised the entrepreneur as an independent factor of production very much on the same level as land, labour and capital. However, they stated that there was a definite difference between the manager and the entrepreneur.

Table 2: **Viewpoints of the specific function of the entrepreneur as expressed by various economists during the neo-classical era** *(Jennings 1994: 63).*

Economist era	Concept of Entrepreneurial function during the neo-classical era
Francis Edgeworth (1845 - 1926) English economist	Entrepreneur is a coordinator and middleman that never disappears, even in general equilibrium.
Alfred Marshall (1842 - 1924) English economist	Entrepreneur is a business leader and head of the firm - innovating, coordinating, responding to profit signals, and bearing risk.
Frederick Hawley (1843 - 1929) American economist	Entrepreneur is an owner or enterpriser who makes decisions regarding what product or service is to be produced and also the bearer of uncertainty.
John Bates Clark (1847 - 1938) American economist	Entrepreneur is not an uncertainty bearer but an arbitrageur who shifts resources toward their most profitable uses.
Irving Fisher (1867 - 1947) American economist	Entrepreneur is a bearer of uncertainty who reduces the randomness of uncertainty by making forecasts and deciding what to do based on subjective speculation. His role as profit receiver makes him an important and distinct economic agent.
Frank Knight (1885 - 1972) American economist	Entrepreneur is a decision maker in an uncertain environment. In that role he determines consumers' wants and secures various services and materials to produce product or service. Profits received are not for dealing with uncertainty but are uncertainty-based differences between the anticipated value of resource services and their actual value.
Joseph Schumpeter (1883 - 1950) German economist	Entrepreneur is an innovator who carries out new combinations of economic development, which are new goods, a new method of production, new markets, new sources of raw material, or a new organizational form.

It is evident that the entrepreneur remained a central figure as far as an explanation of distribution was concerned over the neo-classical period. All of the above economists recognized the entrepreneur as a key figure in both the production and the distribution process, who was responsible for bringing together the other factors

of production. The entrepreneurship and the capital function were seen as two distinguishable and separate functions with the production process. The entrepreneur was regarded as the coordinator and organiser of all the other factors of production.

3   Goals and objectives of the business

When considering the objectives of a firm, these objectives can be placed under two main headings, namely: maximising goals and non-maximising goals. There are five mainstream schools of thought on the theories of business goals and objectives. They are:

1.   Traditional neoclassical profit maximisation theory.
2.   Managerial theories.
3.   Behavioural theory.
4.   Structure - conduct - performance paradigm.
5.   Principal -agent theory (Hornby, Gammie & Wall 1999:92).

3.1   The Traditional Neo-classical theory of the firm

The traditional or neo-classical theory of the firm is based on certain core assumptions. The core assumptions of the theory are:

- The firm has a single owner - manager. He / she is also the sole decision-maker on behalf of the firm.
- The decision-maker of the firm is assumed to be globally rational.
- The long run is made up of a series of short run periods, which are independent. This infers that decisions made in one period will in no way affect the behaviour of the firm in any other period.
- The firm has one single goal and that is to maximise profits.
- The firm act within an unspecified time horizon or long run. This time period will vary across industries, as all quantities of inputs can be varied.
- The goal of profit maximisation is achieved through the application of the marginalist principle (Koutsoyiannis 1979: 256-263).

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3.2　Ownership and management

The majority of larger firms today have separate ownership and management. The shareholders are the owners of the firm. The main aim of the shareholders can be said to be the 'maximising of the value of the firms' shares' (Lipsey 1989:274). It is ultimately the management who takes the day-to-day decisions in the firm, and not the shareholders. The directors of a firm are given the responsibility and the authority by the owners (the shareholders) to represent them by determining policies and practices of the firm, which will be executed by the management of the firm.

It can be said that although ownership is with the shareholders, control lies with management. Firm behaviour must surely be affected by who is actually in control of the business. However, with the small firm, in most cases the owner and the manager may be one and the same person, as is assumed in neo-classical theory . This then implies that it is the owner/manager who is responsible for the decisions that need to be taken.

3.3　Global rationality

Neo-classical theory makes the two following assumptions:
1.　Consumers' tastes do not change and:
2.　Both consumers and producers have perfect information.

The theories assume that the firm has complete and perfect information regarding all past, present and future market conditions and situations. Hence the firm knows with certainty the shape of all demand, supply, and cost functions that it is facing. Due to this perfect knowledge, firms are able to operate at the optimum production level where profits will be maximised, namely where marginal cost (MC) = marginal revenue (MR), (Koutsoyiannis 1979: 257).

An interesting argument today is the emergence of 'globalisation.' Firms do not only operate in a local market environment or industry, but now they are forced to compete in a global market. Clearly this core assumption needs to be questioned in

the present market, as well as the assumption that consumers' tastes remain static within this environment.

Neo-classical theory assumes that the firm has perfect knowledge of the environment, as well as demand and cost functions. Furthermore, the theory does not deal with the means by which this knowledge or perfect information is obtained by the firm. Decision-making is one of the functions of management and how it actually occurs is not dealt with in traditional theory. The question asked today must surely be: what is 'perfect' information?

Simon refers to 'global rationality' which he describes as the ability to reason in a world of full information. Decision-makers can make informed decisions based on the actual or 'objective' view of the world (Koutsoyiannis 1979:257). Simon states that 'maximisation rationality' implies that individuals have all the information relevant to any decision, and if used effectively, profits will be maximised. It is assumed that the firm will aim to maximise profits once it has acquired the information it needs. At no stage is 'uncertainty' considered. This is obviously an unrealistic assumption in a world of imperfect information and imperfect ability to calculate, on the part of economic decision-makers. It is safe to say that decision makers' subjective perception of the world as it is, will be different to the real or actual 'objective' view. Simon referred to this as 'bounded rationality' - which suggests that individuals will make the best decisions possible with the available information, which is partial and not complete, however it is sufficient for the decision to be made (Simon 1986:211).

In the present dynamic environment, uncertainty plays a very important role in the decision-making process of both the large and small firm.

3.4   Time Frame

Time frame is also an important factor in decision-making. Some firms will prefer to take on projects with a shorter payback period due to uncertainty. Neo-classical theory does not specify the actual time period of the long run. The theory assumes

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that a time frame in a firm consists of identical and independent time periods, and that decision-making for previous periods have no bearing on any present or future decisions made. Traditional theory also does not look at the factors internal to the firm and how these factors may influence the decision-making (Koutsoyiannis 1979:262).

3.5   The single and main goal of the firm is profit maximization

The main goal of a firm is to maximise profits. Koutsoyiannis supports this assumption when he states that the healthiest firms have turned out to be those that have aimed at maximising their profits, and as a result of this objective increased their asset base substantially. These firms have seen higher growth rates than those firms who have followed other goals. Profit will be maximised where marginal revenue equals marginal cost. This is the point where the revenue earned from selling an extra unit is exactly equal to the cost of producing that extra unit (Griffiths & Wall 1997:54).

It can be argued that in the case of larger firms, managers of the firms will most likely have multiple goals. One of their goals will be to satisfy shareholders by earning a level of profits to keep these shareholders satisfied. This has been referred to as 'satisficing' behaviour in that managers pursue satisfactory levels of profit. These firms attempt to satisfice, rather than to maximise (Simon 1959:263).

Managers will aim to maximise their own utility. Many managers are rewarded with a commission on the level of sales the firm achieves. Managers are motivated by this incentive, and the maximisation of profits may not be their single main goal, but rather the maximisation of sales revenue, which may be to the detriment of profit maximisation. However, in the case of the small firm where the owner and manager are one and the same person exercising control and management, the goal of profit maximisation can be pursued without a problem.

When considering the small firm, we can also criticise the neo-classical theory in that a single owner/entrepreneur may seek to maximise his own utility rather than

the profit of the firm. He may be aiming at personal satisfaction. This means that he may be driven by the desire to be accepted socially and seek prestige to the detriment of the small business. The owner/entrepreneur may spend 'work' time enjoying leisure activities rather than seeking more profits in the firm.

3.6   The Marginalist Principle

Neo-classical theory assumes that the single and main goal of the firm is profit maximisation. The marginalist principle states that profit is maximised where marginal cost and marginal revenue (price) are equated. i.e. (MC=MR). This is where the firm should produce the optimal level of output.

It is assumed that profit maximisation is the single goal of the firm. For many firms, both large and small, the main aim must be growth and the way to attain growth is by increasing the sales of the firm, which should result in profit maximisation in the long run.

Ferguson and Ferguson cite Demsetz of the Chicago School (1973), concluding that "high profits may not be a sign of market power but efficiency." There is pressure on firms to be efficient and to be as low cost a producer as possible. The result of this business practice will be an increase in market share (1994:19).

In current market conditions, the focus amongst firms is to be 'world class', and one of the interpretations of this phrase, is that in order for a firm to survive and be able to compete in an industry, it must be the lowest cost producer within that industry.

3.7   Auxiliary Assumption - Entry and Exit

An entry barrier exists if sellers in an industry have certain advantages over entrant sellers. These barriers can be classified into two categories, namely structural and behavioural barriers (Bain 1956:16). Barriers to entry have also been defined as anything that inhibits entry, including legal barriers (Walters 1993:312).

Neo-classical theory deals with actual entrants in an industry and not any potential entrants. The theory assumes that entry, if allowed, will only take place in the long run and not in the short run, as this is assumed impossible.

Traditional economic theory assumes that the single main objective of the firm is to maximise profits. To survive in the long run, in a perfectly competitive market, traditional theory postulates that the maximisation of profits is a necessary condition. Furthermore, there is no real distinction drawn between the objectives of a small firm as opposed to those of a large firm.

Managers of firms may have other goals, other than the maximisation of profits. This has led to the development of other managerial models.

4   Managerial Theory

Managerial theories suggest that the managers attempt to maximise objectives other than profit. For instance, managers will seek to maximise the sales revenue of the firm.

4.1   Goals of management and the shareholders

Managerial theory recognises that there is a divergence of interest between the owners of large companies, namely the shareholders, and the managers who run the business on a day-to-day basis. Management is responsible for the control, operating and policy-making of the business (Marris 1987:672). Marris points out that managerial theory includes nationalised industries involved in production for the market; as well as private concerns (1987: 672). Managerial theory is not based on perfectly competitive markets, but concentrates on imperfect and oligopolistic markets (Marris 1987:674). Hughes states that the day-to-day responsibilities of management are delegated to persons who are not the shareholders. These managers are skilled individuals who are on the payroll of the business   (1987:293).

Hughes goes on further to say that the owners of the business, namely the shareholders, are not interested in the day to day operations of the business, but rather focus their attention on their expected rate of return from their capital investment. The general behaviour of management and their primary objectives are very much determined by other variables, other than that of profit maximisation; yet at the same time, these manager-agents are constrained to a certain extent by the limited demands placed on them by the shareholders, and by the increasingly competitive and dynamic environment in which the firm operates. Due to this change in corporate behaviour, the nature of capitalism has also changed (Hughes 1987:294).

4.2   The manager and social responsibility

Managerial theory also recognises that managers are becoming more and more aware of social responsibility, and that the behaviour of managers is very much affected by public opinion. (Hughes 1987:294)

Marris states that firms controlled by management are managed for the direct benefit of the manager-agents, but are subject to constraints from the owners (shareholders), workers and society (1987: 673).

Managers have a vested interest on the survival of the firm. This involves focussing on the environment in which the business operates, as well as the growth of the firm. However, the managers have to keep the owners of the firm satisfied; and although the maximisation of profits may not be the main goal, these managers aim to earn a profit that will satisfy the owners (Hughes 1987:294).

4.3   The cost of growth

Managerial theory suggests that the managers attempt to increase growth in the long term, without allowing the profits to fall. Marris mentions the 'Penrose effect', which the firm who experiences a very fast rate of growth can expect. Basically this

is a resulting situation of increases in costs and inefficiency due to organisational problems that have resulted because of this 'increased expansion' (1987:672)

4.4 Risk aversion

Managerial theory states that managers focus very much on themselves and their own demands, such as: job security, the pursuit of higher salaries and perks. Because of this situation, managers will avoid projects and investments that offer a high expected rate of return, and a higher corresponding commensurate level of risk. Managers believe that by taking on projects offering high levels of risk, they are ultimately jeopardising their positions within the organization (Hughes 1987:294). Machlup states that the earning of profits does not come without risks and hence the concept of profit maximisation means increased risk and uncertainty for the manager (1967:13).

Managers will attempt to 'feather their own nests' through using company resources to best serve their own personal needs. They aim for increased salaries and additional fringe benefits. This is often accomplished through the maximisation of output levels, which means increased growth for the company, rather than the goal of maximising the market share value which is in the best interest of the shareholders (Hughes 1987:294).

Managerial theory has become more popular since the emergence of major equity shareholders in the capital market, such as insurance companies, unit trust fund managers and pension fund investors (Hughes 1987:294).

Managerial theory places much emphasis on the relationship between management and the owners. It focuses on the goals of management, and a minimum acceptable return on investment that will keep the owners satisfied. The question around this model must surely be: what is this minimum acceptable level of profit that will ensure the long-term survival of the firm? If shareholders do not earn their minimum expected return on investment, it follows they will invest elsewhere, and hence the survival of the firm is threatened.

5 Behavioural Theory

Behavioural theories focus on the actual behaviour of the firms. The theories highlight the fact that interaction continually occurs between various sub-groups within the firm. This results in compromises often being reached between different goals and 'trade-offs' between conflicting objectives of those managing the firm.

5.1 The imperfect market

As with the managerial theory; behavioural theory applies to an imperfect market situation. The behavioural theory focuses on the internal structure of the organisation as this is very likely to have an impact on the behaviour of the firm as a whole.

5.2 The decision-making process within the firm

Due to the decision-making process within the firm, a number of objectives are pursued. As with managerial theory, the firm does not have one single goal, to maximise profits, as is the basic assumption of the neo-classical model. Behavioural theory assumes that the firm has multiple goals.

5.3 The firm - a coalition of groups who have conflicting goals

Behavioural theory states that the firm is made up of a coalition of groups, who all have differing goals and objectives. These groups would include the owners of the firm, the managers, the employees, clients and others (Koutsoyiannis 1979:387).

As with managerial theory it is assumed that managers would be attempting to look after their own interests, such as demanding higher salaries and prestige (Koutsoyiannis 1979:387). Simon describes this coalition as groups with "partially cooperating and partially competing interests" (1987:223). The owners, namely the shareholders, are interested in profits as well as a growing capital value

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(Koutsoyiannis 1979:387). Behavioural theory is based on the assumption that the owners and the management are divorced (Koutsoyiannis 1979:387).

In contrast to managerial theory; decision-making results from a bargaining process among the different groups of the coalition. Furthermore, this bargaining process takes place under conditions of uncertainty (Simon 1987:221). In addition, behavioural theory postulates that decisions are made with limited information. Since there are conflicting interests amongst the different groups within the process, there is often a conflict of objectives. It is for this reason that behavioural theory suggests that the firm aim for a 'satisfactory' level of achieving each objective, rather than attempting to maximise only one main objective. This behaviour has already been referred to as satisficing behaviour. Simon refers to Leibenstein's (1976) work which postulates that managers look for a 'comfort level' and that a trade-off exists between profit levels and a comfortable management utility function (1987:223). Simon also states that the attainment of a satisfactory level of profits (satisficing behaviour) relates to a psychological concept of aspiration levels rather than to the concept of maximisation (1959 :262).

Simon refers to studies of business behaviour conducted by Hall and Hitch, which suggest that goals of business are stated in satisficing as opposed to maximising terms. He cites an example that a manager will apply a standard mark-up to costs (1959:264). Furthermore, behavioural theory states that the goals of the different groups within the coalition are continuously changing. Behavioural theory states that the five main goals are:

- A: production
- B: inventory
- C: sales
- D: market share
- E: profit.

Machlup assumes that these goals will constitute an area for bargaining within the coalition (1967:4). However, as with managerial theory, management sets the profit goal in order to meet the demands of the capital contributors, namely the shareholders and financiers (Koutsoyiannis 1979:388).

5.4   Conflict between groups

As resources are limited and different groups compete for the resources, conflict will always prevail due to varying demands. Despite this continual bargaining process, stability within the firm prevails (Koutsoyiannis 1979:390).

5.5   Decision-making

Resource allocation within the firm is decided on by top management through an inter-departmental bargaining process (Koutsoyiannis 1979:393).To make the best decisions regarding the allocations, managers require information. Behavioural theory as opposed to managerial theory postulates that information does not come free and that there is a cost attached to the gaining of necessary information. Gathering this information in itself will deplete resources. It is only worthwhile to obtain information if the marginal benefit exceeds or is at least equal to the marginal cost of obtaining the information (Simon 1959:270).

Decisions are made according to past experience, and if failure has resulted in the past, the same mistakes will not be repeated. For this reason the theory assumes that the firm is a 'rational' system (Koutsoyiannis 1979:395).

5.6   Uncertainty and the environment

Within the process of decision-making behavioural theory focuses on the short-run. In contrast to managerial theory, behavioural theory states that the external environment does not play a major role when goals are being formulated. As previously discussed, managerial theory assumes that the environment has a very significant impact on the formulation of management goals. On the contrary, behavioural theory focuses on internal resource allocation and assumes that competitors are in collusion and hence the external environment does not pose a serious threat to the survival of the firm (Koutsoyiannis 1979:395). The model also does not consider uncertain conditions in the future. As previously mentioned, behavioural theory focuses on short-run decision-making.

Simon states that due to situations where uncertainty prevails, the concept of 'bounded rationality' applies (1987:224). It is not realistic that in a given situation all the possible 'global' alternatives can be considered and hence decisions are made according to information applicable to the direct situation. (Simon 1987:224). Machlup states that bounded rationality refers to a complete 'environment' (1967:25).

5.7   Side payments

Behavioural theory differs from other theories in that it postulates that 'side payments' exist. These are payments to departments within the firm that offer a staff function, in the form of advisory or support services; such as a research department. In addition to rewards for labour, resources are allocated for project or research payments, and go to satisfy the demands of this group within the coalition. These side payments take the form of policy commitments by top management (Koutsoyiannis 1979:391). This is also referred to as a concept of 'organisational slack' as these payments are above what is demanded by the groups of the coalition (Hardwick 1990:173).

Behavioural theory is very much centred on the internal organisation and the behaviour of the members within the coalition. Resources are allocated according to a bargaining process, as a result of conflict between the various groups. Since internal bargaining and human behaviour are very much related to psychology; it is for this reason that it is difficult to make sound behavioural predictions. Maximisation of different variables is not an issue, but rather the concept of satisficing; that is achieving satisfactory levels to keep the owners satisfied. Behavioural theory does not focus on the future, but rather the short-run. It does not consider the environment a threat, due to collusive behaviour with competitors. One has to consider how realistic these assumptions are in the dynamic global environment in which the firm of today operates.

6   The Structure-Conduct-Performance Paradigm (SCP)

The SCP approach is an extension of neo-classical theory. Conduct and performance have become the key issues, moving away from a focus on structure. This theory argues that performance will affect the structure, and the conduct and performance of the firm will determine its overall success. Firms that perform unsuccessfully have a good chance of failure and will most probably fail to survive, or alternatively will face the reality of a takeover occurring. On the other hand, successful firms will have the effect of other firms joining the market. Hence, it can be said that performance of the firms within the market affects the structure. Proponents of the new industrial organisation focus on the dynamic environment in which the firm is operating and needs to survive. These proponents argue that the neo-classical theory models "adopt a narrow view of performance, primarily concerned with this static consideration" (Ferguson & Ferguson 1994:19).

7   The Principal - Agent Problem

This theory highlights an area of conflict between the principal, being the owner or director of a firm and the agent, being the person who is hired to carry out the actual job. In a small business this can cause a problem as these two persons may not have the same goal i.e. their self-interests may differ. For instance, the principal may have the goal of long run profit maximisation whereas the agent is looking for maximisation of profits in the short run, without considering long run implications. For example, there may be an immediate reward of commission for the agent and hence he focuses on the short run; which is in direct conflict with the long run goal of profit maximisation (Lipsey 1989:275).

In the case of the small firm where the owner and the manager is one and the same person, or alternatively where the firm is run by a small group of people, the goal of profit maximisation can be followed without there being conflict within the organisation. A situation of conflict usually arises in a large firm.

8   Chapter Summary

The traditional neo-classical theory of the firm assumes that the main objective of any firm is to maximise its profits. The managerial theories assume that the ownership and the control of the firm is separated, and because of this managers will often follow other goals, which may not be profit maximising goals, but rather the maximisation of other variables such as sales or revenue maximisation. The Behavioural theory also assumes that the maximisation of profits may not be the main goal of the firm.

However, for a firm to survive and prosper, growth must surely be the main objective. Through growth, the firm will become a stable role-player in the economy and the owners and managers will find a more stable and secure future. Griffiths & Wall advocate that "the prominence of the profit target may be an indication that ownership is not as divorced from the control of large firms as once may have been thought " (1997:67). In the short-term the firm may follow sales maximisation strategies, however, in the long-term profit remains a useful predictor of long-term firm behaviour. As cited in Griffiths & Wall (1997: 68), in a study performed by D.D. Shipley in the United Kingdom in 1981, 88% of firms included profit as part of their "goal set."

Marris argues that where management and control do not lie in the same hands, the overriding goal that both managers and owners will share is growth. Owners will be aiming to maximise growth of the firm so as to increase the value of their personal equity, while managers will be seeking to maximise the demand for the firm's products and services, as to strengthen their position of power within the organization (Marris 1987:673). Therefore, ultimately both the owners and the managers are striving towards the same goal.

CHAPTER 3

THE SUCCESSFUL BUSINESS OVER A SUBSTANTIAL PERIOD OF TIME WITH SPECIAL FOCUS ON THE ENTREPRENEUR

1   Introduction

The previous chapter was devoted to a historical discussion of the origins of entrepreneurship as well as a discussion on the various schools of thought regarding the theory of the firm, with special focus on the goals, objectives and behaviour of the firm (both large and small) in the market place. Chapter three goes further to look at the successful business, which operates over a substantial period of time, with a special focus on the entrepreneur who is the owner/ manager.

It must always be remembered that most large businesses were at one stage in the micro, small or medium category. Large organisations are generally the conception of one or a few individual's ideas.

2.   Indicators of Performance

In order to establish whether a business has been successful or not since start up, it is necessary to analyse the performance of the firm over a period of time. Performance can be measured in terms of financial performance as well as growth.

There is no real consensus on what is the most reliable measure of performance and Wiklund cites Cooper (1995) who states that much previous research has focussed on variables for which information is easiest to gather. Researchers tend to advocate growth as the most important measure of performance measure in small businesses. It is a preferable performance indicator to accounting measures as the latter are often not easily accessible and may be inaccurate (Wiklund 1999:4).

3.   Measurement of internal growth of the business

An attempt to measure internal growth of the business group was done on the basis

of employee numbers, turnover figures and asset values. The basis for calculating the various rates was the following formula:

Growth = (A − B) divided by C

———————————————
   B

Where A = workers at the time of the survey
       B = workers at start up of the business
       C = age of firm in years

Mc Pherson used the above formula to measure average annual percentage change in employment (Mc Pherson 1992: 95).

3.1 Growth in Turnover of the Business

Wiklund suggests that growth in turnover, as a measure of performance is the best measure of performance in small firms. He cites Hoy, Mc Dougall, & D'Souza (1992) in support of this. Entrepreneurs believe that growth in turnover is the most common indicator of performance. One of the main reasons for advocating growth in turnover as the most important measure of growth is that the turnover of a business is directly related to the sales of the products offered by the firm, which is ultimately related directly to the demand for that product. Hence, it can be said that growth of the business is determined and driven by an increased demand for the firm's products or services (Wiklund 1999:4).

Wiklund also correctly argues that it is very unlikely that growth will occur in other dimensions of the business without growth in the sales of the business. In other words, it would be virtually impossible to increase the number of employees or acquire additional assets without a corresponding growth in the turnover. However, increasing the turnover of the business could be achieved by outsourcing additional or increased volumes without affecting the internal structure of the business. In this instance, turnover would grow, but not employee numbers within the business, giving the organisation a more organic form which allows it to change its size as and when needed.

In a survey conducted in Australia, Harris and Nightingale found that a strong positive relationship between employment growth and the average annual growth of turnover over a five-year period existed. Where employment increased, the mean increase was greater and the average annual growth of turnover higher. Conversely, for those businesses where employment decreased, the mean decrease was lower the higher growth of turnover (1990:96).

A longitudinal study of small business performance was conducted among owner – managers in Australia. It was found that the following four factors are associated with growth in turnover over a four-year period, namely:

1. **Key data awareness**. This involves the identification and collection of key data in order to measure the satisfaction of the customers with products and services.

2. **Not price driven**. The business is involved in non-price competition strategies rather than competing on price. Customers remain loyal despite price increases.

3. **Business generating system**. Market opportunities are clearly identified; proven products or services are sold in an established market, new markets are continually developed and a systematic approach is followed in order to create new customers.

4. **The use of experts**. There is a desire and willingness to appoint expert advisors to assist growth.

3.1.1 Key sales growth factors

The following actions are required in order to achieve these objectives:

*Table 3: **Key sales growth factors***

Gather key data	Focus on the customer. Monitor the level of customer satisfaction.
Develop a "business generating system"	Identify long-term market opportunities. Sell proven products or services. Plan for new market developments and allocate resources accordingly.
Do not only focus on price	Add value to products or services. Enable customers to buy for non-price reasons. Justify premiums charged through value added.
Make use of experts and family with a partnering focus	Improve skills base. Generation of more ideas. Increase in resources. Improve association & relationship with family and friends

(Mazzarol 1999:11).

3.1.2 Calculation of Growth in Turnover

For the purposes of this study the following formula has been used to calculate the growth in turnover of the business. Obviously, due to limited information given in financial statements, it is often impossible to determine whether an increase in the turnover of the business can be attributed to inflation or real growth. However for the purposes of this study, figures have not been adjusted for inflation for any of the businesses studied.

Growth in turnover can be defined as the average annual percentage change in turnover from the time the business began operations to the time of the study. Therefore, growth in turnover is calculated as follows:

$$\frac{\dfrac{\text{Turnover (latest financial year)} - \text{Turnover (first financial year)}}{\text{Turnover (first financial year)}}}{\text{Age of firm in years}} \times 100$$

3.2 Growth in Employee Numbers in the Business

With a very high general unemployment rate in the country, there is much interest in

the creation of employment opportunities within the small business sector of the economy. However, it must be considered that in many cases there are inverse relationships between employment and capital investment. In many cases firms replace people with machines (capital investment.) Although the firm may be expanding its operations and sales, employee numbers may not actually be increasing. In many instances the employee numbers are actually decreasing.

Often a labour based measure of growth is considered as a reliable measure of growth in small businesses, as many owners of these small businesses do not keep records and no reliable reporting occurs.

3.3 Calculation of employee growth rate of the business

Growth in employment can be defined as the average annual percentage change in employment from the time the business began operations to the time of the study. Therefore, for the purposes of this study the growth of employee numbers is calculated according to the following formula:

$$\frac{\dfrac{\text{Number of employees (latest financial year)} - \text{Number of employees (first financial year)}}{\text{Number of employees (first financial year)}}}{\text{Age of firm in years}} \times 100$$

3.4 Growth in Assets

Measuring growth in assets is another way of determining performance of the business. However, it must be remembered that this may not be a reliable measure of growth within a service business. Intangible assets may grow, but not the physical assets. Wiklund cites Weinzimmer, Nystrom, & Freeman, (1998), in saying this can also be regarded as an accounting problem, as these intangible assets, which are in many cases specific to the service industry, do not appear on the balance sheet of the business (1999:5).

3.4.1 Calculation of growth in value of assets in business

It is assumed that assets in the business are valued at historical cost value. Growth in the value of the assets of the business can be defined as the average annual percentage change in the total value of the assets of the business from the time the business began operations to the time of the study. For the purposes of this study the following formula is used to calculate the growth in asset value since the first year of operation:

Value of assets (latest financial year) – value of assets (first financial year)

Value of assets (first financial year)

_____ x 100

Age of firm in years

3.5 Comparisons with Competing Firms

It is suggested that performance should also be compared to the performance of competitors. Wiklund suggests that by comparing the business to similar businesses within the market, it can be established whether the firm is simply performing along with the trend or if that particular firm is out-performing the market. This is established through determining whether the business is showing growth patterns that deviate substantially from the industry as a whole. He advocates further, that both growth and financial performance of the business should be related and compared to that of the competitors within the industry (1999:5).

3.6 Lifestyle

In a study of 300 small businesses in Western Australia, Walker found that small business owners were aiming at attaining a level of financial security by owning their own businesses; but equally important to them was the issue of lifestyle and personal freedom. Walker also concluded that the differences, in measuring the success of businesses between men and woman, are diminishing. Furthermore, by

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making use of financial measures as well as non-financial measures (such as personal freedom and lifestyle as indicators of performance, a more balanced approach in owning a business is taken. Small business owners are looking for more than merely generating an income (Walker 2000:9-10).

4   Measuring personality characteristics

Van Dyk defines personality as "a characteristic way in which a person thinks and acts in an effort to adapt to his or her environment. This includes personal characteristics, values, motives, genetic factors, attitudes, emotional reactivity, abilities, self-image, and intelligence" (Nel, Gerber & Van Dyk 2001:29). Weiten defines personality as an individual's unique constellation of consistent behavioural traits. A personality trait is defined as a durable disposition to behave in a particular way in a variety of situations (Weitman 1994: 315). Schermerhorn *et. al.* defines personality as the overall profile or combination of traits that characterise the unique nature of a person (1997: 47). Personality traits are represented by adjectives such as "honest, dependable, moody, impulsive, suspicious, anxious, excitable, domineering, and friendly". Many psychologists believe that personality can be described by measuring traits. Most approaches to personality assume that some traits are more basic than others (Weitman 1994:315).

Psychologists agree upon the following generalisations about the concept of personality:

1.   Personality is an organized whole, otherwise the individual will have no meaning

2.   Personality seems to be organised into patterns that can be observed and to a certain extent measured

3.   Although personality has a biological basis, the product of the social and cultural environments form its development

4.   Personality has superficial aspects such as attitude towards taking the lead and sentiments towards authority

5.   Personality involves both common and unique characteristics. People differ from each other in certain respects, and show similarities in other respects.

From the above it can be said that personality is a relatively stable set of variable characteristics, tendencies, and temperaments that have been significantly formed by inheritance, social-, cultural- and environmental factors. Differences and similarities in behaviour of the individual are determined by the set of variables (Nel et. al. 2001:29-30).

Standardisation refers to the uniform procedures used in administering and scoring a test. Standardisation of a test's scoring system will include the development of test norms (Weitman 1994:228). With psychological testing, everything is relative to other people. Test scores are interpreted by consulting test norms to establish what represents a high or a low score. Test norms will provide information about how an individual's score on a psychological test ranks in relation to other scores on the test. In other words, an individual's creativity may be classed as average or even above average in their clerical ability. The interpretations are derived from test norms that will assist the interpreter understand what the test score means. A raw test score can be converted into a percentile score, which will indicate the percentage of people who score below the score obtained by the individual (Weiten 1994: 228).

Personality tests measure emotional, motivational, interpersonal and attitudinal characteristics (Gibson et.al. 2000:113). To be interpretable, a test must be reliable. Reliability refers to the measurement consistency of a test. This means that the test will yield similar results on repetition of the test (Weiten 1994:229). Relationships between variables can only be determined with confidence where one can depend upon the results of measurement. Psychological and educational measurements have greater or lesser reliabilities. In order to interpret the results of the test, the test must be reliable. Reliability is a necessary, but not sufficient condition of research results and the interpretation of those results (Kerlinger 1986:415).

A test needs to be valid. Validity refers to the ability of a test to measure what it was designed to measure (Weiten 1994:230). With reference to the entrepreneurial "job" category, validity will refer to the extent to which scores on a test correspond to the actual job performance. It represents how well the technique being used to assess the candidates for a certain position, is related to performance in that particular job

(Carrell, Grobler, Elbert, Marx, Hatfield & Van der Schyf 2000:181).

In terms of deciding whether or not a test is valid, the question needs to be asked, are we measuring what we think we are measuring (Kerlinger 1986: 417)? In other words, the test may be a good measuring device, but at the same time it has not achieved its purpose in that it did not actually measure **what** it was supposed to measure. Criticisms of many psychological tests and educational measurement are about the question of validity. However, much progress has been made in this area and there is an increasing understanding by all using these tests, that all measuring instruments need to be both reliable and valid (Kerlinger 1986:433).

Personality tests can be classified into two main broad categories, namely:
1.   Self-report inventories
2.   Projective tests

Self-report inventories are personality tests that ask the individual to answer a series of questions about their characteristic behaviour. Projective tests ask the individual to respond to vague, ambiguous stimuli in ways that may reveal the needs, feelings, and personality traits of the individual.

There are many different tests on the market. These tests are tools that are designed to assist in the recruitment of individuals into certain positions. One of the aims of this study is to assess whether personality has any influence on the likelihood of success being achieved in the business. However, it is not the aim of the author to do comparative studies between the different personality profile tests available on the market and comment on their validity. Rather, a particular registered package that is widely applied in business in South Africa that has a high proven success rate has been chosen. Furthermore, the accuracy of measurement of this profile test has been researched with the result being that it is a reliable tool in matching an individual to a certain position or job. A description of the registered profile test will be covered in chapter 5, where the research instruments are discussed. The test applied falls into the self-report inventories category. Self-report inventories are as accurate as the information that is provided. They may be susceptible to sources of error, such as:

1. Deliberate deception, where the respondent intentionally fakes particular personality traits
2. Social desirability bias, where a respondent will respond to questions in a way that he or she thinks will make him/her look good
3. Response sets, where response to the test items is unrelated to the content of the items.

However, developers of the personality tests have developed and built in strategies to reduce the impact of the three sources of error discussed above (Weiten 1994: 341).

Psychological tests used in South Africa is regulated by three bodies, namely:
1. The Government, who determines the conditions under which tests may be applied according to the provisions of the Medical, Dental and Supplementary Health Services Professions Act, No. 56 of 1974
2. The Professional Board of Psychology, who aims to promote a high standard of professional behaviour in the field
3. The Test Commission, which is a non-profit organization established for the purpose of promoting the scientific and responsible use of psychological tests (Carrell *et al.* 2000:183).

4.1 Understanding the behaviour of an individual

The analysis of the behaviour and performance of an individual requires the consideration of the variables that influence the behaviour of the individual directly. The variables include:
1. Abilities and skills
2. Background
3. Demographic variables (including gender, race and cultural diversity) (Gibson, Ivancevich & Donnelly 2000:91).

Demographic characteristics are the background characteristics that help shape what a person has become. They include gender, race, age, ethnicity, and able-bodiedness, and are often referred to as biographic characteristics.

4.1.1 Abilities and skills

A further set of individual difference characteristics includes aptitude and ability. Aptitude is the capability of learning something; whereas ability refers to the capacity of an individual to perform the various tasks needed for a given job. This includes the knowledge and skills required to do the job (Schermerhorn *et al.* 1997: 45-46).

Abilities and skills play a very important role in explaining behaviour. An ability can be defined as a trait (innate or learned) that allows a person to do something mental or physical. A skill is a task related competency.

4.1.2 Job analysis

Job analysis is defined as the process by which management systematically investigates the tasks, duties, and responsibilities of the jobs within an organisation. The process includes investigating the level of decision-making by the individual within a job category, the skills needed to perform that job adequately, the autonomy required by the job, and the mental effort required to successfully perform the job (Carrell *et al.* 2000:78). Job analysis assists in the understanding of the activities in the job required in a work process that helps to define jobs, their interrelationships, and the demographic aptitude, ability and personality characteristics required to perform the job (Schermerhorn 1997:108).

Job analysis involves:
1.   defining and studying the job in terms of the tasks or behaviours required
2.   specifying the responsibilities
3.   defining the training needed to perform the job successfully.

Each job consists of people and tasks. To match the right person to a job suited for his /her skills and abilities is not easy. To do this, the content of the job, which includes the description, responsibilities, goals, objectives, and specific tasks must

be examined. The required behaviours of the job, in terms of quantity, quality, cost, and timing have to be considered. (Gibson *et al.* 2000:94-95).

4.1.3 Demographics

Referring to gender the question of whether there are differences between men and woman in terms of job performance is asked. It has been conclusively proved that there is no compelling data suggesting that either men or woman are better job performers. Differences appear in social behavior and aggressiveness. However, as the trend towards equality of the sexes continues in most aspects of life, these differences are likely to disappear (Gibson *et al.* 2000:96).

The behaviour of an individual is complex because it is also affected by a number of environmental variables and different individual factors, experiences and events. All of these individual variables and experiences affect behaviour (Gibson *et.al.* 2000: 91). Individuals will perceive the environment in different ways through sight, touch, hearing, taste, and smell. Perception aids the individual in selecting, organising, storing and interpreting the information into meaningful information (Gibson *et al:* 2000:97)

Individual differences as well as behavioural differences need to be recognised. Behaviour depends on certain variables, which will be shown in the table to follow. The equation of Kurt Lewin states that

$B = f(I, E)$, where:
B: behaviour of the individual
F: is a function of
I: individual variables and
E: environmental variables

Research has shown that behaviour :

√ is caused

√ is goal-directed

√ is measurable where it can be observed

√ is motivated

√ which cannot be directly observed, such as thinking and perceiving, is also important in accomplishing goals (Gibson *et.al.* 2000:93).

The environment	The individual	Behaviours	Outcomes
Work	• Abilities and skill	Problem solving	Performance
• Job design	• Family background	Thinking process	• Long-term
• Organisational structure	• Personality	Communication	• Short-term
• Policies and rules	• Perception	• Talking	Personal development
• Leadership	• Attitudes	• Listening	Relations with others
• Rewards and sanctions	• Attributions	Observation	Satisfaction
• Resources	• Learning capacity	Movement	
	• Age		
Non-work	• Race		
• Family	• Sex		
• Economics	• Experience		
• Leisure and hobbies			

Figure 1: **Individual Behaviour Framework** (Gibson et.al. 2000:92)

It is important to note that personality is only one of the factors influencing the behaviour of individuals. Other characteristics as shown in the figure above also impact on the dynamics of behaviour.

4.1.4 Target population

In order to define a target population and to direct task analysis, it has to be decided who the intended individual and appropriate individuals will be and whether they are relevant to a specific situation. In this study **the target group** is seen as **the entrepreneur**. He will be referred to as the learner. To analyse the target group the following related characteristics are worthy of consideration. They are centred on the following characteristics:

1.   Demographic, such as age, gender and race

2.   Physiological, such as heart condition, lung capacity and general physical condition

3. Experience, such as length of service within a firm, length of service in the job/position, experience with present job activities prior to job entry, and similar experience

4. Learning style, for example being classed as a reflector or activist

5. Aptitude, which is the ability to perform in a certain manner in the future. For example, having special skills and talents

6. Knowledge, which includes education, basic skills and specialised previous education, training and development (ETD)

7. Attitudes, which is the individual's feelings about the topic, job/position, ETD, performance problems and organisation

The above characteristics can be applied in the same manner as skills, attitudes, and prerequisite knowledge (competencies). In other words, what this means is that for example demographic characteristics (age and gender) can be used to assess learners for the entrepreneurial training courses (Jerling 2000:35).

4.2 What type of person is characterised as the "successful" entrepreneur?

Defining the field of research in entrepreneurship requires that we consider the individual (the entrepreneur), the project, the environment, and also the links between them over a period of time. The individual entrepreneur is a "human being capable of creating, learning and influencing the environment" (Bruyat & Julien 2001:165).

There continues to be much debate about what makes a person successful. Why is one person successful in business and yet another not?

The question arises – is there a typical successful person?

Walker states that business success and survival can be attributed to the entrepreneur him or herself. These individuals are usually highly motivated; determined; persevere and have good communication skills (2000:3).
Shuman attempts to identify and define the development process which "intuitively all natural born entrepreneurs use when starting and building a successful business"

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(2000:1). It is interesting to note that he refers to the "natural born entrepreneur". He states that entrepreneurs who are successful might possess the conventional wisdom, which he identifies as having the ability to identify and evaluate an opportunity, develop a business concept, assess and acquire resources, manage the business venture, and finally being capable of harvesting and distributing value. However, he comments that conventional wisdom is "wrong" and that this can be seen by the fact that the "standard advice" given on how to start and run a business more often results in failure of the business rather than success. Shuman states that what really makes these entrepreneurs succeed is that "they follow their gut" and therefore cannot describe their technique for success (2000:2-3).

If the entrepreneur is going to be successful in business he needs to develop an understanding of "what needs to be done, when it needs to be done, and why it needs to be done". He refers to this as the "rhythm of business" and he states that the entrepreneur needs to "feel the timing" of and have an understanding of the nature of each step of the business" (Shuman 2000:2-3).

Walker advocates that an entrepreneur is primarily successful because of strategic reasons; but the other main reason for business survival and success is because of the personal characteristics of the individual going into business such as a high motivation level, determination, perseverance and good communication skills (2000: 3).

Gray cites Birley, (1989a), who advocates that the level of education, previous work experience, the availability of venture capital, the economic environment, role models and access to support services will affect the level of success obtained in business. Huck & McEwen, (1991), also advocate that entrepreneurial competencies identified for success include management, planning and budgeting skills (Gray 1998:17). In a study of small businesses in Victoria, Australia, with less than 100 employees, Gray attempted to determine whether a relationship existed between small business strategy and small business success. She found that to achieve success beyond survival, entrepreneurs had to develop specific strategies to enhance the growth of their businesses. In order to predict potential successful entrepreneurs, it is appropriate to include instruments to measure the decision-

making style of the entrepreneur and the small business strategy. The results of the study suggested that an inventive decision-making style might account for the difference in growth rates between successful small businesses and those not showing any growth in terms of employment numbers (Gray 1998:21). According to Osborne, entrepreneurs who succeed often exhibit a characteristic profile. He states:

1.   They display a strong need for achievement
2.   They are comfortable with the consequences of their actions
3.   When taking risks, they will avoid the probability of failure, regardless of the rewards attached
4.   They avoid success if it means low rewards
5.   They are goal-orientated
6.   They prefer tasks that are measurable
7.   Money is more of a measure than a motivator
8.   They are characterised by a high ego drive and energy
9.   They can deal with ambiguity
10.   They have the need for independent action (1995:6-7).

Walker states that business survival and success is often attributed to the personal characteristics of the small business owner that include motivation, determination, perseverance and good communication skills. She cites Burns, (1996b); Cooper, (1981); Lyles *et.al.*, (1993) and Moore, (1990), in stating that the reasons for success are mainly due to the following:

√   Process or strategy
√   A business plan
√   Good human resources
√   A good product
√   Good management practices (2000:3).

The entrepreneur is described as an individual who is:

1.   highly driven to succeed
2.   has a high propensity for risk-taking, especially creative risk taking
3.   a preference for innovation
4.   exhibits a psychological profile consistent with goals of maximising profit and

growth

5.   makes use of systematic planning (Stewart, Watson, Carland & Carland
       1998:204).

Carland focusses on the **process** issues of entrepreneurship rather than
researching the personality traits of entrepreneurs. He describes these process
issues as the creative act of actually starting or initiating the venture. Through
empirical research he found that entrepreneurs initiate ventures, institute
management processes and growth strategies, in direct proportion to the strength of
their entrepreneurial drive (Carland 1995:5).

Interestingly, Mezias and Kuperman argue that successful entrepreneurship is often
not solely as a result of one individual acting on his/her own; but rather
entrepreneurs existing and operating as part of larger collectives (2001:209). They
analysed how entrepreneurial behaviours interacted in different parts of a
community defined by the value chain. They found that more entrepreneurial
behaviours resulted in innovation, the creation of new organisations or both (Mezias
and Kuperman 2001:229).

Dolabela states that the individual who is capable of establishing a business must
have the attitudes and abilities that will enable him/her to work and survive in the
business world. These qualities are more important than the instrumental knowledge
that is taught through the teaching of entrepreneurship. From this starting point, the
individual can then learn the instrumental knowledge in a self-sufficient means within
the context of pro-activity (1999:5).

4.3 Reasons for starting a new venture

Individuals start a new venture for the following main reasons:
1.   The desire for achievement combined with a sense of independence.
2.   The desire for a change due to dissatisfaction with present working
       conditions.
3.   The desire to follow traditional family roles (Sexton & Bowman-Upton 1991:
       30).

Walker cites Buttner, (1993); Gray (1994b); Hamilton (1987); and Lawrence & Hamilton (1997), when she states that the reasons for starting up a business can be classified into either push or pull factors. Pull factors are factors that would motivate or encourage an individual to start up a venture on his or her own accord; whereas push factors include factors associated with more negative reasons for starting up a small business. Another reason for starting up a business could be a combination of both push and pull factors.

Table 4: **Push and Pull Factors**

Pull factors	Push factors
To fulfill an ambition	Being made redundant
To be one's own boss	Perceived lack of opportunity in employment
A potential business opportunity	Unhappy as an employee
Use skills & knowledge acquired in previous employment	

(Walker 2000:3).

In a study conducted by Bhowan and Tewari, comparisons were drawn between a Swedish study undertaken by Sundin and Holmquist (1989) and the results obtained from their survey. Bohwan and Tewari found that Swedish female entrepreneurs stated the main reason for going into their own business was to be able to combine work at home and in the market. South African female entrepreneurs in the greater Durban area of the province Kwa- Zulu Natal stated that their main reason for going into business was to develop and use their knowledge. They note the contrast between push and pull factors that motivated the Swedish and the South African group in the survey. Sundin and Holmquist (1989) also classified push factors to include variables that inadvertently pressured entrepreneurs to start their own businesses such as unemployment, unhappiness at work and related family reasons. On the other hand, pull factors included motives such as self-realisation, self-determination, use of personal skills, independence, high income and fulfilment of altruistic motives (Bhowan and Tewari 1999:3).

The South African female entrepreneurs from Durban have a motivation pattern for entering into business similar to that of the Swedish male sample. Both of these

sample groups were more attracted by pull rather than push factors. The woman participants in the South African survey were probably inclined to follow this career path due to intrinsic motives and to a lesser extent extrinsic motives.

Swedish participants followed this career path for extrinsic reasons, namely, economic reasons. The survey found that most South African female entrepreneurs from Durban said they started up their own businesses to enjoy flexible working hours, however it was found that on average they were working 54 work hours per week, which implies less leisure time at home which would obviously affect their personal lifestyles (Bohwan and Tewari 1999:9-12).

The question regarding what motivates an individual to start up a new business is continually asked. According to a study of 234 entrepreneurs located in the Midwest region of the United States of America, it was found that the factors that motivated the entrepreneurs to start and continue with their businesses included:

*Table 5: **Factors motivating entrepreneurs in the USA to start and continue with their businesses***

Extrinsic rewards	Acquire personal wealth
	Increase personal income
	Increase income opportunities
Intrinsic rewards	Recognition
	Challenge
	Excitement
	Growth
	Accomplishment
Independence	
Family security	

(Kuratko *et.al.* 1997:6-7)

The participants were well distributed across age, educational level, and length of time in business and company size. The sample of participants was approximately 70% male and 30% female. This study clearly shows that not all entrepreneurs are motivated and driven by the goal of earning a financial profit, but are after other goals as well (Kuratko *et.al.* 1997:6-7).

On the other hand many individuals will decide not to go into business for various reasons. Van Auken found that the most important obstacles to start-up a business are:

1.   Time constraints.
2.   The availability of capital.
3.   Risk tolerance.

Furthermore, he found that individuals who had previously owned a business believed that obstacles in launching a business could be overcome; whereas those who had never owned a business believed they could not be overcome. The findings of this research suggest that attention could be focussed on prospective entrepreneurs who hade never owned a business before. His respondents were 52% male and 48% female. The mean age of the respondents was 37. Approximately 40% of all the respondents had owned a business previously. Of the 40% who had previously owned businesses, 66% of these businesses were no longer in operation.

Other reasons cited as obstacles to start up a business were:

1.   Impact on lifestyle.
2.   Too complicated.
3.   Lack of skill/knowledge.
4.   Business would not work.

However, the above obstacles were perceived to be not as significant as lack of money, time and too much risk (1999:181).

4.4 The Perception of Business Opportunities

As cited in Sexton & Bowman-Upton, (1991), Israel Kirzner maintained that the identification of opportunities in the market is a critical function performed by the entrepreneur. Joseph Schumpeter stressed that this was one of the distinguishing factors of entrepreneurs: that they are able to identify, evaluate and act on an opportunity (Sexton & Bowman-Upton 1991:91). The identification of an opportunity in the marketplace or environment within which the entrepreneur will operate, is the first step of the process of starting-up the new business venture.

Timmons concludes that equal opportunities should be created and not equal incomes. This will result in the entrepreneurial process taking over, and thereby expanding the economy and bringing about social mobility. In a study conducted during the 1970's, where three groups of young Canadians in their twenty's, all having at least twelve years of schooling, volunteered to work in a simulated economy where employment consisted of the manufacture of woolen belts on small hand looms. It was their prerogative to work as much or as little as they desired. They were paid a commission for each belt produced. It was found after 98 days that 37,2 % of the income of the simulated economy went to the 20% with the highest earnings. The bottom 20% received only 6.6% (Timmons 1999:16). The results proved to be anything but equal. Therefore equal opportunities can be created, however in the opinion of Timmons this will never translate into equal incomes within an economy. There will always be disparity despite equal opportunities being created.

In many cases the entrepreneur lacks the resources to actually pursue the opportunity. For example, there may be a lack of funds. Sexton and Bowman-Upton refer to an "entrepreneurial mindset". By this they mean that gaps will exist between " what is needed and what is possessed". It will be up to the entrepreneur to bridge those gaps and through this achievement the entrepreneur will be able to flourish . For an opportunity to exist:
1.   There must be acceptable barriers to entry.
2.   There must be the potential to earn a profit.
3.   A competitive advantage must exist (Sexton & Bowman-Upton 1991:95).

An important consideration for the prospective entrepreneur, when "scanning" the environment for new opportunities, is that certain opportunities are geographically specific (Sexton & Bowman Upton 1991:94). This is a very interesting point made by these authors, as prospective entrepreneurs often fail to address the specific needs of an area and purchase a franchise or duplicate a concept that they have seen elsewhere. These concepts may be geographically specific, which may ultimately lead to failure in a different region of a country. In a developing nation such as South Africa, many opportunities specific to a particular geographic area may be present.

In a study conducted by Shepherd and Levesque, the two primary research themes were: why, when and how some people are able to discover opportunities; and why, when and how are some people able to exploit these opportunities whiles others cannot or do not. A model for entrepreneurial opportunity assessment was proposed. The approach was consistent with neo-classical information search. It provided the basis for an understanding of how long it takes entrepreneurs to search for information to acquire the necessary knowledge to make a decision with an acceptable level of certainty. Based on the assumption that entrepreneurs typically face high uncertainty and extreme time constraints, the concept of a window of opportunity, was used to represent a factor that contributed to the time pressures. The difference between entrepreneurs in terms of their "absorptive capacity" was modelled. Shepherd and Levesque use the definition proposed by Cohen and Levinthal (1990). Absorptive capacity is defined as the "ability of a firm to recognise the value of new, external information, assimilate it and apply it to commercial ends".

They found that while absorptive capacity does not fully capture an entrepreneurial alertness, it does however, represent an important factor in distinguishing between the level of entrepreneurial abilities in searching for information by entrepreneurs that would contribute to their level of success or failure (Shepherd and Levesque 1990:13-14).

Osborne states that the "richness of an opportunity will lead the resourceful entrepreneur in diverse directions, the essential elements of entrepreneurial strategies remain the same" (1995:6-7)

In considering the consequences of risk-bearing actions; the entrepreneur needs to be innovative in order to link concept of the business with the opportunities identified in the environment in terms of the:
- √ Customers
- √ Competitors
- √ Technology
- √ Public policy social trends and
- √ Demographic patterns (Osborne 1995:8).

Success of a new venture critically depends on the support and acceptance by its stakeholders. Stakeholders will include suppliers, investors, customers, employees, and neighbours amongst others. Businesses operate within a network of these relationships. The opportunity for success arises through convincing the stakeholders that the start-up is a sustainable business and that an attractive exchange relationship is being offered. When all potential partners /stakeholders take a decision to take the risks involved in the exchange relationship, the start-up will become successful (Roessl 2001:1-2).

4.5 Competitive Advantage

For a firm to be successful, it must have a distinct competitive advantage. Sustaining this advantage will depend on the actions or the reactions of the competitors (Sexton & Bowman-Upton 1991:96). Various authors have made reference to the term "distinctive competencies" with special reference to managerial qualities. The focus is on the internal rather than the external environments, and success is determined by how the business uses its resources relative to the competition. These "distinctive competencies" include the financial, physical and human resources as well as the experience, leadership, ideas and control base of the entrepreneur. The owner–manager must learn to transfer his/her own knowledge and expertise to the employees of the business in order that the employees are free themselves for further development work "on" rather than "in" the business. This requires that the small business move from being centred on the culture and personality of the owner–manager to a "systems-based" structure that can survive without the presence of the owner (Mazzarol 1999:1)

Gartner *et.al.* found that new businesses that focussed on customised products or services, indicating the perusal of a niche market, were more likely to survive. Also, new businesses that entered industries that were in the process of expanding were more likely to survive (1998:227).

Gartner, Mitchell and Vesper developed an empirical taxonomy of new business ventures using quantitative and qualitative data from 106 entrepreneurs. A new business venture gestalt is an ideal type. It is a composite summary of the case

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descriptions of the new business ventures that would have fallen into a particular cluster (Gartner *et. al.* 1989:169-175). One of the gestalts identified is the individual who leaves his traditional previous job to pursue the unique idea. Since it is a unique product, the entrepreneur has the competitive advantage in the market. Although the start-up may seem risky for the entrepreneur for various reasons, the individual has a high interest in owning a business and is constantly alert for new venture opportunities (Gartner 1989:181).

Individuals in general, and often entrepreneurs, resist change, which can affect the competitiveness of the firm. Entrepreneurial culture is the composite of personal values, managerial skills, experiences and behaviours that characterise the entrepreneur in terms of spirit, initiative, risk-propensity, innovative capacity and management of firm's relation with the economic environment (Schumpeter 1934; Julien 1989; Covin and Slevin 1991; McGrath, McMillan and Scheinberg 1992). In a study conducted by Munguzzi and Passaro, thy found that firms that are further from the market, require policy interventions that mainly aim at giving more value to an entrepreneurial culture in order to sustain the success of the firm. Firms operating in foreign markets depend on the presence of forms of export in which the firm is directly involved, which leads to the adoption of measures to establish foreign sale structures, export consortiums and promotional activities (Munguzzi & Passaro 2001:204).

Empirical findings confirmed the influence that the economic environment and the different typologies of relations between small businesses and the market have on the characteristics of the entrepreneurial culture. The small businesses' openness to learning is particularly evident. This influences the ability of the small business to face competition and adapt to change (Munguzzi & Passaro 2001:181).

5.   Factors determining success and failure of small business in developed countries

The rate of failure in small business continues to be very high. As previously mentioned, a vast majority of small businesses fail within three years of start-up (Reynolds, Savage & Williams 1989:23). Reasons for failure are many.

Reynolds and Day suggest the main are:

1.   deficiencies in human capital,

2.   financial capital and

3.   external trading conditions (2000:2).

They go on further to say that the small business faces many obstacles which seem to be consistent problems faced especially by British small businesses, namely; low turnover/lack of business; governmental regulations and paperwork; cash flow payments and debtors (Reynolds & Day 2000:2). A brief discussion of factors determining success and failure of small business in developed countries will follow.

5.1 The Business plan and the function of formal planning in the business

In the evaluation of business concepts and proposals, special attention has always been placed on the business plan. Financial institutions and funding bodies in many instances use the business plan as a tool in deciding whether or not to grant prospective entrepreneurs finance to start up a business. The question is – should each prospective business owner write up a business plan?

Gibb found that there is growing emphasis on the business plan and outputs of the business plan. The business plan is in many cases is a necessary counterpart to government-subsidised monies given out in the form of loan schemes. In Entrepreneurship Development Programs it dominates as a proxy for effectiveness, only to establish that several months in an entrepreneurial business, the business does not look at all like the original plan (Gibb 1995:16). Timmons has argued for the past three decades that the plan is obsolete the instant it emerges from the printer. He goes further to say that it is actually obsolete before reaching the printer due to today's Internet time. A one year old venture will not be found that is identical to the overall strategy, market focus, products or services that were described in the original business plan (Timmons 1999:368).

According to Shuman and Bowman-Upton a business plan may not be necessary. In a study that they conducted, it was found that of the rapid growth firms, only 49.9% the entrepreneurs had prepared a formal business plan. 92% of the 49.9%

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individuals said that their business had benefited from the writing of a business plan prior to start up. The 51.1% of entrepreneurs who did not write a business plan were questioned on the funding of the business. The reply from this group was that they had financed the business primarily through personal savings. What was evident was that 66% of the group who wrote up a formal business plan were then very involved in strategic planning and 83% of the businesses where no business plan was written were involved in a strategic planning process. The vision, goals and target market were specified.

Initially many entrepreneurs do not want to take the time to evaluate their business concept; and underestimate the importance of planning. Timing is all-important and therefore, in many situations it may be more important to act than to plan. However in the majority of start-ups, it would be preferable to prepare a strategic business plan (Sexton & Bowman-Upton 1999:143).

Failure to plan ahead is a common problem of small businesses. Many entrepreneurs react as is necessary, without any forward planning taking place within the business. "It is generally accepted that small businesses are reactive, rather than pro-active, and invariably fail to plan: particularly the small firms." The result of this is that the owners and managers of these small firms adopt a crisis-driven approach to learning rather than planning ahead so that needs are dealt with in a structured way. Lawless, Allan & O'Dwyer refer to this as a "just-in-time" approach. Lawless *et. al.* cite a study of Hughes and Gray (1998), where they state that a major reason for a lack of success of many small businesses is their tendency to be concerned with the day-to-day demands of running their business and a short term attitude, leaving little or resources to consider training and development. The positive side of this type of planning is that these small businesses display a high degree of flexibility and responsiveness, but on the negative side is that they consistently fail to plan (Lawless *et. al.* 2000:312-313).

The life of the owner/manager can be characterised as one of day-to-day management in an uncertain and dynamic environment. In many instances the family of the owner-manager relies on him or her to provide for the family with his earnings or profits derived from the small business. This places an added responsibility and

financial burden on the owner-manager; as he/she is constantly aware that others rely on both him/herself and the business. This feeling of responsibility by the owner is intrinsic in such ownership. This combines a feeling of responsibility and the reality of total commitment in facing this uncertain and dynamic environment within which the small business operates. There is more often than not a degree of vulnerability and weakness in power dependency relationships. Strategy and tactics become more important to the owner/manager than formal planning (Gibb 1996: 314).

Tompson and Tompson found that co-preneurship is growing at least as fast as traditional business formations (2000:11). Co-preneurship occurs where businesses are owned and managed by a husband and wife team. Many challenges, including a joint planning function must surely have a direct impact on both the business and the marriage relationship. Co-preneurs need to create a balance as well as a boundary between family life and work (Tompson and Tompson 2000:11).

5.2 Capital availability and financial support

The availability of capital to a small business can be a predictor of firm performance which affects small firm growth. Financial capital enables the entrepreneur to deal with unforeseen circumstances and difficulties that may arise during the course of business due to changes in the environment. Wiklund cites Castrogiovianni, (1996) & Zahra, (1991) in saying that financial capital provides the business with financial slack, which allows the business to innovate and change (Wiklund 1999:7).

In the study mentioned earlier conducted by Gartner *et.al.*, two strategic variables and one environmental variable proved to be significant predictors of survival. Focussing on a customised product as well as entering a growing industry was found to be predictors of future survival. In addition Gartner *et.al.* found that new businesses started with the personal resources of the entrepreneurs were more likely to survive. Businesses that failed seemed to need resources that were far beyond the capabilities of the entrepreneurs to raise (Gartner *et.al.* 1998:226).

In a study conducted by Winborg and Landström, "financial bootstrapping" methods were analysed. 'Financial bootstrapping' refers to the use of methods for meeting the need of resources without relying on long-term external finance from debt holders and/or new owners (Winborg and Landström 2001:236). Different groups of financial bootstrappers are identified and the method of bootstrapping used. They are as follows:

Table 6: **Different groups of financial bootstrappers and methods of bootstrapping used**

Group of bootstrapper	Method of bootstrapping used
Delaying bootstrapper	Delaying payments Minimising stock
Private-owned bootstrapper	Owner financing
Minimising bootstrapper	Minimising accounts receivable Minimising stock
Relationship-orientated bootstrapper	Joint utilisation
Subsidy-orientated bootstrapper	Subsidy finance

(Winborg and Landström 2001: 247).

They suggest that small business consultants as well as educators shift the focus of obtaining finance from financial markets to looking at these bootstrapping methods to supply the resources needed in small businesses (Winborg and Landström 2001:250).

Romano, Tanewski & Smyrnios found that family businesses derive their funding from many different sources. The decisions regarding finance are based on various social, behavioural, and financial factors. The interaction of the owner, firm, and family characteristics actually influence the capital structure of the business and the decision-making process.

The majority of family businesses are owner-managed and therefore issues that relate to governance and choosing the appropriate capital structures that are driven by ownership and control factors are more often than not important. Factors such as the aversion to risk as well as retaining ownership and control of the business are important. These owners of small business fund a substantial amount of their capital

requirements through owner capital, and funds generated by family, friends, and members of the management team (Romano et.al. 2001:303-304).

Zutshi, in conducting his case study of small businesses in Singapore stated that entrepreneurial success is dependent on a number of factors such as the availability of capital to finance a new venture, a support system and the entrepreneurial climate in the country, and if this is not prevalent, businesses will not succeed (1997:9).

A study was conducted in the United States of America amongst the American Minnesotan Native American entrepreneurs (non-traditional) and non-Native American (traditional) entrepreneurs. Access to financial resources was found to be a factor hampering success for both groups (Garsombke & Garsombke 2000:7).

Mazzarol cites an examination done of 364 small business case studies over a ten year period by Dodge & Robbins, (1992), where it was found that the internal issues in a business posed greater problems for small businesses in the growth phase than the external environmental issues (1999:2).

5.3 Education, training and the role of the facilitator

There is no guarantee that any amount of formal training will "train" one to become an entrepreneur. Lawless et.al. cite Storey & Strange (1992), as well as Cressey & Storey (1995), where they have found that one third of new businesses are established by individuals who do not have any formal qualifications whatsoever (2000:312).

Weinrauch found that adults in America have come to outnumber the traditional younger college students in higher education, and that by the year 2000, he expected there would be 81% more adults in the 35 – 44 age category as opposed to the percentage in 1984. Furthermore, the number of adults over 55 years of age would have increased by 27%, and by 1995, the 18-24 year old population would have decreased by 20% from the 1980 level. He states that it is imperative that educators begin to understand adult learning behaviour in order that the educators may provide effective and worthwhile instruction in small business. Educators have

failed in their task to accommodate the unique differences, challenges, and opportunities that exist when attempting to educate adults (Weinrauch 1984:33); (Hayes1983:12).

Facilitators of entrepreneurial courses require a proper balance of small business experience, a formal education, as well as a diversified background. Adults will be more inclined to challenge the facilitator and will require of the facilitator to adjust to the immediate needs of the class. It is extremely difficult to locate facilitators in the education environment who are equipped with the suitable educational background, didactical experience in adult education as well as previous experience as entrepreneurs (Weinrauch 1984:35).

The content of courses is an area of interest. No standardised courses exist that are offered at the various academic institutions and colleges. Courses offered may be theory-based, practically based or be a combination of both. Fiet suggests a theory-based activity approach to entrepreneurial courses. The teacher's main role should be to achieve student approval of a learning contract as well as identify the theory-based competencies that need to be achieved (2001:101).

Fiet addresses an interesting question in the method of teaching entrepreneurship. He suggests that theory has become "boring" for the students. The problem is not with the theory but rather the way it is taught. Teachers and their style of teaching become predictable and students are no longer motivated. If theory is relevant, it will pass the test of applicability. The theory should not be blamed as a cause of failure, but rather the teacher's inability to apply it in exciting and innovating ways at the start of each class. The teacher or students assigned with the task should introduce the concepts to be mastered and the associated learning activities to the students. The activities should be extensions of previously assigned reading material that provided the theoretical basis for the competencies to be mastered. Students need to understand that the activity is an application of the underlying theoretical concept from the reference material given. The teacher needs to initiate and lead discussions thereby facilitating the learning process. The teacher becomes a coach and mentor rather than a lecturer who delivers information from a textbook in a predictable and boring fashion (Fiet 2001:101-110).

In an empirical study conducted by Rogoff and Myung-Soo Lee entrepreneurs were classified as into three basic groupings, namely,

- creators motivated by the vision of creating a new product or service
- inheritors whose path to business ownership was paved by a family member
- operators who are motivated by the financial aspects of a business operation (1996:10-15).

They found that no statistically significant difference existed amongst the three groups regarding age or education. It was also found that the personal goals differed among the three groups. Inheritors, scored the goal of "building something for my family" higher than the operators and creators. Although this was probably not terribly significant, it does however reflect the culture of the inheritor's family, which has already passed wealth to a second generation. On the goal of "gaining respect and recognition from others", there was a significant difference between the three groups. Creators scored highest on this goal. Creators proved to be more growth orientated than the other two categories. (Rogoff & Lee 1996:10-15).

Very low correlations could be found in this study between objective and subjective measures of knowledge, years in business, and business size measured by employment numbers and revenue. The strongest correlation found, was between years in business and full-time employment (Rogoff & Lee 1996:14).

In a study of new start-up firms in Korea, Jo & Lee found that the relative profit earned by a business tends to be higher when an entrepreneur has more education and experience in the line of business. In contrast, where an entrepreneur has only start-up, managerial and high-growth experience with no educational background, profitability of the business tended to be lower. A similar effect was shown for the growth of the firm where the entrepreneur had no education and experience in the line of the business (Jo and Lee 1996:161).

Erikson suggests that educational institutions could facilitate the entrepreneurial process through matching competent people, such as experienced formal venture capitalists with committed younger people. Furthermore, he found that an increased level of perceived entrepreneurial competence among people will also help to

strengthen their entrepreneurial commitment. Individuals who perceive themselves as having a high sense of capability will set more challenging goals for themselves and these individuals tend to have a much stronger commitment and will to attain these goals (Erikson 2000:287).

5.3.1 Lack of benchmarking

Furthermore, it is difficult to make comparisons between various programs. Vesper and Gartner, after attempting to rank various entrepreneurial programs offered by universities across the world suggest that entrepreneurship programs begin to systematically collect information on the following aspects:

- demographic and performance measures of incoming students enrolling in entrepreneurship courses;
- comparative information on entrepreneurship, business school and university students;
- descriptions of the outcomes of each entrepreneurship course
- measures of the intended outcomes of the program in terms of student performance, student satisfaction and resultant impact on the community

By implementing the above suggestions, it will be easier to apply quality management on the inputs, processes and outcomes of any program in order to evaluate its overall performance (1997:417).

5.4 Previous experience

In an empirical study conducted by Box, Beisel and Watts in Bangkok, it was found that performance of a firm was significantly correlated with previous experience as a member of an entrepreneurial management team, the number of previous start-ups, industry experience, as well as scanning behaviour. This was consistent with findings relating to American and Canadian entrepreneurs. Entrepreneurs classified as successful were defined as founders of independently owned firms that had been in business for ten years or less. It was found that Thai entrepreneurs are similar, but certainly not identical to American and Canadian entrepreneurs. There appeared to be no correlation between firm performance and the individual differences of the

Thai entrepreneurs. This was in direct contrast to a number of previous studies of American and Canadian entrepreneurs (1995:19 -23).

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Contrary to the above findings, Gartner *et. al.*, found that prior experience of the entrepreneur and its effect on the start-up process in no way would predict future venture success (1998:225), (Cooper and Gascon, 1992).

As mentioned previously, Gartner, Mitchell and Vesper developed an empirical taxonomy of new business ventures using quantitative and qualitative data from 106 entrepreneurs. A new business venture gestalt is an ideal type. It is a composite summary of the case descriptions of the new business ventures that would have fallen into a particular cluster (1989:169-175). Another type of gestalt they identified were individuals who started-up new businesses to escape from their previous lines of employment. These individuals feel their previous jobs offered them few rewards in terms of salary, challenging work and promotion possibilities. They started-up their small business on a part-time basis; while continuing with their traditional full-time job, their capital requirements were mostly met through personal savings, loans from family and friends. Eventually, the individuals move into the business on a full-time basis (Gartner *et.al.* 1989:178).

Levesque *et.al.* concluded that different individuals experience different changes over time in their ability, as well as their attitudes towards income, work effort, risk and independence, which may alter their career path (2000:206).

5.5 Impact of technology

The introduction of technology in the form of the personal computer and application software has transformed business worldwide. Technology in the form of e-mail, the Internet, the world wide web, telnet, file transfer protocol (FTPP), Gopher, Usenet, mailing lists, search engines, amongst many other forms of technology have changed the face of business (Timmons 1999:175-181). Timmons describes successful entrepreneurs as being fast, focussed, and flexible. E-commerce, and especially the Internet is changing the way people live, work, learn, and do business. Some of the most extraordinary entrepreneurial ventures have been Internet driven. Distribution channels and channels of retail sales have been transformed by the emergence of Internet sites such as Amazon.com. Business can only benefit from the variety of applications that have become available through improved and innovative technology (1999:189).

Harris & Nightingale also found that businesses, which introduced one or more technological innovations, showed much more rapid employment growth than those which did not introduce new technology (1990:100).

5.6 Impact of culture

Garsombke and Garsombke found in their study amongst the American Minnesotan Native American entrepreneurs (non-traditional) and non-Native American (traditional) entrepreneurs that in the case of the Native Americans it was found that differences in aspirations, communication skills, education level, as well as discrimination were factors hampering success. Very few Native Americans had started-up any business venture, and furthermore only one American Indian in a hundred (1%) was an owner of a business. The reason put forward for this was that in many non-industrialised countries, the social values of the indigenous population do not encourage entrepreneurship. These groups are traditionally hunters and originate from an agricultural driven background. In the case where colonial governments have formally ruled these territories; the economic systems and small businesses have also been controlled by the rulers (Garsombke & Garsombke 2000:7-8).

Zutshi, conducted a case study in Singapore during 1997 and found that parents will often dampen the entrepreneurial spirit of their children as they are not comfortable with the idea that their children are giving up secure and well paid permanent employment for an entrepreneurial career (1997:8).

In investigating self-employment as a career choice, Douglas and Shepherd found significant relationships between the utility expected from a job and the independence, risk and income it offered. Similarly, the strength of the intention to become self-employed was significantly related to the respondents' tolerance for risk and their preference for independence (2002:81).

5.7 Market structures and support linkages

Exploratory research in promoting entrepreneurship in small, mainly rural communities was carried out in the United States of America. Rural communities often lack the resources, expertise and infrastructure necessary to enhance economic development. Weinrauch and Miller cite the Appalachian Regional Commission, (White 1997), that offered five vital factors that could build entrepreneurial economies in smaller communities. They are:

√ Access to capital and financial assistance

√ Technical and managerial assistance

√ Technology transfer

√ Entrepreneurial education and training

√ Entrepreneurial networks (Weinrauch & Miller 1999:73).

Weinrauch and Miller found that the concerns and comments of the community leaders and small business advisors could be summarised into two major areas:

1. The role of the community leaders and government support teams.

2. Definition of priorities for the improvement of knowledge of the target market.

Comments and concerns included:

- Support services for rural entrepreneurs were fragmented
- Business training for the rural users of government sponsored services was inadequate
- Support groups for rural entrepreneurs were insufficient once they were up and running
- Support groups and the entrepreneurs made inadequate use of the latest technology
- Information on available support services was not well distributed
- Myths and misconceptions on the existence of successful rural entrepreneurship had to be overcome
- There needs to be better team work for all the different rural support groups for the development of financial assistance applications from government and grants made available
- Policies and programs need to encourage new industries need to be developed, while at the same time continuing support needs to be given to existing businesses within the region (Weinrauch & Miller 1999:75).

It was also noted that small business providers were frustrated with the constraints of their jobs due to reorganisation and intermittent commitment from government leaders as well as time and capital constraints and political changes. Small business advisors felt that the situation could be improved by:

- Reducing the red tape
- Educating current and prospective entrepreneurs on all of the support agencies available to them
- Encouraging teamwork between regional agencies
- Avoiding political favouritism within the support agencies
- Avoiding favouritism of certain entrepreneurs
- Improving communication channels between government officials and the business community
- Accepting the local community traditions and networks
- Speeding up the decision-making process of government leaders
- Remaining focussed and committed to support and serve the rural entrepreneurs

• Providing the necessary infrastructure required in the rural area, such as roads (Weinrauch & Miller 1999:76).

Conclusions on the major differences between rural and urban entrepreneurship are drawn. The differences cited are as follows:

1. Rural entrepreneurs have less access to networking and resources
2. Rural entrepreneurs have longer distances to travel to customers, resources and services
3. Rural communities have a smaller customer base
4. Rural entrepreneurs are not located in near proximity to convenient services\
5. The logistical requirements of rural entrepreneurs are quite different to urban entrepreneurs
6. Less opportunities and resources are available to the rural entrepreneur
7. The rural entrepreneur is in much greater need of direct assistance than the urban-based entrepreneur (Weinrauch & Miller 1999:76).

Weinrauch and Miller cite a study done by the Mountain Association for Community Economic Development where it was found that rural entrepreneurs were looking for a "one-stop-shop" for business information, training and support services (1999:77). In a study of small business owners in New England, it was surveyed to determine which of 42 factors encourage entrepreneurial start-up and the expansion of existing firms, and the level of satisfaction. It was found that the importance of these factors that encourage start-up and existing firm expansion, as well as the level of satisfaction change over the business cycle recession and expansion periods. Descriptive statistics for all factors were calculated. Based on the findings, one of the suggestions put forward was that public policy makers be aware of the need to provide small business owners with additional as well as different types of support during recessionary times in order that they are able to continue to operate as well as expand (Corman et.al. 1996:8).

6 Studies conducted in developing countries, focussing on factors determining success and failure of small business

With developing nations especially African countries facing growing unemployment, low economic growth rates, increasing population growth rates; there is a desperate need to address these problems in order to improve the stand of living and quality of lives amongst these peoples.

A further complication is the pandemic of AIDS that is prevalent in Africa today. Of the reported AIDS sufferers in the world, 70% are resident on the African continent (BBC television, 2002). With economically active family members dying, in many cases the economically inactive members of the family are now forced into a situation of providing for the remaining family members. Many turn to entrepreneurship in order to survive. However, with the very high failure rates of small business it is certainly a reason for concern.

Although the aim of this thesis is to identify common leading indicators for success in small business, and it can be argued that success has no boundaries, the reality is that the successful start-up and survival of small businesses, in many respects will differ for developed nations and developing nations, as well as from country to country.

6.1 Level of entrepreneurial activity

The Global Entrepreneurship Monitor (GEM) was a long-term study conceived in 1997 by the London Business School. The University of Cape Town Centre carried out GEM South Africa for Innovation and Entrepreneurship. At the time the report was published, South Africa was one of 29 countries to participate; and the only country participating from Africa. The study aimed at answering the following three questions, namely:

1.   Does the level of entrepreneurial activity vary between countries?
2.   Does the level of entrepreneurial activity affect the economic growth rate of a country?
3.   What makes a country entrepreneurial?

A sample was drawn that was representative of age, race, gender, as well as location. Weightings were applied in order that the South African adult population was fairly represented. Both formal and informal sector businesses were included with businesses in any sector included. Businesses that had paid salaries and wages for more than three years were not included as they were categorised as established businesses. Respondents were approached and interviewed in their homes. The questionnaire was translated into seven languages. In South Africa a sample of over 5000 adults was drawn.

The second source of data was a broad spectrum of 51 identified expert informants on small business across the country. In-depth interviews were conducted on 36 of these informants (Driver *et.al.* 2001:10-11). South Africa was ranked fourteenth out of 29 GEM countries on Total Entrepreneurial Activity in 2001. The rate of entrepreneurial activity of South Africa measured at 9.4%, and did not deviate very much for all the countries participating. However, amongst the developing nations it scored the second lowest. The mean of entrepreneurial activity for the developing nations, (including South Africa), was 12.1% (Driver *et.al.* 2001:14). The GEM is the first real benchmark for the level of entrepreneurial activity in South Africa compared to other international countries.

The following GEM indices were used in the study. A clarification and description of the indices are included in the table below:

Table 7: *Description and clarification of GEM indices*

GEM Index	Description of index
Total Entrepreneurial Activity (TEA) index	The proportion of adults who are owners-managers of a start-up or a new firm, that is the sum of the start-up index and the new firm index (except that entrepreneurs who are involved in both start-ups and new firms are only counted once.).
Start-up index	The proportion of adults who are owners-managers of a business that has not paid wages or salaries for more than three months.
New firm index	The proportion of adults who are owners-managers of a business that has paid salaries or wages for between three months and three and a half years.
Opportunity Entrepreneurship index	The proportion of adults who are owner managers of a start-up or new firm primarily to take advantage of a business opportunity.
Necessity Entrepreneurship index	The proportion of adults who are owner-managers of a start-up or new firm primarily because they have no better choices for work.
Established business	A firm that has paid salaries or wages for more than three and a half years

(Driver *et. al.* 2001:60).

A start-up business is classed as a business that has not yet paid any wages or salaries; as well as businesses that have paid salaries and wages for not more than three months. A new firm is classed as business that has paid salaries and wages for more than three months, but not more than three and a half years. It is important to note that the GEM **does not** measure the number of businesses, but rather the number of adults in the country starting up businesses (Driver *et.al.* 2001:10-11).

It was found in terms of the TEA that:
- One in eighteen adults (5,5 %) South African adults are an entrepreneur.
- One in 23 adults (4,3 %) is a start-up entrepreneur.
- One in 67 adults (1,5 %) is a new firm entrepreneur.

Entrepreneurial activity is highest in the 35-54 age group for both male and female entrepreneurs (Driver et.al. 2001:20). Furthermore, at least twice as many men become entrepreneurs as opposed to women (Driver et.al. 2001:20).

6.2 Factors impacting on growth of small business

The GEM study found that there is no simple relationship between the GEM indices and growth. The relationship between entrepreneurial activity and economic growth is multi-faceted. However, new firms are more likely to contribute to growth through the creation of jobs, to a greater extent than businesses just started-up. Firms started-up that move into the category of new firms paying wages and salaries for more than three and a half months will hopefully move into the established business category; where they will continue to grow and make a positive contribution to economic growth within the country (Driver et.al. 2001:49).

The GEM study found that in South Africa, 86% of new firm entrepreneurs expect to create less than six jobs in the next five years. Less than five percent of the new firms expect to create more than twenty in the next five years. It is estimated that less than five percent of new firm entrepreneurs will account for half of the jobs created by these new firm entrepreneurs (Driver et al. 2001:36-37).

Between 1990 and 1992, Michigan State University conducted five surveys of small businesses in Southern Africa. The countries studied included Swaziland, Lesotho, Botswana, Zimbabwe and two townships in South Africa, namely Mamelodi and Kwazakhele.

Questionnaires administered to existing entrepreneurs were studied and information was gathered relating to the business and the owner. Supplementary questionnaires were administered to a subset of existing small businesses. Net growth was made up of three components, namely:
- births of small businesses
- growth of existing small businesses
- small businesses' closures.

The conclusions reached in the five surveys conducted in Southern Africa are similar in that the small businesses are :

- very small in size. The average business consisted of two workers, including the owner. 90% had less than five employees and less than 2% had more than twenty employees.
- Rural in nature
- Home based enterprises
- Females own majority (At least female entrepreneurs owned 66% of the micro and small businesses).

The majority of small businesses did not grow at all. However, the firms that did grow did so at a rapid rate. Growth rates in small businesses tended to vary depending on the location of the enterprise. Rural business growth rates were substantially lower, on average than those in urban areas. Growth rates of those businesses run by males were almost 50% higher than female run enterprises in South Africa and Swaziland and over three times higher than those in Lesotho. Mc Pherson suggests that this may be due to woman being more cautious when it comes to decision-making.

The location in which the firm operates influences the growth. Small businesses in commercial districts tended to have growth rates around 14% higher than home based businesses. Urban-based firms grew faster than those in rural areas. Regional factors (the country in which the business is in operation) have a strong influence on growth performance. Mc Pherson suggests that this reflects the importance of cultural, historical, economic and regulatory environment. It was also found that small businesses with more experienced proprietors tend to grow more quickly (McPherson 1992:32-39).

Sectors with the highest growth rates vary across the countries. However, manufacturing businesses tended to have a lower chance of failure, probably due to barriers to entry preventing anyone joining in the share of the profits. In the retail there is serious competition with few or no barriers to entry (Mc Pherson 1992: 120-139).

There was a striking relationship between firm age and firm closure. The largest proportion of closures occurred at younger ages. Almost 60% of the closed enterprises in Swaziland and Zimbabwe were three or fewer years old when they shut down. While 50% of the closures were due to adverse trading conditions; 25% of the entrepreneurs shut down for personal reasons. This suggests that not all closures are of economically non-viable businesses (Mc Pherson 1992:39-40). McPherson concludes that the performance of a business, which includes its growth rate, will therefore depend to some extent on the ability of the entrepreneur (1992: 87-94).

It is interesting to compare these growth figures to a study done in Australia by Parker, where she concludes that a very small percentage of small businesses are actually responsible for most of the employment generation and innovation in the small business sector of the economy. She concludes further that the policy implication is that the general deregulatory measure designed to support small business (as a generic class) are more likely to create an environment where low-quality and low-wage employment is created in these small businesses, which provides little future for these small businesses (Parker 2000:239).

Martins and Tustin carried out a national survey in seventeen previously disadvantaged residential townships in South Africa on the profile of labour skills and employment of small businesses in these areas.

An equal number of owner/managers, 425 in each of the formal and informal sector, were approached. In the formal sector, 74% of the respondents were male with an average age of 40,3 years. Of these individuals running the businesses, 57,6% were the actual owners of the business and 78% of these were involved in the business on a full-time basis. Of the owner/managers in the informal sector, 59,8% were male with an average age of 39, 3 years. 89,1% were the owners of the business and of these 82,1% were involved in the business on a full-time basis. Of the 425 enterprises in each sector it was established that the average years in operation of the businesses in the formal sector was 8,8% as compared to 5,6% in the informal sector. Within both sectors, there were a wide variety of different types of business activities (Martins & Tustin 1998:3).

The average number of people employed on a full-time basis in the formal sector businesses was 7,8 and 2,3 in the informal sector. The average number of part-time employees employed in both the formal and informal sector was less than 1%. It is interesting to note that 29,8% of the formal and 60,5% of the informal businesses had only one person in their employ. All of the above employment figures include the owner/manager.

As far as future plans to expand the business were concerned, 68,9% of owners in the formal sector planning to expand their businesses within the next three years, whereas a higher figure of 78,1% planned o expand their businesses within the next three years and on average planned to increase their workforce with at least an additional 4,4 members. In the formal sector, the planned increase in workforce numbers was approximately 7,9 (Martins & Tustin 1998:5-6).

The South African situation can be likened to that of Latin America. Berry, in a study of the small business sector in Latin American countries, suggests that the overall economic performance over the next twenty years will not be that good, should the small business sector not perform well. The creation of employment opportunities as well as the distribution of income is not likely to improve. However, for this to happen, a strong support system that has been lacking in the Latin American countries in the past is needed. Latin America is characterized by a high level of income inequality as with a high share of capital invested in the large-scale sector that is not generating many new jobs. The remainder of the labour is forced to work with a much lower capital labour ratio. Since the 1990's there has been a period of relatively slow growth. However, on the positive side the market has played a larger role in the allocation of resources, as well as there being more fiscal discipline being applied with inflation targeting (Berry 2001:1-4); (Dolabela 1999:2). Although the micro enterprise sector, in particular, pays very low, and often only survivalist wages, it is a source of income for many South African and African individuals who would otherwise be unemployed. The same scenario is prevalent in Latin America (Berry 2001:10). However, the concerning reality is that this sector cannot be expected to generate all the new jobs that are needed without the average incomes associated with the sector falling (Berry 2001:11).

6.3 Main goals of the entrepreneurs

Mc Pherson questioned whether entrepreneurs of micro-enterprises in the developing world actually seek to maximise profit or are they rather aiming to maximise utility. In other words, the main goal of the entrepreneur may not be to maximise profit, but rather utility Traditional neoclassical theory assumes that workers are added until the value of the marginal product (MP) of the last worker is equal to the value of the wage paid to that worker. This implies that the growth rate will occur as a reaction to changes in technology, the wage rate or the price of the product being produced. Therefore, the focus should be on the factors that have an effect on the demand and supply for the product that is being produced by the micro and small businesses (Mc Pherson 1992:87-94).

In a study conducted by Bewayo in order to determine what motivates African entrepreneurs and what their main goal in business is. The main goal that was prevalent was "economic survival" or "making a living." It was evident that African entrepreneurs were not that concerned with the goal of profit maximisation. Considering this, it would not be expected that African businesses would expand and eventually become big business. Bewayo cites Fafchamps, 1994 who advocates that although the number of African businesses is increasing, their average size remains the same (1999:2).

African small business owners are attempting to survive and support their families and hence profit maximisation and other goals are not as relevant. Most of these small businesses are supporting the family, so any profits earned are not re-invested in the business. This obviously will limit expansionary prospects of the business. This would be very much in line with Maslow's hierarchy of needs theory which assumes the individual will satisfy his or her basic needs before moving on to satisfying higher order needs. Bewayo also cites a study covering Kenya, Swaziland, Zimbabwe, Botswana and Malawi done by Liedholm, McPherson & Chuta, (1994), where it was found that less than 1% (0.9%) of the businesses surveyed grew to ten employees or more over a period of five years. The majority of small businesses started up stagnated at the start-up size of one to four employees. Bewayo also states that the goal of independence is also not very important to the

entrepreneur, and because of this, friends and relatives are more than happy to help out with raising capital for the business (1999:4).

On evaluation of the findings Bewayo, it is questionable whether these small businesses will ever really contribute to economic growth and reach a stage of wealth creation within the economy. However, from a socio-economic perspective these small businesses; survivalist as they are; will at least absorb a labour force that would otherwise be unemployed.

6.4 The impact of location of the business

Home- based businesses are less efficient and grow at slower rate than businesses located in a commercial district. Therefore, these home-based businesses are more likely to fail as opposed to their counterparts in the commercial districts (Mc Pherson 1992:136.).

The location of the business premises may imply differential costs regarding rental payments. Home-based businesses may pay less in rental costs than a premise in the commercial district (McPherson 1992:87-94). It is interesting to relate the question of home-based businesses not growing as fast as businesses situated in a commercial area to a survey done by Henderson in Virginia and North Carolina, United States of America on a stratified random sample of households that owned a home-based business. He attempted to find ways to overcome the negative perception of legitimate home-based businesses. He states that home-based businesses suffer from an image problem. Many people doubt their legitimacy and consider them to be fly-by-night or scam businesses (Henderson 2000:18). Businesses setting up in urban areas in the formal sector are much more likely to succeed than their counterparts in the rural and more informal regions. This could be due to consumption patterns. Relating the results directly to the Limpopo Province, where approximately half of the population is unemployed, it would follow that people living in the rural areas would be spending less than those working in the urban areas. Demand is limited in the rural areas due to high unemployment rates. Inhabitants do not have the disposable income necessary to purchase all the

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goods and services on offer. The question must be asked whether or not this situation will improve when the future impact of AIDS is also considered. AIDS is affecting the economically active population between the 20–50 age group, which will ultimately have a substantial affect on the consumption patterns within the country and especially the rural areas.

In a study conducted in the Vaal Triangle and Northern Free State of South Africa; one of the main factors hampering the potential of existing markets in the region was a large section of the market was characterized by a high unemployment rate and a relatively low consumer affordability level. The private consumption expenditure potential had not increased at the same rate as the population rate of approximately 3,3% (Venter 1995:32).

Furthermore, the entrepreneur based in the informal sector seems to have alternatives to the main goal of maximisation of profits in the business. The literature suggests that African owners do not always follow the goal of profit maximisation, where profits generated are ploughed back into the business to expand and stimulate growth. In reality many immediate family members as well as extend family members may rely on a small business as the sole financial support system. Profits earned are taken out by the owner for this reason instead of focussing on expanding the business. The goal of the entrepreneur becomes survival rather than profit maximisation.

6.5 Opportunity versus necessity driven entrepreneurship

Opportunity driven entrepreneurs are those entrepreneurs who have gone out and started a business due to the perception of an opportunity, whereas necessity driven entrepreneurs are those individuals who had no other choices in terms of employment.

15% of adults believed those good opportunities for starting their business in their area, whereas 20% felt they could not make an assessment. Within the rural areas, approximately 83% of entrepreneurial activity is necessity driven, whereas within the urban metropolitan areas, only 50% is driven by necessity (Driver *et.al.* 2001:3)

Within the rural areas Black adults are the most likely to perceive good opportunities, but the question is asked whether or not these adults were able to be certain whether they were in fact good business opportunities (Driver *et.al.* 2001: 26).

In comparison to other emerging market (developing countries), South Africa has low levels of necessity entrepreneurship despite the high levels of unemployment and poverty within the country (Driver *et.al.* 2001:24).

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African small business owners are attempting to survive and support their families and hence profit maximisation and other goals are not as relevant. Most of these small businesses are supporting the family, so any profits earned are not re-invested in the business. This obviously will limit expansionary prospects of the business. This would be very much in line with Maslow's hierarchy of needs theory which assumes the individual will satisfy his or her basic needs before moving on to satisfying higher order needs. Bewayo also cites a study covering Kenya, Swaziland, Zimbabwe, Botswana and Malawi done by (Liedholm, McPherson & Chuta, 1994) where it was found that less than 1% (0.9%) of the businesses surveyed grew to ten employees or more over a period of five years. The majority of small businesses started up stagnated at the start-up size of one to four employees. Bewayo also states that the goal of independence is also not very important to the entrepreneur, and because of this, friends and relatives are more than happy to help out with raising capital for the business (1999:4).

On evaluation of the findings Bewayo, it is questionable whether these small businesses will ever really contribute to economic growth and reach a stage of wealth creation within the economy. However, from a socio-economic perspective these small businesses- survivalist as they are- will at least absorb a labour force that would otherwise be unemployed.

It is suggested by Cocks and Pretorius that the survivalist entrepreneur does not contribute significantly to economic growth. Cocks and Pretorius state that the survivalist entrepreneur is driven to the start-up process purely to survive from day to day. The venture is used to provide daily needs and there is little or no room for reinvestment of the little profit that is made. In South Africa and other developing countries, the people involved in this sphere of entrepreneurship, are mainly those that have no employment alternative at all where the unemployment rate could be as high as 50% (Cocks and Pretorius 2002:177). A pertinent question about the necessity driven entrepreneur has to do with argument of they contribute to economic growth or are they only involved in the redistribution of the existing economy. Answering this question will give more insight into the question whether governments should throw resources at this section of the economy or rather focus on opportunity entrepreneurs who have the potential of growth and employment of workers.

Timmons (1999) states that the concept of the identification of an opportunity is a crucial part of entrepreneurship. Walker differentiates between the opportunity and necessity driven entrepreneur. An opportunity entrepreneur is driven by the so-called pull factors rather than push factors. The pull factors include ambition, the will to be one's own boss, identification of an opportunity and to use specialised skills acquired (Walker 2000:3).

Typically the motivators have a lot to do with intrinsic factors such as achievement motivation, recognition, challenge, increased personal wealth and accomplishment that originate from internal sources. Pull factors, therefore, have to do with factors that would motivate or encourage an individual to start a venture on his own accord. Opportunity entrepreneurs have the potential to become wealth creators and make a significant impact in the economy. Alternatively, the necessity entrepreneur is driven

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or forced mainly by external factors to take the route of starting an own business. Often there is no other option available. They are thus driven by push factors such as being made redundant, perceived lack of employment opportunity, unhappiness during employment and unemployment due to lacking skills. These push factors are associated with more negative reasons for starting a venture. Cocks and Pretorius suggest that in South Africa, the necessity entrepreneur will mostly come from the less privileged part of the population. This entrepreneur is faced with the additional challenge of acquiring the resources needed due to availability and access to resources as well as the ability (skills) and networks to mobilise other peoples resources to benefit the venture. They are found in the rural areas where there are only small markets (Cocks and Pretorius 2002:177).

6.6 Capital availability and financial support

The GEM study found that the South African financial system has traditionally catered for the large corporate clients when it comes to the financing of projects. Commercial banks have not geared up to service the needs of the start-ups and small enterprises. Furthermore, the managers themselves have not been equipped with the necessary skills to assess and assist these entrepreneurs. Many entrepreneurs are not confident enough to approach the commercial banks directly due to a low self-confidence because of poor language and numeracy skills (Driver et.al. 2001:44-45).

John Freislich states that entrepreneurs compile business plans to satisfy the banks in order that finance may be obtained; however thereafter the entrepreneur is not committed to revising and working with his/her business plan. Cash flow problems arise in the business, as the basic fundamentals of business are not understood. To further complicate this issue, banking staff themselves who are approving the loans are unable to predict whether a business will turn out to be successful or not, and hence many small businesses that are financed with start-up and working capital often turn out to be a failure. Bank personnel in South Africa, are themselves not equipped with the necessary skills and knowledge to evaluate business plans in terms of future business viability and sustainability (Sunday Times, 9 April 2000).

The GEM study found that the source of finance for most of the entrepreneurs was themselves in the form of personal finance. It was found that black and coloured entrepreneurs are the most likely to receive finance from family or relatives; and furthermore black entrepreneurs (especially in the rural areas) are also more likely to receive or expect to receive financial assistance from government programmes. Whites, on the other hand are the least likely to receive finance from family or relatives (Driver et.al. 2001:32).

6.7 Market and support structure linkages

65% of the expert informants in the GEM study believed that it was difficult to get access to information about prospective business opportunities within South Africa (Driver et.al. 2001:27).

The availability of government programmes to small firms was not encouraging. Reasons cited for this included:

- Objectives of small business support too broad and over ambitious
- Implementation of programmes difficult, especially since government officials have no entrepreneurial experience
- Marketing of the programmes is poor (Driver et.al.:2001:47-48).

Furthermore, although the South African government is committed to assisting small business, the administrative burden on these small businesses in the form of taxation, labour practice and other legislation remain a burden. Labour legislation in terms of the Labour Relations Act limits the entrepreneur when it comes to the employment and dismissals of employees (Driver et.al. 2001:46-47).

Immigration policy in South Africa is also not conducive to the promotion of small business from the point of view that skilled individuals who could start up businesses are not being lured to the country. The Alien Control Act focuses on the control rather than the promotion of immigration (Driver et.al. 2001:46-47).

In a study carried out by Wallace on small enterprise development in Africa, he concluded that although many North American and European donor agencies have invested a lot of money as well as thought and effort in the development of small businesses in Africa, the impact has been small. In fact, he goes as far as arguing that because of the charity orientation of donor agencies and their obligation to work closely with governments; they are not well suited to deal directly with the small business sector. Wallace puts this in perspective by quoting the North American barb, "I'm from the government and I'm here to help you" (Wallace 1999:6).

The development of small business has been very rudimentary and stifled by environmental factors. There are various reasons for this. There is little co-operation between small and large firms, a lack of comprehensive reform policies in support of small businesses and the demand for small business product and services due to low household incomes stable and strong exchange rate. The economy needs to be competitive, with a regulatory framework encouraging competition without unnecessary barriers to entry. Market forces should are allowed to operate freely. Infrastructure needs to be developed as well as good accessibility to information with legal and property rights facilitating the enforcement of contracts. Furthermore, the countries need to provide health care and facilities (especially preventative healthcare), education (especially primary) and nutrition (Wallace 1999:5-6). These recommendations will obviously improve the overall lifestyle and quality of life of the inhabitants of a country. Nafukho states that the way in which society conditions the economy and facilitates or stifles the entrepreneurial spirit will determine whether a country creates a business environment conducive to the entrepreneurial development. Entrepreneurship will only flourish if there is reasonable infrastructure of service institutions in the financial, administrative, legal, and educational fields. These requirements are not adequately provided in for in Africa, and for this reason unless African leaders address this problem; much time and resources will be wasted in working within a climate that is hostile to entrepreneurship (Nafukho 1998:102).

Nufukho also cites ethical issues as an obstacle. In most African countries he describes the "paper entrepreneur" who has become a billionaire overnight by selling resources that were not obtained fairly. This has also resulted in

entrepreneurship getting a bad reputation due to the corruption factor whereby access to scarce resources or strategic factors of production such as bank loans, is determined by political patronage rather than market forces (Nafukho 1998:102)

In a study conducted by Wallace, he examines how small businesses in Africa respond to the development efforts undertaken by donor agencies that see small business development as the key to social and economic development in Africa. He describes Africa as being a continent plagued by exceedingly high levels of unemployment and poverty (Wallace 1999:1).

Fourteen leading agencies, including bilateral & multilateral agencies, private and voluntary organizations in small business development were contacted (Wallace 1999:1). The main aims were to identify the types of small business projects as well as the successes and failures achieved (Wallace 1999:5).

Wallace found that few of the donors actually delivered services directly to the enterprises. The focus was on local and national business development system (BDS) organisations that are often referred to as intermediaries or counterparts. The growing belief is that the role of the donor agencies is to develop the capacity of these BDS organisations in order that they become more efficient, more effective and sustainable through capacity building (Wallace 1999:5).

Wallace found that most agencies favoured organisations that were situated close to small businesses and also organisations that have proved that they have the potential to represent the donor agencies. Wallace lists six micro-level business development system (BDS) instruments used at the micro-level and their level of success in assisting small businesses. They are summarised as follows:

Table 8: **Micro level business development system instruments**

BDS Instrument (Micro-level)	Factors hampering operation and success
Training	Training too generalized. Ill-qualified facilitators.
Extension, counseling and consulting	Few skilled and experienced advisors. Large social and cultural gaps often exist between advisor and entrepreneur. Advice too "standardized." Expense of consultant for entrepreneur.
Technology development and transfer	Poor have little disposable income. Donors have been unable to encourage African small businesses to consider market opportunities of technologies that will benefit the poor. Educational systems not training people with design skills to underpin technological change for low-income customers.
Information support (e.g. Trade fairs and exhibitions, information outlets and printed information)	Although supplied by donors, Small businesses have not been seeking assistance offered.
Commercial entity development (BDS providers develop commercial entities as "brokers" to buy inputs and sell outputs.	Difficulty in establishing what is a fair conditions and prices to African producers exporting.
Business linkage development	Weak associations. Difficulty encountered by donors to find appropriate vehicles to intervene.

(Wallace 1995:5)

However, Wallace found that:

1. Many of these organizations lacked a clear vision of their role

2. The larger organizations are dominated by the interests of larger enterprises

3. The managerial and technical capacity of these organizations is seldom strong (especially in comparison to similar organizations in South America and Asia)

The general finding was that government and semi-government organisations made poor BDS providers as they:

- Were not businesslike
- Suffered from a lack of vision
- Lacked motivation
- Were subject to political and bureaucratic interference (Wallace 1999:5).

However, non-governmental and not-for-profit organisations often did succeed. Despite more success than the government and semi-government BDS providers, similarly it was found that they also lacked managerial and technical capacity. They did however seem to have a good sense of ownership and motivation.

Wallace found that commercial organisations are the most successful providers of services to small businesses, but these services are not the same as those being offered by NGO's and governmental organisations. For this reason they may not offer appropriate mechanisms for achieving the objectives of the donor agencies (Wallace 1999:5). The underlying assumption made by Wallace is that both micro and meso-level instruments are useless without proper macro-level policy and regulation Wallace 1999: 5).

As meso-level instruments, there is general agreement that government and semi-government organisations are poor BDS providers as they are very bureaucratic in nature, subject to political interference and therefore not at all businesslike. A lack of vision and motivation is also a problem.

Commercial organisations are the most successful providers of services to Small businesses; however they are not able to offer the same services as non-governmental and governmental organisations and are therefore not able to offer the appropriate mechanisms or vehicles for achieving the objectives of the donors.

When considering <u>macro-level</u> instruments it is essential that small businesses operate in a stable economy where there is financial discipline, prudent fiscal policy, low inflation rater, favourable tax rate reform. The overriding consideration must be macro-level policy and regulation within the country (Wallace 1999: 3-5).

6.8 Education, training and the role of the facilitator

Individuals with a matric (grade 12) and those with a tertiary education are more likely to own and manage a start-up business than those without a matric. Furthermore, holding a tertiary qualification significantly further increases the probability that an individual will be an owner-manager of a new firm, which has survived the start-up phase. In the case of established firms, those with tertiary education are nearly three times more likely to be owner-managers of established firms than those who do not hold a tertiary qualification. Over 60% of entrepreneurs without a matric are driven by necessity, whereas only 39% are necessity driven. Only 14%of entrepreneurs with tertiary level education are necessity driven (Driver *et.al.* 2001:22-26).

65% of the expert informants were of the opinion that education and training was one of the most important factors hampering entrepreneurial activity in South Africa. Problems and reasons cited by the expert informants included that a general lack of basic skills existed.

Presently Economic and Management Sciences is one of the eight learning areas in the classroom, with a focus on entrepreneurship. However, there is no guarantee that entrepreneurship will be taught effectively within the classroom, especially if the teacher or facilitator lacks entrepreneurial experience (Driver *et.al.* 2001:38-41).

In a study conducted by Pretorius, he concludes that the facilitator is all-important in the realizing of success of entrepreneurial and small business learning (Pretorius 2001:246).

According to studies done by the Harvard Business School, a truly effective instructor will facilitate the learning process through case studies where the facilitator will rely on his or her students to learn inductively (Rangan 1995:2).

Entrepreneurial Skills Development Programs (ESDP) are any comprehensively planned effort undertaken by an individual, or group of individuals , or any institution or agency, to develop competencies in people. Competencies result in self-employment, economic self-sufficiency, and employment generation through long-term education or short-term education (Nafukho 1998:100), (Rao1991).

The way in which a country conditions the economy and facilitates or stifles the entrepreneurial spirit, will also have an impact on the level of entrepreneurship in that country. The political and economic conditions of a country will significantly influence the climate for entrepreneurship (Nafukho 1998:100).

If entrepreneurship is to be promoted in a country, the actual content of entrepreneurship training courses needs to be addressed. Nafukho recognises that the background and personality are important in entrepreneurial success. However, presently modern entrepreneurial education proceeds on the precept that if an individual possesses a minimum of certain personal qualities, anyone can thereafter be trained to be an entrepreneur.

It follows that there is a need to build up a body of knowledge and skills in this relatively new field of entrepreneurship education, and therefore educators need to develop a useful curriculum in schools, colleges, vocational and technical training institutions in South Africa. ESDP's will only become effective when socio-cultural, economic, ethical and educational issues are reviewed (Nafukho 1998:102-103).

26% of South African adults believe they are equipped with the knowledge, skills and experience required to start a business. There are more adults who believe they possess the necessary skills to start a business than are higher than those who believe good business opportunities exist. The question is then asked how many potential opportunity entrepreneurs are there in South Africa? An estimation of this amount is 6%.

These are the adults who felt that:
1.   there are good business opportunities and;
2.   they believe they are equipped with the skills to start a business; and
3.   they would not be prevented from starting a business by fear of failure (Driver et.al. 2001:28-29).

In their study, Martins & Tustin, found the following statistics relating to the level of formal education amongst their respondents:

Table 9: **Level of formal education amongst respondents**

Level of education	Formal sector	Informal sector
Degree	12,9%	3,8%
Post Grade 12 diploma	12,0%	5,4%
Grade 12	36,7%	21,4%
Grade 8-11	24,2%	42,8%
Grade 4-7	4,7%	14,8%
Lower than Grade 4	1,4%	7,3%

(Martins & Tustin 1998:7)

The main reasons for starting up a business in the formal sector were for the following reasons:

- Unemployment/retrenchment   58,8%
- To increase income   36,7%
- Family business   24,7%
- To work from home   24,1%
- Seize business opportunity/offer   15,7%

In the informal sector the main reasons for establishing a business were:

- To increase income   42,0%
- Family business   33,9%
- Unemployment /retrenched   32,7%
- Seize opportunity/offer   26,5%
- To work from home   16,3% (Martins & Tustin 1998:4).

As far as training was concerned, 65,9% of the owners/managers of the formal businesses regarded training as very important, whereas 59,8% of the owners/managers of informal businesses thought that training was important (Martins & Tustin 1998:9).

It is interesting to note that almost a quarter (24,9%) of the employees working in the formal businesses and 30,8% of the employees working in the informal businesses planned to start up their own businesses during the following five years (Martins & Tustin 1998:12).

In a study conducted in South Africa by Bezuidenhout on the impact of training programmes, it was found that the service providers (more than 7090) had neither the time nor the financial resources to monitor and measure the impact of training interventions that had been provided by these service providers.

Furthermore, it was found that where service providers did monitor and measure the number of start-ups and improvements in start-ups, they failed to actually document the training programme that had been used. It was also done to prove direct casual

relationships between training offered and number of start-ups and improvements in businesses resulting directly from that training (Bezuidenhout 2000:31).

Berry states that the relevant education and training is necessary to support small business. Training institutions have an important role to play here. Training institutions in Southern Brazil have developed small business clusters such as Novo Hamburgo in Southern Brazil and Rafaelo in Argentina. It cannot be expected that the small businesses themselves provide the necessary in-house training as they do not have the resources, and no guarantee that another small business will "poach" their trained employees (Berry 2001:27-28).

The role of the facilitator/trainer is highlighted. The quality of the facilitator is probably more important that the actual training material. No generally accepted standards for trainers at different levels exist (Bezuidenhout 2000:40).

The Brazilians have developed a have a unique approach of teaching entrepreneurship. The programme coordinates Brazilian industrial support policy and encourages the export of software; and is known as the Softex Programme. The main reason for inception was to increase the number of companies in the technological and scientific development sector who are able to compete globally.

A teaching programme was developed to meet this challenge in order that Brazilian computer science students start-up businesses. It is known as the Softex Programme (Dolabelo 1999:13)

The programme involves creating a concept of culture within the classroom that enhances an entrepreneurial atmosphere. The classroom is referred to as the "entrepreneur workshop"(EW); and the facilitator is referred to as the entrepreneur workshop organiser" (EWO). The focus is on university students.

The EWO needs to be contact with business as a whole and know what is going on both in the political and economic arena. The classroom becomes a market, and not just a classroom.

The teaching methodology is based on certain principles:

- Students are encouraged to build up a network of relationships which support their vision
- Students accepted into the workshop must already have a vision that can be developed over the course of the programme
- Students are made aware of behavioural characteristics that make a up profile as described by Timmons (1994)
- Students are encouraged to be creative
- The identification and study of opportunities in the real business environment in which they are operating, is a central theme
- The Business Plan forms the main focus of the programme which the student must compile independently
- The Business Plan is evaluated by a "Jury" which is a panel of local business representatives, and support agency personnel. The plans are presented to the panel by the students.
- Students adopt a mentor or "Godfather" who is an experienced businessperson from who the student receives advice (Dolabelo 1999:3-14).

Dolabelo conducted a study of approximately 150 institutions in Brazil using this teaching methodology. He found that the teachers of computer science, and those of other disciplines, have achieved great success in their teaching of entrepreneurship using this methodology (Dolabelo 1999:12). He measured compared success of various programmes offered in Brazil broadly in terms of:

- Number and spread of institutions at university level involved in teaching entrepreneurship using this methodology in the area of computer science
- Number of real companies established
- Number of students being taught
- Number of teachers transformed into EWO's (Dolabelo 1999:11)

A comment regarding his results is the accuracy of measurement and he does not seem to have used an identical measuring instrument in comparing the different programmes being offered across Brazil. This is probably due to the fact of the programmes being different from one another with differing exit objectives and outcomes expected. However, his results are interesting as he describes this new methodology of teaching as "setting off a real revolution in University teaching in Brazil" (Dolabelo 1999:11).

6.9 Previous experience

Approximately 70% of the new firm entrepreneurs are owner-managers of established businesses as well. These findings indicate that the new firm entrepreneurs can capitalise on experience already gained. It was found that a minority of opportunity entrepreneurs and established owner-managers are likely to start-up an additional business venture (Driver et.al. 2001:37).

6.10 Impact of cultural and social norms

As far as cultural and social norms are concerned, there is an element of being ostracized or losing self-respect in the event that the entrepreneur's business fail, due to the stigma attached to business failure (Driver et.al. 2001:42-43).

In Brazil, another developing nation, there is a stigma attached to the social image of the business person. A business person/entrepreneur is not seen in a very positive light, with the perception that he/she "gets rich under the protection of the government" (Dolabelo 1999:2).

7.   Findings of studies carried out in the Limpopo Province of South Africa and the impact of current strategy

The Limpopo Province remains one of the poorest and under-developed provinces in South Africa, with a very high unemployment rate. The province has many untapped resources and it is up to the people of the province to make use of its resources and become more resourceful. Local Government cannot ignore its responsibility as far as the promotion of small business is concerned. Local Government has the potential to become the vehicle for development within the community. In the past, local government was charged with the responsibility of delivering basic services such as water and sanitation. It is now charged with the additional responsibility of poverty alleviation. One of the means in addressing this is the promotion and support of the small business sector.

The overriding consideration must be macro-level policy and regulation within the country (Wallace 1999:3-5). Ladzani, in a study of small business development in South Africa under the new Government since 1994, states that the Government saw a window of opportunity to address the prevailing challenges of job creation, economic growth and equity in South Africa through the expansion of the small business sector. The Government, through the Department of Trade and Industries, established a Centre for Small Business Promotion on a national level. From there, Ntsika Enterprise Promotion Agency and Khula Enterprise Finance Limited originated. In addition, other support agencies were established, such as:

*   Provincial small business desks
*   Local business service centres
*   Tender advice centres
*   Manufacturing advice centers
*   Service providers such as non-governmental organisations, educational institutions and community based organisations (Ladzani 2001: 4-6).

In evaluating the success of all of these small business initiatives, Ladzani refers the to the Carana Report of 1999:6-10, where the findings were as follows:

The National Strategy is not seen as an integrated national plan that links all the national and regional programs in order that national and regional goals may be achieved. No centre to the strategy exists. There is no body that has the required authority or stature to direct and co-ordinate small business development. Although, the Department of Trade and Industry is only one of several government departments, it has not been given a strong mandate to integrate all government programs to meet the objectives as set out in the National Strategy.

The National Strategy has not succeeded in segmenting the market in terms of potential and ability for job creation in the micro, small and medium businesses categories. The majority of the job potential is seen to be in the small business category in the manufacturing sector and not in the micro/survivalist category which is mostly made up of survivalist businesses involved in retailing activities. Therefore, if the strategy is to generate jobs; all resources and policy should be directed at the category that will result in the majority of job creation opportunities.

The small business with between ten and 50 employees has not benefited substantially from the National Strategy's efforts to improve their access to finance.

The National Strategy is regarded as "leaderless" in that no effective co-ordination exists between organisations such as Ntsika, Khula and the Centre for Small Business Promotion as well as other government departments and agencies working with the promotion of small business. Communication is also very limited between these various role-players.

Both business and technical training programmes have not been accompanied and linked with the provision of aftercare services, monitoring, the mentoring of the trainees and support in sourcing market opportunities.

Ntsika has been mostly unsuccessful in marketing their services to target groups.

The programmes offered by Khula have not met their objectives. Khula is very risk averse and its success is ultimately dependent on the willingness of commercial banks to lend to small business. Khula is a very conservative organisation with very strong development objectives. The design of Khula is flawed in that Retail Financial Intermediaries lend to the "unbankable" and yet self-sustaining simultaneously. They are not commercial banks, yet Khula is requiring them to function as commercial banks. The success of Khula is being measured by the extent to which the commercial banks wish to lend to small business, which in actual fact they do not. This has resulted in the credit guarantee programme also falling short of its objectives. The programme is serving mainly white-owned businesses in the medium size category (± 62 Khula Credit Guarantee provides a range of guarantee products to the banks in the private sector whereby Khula itself will assume a portion of the risk associated with lending to the small business sector. Banks require the individuals to provide guarantees to secure a capital loan to raise assets (Ladzani 2001:11-12).

Khula Enterprise Finance Limited which was established in 1996 as a wholesaler lender of funds via Retail Finance Institutions (RFI's), has not been a great success. A few of the RFI's have failed, having a severe impact on the development of the small business in the country. May, Stoltz, Gool, Gool, & Abubakar, cite one of the main reasons for RFI's failing as the lack of corporate governance by the management of these financing companies. In addition since its inception to 2002, approximately 57 claims among thirteen banks amounting to R5.6m have not been honoured (May et.al. 2002: 167) This has also tarnished the image of Khula.

May *et.al.* cite reasons why commercial banks have been severely constrained in their lending power to small businesses. They are as follows:

- The inability of the banks to assess the level of risk due to poorly prepared business plans
- No proper financial records
- No collateral
- Lack of business experience
- Lack of required technical skills
- Lack of sufficient own contribution by the owner (May *et.al.* 2002:169)

Khula, itself has been accused of becoming a slow moving bureaucracy. Khula's employees lack of skills and have very limited practical experience in the small business sector. Furthermore, many banking officials are not informed about Khula and its products and services (May *et al.* 2002:169). A lack of understanding of services offered seems to exist in the country as well as a lack of communication between the various role-players in the small business sector (May *et.al.* 2002:165). A another very restrictive factor is that interest rates charged through the Khula Guarantee Scheme are significantly higher than the prime rate of lending (May *et.al.* 2002).

In terms of the National Strategy to support and assist small business in the Limpopo Province, a provincial small business desk was implemented. Institutions already in place in the province were redefined and restructured. There has been some progress in the promotion of small business in that:

- The government's plan includes strategies to unbundled larger projects into smaller contracts
- Simplification of the tendering submission process
- Improvement of the access to tendering information
- Telkom and Eskom have introduced preferential procurement in favour of small businesses
- Agricultural projects have been largely successful
- Small tourism businesses have been established (Ladzani 2001:15-17).

Presently, one of the main problems with the system is that municipal workers have been formally trained in Public Management courses, and not in business, and most especially not small business training. The average municipal worker has not been trained in bookkeeping or marketing for small business. Few have any entrepreneurial skills themselves, and have never been in business. It also has to be recognised that they are not in the education and training business. Therefore, it makes no sense that the municipalities become involved in all of these functions.

The answer then lies in bringing together those with the right skills and merely playing the role of facilitator between the various role-players, such as:
In terms of the Municipal Systems Act of, 2000 (Act No. 32 of 2000), integrated development planning is mandatory on local government.

The status quo is that local government presently consists of various categories of municipalities, namely:
- Metropolitan areas
- Local municipalities
- District municipalities

Within the Limpopo Province the following municipalities exist:
- Capricorn District Municipality
- Vhemce District Municipality
- Mopani District Municipality
- Greater Sekhukune District Municipality
- Eastern District Municipality
- Waterberg District Municipality

Van Rooyen and Antonites state that there is a general lack of proper objective setting and strategy to support the implementation of identified projects in the Limpopo Province (2002:38). Van Rooyen and Antonites suggest that support and promotion by municipalities for local economic development could occur if the roles outlined in the Local Economic Development Manual Series 2/5 were followed.

The municipalities need to assume the roles of:

1.   **Co-coordinator**, by drawing together the developmental objectives, priorities, strategies and programmes of the jurisdictional area through means of a development plan

2.   **Facilitator**, by streamlining the development process or improving the planning procedure

3.   **Simulator**, by stimulating business through the provision of providing premises at low rent to Small businesses, or by promoting strategies in order to attract investment

4.   **Developer / entrepreneur**, by taking on the responsibility by operating a business enterprise. Partnerships could be made with the private sector and NGO's (van Rooyen and Antonites 2002:34).

A policy environment to stimulate and encourage entrepreneurship in the Limpopo Province can be achieved. In terms of the local development strategy (LED), projects implemented in line with the IDP approach need to be sustainable and on-going. There is no "quick-fix" situation. Van Rooyen and Antonites suggest that a plan of action, that is either part of or supplementary to the IDP be developed, where:

- The main purpose of entrepreneurship development project should be to broaden the tax base for the municipal areas
- The potential entrepreneur needs to be brought into the system of coordinated business conduct
- A central market place should be developed to accommodate the entrepreneurs, rather than promoting street-corner trading
- International donors can be approached for funding assistance
- The facility must be managed on sound managerial principles with an emphasis on incubation
- The potential or selected entrepreneurs should undergo training in order to acquire business skills (Van Rooyen & Antonites 2002:40).

As mentioned earlier, one of the major constraints for many potential entrepreneurs is "access to information". The question is asked – but where do I start?
Surveys over the African continent have shown that one of the major constraints for small business is limited access to relevant Information (Bruhns 2002:21).

Namibia has introduced a new initiative in the form of a Small Business Information Centre (SBIC). The main aim of the SBIC is to "create a collaborative" effort between government and the private sector for small businesses providing easily accessible, affordable reliable information and support. The initiative is primarily based on the partnership between the private and public sector.

Furthermore, little or no monitoring and evaluation of support services is lacking in this country. Certainly, no bench-marking or very little bench-marking is taking place. This is a serious downfall. Service providers should be continually monitored through some board. Just as South African Qualifications Authority is bringing about a monitoring system on the level of courses being offered, so these service providers should be monitored. This will obviously require a framework that requires further research.

7.1 Education and training provided by service providers

In a survey conducted by Ladzani and Van Vuuren, which focussed on the service providers of entrepreneurship training, for small businesses; it was found that the main focus of training was business skills training, which included general management, financial management, marketing management, production management, pricing, costing and legal skills (Ladzani & Van Vuuren 2000:9). It was also found that the trainers identified, had undertaken an entrepreneurship course in one level or another. Furthermore, training and business experience was also evaluated when employing service provider trainers. Ladzani and Van Vuuren conclude that the training provided needs to be improved and that the content of entrepreneurship training needs to be reviewed so that it is in line with the requirements of a start-up.

In addition to addressing training needs, other limiting success factors listed below should be addressed:

- Lack of financial resources
- Lack of access to markets
- Lack of support
- Low literacy levels (Ladzani & van Vuuren 2000:12).

7.2 Access to start-up finance and the funding of capital requirements

Kirsten and Van Vuuren carried out a study in selected areas of the Northern Province where the main focus of the study was to establish the demand for financial services by the micro-enterprise sector within the province.

86% of the respondents used their own personal savings and funds obtained from informal financial institutions to finance their start-ups. The use of relatives and friends was also a main source of funds for the entrepreneurs; however this is probably due to the fact that the family and relatives are unlikely to turn down a family member or friend's request.

Approaching a formal commercial financial institution was only seen as a last resort. The reasons cited for this were:

- The high transaction costs being charged by these institutions
- Length of time to travel to nearest financial institution.
- Several trips made before loan is granted
- Time taken to receive a loan is even longer if you are a first time borrower
- Application forms of financial institutions are not in mother–tongue language
- If loan is granted, rural entrepreneurs are faced with long journeys to make regular repayments.

Micro-entrepreneurs are willing to save their monies earned, especially in formal financial institutions. Savings accounts, although offering lower interest rates, were the most popular deposit accounts. Any additional earnings received, were used to finance the service fees and expand the business (Kirsten, Van Vuuren & Du Plooy 1999:113-114).

This is supported by a study conducted by Page and Steel who conclude that the reality of the financing situation seems to be that African entrepreneurs are relying on themselves and family members to provide the necessary start-up and working capital for the business. Initial financing in the form of capital amounts invested by African small firms comes from personal savings supplemented by loans or gifts from family relations (Page & Steel 1984:7).

Kirsten *et.al.* reported that the entrepreneurs owned very few assets. 43% reported that they only owned one valuable asset; 28% owned two assets and 14% owned three assets. Tools and equipment were the most popular assets owned, with motorcars and bakkies constituting 19% of their total assets (Kirsten *et al.* 1999).

49% of the entrepreneurs interviewed bought their inputs from a wholesaler. Twenty percent bought their raw materials directly from the manufacturer. 12% purchased their inputs from retailers. 91% of the respondents made use of their own personal funds to finance the supplies, and 7% made use of credit facilities offered by the supplier (Kirsten *et.al.*, 1999).

42% of the entrepreneurs made use of their own vehicles to transport purchased supplies, whereas 23% paid a small fee for delivery by the supplier. 12% hired a truck and 2% travelled on foot (Kirsten *et.al.* 1999)

8. Chapter Summary

This chapter reports from the literature on the aspects concerning the following relevant areas of study:

- Measures of small business success and the application of indicators of performance
- Measuring personality characteristics
- Understanding the behaviour of an individual
- What type of person becomes an entrepreneur
- What type of person would fall into the category of a potential successful entrepreneur
- Factors determining success and failure of small business in developed countries
- Factors determining success and failure of small business in developing countries
- Discussion of findings of relevant surveys and studies carried out in the Limpopo Province of South Africa

CHAPTER 4

BACKGROUND TO THE LIMPOPO PROVINCE

1.   Introduction

Empirical research for this study was carried out in the Limpopo Province of South Africa. This chapter provides a background to the province.

2.   Location

The Limpopo Province occupies 123 280 km² in the northern region of South Africa. It is the only region of South Africa that borders three African states, namely; Mozambique, Botswana and Zimbabwe (Exinet 2002:1-3).

3.   Overview of the provincial economy

The Gross Geographic Product (GGP) of the province is approximately R22 650 million (Pietersburg.net 2002:2). Since 1994 the GGP has been increasing at a rate of 2% per annum. It is also estimated that the informal sector adds approximately R2 billion to the economy of the province per annum (Pietersburg Marketing Company 2002: 9).
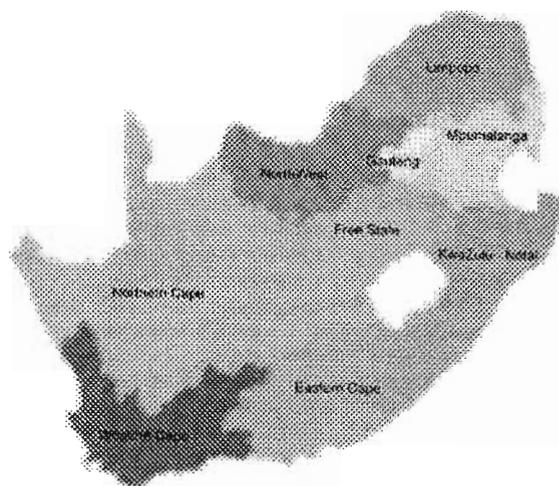
Figure 2:   **Map of South Africa showing the location of the different provinces** (Internet website, Insane Tree Promotions - Province Map, 2002).
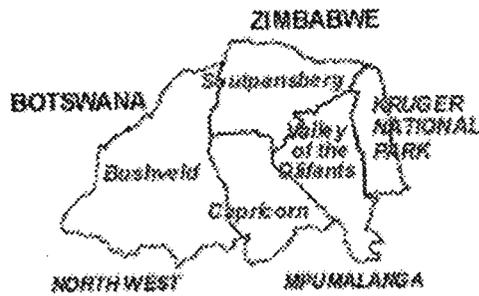
Figure 3: **Map of the Limpopo Province showing its national and provincial neighbours and main economic areas** *(Internet website, Great North Tourism Board, 2002)*
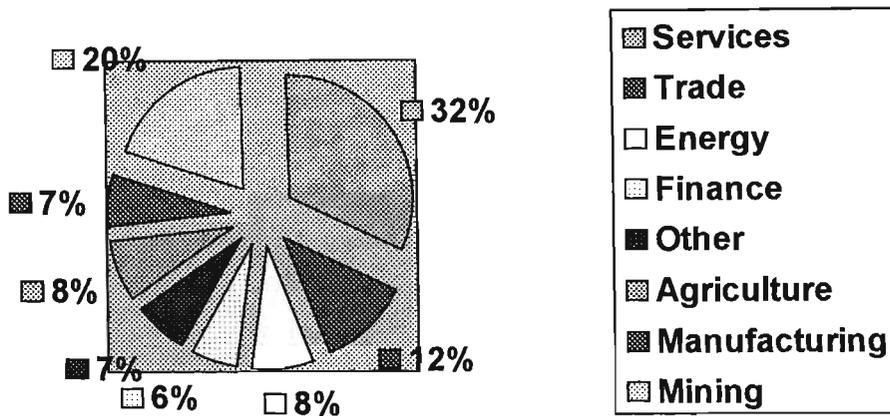
Figure 4. **A graphic illustration of the composition of the economic activity in the formal sector of the Limpopo Province** *(Pietersburg Marketing Company 2002:9)*

Tourism and catering make up 12% of the total value of economic production. However, the possibilities for expanding tourism within the province are far from having been exhausted and the huge potential in this sector remains 'untapped' (Pietersburg Marketing Company 2002:9).

3.1 Infrastructure

The Limpopo Province boasts a network of existing road and rail links within the province itself. Cross border trade between South Africa and its neighbours is substantial. The capital city of the province is Polokwane (previously known as Pietersburg), which offers commercial and international air links (Pietersburg Marketing Company 2002:5).

The eastern region of the province has been demarcated by the Department of Trade and Industry as the Phalaborwa Spatial Development Initiative (SDI). This is to be one of the development corridors in which the national government is assisting and supporting provincial and local governments in order to promote and facilitate private sector investment within the region. The SDI will link up with the Maputo Development Corridor (MDC), which stretches from Tzaneen to Phalaborwa and south towards the Blyde River Canyon in the east of the country. The aim of this initiative is to give the landlocked provinces in the north of the country easier access to their nearest port which is Maputo in Mozambique. This will aid in stimulating the development in the region as a whole (Pietersburg Marketing Company 2002:5).

4.   Raw materials and mining

The province is rich in resources. Mining is the second most important economic sector within the province and contributes 20% towards the economic activity of the province.

5.   Agriculture

The province has an ideal climate to grow sub-tropical fruits including avocados, mangoes, tomatoes and citrus. The citrus grown in the province makes up 40% of South Africa's citrus exports. The avocado is a fast growing industry, and the province is contributing more than 60% towards the South African national production of avocados. Tomatoes produced also make up 67% of national production.

Other crops that flourish are tea, coffee, nuts, grapes, sisal, cotton and tobacco. The province is a major producer of timber, maize and wheat. Pre-feasibility studies have shown that there is potential to grow peaches, almonds, cassava and bamboo in the province. Cattle and game ranching takes place on a large-scale within the region (Pietersburg Marketing Company 2002: 17).

6. Tourism

The Limpopo Province is characterised by many different types of scenery including, forested hills, open bush, rivers, dams, natural hot springs and mineral baths as well as mountainous areas. Ancient cycads, wildlife (in private, provincially and nationally governed parks, e.g. the Kruger National Park, are found in the province.

The concept of the 'Golden Horseshoe' is presently being promoted. The concept refers to a large symmetrical arc in the shape of a horseshoe, which stretches along the eastern, northern and western borders of the province. The area will be dedicated to wildlife conservation and well-conserved ranch land. This will also serve as a springboard for the future envisaged 'peace parks' (Pietersburg Marketing Company 2002:18).

7. Population

South Africa has a population of over 40 million people.

7.1 Population numbers by province

Table 10:**Population of South Africa by province** (Central Statistical Services: October 1996)

	Eastern Cape	Free State	Gauteng	Kwazulu Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
Total	6302525	2633504	7,348,423	8417021	2,800,711	840,321	4,929,368	3,354,825	3,956,875	40583573

Presently, the population of the province consists of approximately 5 201 630 people (Exinet 2002:3). According to the data collected in Census 1996, the population figure was just over 4,9 million. The Limpopo Province is the fourth largest province in the country in terms of population numbers after Kwa-Zulu Natal, Gauteng and Eastern Cape.

7.2 Urban and non-urban (rural) population

Table 11: **Urban and non-urban population by province** (Figures) (Central Statistical Services: October 1996).

	Eastern Cape	Free State	Gauteng	Kwazulu-Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
Urban	2,304,378	1,806,651	7,130,277	3,628,268	1,094,287	588,906	541,301	1,171,734	3,516,007	21,781,807
Non-urban	3,998,148	826,853	218,146	4,788,753	1,706,425	251,415	4,388,067	2,183,091	440,867	18,801,765
Total	6,302,525	2633504	7,348,423	8,417,021	2800711	840321	4929368	3354825	3956875	40583573

Table 12: **Urban and non-urban population by province** (Percentages)(Central Statistical Services: October 1996).

	Eastern Cape	Free State	Gauteng	Kwazulu Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
Urban	36.6	68.6	97.0	43.1	39.1	70.1	11.0	34.9	88.9	53.7
Non-urban	63.4	31.4	3.0	56.9	60.9	29.9	89.0	65.1	11.1	46.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100

The proportion of females to males within the Limpopo Province is larger. 54% of people living in the Limpopo Province are females, and 46% are male. This is very much in line with the other provinces of South Africa.

7.3 Population by different racial groups

Table 13 : *Population group by province (Numbers) (Central Statistical Services: October 1996).*

	Eastern Cape	Free State	Gauteng	Kwazulu-Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
African /Black	5,448,495	2,223,940	5,147,444	6,880,652	2,497,834	278,633	4,765,255	3,058,686	826,691	31,127,631
Coloured	468,532	79,038	278,692	117,951	20,283	435,368	7,821	46,652	2,146,109	3,600,446
Indian /Asian	19,356	2,805	161,289	790,813	13,083	2,268	5,510	10,097	40,376	1,045,596
White	330,294	316,459	1,702,343	558,182	253,392	111,844	117,878	222,755	821,551	4,434,697
Un-specified /Other	35,849	11,262	58,654	69,423	16,120	12,208	32,904	16,635	122,148	375,204
Total	6,302,525	2,633,504	7,348,423	8,417,021	2,800,711	840,321	4,929,368	3,354,825	3,956,875	40583573

Table 14: *Population group by province (Percentages) (Central Statistical Services: October 1996).*

	Eastern Cape	Free State	Gauteng	Kwazulu-Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
African/ Black	86.4	84.4	70.0	81.7	89.2	33.2	96.7	91.2	20.9	76.7
Coloured	7.4	3.0	3.8	1.4	0.7	51.8	0.2	1.4	54.2	8.9
Indian/ Asian	0.3	0.1	2.2	9.4	0.5	0.3	0.1	0.3	1.0	2.6
White	5.2	12.0	23.2	6.6	9.0	13.3	2.4	6.6	20.8	10.9
Unspecified/Other	0.6	0.4	0.8	0.8	0.6	1.5	0.7	0.5	3.1	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100

96,7 % of the population of the Limpopo Province is African. This is higher than the national average of approximately 77 %. The remaining 3,3% of the population is made up of Coloured, Indian, White and other groups.

7.4 Employment

Table 15 : Economically active population by province amongst those aged 15 - 65 years excluding institutions (Central Statistical Services: October 1996).

	Eastern Cape	Free State	Gauteng	Kwazulu-Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
Employed	786,818	701,175	2,564,243	1,570,573	605,925	215,523	570,129	725,287	1,374,174	9,113,847
Unemployed	742,427	299,948	1,007,766	1,008,944	297,290	86,060	486,554	443,546	299,114	4,671,647
Total	1,529,244	1,001,122	3,572,009	2,579,517	903,215	301,583	1,056,683	1,168,833	1,673,288	13785493

Of the population that is willing and able to work, 54% are employed and 46% are unemployed in the Limpopo Province. Compared to the other provinces, with the exception of the eastern Cape region, this figure is very high.

7.5 Monthly income

Table 16: Individual monthly income amongst the employed by province, aged 15 - 65 years excluding institutions (Central Statistical Services: October 1996).

	Eastern Cape	Free State	Gauteng	Kwazulu-Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
None	12,562	6,815	22,829	20,655	7,087	1,926	10,510	9,590	11,381	103,354
R1 - R200	88,748	120,459	94,438	123,918	68,958	29,101	87,462	74,930	43,714	731,729
R201 - R500	139,093	133,285	261,406	272,529	132,732	57,388	132,078	131,750	185,180	1,445,441
R501 - R1 000	139,298	131,152	446,066	278,924	119,333	33,810	88,115	144,153	256,474	1,637,326
R1 001 – R1 500	117,556	114,104	475,290	253,291	85,769	26,398	76,169	137,136	251,312	1,537,026
R1 501 – R2 500	99,558	67,548	374,680	209,122	61,914	21,957	61,145	92,223	202,360	1,190,508
R2 501 – R3 500	61,422	40,004	228,649	123,130	36,385	13,434	43,114	47,934	116,941	711,013
R3 501 – R4 500	39,537	26,700	159,607	78,626	23,783	9,384	24,793	27,929	77,800	468,158
R4 501 – R6 000	30,734	22,324	144,152	67,816	20,479	8,130	16,944	19710	68377	398666

R6 001 – R8 000	15,486	11,408	89,132	37,123	11,391	4,190	7,181	9765	38,435	224,111
R8 001 – R11 000	9,595	7,188	66,008	24,368	7,017	2,358	4,168	5692	26,628	153,021
R11 001 - R16 000	5,077	3,474	43,590	13,171	3,639	1,239	2,096	2909	15,832	91,026
R16 001 - R30 000	2,728	1,771	27,274	7,238	1,796	764	1,079	1,574	9,488	53,712
R30 001 or more	1,264	903	9,773	2,751	830	417	595	738	3,950	21,221
Unspecified	24,159	14,039	121,348	57,912	24,812	5,028	14,679	19,254	66,301	347,533
Total	786,818	701,175	2,564,243	1,570,573	605,925	215,523	570,129	725,287	1,374,174	9113847

In the Limpopo Province 87 462 (15% of the working population) are earning less than R200 per month. 132 078 (23 %) are earning between R201 and R500 per month. 88 115 (16% percent) earn between R501 and R1000 per month. This means that 56 % of the population working earns less than R 1000 per month. The statistics reflect that 10 510 (2%) of the working population earns no income per month. This is possible as in many instances newly qualified graduates and diplomaed students will work for no income at all in order to gain experience. 95 % of the working population earns less than R6 000 per month.

8. Education levels

Table 17: **Level of education amongst those aged 20 years or more by province by numbers** *(Central Statistical Services: October 1996)*

	Eastern Cape	Free State	Gauteng	Kwazulu-Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
No schooling	617,796	236,148	419,157	957,217	410,337	97,692	771,587	403,143	153,109	4,066,187
Some primary	635,475	328,076	516,624	747,586	211,217	94,571	252,286	364,297	362,285	3,512,415
Complete primary	264,236	130,308	295,643	278,435	95,783	39,578	124,377	139,004	204,411	1,571,774
Some secondary	966,341	493,148	1,780,368	1,328,708	403,474	139,233	556,667	560,987	901,196	7,130,121
Std 10/Grade 12	328,637	199,654	1,042,744	665,303	203,102	53,482	293,703	236,188	435,620	3,458,434

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Higher	139,200	76,265	369,627	200,819	69,551	25,939	94,107	75,258	243,954	1,294,720
Unspecified /Other	88,987	49,453	402,764	217,428	58,967	18,027	95,312	61,774	119,855	1,112,568
Total	3,040,672	1,513,052	4,826,928	4,395,496	1,452,430	468,521	2,188,040	1,840,651	2,420,430	22146220

Table 18: **Level of education amongst aged 20 years or more by province (Percentages)** *excluding unspecified and others (Central Statistical Services: October 1996)*

	Eastern Cape	Free State	Gauteng	Kwazulu-Natal	Mpuma-langa	Northern Cape	Northern Province	North West	Western Cape	South Africa
No schooling	20.9	16.1	9.5	22.9	29.4	21.7	36.9	22.7	6.7	19.3
Some primary	21.5	22.4	11.7	17.9	15.2	21.0	12.1	20.5	15.7	16.7
Complete primary	9.0	8.9	6.7	6.7	6.9	8.8	5.9	7.8	8.9	7.5
Some secondary	32.7	33.7	40.2	31.8	29.0	30.9	26.6	31.5	39.2	33.9
Std 10/Grade 12	11.1	13.6	23.6	15.9	14.6	11.9	14.0	13.3	18.9	16.4
Higher	4.7	5.2	8.4	4.8	5.0	5.8	4.5	4.2	10.6	6.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100
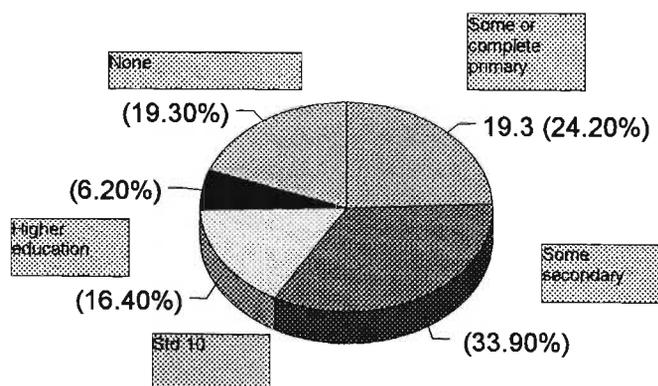
Figure 5. **Pie chart showing percentage of the population aged 20 years or more by highest level of education completed.**

36.9% of the population aged twenty years or more in the Limpopo Province does not have any level of schooling at all. 26,6% have some secondary education and 14% have completed grade twelve (Std 10). Only 4,2% have achieved an education at a higher level than grade twelve. The Limpopo Province scores lowest in this category compared to the rest of the region in the country. However, the difference is not that significant when compared to the figures reported by the other provinces as far as the category of no schooling. The Limpopo Province has the greatest proportion amongst the regions of South Africa who have no schooling.

9.   Household access to basic infra-structural services

As at 1996, 36% of all Limpopo Province households had access to electricity. In 2001, this figure had increased to 55% of all households. In 2001, 70% of all Limpopo Province households were under-serviced in terms of sufficient and convenient access to water. In 2001, 84% of all Limpopo Province households were under-serviced in terms of sufficient and convenient access to water (Steyn, 2001).

10. Chapter summary

The Limpopo Province is under-developed in many respects.

- Education levels are below the national average
- Unemployment levels are higher than the national average
- The province is the most rural of all the provinces in South Africa
- Just over a half of the population has access to electricity
- More than 70% of households are under-serviced in terms of water delivery
- A very low tele-density exists in that 84% of the households are under-serviced

On a positive note, many opportunities for expansion exist in the province in:

- Mining
- Agriculture
- Tourism
- Manufacturing
- Development in the rural areas

CHAPTER 5

1. METHODOLOGY

1.1 Introduction

This chapter discusses the methodology applied in gathering data for the empirical part of the research, as well as a description of the instruments used.

1.2 Aim of study

As stated in chapter one, the overall aim of this study was to uncover the factors which determine the success of small business entrepreneurs in South Africa, with special reference to those entrepreneurs operating in the Limpopo Province of South Africa. In meeting this particular aim, particular attention will be paid to examining the relative importance of the personality profile of the entrepreneur compared with prior experience, and business skills training.

The specific aims are:

1. To briefly review previous theoretical and empirical studies concerning the importance of small business, and how performance in small business can be measured;

2. To review previous studies of the factors which appear to determine small business success and failure;

3. To attempt to develop a theoretical profile of the successful entrepreneur which can be used as a measuring tool; and

4. 4.1 To measure internal growth of the established business group in terms of various indicators identified in the literature study.

    4.2 To conduct a personality profile test on the established business in order to establish if a correlation exists between success in business (as measured by internal growth of the business) and results of the personality profile test

4.3 To conduct the same personality profile test on a student group in order to establish if a correlation exists between personality profile score and the level of start-up success

4.4 To determine the importance of business skills training and the compilation of a business plan in achieving initial success at the start-up of a small business

4.5 To attempt to determine if previous experience has any impact on reasons for starting-up a small business and success rates of start-ups.

5. To evaluate present policy towards small business in the light of these findings.

A group of 100 small businesses from the Limpopo Province were analysed based on data collected over 1999, 2000 and 2001. These data included the DISC personality profile test

At the same time, a study was also conducted with a group of students studying a one-year certificate course in Small Business Management and Entrepreneurship, at Technikon Pretoria, Polokwane Campus in year 2001. This group was made up of 50 students. The students came from mainly rural areas of the Limpopo Province, 72% came from rural areas and 28% from urban areas. Even though race group was not a qualifying factor for this study, all of the 50 students were black Africans. The highest level of education attained by all 50 students was grade 12. All had mediocre to satisfactory grade 12 results. None of them achieved a distinction. Faced with an uncertain future and bleak job opportunities, the idea of starting-up their own businesses became an option.

In a province with a high unemployment rate and little prospect of any individual finding employment, it can be stated that the population of 50 students was considered to be representative of the general population falling into the youth category within the Limpopo Province who are considering starting-up small businesses.

These students were required to complete the same personality profile test as the pilot group. Final examination results as well as the success of established small businesses were assessed at the end of the 2001 academic year and thereafter continuous monitoring occurred over 2001 and into 2002. Demographic data was also collected.

The significance of the study was to establish whether the results obtained in any way correlated with the results obtained from the established businesses; in order that recommendations could be put forward with regards to the type of person; the type of business; prior experience; education level and prior learning of the entrepreneur that could probably predict future success in business. This will be able to serve as a guide in the future selection procedure of students wanting to study and follow a career in entrepreneurship and small business.

2. Research procedure and methodology – the business group

The first sample - the business group - consisted of owners of small businesses within the formal and informal sectors of the Limpopo Province. As it was difficult to work with an exact random sampling technique, a list of businesses within the Limpopo Province, affiliated to the Chamber of Commerce was used as a sample frame. In addition, from information gathered from Chamber members, other relevant businesses especially from the informal sector were included.

The group of businesses approached cannot be seen as complete, however it is representative of the small business sector within the Limpopo Province. The group identified consisted of 100 businesses, which had originally been started by one individual. Where a manager (and not the original owner) was running the business on a day-to-day basis, the original entrepreneur was approached and requested to participate in this study. The businesses were drawn from all sectors of the economy. The information gathered was both of a quantitative as well as a qualitative nature.

The results of the statistical analysis can only be applied to the chosen businesses, however as mentioned previously, this group of businesses can be regarded as representative of the successful population of small businesses within the province.

3. Instruments

The commitment of the entrepreneur required him to complete two questionnaires. Where possible, the questionnaire was posted out directly to the original entrepreneurs with an attached covering letter. The covering letter detailed the purpose of the study with a kind request to complete the questionnaires. Detailed instructions on how to complete the two questionnaires were included. A return addressed envelope was included with a pre-paid postage stamp. The objective here was to encourage the entrepreneur to return his completed questionnaires, and thereby eliminate the administrative burden.

Entrepreneurs based in the rural areas were approached in person. They were offered the choice of completing the questionnaires alone and then posting it back or alternatively if they were not completely literate, and lacked numeracy skills, the interviewers assisted them in completing them. In the instances where interviewers assisted respondents, the interviewers themselves returned the completed questionnaires. A cut–off date was applied, so that processing could take place. Questionnaires received after the cut-off date were excluded.

A total of 37 entrepreneurs responded and completed both questionnaires before the cut-off date. Although the response rate is only 37 %, it was felt that this was acceptable as very detailed information had been sought with lengthy and time consuming questionnaires to be completed by the respondents. Furthermore, based on past experience of the author, it is difficult to get individuals in business to respond to questionnaires.

3.1 Questionnaire 1: DISCUS Personality profile questionnaire

The first questionnaire included, was a personality profile questionnaire. The entrepreneurs were instructed that the only information that was compulsory to

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complete was the question of gender. They were not required to furnish any other personal details.

The entrepreneur was required to complete 24 phrase-based questions. Each question contained four phrases and the entrepreneur had to choose the phrase that described him most and the phrase that described him the least. The choices had to be indicated by circling the most appropriate letter in two columns, namely: most and least. The candidates were instructed to choose only one letter from each column in each question. They were also instructed to answer the questions, in the context of the work environment. A comprehensive and detailed set of instructions was included.

This questionnaire consisted of six pages. Both English and Northern Sotho questionnaires were sent out.

3.1.1 The DISCUS Personality Profiling System

As explained in chapter one, the author decided on the Discus measuring instrument as it has been proved to be a reliable and valid testing instrument (Roodt, 2000: 1). Discus evaluates four main personality traits of the individual, namely:

D	Dominance
I	Influence
S	Steadiness
C	Compliance

All factors are a combination or blend of both positive and negative traits. These terms are briefly explained.

Table 17: *A description of the four main personality traits*

DOMINANCE	Highly dominant individuals are:
	• Independently minded
	• Motivated to succeed
	• Effective at getting their own way (generally)

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INFLUENCE	Individuals with high influence are:
	• Confident socially
	• Rather impulsive
	• Communicative
	• Sometimes display an irrational approach to life
	• Not always understood by less socially orientated personalities due to their wanting to impress those around them
STEADINESS	Individuals high in steadiness are:
	• Patient
	• Kind
	• Sympathetic listeners
	• Have a real interest in the problems and feelings of others
	• Capable of fulfilling supporting roles
	• Display a persistent approach
	• Are able to concentrate and so complete a task
COMPLIANCE	Individuals displaying high compliance are:
	• Precise
	• Accurate
	• Passive nature
	• Prefer to work through the use of structure and procedure
	• Require rules and defined codes of conduct (Roodt, 2001:1)

DISCUS produces three distinct profile shapes. Each profile shape describes a different aspect of the behavioural style of the individual. The three profile shapes are illustrated in the following table.

Table 18 :*Three profile shapes of DISCUS.*

Profile	Description
Internal profile	Reflects the true motivations and desires of the individual. This type of behaviour mostly appears when the individual is under pressure
External profile	Describes the perceptions of an individual of the type of behaviour they should project (for example, with in the work environment)
Summary profile	Describes the most likely normal behaviour of the individual. It is a combination of the external and internal profiles (Axiom DISCUS 1994:79-83).

3.1.2 Job matching with DISCUS

Each and every behavioural style has its own strengths and weaknesses. No style is better or worse than another. No individual is identical to another, and therefore individuals will have different profiles and also be suited to different jobs or positions. The job match function of the DISCUS system will match the DISCUS determined profile of an individual against that of an ideal profile shape established by Axiom Software Limited. This job profile has been pre-defined and it is therefore possible to assess whether or not the behaviour of the individual is suitable in that particular job or position. In order to establish whether or not an individual will be a possible match for pre-defined job profile, the job match must be done in the recruitment mode. This means that the DISCUS system is helping the tester to make a recruitment decision – whether or not that individual will perform in that position.

3.1.3 The DISCUS profile of an entrepreneur

The ideal profile of an entrepreneur as developed by DISCUS is displayed in the following table:

Table 19 :*The ideal profile of an entrepreneur as developed by DISCUS.*

Personality trait	Profile
Dominance	81%
Influence	55%
Steadiness	16%
Compliance	22%

(Axiom DISCUS 1994:79-83)

The ideal entrepreneur in terms of the Axiom DISCUS profile exhibits the following individual qualities:

- Displays personal responsibility
- Accepts accountability for actions and decisions
- Is able to manage people and control resources
- Is a determined individual with a strong character
- Is ambitious, dynamic and energetic in the work environment

- Is responsive and adaptable within a dynamic environment
- Is able to work under time pressure
- Is a very patient individual to be able to perform minor repetitive tasks
- Must be an independent individual who can act on own initiative without support from other management and colleagues
- Be capable of adjusting to a more procedural style in dealing with regulations or instructions if called upon to do so
- Very social and communicative individual possessing charm and charisma
- Requires some planning ability but this is secondary to communicative ability
- Is self-confident and displays an optimistic attitude (Axiom DISCUS 1994: 4)

3.2   Questionnaire 2

The second questionnaire was a structured questionnaire that consisted of demographic questions, questions relating to the experience of the original entrepreneur, dichotomous and multi-chotomous questions relating to the performance of the business and finally an open-ended section, where the respondents were required to write down their main and secondary goals in running the business; lifestyle changes as well as reasons for success as well as any valuable lessons learned along the way.

4.   Organisation of the fieldwork

4.1 Training of interviewers

The author trained four third year students registered on the Bachelor of Technology (Management) as interviewers. The students were briefed on the purpose and the importance of the study. Each interviewer was instructed to:

- Read the covering letter aloud to the entrepreneur.
- Read and explain the instructions on how to complete both questionnaires.
- Read aloud and work through both questionnaires with the respondents ensuring that the respondent fully understood each and every question. All three interviewers proficient in both the English and Northern Sotho

language. Where necessary, questions were repeated to respondents in their own mother tongue.

- Students were instructed to apply a test of reasonableness with all data entered, in order that only logical and sensible data was included.

During the training session, the interviewers were given a set of questionnaires to complete themselves. This was a very valuable exercise in ensuring that the interviewer understood the questions him or herself. Each interviewer was then instructed to interview ten students each as a trial run. The interviewer was then given his/her batch of questionnaires and instructed to return them completed.

4.2   Procedures

In addition to the covering letter making the entrepreneurs aware that all candidates' data and information furnished would be treated in the strictest confidence, the interviewers were instructed to reiterate this message. The interviewer was instructed to check in on a weekly basis and report his/her progress. The questionnaires were completed and returned over a three-month period. A cut–off date was applied. All completed questionnaires were coded and filed away safely.

4.3   Non-response

The non–response rate was relatively high (63%). However, the respondents who did respond were well-known business personalities and therefore the information supplied was regarded as valid and reliable. As mentioned earlier, based on past experience of the author it is difficult to get individuals in business to respond to questionnaires. Steps were taken to encourage the individual entrepreneurs in this regard:

- a detailed covering letter requesting co-operation was sent out to the individuals
- a friendly request was made to local entrepreneurs at the annual general meeting of the Pietersburg Chamber of Commerce to co-operate with the study if they received questionnaires

- respondents who phoned in requesting an appointment in order to discuss the questionnaires and co-operate in the study were invited on an individual basis to discuss the study and its relevance.

4.4   Processing the data

Under the supervision of the author an administration officer author edited questionnaires in order to ensure the completeness and reliability of the data entered on both questionnaires completed by the respondents. Any errors detected were referred back to the respondents where name and contact numbers had been included. This proved to be a very worthwhile exercise as respondents gladly co-operated and corrected any discrepancies.

Each respondent was allocated a unique reference number, which was entered on the top corner of both questionnaires in order that completed questionnaires could not be misplaced. The responses of the personality profile questionnaire were input into the computer as per the programs instructions. The items on the second questionnaire had been pre-coded and therefore punched directly from the questionnaire on to a Microsoft EXCEL spreadsheet that had been pre-designed for the study. Reporting errors usually arise due to the respondent not understanding a question or reluctance to answer a question. However, in this study, errors were minimised in the following ways:

- A detailed instruction sheet was attached. Specific instructions were highlighted using a highlighter pen.
- Questionnaires that were posted out were addressed to the original entrepreneur him or herself.
- The questionnaires were either posted out or hand delivered to the original entrepreneurs.
- The entrepreneurs were also contacted by telephone and kindly requested to complete the questionnaires.
- The quality of the fieldwork and data collected was thoroughly checked by the administration officer and the author.

5 Research procedure and methodology - 2001 student group

5.1 Sampling procedure

50 students enrolled on the one-year course in entrepreneurship and small business management. The student group formed the population for the longitudinal study in beginning 2001. This group of students enrolled on the course with the hope of establishing a successful business during the course of 2001. The entrance requirement to enter the course was grade 12. No grade 12 subjects were prescribed, and students were only allowed to enroll if this is what they really wanted to do. If the applicants did not have a real desire for starting-up a business, they were rejected for the course.

All 50 students were requested to complete a DISCUS personality profile questionnaire as well as furnish demographic information (see appendix C).

5.2 Instruments used

5.2.1 DISCUS Personality profile test

The students were made aware of the importance of the study. Their permission was requested to participate. All of the 50 students were keen to take part. Students were requested to complete the DISCUS personality profile test in January 2001. The following steps were followed in order to gather relevant, reliable and valid data:

- Full instructions were given in both English (tuition medium) and Northern Sotho (mother tongue language).
- Students were requested to input their student identification number and their gender on the questionnaire.
- Students were offered the choice of either completing the questionnaire in either English or Northern Sotho.
- An English glossary was handed out to the students completing the test in English. This glossary of terms explained the meaning of the English terms.

- Students were given 90 minutes to complete the questionnaire under examination conditions.

5.3 Processing the data

Under the supervision of the author an administration officer author edited questionnaires in order to ensure the completeness and reliability of the data entered on both questionnaires completed by the students. Any errors detected were referred back to the students who then corrected them.

5.4 Method of education and training

The students studied the Certificate in entrepreneurship and small business development over the course of the 2001 academic year. The students were required to complete the following business related subjects during the year:

- Entrepreneurship
- Communication
- Basic Business Calculations
- Marketing for small business
- Financial management for small business
- Tourism awareness
- Business Practice
- Simulation training with Successoneur™ Business Decision Simulator (SBDS)

Table 20: A summary of content of the listed subjects

Entrepreneurship	Basic entrepreneurial skills required to start-up a business
Marketing for small business	How to develop a marketing strategy for the venture
Financial management for small business	The compilation of a set of books for the small business, as well as the establishment of the necessary internal controls
Communication	The language and grammar skills required to operate a small business eg correspondence with a financial institution

Basic Business Calculations	Basic numeracy skills and business calculations required to successfully operate a small business
Computer literacy & introduction to e-commerce	Equipping the students with the necessary technological skills to improve and make the business run more efficiently Internet marketing opportunities
Tourism awareness	The identification of business opportunities in the tourism sector in the Limpopo Province
Successoneur business decision simulation training	Evaluate choice and decision situations faced on a daily basis in the business environment. The simulator randomly requires evaluations because this is the way business operates in practice. Participants are constantly aware of the possibility of measurement and must therefore prepare for such contingencies.
Business practice	Environmental scanning for business opportunities Business plan creation Business plan presentation and defence (The business plan is continually improved throughout the year) Social responsibility plan of action Implement the business plan through own venture creation This is mainly a practical module where students are required to establish a small business. The facilitator advises the student in all aspects of the establishment of the business. Students are required to report on a weekly basis on the progress of the small business

5.5 Final measurement of success of students

5.5.1 Practical component (Business Practice)

The student group was continually monitored and evaluated. At the end of the academic year the students were required to present their final business plan, as well as display their product or concept offering to the panel. Up and running entrepreneurs were also required to furnish their financial records. A panel of

evaluators assessed the viability and sustainability of student businesses. The panel was made up of the two course facilitators and three business personalities from the community. All evaluators evaluated each student business separately and these results were combined in order to calculate a final business practice result. Members of the panel were free to direct questions to the student on completion of his/her presentation. Students passed if the panel was satisfied that the business did actually exist and had the potential to remain an on-going concern in the foreseeable future.

Table 21: **Mark allocation for evaluation**

Evaluation criteria for Business Practice	% of Total Mark
Presentation	10%
Final Business Plan	25%
Success of Business Start -Up	25%
Assessment of Business Being Sustainable	20%
Concept/Product	5%
Ability to Answer Questions by Panel Satisfactorily	10%
Originality and Creativity	5%
TOTAL	100%

5.5.2 Theoretical component

Students were also required to write formal examinations in the remainder of the subjects. Evaluation of literacy levels and numeracy skills were evaluated through the subjects Business Communication and Basic Business Calculations respectively.

The small businesses were then monitored on a quarterly basis throughout the 2002 academic year. Support and assistance was given through the Entrepreneurial support centre established on Campus, specifically to monitor and support these small businesses.

5.6   Processing of final student results

The results of the DISCUS profile test and final student evaluation results from the course were input on a pre-designed EXCEL spreadsheet in order to establish if any

correlations existed between the scores achieved on the profile test and final evaluation of success in start-up of a small venture; as well as if any correlation existed between literacy, communication, numeracy skills and success in start-up.

6.   Statistical techniques applied

The second questionnaire consisted of string variables, categorical variables as well as discrete variables. Relevant descriptive statistics and charts were used to illustrate the results from the survey. Cross tabulations were also used to determine the relationship between the variables under investigation. A cross tabulation usually involves two or more variables. Measurement of internal growth of the businesses

6.1   Measurement of internal growth in the business

An attempt to measure internal growth of the businesses of the control group was done on the basis of employee numbers, turnover figures and asset values. As per the literature study (chapter three) the basis for calculating the various rates was the following formula:

Growth = $\underline{(A-B)}$ divided by C
        B

Where   A = workers at the time of the survey
        B = workers at the time of the survey
        C =   Age of firm in years

McPherson used the above formula to measure average annual percentage change in employment (McPherson 1992: 95).For the purposes of this study the formula will be extended to measure growth in employment numbers, turnover and asset values over the life of the business. Therefore,

   A = workers / turnover / asset value at the time of the survey
   B = workers / turnover / asset value at the time of the survey
   C = Age of firm in years

The above formula could be applied in calculating annual percentage change in employment from the time of inception of the business to the time of the survey. In the case of turnover and asset values, growth was measured in categories. The reason for this was that it is the experience of the author that people do not like to disclose exact turnover and asset value figures for various reasons. For example, many fear that the Receiver of Revenue will gain access to the information offered, even though they have been assured of the utmost confidentiality and the option of remaining anonymous.

6.2   The Chi-squared test

The Chi-square test applies to nominal data and is concerned with the question of whether or not the differences between an observed set of frequencies and a theoretically expected set of frequencies are significant (Nel, Radel & Loubser 1988: 373). Where the two variables under investigation were both categorical variables the Chi-squared test was performed to test the null hypothesis. The null-hypothesis stated that the two variables under investigation are independent. The Chi-Squared test was then used to either accept or reject the null-hypothesis. The Chi-squared test measures independency without indicating strength or direction.

6.3   Analysis of variance (ANOVA)

ANOVA reveals the significance of group differences between the means of a single variable. The procedure for groups formed by one classification variable is termed a one-way ANOVA and for groups formed by two or more classification variables it is known as a factorial ANOVA procedure. Factorial ANOVA establishes the effect of each classification variable (main effect) and the interaction between classification variables. In ANOVA one variable, the dependent variable, is compared over classes or cells formed by one or more classification variables that are independent (Nel *et. al*: 1988: 399).

Where one variable was a categorical variable and the other a discrete variable, a one-way ANOVA table was constructed and a F-test was performed to determine whether or not the null-hypothesis could be rejected or not. The null-hypothesis

stated that the means of the two variables is equal. The F-test assumes normality, and a Kolmogorov-Smirnov test was used to test for normality. If normality cannot be assumed a nonparametric Kruskal-Wallis Test would be used instead. This test is required where the need arises to analyse ordinal data obtained from three or more independent variables (Nel *et.al.* 1988:370).

6.4   Analysis of covariance

Where the two variables under investigation were both discrete variables, analysis of covariance was performed. The null hypothesis in this case stated again that the two variables are independent. An F-test would be performed to accept or reject the null hypothesis. Correlation coefficients were calculated to indicate the direction and strength of the relationship. The correlation coefficient can lie between −1 and 1, where −1 shows a very strong negative relationship and 1 a very strong positive relationship.

6.5   Regression analysis

Regression was used to predict to what extent a person's personality profile explains the variance in the success rate. A high residual value (R squared) indicates that the personality profile of a person is significant in predicting success. The residual value ranges from 1 to 100.

6.6   Level of significance

The basis for statistical testing is that the null hypothesis is accepted until proof to the contrary becomes overwhelming. The nature of the data, the number of samples and the relationship of the samples are the main considerations in the section of the appropriate statistical test. The desired level of significance used was 5%. This means that there is only a 5% or 1/20 chance that rejection of the hypothesis was a mistake. The null hypothesis is accepted until proof to the contrary becomes overwhelming. There is always a possibility that the null hypothesis may be rejected even though it is true. This probability is referred to as the significance level. The smaller the significance level, the greater the level of confidence that the correct

decision was taken. If the observed value of the test statistic exceeded the critical value, the null hypothesis is rejected. If not, it is accepted (Nel *et. al.* 1988:356).

7. Chapter summary

This chapter was devoted to the research methodology applied in the study. It included:

- Aim of the study
- Sampling techniques applied
- A description and explanation of the instruments used in the study
- A description of the organisation of the fieldwork
- Mode of training the group of students in the longitudinal study
- Final measurement of success of student group
- Statistical techniques applied

CHAPTER 6

RESULTS OF THE EMPIRICAL STUDY

The previous chapter was devoted to a description of the research procedure and methodology applied in this study. This chapter consists of the results obtained in the empirical study.

1.   The business group

1.1   Gender of the respondents
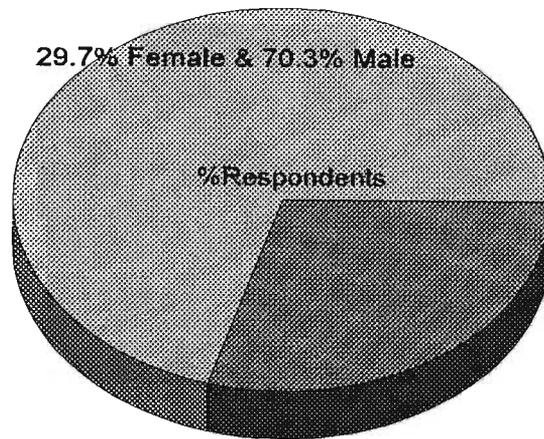
*Figure 6: **The percentage male and female respondents***

29.7% of the respondents were female and 70.3% were male.

1.2 Age of the respondents

Frequency of ages in five year groupings

Std. Dev = 13.10
Mean = 38.4
N = 37.00
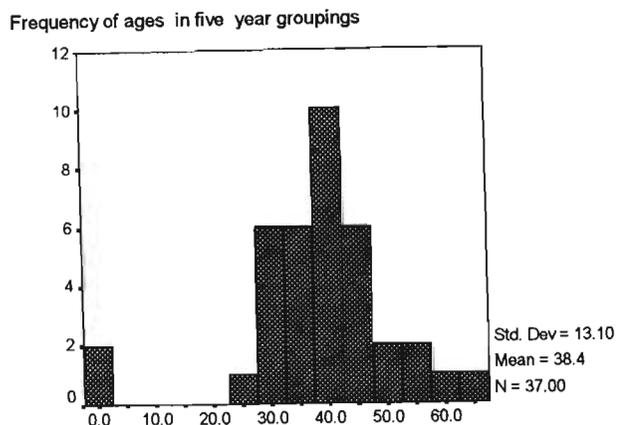
Figure 7: The result on the ages of respondents (five year groupings).

The mean age of the respondents was 38 years, with 43 years between the youngest and oldest respondent. The youngest respondent was 22 years of age, and the oldest 65 years.

1.3 Level of education

Table 22: Level of education of respondents

Highest level of education	Frequency	Percent	Cumulative percent
None	1	2.7	2.7
Some secondary	5	13.5	16.2
Grade 12	10	27	43.2
Certified	6	16.2	59.5
Diploma /Degree	13	35.1	94.6
Post graduate	2	5.4	100
Total	37`	100	

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Highest level of education
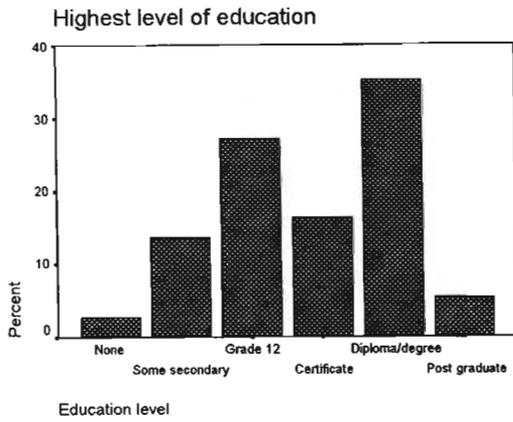
Education level

*Figure 8: **The level of education of respondents***

One respondent (2,7%) had no schooling, five respondents (13,5%) had some
secondary schooling, ten respondents (27,0%) finished grade twelve (matric),
thirteen respondents (35,1%) obtained one or another certificate, and 2 respondents
5,4%) were in possession of a post graduate qualification.

1.4   Formal studies in business management

% with schooling in business managemnt

☐ Yes   ☐ No
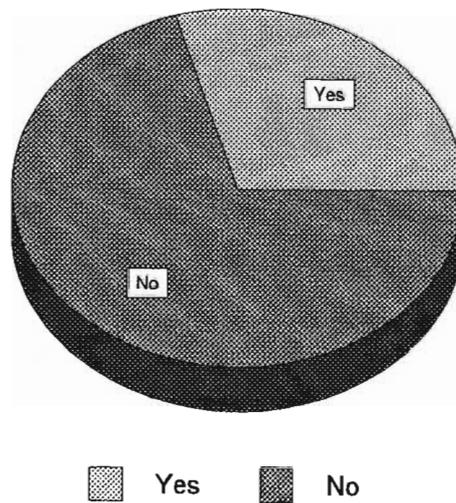
*Figure 9(a): **% respondents with formal schooling in business management***

Table 23: % of respondents with formal study in business management

Studied business management	Frequency	Percent	Cumulative percent
Yes	26	70.3	70.3
No	11	29.7	100
Total	37	100	

29.7% of respondents had studied a course in business management. 70.3 % had not studied any course in business management.

2. Infrastructure

2.1 Access to electricity

Table 24: % respondents with access to electricity

Access to electricity	Frequency	Percent	Cumulative Percent
Do not have access	3	8.1	8.1
Have access	34	91.9	100
Total	37	100	

The majority of the respondents (approximately 92 %) had access to electricity at their place of work. Only 8.1% did not have access to electricity. 36.1% of the Limpopo Province's inhabitants do not have access to electricity.

2.2 Access to running water

Table 25: % respondents with access to running water

Access to running water	Frequency	Percent	Cumulative percent
No	3	8.1	8.1
Yes	34	91.9	100
Total	37	100	

As with the statistics relating to electricity, the majority of the respondents (approximately 92%) had access to running water at their place of work. Only 8.1%

did not have access to running water which is better than the provincial statistics which indicates that 30% of the Limpopo Province's inhabitants do not have access to running water.

2.3   Access to a telephone

Table 26: % respondents with access to a telephone

Access to a telephone	Frequency	Percent	Cumulative percent
No	7	18.9	18.9
Yes	30	81.1	100
Total	37	100	

Approximately 81% of the respondents had a telephone and tele-communication services at their place of work. Approximately 19% were without a telephone. 16% of the Limpopo Province's inhabitants do not have access to a telephone

Table 27: Summary of respondents access to basic infrastructure

Infrastructure	%without access	% with access
Electricity	8.1	91.9
Running tap water	8.1	91.9
Telephone	18.9	81.1

From the above results, it can be stated that the majority of the respondents have access to infrastructure.

3.   Prior experience

3.1   Prior work experience

Table 28: % respondents with prior work experience

Prior work experience	Frequency	Percent	Cumulative percent
No	5	13.5	13.5
Yes	32	86.5	100
Total	37	100	

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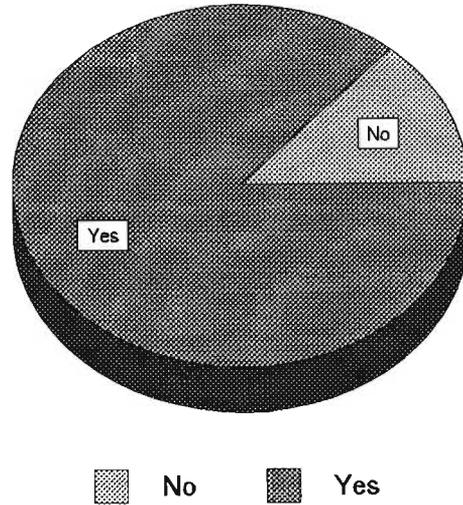
*Figure 9(b): **% respondents with prior work experience***

13.5% of the respondents did not work for an organisation prior to beginning their own businesses. 86.5% of the respondents were employed by an organisation prior to starting their own businesses.

3.2 Reasons for leaving previous employer

*Figure 10: **Respondents' reasons for leaving previous employment***

The main reason cited for the entrepreneur leaving the previous line of business was due to the perception of opportunities within the market place. 73% of respondents replied that they 'saw an opportunity and went for it.' No respondents went into business due to retrenchment, health reasons or to be at home with the family. One was forced into starting up his own business due to dismissal. Other reasons specified for going into business included previous employment being of a temporary nature, as well as running and managing the businesses of others.

3.3   Line of business of previous employment

Employment in same line of business
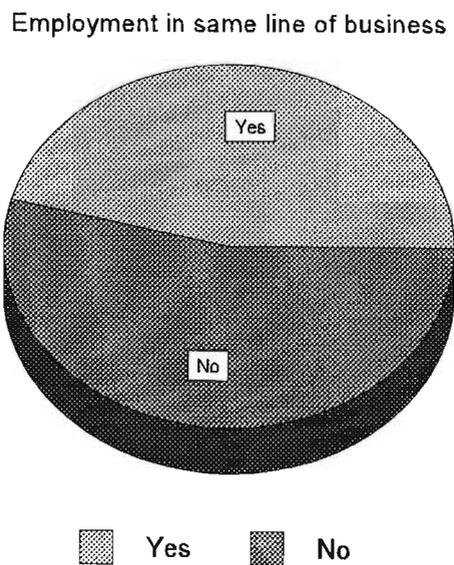
Figure 11: % respondents in same line of business

54.1% of the respondents said that their previous employment was not in the same line of business as their current business. 45.9% of the respondents said that the nature of their current business was in the same line of business as their previous employment.

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3.4   Occupation prior to starting own business

Occupations prior to starting own business if not in an organisation's employment
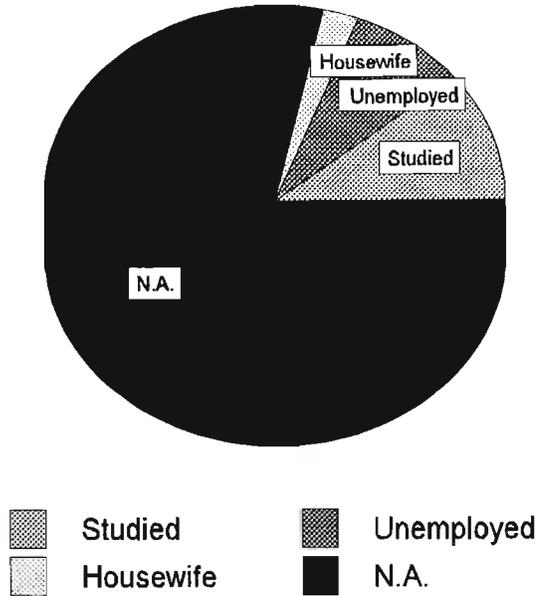
*Figure 12: **Occupations prior to starting own business***

Approximately 3% of the respondents were housewives prior to starting their own businesses. 11% had previously been studying and 8% had been unemployed.

3.5   First business to be owned

% respondents with first businesses
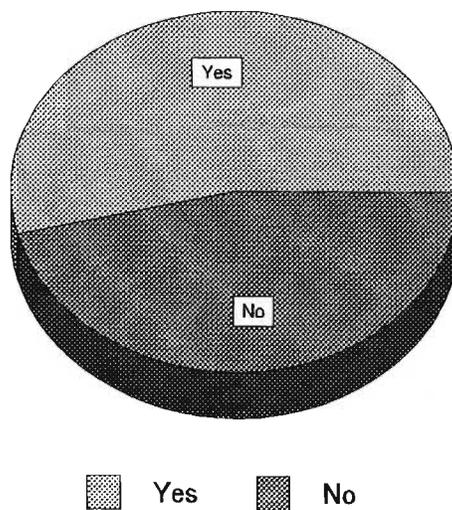
*Figure 13: **%respondents with first business owned***

45.9% of respondents said that this was not the first business that they had owned. 54.1% of the respondents said that this was the first business that they had owned.

3.6 Other businesses owned and number of businesses currently owned

Table 29: **Current and previous businesses owned**

Number of other businesses owned	Frequency	Percent	Cumulative percent
0	20	54.1	54.1
1	1	2.7	56.8
2	7	18.9	75.7
3	4	10.8	86.5
4	1	2.7	89.2
5	1	2.7	91.9
7	1	2.7	94.6
9	2	5.4	100
Total	37	100	
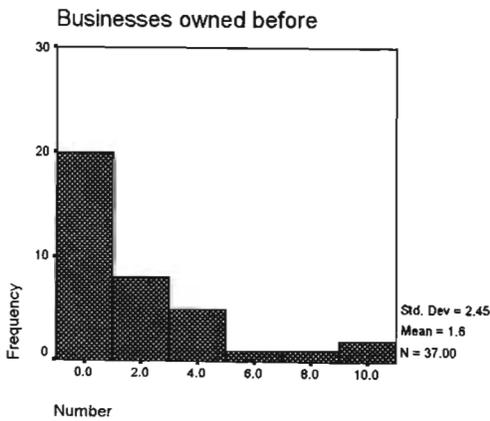
Figure 14: **Businesses owned before**

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Businesses owned now
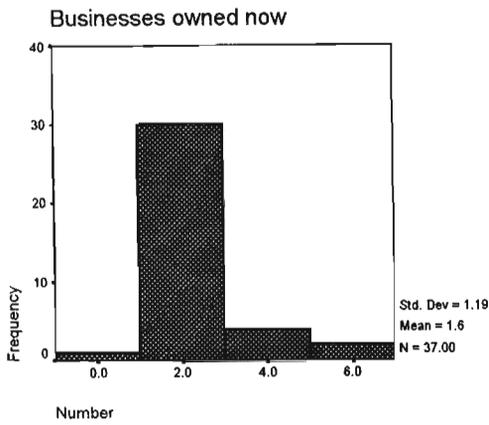
Figure 15: **Businesses owned now (at the time of study)**

Twenty of the respondents had never owned another business before. Thus, this business is their first business. Approximately 19% of the respondents have owned two businesses up to now. The mean number of businesses owned was 1.6, while the mean number of businesses owned now is slightly lower at 1.5. The maximum number of businesses owned is nine and the maximum number of businesses currently owned is six.

3.7 Age when first successful business was started

Aged when started first business

Figure 16: **Age when first successful business was started**

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Approximately 78% of the respondents stated that if they had owned a previous business or businesses, that none of these businesses had failed. Approximately 22% of the respondents replied that where they had owned a previous business or businesses, they had ended in failure.

3.9.1 Reasons cited for failure:

The approximate 22% of respondents who indicated that a previous business failed stipulated the following possible reasons for its failure:

*Table 30: **Reasons for business failure***

Reasons for failure	Yes	No
Shortage or unavailability of people skills	0	100%
Adverse trading conditions	13.5	86.5
Stock problems	8.1	91.9
Lack of managerial experience	5.4	94.6

4.   Source of business news

The respondents were asked how often they read a business newspaper, listened to a business program on the radio and television, and how often they made use of the Internet for business purposes.
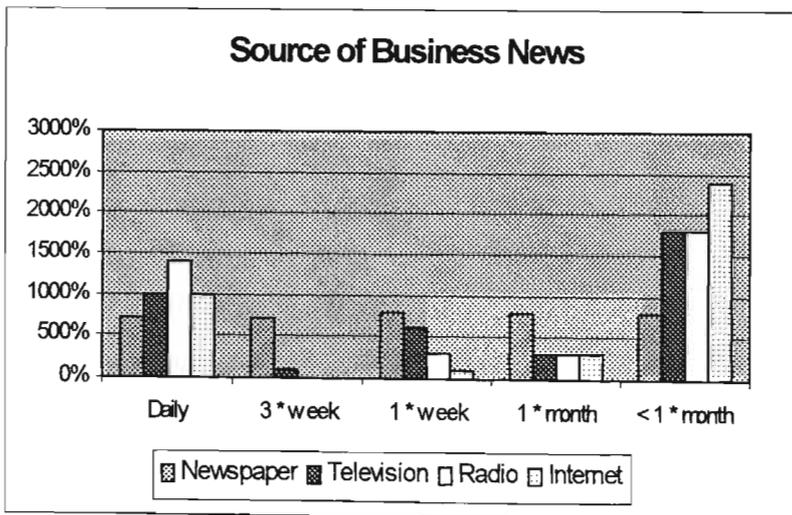
*Figure 19: **Sources of business news***

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Approximately 38% of the respondents listen to a business programme on the radio every day. 49% of the respondents listen to a business programme on the radio less than once a month. Similarly, 49% watch a business programme on the television less than once a month. 27% watch a business programme on television every day. It is interesting to note that approximately 65% of the respondents make use of the Internet for business purposes less than once a month.

5.   Classification

5.1   Industry type

Classification of businesses into industries
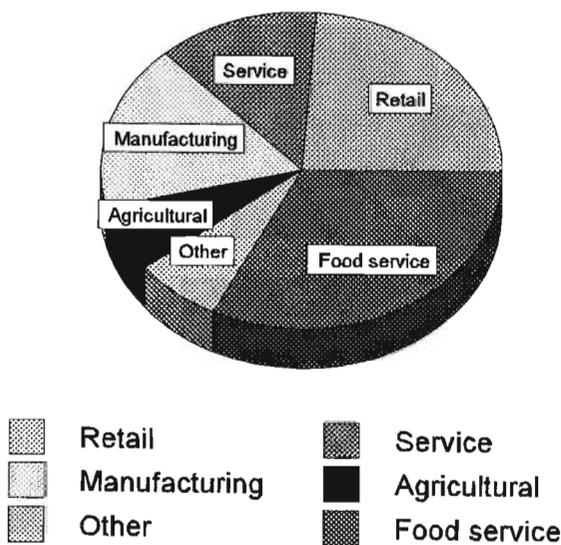
*Figure 20: **Classification of the businesses studied into the various industry categories***

The pie chart shows the classification of the businesses studied into the various industry categories as shown. 32% of the businesses were in the food service industry and 24% were retail businesses.

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5.2 Sector classification
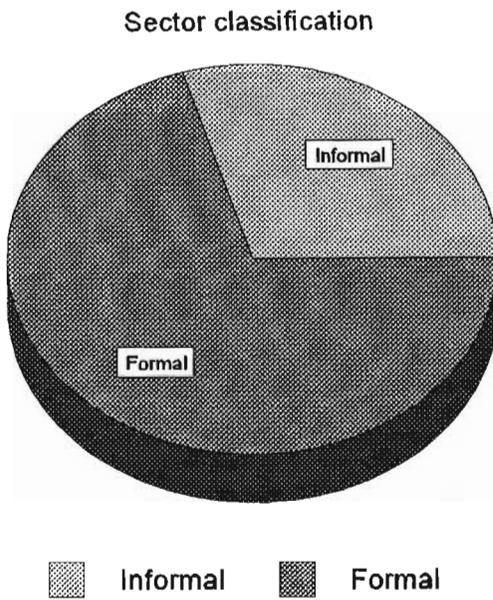
Figure 21:   *Sector classification*

Approximately 70% of the respondents were operating in the formal sector and 30% were operating in the informal sector of the Limpopo Province economy.

5.3 Location of business
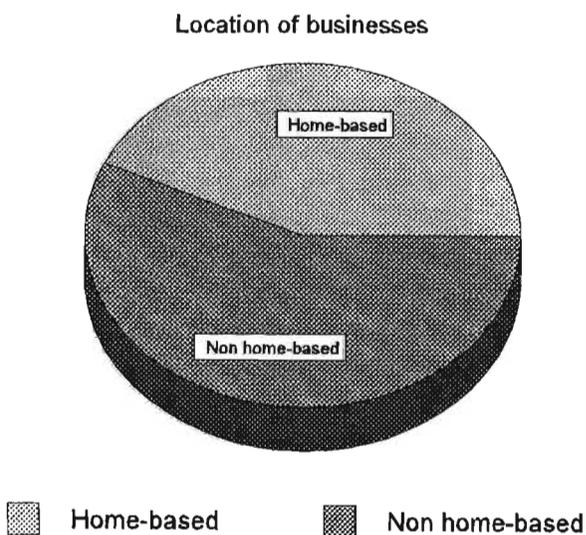
Figure 22:   *Location of businesses*

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Approximately 57% of the businesses were based at the home of the entrepreneur and approximately 43% of the businesses were not home-based.

5.4 International trade (exporting)

% businesses exporting
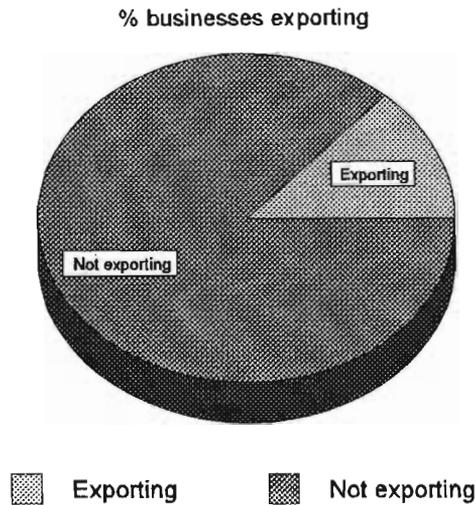
Figure 23: ***% businesses exporting***

86,5% of the respondents were not exporting their products or services out of South Africa. 13.5% of the respondents were exporting their product or service out of South Africa.

6. Performance

6.1 Years in operation
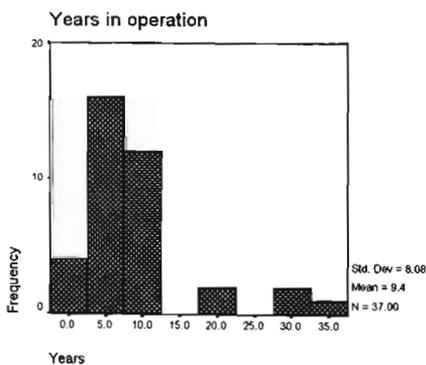
Figure 22: ***Number of years in operation***

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The average number of years that the respondents were in operations was nine years. The standard deviation was very large, which indicated a wide spread of the number of years in operation. Some of the respondents were not in operation for a long period of time. 21,6% had been in business for three years and less; however more than half of the respondents had been in operation for more than seven years.

6.2   Growth in employee numbers

Table 31: **Growth in employee numbers**

Employee numbers	N	Minimum	Maximum	Mean	Standard deviation
Number at start-up including self	37	1	250	15.8108	41.9125
At the end of the first year	37	0	250	17.9189	43.4929
Currently employed	37	1	800	57.027	145.141
Owner of business	37	0	1	0.8378	0.3737
Not owner of business	37	0	1	0.1622	0.3737
Valid N list-wise	37				

The respondents (on average) employed almost sixteen workers. The minimum number of workers employed at start-up was one and the maximum number 250. At the time of the completion of this questionnaire the average employment was 57 workers, while the minimum number employed was one and the maximum 800.

Table 32: *Statistics on number of employees from start-up to end of first year to time of study*

Employee numbers	N	Minimum	Maximum	Mean	Standard deviation
Number from start-up to end of first year	37	-35	40	2.1081	10.6843
Number at start-up to the time of study	37	-6	780	41.2162	137.5302
Valid N Listwise	37				

From the start-up to the end of the first year of business the respondents employed on average two more workers. It is important to note that one business employed 34 workers less in this time, while another 40 more. From start-up to the time of completion of the questionnaire the respondents employed on average 41 more workers. One respondent now employs six workers less while another 780 more. The average growth rate in employee numbers from start-up to the end of the first year was 24%, while the average growth rate from start-up to the time of completion of the questionnaire was 340%.

6.2.1 Owner- manager of the business
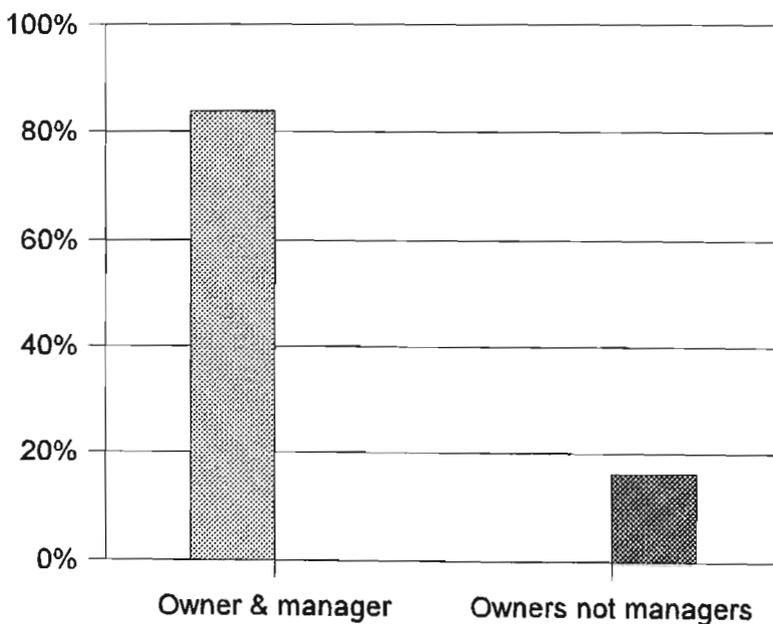
Figure 24: *% Owner and managers of business and % owners not managers of business*

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83,8% of the respondents replied that they were both the owner and the manager, while 16,2% were the owners but not managing the business.

7.   Growth in turnover

The mean turnover for the first financial year was between R 76 000 and R 100 000. At the time of completion of this questionnaire it had risen to R 151 000 and R 200 000 annual turnover.
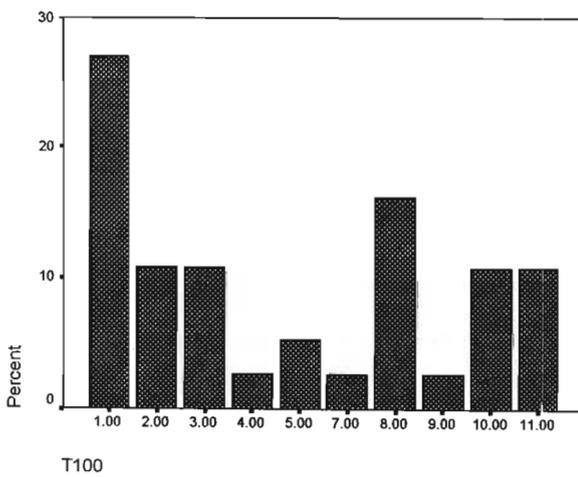
Figure 25: **Value of turnover at the end of the first financial year.**

The graph above shows the distribution of answers to the question of the value of their annual turnover at the end of the first financial year.
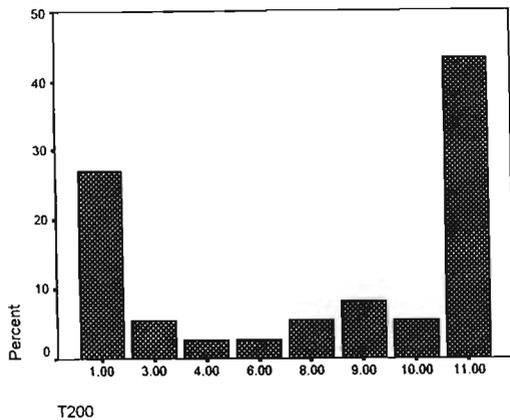
Figure 26: Value of turnover at the time of study

This graph shows the distribution of turnover at the time of completion of the questionnaire. The respondent's annual turnover category on average increased with 71%. Actual average growth can be less or more since the results are based on categorical results. If the number of years in business is taken into account then the average growth in employment is 37,5%. For turnover and assets an average growth in category is calculated. This cannot give an exact growth figure but can be as an indication of growth. The turnover category, on average, increased with almost 9%, while the asset category increased with more than 28%.

7.1 Growth in asset values

The average category for assets after the first year of business was three. The average value of assets at that time was between R 26 000 and R 50 000. At the time of the completion of the questionnaire that average category was six, assets were worth between R101 000 and R150 000. This represents an average growth of three categories.
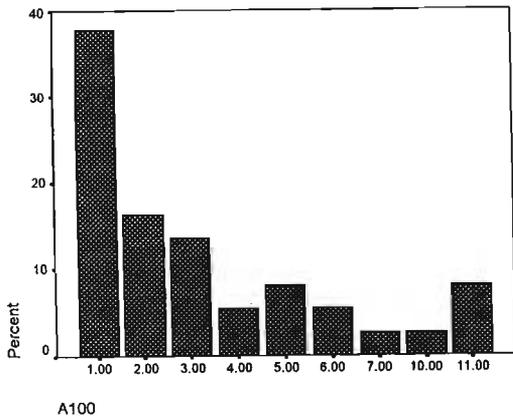
Figure 27: **Distribution of the value of assets at the end of the first financial year**
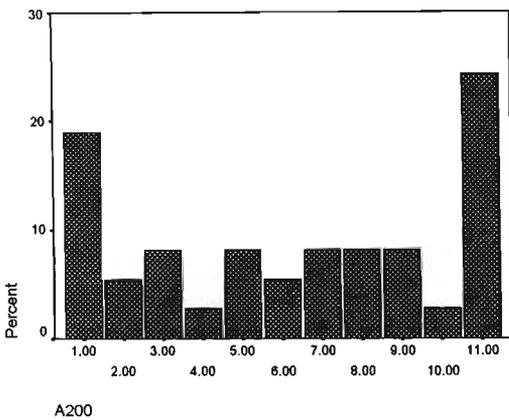
Figure 28: **Distribution of the value of assets at the end of the first year in business**

The first graph shows the distribution of the value of assets at the end of the first financial year and the second shows the distribution of the value of assets at the time of completion of the questionnaire. The mean growth rate was 164%. Again it refers to categorical changes.

8 Business plan

8.1 Business plan prior to start-up

Start-up business plan

Yes

No

Yes　　No
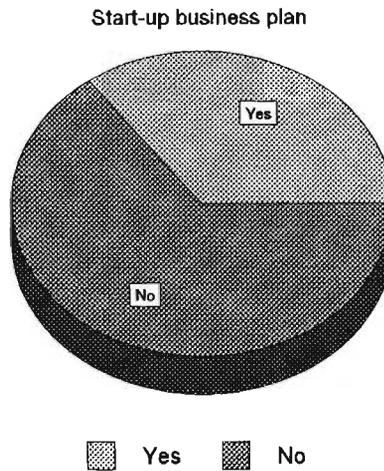
Figure 29: % Business owners who used a start-up business plan

Approximately 65% of the entrepreneurs responded that they never completed a business plan prior to start-up. 35% had a business plan prior to start-up.

8.2 Contribution of business plan

Business plan helped

Yes

No

Yes　　No
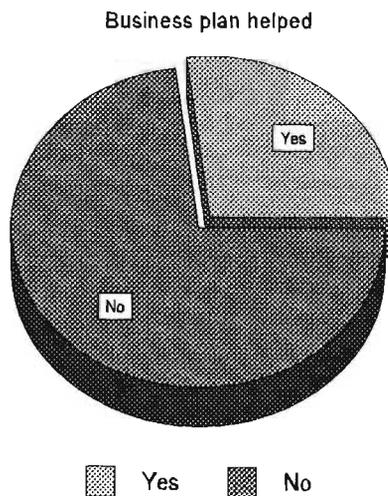
Figure 30: % owners who compiled a business plan and felt it had helped them.

Of the respondents who compiled a business plan prior to start-up, approximately 73% stated that it had not helped them, whereas approximately 27% said it had helped them.

8.3   Professional assistance obtained in compiling the business plan

% of business plans compiled by professionals
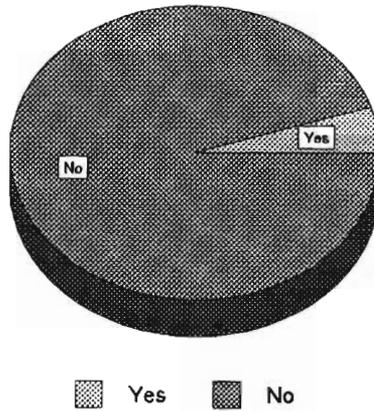
Figure 31: % of business plans compiled by professionals

Approximately 5% of the respondents, who had a business plan prior to start-up, had obtained professional services in drawing up the plan, whereas approximately 95% compiled it themselves.

9. Lifestyle

Owners reporting an improvement in lifestyle
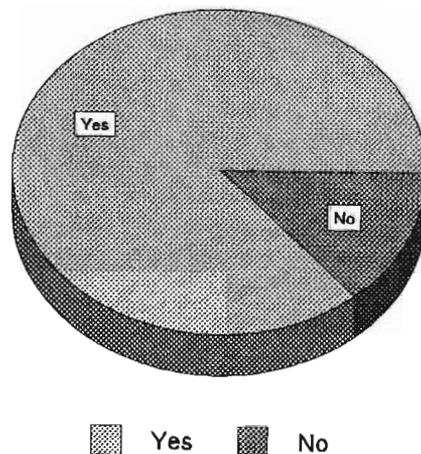
Figure 32: Owners reporting an improvement in lifestyle

86,5% of the respondents stated that their lifestyle (quality of life) had improved since starting up their own businesses. 13.5% stated that their quality of life had not altered since starting up their own businesses.

10. Regrets starting a business

Owners regretting the start of their businesses
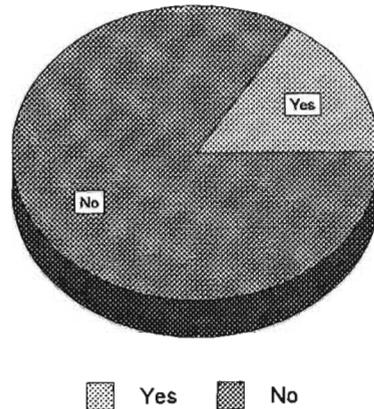
Figure 33: % respondents regretting start-up of own business

83,8% of the respondents stated that they had no regrets after having gone out on their own in their own businesses. Only 16.2% stated that they regretted going into their own businesses.

11. Goals, objectives and general relevant information offered by the entrepreneurs

11.1 Primary and secondary goals of the business

Entrepreneurs were requested to state their main and secondary goals in business. The majority (35%) stated that the maximisation of profit was their primary objective. Support of the family and provision for the education of siblings as well as attaining financial independence were also important goals for the entrepreneurs.

Table 33: **Main goals of entrepreneurs starting their business**

Main goal	Main	Second
Maximise profits	14%	35%
Family security and provision for children (including educational needs)	18.5%	8%
Living standards and luxuries	7%	3%
Financial independence and success	18.5%	11%
Quality service to clients	13%	6%
Employment creation	3%	19%
Enjoyment and satisfaction	5%	14%
Survival		16%
Export		3%
Expand range of products and increase client base		6%

12. Lifestyle changes

The entrepreneurs were requested to comment on any changes in lifestyle since being in their own business. Comments included:

- More luxuries
- Mental stimulation and job satisfaction
- Determination of own working hours
- Increased financial security and freedom
- Dramatic improvement of quality of life
- Increased leisure time
- Enjoy plenty of quality time (at any time) with family
- Able to afford leisure time and vacations
- Make own decisions
- No improvement in lifestyle
- Able to provide family security and education provision for children
- More disposable income
- Able to remain focussed on goals and values in life

12.1 Reasons for success

The entrepreneurs were requested to comment on what factors could be attributed to their success. The reasons given included:

- Previous line of employment
- Faith in God
- Learnt from others in business
- Intensive marketing
- Family support
- Customer focus
- To own and manage yourself
- Intimate knowledge of the business
- Hard work
- Keeping up to date with changes in the environment
- "Do unto others as I would have them to do unto me"
- Determination and dedication
- Enjoy what you do and success will follow
- Good customer service
- Good interpersonal relations with staff and staff empowerment
- Goal setting and planning
- Self-pride and self-discipline
- Pay attention to sales volumes
- Good budgeting
- Honesty
- Good control

13. Valuable lessons

Entrepreneurs were asked to offer any valuable lessons that they had learnt along the way that may be of use to others in business or contemplating starting up. They included:

- Work hard and get correct training
- Listen and communicate

- Have faith
- Own and manage yourself
- Have pride in yourself
- Manage you time
- Complete risk analysis of projects
- Focus on customers
- Pay your dues and be honest
- Business training is important
- Choose partners very carefully
- Full-time devotion and believe in what you do
- Do not trust people to run your business in your absence
- Do not take cash drawings out of the business
- Continual learning and knowledge gathering
- Planning
- Focus on quality products rather than volume
- Use opportunities
- Honesty and integrity
- Have good financial advisors
- Be prepared to make mistakes
- Be prepared to take a chance
- Always remain focussed
- Maintain overall control
- Always know what is going on in the business

14. Chapter Summary

This chapter consisted of the results of the empirical section of the study. The results have been displayed in detail with an explanation of the findings. Both the established business and the student group were analysed using the SBSS statistics package. This chapter provided a detailed description of the results obtained in the study of the established businesses. The following chapter consists of a detailed description of the results obtained in the study of the student group. As previously discussed in chapter three it is difficult to find a generally accepted definition of success. However, for the

purposes of study alternative scenarios have been looked at by applying measures to performance indicators identified in the literature study, as well as making an attempt to define success more clearly by requiring a combination of growth in more than one performance indicator category to exist in order to be classified as successful.

The final chapter, (chapter 8) will consist of a discussion of the results and findings as well as recommendations for future research and policymaking.

From the results described in this chapter, it must be said, that there is a clear indication that the personality profile of a person is not a significant factor in predicting future business success. There is however a question on the reliability of the current profile test in terms of the entrepreneurial job match profile. Considering the growth rates achieved by the businesses studied which would definitely suggest that the majority of the original entrepreneurs have been successful in running and expanding their businesses, one would have expected the mean personality profile score to have come out higher.

CHAPTER 7

RESULTS OF THE LONGITUDINAL STUDY OF THE STUDENT GROUP

1. Results

The previous chapter was devoted to a description of the results obtained in a study of the established business group. This chapter consists of a description and explanation of the results obtained in the longitudinal study of the student group, as discussed in chapter 5.

2. 2001 student group (longitudinal study)

2.1 Background information

50 students enrolled for the one-year course in entrepreneurship and small business management. The student group formed the population for the longitudinal study started at the beginning of 2001. This group of students enrolled on the course with the hope of establishing successful businesses during the course of 2001. The only entrance requirement to enter the course was grade 12. No grade 12 subjects were prescribed, and students were only allowed to enrol if this was what they really wanted to do. If the applicants did not have a real desire for starting up a business, they were rejected for the course. All 50 students were requested to complete a DISCUS ™ personality profile questionnaire as well as furnish demographic information to the course facilitators (see appendix C).

2.2 Demographics and experience

2.2.1 Location

All of the students came from the Northern Province. 72% came from rural areas and 28% came from urban areas.

2.2.2 Age distribution

The ages of the students were as follows:

Table 34: Ages of student group

Age	Number
17 years old	8
18 years old	10
19 years old	11
20 years old	5
21 years old	9
22 years o0ld	1
23 years old	6

2.2.3 Level of education

The highest level of education attained by all 50 of the students was grade 12.
All had studied mathematics up to grade 7 level. 44% of the students had
mathematics at grade 12 level. 78% of the students had studied economics up to
grade 12 level, and 60% of the students had studied business economics up to grade
12 level. 54% had studied accounting at grade 12 level.

2.2.4 Business course

This was the first business course that all of the students had enrolled for. The main
reason stated for choosing this particular business course, was the level of success
achieved by the two previous groups in terms of setting up sustainable businesses.

3.   Infrastructure: Access to electricity, running tap water and telephone

Table 35: Access to electricity, running tap water and telephones

Electricity	92%
Running water	88%
Telephone	56%

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4   Occupation prior to enrolling on business course

Before enrolling on the course, 4% of the students had been housewives, 10% were unemployed and 86% had been in grade 12.

5   Source of business news

The students were asked how often they read a business newspaper, listened to a business program on the radio and television, and how often they made use of the Internet to access business information. The responses were as follows:
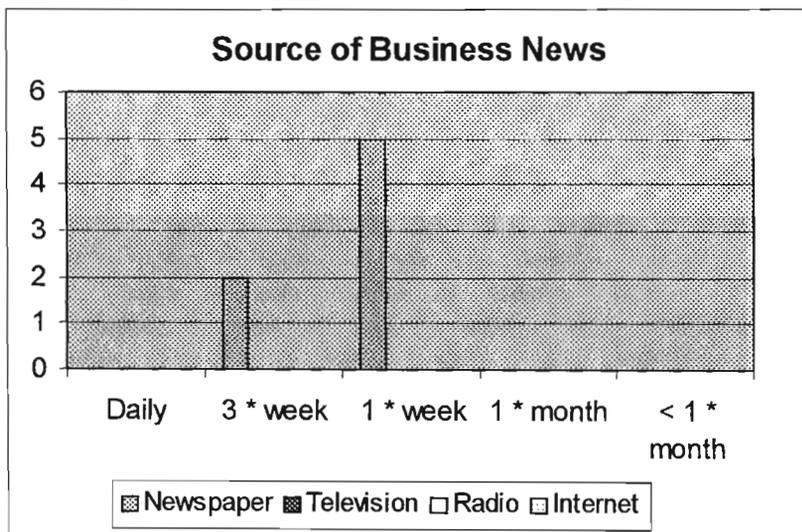
Figure 34: Sources of business information

6. Necessity driven versus opportunity driven entrepreneurship

92% of the students believed there were opportunities existed to start up a new business. Only 8% of the students replied that they were studying this course to go into a business out of necessity.

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Furthermore, of the 92% who believed that opportunities existed, 20% believed these opportunities were in the urban areas; 62% believed that they were in the rural areas and 18 % believed they were both rural and urban.

7. Family business experience

22% of either of the parents or both of the parents of the student group were in their own businesses. All of these students have assisted their parents in business.
Only 4% of these students planned starting up a business in the same line of businesses as their parents.

8. Source of finance

The students were asked how they planned to raise the capital to start up their businesses. It is important to note that they were asked this question prior to studying the pros and cons of methods of financing the start up of their businesses. The responses were as follows:
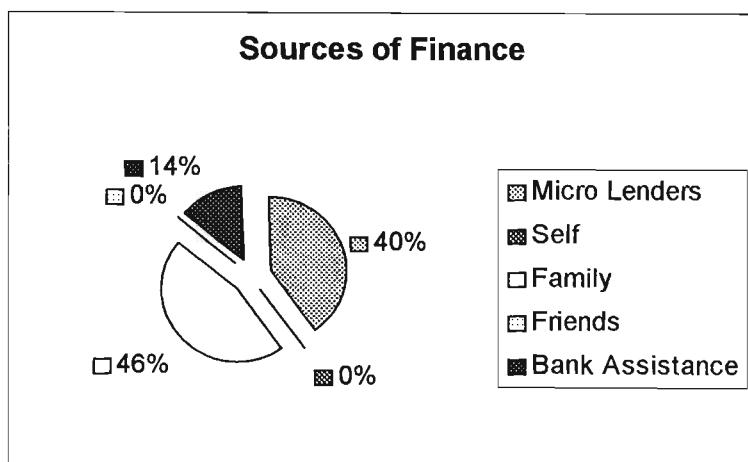
Figure 35: *Sources of finance*

9. Student group programme results

A detailed description of student results in the one-year Certificate in Entrepreneurship and Small Business Management are discussed below.

9.1 Measurement of start up success achieved by student group

The final examination consisted of the evaluation of the business plan and the presentation thereof. Students were required to do a final presentation that included the presentation of the books and the financial statements of the business, as well as a discussion of the following aspects of the business:

- The business concept
- The marketing strategy
- The product itself (product to be on display)
- The business and its commitment to social responsibility

A panel consisting of the course lecturers and facilitators, local members of business from the private sector made up the evaluation panel. Members of the panel were free to direct questions to the student on completion of his / her presentation. The final mark awarded was allocated as a mark for "Business Practice." This mark then indicated whether or not the student was classified as successful at start-up or not successful at start-up. Students PASSED, (a mark of more than 50% was awarded) if the panel was satisfied that the business did actually exist and had the potential to remain an on going-concern in the foreseeable future.

This was the main gauge of whether or not a student could be considered successful or not at start-up. However, degree of success could not be established at this early stage in the life of the business. The graph below shows the final mark obtained by the students in their Business Practice final evaluation.

Finalmark
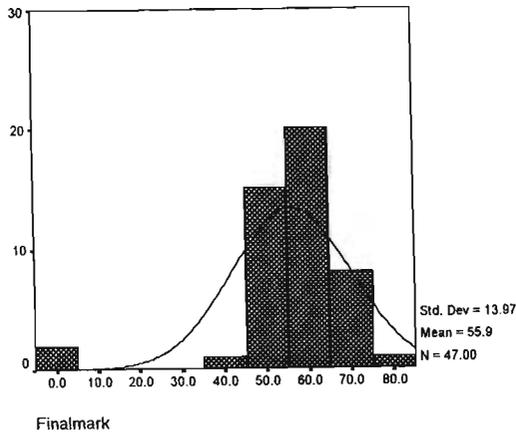
Figure 36: *Results obtained in Business Practise used as an initial indicator of start-up success*

Success rate

Successful

Unsuccessful

▓ Successful   ▓ Unsuccessful
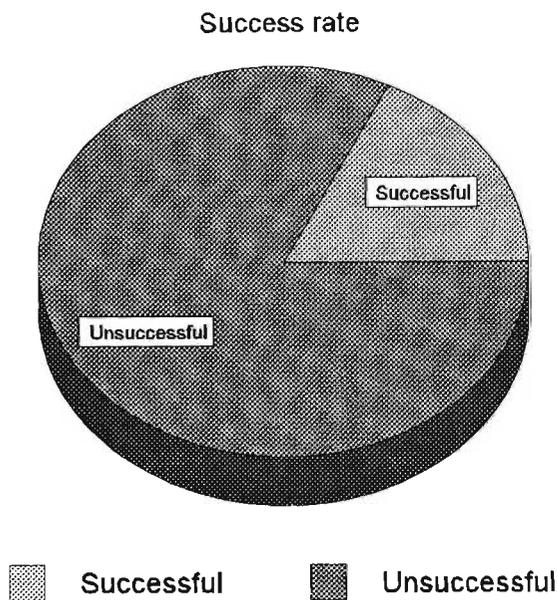
Figure 37: *Success rate of students*

Only 18,2% of the students were considered successful, while 82% were not successful. The drop out rate of the students would have also had an impact on the number of "unsuccessful" businesses. From the initial 50 students used in the study 8% dropped out, and 2% were not allocated a final mark for one or another reason. Therefore the 18,2% comes from the 90% who did not drop out. It may be useful in the future, to

determine whether or not the student who have dropped out, actually followed a career in business.

9.2 The relationship between personality profile score and start-up success

The main reason for this study is to determine whether or not there is a relationship between the personality profile scores of the respondents and their success rate. The following graph shows the personality profile test results obtained by the student group. The mean score obtained by the students was 44.3%.
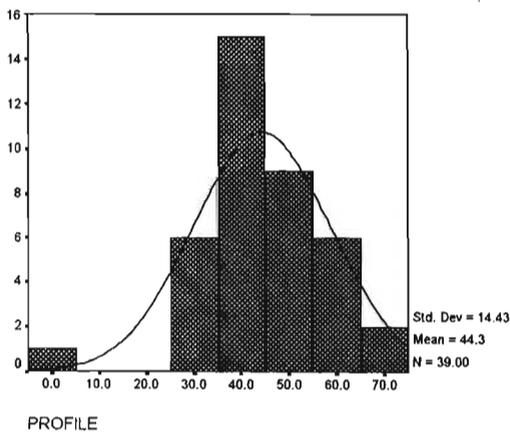
Figure 38: **Personality profile test results of student group**

0 = not successful per definition   1 = successful
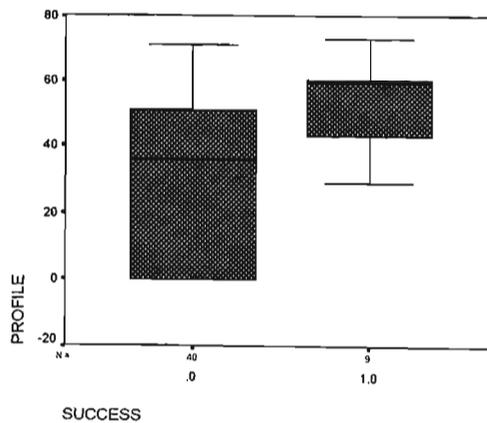
Figure 39: **Graph showing the relationship between personality profile score and start-up success**

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A box and whisker plot is used to illustrate the results. The mean profile score for students with successful businesses was higher than those without a successful business.

An analysis of variance test was also performed to test whether or not there was a significant difference between the mean profile score of successful students and non-successful students. A non-parametric test, namely the Kruskal-Wallis test was applied. This test does not assume a normal distribution of profile scores. There was a significant difference between the profile scores of successful and non-successful students. The P-value of 0.005 shows that the null hypothesis of equal means can be rejected even on a 1 percent level of significance. The mean profile score of students with successful businesses was significantly higher than those without a successful business.

STATUS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.0	4	8.0	8.0	8.0
	1.0	45	90.0	90.0	98.0
	2.0	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

A one-way ANOVA test was performed. The null-hypothesis states that the mean profile scores of the two categories successful or not successful are equal. An F-test was used to determine whether or not the null-hypothesis should be accepted or not. The F-test assumes normality. Normality was first tested, using a one-sample Kolmogorov-Smirnov test:

One-Sample Kolmogorov-Smirnov Test

		PROFILE
N		39
Normal Parameters[a,b]	Mean	44.256
	Std. Deviation	14.433
Most Extreme Differences	Absolute	.127
	Positive	.127
	Negative	-.116
Kolmogorov-Smirnov Z		.791
Asymp. Sig. (2-tailed)		.559

a. Test distribution is Normal.

b. Calculated from data.

From the results above, it is clear that the test distribution is normal. This can also be seen from the histogram of the profile tests marks of the students.

ANOVA

PROFILE

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	917.347	1	917.347	4.850	.034
Within Groups	6998.089	37	189.138		
Total	7915.436	38			

The P-value of 0,034 (< 0,05) indicates that the null hypothesis can be rejected on a 5% significance level. Once again, in confirming the results of the previous tests, there is a significant difference between the mean personality profile marks of the students classified as successful at start-up and those not classified as being successful at start-up on a 5% level.

9.3 The relationship between the average overall score (all theory-based course subjects) and start-up success

Another interesting question is to determine whether or not the average overall mark obtained for the theory-based content of the programme has any influence on the success rate or not. The same tests are performed as above and the results are as follows:
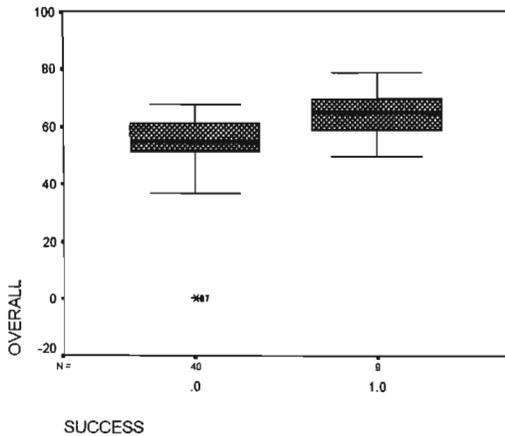
*Figure 40: **Mean scores for successful and unsuccessful students***

The box and whisker plot diagram again shows that the mean average overall mark for the students classified as successful students is higher than the mean score for those classified as unsuccessful.

Test Statistics[a,b]

	OVERALL
Chi-Square	6.490
df	1
Asymp. Sig.	.011

a. Kruskal Wallis Test

b. Grouping Variable: SUCCESS

Applying a Kruskal Wallis test, the results show that there is a significant difference between the mean average score of students with a successful business and those

without. The P-value of 0.011 shows that the null hypothesis of equal means can be rejected on a 5 percent significance level.

ANOVA

Finalmark

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	772.149	1	772.149	4.232	.045
Within Groups	8210.319	45	182.452		
Total	8982.468	46			

The null hypothesis of equal means can also be rejected on a 5% significance level ($P=0.045<0,05$). There is also a significant difference between the mean final marks of students who are successful and students who are not successful.

9.4 The relationship between literacy and start-up success

In order to establish if any correlations existed between the level of literacy and numeracy of a student and start-up success, the results of the two subjects Communication and Basic Business Calculations were analysed.

MARKSCOM
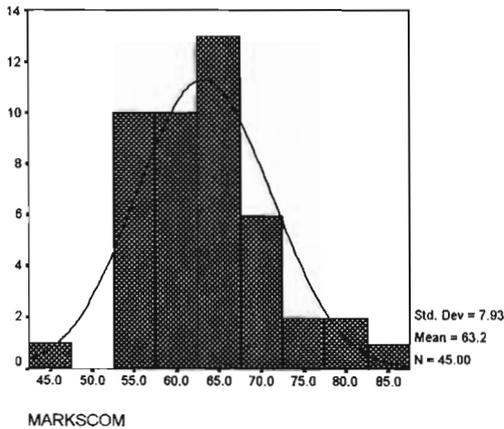
Figure 41: **The results obtained in each of the two subjects, and the relationships found between the subject marks and start-up success**

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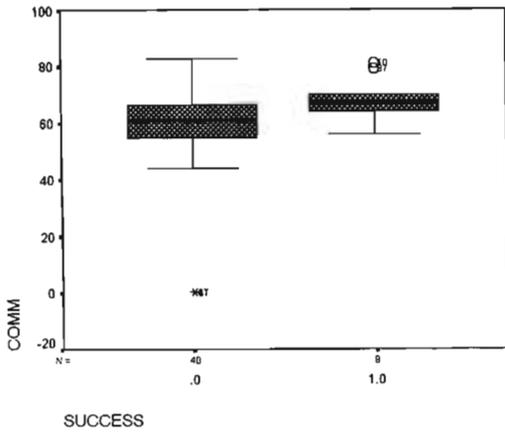
Figure 42: **Communication mark versus start-up success**

The box and whisker plot shows that the mean score for communication for successful students is higher than that for unsuccessful students. The Kruskal Wallis test indicates that the difference is significant on a 5 % significance level. The mean mark for students classified as successful at start-up is significantly higher than those of unsuccessful students.

9.5 Relationship between level of numeracy and start-up success

The level of numeracy of the students was assessed in a subject developed to transfer the skills needed to run a small business in terms of their mathematical needs. The subject was termed basic Business Calculations. Students were equipped with the knowledge and skills required in order to carry out basic calculations in business, such as the calculation of profits, break-even analysis and calculation of mark-ups.

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Std. Dev = 10.72
Mean = 53.4
N = 45.00
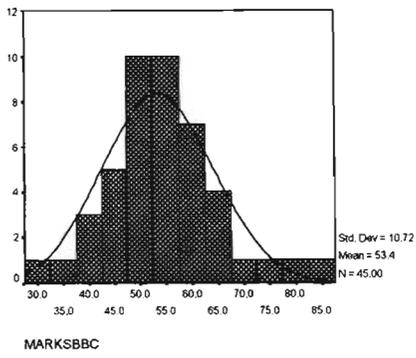
MARKSBBC

Figure 43: **Results obtained in the subject Basic Business Calculations**

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PROFILE	39	.0	73.0	44.256	14.433
Finalmark	47	.00	79.00	55.8936	13.9739
MARKSCOM	45	44.0	83.0	63.244	7.932
MARKSBBC	45	30.0	83.0	53.378	10.716
Valid N (listwise)	37				

Where information is missing the case was excluded.
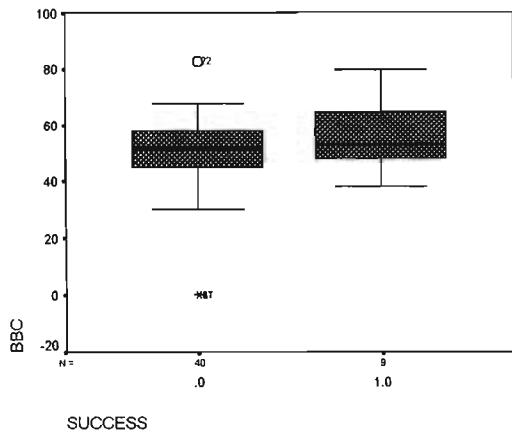
Figure 44: **Basic Business Calculations mark versus start-up success**

The box and whiskers plot again shows a slight difference in the mean Basic Business Calculations mark for successful and non-successful students. The difference in the means is not as pronounced as that found with Communication. The Kruskal Wallis test was used again to test whether or not the difference is significant.

Test Statistics[a,b]

	BBC
Chi-Square	1.241
df	1
Asymp. Sig.	.265

a. Kruskal Wallis Test

b. Grouping Variable: SUCCESS

There is not a significant difference between the Basic Business Calculation marks for successful and unsuccessful students.

Two conclusions can be drawn from the above results obtained. Firstly, the ability of an individual in basic mathematics does not influence his/her ability to make a success in business, and secondly the students' mathematical marks are equally bad/good with a few outliers.

10. Chapter summary

This chapter provided a detailed description of the results obtained in the study of the student group. The final chapter, (chapter 8) will discuss the results and findings as well as recommendations for future research and policymaking.

The following leading conclusions can be drawn from the results of this chapter:

- The mean profile score for students with successful start-ups was significantly higher than those without a successful start-up
- The mean mark for the subject Communication is significantly higher for the students classified as successful at start-up, compared to those classified as unsuccessful at start-up. This strongly suggests that students with a higher level of literacy are more likely to be successful in starting up a business than those who do not have a high level of literacy
- There is not a significant difference between the Basic Business Calculations marks for students classified as successful at start-up, compared to those classified as unsuccessful. These results would suggest that level of numeracy is not a leading indicator for success being achieved at start-up of a business.

CHAPTER 8

Discussion, conclusions and recommendations

This study was concerned with the start up of small business ventures and the measurement of the internal growth of these businesses in order to establish whether or not there was a leading indicator or indicators that would predict a high probability of future success in the small business, and indeed if the profile of the entrepreneur will give any indication of the probability of success being achieved.

The hypothesis for this study was that if the prospective entrepreneur has a personality profile that correlates to the entrepreneurship category as defined by the profile test applied, and then there will be a high probability of success being achieved in a business venture.

For this hypothesis to be accepted or rejected, the following questions were investigated:

1.   How significant is the personality profile of the entrepreneur in determining success of the business, and

2.   What is the impact of prior experience and knowledge of the entrepreneur in the success of the business?

The overall aim of this study was to uncover the factors, which crucially determine the success of small business entrepreneurs in South Africa, with special focus on those entrepreneurs operating in the Limpopo Province of South Africa. In meeting this particular aim, particular attention was paid to the examination of the relative importance of the personality profile of the entrepreneur compared with prior experience, and business skills training.

The specific aims are:

1. To briefly review previous theoretical and empirical studies concerning the importance of small business, and how performance in small business can be measured;

2. To review previous studies of the factors which appear to determine small business success and failure;

3. To attempt to develop a theoretical profile of the successful entrepreneur which can be used as a measuring tool; and

4. 4.1 To measure internal growth of the established business group in terms of various indicators identified in the literature study.

    4.2 To conduct a personality profile test on the established business in order to establish if a correlation exists between success in business (as measured by internal growth of the business) and results of the personality profile test

    4.3 To conduct the same personality profile test on a student group in order to establish if a correlation exists between personality profile score and the level of start-up success

    4.4 To determine the importance of business skills training and the compilation of a business plan in achieving   initial success at the start-up of a small business

    4.5 To attempt to determine if previous experience has any impact on reasons for starting-up a small business and success rates of start-ups.

1.1 The need for small business development and entrepreneurship in South Africa, and specifically the Limpopo Province

Chapter one confirms there is a serious need for entrepreneurship and small business development in South Africa as a whole. More specifically however, the Limpopo Province is in dire need of the establishment and development of businesses due to the especially high unemployment rate in the province. The

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literature cited, supports the general need for entrepreneurship in the majority of countries, both developed and developing nations in order to contribute to a higher economic growth rate. It is emphasised that this should be a focus area for South Africa where high levels of unemployment amongst the economically active population are reported. South Africa has a greater need for entrepreneurship and small business development compared to most developed countries.

Both the public sector and private sector attempt to stimulate start-ups of small business through support, advice and in many instances financial assistance is given. However, despite all of the above concerted efforts the failure rate of start-ups remains high and many of the small businesses established remain in the survivalist category and do not progress into the wealth generation and employment category. From the literature study it is evident that the majority of small businesses do not survive for more than five years. This is disturbing considering the amount of focus that has been put on the small business sector and the resources, especially financial, that are being ploughed into this area. Furthermore, in reality small business faces many constraints and hindrances compared to most developed countries.

2. Discussion of findings in the literature and empirical study and conclusions reached

The hypothesis of this study has to be rejected on the grounds that no significant correlation between internal business growth and the personality profile existed, when using the DISCUS personality profile test.

This could be due to either one of two reasons (or both), namely:

1.   No correlation exists between personality profile and success and growth, or

2.   The DISCUS ™ personality profile test's **entrepreneurial** category job match is not valid and reliable, and an alternative personality profile for this particular job

match category needs to be developed. This is an area that could be further researched.

Correlations between growth, in terms of performance indicators identified in the literature study were sought. Correlations between growth in employment numbers, as well as growth in turnover and asset values and corresponding profile scores were examined. No significant correlation was found to exist for the established business group.

When analysing the results of the student group, it was found that a significant difference existed between the mean personality profile scores of the students who were successful in starting up a venture as opposed to those were not successful in starting up a venture. This is an interesting result and further research is needed. This result may be due to the fact that all of the students entered the programme because they wanted to make a career in business, and hence are a specific target group. In the case of the established business owners, they may have started out in the employment of corporates, but due to circumstances, they ended up in business themselves.

The problem with making a comparison with the results of the established business group is that the student businesses were assessed after three to six months of being set-up, and hence had not been in existence for very long. Continual monitoring of these small businesses will be carried out in order to reassess their level of success in terms of performance indicators after each year in existence. It is very encouraging to note that as at October 2002, all of the students evaluated as having achieved successful start-up ventures as at 1 December 2001, were still in business, with approximately half of these businesses already taking on additional employees. Through successful tendering, one of the businesses in catering had already employed an additional seven employees with a turnover of between R 60 000 and R 100 000 per month being achieved.

At present the author is unable to conclude on growth based on performance indicators that were applied to the established business group. This will be done at a later stage. What is interesting is that approximately 18% of the students were considered successful at start-up. In other words only 18% were able to meet the evaluation criteria of the panel of examiners described in chapter five. This can be considered relatively low at the initial start-up stage and it will be interesting to observe how many of the 18% are still in existence after three and five years respectively in order to determine a real success rate of compared to the start-up index used in the GEM report discussed in chapter three, where the start-up index was made up of the proportion of adults who were owner/managers of a business that had not paid wages or salaries for more than three months. It was found that one in 23, (less than 5%), of the general South African population could be classified as a start-up entrepreneurs. Although the student start-up rate was higher, it must be remembered that this group of students enrolled on a programme accompanied with determination to become successful entrepreneurs. The positive impact of the simulation business training applied throughout the course, which definitely contributed to a more positive and confident attitude towards business, is assumed to be a contributor to success. Furthermore the GEM study reported that within the rural areas approximately 83% of the entrepreneurial activity is necessity driven, whereas in the urban areas 50% is driven by necessity.

Only 15% of the adults interviewed believed good opportunities existed for starting a business in their own area. It is both interesting and encouraging to note that 92% of the student group believed that opportunities existed to start up a new business, and of this 92%, 20% believed the opportunities were in urban areas, 62% believed they were in the rural areas and 18% believed they were both rurally and urban based. Of the established business group of entrepreneurs, 73% of the respondents replied that they had left their previous line of work because " they saw an opportunity and went for it."

The results of the empirical study (the established business group and the student

group) do indicate salient factors or indicators that are more likely to affect the ability of a business to survive and grow in the future. They are:

1.   The business is established in the formal sector,

2.   The business is not home-based,

3.   Level of literacy has an impact on success of start-up,

4.   Level of numeracy does not impact on success of start-up.

The literature supports the first two findings. Businesses setting up in urban areas in the formal sector are much more likely to succeed than their counterparts in the rural and more informal regions. This could be due to consumption patterns. Relating the results directly to the Limpopo Province, where approximately half of the population is unemployed, it would follow that people living in the rural areas would be spending less than those working in the urban areas.

Demand is limited in the rural areas due to high unemployment rates. Inhabitants do not have the disposable income necessary to purchase all the goods and services on offer. The question must be asked whether or not this situation will improve when the future impact of AIDS is also considered. AIDS is affecting the economically active population between the 20 – 50 age group, which will ultimately have a substantial affect on the consumption patterns within the country and especially the rural areas.

Furthermore, the entrepreneur based in the informal sector seems to have alternative main goals to the maximization of profits in the business. The literature suggests that African owners do not always follow the goal of profit maximisation, where profits generated are ploughed back into the business to expand and stimulate growth. In reality many immediate family members as well as extend family members may rely on a small business as the sole financial support system. Profits earned are taken out by the owner for this reason instead of focussing on expanding the business. The goal of the entrepreneur becomes survival rather than profit maximisation. This is interesting as it was found in the study that 18.5% of the

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owners interviewed (in both the formal and informal sectors) stated that their main goal was "family security and provision for children (including education)." Only 35% stated that their main goal was the maximisation of profits.

This also ties up to the question of lifestyle or quality of life. 86,5% of the respondents of the business group stated that their lifestyle (quality of life) had improved since starting up their own businesses, and 86,3% said that they had no regrets in having gone out on their own in business. When asked to make written comments, much emphasis was placed on financial independence and security, increased leisure time and more disposable income. It could be suggested that these entrepreneurs are enjoying the financial rewards of their businesses by improving their own personal and family lifestyles rather than re-investing any extra cash generated back in to the business. This is supported by the literature that reports that lifestyle and personal freedom, which are non – financial measures, are becoming as important measures of performance as financial measures.

The literature supports the result that home-based businesses are more likely to fail than businesses located in a commercial district. The literature study emphasised the reality of the African situation that the growth rates of small businesses were substantially lower on average, than those in urban areas. This was also found to be the case in developed countries. Although the owner is able to save rent by operating from home, there is the perception that home-based businesses are "not as legitimate" as businesses located in a commercial district. This could also be due to the fact that a home is not as accessible as the commercial district and further that owners who are operating from home may be attempting to avoid the Revenue authorities as well as attempting to avoid regulations and hence the business is not marketed to the same extent as a business in the commercial district.

In the Limpopo Province of South Africa, many of the rurally based businesses are in the small business category. Not many employ more than two individuals, including the owner/entrepreneur. These businesses in general do not show high

internal growth rates. The results of the empirical study showed that a strong relationship between the sector wherein a business operates and the growth rate of the business exists. The respondents who were functioning in the formal sector showed a significantly larger growth than the respondents operating in the informal sector. Most of the businesses based in the informal business sector will most likely remain in the micro or survivalist category and not become huge employment or wealth creators. However, what is pertinent through observation is that the owner and employee gain their livelihood from these survivalist enterprises. If it were not for the creation of the survivalist enterprise, these individuals would most probably be unemployed in a province that offers an individual a 50% chance of being unemployed. These enterprising individuals have created a job for themselves and therefore can be regarded as economically active and productive. Although they will probably never be major wealth creators, they are making a contribution to the economy and ultimately economic growth even though it may seem insignificant.

For this reason focus could be placed on keeping these small businesses self-sustainable and viable. Small business cannot be seen as the "saving grace" for struggling economy in terms a major contributor to the creation of wealth and economic growth. However, it does have the capacity to absorb individual members of the communities who are unemployed with little hope of future employment prospects. What is evident from the literature study is that only a very small percentage of entrepreneurs will create more than at least twenty jobs within five years. The majority of these businesses will not grow beyond a number of two employees, including the owner. However, as emphasised, they are making a positive contribution in being able to create employment for themselves at least, which means each and every enterprising individual who is able to survive in business, is also able to support a family that may have otherwise gone hungry, and may even have resorted to crime in order to survive.

The challenge ahead, and more research needs to be conducted in the area of opportunity driven and necessity driven entrepreneurs. The literature suggests that

the opportunity driven entrepreneur is the future wealth creator, whereas the necessity driven entrepreneur is the survivalist. The question arises whether or not the survivalist will ever be able to graduate into the opportunity driven category.

Both formal business and technical training may enhance the probability of survival, so relevant and accessible training courses should be made available to these survivalist entrepreneurs.

Regarding the question of literacy, the literature focusses on training as a whole and not on the individual subjects included in the entrepreneurial and business courses. The mean mark for the subject Communication was found to be significantly higher for the students classified as successful at start-up. This strongly suggests that the level of literacy has an impact on start-up success in business. This is a very interesting finding that needs to be further researched.

However, as no significant difference between the Basic Business Calculations marks for students classified as successful at start-up, compared to those classified as unsuccessful were found, would suggest that level of numeracy is not a leading indicator for success being achieved at start-up of a business.

It is also interesting to note the similarities between the small business proramme being offered at the Polokwane Campus of Technikon Pretoria and the Brazilian business programme. Both programmes are both theory and practically based with final evaluation on the Technikon programme taking place by means of a panel made up of local community role-players, and on the Brazilian course, final evaluation is done by means of a "jury" of local community role-players. Both programmes have proven to be very successful training programmes with a high level of successful start-ups occurring in two developing nations with very similar economic scenarios.

3.   Other factors

Gender:

The empirical study did not show whether or not a male or alternatively a female would be more likely to succeed in business. As discussed in chapter six, this is an area for further research as a weakness of this survey can be that more "failures" needed to be identified. The results of the GEM report show that men are twice as likely to become entrepreneurs as opposed to women. It is interesting that of the entire entrepreneur respondents in the empirical study, 70,3% were male, and no conclusion can be drawn on the "superior" gender in business. Likewise, since the GEM report only focuses on start-ups and new firms that have not been in existence for more than three years; no conclusions can be drawn on the success rates of males as opposed to females in business at this stage. Of the businesses in the empirical study, the average number of years that the respondents were in operation was nine years. More than half of the respondents had been in operation for at least seven years. Only 21,6% had been in business for three years or less.

Education levels prior to start-up:

The GEM report states that individuals holding a tertiary education are more likely to own and manage a start-up business than those without grade 12 or a matric. In the case of established businesses individuals holding a tertiary qualification are three times more likely to become owner-managers of the businesses. The literature generally definitely supports the notion that impact has a positive impact on level of success in business. The results of the empirical study shows that respondents who underwent any form of business training showed higher growth rates in their businesses than those who did not undergo any form of business training. It was also found that more negative growth in one of the growth indicator categories was prevalent for respondents who did not undergo any form of business training.

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The literature study highlighted the fact that many of the business training programmes being offered by various service providers within South Africa, and specifically the Limpopo Province may not be adequate and that the course contents need to be evaluated in terms of relevance. This is an area for further research, as this study did not go in to detail on the evaluation of various programmes being offered to entrepreneurs.

Previous experience:

No clear relationship could be established between growth and prior experience in business. Some of the respondents with prior work experience showed more growth while others showed less growth.

However what was significant is that there is a relationship between the number of previous businesses owned and growth. Respondents who had not owned any previous business prior to the current business, showed a significantly higher growth rate than businesses where the owner/manager had previously owned a number of previous businesses.

It was found that 22% of either one or both of the parents of the student group were in their own businesses. However, only four percent of these students planned on starting up a business in the same line of business as their parents. This is interesting as all of these students assisted their parents in their businesses. The literature is not comprehensive on this topic; however, it does support the notion that a large percentage of new firm entrepreneurs are owner/managers of established businesses as well. However, although suggested, no correlation between previous experience and success has been established up to now. More focus gas been placed on the identification and perception of business opportunities as a motivation for an individual going out in to business rather than due to his prior experience. However, it can be advocated that an individual would only be in the position to perceive or identify a real opportunity based on prior experience, whether it stems from being in business or being employed in the same line of business.

The business planning and the planning function:

The literature reports that most entrepreneurs do not plan ahead. Entrepreneurs are more concerned with the "now" and planning occurs on a day-to day basis. However, strategic planning could definitely make an impact on the business if owner- managers made use of it. The literature suggests that less than half of entrepreneurs have a formal business plan prior to start-up and the remainder do not place very much emphasis on the plan. This was also found in the results of the empirical study. 65% of the respondents never completed a business plan prior to start-up, and of those 27% felt that the business plan had not really helped them.

No relationship between growth and compilation of a business plan prior to start-up could be established. Considering the viewpoint of Timmons (1999), discussed in chapter three, where he is of the opinion that the business plan is already outdated once it comes off the printer due mainly to the rate of transfer of information via the Internet, the business plan can only be seen as a tool to enhance future success rather than a probable predictor of future success.

The availability of capital and source of finance:

The literature reports that access to initial and funding capital is a problem for both entrepreneurs in developed and developing countries. In Africa especially, entrepreneurs rely on personal savings to finance their business as well as financial assistance from family and friends. It is difficult to attain funding for small business from the commercial institutions, so in most instances entrepreneurs have no choice other than to approach those in their immediate circle for assistance. Although, many African entrepreneurs do hold savings accounts, banking is not preferred due to high transaction costs and location of the financial institutions, Financial institutions are generally not located in rural areas, so the individual is forced to travel vast distances to do banking, and at the same time incurs additional transport costs.

Furthermore, it is evident from the literature study that Government financial support systems in terms of finance have not been very successful in South Africa.

When the entrepreneurs of the established businesses in the empirical study were asked to cite reasons for failure of any businesses previously owned, none cited capital availability as an issue. However, what was very disturbing was that 40% of the student group intended approaching micro-lenders for initial start-up financing for their business ventures. This immediately would suggest possible failure with the required returns that would need to be generated by the small business to cover repayments with inflated interest rates. 46% planned to ask their family for assistance, with only fourteen percent planning to approach commercial banking institutions for assistance.

Impact of technology:

It is disturbing to find that the majority of entrepreneurs are not using modern information technology, namely the Internet for business purposes. 65% of the respondents in the business group stated that they make use of the Internet for business purposes less than once a month. Of the student group, none made any use of the Internet for business purposes. This can be attributed to the fact that only 56% of the student group had access to a telephone at home, however, there is the option of using internet facilities at their present place of study as well as established internet cafes. The literature study supported these findings. Technological development and transfer of these skills were lacking especially in Africa. The sad reality is that the effective use of technology could certainly literally make "a world of difference" for the emerging entrepreneur and contribute to future success.

4. Recommendations for future research:

An attempt could be made to construct a model that incorporates the factors identified in this study as possible indicators for future success. With the use of regression analysis, these factors can be weighted according to their contribution to future success. However, the size of the business group needs to be extended in order to do this. Therefore, if an individual should meet all the requirements of the factors identified, a very real probability of success being achieved may exist. If the individual does not meet all the requirements of the factors identified, then this does not signify future failure, but rather a reduced probability of success. So for example, given a simple example of equal factor weightings within the model; if an individual meets three out of the five requirements he / she will have a 60% probability of future success.

The impact of business training, and first time entrepreneurs showed a significantly higher growth rate in their businesses than those who had previously owned businesses. This needs to be further researched, as well as the impact of literacy training being incorporated into programmes.

An attempt can also be made to develop an alternative personality profile entrepreneurial profile that will be user-friendly to the unique South African business situation, taking into account all constituents that make up an entire profile. However, this will not be a simple exercise, based on the findings of this study.

More research is suggested on the successful identification of opportunity driven entrepreneurs as compared to necessity driven (survivalist) entrepreneurs, as these individuals will contribute to economic growth significantly by being able to create employment opportunities.

5. Implementation of findings and possible policy implications:

The findings of the study have some limitations. The data is based on a survey done in only one province of South Africa. Although business owners from both the formal and informal sector responded, the group of small businesses analysed needs to be extended. Collecting accurate and reliable data in the rural areas is difficult due to the poor understanding of financial management issues in the rural areas. Many of these entrepreneurs do not have formal qualifications or any training in business calculations or basic bookkeeping. However, the fact that third year students studying financial management were sent out to interview rural entrepreneurs and record the data was a positive occurrence.

In order to increase the density of sustainable small businesses, and based on the findings from this study cautious policy recommendations can be put forward.

1) Personality of the entrepreneur does not have a significant impact on the future success of a small business, and therefore, potential entrepreneurs seeking to start-up a small business cannot be denied finance or support base on personality alone.

2) Home-based businesses are more likely to fail than their counterparts in commercial districts. A system of offering financial assistance in the form of subsidised rents in a commercial district could be considered, in order to encourage entrepreneurs to set their businesses up in the commercial districts. This will also assist the government in collection of revenues and taxation, as well as regulating the businesses. For example, food businesses can be regulated in terms of the health laws of the country.

3) Businesses in the formal sector are more likely to succeed. Until infra-structure is improved in the rural areas, entrepreneurs need to be encouraged to set up in urban areas where possible. Mini factories can be erected in urban and semi-urban areas in order to encourage the formalisation of production.

4)   The content of present training courses offered to prospective and existing entrepreneurs needs to be revised. Literacy training should be incorporated in entrepreneurship and small business programmes.

5)   Support agency personnel also need to undergo business training in order to assist entrepreneurs. Individuals with previous business experience need to be considered for these advisory posts rather than individuals with no real business experience or business training. Facilitators need to be trained on standardised, recognised and accredited courses including not only business skills but also entrepreneurial skills training. These facilitators need to have been in business themselves.

6)   Simulation business training needs to be incorporated into business training courses. It is suggested that no financial assistance be given to any entrepreneur until he or she has successfully completed a recognised and accredited training course.

7)   Any financing body involved in the sector, needs to take a different view on the evaluation of risk, and therefore not only view collateral as a means of reducing risk but look at a combination of factors that would reduce risk, such as:
*   training
*   business plan
*   relevant facilitation
*   synergy or joint - venture type of relationship between the entrepreneur and a large or medium established business, for example outsourcing type of ventures.

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LIST OF APPENDICES

Appendix A: **Letter to established business owners (original entrepreneurs)**
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Personality Profile Test

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Appendix C: **Simulation training using the Successoneur™ Business Decision Simulator (SBDS) used for student group**

TECHNIKON PRETORIA
a university of technology

TO   :   **ENTREPRENEURS**

RE   :   **RESEARCH FOR THESIS**

I am currently in the process of conducting research for my economics thesis. The basis of the research is to prove or disprove the hypothesis that a successful entrepreneur will fall into a specific personality profile as defined by a personality profile software package.

I would be most grateful if you would assist me in conducting the research, which I think will be of benefit to the country in that small business development is the key to the growth of the economy.

I have attached 2 questionnaires:

1.   The personality profile questionnaire. Please refer to the detailed instructions.

2.   General questionnaire relating to demographics, prior experience and your business/es.

Please note that all data and information provided will be treated in the **STRICTEST CONFIDENCE AND IS FOR RESEARCH PURPOSES ONLY.**

I thank you for your participation and request that you return the questionnaires in the self-addressed envelope as soon as possible.

Thank you

LYNNE COCKS

INSTRUCTIONS

GENERAL

1. Candidate details: You need **ONLY** fill in sex (Male/Female).

2. There are no right or wrong answers - no possibility of "failing" exists.

3. Answer the questions with your <u>work situation</u> as frame of reference.

4. The results of the profile will only be used for research purposes - there are no negative reports.

5. Fill in the questionnaire <u>without</u> any interruptions.

6. Your answers must be <u>your opinion</u> and not the opinion of others.

ANSWERING THE QUESTIONNAIRE

7. From each set of four phrases in each question in the questionnaire (total number of questions = 24), choose the phrase that describes your work behaviour most closely, and the phrase that describes your work behaviour least closely.

8. Indicate your choice by circling the appropriate letters in the most and least columns. You can only choose one "most" and one "least" per question.

9. If no phrase describes you accurately, choose the one nearest. You must have a "most" and a "least" for each question (24).

10. Please indicate your choices clearly - especially if you have made changes.

11. After completion put your questionnaire in the envelope and seal it.

THANK YOU FOR YOUR PARTICIPATION.

Axiom Software Limited

Discus Phrase-based Questionnaire

Candidate Details

Title (Mr / Mrs / Miss etc.): _____

Last Name: _____

First Name: _____

Sex (Male / Female): _____

Address: _____

_____

City / Town: _____

County / State: _____

Postal Code: _____

Telephone: _____

Fax: _____

Date of Birth: _____

Current Position: _____

Position Applied For: _____

Notes: _____

Instructions:

From each set of four phrases below, choose the phrase that describes you most closely, and the phrase that describes you least closely.
Indicate your choices by circling the appropriate letters in the MOST and LEAST columns.
You must choose one letter from each column in each question.
When answering the questions, imagine yourself in your normal working environment.

Question 1	MOST	LEAST
Behaving compassionately towards others	A	A
Persuading others to your point of view	B	B
Showing modesty in describing your achievements	C	C
Producing original ideas	D	D

Question 2	MOST	LEAST
Receiving attention from other people	A	A
Working together with others to achieve an aim	B	B
Standing up for your rights	C	C
Showing affection in personal relationships	D	D

Axiom Software Limited

Discus Phrase-based Questionnaire

Question 3	MOST	LEAST
Knowing when to admit defeat	A	A
Trying out new experiences	B	B
Remaining loyal to your friends	C	C
Being thought entertaining by others	D	D

Question 4	MOST	LEAST
Listening to new ideas with an open mind	A	A
Being ready to make a sacrifice for others	B	B
Showing determination in achieving a goal	C	C
Maintaining a cheerful outlook	D	D

Question 5	MOST	LEAST
Having other people enjoy your company	A	A
Taking pains to achieve precise detail	B	B
Standing up for your views and opinions	C	C
Remaining calm and even-tempered	D	D

Question 6	MOST	LEAST
Keeping a competitive edge over others	A	A
Taking time to think about other people's needs	B	B
Maintaining a happy and optimistic view of life	C	C
Keeping on good terms with as many people as possible	D	D

Question 7	MOST	LEAST
Explaining things precisely when required	A	A
Following the rules at all times	B	B
Being in control of your life	C	C
Deriving enjoyment from everything you do	D	D

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Discus Phrase-based Questionnaire

Question 8	MOST	LEAST
Being ready to take risks when required	A	A
Communicating in an inspiring way	B	B
Accepting your lot in life	C	C
Preserving the status quo	D	D

Question 9	MOST	LEAST
Enjoying the company of other people	A	A
Accepting faults in others	B	B
Being sure of your own abilities	C	C
Avoiding confrontational situations	D	D

Question 10	MOST	LEAST
Taking full advantage of opportunities	A	A
Being receptive to new ideas	B	B
Being friendly and cordial whenever possible	C	C
Behaving in a moderate, restrained way	D	D

Question 11	MOST	LEAST
Expressing ideas to other people	A	A
Maintaining a self-disciplined approach	B	B
Following convention where possible	C	C
Making decisions and standing by them	D	D

Question 12	MOST	LEAST
Presenting a polished and professional image	A	A
Not being afraid to cause offence	B	B
Avoiding hurting other people's feelings	C	C
Being happy in your work	D	D

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Discus Phrase-based Questionnaire

Question 13	MOST	LEAST
Taking control when a situation calls for it	A	A
Being the centre of attention	B	B
Helping other people when you can	C	C
Avoiding unnecessary risks	D	D

Question 14	MOST	LEAST
Taking care to get things exactly right	A	A
Refusing to accept defeat	B	B
Making a difference to other people	C	C
Giving others the benefit of the doubt	D	D

Question 15	MOST	LEAST
Volunteering to help others	A	A
Enjoying your work	B	B
Reaching a compromise solution when you can	C	C
Approaching problems in a dynamic and original way	D	D

Question 16	MOST	LEAST
Expecting things to turn out for the best	A	A
Sympathising with others' problems	B	B
Dealing calmly with difficult situations	C	C
Demanding high standards	D	D

Question 17	MOST	LEAST
Maintaining a standard of self-discipline	A	A
Being ready to forgive others	B	B
Making sure others understand your point of view	C	C
Seeing a task through to the end	D	D

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Discus Phrase-based Questionnaire

Question 18	MOST	LEAST
Setting a standard for others to look up to	A	A
Being kind and thoughtful	B	B
Knowing when to accept defeat	C	C
Having a forceful personality	D	D

Question 19	MOST	LEAST
Having respect for other people	A	A
Being ready to try new approaches to a problem	B	B
Being confident in the company of others	C	C
Always taking others' points of view into account	D	D

Question 20	MOST	LEAST
Being prepared to confront others when necessary	A	A
Adapting well to new situations	B	B
Having a calm and relaxed approach to life	C	C
Generating a light-hearted atmosphere	D	D

Question 21	MOST	LEAST
Trusting other people	A	A
Being satisfied with your place in life	B	B
Maintaining a positive approach	C	C
Trying to avoid conflict	D	D

Question 22	MOST	LEAST
Being liked by other people	A	A
Maintaining a wide general knowledge	B	B
Approaching problems with vigour and zest	C	C
Accepting faults in other people	D	D

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Discus Phrase-based Questionnaire

Question 23	MOST	LEAST
Being regarded as good company	A	A
Ensuring that your work is accurate	B	B
Speaking out on matters that are important to you	C	C
Employing restraint and self-control	D	D

Question 24	MOST	LEAST
Completing tasks as quickly as possible	A	A
Adopting a neighbourly attitude	B	B
Having a wide circle of friends	C	C
Approaching problems in a systematic way	D	D

[End of document]

Appendix B

Questionnaire

Please answer the following questions as accurately as possible.
The data and information entered on this questionnaire is CONFIDENTIAL and is for research purposes only.
Thank you for your participation.

Part A: Demographics

In which Province of South Africa is your current business/es located:

_____

In which city or town is your current business/es situated:

_____

Please state your gender

Male		D101
Female		D102

Age Group

Write your age here		D201

What is your highest level of education?

None at all		D301
Some Primary		D302
Complete Primary		D303
Some Secondary		D304
Grade 12 (Matric)		D305
Certificate		D306
Diploma / Degree		D307
Post- graduate qualification		D308

Which of the following subjects did you STUDY AT SCHOOL LEVEL, and what was your highest level of study of these subjects?

SUBJECT	Highest level	D401
Mathematics		D402
Economics		D403
Business Economics		D404
Accounting		D405

Have you ever studied any course in Small Business Management?

Yes		D501
No		D502

If YES, how long was the course?

Specify length of course		D601

Did you pass the business course?

Yes		D701
No		D702
Did not study a course		D703

Have you studied more than 1 course in Small Business Management?
If YES, how many courses have you studied and what was the length of these courses?

Number of courses studied		D801
Please specify length of courses		D802

Do you have electricity where your current business is located?

Yes		D901
No		D902

Do you have running tap water where your current business is located?

Yes		D1001
No		D1002

Do you have a telephone where your current business is located?

Yes		D1101
No		D1102

Part B: Prior experience

Did you work for a company or someone else before you started your own business?

Yes		B101
No		B102

If you answered YES to the previous question, why did you leave your previous employment?

Retrenched		B201
Dismissed		B202
Saw an opportunity and went for it		B203
Left for health reasons		B204
To be at home with the family		B205

Was your previous employment in the same line as your current business?

Yes		B301
No		B302

If you did not work for a company or someone else, what were you doing before you started your own business?

Worked for a small business		B401
Worked for a Corporate		B402
Housewife		B403
Unemployed		B404
Studied		B405

Is this the first business that you have owned?

Yes		B501
No		B502

If NO, how many other businesses have you owned (CURRENT + PREVIOUS)?

Please state number		B601

How much business do you have NOW (CURRENT)?

Please specify		B701

What was your age when you started up your first **SUCCESSFUL business?

Age		B801

Have any of your previous businesses been sold?

Yes		B901
No		B902

Have any of your previous businesses failed?

Yes		B1001
No		B1002

If any your previous businesses failed, would you attribute this failure to?

Lack of people skills		B1101
Shortage of financial capital		B1102
Adverse trading conditions		B1103
Low turnover		B1104
Lack of business		B1105
Stock problems		B1106
Cash flow problems		B1107
Lack of managerial experience		B1108
Government regulations & paperwork		B1109
Not applicable (business successful)		B1110

Part C: Classification

Industry Type

Please classify your business

Retail		I101
Service		I102
Manufacturing		I103
Agricultural		I104
Other - Please specify		I105

Sector

In which sector are you operating?

Formal sector		I201
Informal sector		I202

Is your business home - based?

Yes		I301
No		I302

Does you business EXPORT product to another country?

Yes		I401
No		I402

Part D: Performance

Operation Period

How many years have you been in operation?

Please specify		Y101

Employee numbers

How many employees were employed at start – up? (including yourself)

Please state number		E101

How many employees were employed at the end of the first year? (including yourself)

Please state number		E201

How many employees are permanently employed by the business at this time? (including yourself)

Please state number		E301

Turnover

What was the value your annual turnover at the end of the first financial year?

Less than R 10 000		T101	1
R 10 000 – R 25 000		T102	2
R 26 000 – R 50 000		T103	3
R 51 000 – R 75 000		T104	4
R 76 000 – R 100 000		T105	5
R 101 000 – 150 000		T106	6
R 151 000 – R 200 000		T107	7
R 201 000 – R 500 000		T108	8
R 501 000 – R 1 mil		T109	9
R 1mil – R 2 mil		T110	10
Greater than R 2 mil		T111	11

What was the value of your annual turnover figure in your past financial year?

Less than R 10 000		T201	1
R 10 000 – R 25 000		T202	2
R 26 000 – R 50 000		T203	3
R 51 000 – R 75 000		T204	4
R 76 000 – R 100 000		T205	5
R 101 000 – 150 000		T206	6
R 151 000 – R 200 000		T207	7
R 201 000 – R 500 000		T208	8
R 501 000 – R 1 mil		T209	9
R 1mil – R 2 mil		T210	10
Greater than R 2 mil		T211	11

What was the value of your assets when you started up the business? (value at cost to the business)

Less than R 10 000		A101	1
R 10 000 – R 25 000		A102	2
R 26 000 – R 50 000		A103	3
R 51 000 – R 75 000		A104	4
R 76 000 – R 100 000		A105	5
R 101 000 – 150 000		A106	6
R 151 000 – R 200 000		A107	7
R 201 000 – R 500 000		A108	8
R 501 000 – R 1 mil		A109	9
R 1mil – R 2 mil		A110	10
Greater than R 2 mil		A111	11

What was the value of your assets at the end of your past financial year? (value at cost to the business)

Less than R 10 000		A201	1
R 10 000 – R 25 000		A202	2
R 26 000 – R 50 000		A203	3
R 51 000 – R 75 000		A204	4
R 76 000 – R 100 000		A205	5
R 101 000 – 150 000		A206	6
R 151 000 – R 200 000		A207	7
R 201 000 – R 500 000		A208	8
R 501 000 – R 1 mil		A209	9
R 1mil – R 2 mil		A210	10
Greater than R 2 mil		A211	11

Business Plan

Did you have a detailed business plan on start-up?

Yes		P101
No		P102

Do you think this business plan helped you?

Yes		P201
No		P202

Lifestyle

Do you think your lifestyle (your quality of life) improved since starting your own business?

Yes		L101
No		L102

Please COMMENT on how your lifestyle has improved since starting up your own business?

_____

_____

_____

_____

_____

Do you ever regret going into your own business?

| Yes | | L101 |
| No | | L102 |

Thank you for taking the time to complete this questionnaire.

Appendix C: Simulation training using the Successoneur™ Business Decision Simulator (SBDS)

This course is centred on simulation training. Students are able to experience success in business through the unique concept of simulation training before applying the principles in the "real" environment.

The Successoneur™ Business Decision Simulator was designed for training of small business entrepreneurs in an environment as close to the 'real' scenario as possible. The focus is on small business entrepreneurship rather than general entrepreneurship.

SBDS is a board game based on simulation, designed for use in small business entrepreneurship and business strategy training courses. Learners assume the role of first time business starters and operators entering the business environment. The simulation is placed in the small business marketplace, where typical environmental conditions define the industry. Entrepreneurs and small business operators in the real world of business have incorporated numerous features that reflect typical problems, choice and decision situations that are faced on a daily basis.

The simulation environment

The SBDS places learners in the role of first time entrants to the business industry. The industrial setting is typically open with all learners competing for scarce resources, profit and market share. The typical type of decisions confronting learners is:

- The assessment of opportunities to obtain and utilize resources
- Contingencies associated with opportunities that have negative impacts
- Competitive strategies that need to be followed, after taking into consideration the strategies that are presently being followed by the business as well as its competitors given competitors strategies and competitor actions and reactions that influence the environment.

The SBDS context is reflective of a realistic and prominent setting in which the small

business entrepreneur functions. Complementing this realism, the SBDS environment is defined by the comprehensive number of variable combinations.

The simulation system

The SBDS training system is supported by two components. One is for use by the simulation facilitator in the form of a set of additional instruction transparencies that are used to explain theory. These are used selectively after a specific situation occurred as a result of the variable combinations. The other is for use by the learners during and between sessions. This consists of a workbook containing theory, examples and cases to support the practical situations with underlying theory.

The strategy decision mix

The mix of SBDS decisions faced by learners encompasses most of the functions that make up the basic demands confronting the small business entrepreneur. Forty basic business variables that affect the individual performances of a learner participant are incorporated in the simulation. The choices are compounded by the actions of the competitor learners and their choices taken during the game. The result is a myriad of realistic decision situations that are non-repetitive that confronts the learners.

Basic organization

Perhaps the most fundamental decision within the entrepreneurial function is the basic willingness to appropriate resources to a venture. The inherent risk of such a choice is relative to the expected returns. The choices offered embody a range of business types, resource acquiring methods, opportunity utilization, negotiation, dealing with financiers, market shares, sales volumes, responding to contingencies, business life cycle development stages, competitors and their actions in the same industry, industry size, and many more. Similarly, the responses of the learners depend on a specific situational analysis of all the factors involved. The specific

combination of factors allows for a practically indescribable range of situations facing the learners, as would be the case when the learner is in the real business environment.

The game allows for competing businesses not to have to organise themselves in identically. The entrepreneur is able to reconcile his strategy decisions made under the different situations. It forces constant situation identification, analysis, evaluation and re-evaluation, alternative synthesis, selection, decision, execution and result evaluation as participants live with the consequences. All of these activities take place in a risk free environment with constant support of a facilitator.

The basic simulation process

Learners have to acquire basic resources required to start a trading business. Once they have acquired a trading business, they can begin operating, and depending on the associated market share and industry size, they have to make sales in order to fund further development as well as cover overheads. Different businesses will face different barriers to entry. Availability of resources, prices, sales opportunities, market share values, returns, finance restrictions, industry value may differ. Since it is fundamental that learners are able to start-up the same types of businesses and therefore competition for market share is central to all activities.

The outcome of each simulation thus depends on the decision/actions taken by the learners. The situations of exposure cannot be predicted. Training is scheduled over a week so that learners are able to "play the Game" on five consecutive days in order that intensive training be acquired. On the second or third training days, each learner is given a broad business strategy to follow for the initial part of the simulation.

Simulation feedback

Feedback to learners is continuous on the basis of comparing their performance with other learners in the group. Regular "stop the simulation and evaluate"

interventions are built into the simulator; and learners are able to pause and evaluate how they are doing. Evaluations are based on the net value and solvency/liquidity status of that each learner has been able to achieve. This further enforces the concepts and reasoning behind using ratio analysis as a tool to assess business performance. Learners are able to establish legal entity forms such as partnerships and close corporations. The outcome of these evaluations then warrants collective actions by the group to determine the course of action before continuing with the game.

During simulation sessions specific situations develop that are specific within the realms of the current situation. The facilitator then stops all simulations and uses the specific "case" as an opportunity to teach the theory supporting such a situation to the learners.

At the end of each day session, "net worth" is calculated to determine performance. Interestingly, there are no real losers but only different levels of success that are achieved by learners. The learner, in essence is always competing against him or herself.

A general "post-mortem " session is held to determine the outcomes of the predetermined strategies and how they affected the decision process of the learners. The debriefing content varies every time and depends on the environment that was created during that specific simulation. The focus is on the principles and how they featured in the specific circumstances rather than comparison of individual performance.

The facilitator also uses decisions of learners and specific situations, as and when they occur to illustrate the effects and implications of decisions to other groups during the sessions. Therefore, all learners benefit and learn from the experiences of the other learners within the group. Capable facilitators can also intervene in by adapting the rules when learners attempt to exploit certain opportunities.

SBDS has potential to impact meaningfully to the shortage of entrepreneurship skills and can be used from a young age through to adult and existing business education (Pretorius 2001: 149-153).

The "game" or SBDS system enables the facilitator to create a learning environment that is very conducive to learning and acquiring business skills, while at the same time making it an enjoyable process for both the facilitator and learners (Pretorius & Cocks 2001: 16).