

# **A conceptual framework for determining sustainability of SMMEs in Lesedi**

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## **ABSTRACT**

In South Africa there is high unemployment rates and poverty amongst a large part of the population. Entrepreneurship is identified by National Government and various research programs such as the Global Entrepreneurship Monitor (GEM) as a possible solution to the above socio-economic problems hampering economic growth of a developing region. It is however very difficult to start and grow a business that can last over time.

This research report investigates the major problems associated with business sustainability of SMMEs and provides strategies for businesses to stay operational over time.

The main aim of the study is to establish determinants of sustainability and reasons for success of SMMEs, based on a sample of small companies in Lesedi, Gauteng. Suggestions are made based on their unique experiences.

The empirical study was conducted by means of a field study using a structured questionnaire. The reliability of the questionnaire was determined by the Cronbach alpha coefficient of the constructs.

Data from 52 SMMEs were collected and analysed. The results indicate that most SMMEs in Lesedi are struggling to make profit and are generally unsustainable by measuring up the results against elements identified within the literature review.

A total of 100 businesses restricted to Lesedi municipality in Gauteng were visited in the process of collecting the peer-aided questionnaires.

The biggest problems of SMMEs in the sample were: gross profit control, marketing, strategic management, inventory control, information management, staff development, expense control, sourcing funds, time management and financial management.

**Key terms:** SMME, entrepreneurship, economic growth, job creation, sustainability, profitability, high growth

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## **LIST OF ACRONYMS**

BBBEE:	Broad Based Black Economic Empowerment
GEM:	Global Entrepreneurship Monitor
IFI:	International Funding Institutions
IT:	Information Technology
ITRISA:	International Trade Institution of South Africa
MFI:	Micro-financing Institution
NVC:	New Venture Creation
PESTE:	Political, Economical, Socio-cultural, Technological and Environmental
SA:	South Africa
SBO:	Small Business Owner
SEDA:	Small Enterprise Development Agency
SIPOC:	Suppliers, Inputs, Process, Outputs and Customers
SMME:	Small, Micro and Medium sized Enterprises
SME:	Small to Medium Enterprises
SWOT:	Strengths, Weaknesses, Opportunities and Threats
THRIP:	Technology through Research and Industry Program
UN:	United Nations

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## **CHAPTER 1: NATURE AND SCOPE OF THE STUDY**

### **1.1. INTRODUCTION AND BACKGROUND OF THE STUDY**

A Small, Micro and Medium sized Enterprises (SMME) is one that employs less than 50 employees, with or without formal business premises (Steyn, 2007:29-30). A disturbingly large number of small businesses struggle to stay in operation. This study is specifically designed to investigate SMMEs only.

Timmons and Spinelli (2009:110) and Moore *et al.* (2008) provide models for entrepreneurial success. Objective strategies are determined for the major identified problems of SMMEs in this study. A successful venture is one in which the entrepreneur balances the team, resources and the opportunity. Timmons and Spinelli (2009:377) and Moore *et al.* (2008:75) suggest that resources are a very important determinant of sustainable companies. Large businesses are ones that employ more than 200 employees, earning more than two million in profit yearly and their assets can be more than a billion rand in total (Steyn, 2007:30).

The Human Sciences Research Council and Education Policy Consortium (2005:1) in South Africa (SA) have indicated that before New Venture Creation (NVC) strategies can be sustainable, one needs to integrate educational issues and SMME participation. Moreover, integrating characteristics for success in the general and industry environment is a prerequisite for success of the small company (Moore *et al.*, 2008:76) and a scientifically created suggested framework was conceptualised to determine factors that will make the specific SMME successful and create high growth within the South African context.

Entrepreneurship is a challenging life choice; founding a business and even sustaining a growing concern is full of obstacles and change. Gore and Fal (2009:7) explain that the entrepreneurial journey is filled with obstacles and frustration. Most entrepreneurs have innate frustration with the norm and for them to be successful they must have an undisturbed faith in the value for the customer of their products and services. Various changes need to be adapted to, with a dynamic constantly shifting strategy whilst still balancing family and even self-development.

Small business failure rates in SA are approximately 63% and occur within the first two years of operation (Jacobs, 2011:1). Herrington *et al.* (2010:29), the authors of the Global Entrepreneurship Monitor (GEM), provide reasons for the high failure rates and give proposed solutions from various experts for the SA environment.

The South African (SA) environment has many unutilised opportunities and resources in various sectors, with huge scope especially in the services sector. The Lesedi area municipalities (2006:1), report that local SA communities have considerable resources, skills and indigenous knowledge, which should be utilised. One needs to study various SMMEs and their sustainability and then provide general empirical evidence to what is lacking in their strategic management.

One needs to determine the reasons SMMEs might struggle; factors contributing to sustainability and high growth and factors obstructing their growth. The South African government identified the development of SMMEs as a priority in creating jobs to solve the high unemployment rates (Maas and Herrington, 2006:43). The SA government, however, does not explain exactly how they will solve high unemployment. Various mechanisms, however, were developed to battle poverty, such as New Venture Creation (NVC) training to SMMEs. The issue at hand is whether the training provided is adequate.

One such theoretical aspect, for example, that Maas and Herrington (2006:7-8) found is, the more educated a person, the better the chance to start a business and the more people will be employed in this business. Wickham (2001:1) established that three factors affect the development of entrepreneurs, namely innate factors such as personality, drive and intelligence; acquired factors like education, experience and mentoring; and social factors such as family interaction, social class, economic circumstances and the influence of society.

Normally SMMEs require little capital to start up and the owners have no training or experience (Rwigema and Venter 2004:393). In such instances, the involvement of different strategic partners becomes valuable, especially for financial support in the form of capital. The Integrated Sustainable Rural Development Strategy (2000:16) explains that for sustainable development, partnerships that contribute technical resources and expertise, financial assistance, local knowledge and ownership are required. This study

will focus on small companies with apparent high growth potential. Growing SMMEs need certain training or tools to reach a sustainable position.

Little previous research and theories in prior studies such as those by Herrington and Maas, have included aspects that would influence successful and sustainable growth of small business in South Africa. Each is selectively addressing different aspects or suggestions for the environment rather than the business. Consequently, this study establishes new and existing aspects required in a new and growing venture, based on various existing theoretical models, these aspects can typically include: gaining market for a real need, acquiring capital or resources, managing such resources and training needed. The unit of analysis are various entrepreneurs from the Southern Gauteng Province.

## **1.2. PROBLEM STATEMENT**

Many individuals found and grow a company without that venture either becoming sustainable or becoming extremely successful. The South African environment has produced only a select few extremely successful entrepreneurs in the last few decades; these include persons such as Mark Shuttleworth, Sol Kerzner, Raymond Ackerman, Pam Golding, Ina Paarman, Patrice Motsepe, Cyril Ramaphosa, Whitey Basson and Garry Morolo (Makura, 2010:11).

There is a need to understand issues within many other small companies that are in the way of them achieving the same allure as the unique companies such as Mark Shuttleworth's Thawte that started out as a small business in his parents' garage and achieved to receive millions from VeriSign for his initial idea (Makura, 2010:284).

This study will aim to understand what to do differently, finding the scientific knowledge to create a framework aimed at producing sustainable or high growth ventures, such as Here Be Dragons of Mark Shuttleworth, as a mechanism to help avoid the general factors preventing SMMEs reaching sustainability.

Key constraints to sustainable SA SMMEs are: education and training; government policies like Broad Based Black Economic Empowerment (BBBEE), the entrepreneurs' own resource management, lacking effectiveness of government skills programmes, a better capacity for entrepreneurship and market openness (Herrington *et al.*, 2010:31).

The approach in the study will be to follow factors limiting sustainability in the entrepreneurial environment in SA, provided by the expert advice in studies, such as the information from Herrington *et al.* in the GEM report, and combining these aspects with international entrepreneurial success models to find strategic aspects for sustainability. Factors of analysis in the local SA environment will be determined from existing theories and then qualitative research will be undertaken. Hereafter, structured questionnaires (created from such theoretical grounds) must determine, from unique entrepreneurial experiences, which factors will generally create sustainability and high growth in SA SMMEs.

### **1.3. OBJECTIVES OF THE STUDY**

#### **1.3.1. Primary objective**

The main aim of the study is to establish a framework for determinants of sustainability and reasons for success of SMMEs, based on a sample of small businesses in Lesedi, Gauteng. Suggestions will then be made based on their unique experiences.

The following secondary objectives will be derived from the primary objective.

#### **1.3.2 Secondary objectives**

- To focus on the small South African business owner; to determine what may be possible constraining factors to sustainability, in order to identify the solutions to their lacking functionality that could lead to the diminishing of so many SMMEs in South Africa.
- To indicate the importance of strategic and business management factors, in order to become economically fast growing as an entrepreneurial venture.

A distinct comparison is made, within the proposed framework, between elements that make some entrepreneurs achieve high growth and why others do not.

#### **1.3.3 Empirical objectives**

The following empirical objectives are formulated, based on models for entrepreneurial success:

- To establish an understanding of local entrepreneurs, with specific reference to abilities and activities performed, gained by experience within a dynamically changing and

growing environment of the recently new democratic environment in South Africa, and how these influence the traditional characteristics for a successful opportunity as described by Timmons.

- The study seeks to understand the progress from poverty and unemployment to sustainable economic development, high growth and job creation as a benefit of the efforts of the entrepreneur.
- To evaluate the scope and importance of contributions made by different team members such as sponsors, partnerships and other role-players engaged with SMMEs.
- To identify the determinants and competencies in the studied small businesses, within a conceptual generalised framework, needed for successful and sustainable business growth.

#### **1.4. RESEARCH METHODOLOGY AND DESIGN**

The methodology engaged in comprises a case study with structured questions based on entrepreneurial sustainability. Primary data comes from SMMEs in the Lesedi area that are clients of Pondera Innovation. Two methods of research will be utilised, namely a literature review and empirical research.

##### **1.4.1. Literature review**

A complete review of previous research was provided in the study in order to establish the context and worth of the study (Struwig and Stead, 2001: 38). Consequently, phase one of the study entailed a literature review. The text data includes relevant books, journals, newspaper articles, Internet articles, and United Nations (UN) internet articles and publications, and SA National Governmental and Local Governmental publications. The purpose of the literature review was to provide a basis for scientific analysis from prior research findings on sustainability.

##### **1.4.2. Empirical research**

The researcher administered a survey questionnaire to small business owners in the Lesedi area. The questionnaire design sustains findings of the literature review. A random sample of small to medium sized enterprises was selected. Each business owner was briefed on the content of the questionnaires to decrease errors in their interpretation. Research assistants were used to collect the data by means of interviewing the business owners or following up on missing or misinterpreted information. Data integrity was

assured by contacting about 50% of the respondents after data collection to verify if they were interviewed.

### **1.4.3. Study population**

The study population is SMMEs in the Lesedi area.

### **1.4.4. The sampling procedure and sampling size**

The sample of the survey comprised 52 businesses from the Lesedi area, but is not necessarily economically active within the central business district. The sample method is modified to suit a wider spread population, since many of the Lesedi companies may be operating in Johannesburg but are located 35 – 45 km away. Every effort was made to avoid duplication of elements contained in the survey.

## **1.5. STATISTICAL ANALYSIS**

The data on the survey questionnaire was analysed using the PhStat version 2.7 for Windows. Correlations, tabulations, cross tabulations, scatter plots, and histograms were used with respect to the various aspects contained in the questionnaire. Various biographical information elements were compared with measures of business sustainability. Some business sustainability measures were compared to make advanced conclusions on the sample.

## **1.6. THE VALUE OF THE STUDY AND LIMITATIONS**

The study aims to find solutions to the needs of SMMEs in South Africa and find creative innovative strategies to address their specific issues. A conceptual South African framework for entrepreneurial success in the area was developed; this method can be duplicated in other areas in the country, with SMMEs' specific limitations found in the study. Because of the Lesedi area being very small, comprising of only a few hundred SMMEs in total with many of these businesses opening up or closing down frequently, only 52 accessible businesses could be consulted.

The theoretical review of the study will focus on models such as Timmons and strategic concepts in Moore *and co-authors*. This study, however, will aim to establish a generalised suggested framework to create success in small companies by studying various SMMEs from the Lesedi area and surrounds.

The study contributes to the development and upliftment of local SMMEs as a contribution from tertiary institutions. This contribution links with Arinola *et al.* (2001:166) statement in the 2005 Research Report that “one of the major qualities of a black college is being responsive and relevant to the needs of the environment.” Moreover, in the 2001 Research Report, Arinola *et al.* (2001:166) state “...these institutions can also serve as necessary incubators and as agents of change for laying a firm foundation in the development of minority businesses.”

In addition, it is anticipated that this study will make a valuable contribution to:

- The quality of life of the small business;
- A newly developed framework that will enhance sustainability within SMMEs; and
- It will foster sustainable economic development in the region as sustainable economic development entails an elimination of poverty, a decline in social differences such as income differences and increased employment opportunities.

## **1.7. PROVISIONAL CHAPTER DELINEATION**

**Chapter one** comprises the introduction to the research, problem statement, objectives of the study, the design and methodology.

**Chapter two** examines the key concepts and critical discussions of literature. This will form the theoretical model for the study. The requirements for SMMEs, business capital, education levels, entrepreneurship, and partnerships will be explored.

**Chapter three** outlines the research methodology. Data collection and processing will be explained. It will cover the selection of the sample, the design of the questionnaires, data collecting techniques, the processing, analysis and evaluation of data as well as the validity of methods utilised.

The chapter will also focus on data analysis and interpretation through the presentation and discussion of the results. Sample profiles, tables and Figures will be provided. Discussing and summarising interpretations will be included.

**Chapter four** concludes, summarises and discusses salient points with various recommendations.



## **1.8. SUMMARY**

The main aim of the study is to establish determinants of sustainability and reasons for success of SMMEs, based on a sample of small businesses in Lesedi, Gauteng. Suggestions will then be made based on their unique experiences.

The focus of the study is on the small South African business owner; to determine what may be possible constraining factors to sustainability, in order to identify the solutions to lacking function within elements of the opportunity (both internal and external of nature), that could lead to the diminishing of so many SMMEs in South Africa.

This study establishes new and existing aspects required in a new and growing venture, based on various existing theoretical models, these aspects can typically include: gaining market for a real need, acquiring capital or resources, managing such resources and training needed. The unit of analysis are various entrepreneurs from the Southern Gauteng Province.

The approach in the study will be to follow factors limiting sustainability in the entrepreneurial environment in SA, provided by the expert advice in studies, such as the information from Herrington *et al.* in the GEM report, and combining these aspects with international entrepreneurial success models to find strategic aspects for sustainability.

A questionnaire is developed from the literature review, empirical evidence is provided to test current literature within the study and a conclusion is then made to form a framework for entrepreneurial sustainability within the study population.

## **CHAPTER 2: SUSTAINABILITY OF SMMES**

### **2.1. INTRODUCTION**

SMMEs, both established and start-up businesses, need to adapt to changes at each stage of its existence to be sustainable. Before opening a business, the SMME is a potential entrepreneur and over time the business reaches breakeven point. The process usually takes a few years and requires capital to finance operations (Datar *et al.*, 2013:463).

Capital is scarce for SMMEs to develop from start-up to breakeven point. SMMEs, especially in townships, do not use effective financial management principles and therefore find it difficult to obtain funds to start-up and grow a new business. Because of the risks investors face, new entrepreneurs focus mostly on personal contributions to fund a new venture. Those SMME owners that have alternative income sources supporting their business, such as a part-time job, have a greater chance of surviving the challenges of business growth (Batjargal and Liu, 2004:159).

Mubarik and Flinn (1989:309) suggest that capital and finance is not the sole limiting factor and prerequisite to SMME success; skills and expertise also play a critical role. Skills such as charismatic leadership, access to critical information as well as knowledge are needed for sustainability. The dynamic process of sustaining a SMME is furthermore based on seizing the right opportunities by means of an effective team and planning. Businesses that have a team are more likely to survive, than those with one or only a few members, because some of the crucial management functions needed for sustainability get neglected.

Managers often lack the management skills to create a motivating climate for employees and this can lead to customer dissatisfaction (Sharpe, 2007:251-261). Marketing, management and finances are the management functions that are most related to sustainability and reasons for business failure. Typical problems leading to failure include inadequate sales, being uncompetitive, excessive spending and clients who do not pay in time. Planning, on the other hand, has been proven to improve the quality of an SMME.

It was found that the more innovative a product, the higher the profits of the SMME. The appropriate business strategy gives the business a competitive edge by overcoming

stumbling blocks and adapting to change. Evidence suggests that wealth-motive entrepreneurs make more than their counterparts who do business out of necessity (Paul *et al.*, 2009:342).

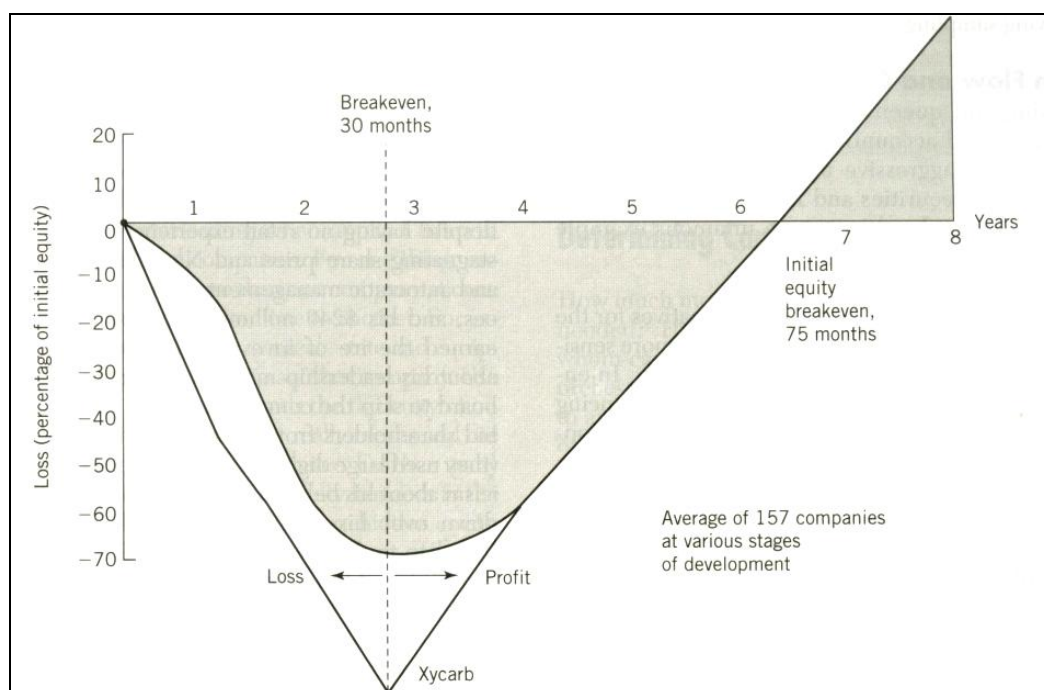
## 2.2. Sustainability phases

For a business to be sustainable, it needs to develop through certain phases:

- (i) from being a potential entrepreneur when opportunities are identified and the entrepreneur has the knowledge and skills;
- (ii) start-up or nascent entrepreneur who is involved in setting up a business;
- (iii) owner-manager of a new business which is up to 3.5 years old;
- (iv) the owner-manager of an established business which is more than 3.5 years old (Herrington *et al.*, 2010:10 and 19).

In the product life cycle of a business it is demonstrated how a firm has initial losses, moves into a growth phase and only within a few years realise profits.

**Figure 2.1: Initial losses by a growing firm** (Source: Timmons and Spinelli, 2009:427).



Herrington *et al.* (2010:10) explain that a country's level of economic development, dictates its approach to entrepreneurship development. South Africa's (SA) entrepreneurship development approach is that of an efficiency-driven economy. Within

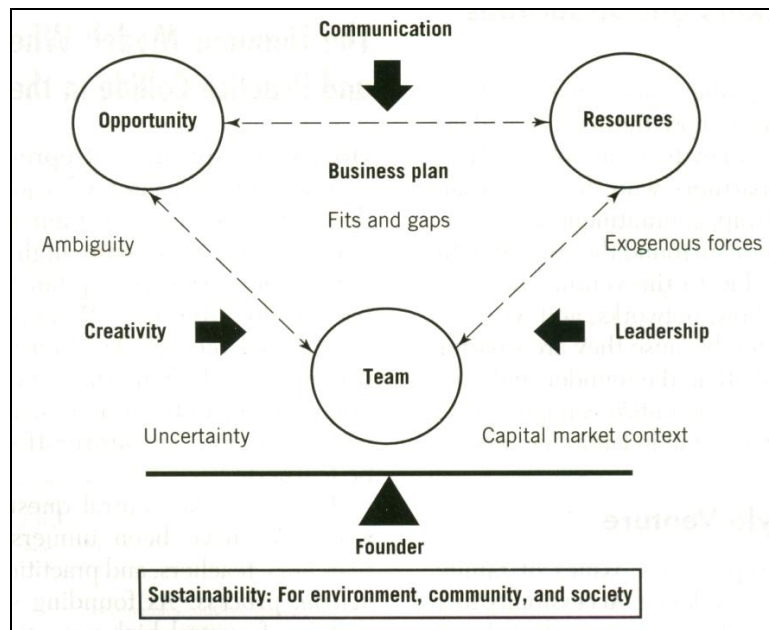
such an economy the focus should be on the pursuit of higher productivity through economies of scale.

Thornton (2009:81) pertains that there is a rapid growth of foreign private lending to Microfinance Institutions (MFIs) in SA, such investors are focusing on development institutions and leave International Financing Institutions (IFIs) lending to smaller and riskier borrowers. Small businesses, especially ones in townships, disregard financial management principles and therefore have difficulty obtaining finance from investors (Mbonyane and Ladzani, 2011:557). The SA government is focused much more, in its economic development policies, on impoverished black South Africans (Fourie, 2007:1292). Funds are therefore in abundance in South Africa for individuals who have appropriate skills and it is more likely for a previously disadvantaged SMME with a BBBEE status to receive financial aid.

Entrepreneurs should focus their attention not only on finding funds, but also on all the personal contributions of the entrepreneur such as charismatic leadership, access to critical information, knowledge and experience (Gore and Fal, 2009:7). The most important factor related to sustainability is recognised as managerial ability, which should transform the business into a successful one.

Within a successful business all efforts should be aimed at balancing all opportunities, resources and teams to long-term performance. The dynamic process is furthermore described as being opportunity driven, when the founder successfully utilises the team, resources and innovatively builds on the opportunity [See: Figure 2.2].

**Figure 2.2: The Timmons model of entrepreneurship** (Timmons and Spinelli, 2009:110)



Firms seeking sustainability and competitive advantage should understand the link between what they are trying to achieve and processes necessary to pursue the desired strategy. This strategy needs to adapt in changing environments and new opportunities must be seized with resources that can give the company a competitive edge such as intellectual capital and cash (Massingham, 2004:61).

There are seven prescribed principles for effective team management: choosing the right personnel; empower the workforce to take their own decisions and be responsible for them; there must be productive competition within the team; solve problems- do not complain about them; set an example to employees; team members need to get together physically to establish cohesion; and communication as well as constructive feedback is essential (Jenewein and Morehart, 2008:102-108).

Evidence suggests that there is no link between the wealth-motive of entrepreneurs and their innovativeness (Hessels *et al.*, 2008:335). Starting a business to have a need for independence or out of necessity does not automatically lead to innovation, economic growth or job creation. Countries with high economic growth rates have a large portion of entrepreneurs who seek increased wealth and who have higher aspirations which is proportional to the economic growth rate (Hessels *et al.*, 2008:335).

### **2.3. Main challenges SMME face**

Three areas in business are lacking within South Africa and the third world to create sustainable SMMEs: marketing and sales, financial management and general management including operations and logistics. Typical problems small businesses experience that relate to them being unsustainable are 37% linked to inadequate sales, 31% linked to competitive weakness, 21% excessive expenses and 11% uncollected receivables (Thom and Van der Merwe, 2012:1).

According to Thom and Van der Merwe (2012:1) the main reasons for business failure are:

- lack of management expertise;
- insufficient capital to grow into sustainability;
- a bad location for the business;
- ineffective inventory control;
- over investment in fixed assets like vehicles and equipment;
- bad credit arrangements;
- personal use of company funds; and
- unexpected growth.

The most important criteria for organisational effectiveness are flexibility, resource acquisition and management as well as the human relationships model (morale and development). During the different life-cycles of a business the strategies need to adapt for the company to be successful. From establishment of the company until it is developed as well as when the company is in the harvesting phase, emphasis needs to be on achieving financial objectives such as generating gross profit through increasing sales and minimising cost. The most important characteristics for sustainability are financial management, marketing to increase sales and management competence (Quinn and Cameron, 1983:49).

Small and young firms founded by only one person are more likely to fail than larger and older firms founded by more than one person. Companies with less experienced managers are more likely to fail due to inadequate strategic planning systems that are being implemented. Companies with limited access to resources are also more likely to fail (Rovenpor, 2001:72).

Research indicates that small to medium firms are more likely to fail and that their CEOs are too busy getting their firms off the ground by raising brand awareness, solving technology-related problems and searching for future sources of financing. This is when efficacy decreases due to little general management and financial issues are likely to occur because these types of businesses run out of cash within the first year. The inevitable result of the above mentioned problems are that poor quality products get sold by the company, high delivery costs need to be charged and dealing with unreliable suppliers will lead to dissatisfied customers (Rovenpor, 2001:73).

Studies lack to distinguish between business closure and business failure. Business closure is when the business needs to discontinue due to external conditions or inadequate management, whilst business failure is when the business closes its doors only due to inadequate management with too many errors in strategy and decisions. Research suggests that business coaching and mentoring is targeted at an inappropriate level due to the perception that owner-managers are doing it for the first time (Stokes and Blackburn, 2002:14).

Owner-managers in SMME interviews indicated that these managers learned to apply better self-management and handling setbacks better. These managers indicated that managing trust and relationships was utterly important, while other factors mentioned that what was important in SMME management was experience, coping with financial issues and improved marketing. Many of the managers who liquidated or closed their businesses have been noted to try another venture (Stokes and Blackburn, 2002:15).

More new start-ups have been found to have a positive effect on the economy. Quality of a small business can be defined by factors like the qualification of the entrepreneur, efforts to plan out the business, the amount and quality of resources mobilized for the new business, marketing strategy and innovativeness of the goods and services. These businesses all have different qualities of these entrepreneurial skills and therefore each SMME will have different challenges for the owner (Fritsch and Shroeter, 2009:11).

High quality business concepts are more likely to have a greater expected profitability. The expected return from high-quality concepts clearly exceeds the uncertainty threshold of their probability of being sustainable. The likelihood that they will be able to implement

high-quality projects should be relatively high, because their expected profitability facilitates the acquisition of necessary resources (Fritsch and Shroeter, 2009:11-12).

### **2.3.1. Main reasons for business failure derived from 2.3:**

Within general management main reasons SMMEs are unsustainable are uncollected receivables; there is ineffective inventory control in unsustainable SMMEs; SMME managers often lack effective business expertise; morale and development of staff is often lacking; inadequate strategic planning systems are in place and little trust and relationships exist between stakeholders. However, many managers who failed or closed a previous business may have improved experience to start up a new company and are more likely to do so.

In the scope of marketing business failure is related to inadequate sales, competitive weakness, bad location, limited access to resources, too much time spent by SMME owners on raising brand awareness, solving technology-related problems and searching for future sources of financing and high quality business concepts are more likely to have a greater expected profitability. Each small business has different challenges, given factors like the qualification of the entrepreneur, efforts to plan out the business, the amount and quality of resources mobilized for the new business, marketing strategy and innovativeness of the goods and services.

From the perspective of financial management business failure is linked to excessive expenses; sufficient business capital to grow the business to sustainability is often lacking; there is often overinvestment in fixed assets such as vehicles and equipment; entrepreneurs using company funds for personal reasons, bad credit arrangements and lacking return on capital.

### **2.4. Strategies to create SMME sustainability**

There are various definitions of sustainability. Firstly, sustainability in this study means that business development should continue and will not be constrained by the earth's natural resources, by conflicts or negative economic outlook. Secondly, sustainability entails the ability to view business as a cycle or process to be nurtured and allowed to evolve, simultaneously holding the guiding principles throughout operations, thus changing and growing without doing harm to the current and future. Thirdly, sustainability is the undertaking to deliver on prosperity. Finally, revenues and earnings should sustain



ongoing business success and profits must be utilised to promote future growth (Drucker, 2011:1).

The owner-manager of an established business which is more than 3.5 years old should have the aspiration not only to maintain business success but also grow the firm through innovation and social value creation (Timmons and Spinelli, 2009:427).

As businesses within SA exist in an efficient-driven economy, the factors that will enhance efficiency in SMMEs firstly, include higher education and training. Secondly, there is a need for increased value-added goods production within South Africa. Thirdly, labour market efficiency with more skilled workers and less strikes are imperative. Fourthly, financial market sophistication is necessary for the SMME to gain needed funds and be less subject to corruption. Fifthly, there must be technological readiness from the market to use modern products and services like the internet. Finally, the market size needs to increase by eliminating economic issues like social unrest and poverty (Herrington *et al.*, 2010:10 and 19).

Main categories of sustainability are applying efficient marketing and sales activities, effective financial management and good overall general management application. Elements within these categories to improve sustainability of SMMEs are therefore: level of management training, mentoring and coaching, enough capital and retained earnings through the right sales strategy to continue with operations, operating from the right location to reach your market, effective inventory control methods to avoid stock-outs or excessive inventory storage costs, applying budgeting techniques to sustain operating capital, solvency coherent credit arrangements need to be made to stay in operation, the owner-manager needs to make the difficult decision to budget for their own salary to keep the company operational and contingency plans for unexpected growth.

## **2.4.1 Applying efficient marketing and sales activities**

### **2.4.1.1. Effective promotions**

Criteria for successful business opportunities firstly, include the customer value proposition. Secondly, the opportunity should meet a significant want or need, and this need can only be an applicable need, if consumers realise that they have such a need. Thirdly, such a need needs to indicate attractive and realisable returns. Finally, there must be a good fit between the business team and the marketplace so that the small business is

experienced in their field (Timmons and Spinelli, 2009:150). Concordantly for goods market efficiency small businesses need to apply a correct customer value proposition.

From a marketing perspective opportunity analysis is very important to grow and establish the SMME. The opportunity analysis includes the outside-in analysis and inside-out analysis and opportunities can be found in whatever circumstances the business might find itself. Moore *et al.* (2008:75-83) describe how to analyse the internal and external environment to shape new opportunities or harvest existing ones.

According to Moore *et al.* (2008:75-83), the outside-in analysis comprises the general-, industry- and competitive environment. The general environment is an analysis of the Political/legal, Economical, Socio-cultural, Technological and Environment/Global (PESTE). The industry environment can be analysed with Michael Porter's five factors that analyse the degree of competition in the market (Moore *et al.*, 2008:75-83). The competitive environment focuses on the strength position, likely moves and countermoves of competitors.

According to Moore *et al.* (2008:75-83), the inside-out analysis on the other hand includes resources, capabilities and core competencies. The internal and external analysis is then combined to determine the "sweet spot" or areas of success for the business. To combine elements of the internal and external and measure the business mix one has to measure strengths, weaknesses, opportunities and threats (SWOT). Moore *et al.* (2008:80) defines the SWOT as an assessment to the firm's strategic position.

#### **2.4.1.2. The most suitable business location**

Business location can be a physical building or a virtual location such as the internet. If the location is poor, the business might never be successful and there might be high costs to move the business. There are five key considerations in determining a good business location: customer accessibility, business environment conditions, site availability and costs, small business managers' personal experience and resource availability (Moore *et al.*, 2008:237-242).

A practical application within the restaurant industry for example is that not only is the taste of the food and atmosphere of the business important, but a good location for the SMME. A good location can be expensive (Koteff, 2007:23).

### **2.4.1.3. Contingency plans for unexpected growth**

Things you do not expect to occur actually happen to you every day. Most surprises are minor, like a staff conflict, but some aren't, like a natural disaster. Some test your organisation to the verge of destruction. You cannot plan for the unexpected, and in many cases, planning actually sets you up to respond incorrectly. Organisations make assumptions about how the world is and what's likely to happen. Unfortunately, many managers try to make their worldview match their expectations, and thus ignore or distort signs that something different is happening. People look for confirmation that they are correct, not that they are wrong. Planning focuses organisational action on specific, anticipated areas, which shuts down improvisation. When planning occurs, patterns of activity repeat that have worked in the past. This strategy works well if things stay the same, but when they change and the unexpected happens, you are left executing solutions that do not fit your new situation (Weick and Sutcliffe, 2007:2).

Problems in small companies growing too fast are usually to organise the company's activities, objectives, performance measurements, developing employees, motivating and communicating with employees. Often these activities are managed by one person (the owner-manager). This amount of work is too much for one person and when the business is growing the amount of work will grow. Instead of trying to cope with this amount of work it would be advisable to delegate some responsibilities to the employees of the company, or if the workload of these employees is already high, the company could hire new employees with the required skills (Aleksis and Van der Laan, 2009:45).

With the Balanced Scorecard approach a growing company is able to measure the company's nonfinancial performance which would help the Small Business Owner (SBO) to understand the activities of the company that need to be developed. This management tool will help the SBOs to locate and recognize the problem quicker so he can have a faster response in solving the problem (Aleksis and Van der Laan, 2009:45).

## **2.4.2. Effective financial management**

### **2.4.2.1. Enough capital and retained earnings to continue with operations**

Depending on the organisation there needs to be a mix of debt and equity finance. Moore *et al.* (2008:305) provide examples of sources of financing which are personal savings, friends and family, other individual investors, commercial banks, business suppliers, asset-

based lenders, government-sponsored programs, venture capital firms, community-based financial institutions, large corporations and public sale of stock. Personal assets make out 70% of venture financing and close family investment 44.6% of personal capital for small firms (Moore *et al.*, 2008:307).

The company's commitment to a particular recipe is sometimes reinforced by its success, and this becomes institutionalized in procedures, behavioural patterns, skills, capital equipment, and a network of external relationships. Easing into a comfort zone creates considerable inertia in larger organisations, in such a way that when the recipe becomes obsolete and financial performance declines, salvation will then be sought in more aggressive implementations of strategy like low-cost provider strategies and tighter financial controls, which produces a temporary recovery, while the slack will be consumed, but cannot stop the downward trend (Grinyer and Spender, 1979:120).

Herrington *et al.* (2010:35) suggest that alternative assessment tools are needed for small business funding and lending and that there is no loophole from this problem of acquiring funding for SMMEs. It is therefore more difficult for early stage small businesses and these SMMEs operate with difficult access to resources, since the South African Reserve Bank Report of 2011 suggests that there is a lot of corruption and limitations to the lower rated BBBEE business as well as joint ventures and partnerships. Business planning needs to involve incorporating limited funding opportunity elements in the opportunity analysis of the SMME.

Resources of a business not only consist of financial resources, but also assets such as plant and equipment, intellectual capital (such as the lawyers, accountants and directors) and the business model. One needs to minimise resources in each stage, which is, according to Timmons and Spinelli (2009:378), called bootstrapping. Large organisations on the other hand have enough resources allocated for each task and most likely have enough capital to support tough situations resulting from business risk taking. The SMME does therefore need to apply the principles of effective financial management to plan and operate effectively with enough available cash.

Businesses need to take steps to gain capital for projects and also be able to securely manage funds. The basic rules of successful finances to have more cash than debt, cash

generated faster is preferred and less risky cash generation is preferred over more risky methods (Timmons and Spinelli, 2009:423).

#### **2.4.2.2. Capital budgeting to make sure there is enough operating capital and equipment**

Herrington *et al.* (2010:36) suggest alternative assessment tools for small business funding and lending. There is no loophole from acquiring funding for SMMEs, it is therefore more difficult and these businesses operate with difficult access to resources. Resources are a major problem in the South African context, not the fact that the funding is not available, but that there are corrupt officials and limitations to the lower rated BBBEE company as well as joint ventures and partnerships.

Small businesses need to plan for the unexpected in the form of financial and other departmental contingency plans developed from ongoing vulnerability analysis. A few pointers to consider in disaster management and recovery are: rally and be resilient, improvise as needed, take care of employees and consider the possible outcome that might have occurred (Molvig, 2011:31-34).

According to Molvig (2011:33) some planning pointers in disasters are:

- Designate;
- Plan;
- Focus;
- Prioritise;
- Consider geography;
- Validate backup data; and
- Test your plan.

#### **2.4.2.3. Credit arrangements**

According to Tyne (2011:22), getting out of an excess debt burden can be difficult, but there are simple things you can do to stay on the right path when it comes to making and spending debt:

- Record your spending;
- Monitor your credit;
- Keep credit card balances in check; and

- Manage monthly bill schedules.

Less use of credit will help avoid the risk of high interest rates and unexpected increases in short-term debt as well as help with a better credit rating or relieve the risk of a blacklisting. Current research shows that average life expectancy of humans has increased with 20 years from the last generation; this means a fixed bond interest rate has the danger of inflation causing a lower bond selling price. One should also be aware of risk by dividing your investment (for example, stocks and bonds in-stead of just stocks or bonds). Overall it is best to keep as little debt as soon as you start generating money and to save some of this as capital for unseen circumstances (Orman, 2011:20).

### **2.4.3. Good overall general management applications**

To create and sustain growth in a company, the general management need not only fine tune existing products, but they must make bold leaps of creativity to create new markets. Management must also not be afraid to take decisions that are the safest for them by always opting for the answer with the least risk to themselves (Clayton and Raynor, 2004:133).

An existing business needs to be kept operational, with various creative efforts to be able to adapt to changes to harvest opportunities. Moore *et al.* (2008:72) provide suggestions to apply creative thinking to business ideas:

- Borrow from existing products and services;
- Combine two businesses into one to create a market opening;
- Begin with a problem in mind that fits with the current business;
- Recognise any possible fads;
- Improve the function of an existing product;
- Think of opportunities to streamline customer activities;
- Adapt the product to meet needs in a different way;
- Imagine how the market can be expanded; and
- Keep an eye on new technologies.

Managing hundreds or thousands of active customers is very challenging and very time-consuming; the process becomes costly and labour intensive which can lead to bad service (Fingersh, 2012:39).

### **2.4.3.1. Level of management training, mentoring and coaching**

The business's team can be the difference between success and failure of the SMME and a different strategy or transitions are required at each stage of the product-life-cycle of the business. Not only are the internal elements important, but the fact that external environment influences needs to be taken into account such as strikes and labour brokers (ITRISA, 2008:283-285).

Many of the small South African business owners lack business experience. Herrington *et al.* (2010:35) recommend that there should be increased attention to educating the individuals with lack of business know-how by means of New Venture Creation (NVC) training. It is also recommended that there be entrepreneurial encouragement in school, encouraging graduate attitudes and improving their critical thinking abilities and business skills must be taught at primary and secondary level. Government does however have various programmes to improve skills, such as Small Enterprise Development Agency (SEDA), Technology through Research and Industry Development Programme (THRIP) and various others.

Although formal sector business owners have more profitability, their success rates seem to be lower than previously disadvantaged black businesses that have less skills, resources and profits (Auster, 2012:334-344). Many previously disadvantaged individuals earn capital from other temporary employment, invest some of these funds into their small business and learn on-job business skills as their companies grow (Auster, 2012:334-344).

What is needed to create more knowledgeable SMME owners is a collaborative effort between government, private sectors, academia, the international community and emigrated South Africans that will result in powerful networks being initiated that will serve to act as a entry point into the global economy (Mark, 2004:38).

There are certain recommendations from literature for small business teams in the third world. Firstly, according to Krishnan and Prabhu (1999:115) teams in small businesses within third world countries need to take their actions step-by-step instead of trying to do everything at once to create new products while having limited resources. Secondly, small businesses must try to build partner and vendor support by maintaining good relationships with clients. Thirdly, small businesses must find employees with the right capabilities specifically with engineering and Information Technology (IT) skills due to shortages in the

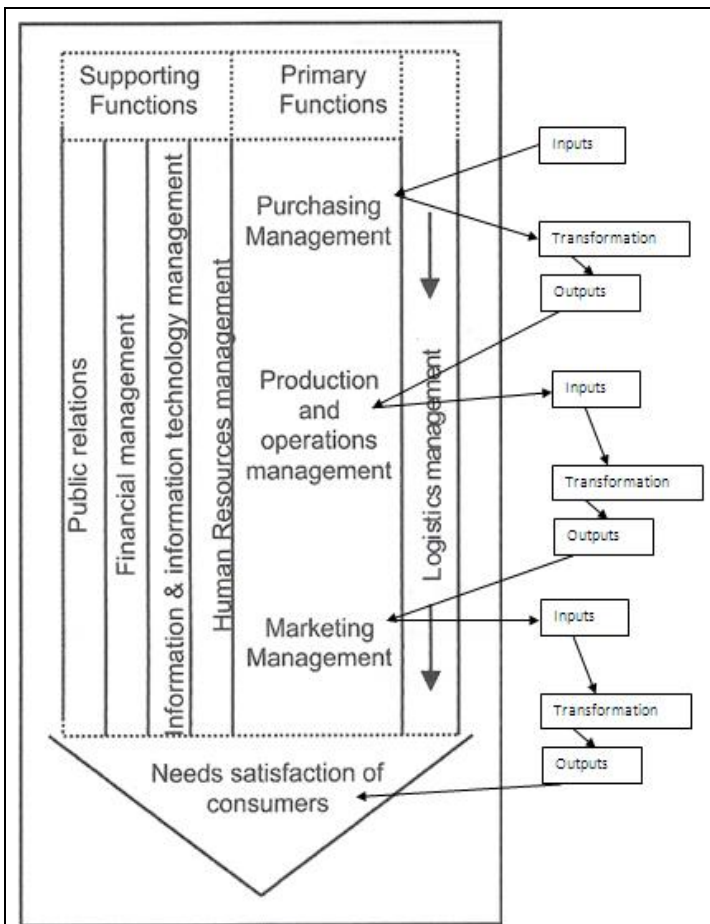
market. Fourthly, development of new products needs to take place with collaborative cross-functional teams. Fifthly, the market is huge in raw materials and open opportunities for entrepreneurs to exploit. Sixthly, there needs to be alliances, learning and product integrity. Finally, intellectual property rights must be established for all newly made products to maintain the current competitive advantage.

### 2.4.3.2. General operations, purchasing and supply management

For an organisation to stay in operation, it needs to add value through a series of transformation steps. Resources such as raw materials, labour and information are transformed into outputs. These transformations follow in a logical order where the output of one step serves as the input to the next step. This sequence of steps is called the value chain and usually ends in feedback from the customer (Jordaan, 2011:1).

Within the value chain there are primary activities and secondary or support activities (see: figure 2.3). The primary activities are purchasing and supply management, production and operations management and marketing management. Each of these primary activities also has inputs and outputs.

**Figure 2.3: A generic value chain** (Steyn, 2007:45).





The value chain can be used in a number of ways. First, it can form the basis of analysing a single organisation, identifying the systems that support the creation of the product, evaluating their importance for creating customer value and looking for ways to improve efficiency (enhancing customer value). It can also be used to evaluate the contribution of each member in the marketing channel to create customer value (Little and Marandi, 2007:78).

In the figure, the supply chain is explained in the process of Suppliers, Inputs, Process, Outputs and Customers (SIPOC). The value chain comprises various SIPOC chains each with their own requirements and inputs.

**Figure 2.4: The Supply Chain of a Fast Food Restaurant** (Jacobs *et al.*, 2009:359)

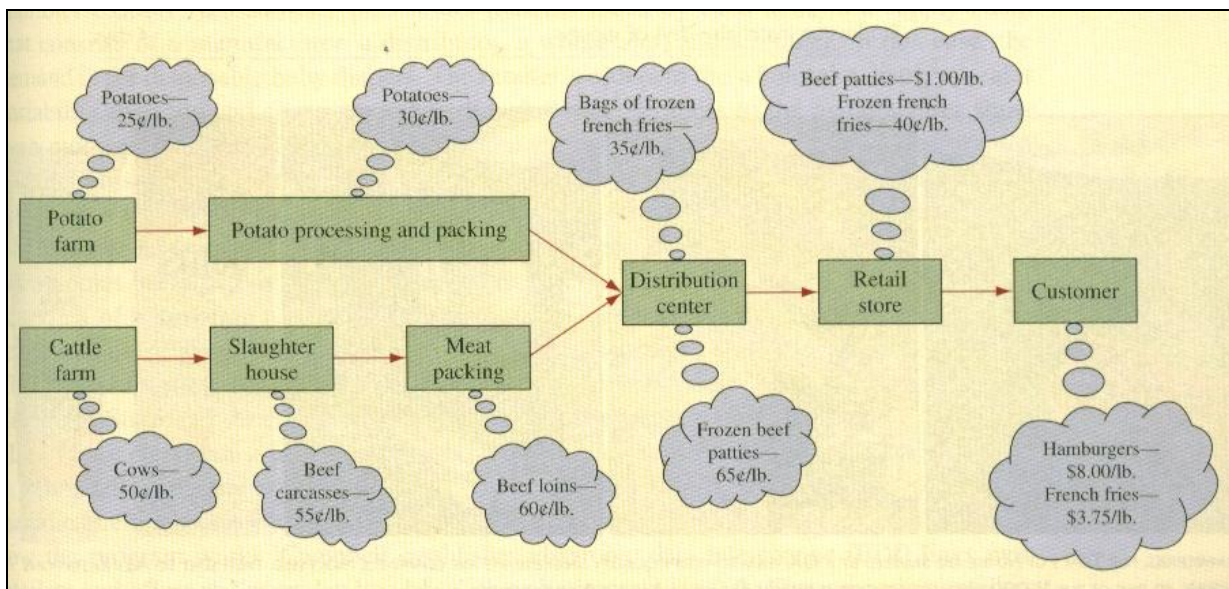
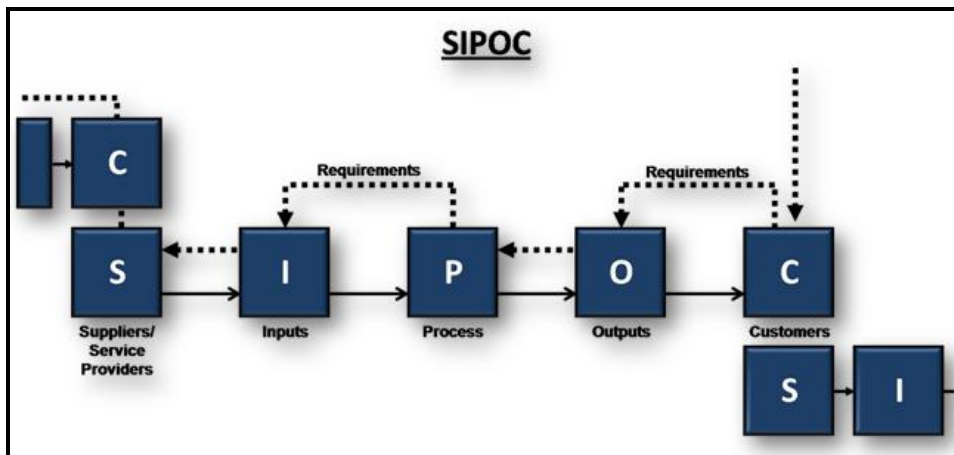


Figure 2.5 expresses a more detailed approach to the SIPOC process:

**Figure 2.5: Suppliers, Inputs, Process, Outputs and Customers (SIPOC)** [(Maccauvlei Learning Academy, 2006:1)]



The value chain is also defined as mapping the process steps throughout the supply chain by identifying the steps that add value and striving to minimise those that add waste (Jacobs *et al.*, 2009:403). Each step in the SIPOC process (as in the figures), has an input, transformation and output. Each step in the SIPOC value chain model, adds value to the end goal of customer satisfaction.

To create customer value as the end goal of an organisation, internal service quality is compulsory. The main elements of internal service quality is: responsiveness to clients' needs, quality of final products, meeting consumer expectations, flexibility in changing needs, timely information, timely delivery of products, delivering reliable information, explaining product delivery problems and communication levels (Hugo *et al.*, 2008:130).

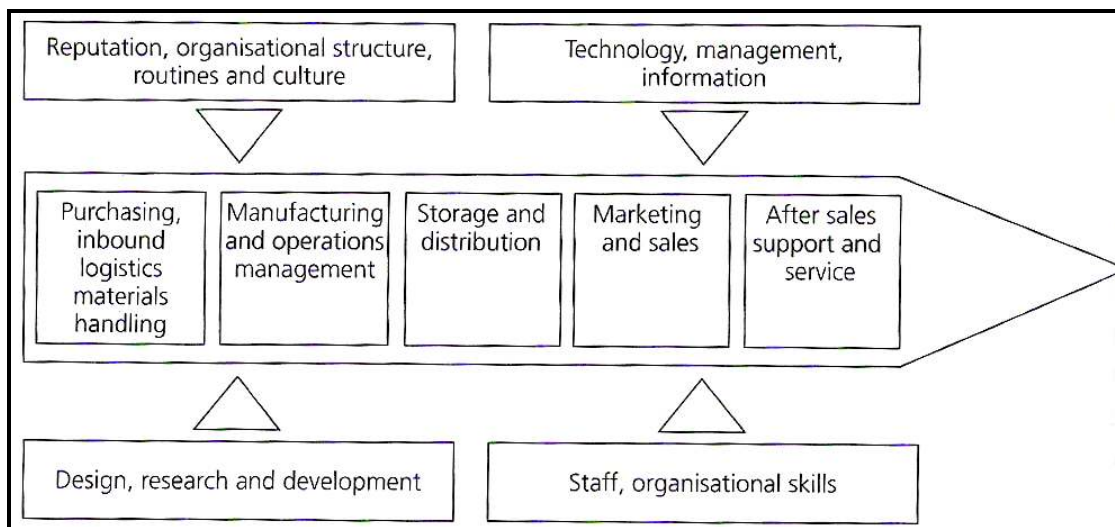
There is however a link between quality in production and brand equity. According to Elliot and Percy (2007:81), brand equity is the difference between the value of a brand to a consumer and the product without that branding. Elliot and Percy (2007:85) also say that a loyal user of a brand just 'knows' it is better. One could therefore say that to achieve such brand loyalty the value chain defined above needs to adhere to internal service quality elements, which is compulsory for an effective value chain.

Elliot and Percy (2007:84) also say that the financial value of a brand is a result of brand equity. Examples of these contributions are: sustaining future sales, greater trade

cooperation and support, higher price points, low price elasticity, barrier to new competitors and less risk for line or product extensions.

According to Little and Marandi (2007:77), one can create a customer value chain framework for analysing the organisation. This value chain analysis (company audit) is in the shape of a set of processes through which the product passes. Each of which adds value in the eye of the consumer and means the consumer will pay a higher price.

**Figure 2.6: Creating a value chain by doing a company audit (Steyn, 2007).**



**2.3. SUMMARY**

Sustainability of small business is when revenues and earnings sustain ongoing business success while retained profits should be utilised to promote future growth. The owner-manager of an established business which is more than 3.5 years old should have the aspiration not only to maintain business success but also grow the firm through innovation and social value creation.

Firms seeking sustainability and competitive advantage should understand the link between what they are trying to achieve and processes necessary to pursue the desired strategy. This strategy needs to adapt in changing environments and new opportunities must be seized with resources that can give the company a competitive edge such as intellectual capital and cash.

Within general management main reasons SMMEs are unsustainable are: uncollected receivables; there is ineffective inventory control in unsustainable SMMEs; SMME

managers often lack effective business expertise; morale and development of staff is often lacking; inadequate strategic planning systems are in place and little trust and relationships exist between stakeholders. However, many managers who failed or closed a previous business may have improved experience to start up a new company and are more likely to do so.

In the scope of marketing, business failure is related to: inadequate sales, competitive weakness, bad location, limited access to resources, too much time spent by SMME owners on raising brand awareness, solving technology-related problems and searching for future sources of financing and high quality business concepts are more likely to have a greater expected profitability. Each small business has different challenges, given factors like the qualification of the entrepreneur, efforts to plan out the business, the amount and quality of resources mobilized for the new business, marketing strategy and innovativeness of the goods and services.

From the perspective of financial management business failure is linked to excessive expenses; sufficient business capital to grow the business to sustainability is often lacking; there is often overinvestment in fixed assets such as vehicles and equipment; entrepreneurs using company funds for personal reasons, bad credit arrangements and lacking return on capital.

To create business sustainability SMMEs need to apply efficient marketing and sales activities, effective financial management and good overall general management applications. Elements within these categories to improve sustainability of SMMEs are therefore: level of management training, mentoring and coaching, enough capital and retained earnings through the right sales strategy to continue with operations, operating from the right location to reach your market, effective inventory control methods to avoid stock-outs or excessive inventory storage costs, applying budgeting techniques to sustain operating capital, solvency coherent credit arrangements need to be made to stay in operation, the owner-manager needs to make the difficult decision to budget for their own salary to keep the company operational and have contingency plans for unexpected growth.

## **CHAPTER 3: EMPIRICAL RESEARCH**

The research in the study consists of the literature review and peer-aided survey research with a quota sampling technique. The survey-based research design best suits the study, because each respondent needs to provide unique answers linked to his/her ability.

### **3.1. Literature review**

A complete review of previous research was provided in the study in order to establish the context and worth of the study (Struwig and Stead, 2001: 38). Consequently, phase one of the study entailed a literature review. The text data includes relevant books, journals, newspaper articles, Internet articles, and United Nations (UN) internet articles and publications, and SA Governmental and Local Governmental publications. The purpose of the literature review was to provide a basis for scientific analysis from prior research findings on sustainability.

### **3.2. Empirical research**

The researcher administered a survey questionnaire to small business owners in Lesedi area. The questionnaire design sustains findings of the literature review. A random sample of small to medium sized enterprises was selected. Each business owner was briefed on the content of the questionnaires to decrease errors in their interpretation. Research assistants were used to collect the data by means of interviewing the business owners or following up on missing or misinterpreted information. Data integrity was assured by contacting about 50% of the respondents after data collection to verify if they were interviewed.

### **3.3. Measuring instrument**

The measuring instrument was a questionnaire designed to gather information. It also served as a means to determine whether entrepreneurs are sustainable and profitable. Results from the analysis will determine whether these small businesses are contributing meaningfully to the South African economy. The biographical section was used to obtain information of the entrepreneur's age, gender, education, culture, sex and nature of the business. There were four sections determined by literature, general management, human resources, marketing and finances which form the basic pillars of sustainability as well as profitability.

### 3.4. Data analysis

The data on the survey questionnaire was analysed using the PhStat version 2.7 for Windows. Correlations, tabulations, cross tabulations, scatter plots, and histograms are used with respect to the various aspects contained in the questionnaire. Various biographical information elements were compared with measures of business sustainability. Some business sustainability measures were compared to make advanced conclusions on the sample.

### 3.5. Study results

In this section, the results of the empirical study are presented, by utilising descriptive statistics such as frequencies, means, cross-tabulations and standard deviations. The reliability of the Likert scale data is provided for by a Cronbach Alpha of 0.79 in ANNEXURE 2 (PhStat, 2012:1).

#### 3.5.1. Descriptive statistics and frequencies

The responses to the questionnaires were analysed by using descriptive statistics and frequencies. The findings are presented in this section.

#### Section A: Biographical information

There is a significant importance to understand the relationships between the profiles of respondents. Their backgrounds and experiences play an important role in understanding the results of the survey. A total of 52 of 100 questionnaires were received back after tremendous number of follow-up visits at SBOs. The following sections discuss the findings.

**Figure 3.1: Age of SMME owners** (Question 1 of the questionnaire findings)

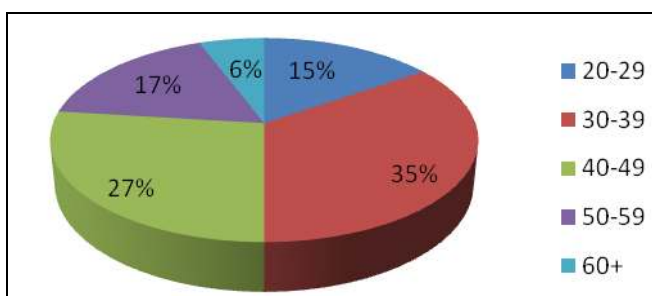
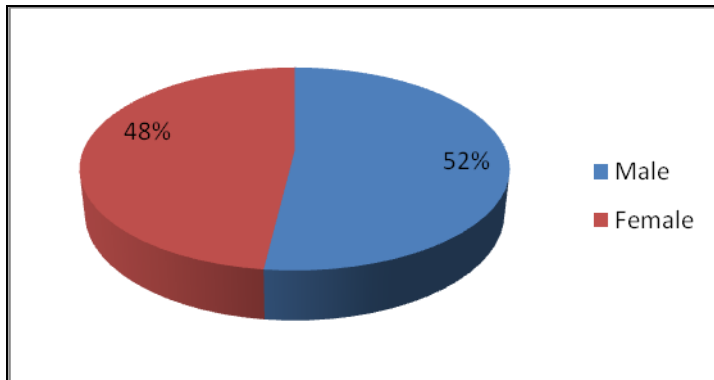


Figure 3.1 shows that few of the SMME owners are between ages 20 and 29, most SBOs were between 30 and 50. The number of SBOs in the sample decline, as business owners become older than 50.

**Figure 3.2: Gender of SMME owners** (Question 2 of the questionnaire findings)



The results of Figure 3.2 indicate that the number of women business owners in the sample is more or less equal to the number of male SBOs.

**Figure 3.3: Language/Culture of SMME owners** (Question 3 of the questionnaire findings)

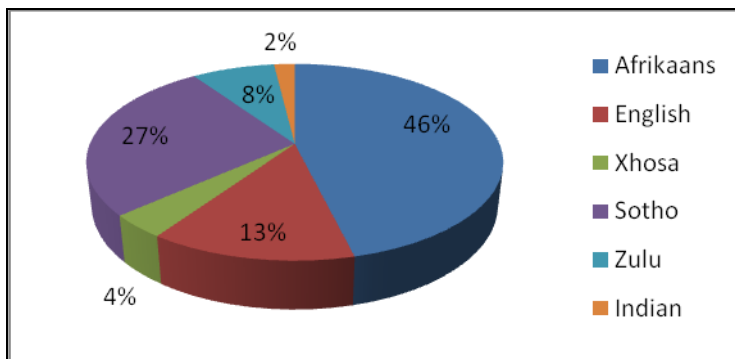
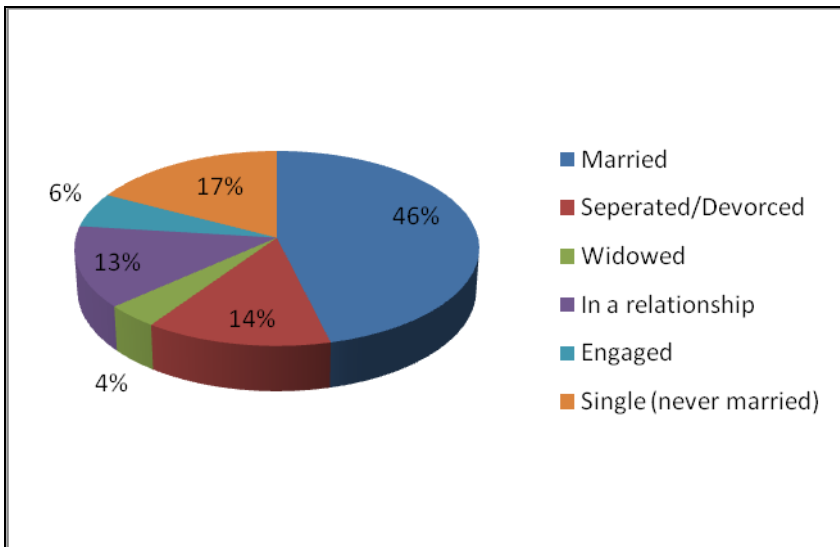


Figure 3.3 indicates that almost half of the sample is Afrikaans, a third Sotho and an eighth English speaking. Other language denominations make up a small part of the sample. There were only two of the Afrikaans speaking respondents that were coloured. Indian respondents were reluctant to answer the questionnaire and the percentage of Indian businesses may therefore vary from the results presented above. It would be interesting to compare different sustainability measures between cultures.

**Figure 3.4: Marital status of SMME owners** (Question 4 of the questionnaire findings)



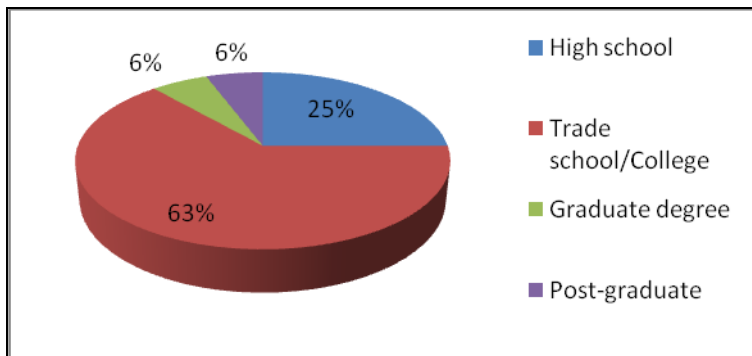
The results obtained from figure 3.4, found most respondents are married. The number of single, separated or divorced SBOs is all about an eighth of the sample. In further research it would be interesting to determine the effect entrepreneurship has on personal relationships and family. In the table below, however, culture is tabulated against relationship status, indicating that the SBOs of previously disadvantaged cultures have a greater separation rate or tendency to be single.

**Table 3.1: Comparing culture with relationship status in the sample in number format**

	Afrikaans	English	Xhosa	Sotho	Zulu	Indian
<b>Married</b>	13	3	0	7	1	1
<b>Divorced/ Separated</b>	1	0	0	2	2	0
<b>In a relationship</b>	3	2	0	1	2	0
<b>Engaged</b>	3	0	0	0	0	0
<b>Single</b>	2	3	1	5	0	0



**Figure 3.5: Level of education of SMME owners** (Question 5 of the questionnaire findings)



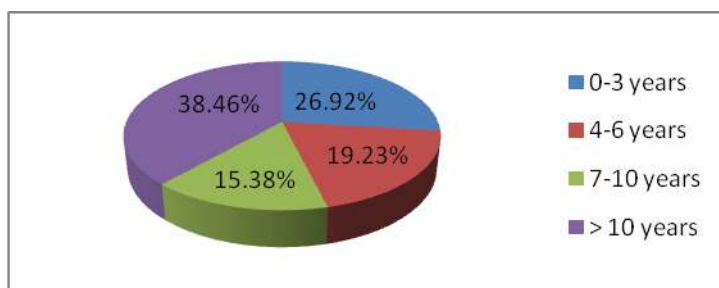
In the figure 3.5, a quarter of the sample completed high school, more than half learned a trade from a college, very few have a University degree or trained on a post-graduate level.

**Table 3.2: The probability of SMME owners being business trained at various education levels within the sample**

	High school	College	Graduate	Post-graduate
Business trained	23%	73%	33%	100%
Not business trained	77%	27%	67%	0%

The total probability that any random person is business trained at any level in the sample is  $31/52 = 62\%$  chance.

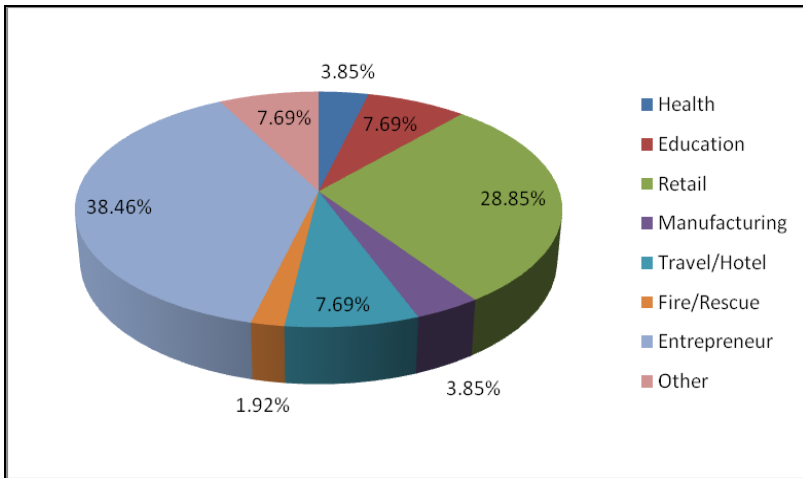
**Figure 3.6: Years of experience as a business owner** (Question 8 of the questionnaire)



In Figure 3.6, people with more than 10 years of business experience make up most of the number of SMMEs. As the years of business experience chosen by SBOs increases, the

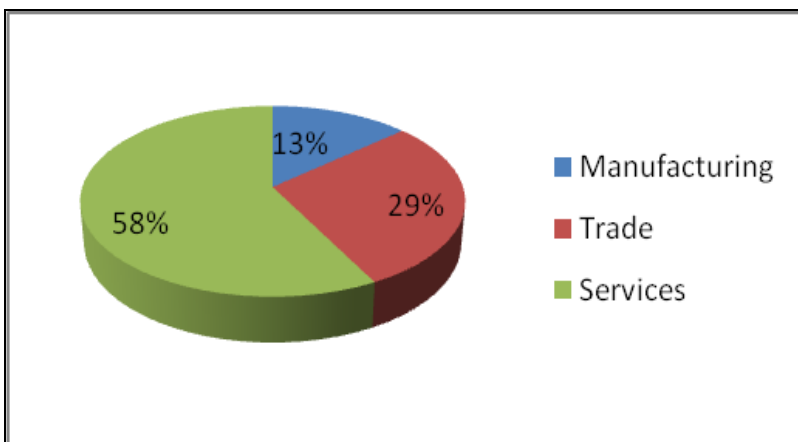
number of respondents found in each category of experience, slightly declines. The experience trend should correlate slightly with years of operation.

**Figure 3.7: Industry of businesses in the sample** (Question 9 of the questionnaire)



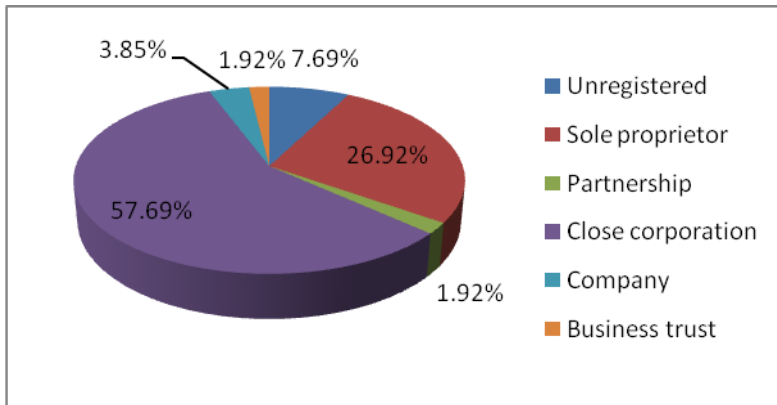
From figure 3.7, most SMMEs identify themselves as entrepreneurs or retailers, other industries make up small proportions of the sample.

**Figure 3.8: Type of businesses in the sample** (Question 10 of the questionnaire)



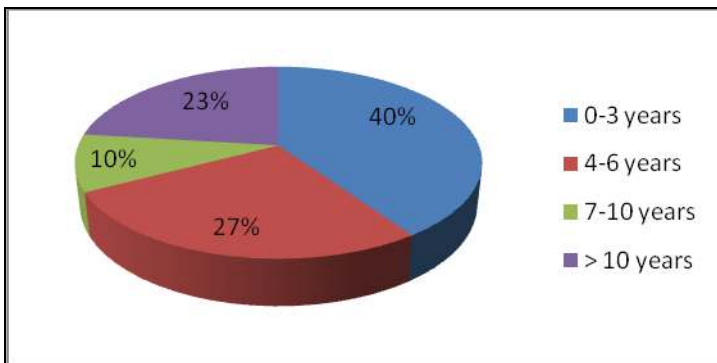
From figure 3.8, only an eighth of businesses are in manufacturing, a third is trade businesses and are three out of five times an SBO are owning a service. This could be due to service businesses needing less capital to start-up, due to a lesser need for high volumes of stock or fixed assets such as buildings.

**Figure 3.9: Form of businesses in the sample** (Question 11 of the questionnaire)



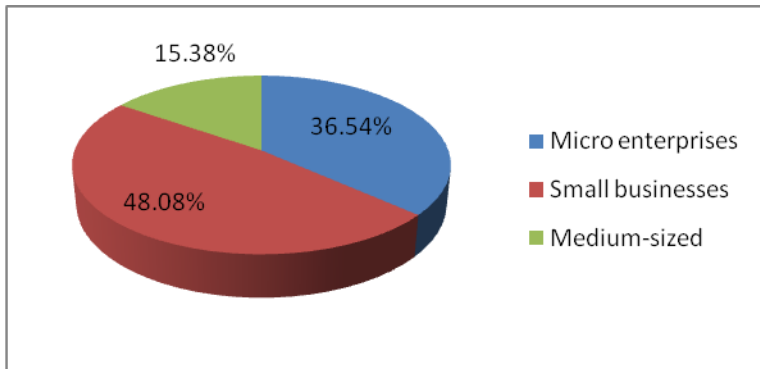
From figure 3.9, it was determined that most businesses are close corporations, this could be due to the tax benefits associated with a close corporation and the government that provides informal business owners with such a registration. The next highest proportion of SMMEs is sole proprietors; many business owners indicated that they started the business by themselves, making it the most obvious choice of registration for them.

**Figure 3.10: Years of operation of businesses in the sample** (Question 12 of the questionnaire)



In figure 3.10, the number of SMMEs in the sample decline as the businesses becomes more established, suggesting that a few businesses do not survive. Innovators make up most of the number of SMMEs, also proving this trend.

**Figure 3.11: Size of businesses in the sample** (Question 13 of the questionnaire)

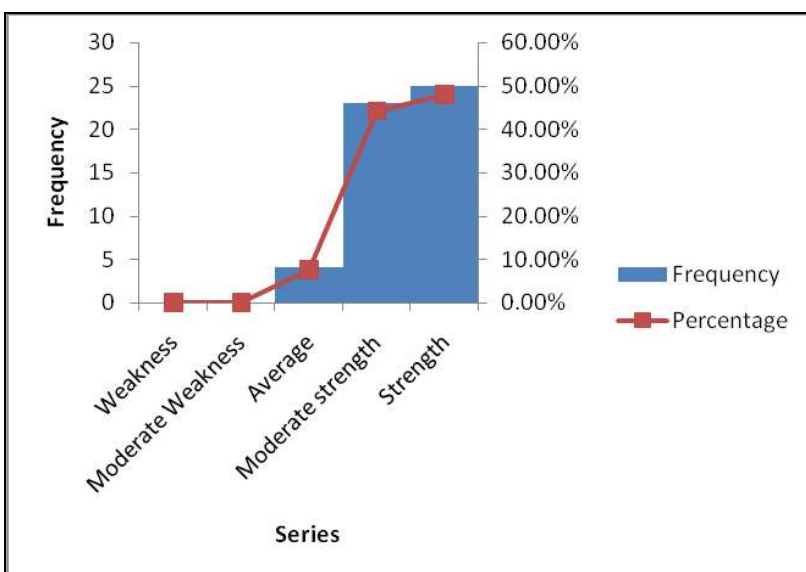


From figure 3.11, half of the respondents indicated that they were small businesses, a third was micro-enterprises and a very small proportion of the sample was medium enterprises. This result is a cause of concern, since it does not correspond with years of operation, indicating that many small businesses are finding it difficult to grow or do not have the ability to do so.

### Section B: General management

This section presents the results on the responses of SMME owners to the questionnaire on the vulnerability of general management. Issues such as the business strategy, inventory management, management time, information management and prior business experience are but some of the elements analysed.

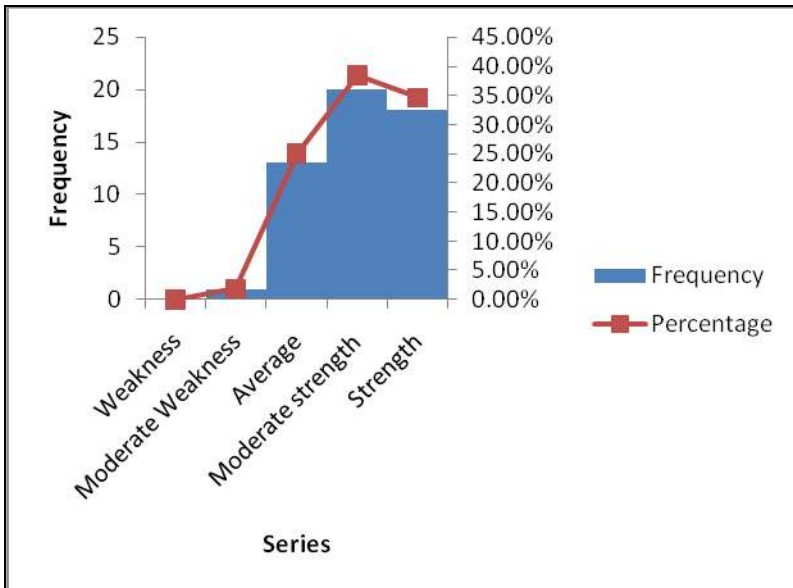
**Figure 3.12: Summary of findings on creativity and innovativeness** (Question 14.2 of the questionnaire)



From figure 3.12, it was found that 8% of the respondents quoted innovation in their business as average; furthermore it is indicated as a strength or moderate strength. This

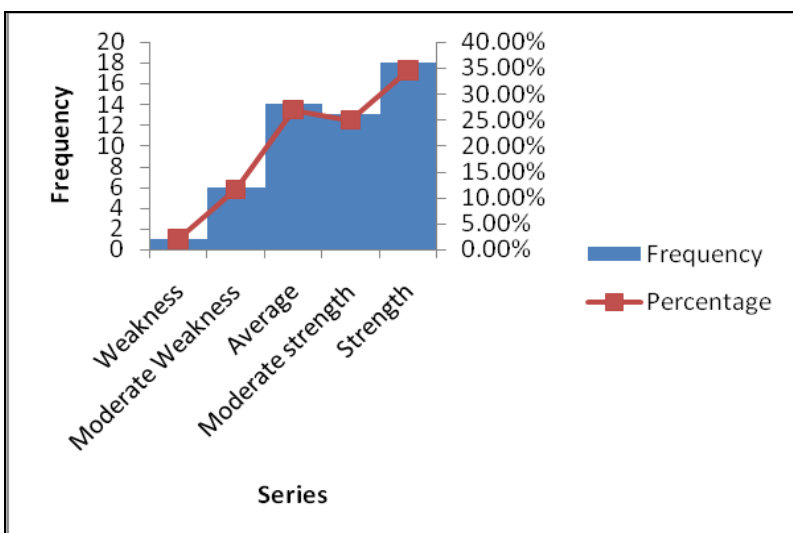
does not correspond with the growth; innovation is indicated in the theoretical section as an element that creates growth.

**Figure 3.13: Adapting to change** (Question 14.16 of the questionnaire)



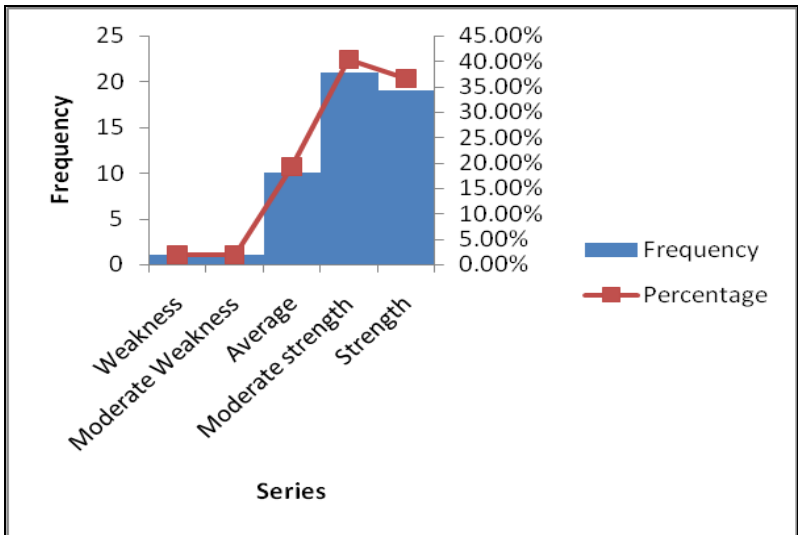
In figure 3.13, it is found that few SBOs in the sample defined change management as a moderate weakness; a quarter rated their change management as average, the rest found it either a moderate or definite strength.

**Figure 3.14: Generating revenue through the applied strategy** (Question 14.19 of the questionnaire)



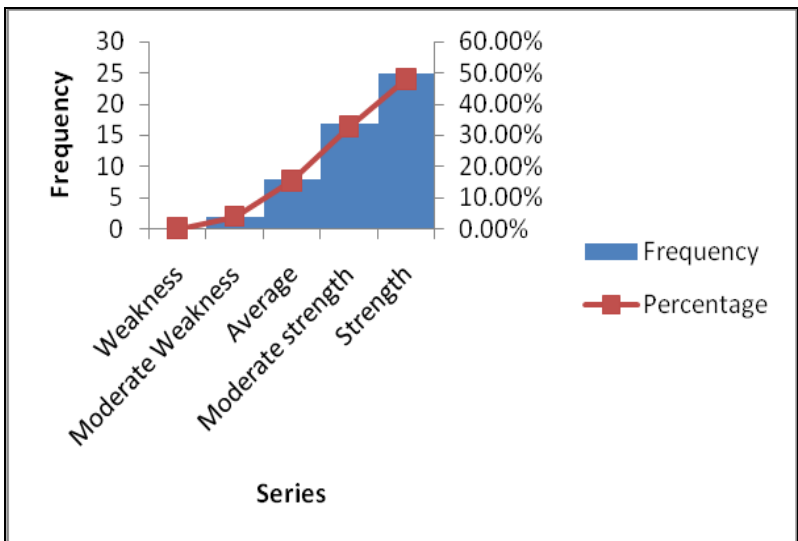
From the information in figure 3.14, it can be concluded that an eighth rate their strategy as a weakness, a third as only average, a quarter as moderately good and a third as effective. This information suggests that there is a huge need for SMMEs to learn how to apply a strategy that sells their product or service.

**Figure 3.15: Inventory control** (Question 14.20 of the questionnaire)



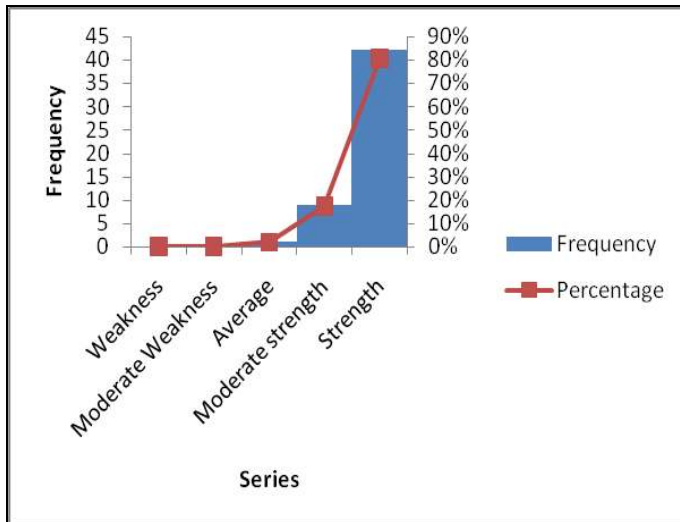
From the histogram in figure 3.15, respondents quoted that 2% have definite inventory management problems, 2% quoted a moderate weakness, and 19% stated an average functioning inventory management system, 40% good and 37% excellent.

**Figure 3.16: Uncollected receivables** (Question 14.21 of the questionnaire)



It was found from figure 3.16 that many of the respondents, while completing the survey, mentioned that they work on a cash-only basis and therefore did not quote uncollected receivables as vulnerability in their business. 2% stated that they saw uncollected receivables as a weakness, 4% stated that an outstanding payment was a moderate weakness, 13% gave an average rating, 33% stated a moderate strength and 48% a definite strength.

**Figure 3.17: Stakeholder relationships** (Question 14.22 of the questionnaire)



From figure 3.17, it was found that 2% of respondents provided that their trust and relationships between stakeholders was average, 17% provided that it is a moderate strength and 81% a definite strength. Overall relationships between SBOs, clients and suppliers were mostly well maintained.

Other elements of general management such as perseverance, honesty, people judgement and patience were all answered with a moderate or definite strength answer.

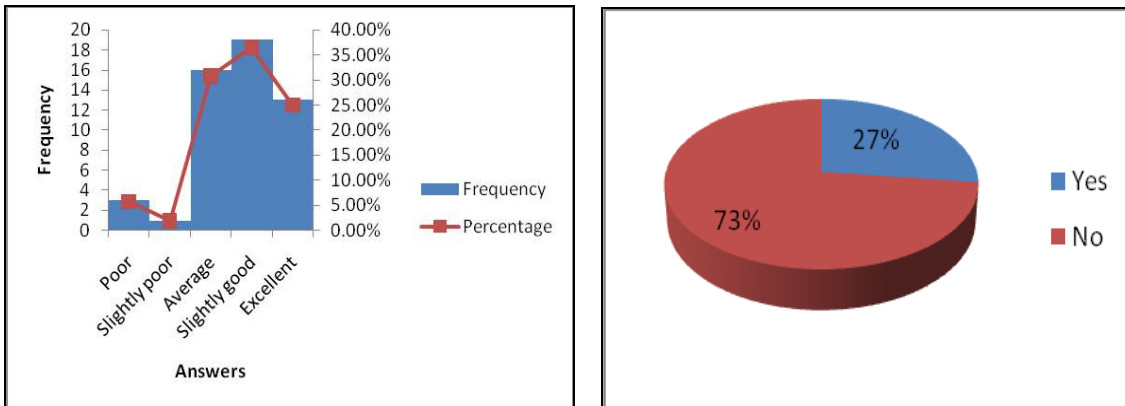
**Table 3.3: Average work time spent by SMMEs** (results from question 15 of the questionnaire)

Element	Average time spent (Mean)	Standard deviation
General management	41%	24%
Administration	13%	11%
Purchasing and supply (logistics)	13%	13%
Sales and marketing	20%	17%
Out of work duties	6%	7%
Finding funding	6%	9%

Analysing the average work time spent on different management functions, SMME owners themselves spend most of their time on operations and managing others. These managers then take up to 20% of their time to attract more customers. The minimum and maximum scores between these items differ greatly. The range for general management is 100%,

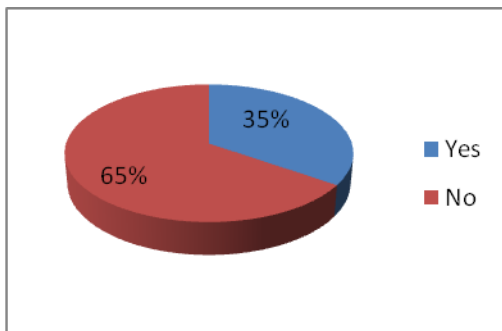
administration 40%, logistics 70%, marketing 80%, out of work duties 30% and 30% for finding funding.

**Figure 3.18: Management Information** (Question 16.1 and 16.3 of the questionnaire)



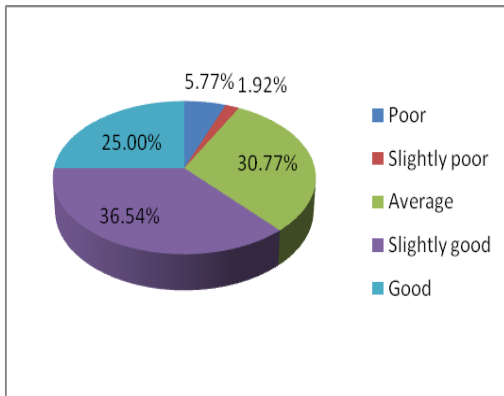
From the data analysis on management information systems it was found that only a third of SMMEs make use of a management information system and have a technology strategy. Ratings for information management are provided for as being mostly average or slightly good, most business owners were using paper and their time used to do administration was extremely high.

**Figure 3.19: SMMEs that have a technology strategy** (Question 16.2 of the questionnaire)



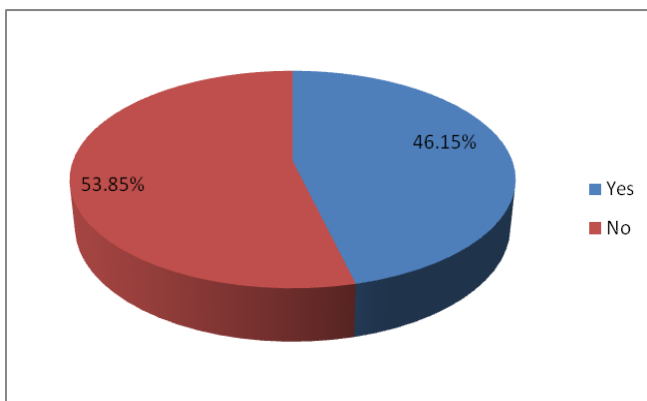


**Figure 3.20: Ratings for information management** (Question 16.3 of the questionnaire)



In figure 3.21, half of the sample owned a business before the current one, corresponding with literature, concluding that individuals are more likely to start a business if they already owned one and they are more likely to succeed than someone who had not owned a business before.

**Figure 3.21: Owned a business before this one** (Question 17 of the questionnaire)



**Table 3.4: Comparing inventory management and management information**

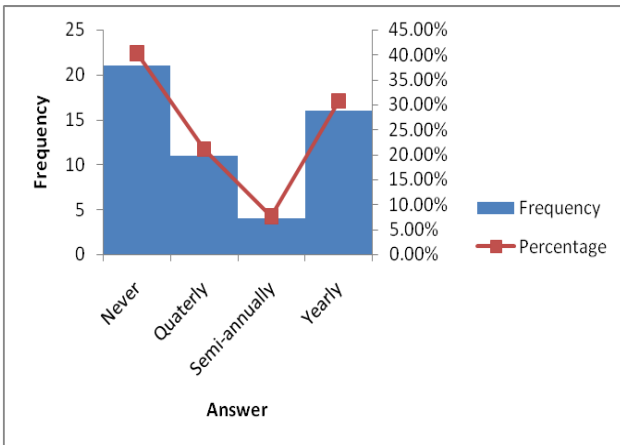
Paired Two Sample for Means		
Questionnaire question number	16.3	14.20
Mean	3.73	4.07
Variance	1.1	0.8
Observations	52	52
Pearson Correlation	0.35	
Hypothesized Mean Difference	0	

When comparing information management with the ratings on the management information system, we find that there is a small difference in their means and a Pearson correlation of 0.35 which indicates that information management is related to reasons why inventory management is problematic.

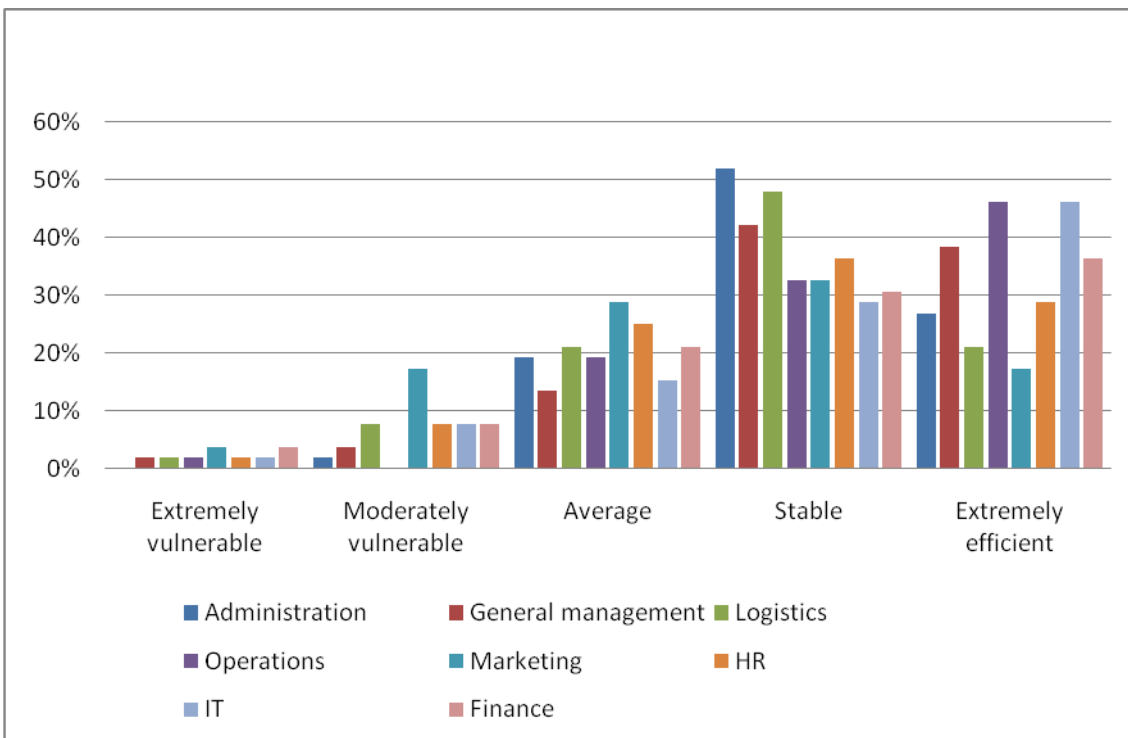
### Section C: Human resources

The businesses in the sample do not develop their employees, it was found that two fifths of SMMEs never train or mentor their employees and a third only yearly.

**Figure 3.22: Employee development** (Question 19 of the questionnaire)

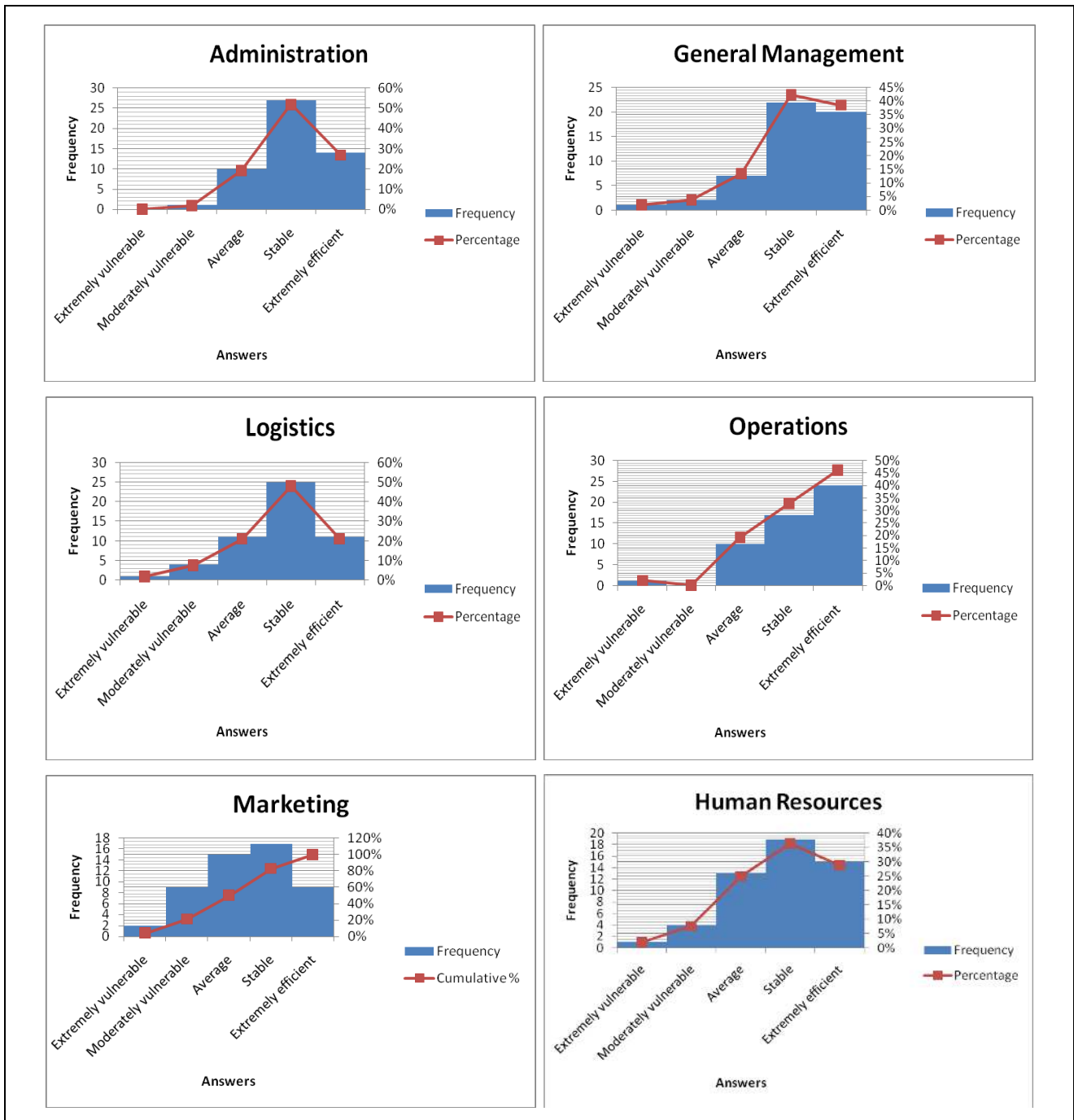


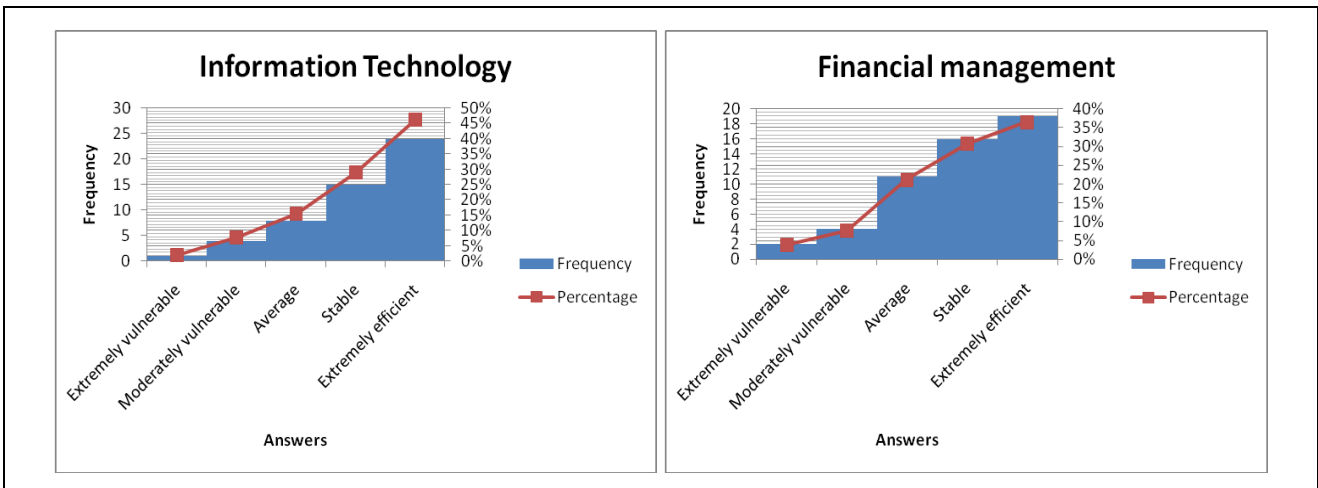
**Figure 3.23: Vulnerabilities of different departments of SMMEs** (Question 20 of the questionnaire)



In figure 3.23 and 3.24, the vulnerabilities of departments are plotted against the percentage of occurrences and it was found that general management was moderately vulnerable by 4% of the responses, logistics management 8%, marketing 17%, human resources 8%, information management 8% and financial management 8%.

**Figure 3.24: Efficiencies of different departments rated by SMMEs (Question 20 of the questionnaire)**



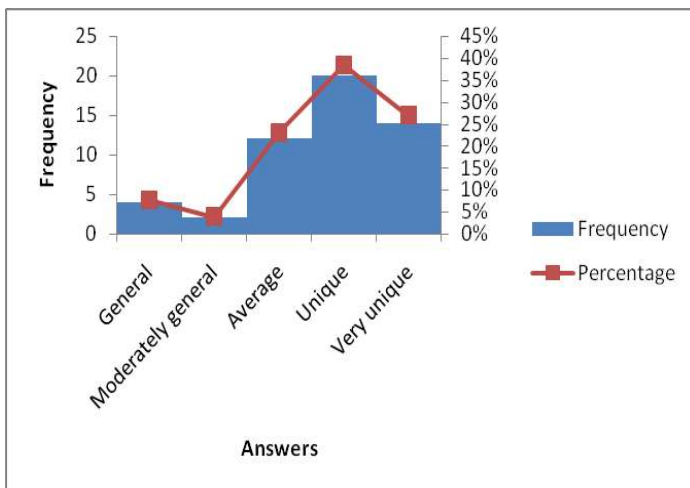


Organisational climate elements were all answered with a moderate or definite strength answer. This means that business owners in the sample do not find any visible problems with their organisational climates.

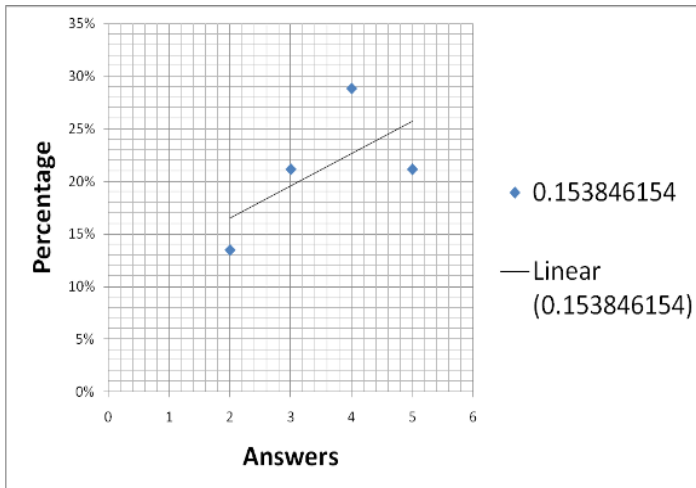
### Section D: Marketing and sales

An analysis of the uniqueness of products and services within the sample provided that 8% provided a general in the market answer, 4% moderately general, 23% average, 38% unique and 27% completely unique.

**Figure 3.25: Innovativeness of products and services provided by the SMMEs**  
(Question 22.1 of the questionnaire)

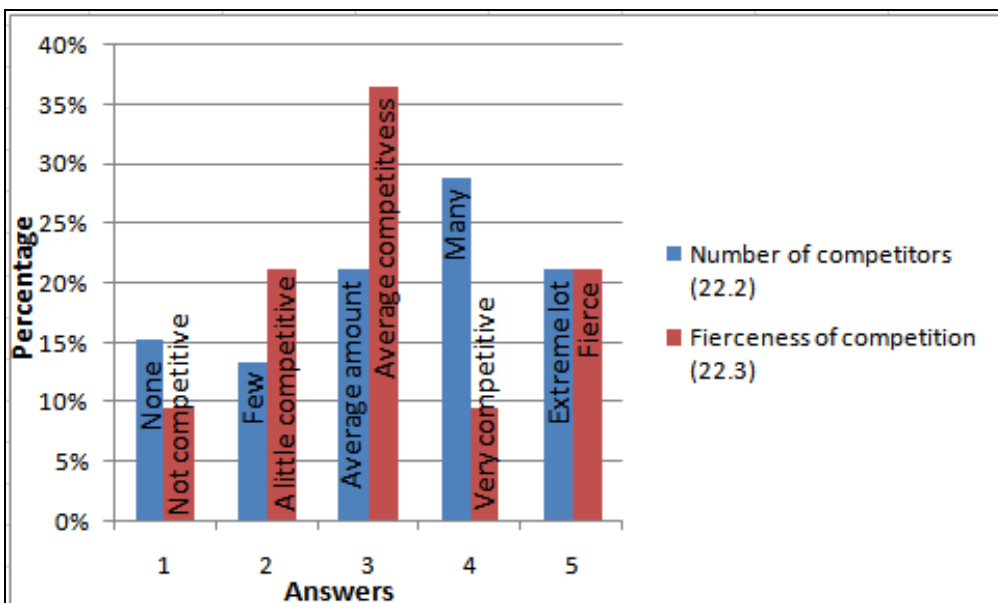


**Figure 3.26: Market competition** (Question 22.2 of the questionnaire)



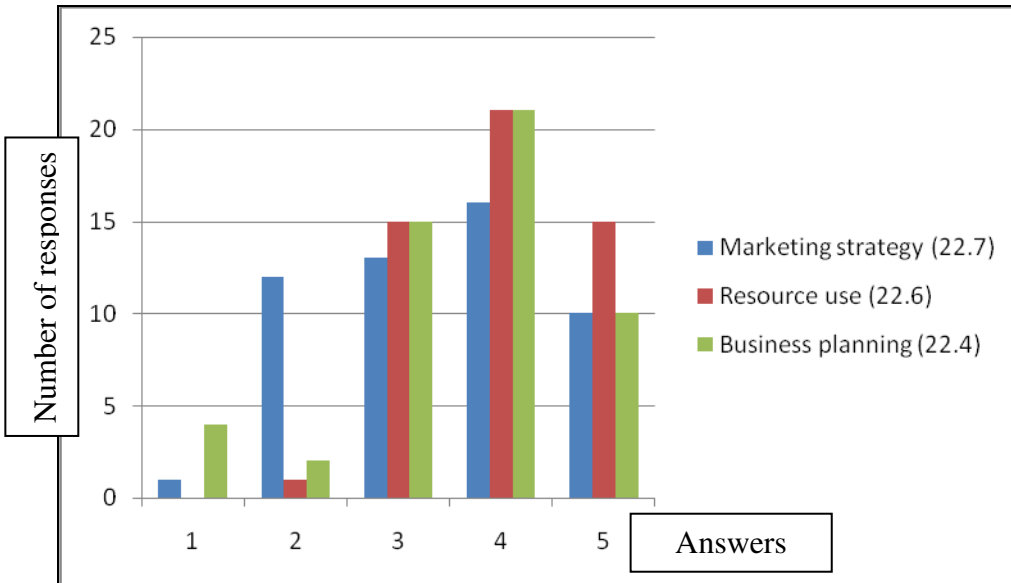
From figure 3.26, the plotted answers provided a standard deviation of 0.15 in the line, which means that there are many of the same products or services. The nearer to a 45 degree line the more similar are the results. This is an incredibly important point, since competitive elements such as price and quality cannot vary much between competitors in markets that are very competitive.

**Figure 3.27: Number of competitors and their fierceness** (Question 22.2 and 22.3)



From figure 3.27, it is visible that overall it seems that the more competitors there are, the fierceness of competition decreases.

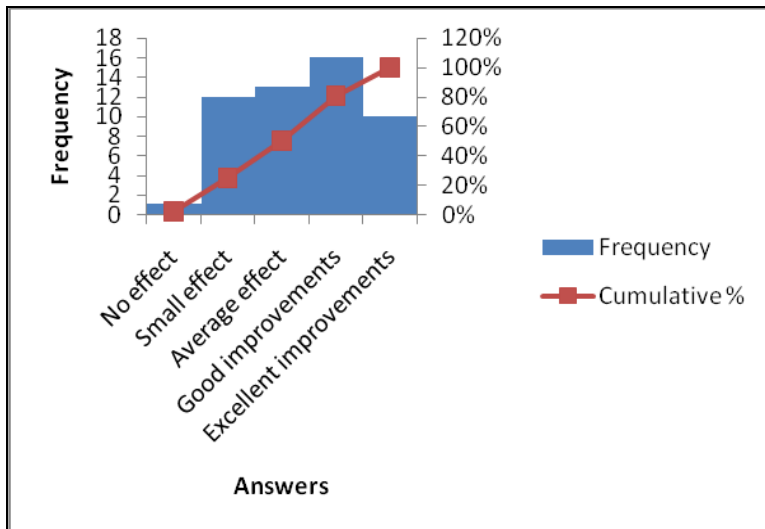
**Figure 3.28: Business planning, resource use and marketing**



(1= poor, 2= slightly poor, 3= neither good or bad, 4= good, 5= excellent)

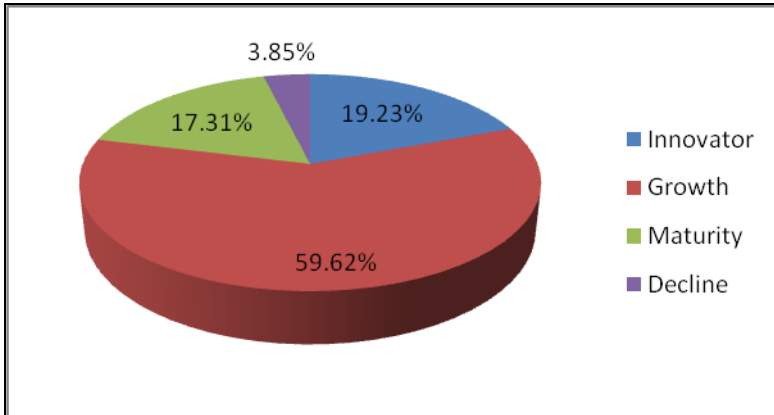
From figure 3.28 it is clear that business planning is a good indicator of resource use. Resource use also improves as the respondents planning are increased. 7% of the respondents had no formal planning, 4% plan a little, 29% have a plan that is average, 40% have a better than average rated business plan and 20% have an excellent plan.

**Figure 3.29: Efforts to gain customers (Question 22.7)**



From figure 3.29 it was found that 2% of businesses' marketing efforts had no effect on sales, for 22% it had a small effect, 25% got an average effect, 31% got moderate sales improvements and 20% had improved sales from marketing efforts.

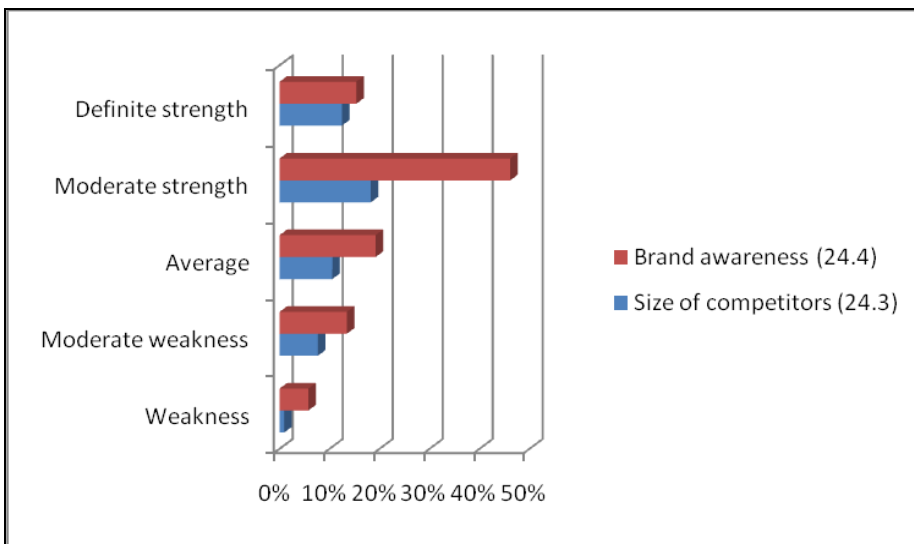
**Figure 3.30: Life-cycles of businesses** (Question 23 of the questionnaire)



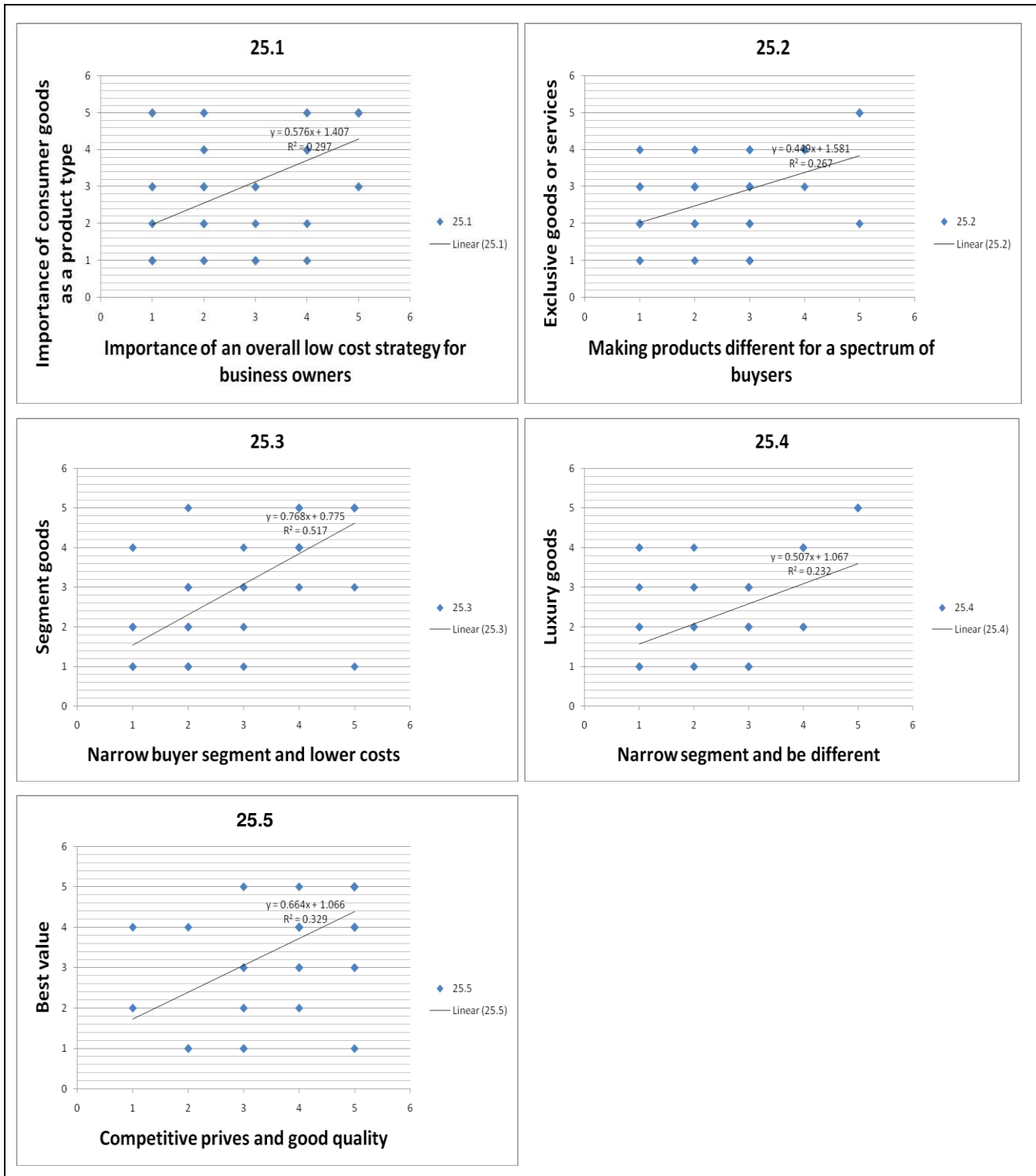
From figure 3.30, 19% of businesses were innovators, 60% in growth, 17% in maturity and 4% in their harvesting years.

From figure 3.31, it was deduced that 2% of respondents saw competitiveness as a weakness, 15% provided that it was a moderate weakness, 21% average, 37% moderate strength and 25% saw it as a definite strength. The results for brand awareness found that 6% of respondents saw it as a weakness, 13% a moderate strength, 19% average, 46% moderate strength and 16% as a definite strength.

**Figure 3.31: Brand awareness and size of competition**



**Figure 3.32: Good and product strategy fit (Question 25 and 26 of the questionnaire)**



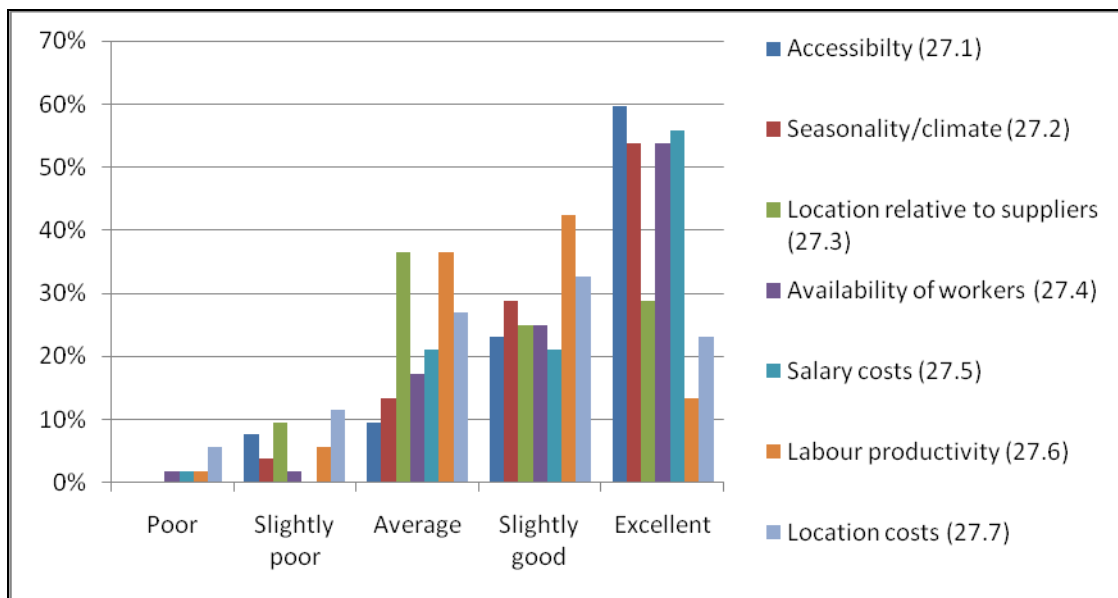
Respondents of the study were asked to rank their product or service type and the accompanying strategy from most to least relevant. The questions were then designed that the service type of question 25 aligns to the corresponding strategy of question 26 in the correct number format. An example is that the answer of question 26.1 is the strategy for question 25.1 and so forth, therefore the more the rankings in figure 3.32 deviates from a 45 degree line, the further overall chosen strategies deviate from product types of SBOs.



From the analysis of product type plotted against the applied strategy, it was found that the standard deviation between product types and accompanying strategies are 0.54 for consumer goods, 0.52 for exclusive goods, 0.71 for segment goods, 0.48 for luxury goods and 0.57 for best value products or services as indicated by the lines in each Figure.

Although some of the strategies correspond with the product or service type sold, the high standard deviations in corresponding choices indicate that overall, strategies do not match the products or services of SBOs within the market.

**Figure 3.33: Business location responses** (Question 27 of the questionnaire)

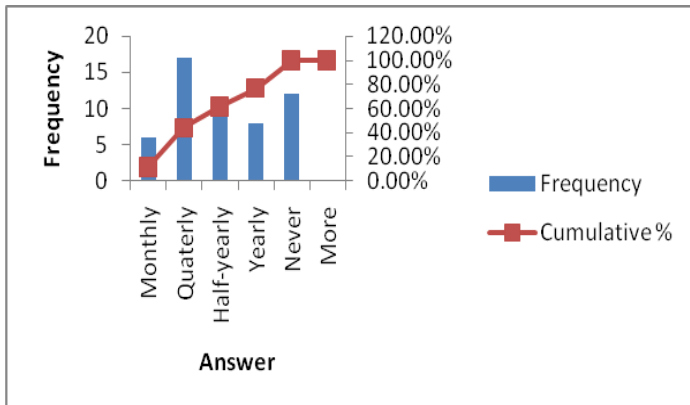


From figure 3.33 we estimate that approximately 12% of respondents report location cost as a disadvantage for their business, while location relative to suppliers as well as labour productivity in the area is rated average by 37% of the respondents.

### Section E: Financial management

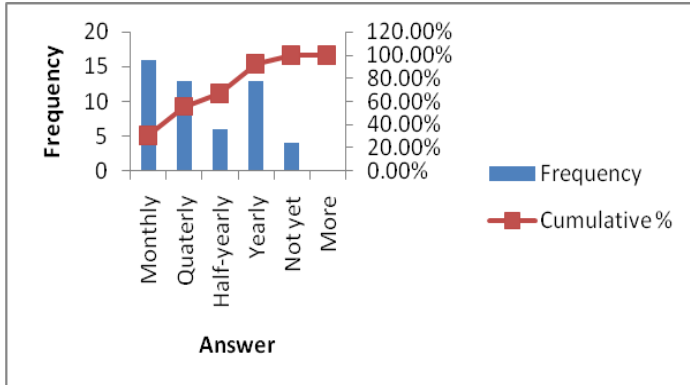
In the profitability analysis of figure 3.34, it was found that many businesses experience a negative net profit; this can be a result of the strategy not matching the product type. It was found that 12% of the sample experience a negative profit monthly, 33% once every quarter, 17% once every half-a-year, 15% once every year and 23% never.

**Figure 3.34: Negative net profit** (Question 28.1 of the questionnaire)

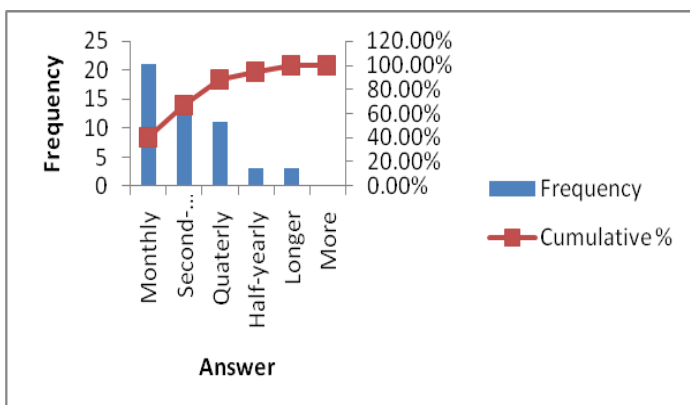


The survey found that only 31% of respondents had a positive monthly gross profit, 25% quarterly, 12% semi-annually, 24% yearly and 8% are not yet making profit. Gross profit at a specific date yielded that 40% have a monthly gross profit, for 27% of respondents it differed on a monthly basis, 21% only had a gross profit once every quarter, 6% had a gross profit once every six months and 6% had a gross profit once longer than a six month period.

**Figure 3.35: Gross profit over a period of time** (Question 28.2 of the questionnaire)

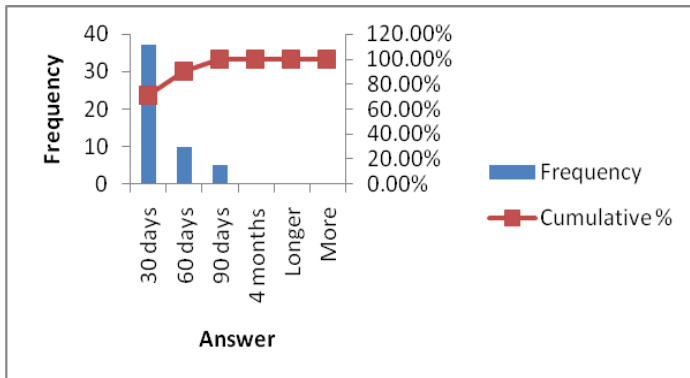


**Figure 3.36: Gross profit at a date** (Question 28.3 of the questionnaire)



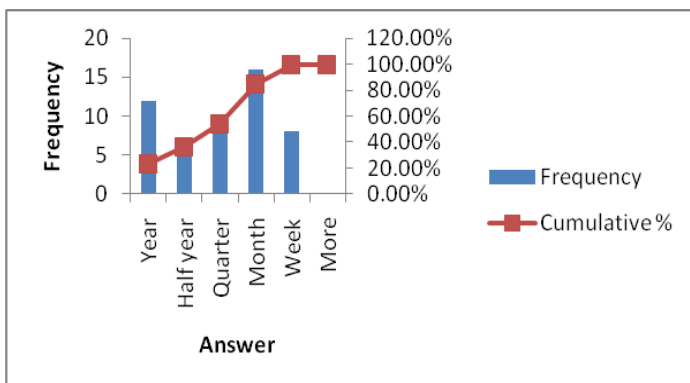
Outstanding payments are paid to 71% of the respondents on either a cash basis or within 30 days, 19% collected outstanding debtors within 60 days and 10% collected outstanding debtors within 90 days.

**Figure 3.37: Debtors collection** (Question 28.4 of the questionnaire)



23% of businesses had a stock-out of a singular stock item once a year or less, 13% every six months, 18% every quarter, 31% every month and 15% every week. Most business owners therefore do not see the importance of a well functioning management information system, since only 8% rated that it was a moderate vulnerability.

**Figure 3.38: Stock outs** (Question 28.5 of the questionnaire)



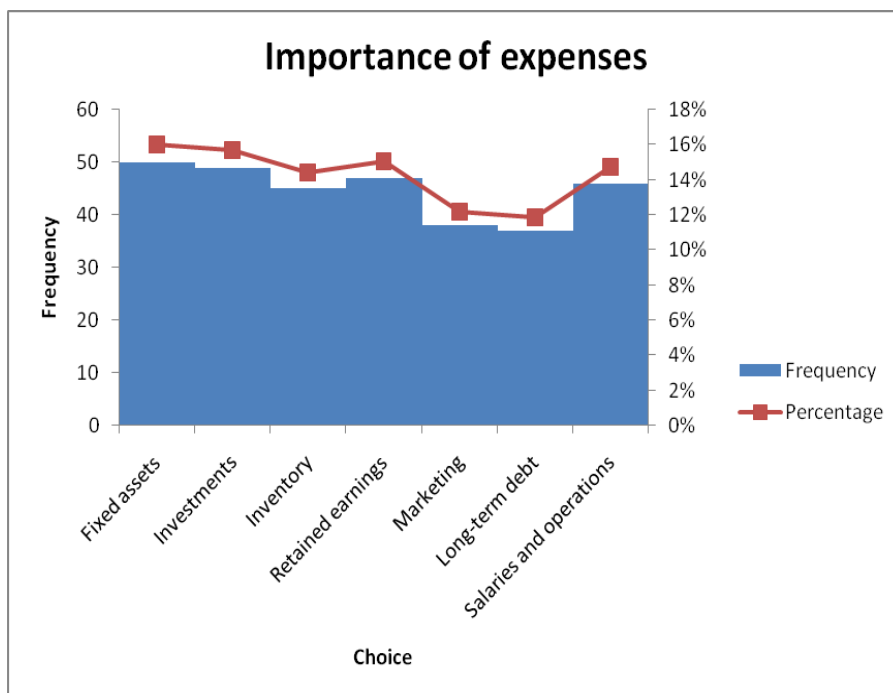
**Table 3.5: Equity availability**

Evaluation of equity availability and its use	Yes	No
Temporary employment aside from the business	40%	60%
Available owners capital in the business	27%	73%
Pay themselves a salary monthly	54%	46%
Personal use of business funds	29%	71%

**Table 3.6: Sources of funding**

Sources of funding	Percentage
Personal savings over time	61%
Angel investors	0%
Family	5%
Government	7%
Friends	3%
Banks	15%
Venture capital	9%
Total	100%

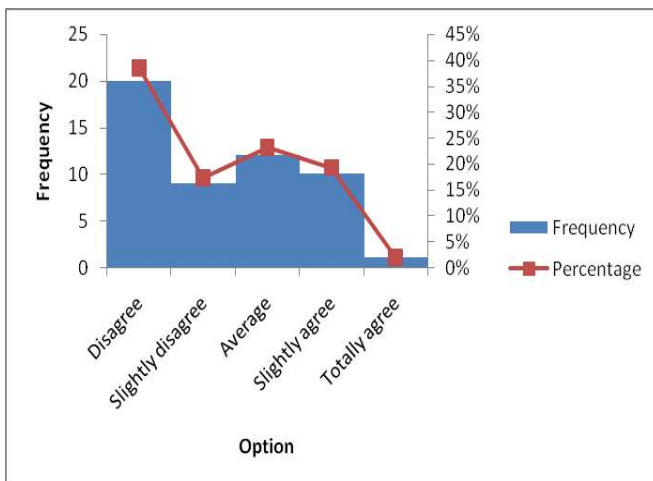
**Figure 3.39: Ranking expenses (Question 31 of the questionnaire)**



From figure 3.39, fixed assets is the most important expense chosen 16% of the time, investments 16%, retained earnings 15%, salaries and operations 15%, inventory 14%, marketing 12% and long-term debt 12% respectively.

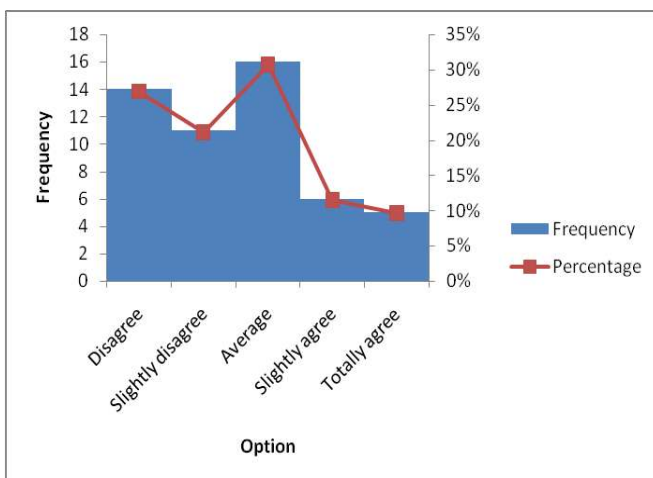
Within businesses from the sample, as seen in figure 3.40, 38% of them disagreed with buying too many fixed assets, 17% slightly disagreed, 23% provided that it was neither good nor bad, 19% slightly agreed, nor 3% agreed entirely.

**Figure 3.40: Responses of SMMEs for buying too many fixed assets** (Question 32.1 of the questionnaire)



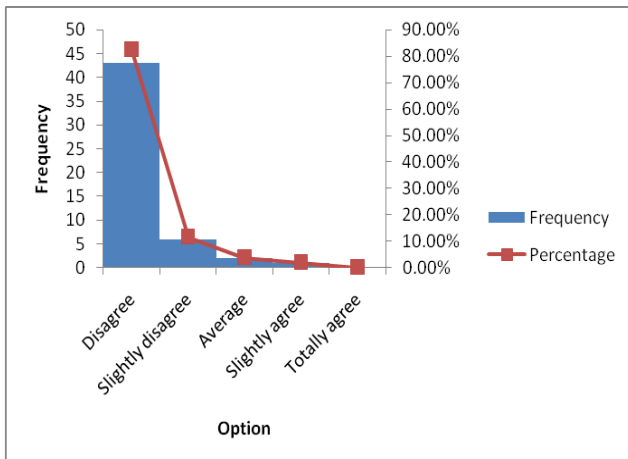
With regards to having unsold inventory over different periods, 10% agreed entirely, 12% agreed slightly, 31% provided that it was average, 21% slightly disagreed and 26% disagreed entirely.

**Figure 3.41: Unsold inventory** (Question 32.2 of the questionnaire)



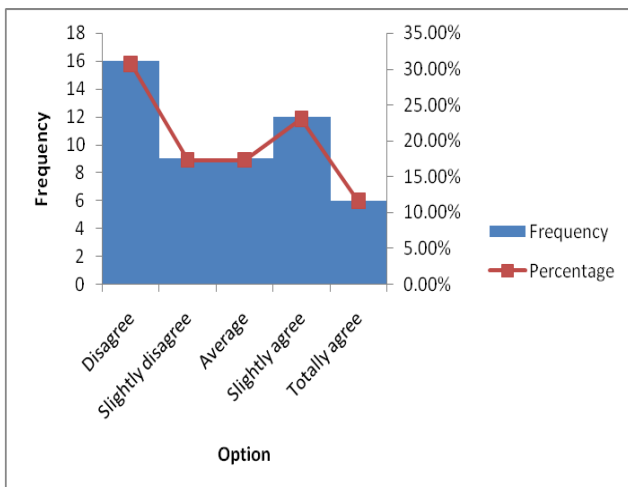
As seen in figure 3.42, the sample consisted mostly of service businesses and excessive storage of maintenance equipment was disagreed upon by 83% of respondents, 12% disagreed slightly, 3% chose an average rating and 2% slightly agreed.

**Figure 3.42: Maintenance equipment storage** (Question 32.3 of the questionnaire)



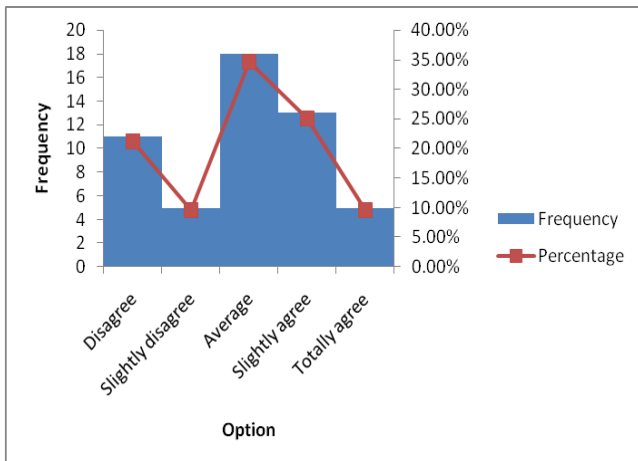
Many businesses did not have enough cash flow to fluidly market their product or service, 31% disagreed on having limited cash for marketing, 17% slightly disagreed, 17% provided an average score, 23% slightly agreed and 12% agreed entirely.

**Figure 3.43: Limited funds for marketing** (Question 32.4 of the questionnaire)



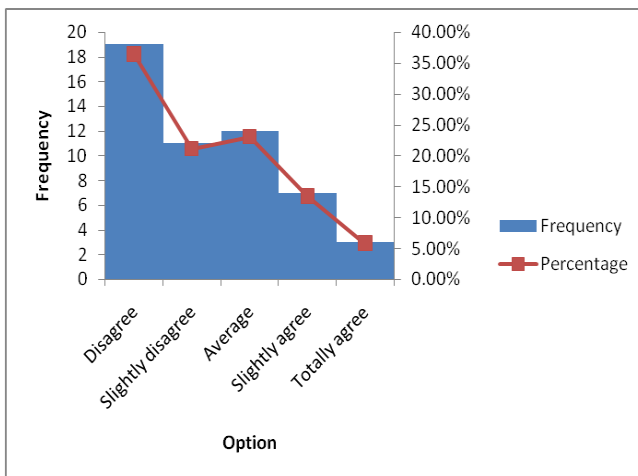
Within analysing cost of operations, in figure 3.38, 10% of SMMEs agreed to it being excessively expensive, 25% slightly agreed, 35% chose it as average, 10% felt their cost control was slightly good and 20% did not have any cost issues regarding operations.

**Figure 3.44: Cost of operations is too high** (Question 32.5 of the questionnaire)



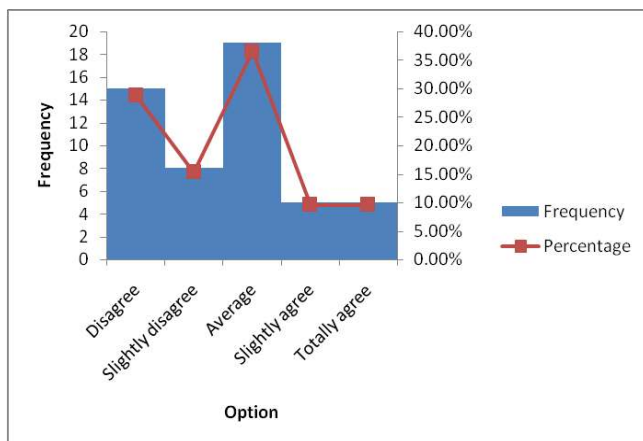
Having long-term too much debt was totally agreed upon by 6% of the survey, 13% slightly agreed, 23% provided an average rating, 21% disagreed slightly and 37% did not have excessive long-term debt.

**Figure 3.45: Owning too much long-term debt** (Question 32.6 of the questionnaire)



In figure 3.46, investments that deplete profits were totally agreed upon by 10% of respondents, 10% slightly agreed, 37% had average investments that depleted profit in a general way, 15% disagreed slightly and 28% did not have any future projects depleting profits.

**Figure 3.46: Investments deplete profits** (Question 32.7 of the questionnaire)



### 3.6. DISCUSSION

In the study, respondents were asked to answer a number of questions related to their sustainability as identified by literature. The study was undertaken using a sample based in the business areas of Lesedi, Gauteng. Some of the respondents were part of a NVC training course for the previously disadvantaged. These NVC entrepreneurs are survivalists, but some have grown to the extent of owning a shop in town. The businesses varied from fast-food outlets, nurseries, hair dressers, spaza shops, motor mechanics, copy-shops and bookkeepers.

It was found that 60% of these businesses relied on personal savings as business capital and it also coincidentally caused the sample to have a lack of young entrepreneurs. Respondents in the sample commented on funding and mentioned that there are not enough entrepreneurs, due to the risk associated with starting a business for many settled parents with formal employment. The majority of the sample employed a few people and only 30% of the sample has been in operation for less than three years.

The majority of the sample has negative profitability, as the results indicate. Only 15% of the sample experienced a negative profit but once a year and 23% never did. Many of the very prominent businesses were surveyed and found not to be very profitable. The educational backgrounds of the respondents were mostly only in the trade of their business; an auto electrician, for example, would have done a college course on it or a beautician might have done hairdressing. Only 12% have any university qualification.



Governmental skills development of many of the informal business owners did not have a significant impact on their sustainability, profitability or growth. A quarter of the sample indicated that their marketing efforts had little or no effect on their sales and marketing was also chosen as the second least important expense. Many of the respondents believed that sales promotions and advertising was the same as the marketing concept as a whole.

Only 23% of the sample had less than three years experience owning a business. Business planning, resource use and marketing were closely related in the findings. It is clear from the findings that there is no clear pattern in the strategies employed as well as knowledge of strategic management by the business owners. It was also clear that most of the SMMEs did not employ effective time-management since the standard deviations of the time spent on different aspects of their time were high.

It is clear that there is a huge need for training in the field of strategic as well as financial management. Marketing efforts also need to be more advance than just giving out fliers or advertising in the local newspaper. Logistics management needs to be done more effectively through stock control systems and better information management. Most informal businesses did not receive training matching the needs described above and funding even for BBBEE SBOs was lacking to a huge extent in the central business area. Previously disadvantaged business owners mentioned that venture capitalists and government organisations as an example perhaps only want to fund their equipment.

### **3.7. SUMMARY**

As discussed in literature, South Africa needs more entrepreneurs as a tool to grow the economy and create jobs. The availability of formal employment is decreasing and the need to be more qualified and experienced and self-sustaining is all the more visible. Most SMMEs did not follow strategic approaches and those that had adequate planning had better performance. The low skills level of the SMMEs overall was unexpected with most not even noticing their competition.

Many business owners feel ignorant to growth, because they believe they will be working harder and these owners have fallen into a comfort zone trap, since most of the businesses struggling to generate a gross profit month-by-month are between 7-10 years old. What these SMME owners do not realise is that by growing they might be working smarter instead of harder and attain a better quality of life for themselves and their

children. In the same way these businesses can help others overcome the hardships of developing a business toward sustainability.

Due to the fact that specific results were obtained and it was found that businesses in the study were unsustainable, various recommendations are therefore needed to change the situation to fit the elements discussed in literature.

## **CHAPTER 4: CONCLUSION THROUGH RECOMMENDATIONS**

### **4.1. INTRODUCTION**

In this chapter, conclusions are drawn regarding the specific objectives in the study. The limitations of the research are discussed followed by future recommendations. This chapter, the final chapter of the study, summarises conclusions and recommendations related to findings of the literature review. Conclusions are made based on the analysis of results obtained from the statistical analysis of the research. Recommendations then follow the conclusions drawn in the research. Areas of future study are then identified from the limitations of the current study.

The primary aim of the study was to determine if SMMEs in the Lesedi area are sustainable and establish main reasons for success and problem areas within their businesses. Secondary objectives are to determine what may be possible constraining factors to sustainability, in order to identify the solutions to lacking functionality within SMMEs that lead to the diminishing of so many SMMEs in South Africa. Strategic and business management factors are then presented in the conclusion in order for SMMEs to become profitable and economically fast growing as an entrepreneurial venture.

The overall objectives of the study have been achieved and a case for development of entrepreneurship is presented so more that more businesses can be profitable sooner and achieve higher growth rates. A case of the importance of entrepreneurs and small business for South Africa as a country with high unemployment rates is presented in chapter one. A peer-aided survey is conducted to understand the internal business circumstances of these businesses to provide concrete characteristics for success within the sector.

#### **4.1.1. FACTORS THAT CREATE SMME SUSTAINABILITY**

To gain or sustain sales and profits, the business needs to adapt to changes at each stage of its existence and its strategy needs to be updated continuously. To be able to update the business strategy, effective planning needs to take place which is based on accurate information gathered from the management information system and by doing market research.

It was found that finance is scarce for SMMEs to develop through their initial development phases. SMMEs, especially in townships, do not use effective financial management principles and therefore find it difficult to obtain funds to start and grow a new business. The literature also suggests that entrepreneurs focus on personal contributions to fund a venture and those entrepreneurs that have alternative income sources supporting their business, such as a part-time job, have a greater chance of survival. Time management and planning is at the core of managing the sustainability process. Finances needs to be planned and managed through budgets.

Capital and finance is not the sole limiting factor and prerequisite to SMME success, skills and expertise also plays a critical role. Skills such as charismatic leadership, access to critical information as well as knowledge are needed for sustainability. The dynamic process of sustaining a SMME is furthermore based on seizing the right opportunities by means of an effective team and planning. Businesses that have a team are more likely to survive, than those with one or only a few members, because some of the crucial management functions needed for sustainability get neglected. Creativity and innovation needs to tap into the planning process and then needs to be proved sustainable with access to relevant information.

Managers often lack the management skills to create a motivating climate for employees and this can lead to customer dissatisfaction. Marketing, management and finances are the management functions that are most related to sustainability and reasons for business failure. Typical problems leading to failure include inadequate sales, being uncompetitive, excessive spending and clients who do not pay in time. Planning based on accurate information on the other hand, has been proven to improve the quality of a SMME.

It was found that the more innovative a product, the higher the profits of the SMME. The appropriate business strategy gives the business a competitive edge by overcoming stumbling blocks and adapting to change.

#### **4.1.2. MAIN PROBLEMS EXPERIENCED BY SMMES AND RECOMMENDATIONS**

From the methodology a clear conclusion can be made in regard to sustainability of the businesses within the sample. The fact is that small, medium and micro enterprises are largely unsustainable and there is a huge need for intervention. By simply analysing their

profitability it was found that 12% did not have a positive profit from month to month due to lacking sales and 33% at least once every 3-4 months.

#### **4.2.1. Biographical information**

From the survey 85% of the respondents were older than 30 which suggest that there is a huge need for young entrepreneurs. The reason why most entrepreneurs are older might be due to the fact that there is a lack of funding sources to start and grow a business and young educated professionals prefer formal employment due to quality of life benefits. Some of the verbal responses of respondents were that there could be more entrepreneurs who are currently in formal employment, but these possible entrepreneurs do not pursue their own business because they do not want to place their families under the pressure of risks associated with it.

It is clear that there is almost an equal amount of men and women entrepreneurs. Almost half of these entrepreneurs are however white Afrikaans speaking and it seems clear from the sample there is a higher frequency of these individuals who own small businesses in the central business area.

Managing a small business and poverty has a great effect on the personal relationships of entrepreneurs in the study; it is however clear those persons speaking vernacular African languages are more prone to be single, separated or divorced. It was surprising that many of the respondents were not highly educated who were not previously disadvantaged. Most of the businesses in the sample were very visible and known in the area and have been operating for a number of years.

The most visible level of education seems to be college. Persons with graduate and post-graduate qualifications in a business field seem to be better functioning regarding management and strategy. High qualifications in the survey however did not guarantee profitability as a result. Regarding experience, almost a third of the sample did not have management experience for more than three years before, while almost half of the sample did own a business before the current one.

More than half of the businesses were services and a third of the businesses were trade. Manufacturers made up the smallest part of the sample. Close corporations are also the

most frequent form of business, making up 60%, most probably due to government registrations of informal entrepreneurs and tax benefits.

A huge portion of the sample (40%) has been operational for less than three years, which suggest from theory that they might be vulnerable to keep surviving and this has a great effect on the economy of the market as a whole. A quarter of the respondents were micro enterprises and half of the sample small business. These types of businesses, according to the literature review are very important to the economy.

#### **4.2.2. General management**

Creativity and adapting to change was not noted as a problem by SMMEs, the strategy to generate revenue was however a problem, even not noted by many businesses, the correlation between product type and strategy seems to have no pattern at all. Most businesses continue to attract customers through good service and word-of-mouth. There were also no profound problems with debtor collection. These businesses do however not have any knowledge of strategy and compete with large and small competitors solely on price and best value for money.

It is suggested that business owners gather more advanced knowledge about strategic management and marketing. Inventory management methods need to be improved with better management information systems, such as electronic stock control systems.

Small business owners have bad time management with huge variations in the amount of time spent on different elements of managing a business. Most of management time is made up of general management, sales and marketing.

SMMEs must start to become consciously aware of how to manage their time or learn more about it and then apply these principles. They should then choose to do tasks that are more important first. Most of the businesses did not have effective information management and spent too much time on administration, not spending enough time on operations management or advertising.

Staff development is low, with most small businesses taking little or no time to train staff. Respondents however mentioned that on-job mentoring for a specific task was their main method to develop staff, and those employees lacked a variety of skills.

Staff within small businesses needs to be sent on training for them to acquire a variety of skills and qualifications. These staff will then be better equipped to do job rotation and provide better customer service, product quality and service recovery.

Almost the same number of business owners rate their information management as average as those that rate it as poor. It was however found that information management was at the root of inventory management problems for most small businesses.

### **4.2.3. Marketing**

The most vulnerable department in businesses as directly mentioned by business owners was marketing; it was found that most businesses are not profitable and logistics management was poorly executed. The organisational climates however seem to be a strong point in small business.

SMMEs require more in-depth knowledge and experience of marketing, since most believe it to be the same concept as advertising. Better logistics and stock control methods will ensure smaller workloads, more satisfied customers and improved profits due to better cost management. With better time- and information management SBOs can, for example, have time to spend on social media marketing to engage with loyal clients.

According to the survey most of the products and services were price elastic and rivalry was fierce. This means that mark-ups are low for smaller businesses and resource use was high to gain customers. More than 30% of businesses had no formal business plan or one with only an average effectiveness.

There should be increased attention in SMMEs to do business and strategic planning. The strategic management of these small businesses then needs to adapt to the market needs and the best suiting dynamically changing strategy. Better business plans mean that the business budgets and spending does not get excessive.

Business planning is a good indicator of resource use, but many businesses cannot effectively manage their expenses. 80% of companies interviewed were not yet mature or only saw themselves as growing which means that even though businesses were in operation for many years, they still do not yet make constant profits from month-to-month.

These businesses indicated that they need to compete in fierce competition, but marketing is the second least favoured expense.

More attention needs to rest on gaining sales, by not sacrificing general management time. In essence SMMEs need to work more effectively, the owners do not necessarily need to work harder. One way of doing this is with improved planning and technology acceptance.

Location cost and location relative to suppliers as well as labour productivity is noted to be the greatest shortcomings in the location factors of businesses in the area. Many SBOs need to relocate to be more accessible and visible to clients to compete with other companies who already have this benefit. Businesses must also seek more local suppliers and improve staff with training and mentoring.

#### **4.2.4. Financial management**

More than a third of the businesses in the survey had gross profit problems, making a gross profit only once every four to six months, while 10% had outstanding payments longer than 90 days. Only half of the business owners pay themselves a salary while a third provide that they make personal use of profits. Even though the businesses are not making profits, owners take money to survive; this suggests that capital is being depleted in the process of growing the businesses.

Most businesses purchase too many fixed assets; investments are regarded as the second most important expense for small business owners in the sample. Many SMME owners feel the need to gather retained earnings before considering buying more inventories, employing more people or paying bonuses. Only after all the above expenses businesses feel the need to spend money on gaining sales and making debt last, suggesting a moderately non-debt market. About 35% of the respondents agreed or slightly agreed that their operational cost was high. SMMEs must consider management accounting principles being applied in their businesses.

Business owners need to focus less on spending on vehicles and buildings and more on the core business as well as marketing. Perhaps having a balance of debt and equity finance will help increase available funds to invest in future projects and gain sales.



### 4.3. A FRAMEWORK FOR SMME SUSTAINABILITY

The framework for SMME sustainability in Lesedi was based on the study. Main reasons for business failure and what SMMEs need to do to be sustainable were covered in the literature. It was discovered that SMMEs in Lesedi did not adhere to contributing factors covered in literature and rated crucial for sustainability, limiting their organisational development discovered from the empirical section. The study revealed that to be sustainable over time, sales need to be maintained and costs decreased, as suggested by the profit motive.

Marketing, finances and information management were the overall lacking business functions of the SMMEs and had various elements that influenced them. The framework in figure 4.1 provides a continuous process of renewal between innovating and making profit. Management is at the centre of this process. By not applying one or some of the influencing factors correctly, sales can decrease and costs can increase.

**Figure 4.1: A framework for SMME sustainability in Lesedi**



#### **4.4. LIMITATIONS**

Firstly, the study population was very small. This is due to Lesedi area being very small; there are only a few hundred SMMEs in total. Feedback from struggling business owners was also difficult, since they mostly mention that they do not have time, and the researcher also needed to follow up many times over the duration of data collection. Many of these SMMEs do not stay in operation for longer than a year and are replaced by new ones. The sample now might therefore not be the sample in the near future. A Cronbach Alpha is provided to give a measure of reliability to the study and is 0.79. [See: ANNEXURE 2]

Secondly, a further limitation of the study is that it did not include employee perspectives on organisational climate. For consistent information, employees also need to fill in a more extended analysis which might include elements such as customer service and organisational climate.

Thirdly, the study did not have an extreme depth. Elements such as culture and business sustainability; youth entrepreneurship; harmonious relationships in family businesses; women entrepreneurship and other fields should also be explored further.

Fourthly, the effect temporary employment of SMME owners have on investments within the business and how this contributes to sustainability needs to be investigated further.

Fifthly, the questionnaire takes a long time to complete due to its length for the researcher to be able to analyse a sample of many different SMMEs. It is therefore very difficult to get a good response rate and accurate information with limited time and funds. Follow-ups are needed for ranking questions, percentages and missing information, because the owners of the small businesses are extremely busy with their everyday management duties and seldom take time to complete the questionnaire.

Finally, the questionnaire is generalised for analysis of SMMEs. It can be further refined into for example different questionnaires for service, trade and manufacturing companies.

#### **4.5. FUTURE RESEARCH**

The study can be repeated and refined further in future research in order to research other geographical areas of South Africa or test a broader market (such as South Africa / Gauteng) to evaluate the sustainability of SMMEs.

Other disciplines that link to sustainability can be researched independently, such as organisational climate and customer relationships. Indicative results such as business owners, who have temporary employment while starting the business, can be investigated as well as the possibility of it being a solution to creating more non-necessity entrepreneurs.

Singular SMMEs can be analysed on the basis of sustainability by changing the literature and questionnaire or focus groups to suit their requirements for sustainability, profitability and high growth. Sustainability, profitability and requirements for high growth can be independently investigated. Trade, service and manufacturing SMMEs can be investigated independently.

#### **4.6. CHALLENGES AND KEY PERFORMANCE AREAS OF SMMEs**

The literature review conducted in Chapter 2 revealed that there had been ongoing in-depth studies on various independent elements that are requirements for SMMEs to be sustainable, although there had not yet been many articles on sustainability of entrepreneurs as a singular scientific concept. SMME sustainability is of course at the root of job creation, creating more entrepreneurs and growing the economy with businesses that last over time, generate more profit and grow more than what is currently experienced.

The literature review emphasised the importance of entrepreneurship in growing the economy, creating jobs as well as creating high net worth individuals such as Mark Shuttleworth and others. Chapter 3 provided the research methodology and results of the study, indicating that overall most small businesses in Lesedi area will not last for the next five years. The study also indicated unique challenges entrepreneurs are faced with when managing a small business.

A few challenges SMMEs are faced with:

- Making a gross profit over a period and at a specific date;

- A need to work harder by looking for temporary employment aside from the business;
- Pursuing the right strategy for the type of product or service;
- Making high enough mark-ups;
- Gaining enough sales by using the right marketing;
- Managing time;
- Managing owners capital (financial management);
- Expense control and budgeting;
- Business planning;
- Stock-outs;
- Buying too many fixed assets;
- Storing unsold inventory;
- Limited funds for marketing;
- High cost of sales;
- Experience, skills and qualifications;
- Long-term debt;
- Future investments or market opportunities drain profits and entrepreneurs' own salaries; and
- Sourcing funding

#### Key performance areas in SMMEs:

- SMMEs can provide better customer service;
- Small businesses have better professional relationships with stakeholders, because of flatter organisational structures;
- They can have unique products and services for identified gaps in the market;
- Have the potential for high growth; and
- Serve as employment and better opportunities for individuals who make their own destinies.

This chapter, being the final chapter, drew conclusions, made recommendations and identified areas of future research.

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## **ANNEXURE 1: QUESTIONNAIRE**

### **LETTER TO RESPONDENTS**

Dear Respondent

September 2012

The purpose of the questionnaire is to determine the sustainability of SMMEs (Small Micro to Medium sized Enterprises) in the Lesedi area in Gauteng as part of a MBA mini dissertation at Potchefstroom Business School. All information provided will be kept strictly confidential. An analysis of the business environment will be done with recommendations. Only business owners in the area can complete the questionnaire. Please be totally honest.

Although the completing of the questionnaire is optional, your participation will be appreciated. The questionnaire will take you about 15 minutes to complete.

Most importantly, you will make a valuable contribution to entrepreneurship development knowledge in South Africa. You are welcome to contact me with regard to the research and/or the findings of the research (see my contact details below).

The information that you provide, will be treated as confidential at all times and no personal or individual details will be made public.

Your participation is highly appreciated.

Regards

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**SECTION A: YOUR DEMOGRAPHICAL DETAILS**

- Please mark the number that corresponds best with your description.
- Mark only one.

<b>1. Age</b>	1	20 - 29	4	50 - 59
	2	30 – 39	5	60 and above
	3	40 - 49		

<b>2. Gender</b>	1	Male		
	2	Female		

<b>3. Language orientation</b>	1	Afrikaans	7	Tswana
	2	English	8	Southern Sotho
	3	Ndebele	9	Zulu
	4	Sepedi	10	Swazi
	5	Xhosa	11	Tsonga
	6	Venda	12	Other
If other, specify				

<b>4. Marital status</b>	1	Married	5	Engaged
	2	Divorced/separated	6	Single, never married
	3	Widowed	7	Other
	4	In a relationship		
If other, specify				

<b>5. Highest level of education</b>	1	Primary school	4	Graduate degree
	2	High school	5	Post graduate
	3	Trade school/college	6	Other
If other, specify				

<b>6. Highest level of education you have in a business field e.g. Marketing or Accounting</b>	1	Primary school	4	Graduate degree
	2	High school	5	Post graduate
	3	Trade school/college	6	Other
If other, please specify				

<b>7. Please specify the type of business training of question 6:</b>	
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<b>8. Please choose the number of years you have experience as a manager:</b>							
1	0 - 3 years	2	4 – 6 years	3	7 – 10 years	4	More than 10 years

<b>9. Industry of your business</b>	1	Health service	2	Education	3	Clerical	4	Professional
	5	Government	6	Local Authority	7	Retailing	8	Administration
	9	Military	10	Pharmaceutical	11	Transport	12	Manufacturing
	13	IT/Data	14	Energy/power	15	Media	16	Non Profit
	17	Travel/Hotel industry	18	Tele-communications	19	Chemical industry	20	Fire/Rescue service
	21	Entrepreneur	22	Unemployed	23	Other		
If other, specify								

<b>10. Choose your type of business</b>	
1	Manufacturing
2	Trade
3	Services

<b>11. Choose your form of business</b>	
1	Unregistered
2	Sole proprietor
3	Partnership
4	Close corporation
5	Company
6	Business trust

<b>12. Choose the number of years your business has been operational</b>							
1	0 – 3 years	2	4 – 6 years	3	7 – 10 years	4	More than 10 years

<b>13. Choose the option most applicable to your business</b>	
1	Small business operated from a private home, door-to-door sales or street vending
2	A well performing business employing you and a few family members with a formal premises
3	A business employing between 51-200 people and owning a few million in capital and assets

**SECTION B: General management**

Please evaluate the following skills applicable to your business, choose only one option between 1- 5

( 1 = definite weakness, 2 = moderate weakness, 3 = neither strength or weakness, 4 = moderate strength, 5 = definite strength )

<b>14. Management</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
14.1	Commitment to succeed					
14.2	Creativity and innovativeness					
14.3	Energy levels					
14.4	Doing work independently / without assistance					
14.5	Ability to manage uncertainty					
14.6	Perseverance					
14.7	Ability to take responsibility					
14.8	Problem solving skills					
14.9	Persuasiveness					
14.10	Self-discipline					
14.11	Self-confidence and optimism					
14.12	Ability to see opportunities in the market					
14.13	Honesty					
14.14	People judgement					
14.15	Patience					
14.16	Ability to adapt to changes					
14.17	Self-awareness of your own strengths and weaknesses					
14.18	Ability to self-start a project					
14.19	The strategy within your business to generate favourable revenues					
14.20	Inventory management					
14.21	Collecting outstanding payments					
14.22	Maintaining good relationships with customers for repeat purchases					

<b>15. Please provide percentages on how much work time you spend on the following: (Note: it must add up to 100%)</b>					
15.1	Management		15.4	Sales and brand awareness	
15.2	Admin		15.5	Out of work duties	
15.3	Purchases		15.6	Finding funding	
	Total				<b>100%</b>

16. Information management		(1) Yes	(2) No			
16.1	Does your business have a Management Information System (MIS)?					
16.2	Does your company have a technology strategy and management plan?					
Please rate information management in your business ( 1 = Poor, 2 = slightly poor, 3 = neither good or bad, 4 = slightly good, 5 = Excellent )						
16.3.	Please choose the appropriate option, choose only one	1	2	3	4	5

17. Prior business experience		1. Yes	2. No
Have you owned a business before this one?			

### SECTION C: Human resources

18. Training		1. Yes	2. No
18.1	Do you have a training department within your organisation?		
18.2	Would you be interested in training for problem areas identified by this questionnaire?		

19. How often do you send staff for training? <i>Choose only one option</i>	
1	Never
2	Quarterly
3	Semi-annually
4	Yearly

20. Evaluate the vulnerability of different parts of your business		Extremely volatile	Moderately volatile	Average	Stable	Efficient
Choose only one option between 1- 5		1	2	3	4	5
20.1	Administration					
20.2	Guidance performed by all managers at all management levels					
20.3	Purchasing and supply management (Logistics)					
20.4	Production or providing the service to the customer					
20.5	Efforts to increase sales					
20.6	Getting and maintaining people with suitable skills to work proficiently					
20.7	Availability of information to make well informed decisions					

20.8	All efforts to increase owners interest					
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Please evaluate your business in respect to the following, choose only one option between 1- 5

( 1 = definite weakness, 2 = moderate weakness, 3 = neither strength or weakness, 4 = moderate strength, 5 = definite strength )

21.	Organisational climate	1	2	3	4	5
21.1	Trust employees portray toward management					
21.2	Trust management portrays toward staff					
21.3	Self-management skills of employees					
21.4	Working as a team within your organisation					
21.5	Best suited internal competition level					
21.6	Overall skill level of staff					
21.7	Staff morale					

#### SECTION D: Marketing

Please rate the following, choose only one option between 1- 5

22.	Please rate the following	Low	1	2	3	4	5	High
22.1	Uniqueness or innovativeness of your business' product or service	General in the market						Unique
22.2	Competitors of your business type are in your area	Few						Many
22.3	Fierceness of competitors in the area	No competitors						Fierce
22.4	Planning in the business	No formal planning						Well planned out
22.5	Management qualifications / experience	Little prior knowledge						Highly educated
22.6	Resource mobilisation / use	Bad						Excellent
22.7	Effect of efforts to gain customers	No effect						Excellent profit improvements

23.	In what stage of the product life-cycle is your business?	1	2	3	4
		Innovator	Growth	Maturity	Decline
	Choose the appropriate option				



Please rate the following

( 1 = Poor, 2 = Slightly poor, 3 = Neither good or bad, 4 = Good, 5 = Excellent )

24. A few competitive strengths, weaknesses, opportunities and threats		1	2	3	4	5
24.1	Resources available					
24.2	Number of market competitors					
24.3	Size of market competitors					
24.4	Brand awareness (Well known in your market)					

Please rank the following product types in order of importance for your business by providing a number between 1-5 for each option

( 1 = Least important, 2 = slightly important, 3 = of average importance, 4 = important, 5 = Extremely important )

25. Rank the following product/service types		Number
25.1	Consumer goods or services	
25.2	Exclusive goods or services	
25.3	Goods or services provided to a specific consumer segment	
25.4	Luxury goods or services	
25.5	Best value for money goods or services	

Please rank the following strategies in order of importance for your business by providing a number between 1-5 for each option

( 1 = Least important, 2 = slightly important, 3 = of average importance, 4 = important, 5 = Extremely important )

26. Rank the following strategies		Number
26.1	Achieve overall lower costs than competitors for a spectrum of buyers	
26.2	Seeking to make products different from competitors for a spectrum of buyers	
26.3	Concentrate on a narrow buyer segment and outperform rivals with lower costs	
26.4	Concentrate on a narrow buyer segment and outperform rivals by being different	
26.5	Give customers better value for money by providing good quality products/services at competitive prices	

Please rate the following

( 1 = Poor, 2 = slightly poor, 3 = neither good or bad, 4 = slightly good, 5 = Excellent )

27. Business location		1	2	3	4	5
27.1	Accessibility of your business to clients					
27.2	Environmental conditions e.g. climate, relative to your product or service or seasonality					
27.3	Located near your main suppliers and transport nodes					
27.4	Availability of workers relative to your location					
27.5	Wage / salary costs in the area					

27.6	Labour productivity in area					
27.7	Cash outlay needed for the required location / Rental costs					

**SECTION E: Financial management**

Please choose the most appropriate option, choose only one

28. Profitability		1	2	3	4	5
28.1	The business' expenses exceed income once every	Month	Quarter	Half a year	Year	Never
28.2	Gross profit is positive at the end of every	Month	Quarter	Half a year	Year	Not yet
28.3	Gross profit is positive once at the end of every	Month	Second month	Quarter	Half a year	Longer
28.4	On average cash customers pay their accounts after	30 days	60 days	90 days	4 months	6 months
28.5	Supplies levels fall until there is no stock to sell of a product type once every	Year	Half a year	Quarter	Month	Week

29. Equity		1. Yes	2. No
29.1	Do you have temporary employment aside from your business?		
29.2	Do you have a large investment source?		
29.3	Do you pay yourself a salary?		
29.4	Are some of your business accounts sometimes left unpaid to uphold your household?		

30. Please specify percentages of where you acquired your funding sources: (Note it must add up to 100%)											
30.1	Personal savings		30.3	Family		30.5	Friends		30.7	Venture capital	
30.2	Angel investor		30.4	Government		30.6	Banks		<b>Total</b>		<b>100 %</b>

Please rank the following expenses in order of importance for your business by providing a number between 1-7 for each option

( 1= least important, 7= Most important )

31. Rank the following expenses		Number
31.1	Buildings, equipment and vehicles	
31.2	Investments / patents	
31.3	Inventory	
31.4	Capital reserves	
31.5	Reserves used to gain customers	
31.6	Long-term debt	
31.7	Salaries and daily operations	

Please rate the following

( 1 = disagree, 2 = disagree slightly, 3 = neither good or bad, 4 = agree slightly, 5 = totally agree )

32. Expenses		1	2	3	4	5
32.1	The business bought buildings, equipment or vehicles and this had the effect of daily costs becoming difficult to maintain					
32.2	Stock items stay on shelves longer than a month					
32.3	Maintenance equipment is stored for longer than required before a breakdown occurs					
32.4	The business does not have enough reserves to use as a basis to gain monthly sales					
32.5	Daily operations are expensive					
32.6	Long-term debt obligations cause depletion of the business' profit					
32.7	Investments in future projects cause depletion of monthly income					

**Thank you for your participation!**

## ANNEXURE 2: RELIABILITY OF DATA

### Warnings

The space saver method is used. That is, the covariance matrix is not calculated or used in the analysis.

### Case Processing Summary

		N	%
Cases	Valid	52	100.0
	Excluded (a)	0	.0
	Total	52	100.0

A list wise deletion, based on all variables in the procedure.

### Reliability Statistics of the likert-scale questions

Cronbach Alpha	N of Items
0.792	78

(PhStat, 2011:1)