

**OBSTACLES TOWARDS
SMALL BUSINESS DEVELOPMENT
IN THE
EMFULENI DISTRICT**

By

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Small businesses are essential for stimulating growth and alleviating poverty. The main aim of this study is to gather information regarding obstacles that withhold the small business sector from further development. This implies that attention will be given to the role of the entrepreneur, the small business sector and the role that business planning plays, in order to identify, minimise and possibly overcome the identified obstacles.

Although small business is not an absolute distinctly defined sector, it has a particular role to play in the sustainability of the economy. Whatever the past, present or future economical position and function of the small business sector, it is clear that entrepreneurship is one of the biggest driving forces in this sector. The contribution of the small business sector to the economy in terms of employment is of crucial importance (Timmons & Spinelli, 2004:54). Researchers agree that the establishment of small business in the community provides job creation and further contributes to the stimulation of the economy.

Against the background of the relevant literature regarding the role that entrepreneurship plays in the development of the small business sector, the research questions driving this study were:

- What are the major obstacles towards entering the small business sector in the Emfuleni district?
- What initiatives should be followed to develop the small business sector in the Emfuleni district?

A literature study in entrepreneurship, small business development, and business planning, pointed to a number of obstacles that are experienced during the start-up of a small business. The current situation pertaining to entrepreneurship indicates that training within this field would be beneficial. With a proactive entrepreneurial perspective, and the necessary government support, the small business sector will contribute to the sustainability of the economy in the Emfuleni district.

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ABBREVIATIONS

APEC	-	Asia Pacific Economic Cooperation
BEE	-	Black Economic Empowerment
GDP	-	Gross Domestic Product
GEM	-	Global Entrepreneurship Monitor
Naledi	-	National Labour and Economic Development Institute
SME's	-	Small-, and Medium-Enterprises
SMME's	-	Small-, Medium-, and Micro-Enterprises
U.S.	-	United States
www	-	world wide web

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

The necessity of change is upon South Africa if we wish to maintain a sustainable economic competitive advantage and survive in the 21st century. Entrepreneurship has been identified as the key element to a successful future.

In the new millennium, small businesses, not only in South Africa, but globally, will have to think or act and perform in more entrepreneurial ways or they will be replaced by competitors and upstarts. According to Longenecker, Moore, and Petty (2000:3) entrepreneurs are the creators, innovators and leaders that give back to society and spark economic growth. Building an entrepreneurial society for the 21st century and beyond is the highest priority for the present generation. An example of this is the Internet that is creating unlimited opportunities for entrepreneurs with limited resources.

The nature of small business is changing rapidly and to ensure the survival of the South African economy, macro-factors have to be considered for the sustainability of this sector. One of the major challenges in South Africa is to create a more favourable entrepreneurial climate, and to provide effective and targeted support for each group of entrepreneurs. South Africa can reap increasing economic benefit from the creation of such a favourable entrepreneurial climate.

This study investigates the major obstacles that entrepreneurs in the Emfuleni district face when starting a small business.

1.2 PROBLEM STATEMENT

Entrepreneurship and small business development is needed in South Africa to create employment and improve the living standard of the nation. According to Van Wyk (2005), entrepreneurship and small business development is specifically needed in the Vaal Triangle, as this region faces an unemployment figure as high as 49%. The Emfuleni district covers the largest area within the Vaal Triangle. According to the Emfuleni Local Municipality (2005a), the unemployment figure is as high as 53%.

In order to achieve sustained growth and address the economic development challenges, more and more entrepreneurs are needed to enhance the small business sector. Many people in the Emfuleni district face the frustration of not being able to enter the small business arena, for various different reasons. A need exists to identify the major obstacles towards small business development. It is important that such a study is conducted to develop an approach to overcome the identified obstacles, in order to ensure sustainable small business development.

1.3 OBJECTIVES OF THE STUDY

This study intends to determine the obstacles that many entrepreneurs in the Emfuleni district face when starting a small business. The primary objective of this study is to identify the obstacles associated during the start-up phase of small businesses, with research question 1 as follows:

Research question 1: *What are the major obstacles towards entering the small business sector in the Emfuleni district?*

The primary objective of this study is important for small business owners, policy makers, educators, and researchers to identify what initiatives should be followed to overcome these obstacles.

According to Leonidou (2004: 280), such an objective is indeed crucial for four major parties, namely:

- *Small business founders/owners* - who can take suitable measures proactively to overcome or reduce the identified obstacles.
- *Public policy makers* - who can identify where appropriate assistance should be given.
- *Entrepreneurship and business educators*, who can develop and implement special educational programs.
- *Entrepreneurship and business researchers* - who can use the knowledge gained from this study to further build the field of entrepreneurship and small business development.

The identified initiatives will further assist in the development of entrepreneurship and the small business sector in the Emfuleni district. The secondary objective, and research question 2 aims to identify what initiatives should be followed to overcome these obstacles.

Research question 2: *What initiatives should be followed to develop the small business sector in the Emfuleni district?*

Supportive questions to what initiatives should be followed include the following:

- What are the strengths and weaknesses of the entrepreneur in the Emfuleni district?
- How important is the level of training and development, the government and supporting institutions for small business development in the Emfuleni district?
- To what extent does business planning conquer the identified obstacles?

1.4 TERMINOLOGY

In the following section the terminology to be used will be clarified after which the remainder of this chapter will provide background to the rest of the study.

Entrepreneurship - Entrepreneurship involves the recognition of opportunities, such as needs, wants, problems, challenges, and the use of resources to implement innovative ideas for new, thoughtfully planned businesses. A person is then seen as an entrepreneur when he/she engages in this process of entrepreneurship (MVP, 2005).

Small business - The National Small Business Act (1996) define a small business as a business that is independently owned, a total asset value (including fixed assets) of less than R 15 million, a yearly gross income of less than R 40 million, with less than 200 employees. The National Small Business Amendment Bill (2004:2) adds that a small business as a distinct business entity that gets managed by the owner or owners.

New/start-up business – Herrington and Wood (2003:5) considers people who are involved as owner-managers of businesses less than 42 months old, as being involved in new business formation. Businesses that have paid wages and salaries for less than three months are considered to be start-up businesses, while new businesses have paid wages and salaries for three to forty two months.

Planning - Microsoft Encarta Premium Suite (2003) defines planning as the process how to work out in advance, and in some detail, how something is to be done or organised.

Obstacle - Microsoft Encarta Premium Suite (2003) defines an obstacle as somebody or something that hinders or prevents progress. The word obstacle is translated from the French word *obstaculum*, which means to stand in the way, or block the way.

1.5 SCOPE OF STUDY

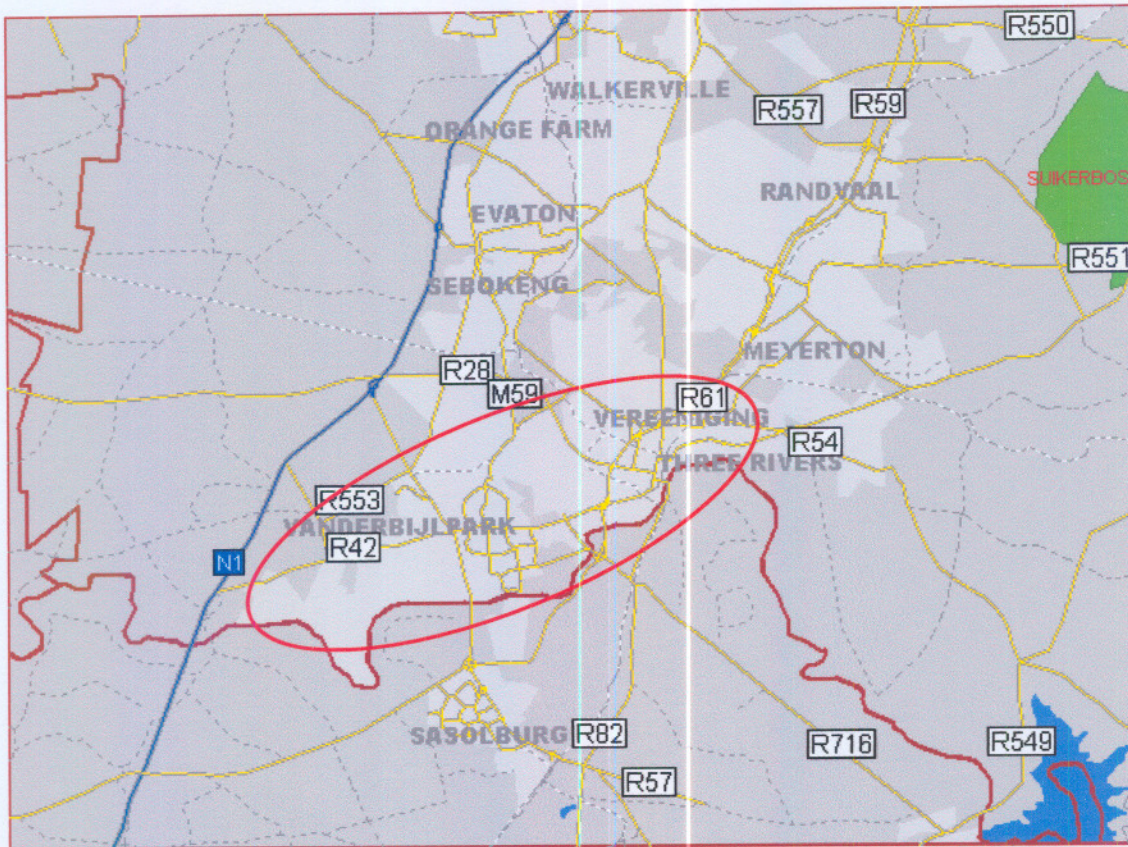
1.5.1 Field of study

The value of small businesses towards the enhancement of entrepreneurship, employment and economic prosperity is known for decades, and obtained more momentum from the mid-nineties. Notwithstanding the importance of small businesses, they are still confronted with unique obstacles (Moolman, 1998:27). The study will concentrate on various obstacles the entrepreneur faces when starting a small business.

1.5.2 Geographic delimitation

The research will be undertaken in the Emfuleni district. The Emfuleni district is situated within the Vaal Triangle. The Vaal Triangle is a triangular area of land formed by Vereeniging, Vanderbijlpark and Sasolburg - three small cities that together comprise a substantial urban complex in South Africa (Wikipedia, 2005). Figure 1.1 indicates the geographic delimitation.

Figure 1.1: Geographic delimitation



Source: Adapted from VeZA Route planner (2004)

The Emfuleni district is known as the ideal area for entrepreneurs. The economic growth of the Emfuleni district is also seen as in total harmony and agreeable with the Emfuleni way of life, which is characterised by a rich culture and a pleasant living and working climate (Emfuleni Local Municipality, 2005b). The Emfuleni district covers towns and immediate surrounded areas such as Vanderbijlpark, Vereeniging, Evaton, Sharpeville, and Sebokeng (Vaal Triangle Info, 2005).

The population of the research will be limited to the 6610 small business in the Emfuleni district, according to the list that was supplied by the Emfuleni Local Municipality (Emfuleni Local Municipality, 2005a). Further information regarding the target group and population will be given in Chapter 5.

1.6 RESEARCH METHODOLOGY

In pursuing the mentioned objectives to the study, two approaches will be used, namely a literature study and an empirical study.

1.6.1 Literature study

The literature study will build a framework of literature where obstacles towards small business development are identified, to assist in the empirical study. The literature study will include sources such as books, publications, articles, and journals. The literature study comprised of entrepreneurship, small business, and business planning. The Harvard method was used. The Harvard method is subscribed by the International Standards Organisation, and is widely accepted as a good reference style (Van der Walt, 2006:2).

1.6.1.1 Entrepreneurship

According to the 2003 Global Entrepreneurship Monitor (GEM), released at the United Nations, South Africa is less entrepreneurial than other developing countries, which is a fact that could impact negatively on the country's economic growth and job creation prospects. South Africa is also below the average rate of entrepreneurial activity when compared to the total of 40 other countries that took part in the survey. South Africa ranked 36th in the survey and ranks lowest of all developing countries, (Herrington & Wood, 2003:1).

Statistics of the GEM 2002 survey, revealed more in depth conclusions than the GEM 2003 survey. The South African GEM 2002 survey, which was led by the UCT Graduate School of Business, interviewed a representative sample of 3 500 adults and conducted face-to-face interviews with 53 South African experts selected because of their insights into aspects of entrepreneurship (Foxcroft, Wood, Kew, Herrington, & Segal, 2002:11).

Foxcroft *et al.* (2002:59) concludes the following findings:

- South Africa has the lowest rate of entrepreneurship among the developing countries on all GEM measures (opportunity, necessity, start-up and new businesses).
- South Africa is in the bottom quartile of all countries in GEM 2002 on measures of opportunity entrepreneurship and new business activity.
- South African start-ups have a low rate of survival – few reach the new business stage.
- Entrepreneurial activity, particularly new business creation, plays an important role in economic development in South Africa.
- Approximately one third of the total employment in South Africa is created by entrepreneurial businesses.
- The rate of new business activity within South Africa varies by education level, location, gender and race.

No psychological model of entrepreneurship has been developed and supported by research. It is however the opinion and believe of behavioural scientists, venture capitalists, investors and entrepreneurs that the success of a new venture will depend a great deal on the behaviour of the entrepreneur himself/herself (Timmons & Spinelli, 2004:246).

Entrepreneurship was, and is still often treated in theory as the vague and unquantifiable force, which brings together labour, and capital, assumes the risks of production and distribution and on which the whole success of the capitalist system depends (Naudé, 1999:2). Schumpeter (1961:87-94) made the entrepreneur the focal point and key to the dynamic of economic development and growth. It is entrepreneurs who put together new combinations, and whose actions have consequences on the basis of their organisational skills, their creativity as decision makers, and the distinctive opportunity structures, the settings, circumstances or situations within which the decisions and choices are made. Schumpeter (1961:87-94) also stated that the entrepreneur is the decision maker in a particular cultural context that commands a range of behaviours that exploit opportunities. His idea that the entrepreneur functions primarily as a creator of

innovations in the production process has influenced much of the literature on entrepreneurship in developed economies.

Alternative explanations of the entrepreneurial role have focused more on the entrepreneur's ability to organise rather than to create (McDade & Spring, 1998:2). As there is an undeniable core of inborn entrepreneurial characteristics such as energy and raw intelligence. There is also a good deal of evidence that entrepreneurs are born and made better, as certain attitudes and behaviours can be acquired, developed, practiced, and refined, through a combination of experience and study. Timmons and Spinelli (2004:249) state that not all attitudes and behaviours can be acquired by everyone at the same pace and with the same proficiency. Entrepreneurs are able to significantly improve their odds of success by concentrating on those that work, by nurturing and practicing them, and by eliminating, or at least mitigating, the rest. Painstaking effort may be required, and much will depend upon the motivation and commitment of an individual to grow.

'Themes' therefore emerged from what successful entrepreneurs do and how they perform. In discussing these themes, namely "commitment and determination", "leadership", "opportunity obsession", "tolerance of risk, ambiguity, and uncertainty", "creativity, self-reliance, and ability to adapt" and "motivation to excel", it is important to emphasise that there are undoubtedly many attitudes and behaviours that every entrepreneur must have for every venture opportunity (Timmons & Spinelli, 2004 : 249-250).

1.6.1.2 Small business

Small businesses are seen as the heart of the free market economy and many stress the importance of small businesses as engines of growth. They are also seen as the primary creators of jobs and economic stability (Naude & Krugell, 2003:5). The small-scale business sector is currently one of the fastest growing and important sectors in Sub-Saharan Africa as far as labour absorption and poverty reduction are concerned (Parker, Riopelle & Steel, 1995). This is true, especially when the state sector is downsizing.

Small businesses serve then as seedbeds for entrepreneurs, contribute to more balanced development and facilitate the process of adjustment in large businesses, by emerging as competent suppliers of products and services previously not available in the market place (Kapoor, Mugwara & Chidavaenzi, 1997:8; Parker *et al.*, 1995:17).

The South African government recognised the importance of developing strong Small-, Medium-, and Micro-Enterprises (SMME's). Today it is internationally accepted and acknowledged that the SMME sector is an essential factor in promoting and achieving economic growth and development, as well as the widespread creation of wealth and employment. "Small-, and Medium-Enterprises (SME's) provide as much as 85% of job opportunities." (Smit & Cronje, 2002:26.) To further this, a Small Business Act was promulgated in 1996 (South Africa, 1996).

The South African Government inherited an apartheid economy in 1994 with specific problems, which required the urgent implementation of an appropriate economic development strategy. Since 1994 the government have produced a number of important policy documents. All these documents (National Vision; Reconstruction and Development Programme; Growth, Employment and Redistribution Strategy) propose both long-term restructuring and short-term stabilisation of the economy. One of the most important documents however, is the National Strategy for the Development and Promotion of Small Business in South Africa (1995) with the following key objectives:

- Create an enabling environment for small business development.
- Address the legacy of apartheid-based disempowerment of black business.
- Support the advancement of women in all business sectors.
- Strengthen cohesion between small businesses.
- Prepare small business to comply with the challenges of an internationally competitive economy.

An elaborated infrastructure was set in place to support this strategy such as the National Small Business Council, Provincial SMME desks, and local Business Service

Centres. However, real commitment and a number of other reasons brought along dismal failure of some of these structures (Havenga, 2001).

1.6.1.3 Business planning

Business planning can be seen as the basis in the process of goal setting towards good business management, as well as for the successful start-up of a new business. Business planning is the process that a person has to follow, in order to think through in advance what he wants to accomplish, as well as to analyse and consider alternatives in order to make sound decisions (Bekker & Staude, 1988:128). Cronje, Le Roux, Reed, Van Helden, and Van Schoor (2002:11) agree and mention that planning involves the identifying of ways to develop goals and resources for the determining of a future position, as well as the strategies to reach that position. The question is: does formal business planning pay off? Many studies have been undertaken to test the relationship between business planning and business performance, and the overall evidence is generally positive (Cronje *et al.*, 2002:11,16,117).

The business planning process must be concerned with the evaluation of all options before action is taken, as well as with the future impact of the proposed decisions (Dyson, 1990:3), considering the fact that not all of us are keen planners. For this reason Smit and Cronje (2002:130) identify some obstacles to effective business planning:

- The lack of environmental and organisational knowledge.
- The reluctance to establish goals.
- Resistance to change.
- Time and expenses required from the process.

The contents of the related chapter strive to identify and evaluate all the relevant business planning obstacles, that may hinder the successful start-up of a small business.

1.6.2 Empirical study

The second approach was built on the literature study by means of an empirical field investigation within the different small business sectors in the Emfuleni district. The

obstacles experienced by small business founders/owners during start-up have been determined. The empirical section of this study was based on the literature study done from Chapter 1 to 4 and included the completion of a structured questionnaire by means of personal interviews with founders/owners of small businesses in the Emfuleni district. The process entailed all aspects covered in paragraphs 1.6.2.1 to 1.6.2.4.

1.6.2.1 Data gathering

The gathering of data was done by means of a questionnaire, based on market research and statistical inference (Wisniewski, 2000:194). The questionnaire had mostly pre-formulated answers, as it tended to elicit a higher identification of problems than those with open questions (Horton, Honderich & Modise, 2000:47). The questionnaire strived to assist a gap analysis between the identified obstacles towards small businesses from the survey questionnaire and as what was determined from the literature study.

The following steps were followed in order to collect the data:

1.6.2.1.1 Development and composition of the questionnaire

Based on the important issues gathered from the literature study, the questionnaire strived to determine the obstacles experienced by small business founders/owners in the Emfuleni district before business start-up. Related questions measured the importance of various aspects of obstacles towards small business development, with the main focus on the objectives of the study.

The reliability of the draft questionnaire was tested by means of a pilot study. In this pilot study interviews on the questionnaire were held with five small business founders/owners in the Emfuleni district. Questions are modified to fit the reliability of the questionnaire. The final questionnaire was amended according to the feedback given from the pilot study.

1.6.2.1.2 Structuring of the questionnaire

An introductory letter which formed part of the questionnaire was used to explain the importance and goal of the study (refer to Appendix A). After the pilot study, the questionnaire is also made available in Afrikaans (refer to Appendix B). The questionnaire contains the following sections in order to gather information about the research subject:

- Section A: Demographic information regarding the profile of the business founder/owner, as well as the profile of the small business.
- Section B: Detailed questions about small business obstacles.
- Section C: Small business development initiatives, with the following supportive sub-sections:
 - Section C1: Information regarding entrepreneurial strengths and weaknesses.
 - Section C2: Information regarding the importance of training and development, the government and supporting institutions for small business development.
 - Section C3: Information regarding the role that business planning plays in the successful start-up of the small business.

Above-mentioned information is gathered by means of closed and open questions, as well as Likert-type statements. Likert-type statements include information about: a) the current situation, and b) the ideal situation (Huysamen, 2001:133-136).

1.6.2.1.3 Distribution of questionnaires

The target population were formulated from a list of small businesses, supplied by the Emfuleni Local Municipality (2005a). Small businesses were first categorised alphabetically, and then randomly selected. The sample is worked out that the estimated proportions should not differ with more than 5% from that in the population with a

probability of 95% (Steyn, Smit, & Du Toit, 1998:396-397). The final questionnaire was furnished to the selected small business founders/owners in the Emfuleni district. This was done by means of personal interviews in order to ensure good completion of the questionnaire, as well as possible comments not covered in the questionnaire.

1.6.2.2 Editing and recording of data

The data was captured and edited on Microsoft Excel data sheets to form part of a database. Four fieldworkers were trained to do interviews with respondents by appointment. The questionnaire is completed during late 2005 / early 2006. Completion of the questionnaire took approximately between 30 and 45 minutes.

1.6.2.3 Analysis of the data

The results of the survey is statistically analysed by means of descriptive statistics. Descriptive statistics involves the organising and summarising of collected numerical data by means of tables, graphs and the calculation of descriptive criteria, in order to measure an average value and variability around this average (Wisniewski, 2000:91).

The statistical processing of the data was done by the Statistical Consultation Service of the North-West University, by means of a software program namely: Statistica (2004). The following processing was done:

- Descriptive statistics, where averages and frequencies for variables are determined.
- Effect sizes (d-values) in order to determine the practical explanation of differences in averages.
- Two-direction frequency tables, where the Chi-square test (effect size) gives a practical explanation of relations between variables.
- Principle components factor analysis with Varimax rotation.
- The reliability and internal consistency between different factors by means of Chronbach alpha.

A five-point scale was used, where an average value higher than 3 will be interpreted as a situation where the respondent does not agree with the statement. An average of lower than 3, will be interpreted as a situation where the respondent agrees with the statement.

Statistical significance of relationships was determined with Chi-square tests, in order to identify whether the relationship was large enough to be important. The interpretation of effect sizes can be seen as having a small effect where $w = 0.1$, medium effect where $w = 0.3$, and a large effect where $w = 0.5$. A relationship with $w \geq 0.5$ will be considered as practically significant (Ellis & Steyn, 2006; Steyn, 2005).

In order to elaborate on the practical significance of the empirical study, effect sizes 'd' between averages (Chi-square test), will be interpreted as follows (Cohen, 1988:25-26,215-227):

- If $d = 0.2$: This value indicates a small effect. The research can either be repeated to ensure that an effect exists, or can be seen as not significant. Where this option is applicable, it will be shown with a *.
- If $d = 0.5$: This value indicates a medium effect that may have significant value. Where this option is applicable, it will be shown with a **.
- If $d \geq 0.8$: This value indicates a large effect and that results is significant, as well as practical meaningful. Where this option is applicable, it will be shown with a ***.

1.6.2.4 Conclusions and recommendations

The results of the statistical analysis were used to make certain conclusions and recommendations with regard to the identified obstacles towards small businesses obtained from the empirical study, as well as according to the stated primary and secondary objectives.

1.7 LIMITATIONS TO THE STUDY

Because of the extent of this topic, the research was limited to an economic and business sciences study in obstacles that small business founders/owners in the Emfuleni district experienced before and during the start-up phase of their businesses. As mentioned in paragraph 1.5.2 (Geographic delimitation), the research will be limited to the 6610 registered small businesses in the Emfuleni district (Emfuleni Local Municipality, 2005a).

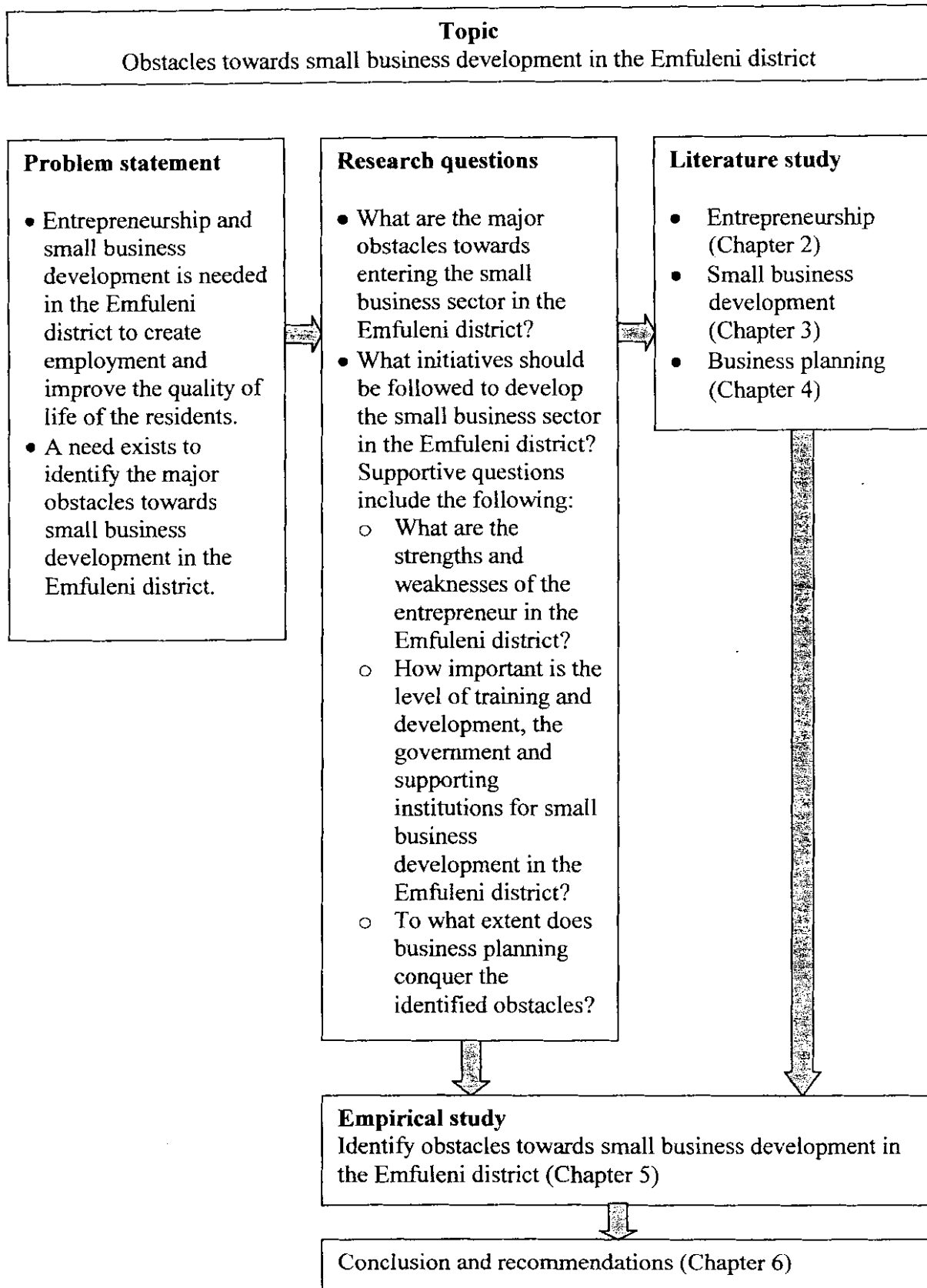
The study mainly focused on the obstacles towards small business development in the Emfuleni district, and is portrait by demographic information on both the small business founder/owner, and the profile of the business. Demographic information on the small business founder/owner includes aspects such as age, gender, mother tongue, education, and experience. The profile of the small business includes aspects such as gross asset value, income, number of employees, business existence, and legal status of the business, within the specific industry. The research is limited to the definition of a small business, given in the National Small Business Act (1996).

The result of this study are only representative of small businesses in the Emfuleni district, although the possibility exists that the results may be portrayed to other small business sectors within the Gross Domestic Product (GDP) of South Africa. Reference was made where necessary to a correlation between results obtained from other similar studies within this specific field.

1.8 LAYOUT OF THE STUDY

This study comprises six (6) chapters, which includes the nature and scope of the study, a literature study, and an empirical investigation. The literature study comprises three (3) chapters, namely entrepreneurship, small business development, and business planning. The empirical investigation comprises one (1) chapter, where the obstacles towards small business development in the Emfuleni district are identified. The subject matter is divided as shown in figure 1.2.

Figure 1.2: Study layout



The literature study commenced with Chapter 2, by examining the literature on entrepreneurship. The aim was to lay a thorough theoretical foundation on which the rest of the study could be built. The main focus in studying the theory of entrepreneurship was to identify the objectives of entrepreneurship, and include the characteristics of entrepreneurship, as well as obstacles towards entrepreneurship. The chapter first established what entrepreneurship intend to accomplish and why it is necessary. Chapter 2 also considered the resources necessary for entrepreneurship. Aspects such as training and development and the government role, were also covered. It considered how the South African government can build on entrepreneurship development, in order to build capacity and capability in the small business sector. This part of the literature study intended to bridge the gap between the theoretical and practical situation, with the limitations of entrepreneurship, and also attempted to present adequate background knowledge about the components that are usually included in the decision of entering a small business.

In the third chapter the relevant theory was studied concerning small business, as well as certain obstacles that may obstruct the sustainability thereof. The fourth chapter covered the business planning process that acted as a measurement in small business development. As business planning plays a major role in the conquering and sustainability of small business development, an evaluation was done to determine what business planning initiatives should be followed to overcome obstacles towards the successful start-up of small businesses in the Emfuleni district.

The fifth chapter investigated the relevant obstacles towards small business development, and includes the results of the empirical research. Chapter 6 contains the conclusion regarding the results of the empirical research, as well as recommendations on how to address obstacles towards small business development in the Emfuleni district.

CHAPTER 2

ENTREPRENEURSHIP

2.1 INTRODUCTION

Chapter two provides a thorough theoretical foundation on which the rest of the study can be build. The main focus in studying the theory of entrepreneurship will be to identify the objectives of entrepreneurship, and include the characteristics of entrepreneurship, as well as obstacles towards entrepreneurship. The chapter will first establish what entrepreneurship intent to accomplish and why it is necessary.

Entrepreneurship was, and is still often treated in theory as the vague and unquantifiable force, which brings together labour, and capital, assumes the risks of production and distribution and on which the whole success of the capitalist system depends (Naudé, 1999:2). According to Scarborough and Zimmerer (2003:3), an entrepreneur is a person who creates a new business in the face of risk and uncertainty. The purpose is to achieve profit and growth by identifying opportunities and assembling the necessary recourses to capitalise on them. Bekker and Staude (1988:3) mention that the strongest force in achieving a bright future for small business is the unflinching spirit of the entrepreneur. The entrepreneur is seen as the one who brings new businesses into existence and provides leadership for them.

There are also certain advantages and disadvantages for being an entrepreneur. Scarborough and Zimmerer (2003:4) claim that more than 50% of people would like to be their own boss. Most of those dreamers will never actually launch a business, except for those who take the entrepreneurial plunge of building a business from scratch.

2.2 ENTREPRENEURSHIP DEFINED

According to Timmons and Spinelli (2004:246), no psychological model of entrepreneurship has been developed and supported by research. It is however the opinion and believe of behavioural scientists, venture capitalists, investors and entrepreneurs that the success of a new business will depend a great deal on the behaviour of the entrepreneur himself/herself.

The entrepreneur, said the French economist J. B. Say around 1800, "shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." Say's definition, however, does not tell who this "entrepreneur" is. Since Say coined the term almost two hundred years ago, there has been total confusion over the definitions of "entrepreneur" and "entrepreneurship" (Drucker, 1999:19).

Drucker (1999:19) states that the entrepreneur is often defined as one who starts *his/her own, new and small business*. Indeed, the courses in "entrepreneurship" that have become popular, are the linear descendants of the course in starting one's own small business that was offered thirty years ago, and in many cases, not very different from today.

Microsoft Encarta Premium Suite (2003) defines entrepreneurship as a risk-taking businessperson. Somebody who sets up and finances new commercial businesses, to make a profit. The word entrepreneurship is translated from the French word *entreprendre*, that literally means 'one who undertakes'.

Steyn (1998:1-2) defines entrepreneurship as the implementation of something in order to satisfy a real need in the market. It means to get better results with less input than other people. It also involves the creation and distribution of consequent value to individuals, groups and the community. To be an entrepreneur on the other hand means to act in an innovative way. Human (1998:86) also states that the entrepreneur is seen as the most critical factor in the successful creation of a new business.

Petrakis (2005:243) believes that entrepreneurship is a basic constituent element of social capital, which in turn is a productive lubricant of the growth process. According to Marcus from the Graduate Institute of Business (GIBS), entrepreneurs are crucially necessary to address South Africa's social challenges (Marais, 2005:28).

Entrepreneurs are seen as creative, talented individuals who provide the backbone for the small business system. They are also characterised with a 'self-elect', and the ability to inspire themselves as to initiate action (Bekker & Staude, 1988:3-4). Corman and Lussier (2001:1/2) believe that an entrepreneur is a person who has a need or ability to build and create something new.

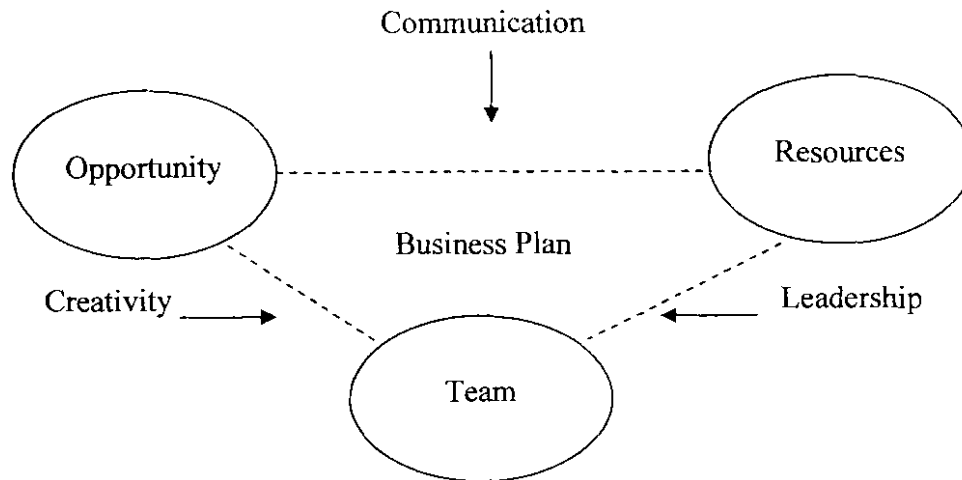
Longenecker *et al.* (2000:3) states that entrepreneurs are energisers who take risks, provide jobs, introduce innovations, and spark economic growth. Rocha (2005) agrees that entrepreneurship is positively associated with economic growth. Kuratko and Welsch (2004:2) state that entrepreneurship is the very symbol of business tenacity and achievement, as entrepreneurs were the pioneers of today's business success. Their sense of opportunity, their drive to innovate, and their capacity for accomplishment have become the standard by which free enterprise is measured.

2.3 THE ENTREPRENEURIAL OPPORTUNITY

This section investigates the characteristics, elements, and activities of the entrepreneurial opportunity. A few models will be discussed, with the main focus on the identification and the evaluation of the entrepreneurial opportunity.

Human (1998:83) agrees with the Timmons model (Timmons & Spinelli, 2004:57), where there exist certain central driving forces in the entrepreneurial process, namely: the entrepreneurial characteristics, the opportunity in the environment, as well as the resources necessary for entrepreneurial success. The Timmons model of the entrepreneurial process for successful new venture creation (figure 2.1), include the opportunity, the resources, and the team.

Figure 2.1: Timmons model of the entrepreneurial process



Source: Timmons and Spinelli (2004:57)

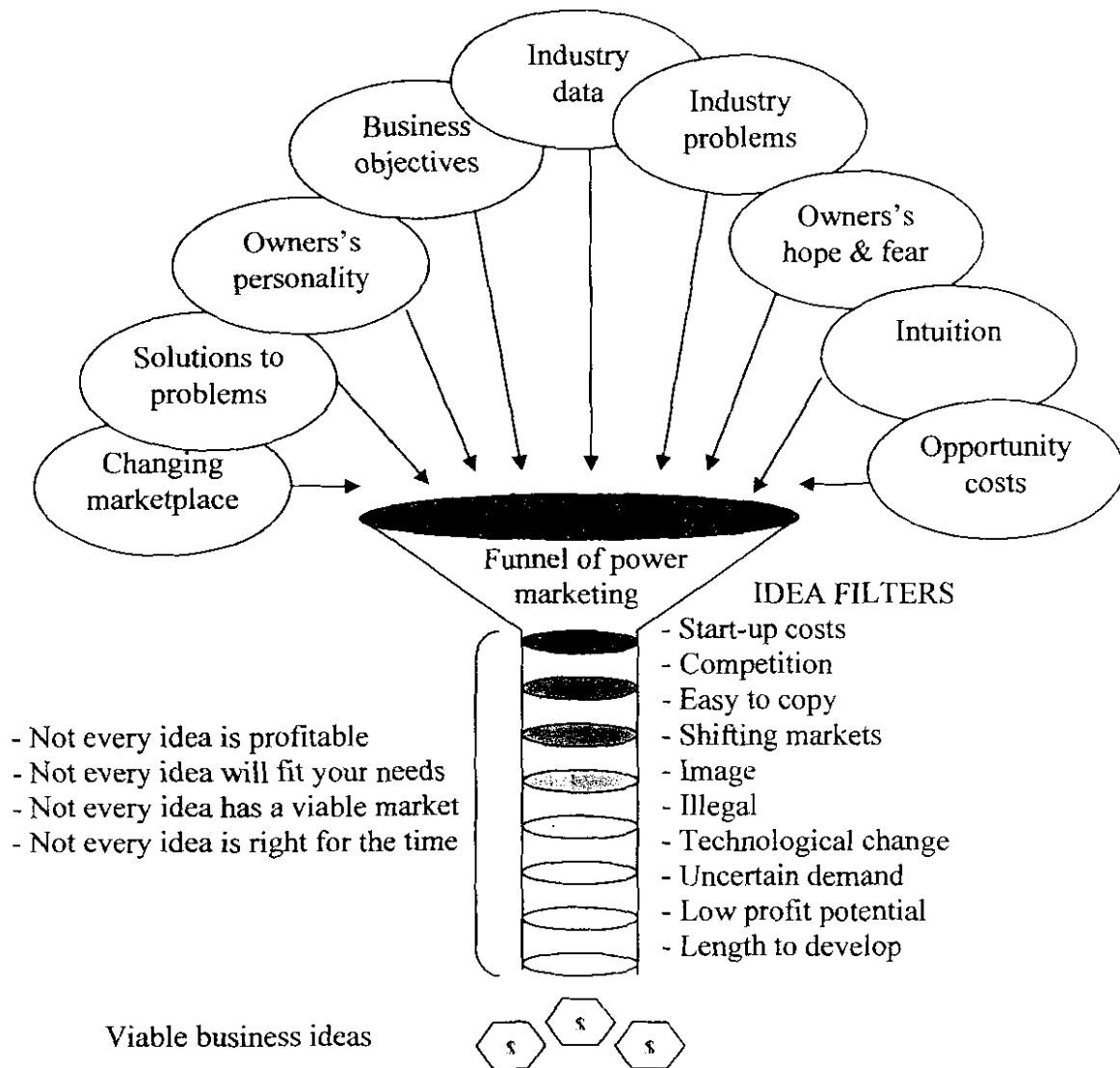
By looking at figure 2.1, it is clear that certain entrepreneurial characteristics, such as good communication, creativity, and leadership, will influence the driving forces either positively or negatively. It is also clear from this model that business planning plays a crucial role in keeping these driving forces together. Business planning will be covered in Chapter 4.

Timmons and Spinelli (2004:56-57) state that a successful new business creation starts off with the opportunity, and not with money, strategy, networks, the team, or a business plan. Hisrich and Peters (2002:39) agree with Timmons and Spinelli (2004:6) that the first phase in the entrepreneurial process is to identify and evaluate the opportunity. An opportunity can be seen as a need, want, problem, or challenge that can potentially be addressed by an entrepreneurial idea and an entrepreneurial business. Resources can be seen as the raw materials, supplies, capital equipment, factories, offices, labour, management, and entrepreneurial skills that are used in producing goods and services (MVP, 2005).

According to Hisrich and Peters (2002:39), opportunity identification is the process by which an entrepreneur comes up with the opportunity for a new business. Wickham

(2001:205) states that established businesses sometimes fail to see new opportunities, as opportunities do not present themselves, they have to be actively sought out. Ryan and Hiduke (2003:44-45) indicate that opportunity selection is like a huge funnel where goals, hopes, fears, industry data, research, and intuition can be filtered through a series of idea filters that transforms choices into viable business ideas (figure 2.2).

Figure 2.2: Opportunity selection funnel



Source: Ryan and Hiduke (2003:45)

The opportunity selection funnel shows that not every idea will necessarily be viable. Only viable business ideas can be regarded as opportunities. Pofeldt (2000:39) also

agrees that the first step in the entrepreneurial process is to set aside time to evaluate one's idea with special consideration in terms of: 1) is there a market for the product?, and 2) how will this idea make money? Lesonsky (2004:32) agrees that the first step to be taken is to figure out what one wants to do, having an idea and talk to people in order to find out what they think about it.

The opportunity is further divided into three levels, namely the market demand, the market structure and size, and margin analysis. In order to summarise the most important characteristics within this three levels of opportunity, the following aspects have to be considered (Timmons & Spinelli, 2004:57):

Market demand is a key ingredient in measuring an opportunity:

- Is the customer reachable?
- Customer payback period.
- Market share and growth potential.

Market structure and size:

- Emerging and/or fragmented?
- Income potential.
- Proprietary barriers to entry?

Margin analysis helps differentiate an opportunity from an idea:

- Low cost provider?
- Low capital requirement versus the competition?
- Break even period?
- Value added increase of overall corporate P/E (price – earnings) ratio?

According to Wickham (2001:40) businesses exist to co-ordinate tasks that allow people to specialise their activities and to collaborate in the production of a wide variety of goods. Goods have a utility because they satisfy human needs. An organisation is an arrangement of relationships in that it exists in the spaces between people. Whatever the

organisational arrangement is at the moment, there is probably a better way of doing things. The following questions relate to the needs within a business opportunity:

- What are the customers' fundamental needs in relation to a specific product category?
- What benefits does the product offer and what problems do customers solve with the product?
- How does the market currently serve those needs, i.e., what products are offered and what features do they have?
- In what ways does the market fail to serve those needs i.e., why are customers left dissatisfied and how often are they left dissatisfied?
- How customer needs could be served better, or how can the product on offer be improved?

An opportunity may be market inspired or product driven, but the point is that entrepreneurship starts with ideas. Opportunities do not have to be 'pure'. It is often the case that a particular opportunity comprises a mixture of the following elements (Wickham, 2001:214):

- A new product may demand an ***additional support service*** if customers are to find it attractive. Getting the product to them may demand that ***relationships*** are formed. The entrepreneurs must have an open mind and a ***creative approach*** to the way in which opportunities may be exploited.
- The new product offers the customers a physical device that provides a new means to ***satisfy a need or to solve a problem***. A new product may be based on existing technology or it might exploit new technological possibilities. It might also represent a chance to ***add value*** to an existing product by using an appropriate branding strategy.
- The new service offers the customer an act, or a series of acts, which satisfy a particular, need or solve a problem. Many new offerings have ***both product and service dimensions***.

- A new means of producing an existing product is not an opportunity in itself. It will offer an opportunity if it can be used to deliver *additional value* to the customer. This means the product must be produced at a lower cost or in a way that allows *greater flexibility* in the way it is delivered to the customer.
- New way of getting the product to the customer means that the customer finds it *easier, more convenient, or less time consuming* to obtain the product or service.
- This is an opportunity to enhance the value of a product to the customer by offering an *additional service* element with it. This service often involves maintaining the product in some way but it can also be based on supporting the customer in using the product or offering them training in its use.
- Relationships are built on trust, and trust adds value by reducing cost needed to monitor contracts. *Trust* can provide a source of *competitive advantage*. It can be used to *build networks* which competitors find hard to enter. A new opportunity presents itself if *relationships*, which will be mutually beneficial to the entrepreneur and the customer, can be built.

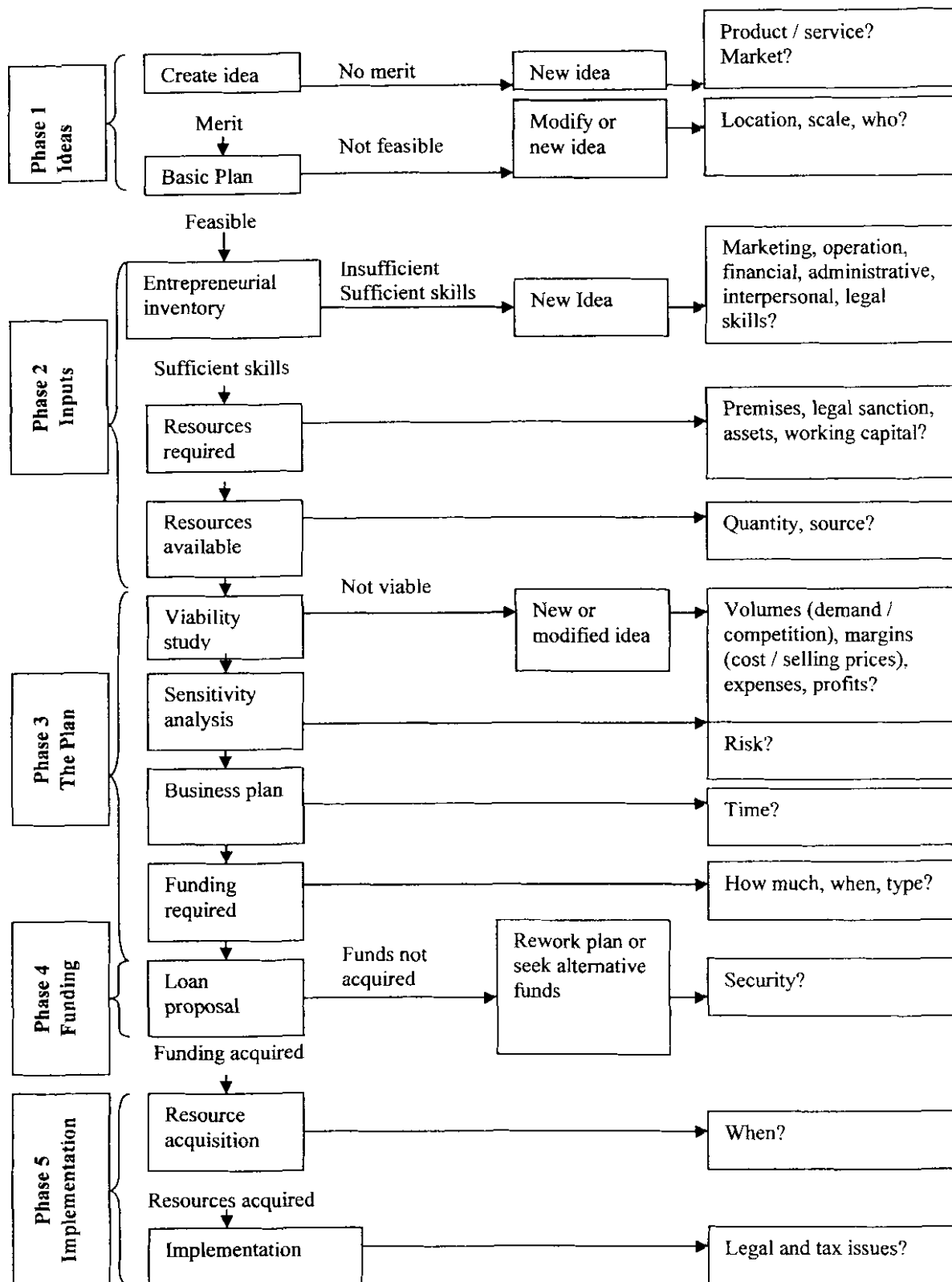
Lesonsky (2004:33) uses the Princeton checklist for evaluating ideas by means of the following questions in order to evaluate an idea for a business or a product:

- Have you considered all the advantages or benefits of the idea? Is there a real need for it?
- Have you pinpointed the exact problems or difficulties your idea is expected to solve?
- Is your idea original, a new concept, or is it a new combination or adaptation?
- What immediate or short-range gains or results can be anticipated? Are the projected returns adequate? Are the risk factors acceptable?
- What long-range benefits can be anticipated?
- Have you checked the idea for faults or limitations?
- Are there any problems the idea might create? What are the changes involved?
- How simple or complex will the idea's execution or implementation be?

- Could you work out several variations of the idea? Could you offer alternative ideas?
- Does your idea have a natural sales appeal? Is the market ready for it? Can customers afford it? Will they buy it? Is there a timing factor?
- What, if anything, is your competition doing in this area? Can your business be competitive?
- Have you considered the possibility of user resistance or difficulties?
- Does your idea fill a real need, or does the need have to be created through promotional and advertising efforts?
- How soon could the idea be put into operation?

Clark and Louw (1995:9) and Human (1998:87-88) also agree that the first step in creating a successful and profitable business is to identify a business opportunity. Clark and Louw (1995:4) further this first step towards a successful business, and say that the only reason for business failure within the first two years is that the business was based on an idea rather than an opportunity. This is the reason why they feel that the first step in identifying a business opportunity is to generate ideas (Clark & Louw, 1995:4). Figure 2.3 shows the steps in starting a new business, based on five phases, namely ideas, inputs, the plan, funding and implementation (Clark & Louw, 1995:37).

Figure 2.3: Steps in starting a new business



Source: Clark and Louw (1995:37)

Figure 2.3 indicates that the first step towards starting a new business, is the evaluation of an idea. The evaluation of an idea is followed by the resource inputs, the business planning process, funding, and implementation.

The model for the entrepreneurial process that Hisrich and Peters (2002:39-42) developed has four distinct phases, namely the identification and evaluation of the opportunity, the development of the business plan, the determination of the required resources, and the management of the resulting enterprise. Table 2.1 shows the aspects of the entrepreneurial process (Hisrich & Peters, 2002:40). Each of the stages presents itself to the entrepreneur as a series of decisions. Developing the business means addressing these issues.

Table 2.1: Aspects of the entrepreneurial process

Identify and evaluate the opportunity	Develop the business plan	Determine the resources required	Manage the enterprise
Creation and length of opportunity	Title Page Table of Contents Executive Summary	Existing resources of entrepreneur	Management style
Real and perceived value of opportunity	<ul style="list-style-type: none"> ● Description of Business ● Description of Industry 	Resource gaps and available supplies	Key variables for success
Opportunity versus personal skills and goals	<ul style="list-style-type: none"> ● Marketing Plan ● Financial Plan ● Production Plan ● Organisation Plan ● Operational Plan ● Summary 	Access to needed resources	Identification of problems and potential problems
Competitive situation	Appendices (Exhibits)		Implementation of control systems

Source: Adapted from Hisrich and Peters (2002:40)

Table 2.1 indicates that the first step associated with the entrepreneurial process, is the identification and evaluation of the opportunity. This process also involves the evaluation of personal skills against the opportunity. Business planning is seen as the second most important aspect of the entrepreneurial process, followed by the identification of resources.

According to Cherwitz (2005a), creating material wealth is only one expression of entrepreneurship. Entrepreneurship is not a synonym for business, but rather an attitude for engaging the world in a process of innovation. De Groot, Nijkamp, and Stough, (2004:78) state that the reason why innovation, especially technological innovation, is seen as the major driving force in most economies, is that it mainly represents an evolution of market capitalism that is rooted in technological invention, innovation and their supporting intangibles.

The shift to a global economy has opened tremendous business opportunities, and is therefore not limited anymore to only local borders (Scarborough & Zimmerer, 2003:15-16). Scarborough and Zimmerer (2000:15) mention that only 6% of U.S. small businesses do export, although these small businesses account for 30% of the total exports in the U.S. and will therefore further open international opportunities for small businesses in the 21st century. Wheelen and Hunger (2004:5) state that in order to reach the economies of scale necessary to achieve low costs, and thus lower product prices, most businesses are now thinking of a global market instead of a national market.

2.4 MYTHS ABOUT ENTREPRENEURSHIP

Bekker and Staude (1988:2) mention that certain myths about entrepreneurship might discourage many from taking the change, and should be destroyed. Two of these myths are as follows:

- ***Entrepreneurs are born, not made*** - The truth is that successful entrepreneurs are made by their willingness to respect each sound and basic business principle enough to master it. It is therefore also true to say that competencies of

entrepreneurship can be learnt. As learning takes place during the experience itself, it is clear that nobody is born as an entrepreneur. (Bekker & Staude, 1988:2). Corman and Lussier (2001:1/12) state that while entrepreneurs are born with certain native intelligence, the “making” of an entrepreneur comes with experience over a period of years and includes large dosages of self-development. Steyn (1998:11-12) agree that although entrepreneurs are not born, successful entrepreneurship depends highly on a combination of mental ability, training, experience, networking and self-development.

- ***Someone has to supply you with a job*** - According to Bekker and Staude (1988:2), this myth is one of the most damaging of all, as it removes the potential customer who needs and is willing to pay for a specific set of products and services.

The following myths about entrepreneurs, that should also be dispelled, are:

- ***Anyone can start a business*** - “Many people assume that only the gifted and aggressive can become entrepreneurs.” (Bekker & Staude, 1988:4.) Only entrepreneurs that can recognise the difference between an idea and an opportunity have a better chance of succeeding their businesses. Starting a business is the easier part than survival and sustainability of the business (Steyn, 1998:12; Corman & Lussier, 2001:1/12), as only one out of ten to twenty new businesses that survive five years or more results in capital gain for the founders (Corman & Lussier, 2001:1/12). Steyn (1998:13) states that a business can fail during any time period, and not necessarily after a period of five years.
- ***Entrepreneurs are gamblers*** - Entrepreneurs are often seen as “money-hungry sharks, out for a quick return.” “Venture-capitalists call such people ‘promoters’, and avoid them like the plague.” (Bekker & Staude, 1988:4.) Entrepreneurs take calculated risks by influencing the odds and slicing up the risk into smaller digestible pieces in order to avoid unnecessary risk (Steyn, 1998:12; Corman & Lussier, 2001:1/12).
- ***Entrepreneurs are their own bosses and completely independent*** - Entrepreneurs are far from independent as many diverse interest groups play an

important role in the success of the business. It is therefore that entrepreneurs have to serve many masters and constituencies, including partners, investors, customers, suppliers, creditors, employees, families, and those involved in social and community obligations (Steyn, 1998:12; Corman & Lussier, 2001: 1/12).

- ***Entrepreneurs work longer and harder than managers in big companies*** - No evidence can be found to prove this statement, although some entrepreneurs actually report that they work less than their counterparts in big companies (Corman & Lussier, 2001:1/12).
- ***Entrepreneurs experience a great deal of stress and pay a high price*** - Although it is stressful and demanding to be an entrepreneur, there is no evidence that it is any more stressful than numerous other highly demanding professional roles. In fact, it seems that entrepreneurs find their jobs more satisfying, as three times as many entrepreneurs as corporate managers say they plan never to retire (Steyn, 1998:12-13; Corman & Lussier, 2001:1/12).
- ***Starting a business is risky and often ends in failure*** - “Businesses fail, but entrepreneurs do not.” (Steyn, 1998:13; Corman & Lussier, 2001:1/12.) “Failure is often the fire that tempers the steel of an entrepreneur’s learning experience and street savvy.” (Corman & Lussier, 2001:1/12.) Corman and Lussier (2001:1/12) go further to say that talented and experienced entrepreneurs pursue attractive opportunities, and also attract the right resources to make the business work.
- ***Money is the most important start-up ingredient*** - Corman and Lussier (2001:1/13) state that money is the least important ingredient in the success of a new business, as it is seen in the same way as paint and a brush to an artist – being in the right hands can create marvels. Although profit gets used as a measurement for success, it must rather be seen as an indication of the success of the entrepreneur, as capital without an opportunity means nothing (Steyn, 1998:13).
- ***Entrepreneurs should be young and energetic*** - As the know-how, experience and contacts facilitate and pursuing an opportunity, age is not seen as a barrier (Corman & Lussier, 2001:1/13).

- ***If an entrepreneur is talented, success will happen in a year or two*** - Bekker and Staude (1988:4) mention that it is often believed that entrepreneurs are larger-than-life characters, and a special breed that form new businesses every 90 days. Rarely is a new business established in less than three or four years, especially when one considers that “lemons ripen in two and a half years, but the pearls take seven or eight” (Corman & Lussier, 2001:1/13). Steyn (1998:13) states that it can take between three and seven years to establish a successful business.
- ***Any entrepreneur with a good idea can raise venture capital*** - “Of the ventures of entrepreneurs with good ideas who seek out venture capital, only 1 to 3 out of 100 are funded.” (Corman & Lussier, 2001:1/13.)

2.5 THE MANAGER / ENTREPRENEUR

Researchers have invested a great deal of time and effort in studying entrepreneurial attitudes and behaviours. No study has isolated a particular set of traits required for success, but rather a combination of different tendencies that separates the traditional manager from the entrepreneur. This phenomenon will be discussed in the next section.

According to Steyn (1998:12) inventors and innovators can be entrepreneurs, although not all entrepreneurs are inventors and innovators. This is the reason why successful entrepreneurship requires the identification of opportunities and the efficient management thereof (Steyn, 1998:12). Clark and Louw (1995:1) believe that entrepreneurship is the initiation of change that involves both entrepreneurship and management, especially when starting and running a small business. Hisrich and Peters (2002:48) mention that whereas entrepreneurs are moderate risk takers, managers tend to be more cautious about taking risks (table 2.2).

Table 2.2: Comparison of traditional managers and entrepreneurs

	Traditional managers	Entrepreneurs
Primary motives	Promotion and other traditional corporate rewards, such as office, staff and power	Independence, opportunity to create, and money
Time orientation	Short term – meeting quotas and budgets, weekly, monthly, quarterly, and the annual planning horizon	Survival and achieving 5- to 10-year growth of business
Activity	Delegates and supervises more than direct involvement	Direct involvement
Risk	Careful	Moderate risk taker
Status	Concerned about status symbols	No concern about status symbols
Failure and mistakes	Tries to avoid mistakes and surprises	Deals with mistakes and failures
Decisions	Usually agrees with those in upper management positions	Follows dream with decisions
Who serves	Others	Self and customers
Family history	Family members worked for large organizations	Entrepreneurial small-business, professional, or farm background
Relationship with others	Hierarchy as basic relationship	Transactions and deal making as basic relationship

Source: Adapted from Hisrich and Peters (2002: 48)

Table 2.2 shows the comparison between traditional managers and entrepreneurs, and demonstrates a recognisable difference in attributes between traditional managers and entrepreneurs.

According to Clark and Louw (1995:1), many small business owners are simply administrators of a business they have bought from somebody else, which make them rather managers than entrepreneurs. Kuratko and Welsch (2004:40-41) state that it is important for the business manager to maintain an entrepreneurial frame of mind, and conclude the differences between the managerial and entrepreneurial mindset in table 2.3.

Table 2.3: The managerial versus the entrepreneurial mindset

	Managerial mindset	Entrepreneurial mindset
Decision-making assumptions	The past is the best predictor of the future. Most business decisions can be quantified.	A new idea or an insight from a unique experience is likely to provide the best estimate of emerging trends.
Values	The best decisions are those based on quantitative analyses. Rigorous analyses are highly valued for making critical decisions.	New insights and real-world experiences are more highly valued than results based on historical data.
Beliefs	Law of large numbers: Chaos and uncertainty can be resolved by systematically analysing the right data.	Law of small numbers: A single incident or several isolated incidents quickly become pivotal for making decisions regarding future trends.
Approach to problems	Problems represent an unfortunate turn of events that threaten financial projections. Problems must be resolved with substantiated analyses.	Problems represent an opportunity to detect emerging changes and possibly new business opportunities.

Source: Kuratko and Welsch (2004:41)

It is clear from table 2.3 that the entrepreneurial frame of mind differs from the managerial mindset within aspects such as decision-making, values, beliefs, and the approach to problems.

According to Barbee (2005:43), entrepreneurs generally believe that their success depends on their own efforts, and not on luck, chance or fate, and that they are in control of their own destiny. Jennings, Perren, and Carter (2005:150) agree that entrepreneurs are characterised by their free will to take charge of their own destiny/welfare, although the government demands that this free will gets exercised in a manner that benefits both the economy and society. Ryan and Hiduke (2003:12) state that in order to design ones own successful entrepreneurial lifestyle, the following four-question test is aimed at anyone seeking “success”:

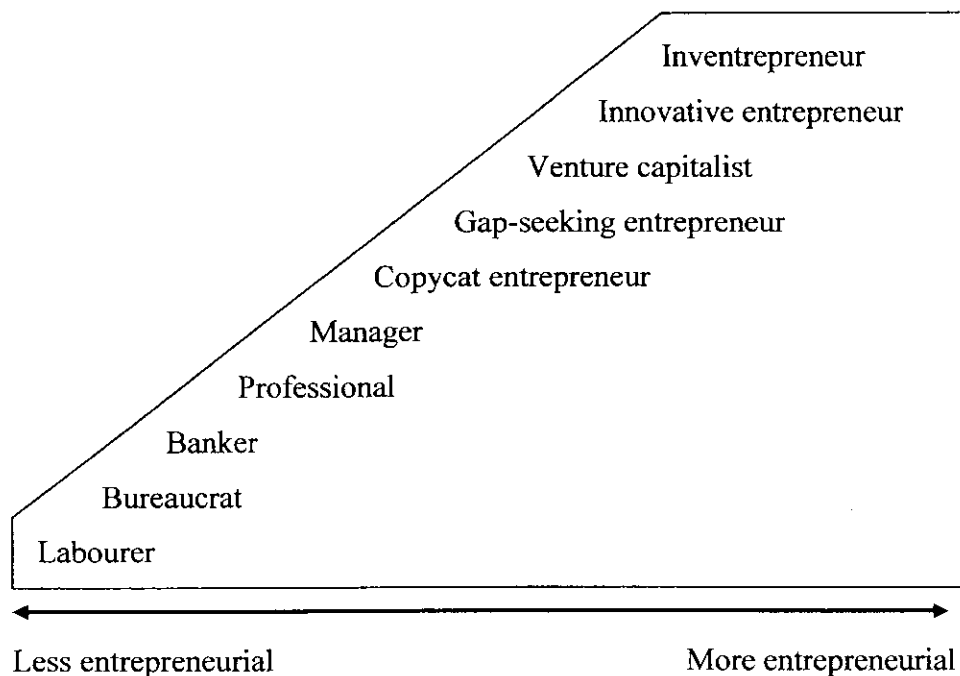
- Do you know the difference between what you want and what you’re good at?
- Do you know what drives you and what gives you satisfaction?
- Do you know what your values and priorities are, what your organization’s values and priorities are, and can you identify the differences between the two?
- Having measured the differences between what you want and what you’re able to do, between what drives you and what satisfies you, and between your values and those of your business, are you able to overcome those differences?

Clark and Louw (1995:1-2) call a small business owner an entrepreneur only if they are involved in one of the following types of business innovation:

- The introduction of a new or improved product or service.
- The introduction of a new production method.
- The opening of a new market.
- The use of a new source of supply of raw materials or components.
- The creation of a new business.

Clark and Louw (1995:3) state further on entrepreneurship by a tendency on lower and higher entrepreneurial occupations, and can be seen in figure 2.4.

Figure 2.4: Entrepreneurial tendencies



Source: Clark and Louw (1995:3)

Figure 2.4 shows that the entrepreneurial tendency varies from highly entrepreneurial such as the entrepreneur, to less entrepreneurial in the salary and wage earning categories.

According to Herrington and Wood (2003:11), a society that attaches a high status to entrepreneurship is more likely to foster the mindset required for entrepreneurial success. Herrington and Wood (2003:10) interviewed selected experts in South Africa and asked the participants to identify what they consider to be the three most important factors that limit entrepreneurial activity in their country, namely:

- whether or not you know an entrepreneur;
- whether or not you see good opportunities for starting a business, and
- whether or not you believe you have the skills to start a business.

South Africans who report that they have the skills to start a new business are six times more likely to be involved in starting or operating a new business than those who report that they do not have the skills to start a business (Herrington & Wood, 2003:10).

Murphy (1996:41-42) clarifies the difference between entrepreneurs and business developers. Being in business involves the management of risk and solving problems. For this reason business developers are more concerned about the security and certainty of the opportunity than entrepreneurs. Etemad (2004:10) states that entrepreneurial characteristics empower entrepreneurial actions even in the face of non-cooperative and non-interactive environments. Scarborough and Zimmerer (2003:4-9) agree that certain entrepreneurial characteristics exist, but talk about the ‘entrepreneurial personality’, and conclude them as follows:

- Aggressively pursue goals, pushing themselves and others very hard.
- Seek autonomy, independence, and freedom from boundaries; are individualistic.
- Send consistent messages to everyone involved in the business; employ focused strategies; are undeviating in their purpose.
- Act quickly, sometimes without careful deliberation; have a “ready-fire-aim” mentality.
- Keep their distance and maintain objectivity; expect others to be self-sufficient and touch-minded.
- Seek simple, practical solutions to problems; cut through complexity; search out essential and important information and discard the irrelevant.
- Are willing to take risks; are comfortable with the ambiguity of a new or fast-growing venture.
- Have clear opinions and values; are able to make quick judgements; are critical and have high expectations of themselves and of others.
- Are impatient for results and with others; are poor listeners; exhibit a “just do it” attitude.
- Are positive and upbeat; communicate optimism and hopefulness; always see the glass as half full (and want to own it). Puri and Robinson (2005:52) also

agree that entrepreneurs are more optimistic than non-entrepreneurs, and that optimistic people work harder in general.

According to Owens (2004) certain personality characteristics are positively related to both business performance and work satisfaction. Goal setting, emotional resilience, ability to sell self, social networking, and work-related locus of control are positively related to both business performance and work satisfaction. Additionally, autonomy, adaptability, competitiveness, optimism, risk tolerance, work drive, and tolerance for financial security are positively correlated with work satisfaction measures.

Clark and Louw (1995:4) also believe that entrepreneurial people tend to think creatively and intuitively about their work, can deal with uncertainty, strive for independence, seek wealth, are innovative and take risks. Non-entrepreneurial people on the other hand tend to seldom think creatively about their work, feel uncomfortable with uncertainty, are dependent on others, seek security, are seldom innovative and avoid risks (Clark & Louw, 1995:4). Ryan and Hiduke (2003:11-12) believe that although not anyone can be an entrepreneur and no perfect profile exists for an entrepreneur, one can be measured against certain entrepreneurial tendencies compiled in a questionnaire (table 2.4).

Table 2.4: 25 Questions to answer to see if you have what it takes to be an entrepreneur

So you want to start a business on your own, be your own person, be an entrepreneur! To find out more, answer the following 25 questions. If you really have what it takes, you should be able to answer each question, easily, with a “yes!”

1. When you've been disappointed, have you dealt with it and come back with a positive state of mind?
2. Do you like to be the centre of attraction, sell yourself or the business you're in?
3. Is it easy for you to be organised?
4. Do you know how to take control of your life and be disciplined?
5. Are you a risk-taker?
6. Do you have a vivid imagination and know how to express your creative side?
7. Are you able to take what seems like a detriment and turn it into an opportunity?
8. Are you courageous and patient?
9. Is your family in a position to cope with the lack of freedom you will experience when you start your new business?
10. Do you know how to fight for what you believe in?
11. Do you like people?
12. Have you ever had any management experience?
13. Do you dread routines?
14. Are you reliable and self-confident?
15. Do you ignore the judgement of others when you really believe in someone or something?
16. Do you have a knack for influencing others?
17. Do others describe you as an enthusiastic person, full of life?
18. Do you like the idea of working alone most of the time?
19. Do you enjoy being on the telephone and talking to strangers?
20. Do you wake up early in the morning with a positive attitude?
21. Is your financial situation stable? (You should have enough money to get by for at least one year before you venture out on your own.)
22. Have you done your homework – studied all materials that cover the business you are going to start?
23. Do you know how to laugh at yourself?
24. Is it easy to control your temper with others?
25. Do you get bored easily?

Source: Ryan and Hiduke (2003:11-12)

According to Lesonsky (2004:17-20), an Entrepreneurial Quotient (EQ) questionnaire that covers areas such as family background, childhood experiences, core values and personalities, can evaluate common entrepreneurial characteristics. By analysing the questionnaire and score sheet, the following statements can be concluded (Lesonsky, 2004:18-20):

- Successful entrepreneurs are not, as a rule, top achievers in school.
- Entrepreneurs are not especially enthusiastic about participating in group activities in school.
- Studies of entrepreneurs show that, as youngsters, they often preferred to be alone.
- Business sense and aptitude can normally be traced at an early age.
- Stubbornness as a child seems to translate into determination to do things your own way – a hallmark of successful entrepreneurs.
- Cautiousness as a youngster may involve an unwillingness to take risks, a handicap for those embarking on previously uncharted territory.
- Entrepreneurs are daring and adventurous.
- Entrepreneurs often have the faith to pursue different paths despite the opinions of others.
- Being tired of a daily routine will often precipitate an entrepreneur's decision to start a business.
- Entrepreneurs must be willing to work very long hours, with little sleep.
- Entrepreneurs generally enjoy their type of work so much, they move from one project to another – non-stop.
- Successful entrepreneurs are willing to firstly use their savings and secondly borrow from others to finance a project.
- Entrepreneurs start again immediately after failure and does not look out for a job with a regular paycheck.
- Entrepreneurs do not believe it is risky to be an entrepreneur.
- Many entrepreneurs make a habit of putting their long- and short-term goals in writing.
- Handling cash flow can be critical to entrepreneurial success.

- Entrepreneurial personalities seem to be easily bored.
- Optimism can fuel the drive to press for success in uncharted waters.

According to Dobrev and Barnett (2005), the likelihood of entrepreneurial behaviour is shaped by the structures of existing businesses, as well as by prevailing institutional and market forces. The same business forces that steer one individual towards entrepreneurship will have the opposite effect for another individual, depending on the type of role that the individual occupies in the business. In this way, characteristics of the business and the roles of individuals in that business interact to predict entrepreneurship.

2.6 ENTREPRENEURIAL CHARACTERISTICS

To start and run a small business is not necessarily for the entrepreneur with certain entrepreneurial characteristics, it is also for the non-risk takers and is a game anyone can play. Although tests cannot predict or define entrepreneurial ability, one can look at some of these tests in order to identify certain entrepreneurial characteristics (Corman & Lussier, 2001:1/3). Steyn (1998:1) stresses that the reason why it is so difficult to define general principles for entrepreneurial characteristics is the fact that individuals are so different and also act differently in specific situations.

According to Timmons and Spinelli (2004:249) it is important to emphasise that there are undoubtedly many attitudes and behaviours that every entrepreneur must have for every venture opportunity. Timmons and Spinelli (2004:249-250) identify themes for successful entrepreneurs. Each theme gets characterised with a certain attitude or behaviour that can be regarded as the characteristics of an entrepreneur. Table 2.5 shows the six themes according to which entrepreneurial characteristics can be classified.

Table 2.5: Six themes – Desirable and acquirable attitudes and behaviours

Theme	Attitude or behaviour
Commitment and determination	<ul style="list-style-type: none"> ● Tenacity and decisiveness, able to decommit/commit quickly ● Discipline ● Persistence in solving problems ● Willingness to undertake personal sacrifice ● Total immersion
Leadership	<ul style="list-style-type: none"> ● Self-starter; high standards but not perfectionist ● Team builder and hero maker; inspires others ● Treat others as you want to be treated ● Share the wealth with all the people who helped to create it ● Integrity and reliability; builder of trust; practices fairness ● Not a lone wolf ● Superior learner and teacher ● Patience and urgency
Opportunity obsession	<ul style="list-style-type: none"> ● Having intimate knowledge of customers' needs ● Market driven ● Obsessed with value creation and enhancement
Tolerance of risk, ambiguity, and uncertainty	<ul style="list-style-type: none"> ● Calculated risk taker ● Risk minimiser ● Risk sharer ● Manages paradoxes and contradictions ● Tolerance of uncertainty and lack of structure ● Tolerance of stress and conflict ● Ability to resolve problems and integrate solutions
Creativity, self-reliance, and ability to adapt	<ul style="list-style-type: none"> ● Non-conventional, open minded, lateral thinker ● Restlessness with status quo ● Ability to adapt and change; creative problem solver ● Ability to learn quickly ● Lack of fear of failure ● Ability to conceptualise and “sweat details” (helicopter mind)
Motivation to excel	<ul style="list-style-type: none"> ● Goal-and-results orientation; high but realistic goals ● Drive to achieve and grow ● Low need for status and power ● Interpersonally supporting (versus competitive) ● Aware of weaknesses and strengths ● Having perspective and sense of humour

Source: Adapted from Timmons and Spinelli (2004:249-250)

Table 2.5 will be discussed in sub-sections 2.6.1 to 2.6.6.

According to Steyn (1998:4-7), one can differentiate between primary and secondary characteristics for entrepreneurial success. Primary characteristics include commitment and determination, leadership, opportunity orientated, tolerance for risk, ambiguity and uncertainty, creativity, confidence and ability to adapt, and achievement and motivation to excel. Secondary characteristics include energy, health and emotional stability, creativity and inventiveness, intelligence, inspiration ability, and values.

According to Nieuwenhuizen, Groenewald, and Nieuwenhuizen (2003:1), entrepreneurial success factors include characteristics and skills such as: achievement motivation, internal locus of control, opportunity recognition, commitment to, and involvement in the business, planning, perseverance, sound human relations, positive attitude and approach, the use of experts, market focus, client service, quality work, financial knowledge, creativity, innovation and willingness to take moderate risks. De Klerk and Kruger (2003:3) summarise the determinants of entrepreneurship and include alertness, foresight, risk bearing, sufficient capital, sufficient knowledge, judgement, creativity, innovation, ambition, vision, decisiveness, determination, dedication, values, adaptability, and reward.

Wickham (2001:41) sees the main impetus for entrepreneurs to be their desire to create change and to make a difference. Entrepreneurs are innovators, who take their new creations to the market for assessment by consumers. The value added cannot always be measured in purely financial terms. The entrepreneur exists in a state of tension between actual and possible. The tension is manifested in three dimensions, i.e., the financial, the personal, and the social. Downing (2005:196) agrees and concludes that innovation, risk taking, and creativity are aspects of most economic definitions of entrepreneurship.

According to Certo (2005), successful owner/managers of small businesses are characterised by a high need for achievement, high level of internal locus of control, and medium risk taking propensity. Corman and Lussier (2001:1/3-1/5,1/16-1/18) state that entrepreneurs are special type of individuals who possess certain individual

characteristics in addition to those necessary to operate a small business, and include the following characteristics:

- **Energy** - A small business starts with a great deal of hard work and effort.
- **Initiative** - An entrepreneur must have initiative in order to operate independently.
- **Appearance** - Appearance does not only mean the way one is dressed, but also the willingness and helpfulness towards customers.
- **Technical competence** - Good technical know-how of the product, as well as a general knowledge of the industry, is very important in order to keep up on new developments that could have an effect on the business.
- **Administrative ability** - An aptitude for running a business includes the ability to handle all administrative matters just as well as all other aspects of the business.
- **Good judgement** - An entrepreneur must develop the skill to evaluate all alternatives and choose the best optimal option.
- **Restraint and patience** - An entrepreneur must acquire the skill of not overreacting to a situation or acting prematurely.
- **Ability to communicate well** - By not conveying thoughts clearly to customers or employees, can be disastrous for the survival of the small business.
- **Leadership qualities** - Leadership is important in order to maintain a chain of command within the business, by means of knowing when and how to act, when to speak and when to listen.
- **Pre-ownership experience** - Experience in a particular or similar business can have an invaluable impact when starting a small business. Gompers, Lerner, Scharfstein, and Kovner (2005:53) found that venture capitalists with the most industry experience increase their investments the most when industry investment activity accelerates.
- **Community/ethical/social responsibility** - It is very important for an entrepreneur to adopt community, ethical and social responsibilities as a way of doing business. Wheelen and Hunger (2004:37) state that the concept of social responsibility proposes that a business has responsibilities to society that extend beyond just making profit. Steenkamp, president of the 'Afrikaanse

Handelsinstituut' (AHI) agrees to the social responsibility of entrepreneurs and quotes the statement of Mr. Henry Ford in 1919: "Any business venture that only makes money, is not a good business" (Steenkamp, 2005:24).

2.6.1 Commitment and determination

Entrepreneurs, who successfully build new enterprises, have a desire to overcome hurdles, solve problems and complete the job. They are also disciplined and persistent in solving problems and performing other tasks. If however the task seems unsolvable, an entrepreneur will give up sooner than others (Steyn, 1998:4-5; Timmons & Spinelli, 2004:249).

According to Scarborough and Zimmerer (2003:4), entrepreneurs feel a personal responsibility for the outcome of ventures they are associated with. That is the reason why they prefer to be in control of their own resources, and further use those resources to achieve self-determined goals (Scarborough & Zimmerer, 2003:4). CIBC World Markets (2004) agrees that entrepreneurs do take ownership of their responsibility for their success. 91% entrepreneurs agreed with the statement that, "The most important factor in the success of my business is me" (CIBC World Markets, 2004).

The general statement of 'Entrepreneurs are more energetic than the average person,' is a statement that may prove the commitment that entrepreneurs have, as well as why entrepreneurs spend long hours of hard work during the start-up of a business (Scarborough & Zimmerer, 2003:7). Hard work and commitment do not only help to overcome business threats, mistakes and obstacles, but also determines how successful the business becomes (Scarborough & Zimmerer, 2003:7).

According to Wheelen and Hunger (2004:312), entrepreneurs focus on opportunities and not problems, and also try to learn from past failures. Kuratko and Welsch (2004:122) agree by stating that entrepreneurs often fail several times before they successfully develop their best ideas. In some cases entrepreneurs will even take the

idea in an entirely different direction or discover a new and more workable ideal, rather than struggling to implement the original idea.

2.6.2 Leadership

Successful entrepreneurs are experienced in the marketplace and technology in which they perform. They have also sound managerial skills with a proven track record. They are self-starters with an internal locus of control and high standards. They are patient leaders, who are capable of installing tangible visions for the longer haul. (Steyn, 1998:5; Timmons & Spinelli, 2004: 251). Corman and Lussier (2001:1/18) state that an entrepreneur also need to have a good managerial ability in order to practice good customer relations, be aware of safety aspects, have an adequate knowledge about the competitors' product, consumer trends, and government legislation and regulations. Wheelen and Hunger (2004:90-91) agree that entrepreneurs are able to envisage where the business is going and are thus able to provide a strong overall sense of strategic direction.

2.6.3 Opportunity orientated

According to Timmons and Spinelli (2004:6) entrepreneurship is opportunity-centered and rewards only those with talent and performance. Entrepreneurship could care less about religion, sex, skin colour, social class, national origin, and the like. It enables people to pursue and realise their dreams, to falter and try again, and to seek opportunities that match who they are, what they want to be, and how and where they want to live (Timmons & Spinelli, 2004:6).

Successful entrepreneurs are obsessed with opportunity. This obsession with opportunity is what guides how an entrepreneur deals with important issues. The Chinese characters for crisis and problem, when combined, mean opportunity. This may explain why entrepreneurs are obsessed with opportunity (Steyn, 1998: 5; Timmons & Spinelli, 2004: 253).

According to Bekker and Staude (1988:1), one of the greatest opportunities almost anyone has is the change to own and manage a small business. Longenecker *et al.* (2000:3) state that prospective entrepreneurs are constantly searching for opportunities in markets and situations where they can operate a business successfully. Scarborough and Zimmerer (2003:7) feel that entrepreneurs have a well-defined sense of searching for opportunities, as well as less concerned with what they accomplished yesterday, than with what they can do tomorrow. Hisrich and Peters (2002:39) feel that most good business opportunities do not suddenly appear, but is rather a result of alertness to possibilities or, in some cases, the establishment of mechanisms that identify potential opportunities.

According to Ryan and Hiduke (2003:20), one has to consider if the business opportunity possesses the following six leading success factors:

- ***Responsiveness to change*** - How well can your business respond to market change?
- ***Market Opportunity*** - How big is the potential market for your business's products?
- ***Marketing Expertise*** - How good will your business be at selling and marketing into the previously mentioned opportunity?
- ***Human Capital*** - Can you build strong management, marketing sales, and support? "Human capital is the knowledge and skills of a business's entire workforce or citizenry." (Kuratko & Welsch, 2004:17.)
- ***Alliances and Partnerships*** - Can you build strong partnerships and relationships?
- ***Prospects for Growth*** - How fast is the business growing and can it continue to ramp up quickly?

According to Etemad (2004:121-122) the business owner's ability to use personal relationships in creating business opportunities and attaining economic success, are most of the time based on loyalty and trust. Morrison, Breen, and Ali (2003:423) agree

by stating that an opportunity arises from the knowledge of and the sensitivity of the market place, as well as from a proactive relationship maintenance with customers.

2.6.4 Tolerance of risk, ambiguity, and uncertainty

According to Timmons and Spinelli (2004:253), entrepreneurs risk normally much more money than reputation. Therefore they rather take calculated risks than gambling. The risk gets calculated carefully and thoroughly, not only to get the odds in their favour, but also sharing this financial and business risk with partners. Scarborough and Zimmerman (2003:4) also agrees that entrepreneurs are not wild risk takers, but rather calculated risk takers. Although the risk may seem high or sometimes even impossible to others, entrepreneurs have usually thought through the situation and believes that the goal is reasonable and attainable (Steyn, 1998:5-6; Scarborough & Zimmerman, 2003: 4).

Wheelen and Hunger (2004:90-91) state that because entrepreneurs tend to have an internal locus of control, they can determine their own fate through their own behaviour. They also have a significantly greater capacity to tolerate ambiguity and stress than many others in established businesses (Wheelen & Hunger, 2004:312).

2.6.5 Creativity, confidence, and ability to adapt

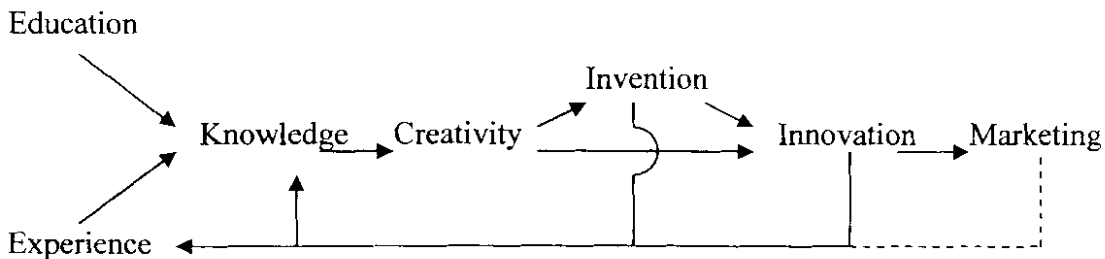
According to Drucker (1999:27), innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. Successful entrepreneurs also need to know how to apply the principles of successful innovation (Drucker, 1999:27-32). Timmons and Spinelli (2004:253-254) agree that successful entrepreneurs have to believe in themselves, in order not to only feel afraid of failure, but also have the ability to use failure experiences as a way of learning.

Steyn (1998:6) and Scarborough and Zimmerer (2003:6-7) feel that entrepreneurial confidence is usually based on reality. The reason for this is due to a study done by the National Federation of Independent Businesses (NFIB), that found that one-third of the entrepreneurs they have surveyed, rated their chances of success to be 100 percent. This high level of optimism may explain why some of the most successful entrepreneurs sometimes fail in business, before eventually succeeding.

According to Scarborough and Zimmerer (2003:4-9), it is also true that we live in a rapid changing world, where rigidity often leads to failure. As the society, people and tastes change, entrepreneurs must be willing to adapt their businesses accordingly. De Groot *et al.* (2004:79) state that invention and innovation were never as important as now for entrepreneurial success. Wheelen and Hunger (2004:90-91) stress that the reason why entrepreneurs have detailed knowledge of the keys to success in the industry and the physical stamina, is because they have better than average education and significant work experience in the industry they start their business in.

According to De Groot *et al.* (2004:79), new sectors, such as biotechnology, software, bioinformatics, nanotechnology and molecular electronics will depend on the new ecology of entrepreneurship for their survival and development. Figure 2.5 illustrates a general relationship among creativity, innovation and related elements.

Figure 2.5: General relationship among creativity, innovation and related elements

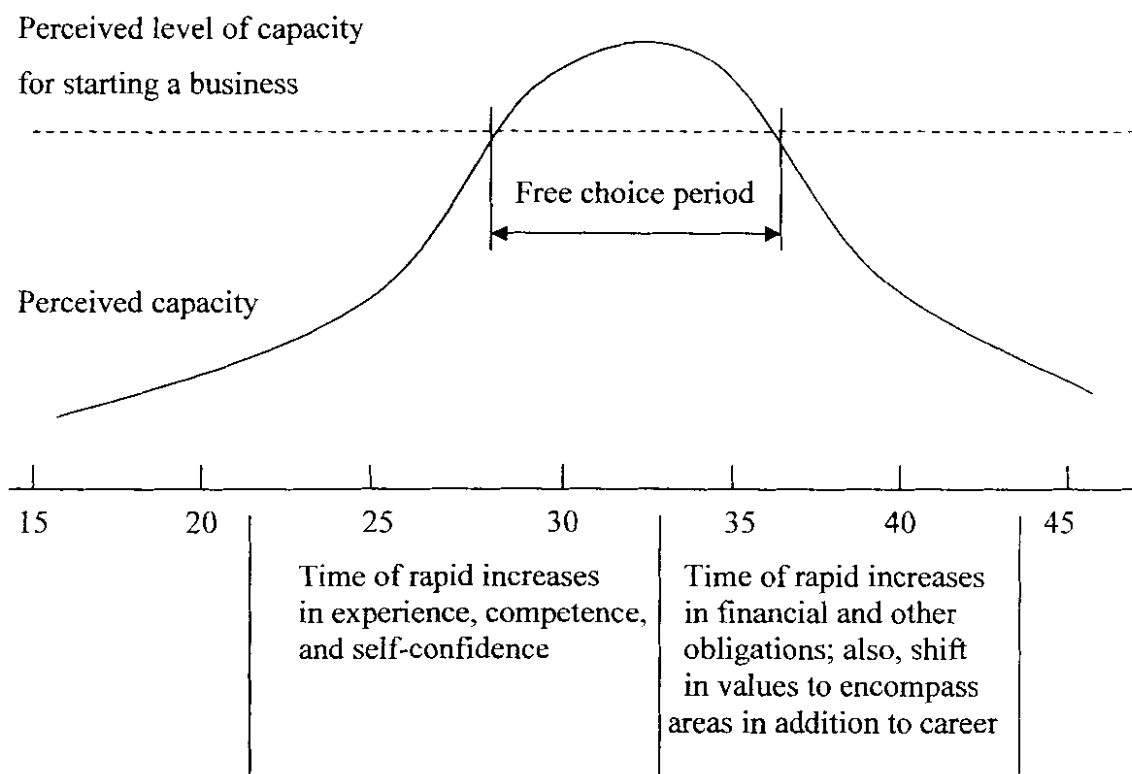


Source: De Groot *et al.* (2004: 85)

Figure 2.5 illustrates the importance of the challenges faced by entrepreneurs as they strive to support continuous innovation. It is also clear that knowledge provides the means to deploy creativity. De Groot *et al.* (2004:85) states that knowledge that is not put to use by supporting creativity remains idle and will normally not contribute much value.

In order to succeed, one needs a general feeling of self-confidence and a belief in one's ability to succeed. As some people are born with self-confidence, others can gain self-confidence with experience and over years. Normally when one reaches the age of 30, the confidence levels rises (Corman & Lussier, 2001:1/5). Figure 2.6 shows the free choice period for the would-be entrepreneur.

Figure 2.6: The free choice period for the would-be entrepreneur



Source: Corman and Lussier (2001:1/6)

Figure 2.6 shows that self-confidence and a belief in ability to succeed is normally experienced between the age of 30 and 35. Corman and Lussier (2001:1/6) state that although there are many successful entrepreneurs in the 40 to 50 age bracket, entrepreneurs tend to be younger, with 35% successful and 20% unsuccessful entrepreneurs under 40 years of age.

2.6.6 Achievement and motivation to excel

According to Timmons and Spinelli (2004:254-255), entrepreneurs are driven by a thirst for achievement, and not for status and power, although it is the result of their successful accomplishments. Longenecker *et al.* (2000:8) state that individuals with a low need for achievement seem to be content with their present status. McClelland is a psychologist at the Harvard University, and discovered that those that become entrepreneurs, have a higher need for achievement than the general population (Longenecker *et al.*, 2000:9).

One of the misconceptions about entrepreneurship is that they are only driven by the desire to make money. Scarborough and Zimmerer (2003:7), Steyn (1998:6) believe that achievement is the primary motivating force behind entrepreneurial success. Scarborough and Zimmerer (2003:7) state that money can be seen as a symbol of achievement, or as a way of keeping score of accomplishments. Wheelen and Hunger (2004:90-91) indicate that entrepreneurs have a high need for achievement, which motivates them to put their ideas into action.

2.7 ENTREPRENEURSHIP EDUCATION AND TRAINING

Entrepreneurship plays a vital role in the growth process and the creation of a culture that support and reward entrepreneurship (Laubscher, 2005:28), (Zivnuska & Gundlach, 2005). Gudmundson, Tower, and Hartman (2003:3) explain that organisational culture is commonly defined as a set of shared values, norms, and beliefs within a business. Education and training can be used to further enhance an entrepreneurial culture. Education and training will be discussed in the remainder of this sub-section.

A study by the Small Business Administration (SBA) observed that small businesses are the leaders in offering training and advancement opportunities to workers. They also observed that employees from small businesses receive more benefits from the training provided of those in larger businesses (Scarborough & Zimmerer, 2003:22).

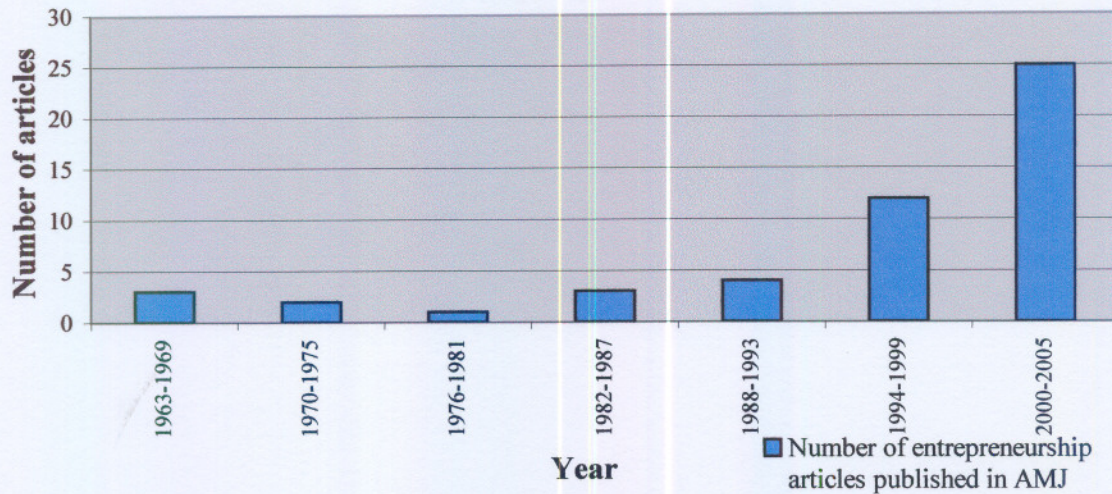
According to Cherwitz (2005b:72), most entrepreneurial education and experience be available for undergraduates, so they can discover how graduate study brings their visions to fruition. Entrepreneurial learning also challenges students to own and be accountable for their educational choices and intellectual development. Nafukho (1998:3) states that there exists a need in Africa to systematically build up a body of knowledge and skills in the field of entrepreneurship education, in order to develop a useful curriculum in schools, colleges and vocational and technical training institutions. Janse van Vuuren (2005a:20) stresses that the subject entrepreneurship gets educated in a restricted manner, as schools do not have experienced enough teachers for educating this subject, as well as limited available training literature.

Ryan and Hiduke (2003:16) call upon various internet sites such as “The National Foundation for Teaching Entrepreneurship (www.nfte.com)”, “Young Entrepreneurs Organization (www.yeo.org)”, and “Young Entrepreneurs Network (www.youngandsuccessful.com)” as institutions that can learn potential entrepreneurs new business skills through school-based programs and run educational forums and support groups. Herrington and Wood (2003:2) prove that the lack of entrepreneurial skills and capacity are due to the failure of the education and training system in South Africa. The lack of education and training remain an important factor limiting entrepreneurial activity according to the experts interviewed in South Africa. Laubscher (2005:28) agrees that South Africa is experiencing a shortage of schooled labour, and that it is almost too late to address the shortages in the education system.

According to Scarborough and Zimmerer (2003:14), the demand for courses in entrepreneurship has increased from the past, as 80% of college students expressed their interest in taking one or more courses in entrepreneurship. The Academy of Management Journal (AMJ) adds that the demand for entrepreneurship articles is also

evident by only looking at the increase in number of entrepreneurship articles that were published between 1963 and 2005, (figure 2.7) (Ireland, Reutzel, and Webb, 2005:558).

Figure 2.7: Number of entrepreneurship articles published



Source: Ireland *et al.* (2005:558)

Figure 2.7 clearly indicates the growth in number of entrepreneurship articles that were published between 1963 and 2005.

De Groot *et al.* (2004:154) mention that as college students take strain in keeping pace with the skills-intensive nature of the new economy, it can be related to the fact that educational facilities and participation rates in rural areas are worse than those in metropolitan areas. The difference in quality and level of education may also explain why people depart from rural areas, as well as why unemployment figures are higher in rural and regional areas than in big metropolitan cities.

Etemad (2004:135) states that a study, that was done on students that met and interacted with entrepreneurs and venture capitalists, showed afterwards a higher level of confidence and determination when acting on their entrepreneurial goals. The reason for this might be that during their contact periods, entrepreneurs usually shared their experiences of starting their business, successes and failures, as well as how they had

dealt with adversity and difficulties. By sharing information and answering questions, students are able to gain awareness as well as the understanding of what they can expect being an entrepreneur. Venture capitalists will provide students with information such as what the business plan has to look like in order to obtain funding, as well as what entrepreneurial qualities and skills they regard as valuable and what investors normally expect of them. All this information will be valuable for the potential entrepreneur to prepare a sound business plan for investors to buy in to, as well as for successful implementation (Etemad, 2004:135-138).

According to Bardaglio (2005:19), and Bose (2005:62), one of the priorities in entrepreneurial education should be to expand field-based, experiential, and performance-based learning. Ireland *et al.* (2005:562) state that scholars appear to be increasingly interested in studying matters regarding new businesses, international entrepreneurship, and initial business offerings.

De Groot *et al.* (2004:259) state that 65% of start-up entrepreneurs have taken courses from consultancy businesses to obtain basic entrepreneurial skills and business knowledge, and also state that the most important course content proofed to be the writing and using of a business plan. Table 2.6 shows the evaluation of the ten most important course contents. The course contents are based on a 1-5 scale. Fourty three businesses took part in the survey.

Table 2.6: The evaluation of courses by importance

Course content	Average score	Rank
<i>Entrepreneurial</i>		
Writing/using a business plan	3.62	1
Communication and promotion	3.57	2
Market research	3.49	3
Leadership and motivation	3.46	4
Selling skills	3.42	5
How to obtain finance	3.05	6
<i>Planning</i>		
Financial planning	3.32	7
Time management	3.14	8
<i>Operational</i>		
Staff training and recruitment	2.84	9
Bookkeeping	2.65	10

Source: De Groot *et al.* (2004:259)

Table 2.6 also indicates that financial planning and market research, which are both part of the business planning process, rated high. The business planning process will be covered in Chapter 4.

According to Ladzani and Van Vuuren (2002:156), the training content, analysis of potential entrepreneurs, and the expertise of trainers play important roles in entrepreneurship training. Wambui (2002:69) states that education should provide an opportunity for students to learn, explore and implement ideas. Entrepreneurial education should also encourage students to look for creative and innovative ideas that may provide multiple solutions to problems and develop their capacity to think independently.

Watson and Boshoff (2002:102) investigated opinions of entrepreneurial practitioners on topics that should be included in entrepreneurial training and found that the following were rated highly:

- linkages between entrepreneurship, strategic and general management;
- definitions of entrepreneurship;
- entrepreneurship (the person);
- the environmental influences of school/education/training;
- the personal characteristics and mental traits of the entrepreneur;
- the environmental issue of competition dimension;
- the environmental characteristics of information and risk;
- opportunity recognition during the growth phase, and
- strategic alliances during the harvest phase.

Cope (2005:380) states that the development of a dynamic learning perspective of entrepreneurship requires a theory of entrepreneurship that involves more the processes of entrepreneurship than entrepreneurship as such. The following five broad areas of entrepreneurial education needs further exploration:

- ***Learning about oneself*** - Understanding one's strengths and weaknesses; one's changing role within the business; personal and family needs and objectives; areas for personal development; personal interests and motivations.
- ***Learning about the business*** - Strengths and weaknesses, opportunities and threats; internal business needs; requirements for growth; areas for development; understanding and facilitating one's staff and future direction.
- ***Learning about the environment and entrepreneurial networks*** - Learning about how to manage relationships with existing and potential customers, suppliers, and competitors. Other important factors are appreciating and maximising the relationship with advisory agencies and support services such as banks, and accountants.

- ***Learning about small business management*** - How to run and control the business effectively, including important procedures and systems such as recruiting, salary and reward structures and financial monitoring.
- ***Learning about the nature and management of relationships*** - This applies to both internal (to the business) and external relationships. This final element of the learning task forms an integral part of the other four elements outlined above.

According to Laubscher (2005:28), human capital is a very important aspect to consider in the sustainability of the South African economy and the development of entrepreneurship. De Groot *et al.* (2004:107-109) mention that by collaborating with other SME's on certain business functions, or by sharing non-confidential knowledge, certain barriers faced by small businesses can be overcome in a relatively costless manner, and is called social capital. The following four kinds of social capital can be identified:

- ***Integrity*** - by activating reputational resources associated with membership of a professional association.
- ***Integration*** - continued community benefits at low or no cost, deriving from embeddedness but activated through expressing autonomy.
- ***Linkage*** - membership of local and non-local networks by virtue of assets deemed to be of consequence to the interests of these.
- ***Synergy*** - capabilities to link also to governance bodies, including government programmes and policies.

2.8 THE INTERNET INFLUENCE ON ENTREPRENEURSHIP

The Internet is the name given to the collective electronic network of computers and computer networks, which are inter-connected throughout the world. The WorldWideWeb (www) is the name given to the collection of computers, which serve information in hypertext format to the Internet (Perkins, 2005).

According to Etemad (2004:146), the Internet is seen as creating significant opportunities and new challenges for entrepreneurs and small businesses, such as gaining access to new markets, undertaking research and promoting themselves internationally. Etemad (2004:147-148) also states that according to fieldwork conducted on 21 member nations of the Asia Pacific Economic Cooperation (APEC) organisation, the research identified potential benefits, as well as significant barriers to the adoption of e-commerce by small businesses, and can be seen in table 2.7.

Table 2.7: Potential benefits and significant barriers of e-commerce for small businesses

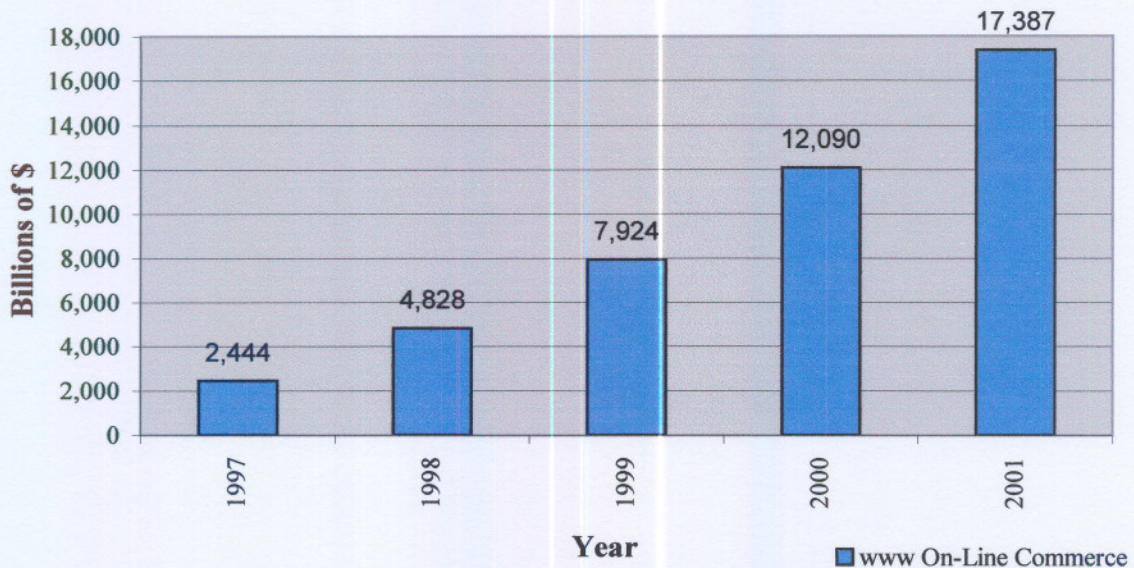
Potential benefits	Significant barriers
Improved customer service and information exchange	Low use of e-commerce by customers and suppliers
Enhancing the business image and improving its competitive position	Concerns about security aspects of e-commerce
Using e-commerce to reach international markets	Concerns about legal and liability issues
Increasing revenue and reducing costs through e-commerce channels	High cost for computer and networking technologies
	Limited knowledge of e-business models and technologies
	Uncertainty about the benefits of e-commerce for the business
	Uncertain quality of telecommunications services for e-commerce

Source: Adapted from Etemad (2004:147-148)

The significant barriers in table 2.7 are more than the potential benefits of e-commerce for small businesses. It is also clear that the potential benefits will have a greater impact on the sustainability of the small business, than that of the barriers.

Scarborough and Zimmerer (2003:15) state that the www has spawned thousands of entrepreneurial ventures since its beginning in 1993. Figure 2.8 shows how experts expected the volume of electronic commerce transacted on the www between 1997 and 2001. Most of the entrepreneurs are not making a profit on the www, although they know that they must establish a presence on the www to reap its benefits in the future (Scarborough & Zimmerer, 2003:14-15).

Figure 2.8: www on-line commerce

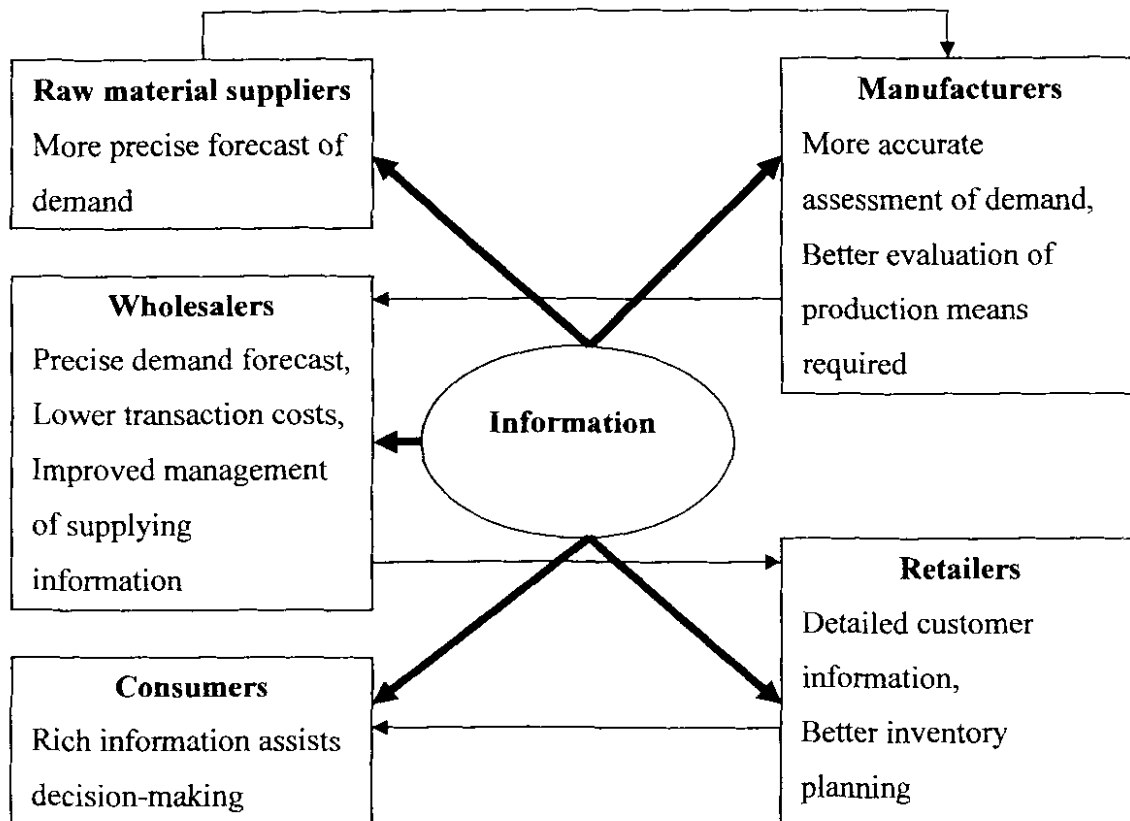


Source: Scarborough and Zimmerer (2003:14)

Figure 2.8 indicates a growth rate of more than 700% in five years in expected volume of electronic commerce, from 1997 to 2001.

Scarborough and Zimmerer (2003:15) state that with the help of information technology, even one person working from home can look like a big business. This phenomenon makes it possible for small businesses to compete with larger businesses. Etemad (2004:181-183) agrees, and states that one of the best approaches to attain economic efficiency, is to engage in scale economies by means of the availability of information on the Internet. Figure 2.9 shows how the availability of information can influence economic efficiency (Etemad, 2004:183).

Figure 2.9: New economic efficiency chain through information



Source: Adapted from Etemad (2004:183)

Figure 2.9 indicates that information can be seen as the centre in a new economic efficiency chain among suppliers, wholesalers, consumers, manufacturers, and retailers.

Wheelen and Hunger (2004:5) state that the Internet is not only changing the way how customers, suppliers, and businesses interact, but is also changing the way how businesses work internally. The following trends were identified through a survey done on top executives (Wheelen & Hunger, 2004:7):

- The Internet is forcing businesses to transform themselves, by means of electronic networking.
- The breaking down of traditional distribution channels, led to closer relationships with the end users, an improved service and a cost reduction.

- Due to unlimited access to information on the Internet, customers become much more demanding.
- Businesses are exploiting the Internet to become more innovative and efficient.
- The phase of business is increasing drastically, as planning, information and customer/supplier expectations reflects the immediacy of the Internet.
- The Internet is pushing businesses out of their traditional boundaries as businesses have access to other businesses' operating plans and processes.
- The Internet enhances knowledge, which is seen as a key asset and a source of competitive advantage.

Small businesses can expand their options in looking for something by using the Internet, and will therefore enhance the economic efficiency. The reason for this is that web-based commerce becomes easier, cheaper and faster, which results in better networking and an accelerated supply chain (Etemad, 2004:185-187). Wheelen and Hunger (2004:73-74) stress that the Internet has changed the way strategists engage in environmental scanning, and provides therefore the quickest means to obtain data on almost any subject. Arkebauer and Miller (1999:2) state that the leading edge entrepreneur manages information to reach their business goals as information is essential to business success and the business planning process. The business planning process will be covered in Chapter 4.

2.9 ADVANTAGES OF ENTREPRENEURSHIP

Ryan and Hiduke (2003:9) emphasise that to become an entrepreneur is a lifelong dream for some, the dream of never having a boss, the excitement of an unlimited income, the joy of producing the perfect product, the thrill of developing a new service, as well as the desire to live out one's dreams and passion of becoming an entrepreneur. Some sort of incentives attracts potential entrepreneurs. Longenecker *et al.* (2000:6-8) call these incentives "powerful", and identify them as profit, independence and a satisfying way of life. Most successful entrepreneurs choose to enter a particular business field, because they have an interest in it and enjoy it (Scarborough & Zimmerer, 2003:4).

Surveys show that small business owners believe they work harder, earn more money, and are happier than those working for a large company. It is further true that before launching a business venture, every potential entrepreneur should consider the benefits and opportunities thereof (Scarborough & Zimmerer, 2003:9). Some advantages of entrepreneurship will be discussed in sub-sections 2.9.1 to 2.9.3.

2.9.1 Financial reward

Scarborough and Zimmerer (2003:11) state that although money is not the primary driving force for entrepreneurs, profits are an important motivating factor in their decision to launch a business. If wealth is a high priority, owning a business is usually the best way to achieve it. Self-employed business owners make up as high as two-thirds of the nation's millionaires. Clark and Louw (1995:6) believe that although many entrepreneurs become wealthy and make more money than being a salaried employee, inventpreneurs stand a much bigger change to become billionaires than entrepreneurs starting their own business.

The financial return on any new business must at least compensate for the investment capital layout, before any profits can be realised (Longenecker *et al.*, 2000:6). A reasonable profit incentive is seen by Longenecker *et al.* (2000:6-7) as a powerful motivator for any entrepreneur. Steyn (1998:2) states that profit is not the most important reason for motivation, but rather a determining factor.

2.9.2 Independence

Entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living. To be a business owner will provide one with independence, as well as the opportunity to achieve what is important to oneself (Scarborough & Zimmerer, 2000:11). Barbee (2005:43) mentions that the independence of initiating actions and making decisions has long been recognised as a vital trait of an entrepreneur.

Many people start their own business only to escape from having to take orders from somebody else. For the potential entrepreneur working in a bureaucratic organisation it sounds very attractive being able to make one's own strategic decisions, and controlling the destiny of one's own business. This feeling of independence is sometimes only an illusion, as the demands of starting the new business are sometimes so exhausting and can easily lead to an enclosure to one's freedom (Clark & Louw, 1995:6). Steyn (1998:2) states that personal advantages can be integrated more effectively in ones own business than in the corporate environment, as entrepreneurship offers entrepreneurs a feeling of self-sustainability. Although financial security remains an important goal for most entrepreneurs, they still want the freedom to spend more time with family and friends, choose where they live and work, as well as the hours they work (Scarborough & Zimmerer, 2003:15).

2.9.3 Satisfaction

According to Scarborough and Zimmerer (2003:9), many people find their work boring, unchallenging and unexciting. Scarborough and Zimmerer (2003:9) and Steyn (1998:2) agree that owning a business will challenge all your skills, abilities and determination. Clark and Louw (1995:6) also agree that for most entrepreneurs the most motivating factor is that their business is something that they can call their own, as well as their contribution to society.

Scarborough and Zimmerer (2003:11) and Steyn (1998:3) state that regardless of the financial benefit of being an entrepreneur, small business owners are among the most respected, and most trusted members of their communities. Most successful entrepreneurs choose to enter a particular business field, because they have an interest in it and enjoy it (Scarborough & Zimmerer, 2003:11). A study done on woman-entrepreneurs by The Business Map-establishment proved that woman-entrepreneurs are more satisfied with their day-to-day tasks than employees who earn a salary (Janse van Vuuren, 2005b:16).

2.10 RISKS ASSOCIATED WITH STARTING A BUSINESS

Scarborough and Zimmerer (2003:11) state that although owning a business has many benefits and provides many opportunities, anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. Longenecker *et al.* (2000:9) state that the possibility of business failure can be seen as a constant threat to entrepreneurs. Scarborough and Zimmerer (2003:11-12) agree and state that the potential entrepreneur has to make 100% sure he/she wants to start a business before doing so.

Clark and Louw (1995:4) mention that entrepreneurship in general, as well as starting your own business can imply wealth and independence, although it is associated with risk, uncertainty and insecurity. Furthermore, the greater the level of risk and uncertainty, the higher the potential rewards (Clark & Louw, 1995:4). Parker (2004:17), an acknowledged entrepreneur in South Africa and founder of Nando's Chickenland, states that the potential entrepreneur is in general cautious to take risks concerning a loss in stable monthly salary income. He further mentions that work security is not as common nowadays.

Ryan and Hiduke (2003:12) state that a four-question test might minimise some potential risks involved during the development phase of a new business, and are as follows:

- Do you know the difference between what you want and what you're good at?
- Do you know what drives you and what gives you satisfaction?
- Do you know what your values and priorities are, what your business's values and priorities are, and can you identify the differences between the two?
- Having measured the differences between what you want and what you're able to do, between what drives you and what satisfies you, and between your values and those of your business, are you able to overcome those differences?

By answering the four-question test of Ryan and Hiduke (2003:12), it is clear that the potential entrepreneur should be aware of some disadvantages of being an entrepreneur. In sub-sections 2.10.1 to 2.10.4 some disadvantages of entrepreneurship will be discussed.

2.10.1 Career risk

A potential entrepreneur working as a salaried employee will probably have to resign in order to start a new business. An unsuccessful business will mean finding employment again, which may not be so easy. Although some businesses can be started on a part-time basis, the decision of resigning will become a reality as the new business demands more time and effort, and therefore leads to the same risk of failure (Clark & Louw, 1995:5).

2.10.2 Financial risk

Many entrepreneurs have to make decisions that they do not really have knowledge about. These decisions will most of the time mean the cause of success or total failure of the business (Scarborough & Zimmerer, 2003:14).

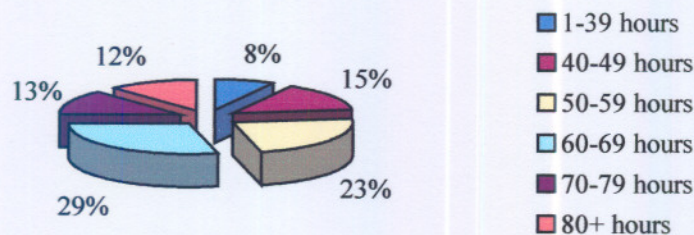
A large portion of savings or property have to be invested in a new business, either directly or as collateral for a loan, that may lead to total bankruptcy if the business fails (Clark & Louw, 1995:5; Steyn, 1998:3). There is no guarantee that an entrepreneur who starts a business will make enough money to survive, especially during the early stages. The owner will also be the last one to be paid (Scarborough & Zimmerer, 2003:12; Steyn, 1998:3). Steyn (1998:2) agrees that starting ones own business is seldom a get-quick-rich scheme, but rather requires dedication and commitment.

Scarborough and Zimmerer (2003:12) and Steyn (1998:3) state that small business failure rates are normally high. According to research, 34% of new businesses fail within two years, and 50% shut down within four years. Within six years, 60% of new businesses will have failed (Scarborough & Zimmerer, 2003:12).

2.10.3 Family and social risk

Longenecker *et al.* (2000:8) state that in order to start and operate one's own business typically demands hard work, long hours and much emotional energy. Wheelen and Hunger (2004:313) agree and state that more than half of all entrepreneurs work at least 60 hours a week in the start-up year. Scarborough and Zimmerer (2000:12) state that in many start-ups, a six- or seven-day workweeks with no paid vacations may be the norm. Figure 2.10 shows the number of hours new business owners work (Scarborough & Zimmerer, 2000:12).

Figure 2.10: Number of hours new business owners work (hours per week, by percentage of business owners)

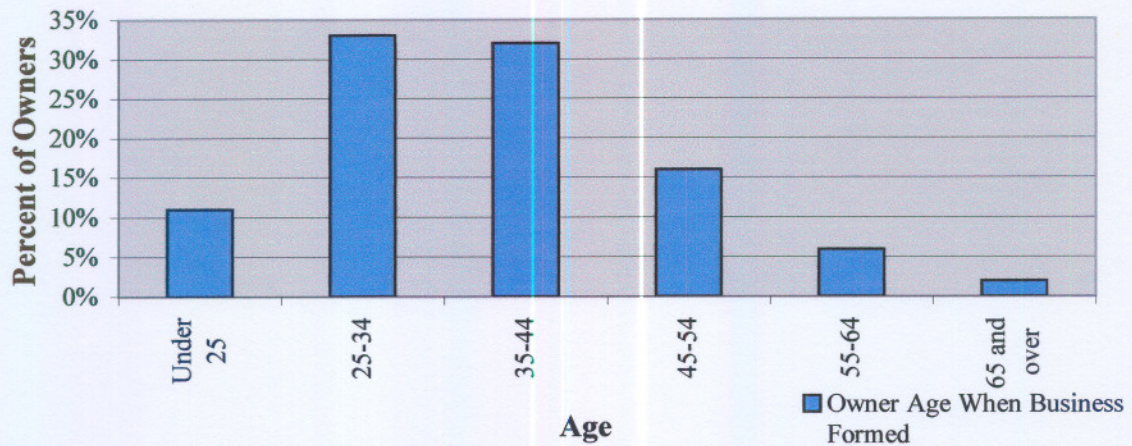


Source: Scarborough and Zimmerer (2000:12)

Figure 2.10 shows that most new business owners work more than 60 hours a week, and one-fourth put in more than 70 hours per week. It is therefore clear that in order to start and operate one's own business demands hard work and long hours.

Due to long hours and hard work during the start-up of a new business, one's role as husband/wife or farther/mother may be downplayed. Part of this problem is that most people start their business between the ages of 25 and 39. Figure 2.11 shows the age distribution when people start their business (Scarborough & Zimmerer, 2003:12).

Figure 2.11: Owner age when business formed



Source: Scarborough and Zimmerer (2003:12)

Figure 2.11 indicates that the majority of people that start their own business will do so between the ages of 25 to 34. It can be assumed that people within this age bracket will cope better with the demands of hard work, long hours and emotional energy.

Clark and Louw (1995:5) and Steyn (1998:3-4) agree that a new business will place high demands on one's energy and time, which can lead to less time spend with one's family and friends and to the extreme may lead to a broken marriage, estranged children and lost friends.

2.10.4 Psychological risk

Most entrepreneurs leave behind the security of a steady pay cheque, and therefore means total financial ruin if the new business does not succeed. It is for this reason that high levels of stress and anxiety develop when starting a new business (Scarborough & Zimmerer, 2003:13).

As facts indicate that few entrepreneurs succeed with their first attempt, some people are able to start again after failure of the first attempt, while others never recover from the psychological blow (Clark & Louw, 1995:5). Steyn (1998:3) states that as business

failure implicates personal failure, the once good reputation and self-confidence of the entrepreneur can easily change into a discouragement in entrepreneurial skills.

2.11 OBSTACLES ASSOCIATED WITH ENTREPRENEURSHIP

Herrington and Wood (2003:13) state that entrepreneurship in South Africa is affected by a number of factors. As the entrepreneurial contribution is important towards the South African economy, and elsewhere in the world, Lighthelm and Cant (2003:41) believe that the main causes of the growing unemployment rate in general include factors such as the low employment elasticity of the economy, as well as the high rate of growth in the labour force. Various factors that can be classified as obstacles will be discussed in the remainder of this sub-section.

Timmons and Spinelli (2004:258-259) mention that there appears to be a non-entrepreneurial mind that spells trouble for a business. The non-entrepreneurial mind can be characterised with feelings such as invulnerability, being macho, being antiauthoritarian, being impulsive, having outer control, perfectionism, being a know-it-all, and being counter dependent.

Steyn (1998:7-8) agrees with Timmons and Spinelli (2004:226) that some non-entrepreneurial ways of thinking concepts will restrict a successful opportunity, namely: invulnerability, macho attitude, autocratic style, impulsivity, external locus of control, perfectionism, know everything, as well as contra-independency. Ryan and Hiduke (2003:12-13) state that success is personal and subjective, whereas income and return on investments are measurable, and therefore ten killer factors have to be considered before business start-up. Table 2.8 shows the ten killer factors.

Table 2.8: Ten killer factors of business start-up

TEN KILLER FACTORS
1. Weak personality - The lack of sound psychological or emotional strength at the head of a business leads to failure 50 percent of the time. If business founders cannot cope with the many challenges they must confront and if they have private problems as well, a collapse is predetermined.
2. The loner syndrome - Loners have a difficult life. Because they don't discuss their problems with colleagues or professionals, they lose that critical distance, the perspective, to their projects. They flounder with closed eyes into failure.
3. Nebulous business ideas - Losers don't know how to make their ideas work. They don't familiarise themselves with the market and don't know their competition or their potential customers.
4. No plan - If a clear concept is missing, one false decision follows another. When requested, a business plan is submitted to the bank, but it seldom has anything to do with reality. It is written just to be convincing.
5. Too little financial backing - There are always young entrepreneurs who succeed without beginning capital. But then modesty is called for. Many founders use too much money too early for private purposes. Too little financial substance leads immediately to problems. A general rule of thumb has it that one-third of the balance or two-thirds of the fixed assets should come from one's own capital.
6. Cash-flow troubles - Entrepreneurs without knowledge of business management and who fail to exercise cash-flow management are responsible for their own downfall. Many naively believe that their customers will pay within 30 days. The opposite is true. If salaries and suppliers cannot be paid, then any attempt to save the sinking ship comes too late.
7. No marketing strategy - According to statistics, one-third of young entrepreneurs disappear from the market because of insufficient marketing. An amateurish market approach undermines credibility. A lack of trust results in a lack of business.
8. No controlling - Ignoring the need for a good evaluation system usually results in realising too late that something has gone wrong, so it's virtually impossible to turn the situation around and correct it.
9. The wrong people - Hiring the wrong people is the quickest way to lose a considerable amount of money very fast.
10. Underestimating the competition - Good ideas are not the perfect guarantee for getting a good hold in the market. It takes the offensive and tries to make up for opportunities it misses. New developments that are undertaken without first checking out the chances on the market simply cost a lot of money.

Source: Adapted from Ryan and Hiduke (2003:13)

The ten killer factors in table 2.8 can be regarded as obstacles associated with entrepreneurship. The majority of these killer factors can be classified as internal

obstacles. Ryan and Hiduke (2003:14) also state that certain success factors have to be considered in order to succeed, and identify ten success factors (table 2.9) to be considered before business start-up.

Table 2.9: Ten success factors of business start-up

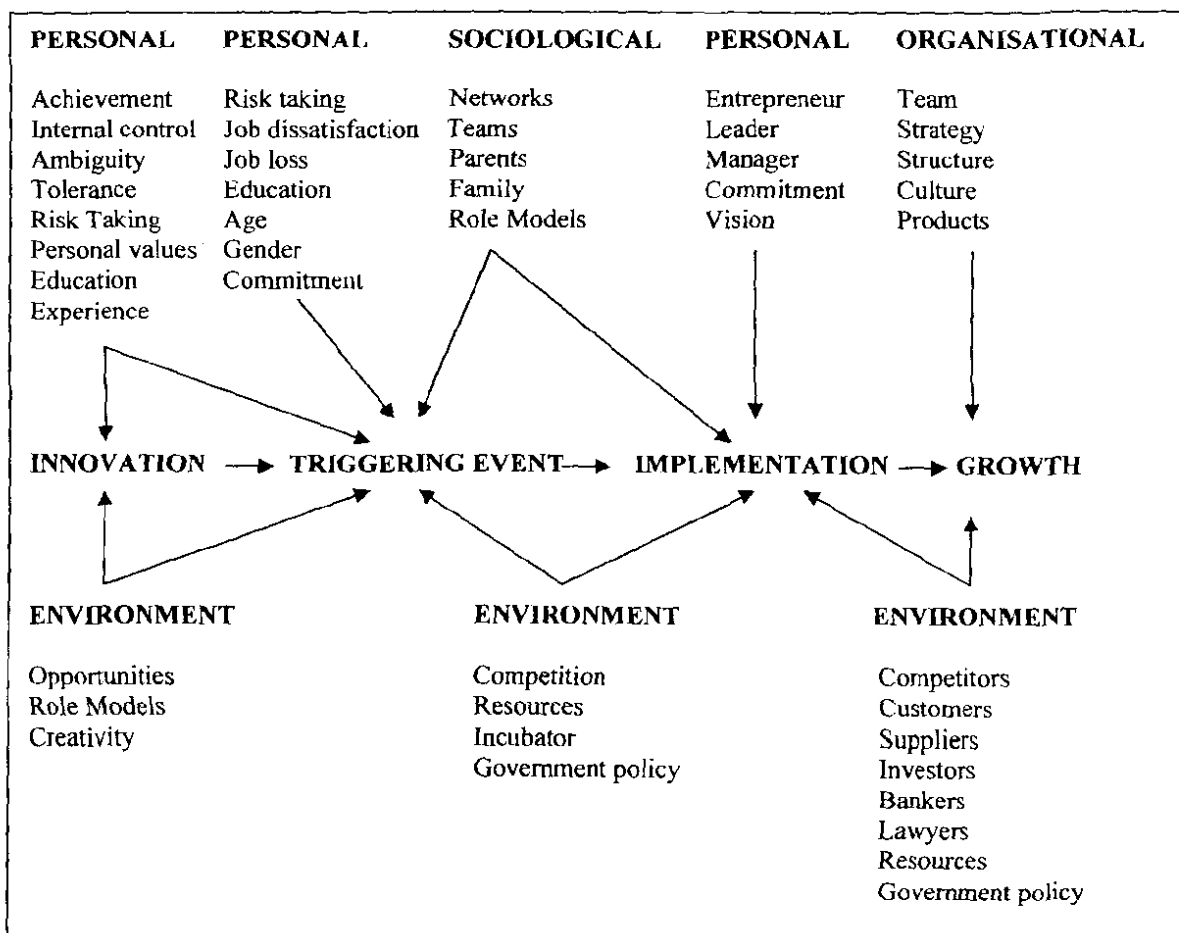
TEN SUCCESS FACTORS
1. <i>Willingness to succeed</i> - Successful entrepreneurs spare no expense. They must be prepared to work 50 to 60 hours a week and give up holidays. For that, they need the support of their families.
2. <i>Self-confidence</i> - Only those who believe in themselves will achieve their goals. That calls for optimism and trust in the future. Founders must take on challenges and confront constant changes and should not be afraid of making mistakes.
3. <i>A clear business idea</i> - The idea has to be right. The heads of businesses know their strengths and weaknesses and their competition. They know the reason for their success, whether it's because they have better products, better service, or a more intelligent sales and marketing approach.
4. <i>The business plan</i> - The business plan is the key to building up a business. This instrument, which is always being adapted to the latest developments, makes it possible to proceed with a systematic plan of action, to recognise problems in their early stages so that the proper corrective measures can be taken in plenty of time.
5. <i>Exact control of finances</i> - A young entrepreneur doesn't have to be swimming in money. But success usually doesn't come as quickly as anticipated. That's why financial resources should be calculated somewhat generously. An entrepreneur must understand something about business management, know how to react quickly, have finances and cash flow under control. Profits are reinvested in the business.
6. <i>Targeted marketing</i> - Only entrepreneurs who have a clear concept about how to introduce a product or service to the market will be able to succeed.
7. <i>A step ahead of the competition</i> - Success must be worked on constantly. It includes a plan for research and development, so that an advantage in the market isn't lost. Acting instead of reacting will supply the advantage.
8. <i>Management support</i> - Young entrepreneurs' powers increase if they can fall back on the knowledge of experienced entrepreneurs. Possible advisers to call on would be financiers or successful colleagues who are also entrepreneurs. This can also open doors for business founders that might otherwise be close to them.
9. <i>Cooperation</i> - No one is top in every field. Building up a network of cooperation often provides access to additional know-how that would otherwise be costly.
10. <i>Clear business structure</i> - A successful business has a clear structure. The employees are motivated and know exactly what their responsibilities are. The customers know who to contact.

Source: Adapted from Ryan and Hiduke (2003:14)

Table 2.9 indicates towards success factors that must be considered in order to overcome certain obstacles. It can also be assumed that if these factors are not included in the business planning process and adhered to, can be regarded as obstacles related to entrepreneurship.

According to Hindle (2004:586), each stage of the entrepreneurial process, namely innovation, triggering event, implementation, and growth, is characterised by entrepreneurial decision-making. Hindle (2004:586) refers to Moore's framework of the influences on entrepreneurial process through time (figure 2.12), and agree that different factors influence the entrepreneurial decision-making and performance.

Figure 2.12: Moore's framework of the influences on entrepreneurial process through time



Source: Moore's framework, presented in Hindle (2004:586)

Figure 2.12 indicates that each stage, namely innovation, triggering event, implementation, and growth, is characterised by entrepreneurial decision-making and performance that is influenced by individual, sociological and organisational factors.

Kahn and Ghani (2004:221) state that entrepreneurship and technological innovation are strongly influenced by the immediate environment in which the business is embedded. Nafukho (1998:3) agrees and states that ethical dilemmas present an obstacle to entrepreneurship, as most African countries have “paper entrepreneurs” who become billionaires overnight by selling resources unfairly and gives entrepreneurship a bad reputation. Barron (2000:1) concludes that although entrepreneurs have often-good ideas and are seen as competent people, they do not have a clue of how to run a business and have no underlying appreciation of business fundamentals (Barron, 2000:1).

Kuratko and Welsch (2004:85) emphasise that a holistic approach to ethical management may help entrepreneurs to develop specific principles to assist them in taking the right external steps as their business develops. These principles include the hiring of the right people, the setting of more standards than rules, not to get isolated, and to let an ethical example be absolutely impeccable at all times. Barbee (2005:44) states that by placing self-interest and personal financial gain ahead of the reasonable and legitimate interests of others can be seen as the root of ethical business dilemmas. Barbee (2005:44) further stresses that to make ethical decisions and maintaining a reputation of integrity are not only vital to customer relations, but also to the success and personal fulfilment of the entrepreneur as a whole. Barbee (2005:43) also mentions that entrepreneurial small businesses have a tougher time with ethical problems, because of the simple seduction of easy money.

As entrepreneurship in South Africa is affected by a number of factors, Herrington and Wood (2003:13) found that the greatest obstacle facing entrepreneurs is ineffective financial support followed by a lack of education and training (table 2.10). The report also shows a clear correlation between education and entrepreneurial success. Those with a tertiary education, for example, are three times as likely to progress their business beyond the start-up phase to become a new business.

A new business gets defined by Herrington and Wood (2003:5) as a business that has paid salaries for more than three months.

Table 2.10: Top two factors limiting entrepreneurship in South Africa and other developing countries

Country	Number one limiting factor	Number two limiting factor
SA	Finance (24%)	Education (12%), Culture (12%), Entrepreneurial capacity (12%)
Argentina	Culture (36%)	Government policies (26%)
Brazil	Government policies (22%)	Finance (20%)
Chile Venezuela	Finance (26%), Culture (26%), Politics, society and institutions (28%)	Education (19%), Finance (20%), Government policies (20)
Thailand	Entrepreneurial capacity (25%)	Culture (15%)
Uganda	Finance (24%)	Culture (15%)
All GEM	Culture (21%)	Finance (20%)
Developing	Finance (21%)	Culture (18%), Government policies (18%)

Source: Herrington and Wood (2003:11)

Table 2.10 indicates that finance is the no. 1 limiting factor for entrepreneurs in South Africa, followed by an equal rating for education, culture, and entrepreneurial capacity. Other limiting factors include government policies, and politics, society and institutions. According to Janse van Vuuren (2005a:20), South Africa has a considerable number entrepreneurs compared to other developing countries. Janse van Vuuren (2005a:20) states that the reason for this phenomenon can be due to a lack of knowledge or self-confidence to start a business. Wood from the University of Cape Town points to three factors that makes it difficult for a healthy entrepreneurial climate in South Africa,

namely a shortcoming in entrepreneurship ability, due to a lack in the education system, the lack of governmental support towards entrepreneurs, as well as the lack of capital (Janse van Vuuren, 2005a:20).

Foxcroft, Wood, Kew, Herrington, and Segal (2002:32) state that the financial aspect is seen as the greatest obstacle small business owners/managers experience. Table 2.11 shows the main obstacles experienced by entrepreneurs from the formal and informal sector.

Table 2.11: Obstacles experienced by entrepreneurs

Obstacle	Formal	Informal
Lack of money for capital items	45%	63%
Competition	41%	40%
Transport	41%	50%
Lack of money for running costs	39%	65%
Theft	39%	32%
Weather	35%	43%
Lack of business skills	27%	33%
Unavailability of electricity	20%	34%
Unavailability of water	16%	31%

Source: Adapted from Foxcroft *et al.* (2002:32)

Table 2.11 clearly indicates that the financial aspect can be seen as the greatest obstacle towards entrepreneurship. Competition and transport are rated as second greatest obstacles towards formal entrepreneurs. Other obstacles include the lack of money for running costs, theft, weather, lack of business skills, and the unavailability of electricity and water.

Visser (2005:32) states that banks look normally very critical at the business idea from entrepreneurial origin for financing and see only figures and not the idea or opportunity. Banks therefore force potential entrepreneurs of small businesses to obtain financing from private institutions. According to Drucker (1999:136), the size of a business should not be seen as an obstacle to entrepreneurship and innovation. It is the existing successful operation that is an impediment to entrepreneurship and innovation. It therefore takes special effort for the existing business to become entrepreneurial and innovative (Drucker, 1999:137).

Hisrich (2004:vii) interviewed entrepreneurs and small business owners around the world, and came to the conclusion that there are 13 problems that are plaguing the entrepreneur and his business, and can be grouped into three areas, namely overall management, marketing and finance. Table 2.12 shows how management, marketing and finance can be grouped into three areas (Hisrich, 2004:3-205).

Table 2.12: Problems that are plaguing the entrepreneur and his business

Management problems	Marketing problems	Finance problems
Staying focused	Focusing on a market niche and customer	Raising capital
Establishing the best organisational form	Going international	Managing the cash
Giving up control	Growing your business	Valuing a business
Attracting and retaining employees		
Choosing the right partner		
Being flexible and creative		
Building a strong business		

Source: Adapted from Hisrich (2004:3-205)

Table 2.12 indicates that within management, marketing, and finance problems, the greatest obstacles are seen as staying focussed, and the availability of capital.

It is clear that experts believe that the primary problem is the access to finance. It seems to be a general problem to many countries across the globe where potential entrepreneurs find it difficult to secure formal financing for new business creation unless they have collateral or some other form of credit history (Herrington & Wood, 2003:12). Table 2.13 provides a more disaggregated analysis of the top four limiting factors in South Africa.

Table 2.13: Disaggregated analysis of the top four factors limiting entrepreneurship in South Africa

Limiting factor	Experts mentioning this problem (%)
Financial support <ul style="list-style-type: none"> • The availability, accessibility and structure of debt capital, loans and credit • General access to finance • Availability and accessibility to early stage financial support • Funding discrimination: gender, ethnicity and age • Availability and accessibility of second level finance 	 48% 24% 16% 12% 12%
Education and training <ul style="list-style-type: none"> • Teaching and encouraging entrepreneurship skills amongst teenagers and adults in secondary and post-secondary teaching institutions • Discrimination in the education system 	 10% 10%
Cultural and social norms <ul style="list-style-type: none"> • Attitudes to women and other discriminated or disadvantaged groups • Cultural behaviours and characteristics that limit the tendency to act entrepreneurially 	 16% 10%
Capacity in population for entrepreneurship <ul style="list-style-type: none"> • Entrepreneurial expertise (lack of) 	 22%

Source: Herrington and Wood (2003:12)

Table 2.13 indicates that the general access to finance is not the greatest limiting factor for entrepreneurship, but rather the availability, accessibility and structure of debt capital, loans and credit. Financial support in general is seen as the greatest obstacle towards entrepreneurship, followed by the capacity in population for entrepreneurship, cultural and social norms, and lastly education and training.

According to Lesonsky (2004:12), there are many people each year that make the transition from employee to entrepreneur. Many of those that fail were simply not ready to make the change, and did not answer questions such as the following:

- Do I have enough money?
- Is my family ready for this?
- Do people need a product or service like mine?

From Lesonsky's (2004:12) theory, it can be assumed that business planning plays an important role in the minimisation of certain obstacles related to entrepreneurship.

2.12 SUMMARY

It is clear that one of the best ways to determine one's own entrepreneurial characteristics might be to meet with other entrepreneurs and see what they do and how they handle different situations. By looking at their lifestyles and talking about entrepreneurship might help to figure out if it will be suitable for oneself.

It is recommended to also talk to some entrepreneurs that faced business failure, in order to find out what went wrong and what preventative measures could have been taken. The exposure to this practical side can give a taste of the reality, and also assist in the decision to be an entrepreneur. These lessons, on both strategic and tactical level, can be seen as extremely valuable for an entrepreneur that starts a business, and is probably a far more practical and valuable education than provided by a business school.

The diversified nature of entrepreneurs, entrepreneurship and entrepreneurial success makes it difficult to reach consensus on this subject. The reason for this can be due to the difference between entrepreneurs, their circumstances, the environment and the opportunities and threats that make it difficult to define reasonable principles of entrepreneurial behaviour.

A full transformation of the human resource management process is required, instead of creating a culture of equity and eliminating internal competition for resources. To enact such a major cultural change, is no easy task. It will take intensive planning and careful implementation to restructure a compensation and reward system, as well as training and development programs. Policies that support an open culture without constraining it, such as the internet, must be an ongoing task. These changes will address the beginning of the process towards the sustainable development of entrepreneurship.

From the literature study it is clear that the greatest limiting factor towards entrepreneurial success is financial support, followed by the lack of entrepreneurial expertise, and insufficient business skills. The literature study indicates that entrepreneurship is essential to the successful development of the small business sector. The small business will therefore be covered in Chapter 3.

CHAPTER 3

SMALL BUSINESS DEVELOPMENT

3.1 INTRODUCTION

In an economy with a high unemployment figure, small businesses are faced with many challenges. Horton *et al.* (2000:45-50) agree that small businesses are seen as the engine of job creation, black economic empowerment, innovation and redistribution. Longenecker *et al.* (1997:30-31) agree, and add that small businesses show also greater effectiveness in research and development compared to large businesses. Small businesses are also not only significant in providing new jobs, but are also significant in the variety in activities as opportunities for freedom in decision-making are greater in a small business, which can lead to more creative and aggressive leadership (Corman & Lussier, 2001:1/10). Cassard (2003:4) adds that small business is all about identifying a need, creating a solution to address that need, and sustaining that commitment for an extended period of time.

The value of small businesses towards the enhancement of entrepreneurship, employment and economic prosperity are known for decades, and gained more momentum from the mid-nineties. In midst of the importance of small businesses, they are still confronted with unique obstacles (Moolman, 1998:27). Leonidou (2004:281) says that business obstacles refer to all those constraints that hinder the business's ability to initiate, develop or sustain the business operations. In order to better understand entrepreneurship, it is important to identify the obstacles.

This chapter will cover the importance of the role of small businesses in enhancing the economy, as well as typical obstacles within the development of the small business sector.

3.2 SMALL BUSINESS DEFINED

The trend is to divide the small business sector in three elements, namely small-, medium-, and micro-enterprises (SMME's). This term differentiates between different individuals, institutions and even countries, and it is difficult to formulate an adaptable definition (Moolman, 1998:27-28). The study will be restricted to small businesses, and will therefore also refer to the term 'small business' throughout this study.

Small businesses are generally characterised by different levels of sophistication and skills, and function in different industry sectors. Small business owners can be either prosperous or non prosperous. Some small business owners are more dynamic and innovative, characterised with entrepreneurial skills, while others are pleased with slow or even no growth.

According to group dynamics experts, the optimal size for a highly functioning group is five people, as in a group this size, there are enough participants to allow for multiple perspectives but few enough to avoid the separation into diverse factions that begin to hinder efficiency and the quality of relationships in larger groups (Walters, 2002:19-20). Walters (2002:20-23) mentions certain qualitative factors that distinguish an effective small business, and are based on the fact that they can be more efficient, creative, specialised, flexible, countable and resilient.

Walters (2002:xi) states that 80% of all businesses in the United States have fewer than five employees. The definition of a small business yields different answers, as in the United Kingdom and the European Union, small businesses are characterised with having fewer than fifty employees, and micro businesses having less than ten employees (Walters, 2002:9-12).

Many viewpoints exist on the definition of a small business, and it also differs from country to country. The indicating factor is generally based on the number of employees and the value of total assets. The following definitions are given:

- A small business may be described as “small” when compared to larger businesses, and consists of between 10 and 15 employees (Longenecker, Moore & Petty, 2000:14).
- MVP (2005) defines a business as any initiative that entails the mobilisation of resources to establish a good, service, program, and so forth to address needs, wants, problems, and challenges. A small business is a business that is independently owned and operated and is normally too small to be dominant in its field (Corman & Lussier, 2001:1/9).
- Hallberg (2000:1) defines a small business as a business with at least five to 10 employees minimum and at most not more than 50 to 100 employees.
- Etemad (2004:226) states that the European Commission’s standardised business definition refers to Micro-businesses as having one to nine employees, and small-businesses as having 10 to 49 employees.
- The National Small Business Act (1996) defines a small business as a business that is *independently owned, a total asset value (including fixed assets) of less than R 15 million, a yearly gross income of less than R 40 million, with less than 200 employees.*
- The National Small Business Amendment Bill (2004:2) defines a small business as a distinct *business entity that gets managed by the owner or owners.*

The National Small Business Act (1996) classifies small businesses as medium, small, very small and micro-businesses. The National Strategy on Small Businesses (1995:10) states that small businesses can be seen as the largest established element within the SMME sector, and are normally managed by the owner, own their own formal business property, comply to all registration requirements and with an employment figure of not more than fifty.

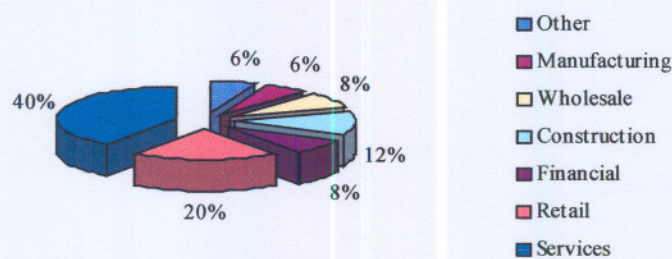
Moolman (1998:28) gives a definition of a small business as one that is owned and managed privately and independently by the owner, has a gross income of not more than R5 million per year, employs not more than 100 employees, has not more than R1 million in total assets (excluding property and buildings), does not have more than five branches or business units. A business has to comply with at least four of these guidelines to be recognised as a small business.

As this study aims to identify the relevant obstacles towards small business development in the Emfuleni district, it is not necessary to distinguish between large-, medium-, and small-businesses, but only focus closer on the small business sector. The definition of a small business, according to The National Small Business Act (1996), and The National Small Business Amendment Bill will be used for purposes of this study (2004:2).

3.3 THE INDUSTRY AND THE SMALL BUSINESS SECTOR

According to Wheelen and Hunger (2004:60), an industry is a group of businesses that produce a similar product or service. Scarborough and Zimmerer (2003:21), state that 98.5% of all businesses in the United States can be considered as small businesses, of which the most can be related to the retail and service industry (figure 3.1). These small businesses employ 52% of the nation's private-sector workforce, and 75.8% of the nation's new jobs (Scarborough & Zimmerer, 2003:22). Horton *et al.* (2000:45) add that international studies have shown the important, positive relationship between the growth in unemployment and the growth of small businesses.

Figure 3.1: Small business by industry



Source: Scarborough and Zimmerer (2003:21)

Figure 3.1 indicates that the largest portion (40%) of the small business sector is made up of the service industry. The service industry together with the retail industry account for 60% of all activities within the small business sector.

Figure 3.1 also indicates that the manufacturing industry makes up the smallest portion (6%) of the small business sector. A similar trend for South Africa may be explained by a survey done by the National Institute for Economic Policy (NIEP), that finds that South Africa is far more demand – constrained than supply constrained. It is also reflected by a survey from Statistics South Africa, where the manufacturing capacity utilisation decreased from 81% in 1996 to 78,6% in 1999 (Horton *et al.*, 2000:50). Mittner (2005:15) adds that as long as the South African Rand is strong, growth in the manufacturing sector cannot be expected to be positive.

The small business sector in the United States produces 51% of the gross domestic product (GDP). The reason for this is that small businesses create four times as many innovations for each research and development (R&D) dollar as medium-sized businesses do, and 24 times as many as large companies. Small businesses also contribute 20% more of these innovations per employee than large businesses (Scarborough & Zimmerer, 2003:22).

Ryan and Hiduke (2003:22-23) state that certain changes within the industry and small business sector occur within the following five major environmental variables:

- **Technology** - Biotechnology, miniaturisation, Internet, nanotechnology, genomics, telecommunications.
- **Competition** - Deregulation, impact of “box stores”, international.
- **Social/Cultural** - Immigration, single parents, religion, ethnic shifts.
- **Legal/Political** - Who is in power, tax laws, changing regulations.
- **Economics** - Recessions, inflation, changing income levels, cost of housing, food prices, energy.

The challenge is to constantly be aware of the above-mentioned variables, to recognise the changes that occur within each variable, as well as to identify opportunities for products or services. Each change within the environmental variables and subsequent trends will affect how products are manufactured, marketed, and delivered to customers (Ryan & Hiduke, 2003:22-23).

Statistics South Africa (2004:2) mentions the major industry divisions that gets used in the national accounts table, and classify them as follows:

- Agriculture, forestry, and fishing
- Mining and quarrying
- Manufacturing
- Electricity and water
- Construction
- Wholesale and retail trade, hotels and restaurants
- Transport and communication
- Finance, real estate, and business services
- Community, social and personal services
- General government services
- Other producers

Nieman and Bennett (2002:63) distinguish the entrepreneurial venture from the small business. The entrepreneurial venture has usually a great more potential for growth than the small business, as it is usually based on a significant innovation. As small businesses operate within its market, entrepreneurial ventures are in a position to create its own market. Wickham (2001:73) states that as the small business may be new to a locality, and not driving something new in a global sense, the entrepreneurial venture is usually based on a significantly new way of driving something. For the purpose of this study, both terms will be used without any distinction.

3.4 SMALL BUSINESS CONTRIBUTIONS

Chapter 3 already mentioned that small businesses are known for their contribution towards employment, initiative and stimulation of innovations, enhancing healthy rivalry, and an utmost contributor to socio-economic development. That is the reason why small businesses are in the best position to stimulate economic prosperity and economic equilibrium (Moolman, 1998:29). Dobrev and Barnett (2005) state that the creation of new businesses is one of the most important forces of social and economic development. Walters (2002:12) agrees to this fact/statement. Murphy (1996:5-6) believes that a demand led economy has small businesses because of the following reasons:

- They help to diversify a nation's economic base and provide it with the opportunity of responding to a variety of market conditions.
- They help to create jobs and "mop up" unemployment.
- They provide an element of local control and can respond to local needs.
- Over dependence on large businesses supported by international financiers deprives regional economies of their independence.
- They provide an opportunity to transcend social inequality – they are one of the expressions of meritocracy and opportunity.
- The presence of small businesses in an economy is an expression of its competition policies – they stand for anti-monopoly.
- They contribute to a nation's gross domestic product (GDP).
- They encourage new uses of technology and absorb technological innovation.
- They encourage higher levels of productivity by extracting more output per unit of capital.
- They cater for niche markets and hence encourage and satisfy innovation.
- They are an avenue for self-development and individual achievement and an expression of entrepreneurialism.

Walters (2002:55-67) states that the small business contributes towards a bigger vision, and therefore identifies the following twelve priorities as crucial in the success of small businesses:

- Ensure a mutual benefit between yourself and the consumer.
- Create the right livelihood by contributing positively to the community.
- Fostering respectful and rewarding relationships.
- Giving back to the community.
- Aspiring towards high ethical ground.
- Creating a respectful environment.
- Generating revenue as a means rather than the primary goal.
- Fostering health and wellness.
- Promoting awareness and personal responsibility.
- Cultivating conscious-business practices.
- Setting high standards for quality.
- Connecting business and spiritual practices.

Sub-sections 3.4.1 to 3.4.6 will cover more specific contributions of the small business sector, such as job creation, innovation, stimulation of economic competition, aiding big businesses, economic diversity, and social investment.

3.4.1 Providing new jobs

According to Longenecker *et al.* (2000:18-19), entrepreneurs can launch a new business considering one of the following four alternatives:

- Entering a family business.
- Opening a franchised business.
- Starting a new business.
- Buying an existing business.

Longenecker *et al.* (1997:29) believe that the small business sector contributes to job creation by means of the formation of new businesses, as well as the expansion of these businesses. The fact that small businesses create more employment than big companies, was proved by Birch in the 1980s, and later confirmed by Acs and Audretsch that 1.3 million new jobs were created in the manufacturing sector between 1979 and 1986, while the manufacturing jobs in large businesses decreased by 100 000 (Longenecker *et al.*, 1997:29). Kuratko and Welsch (2004:5) agree and state that entrepreneurial businesses create the most jobs in the U.S. economy. Walters (2002:13) adds that the small business sector in the United States generates more than two-thirds of all new jobs, of which businesses with less than five employees generate just over half of those new jobs.

According to Poh and Yuen (2005), only high growth potential entrepreneurship is found to have a significant impact on economic growth. It is fast growing new businesses, and not new businesses in general, that account for most of the new job creation by small businesses. De Groot *et al.* (2004:107) state that small businesses in the United Kingdom provide more employment than large businesses and public organisations together. Beck, Demirguc-Kunt, and Levine (2003:1) add that although small businesses contribute towards economic growth, no relation can be found that small businesses reduce poverty. Moolman (1998:30) feels that apart from the fact that small businesses are one of the greatest contributors to job creation and economic development, there exists also a better personal and intimate relationship between employer and employee than in bigger businesses.

Horton *et al.* (2000:45) states that in 1997 it was already estimated that there were a total of 421 700 micro to small businesses in South Africa, that made up almost 47% of all businesses, with a total employment figure of 2 859 600 people, or 39% of the total employment in South Africa. Table 3.1 shows the estimated number of establishments and employees by establishment size.

Table 3.1: Estimated number of establishments and employees by establishment size

Type of establishment	No. of establishments	No. of employees	Share of total employment
Survivalist	184 400	184 400	2,5%
Micro – 0 employees	283 300	283 300	3,8%
Micro – 1-4 employees	182 800	565 200	7,6%
Very small	180 000	1 068 400	14,4%
Small	58 900	1 226 000	16,6%
Medium	11 322	909 900	12,3%
Large	6 017	3 159 900	42,7%
Total	906 700	7 397 200	100%

Source: Horton *et al.* (2000:45)

Table 3.1 indicates that all businesses up to the size of a small business form 45% of the total number of businesses in South Africa. Medium and large businesses form just over half of all businesses (55%).

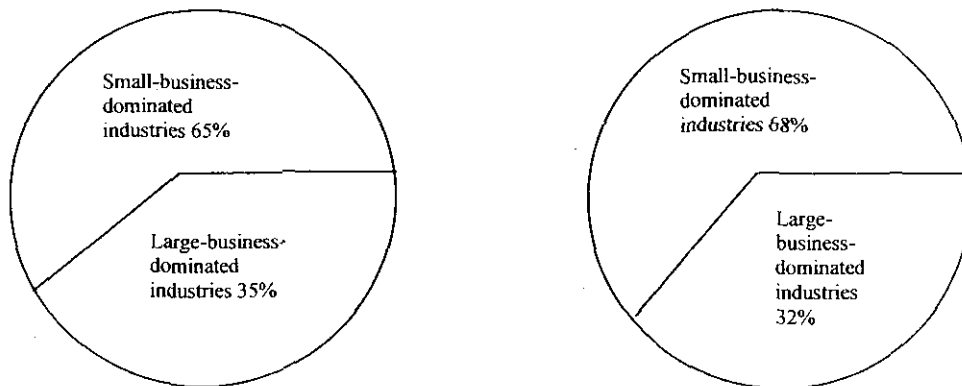
According to Lighthelm and Cant (2003:41), the contribution by small businesses in terms of employment and income generation is seen as very important and is increasingly being recognised around the world. Janse van Vuuren (2005a:20) states that only 5,4% South Africans have started or are busy starting their own businesses, but create work for 2,1 million people in South Africa. Janse van Vuuren (2005a:20) further mentions that it does not compare positively to the 9,4% of 34 developing countries that were monitored, and even worse compared to the 21% average of some other developing countries.

Corman and Lussier (2001:1/8) state that 68% of future employment growth in United States of America is likely to come from small businesses. Figure 3.2 shows the employment expectation between small- and large businesses up to year 2005 (Corman & Lussier, 2001:1/9).

Figure 3.2: Where the jobs will be between 1992 and 2005

The historic trend of 1975 to 1990....

....will continue from 1992 to 2005



Source: Corman and Lussier (2001:1/9)

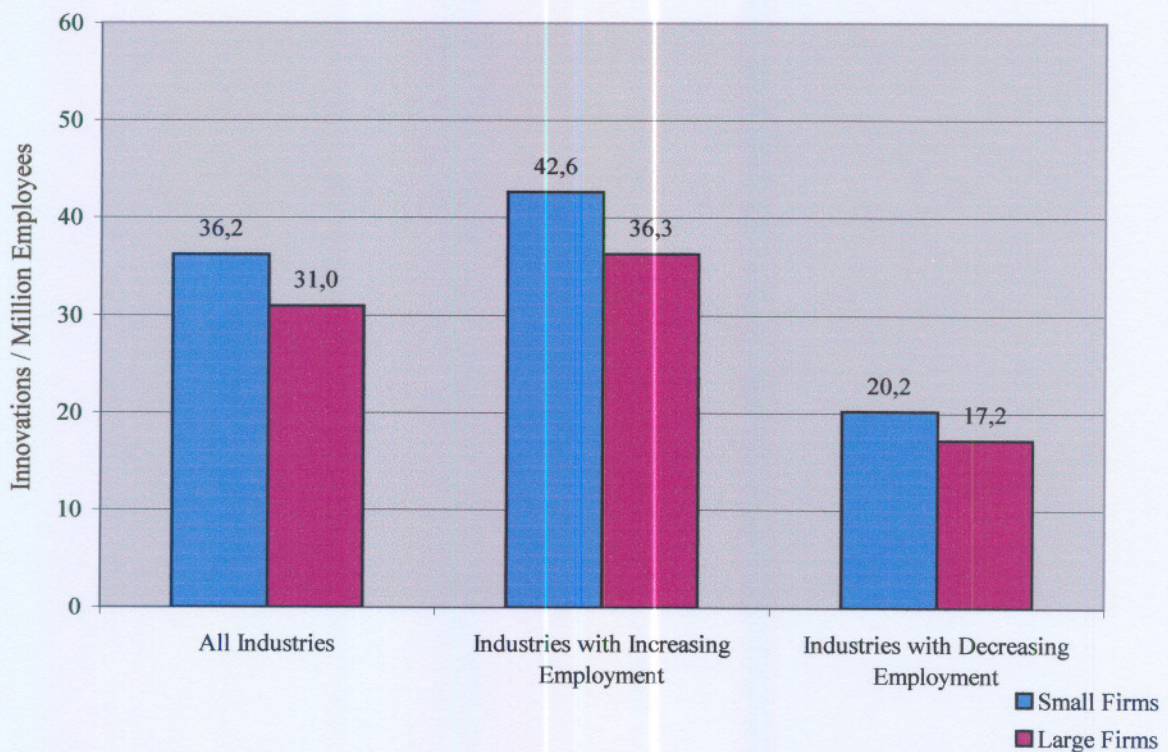
Figure 3.2 shows an expected increase of 3% in job creation in the small-business-dominated industries, compared to the 3% decrease in large-business-dominated industries.

Corman and Lussier (2001:1/10) state that small businesses are not only significant in providing new jobs, but are also significant in the variety in activities as opportunities for freedom in decision-making are greater in a small business, which can lead to more creative and aggressive leadership. Corman and Lussier (2001:1/10) further state that management people are attracted by smaller businesses because the advancement within smaller businesses can be accelerated. Employees also tend to have greater responsibilities and duties, and therefore experience their work to be more diversified.

3.4.2 Introducing innovation

Zivnuska and Gundlach (2005:634) stress that business environments in which creativity and innovation can flourish, should be fostered. Longenecker *et al.* (2000:17-18) state that 50% of all innovations and 95% of all radical innovations since World War Two have come from new and smaller businesses. Kuratko and Welsch (2004:6) agree by adding that new and smaller businesses have been responsible for 55% of the innovations in 362 different industries, of which 95% were radical innovations. They also produce twice as many product innovations per employee than their larger counterparts. Figure 3.3 shows the greater effectiveness of small businesses in research and development compared to large businesses (Longenecker *et al.*, 1997:30-31).

Figure 3.3: Innovations by size of business



Source: Longenecker *et al.* (1997:30)

Figure 3.3 proves that small businesses produce on average 15% more innovations than their larger counterparts.

Economists believe that innovation is seen as a prerequisite towards the progress of any country. Small businesses are normally associated with the innovation and design of new products, as most of these new developments are born from a specific need for a new product. That is the reason why small businesses enhance free rivalry that leads to healthy competition (Moolman, 1998:31). Kahn and Ghani (2004:235-236) agree by stating that small businesses that are interconnected in a particular field in the form of clusters, play a key role in facilitating entrepreneurship and technological innovation by reducing the risks of failure and encouraging the diffusion of new technologies.

3.4.3 Stimulating economic competition

The fall of the communist governments in Eastern Europe and the Soviet Union made it possible to scrap the system of state-owned businesses and opened the way for independent small businesses, that increased productivity as well as the standard of living for many in such a way where small business keeping big businesses on its toes (Longenecker *et al.*, 1997:31-32). Small businesses contributes towards the stimulation of economic competition by means of increased productivity, especially when Truitt Smith (2001:8) believes that a profit sharing plan works well in small businesses and can be seen as two-fold. It gives the owner the largest possible share of the plan contribution and also add flexibility to the plan in order to benefit different other groups of employees.

Moolman (1998:29) states that through an investigation in 17 countries, it showed that 92,8% of total businesses can be categorised under SMME's. Corman and Lussier (2001:1/10) state that as small businesses have greater flexibility because of their size, it allows them to adopt new processes, services, materials and products. This phenomenon encourages competition in design and efficiency and therefore helps prevent large businesses from forming monopolies.

Moolman (1998:31-33) states that as a large number of small businesses contribute to a healthy price rivalry, this sector is seen as the seedbed of the free market system. Furthermore, small businesses are very flexible and adaptable when come to changes in the market, mainly due to the effective communication channels with less rules and regulations.

3.4.4 Aiding big business

Small businesses contribute to the success of larger ones by means of performing certain functions more efficiently, such as distribution, supply and service (Longenecker *et al.*, 1997:32-33). Walters (2002:13) states that as small businesses purchase office equipment and all other products and services necessary to run the business, they contribute to bigger businesses and companies who then on their turn stimulate job creation, manufacturing, and other economical factors. The reason why small business contributions are seen as valuable to the success of larger ones, may be explained by the expectation of Dobrev and Barnett (2005) that as businesses grow and age, their members will see fewer opportunities for entrepreneurship.

All businesses, big and small, are dependant on each other; bigger businesses normally need the smaller businesses to distribute their products, and smaller businesses need the bigger businesses to fulfil the role of sub-contractors in the market (Moolman, 1998:31).

3.4.5 Economic diversity

There are some cost advantages for small businesses over bigger ones, and can therefore be assumed that bigger is not necessarily better (Longenecker *et al.*, 1997:33-34). Walters (2002:14) states that small businesses help create a more diverse, resilient economy, and also allow a greater variety of products, industries and participants. Walters (2002:14-15) further mention that small businesses offer a more unique service level that augments the services and products offered by large corporations, such as restaurants, retail services, outpatient care facilities, health care-provider services,

residential care facilities, special trade construction contractors, architectural and engineering services, computer and data-processing services, day care providers, job training, and counselling and rehabilitation services. Walters (2002:15) states that such industries accounted for about 64% of the 2.5 million new jobs created in 1996 alone.

Willemse (2005:32) states that a small business creates a more diverse economy with their willingness to take the risk of investing their money to achieve prosperity by means of fulfilling a market demand. By taking this risk, small businesses enhance the economy of a country at the same time.

Small business contributions can also be seen as more economic diverse than large businesses, especially when Corman and Lussier (2001:1/10) state that small businesses can maintain a closer relationship with its customers, employees, and its suppliers than large businesses. The reason for this is that a small business can provide more individual and personal attention to its customers, due to the smaller customer base. Moolman (1998:30-31) adds that it is only small businesses that are willing to serve rural and countryside areas.

3.4.6 Social investment

Moolman (1998:33) indicates that small businesses fulfil a socio-economic role in two ways, namely: the wide variety and quality of personal service and products to consumers, as well as the willingness to invest within the communities they operate within. Lunsche (2004a:16) agrees and states that corporate social investment (CSI) will sustain long term investments. Lunsche (2004a:16) uses an example such as the MTN Foundation in South Africa that decided to set aside R 2 million to create 90 multimedia centres throughout South Africa, where more than 79 disadvantaged and rural schools have been equipped with these centres in order to improve the quality of education.

Walters (2002:16) states that the greater contribution is made by more mindful, human-scale businesses such as local bakeries, small farms, boutiques, hardware and

bookstores, and cafes. The owners of these businesses live and work in the community and are therefore accountable for their effect on the local quality of life.

3.5 REASONS FOR STARTING A BUSINESS

According to Goffee and Scase (1995:3), the prime motive for business start-up is often viewed to be associated with financial reward. Bekker and Staude (1988:1) mention that for most people who become an owner of a small business is like a dream come true. However, the dream can easily become a nightmare, if you do not know how to cope. The first question to answer is whether you are the right person to make a success of the business, as one thing is certain: "In order to succeed in business you have to perform at your best consistently." (Bekker & Staude, 1988:1.)

According to Wickham (2001:63), there are two factors that drive the manager from the conventional labour pool to the entrepreneurial pool, namely: pull factors and push factors. Pull factors are those that encourage managers to become entrepreneurs by virtue of the attractiveness of the entrepreneurial option. Some important pull factors include:

- the financial reward of entrepreneurship;
- the freedom to work for oneself;
- the sense of achievement to be gained from running one's own business;
- the freedom to pursue a personal innovation, and
- a desire to gain the social standing achieved by entrepreneurs.

Push factors are those that encourage entrepreneurship by making the conventional option less attractive. Push factors include:

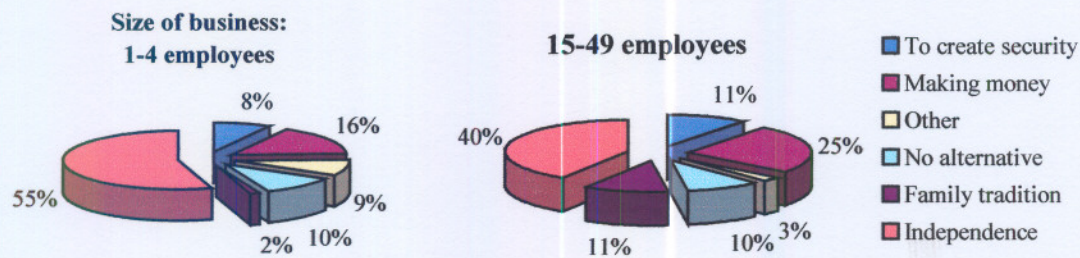
- the limitations of financial rewards from conventional jobs;
- being unemployed in the established economy;
- job insecurity;
- career limitations and setbacks in a conventional job, and
- being a 'misfit' in an established business.

According to the Business Journal Staff (2005:47), a considerable number of people start businesses not just for money, but only because they are doing something they love to do. Buera (2005:52) states that individuals on the other hand, who start with wealth above a certain amount, purposely save to become entrepreneurs, while those who start below this threshold fall into a 'poverty trap' and remain wage earners forever.

Goffee and Scase (1995:3) state that there are a range of factors, many of which stem from personal needs for independence and self-fulfilment. Many entrepreneurs start their own business to escape from the controls, rules and regulations that are found in any employment relationship. They resent being told what to do by managers and also object to their work patterns being regulated by organisational procedures. They stand to enjoy greater personal success and psychological autonomy through starting their own businesses (Goffee & Scase, 1995:3).

According to the results of a survey on 3 million workers, 300 000 managers, and 60 000 businesses in 60 countries, only 7% of employees in South Africa are emotionally committed to their employers. 73% of all employees in South Africa are neutral against their employers and 20% negative (Kloppers, 2005b:15). Figure 3.4 shows that the personal motives for business start-up will be made up of a variety of factors (Goffee & Scase, 1995:3).

Figure 3.4: Motivations for small business proprietors in the United Kingdom by size of business



Source: Goffee and Scase (1995:3)

Figure 3.4 also shows that those who start their own businesses, are more able than others to work independently, and to pursue their own economic self-interest without the need for support and structure that is found in large businesses. They have the confidence to establish a sense of self-esteem that is independent of others' opinions.

Goffee and Scase (1995:5) state that the inner locus of control leads entrepreneurs to feel personally responsible for their own actions. Dobrev and Barnett (2005) agree by stating that members of small businesses are likely to have more varied, multifunctional role sets that are more likely to provide access to novel information and opportunities than the more homogeneous contacts likely within larger and more developed businesses.

Horton *et al.* (2000:45) states that most new small businesses were not created because the owner was attracted by the pulls of entrepreneurship such as independence or prospects of higher income, but rather as a survival strategy in response to unemployment. In the light of the 8 million unemployed South Africans, Mr. Marc Lowe from the Democratic Alliance mentions that South Africans should rather learn how to work than to expect government support (Leuvennink, 2004:1). Lesonsky (2004:13) indicates that it is a combination of factors that come together all at once which make people think about starting their own business, such as:

- potential customers start calling you;
- a business goes under and you see an opportunity;
- a feeling of working below your potential salary or skills level, and
- not putting your talents to their best use.

Human (1998:83-84) states that people start their own businesses for the following reasons, namely: higher income, greater job satisfaction, to be one's own boss, to utilise a new idea, to care for a family, to develop other talents and for self esteem. Buera (2005:52) mentions that although the probability of becoming an entrepreneur as a function of wealth is increasing for low wealth levels, it is decreasing for higher wealth

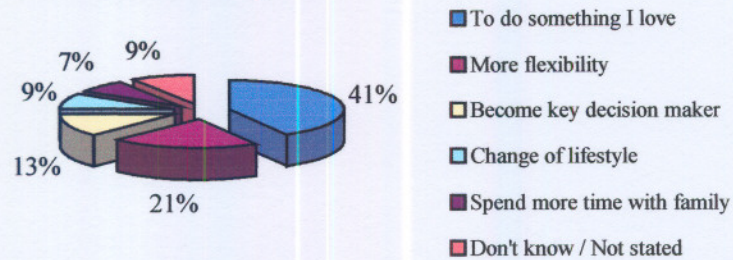
levels. The following reasons for business start-up should rather be considered (Human, 1998:84):

- To start your own business is not always as difficult as it seems. The entrepreneur has just to overcome certain fears in order to be successful.
- Support in large areas around the world available for entrepreneurship and small businesses create ideal conditions for persons who want to start their own business.
- The chances for business failure are not as great as what it claimed to be in the past.
- Support from the government for entrepreneurship and small business development is now greater than ever. Willemse (2005:32) states that a government can also easily influence the opportunity of starting a new business by means of government regulations that makes it difficult to invest ones own assets into a new business.
- Personal and professional risks associated with business start-up can be reduced to the minimum by means of proper planning.
- Experience or without does not necessarily mean that the new business will not be a success.

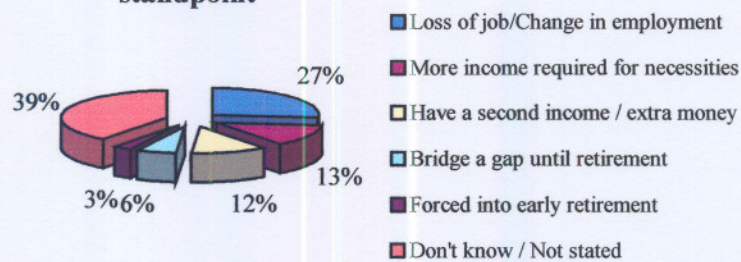
Human (1998:84) adds to his reasons for business start-up, that the most important reason for business start-up that is not mentioned, is the fact that a new business can be joyful, although it means hard work, long hours, risk, headaches, and sometimes even the same as when working in the corporate world. Willemse (2005:32) adds that economic growth and prosperity are created when normal people are willing to invest their assets in order to produce a product or service in such a way that the profit expectation is great enough to neutralise the risk. CIBC World Markets (2004) indicates that success and motivation mean different things to different entrepreneurs. Figure 3.5 shows the motivation for opening a business from both a non-financial and financial point of view.

Figure 3.5: Motivation for opening a business

Motivation for opening a business from a non-financial standpoint



Motivation for opening a business from a financial standpoint



Source: CIBC World Markets (2004)

Figure 3.5 indicates that 41% of small business owners indicate that they opened a business to do something they love, when they were asked for non-financial reasons for becoming an entrepreneur. The financial reasons for opening a small business were less conclusive. 39% entrepreneurs did not provide a financial reason, while 27% respondents cite a loss of job or negative change in the entrepreneur's employment situation as their motivation for opening a business (CIBC World Markets, 2004).

De Groot *et al.* (2004: 256-257) state that the most important motive why people start their own businesses is to be independent. Willemse (2005:32) states that there are also people who start a business on a small scale, only for survival. Table 3.2 shows the

different motives why people start their own business, and indicates towards the fact that people start their own businesses to be independent.

Table 3.2: Why people start their own businesses

Motivation	Average score	Rank
<i>Personal achievement</i>		
To be independent	4,19	1
To use own creative skills	4,16	2
To have more satisfaction in work	4,12	3
To be the decision maker	3,91	4
<i>Opportunities</i>		
To exploit market opportunities	3,72	5
To meet a service or need of society	3,09	6
To make a lot of money	2,93	7
To have more prosperity in the future	2,86	8
<i>Working conditions</i>		
To be able to work at home	1,98	9

Source: De Groot *et al.* (2004:257)

Table 3.2 also shows that motives like grasping opportunities and material prosperity ranked lower than that of personal achievement. It is further stated that due to the large risk involved when starting a new business, most start-ups (84%) are founded by more than one person, 60% by two persons and 24% by three or more persons (De Groot *et al.*, 2004:257).

3.6 SMALL BUSINESS MORTALITY

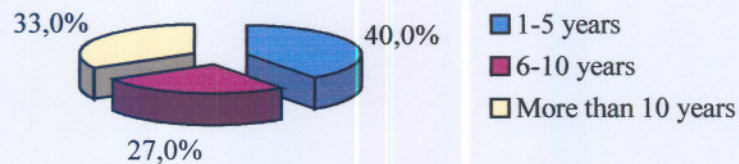
Not all small businesses reach the stage of medium size businesses, as the failure rate for small businesses are relatively high. Small business failure can be seen as a business

that cannot function anymore due to financial constraints, and must be sold or be discontinued (Moolman, 1998:34).

According to Hsu (2004:F6), it is proved that venture capital back the commercialisation of the cooperative activity, as well as having a positive start-up performance activities. Kaplan, Sensoy, and Stromberg (2005:53) agree by stating that the average time from early business planning, to public offering, to public company, take an average elapsed time of almost six years, according to a survey done on 49 venture capital financed companies.

Kaplan *et al.* (2005:53) state that nonhuman capital aspects of the business appear to be more stable than the human capital aspects. Because of limited resources, inexperienced management, and lack of financial stability, small businesses suffer a mortality rate significantly higher than that of larger established businesses and can be explained by figure 3.6 (Scarborough & Zimmerer, 2000:25-31).

Figure 3.6: Small business mortality



Source: Scarborough and Zimmerer (2000:28)

Figure 3.6 illustrates that 40% of small businesses failures will occur within the first five years. It also indicates that businesses that operate for more than ten years are more likely to fail than those that operate between six and ten years.

Corman and Lussier (2001:1/9) mention that it is surprising that there is so many new businesses formed each year, when one considers the odds stacked against success. Table 3.3 summarise the failure rates of new businesses (Corman & Lussier, 2001:1/9).

Table 3.3: New business failure rates

By the end of	Percentage that fail
1 st year	24,1%
5 th year	40,1%
10 th year	91,7%

Source: Corman and Lussier (2001:1/9)

Table 3.3 shows not only that almost a quarter of new businesses will fail after the first year, but also that just more than 8% of new businesses will survive after ten years of operation.

Corman and Lussier (2001:1/9-1/10) further state that the odds of survival and future expansion of a new business can be directly related to the number of employees the business needs and can afford to hire. Table 3.4 shows how the survival rates of new businesses relate to their size (Corman & Lussier, 2001:1/10).

Table 3.4: One year survival rates by the size of the business

Size of business (employees)	Survival percentage
0-9	77,8%
10-19	85,5%
20-30	93,3%
100-240	95,3%
250+	100,0%

Source: Corman and Lussier (2001:1/10)

Table 3.4 shows that small businesses are more likely to fail than larger businesses after one year of operation. Businesses with more employees are thus more likely to succeed. Longenecker *et al.* (1997:34) believe that business failure is not the only reason why businesses cease operation. In some cases owners may shut down the business or sell it to new owners. This is the reason why it is so difficult to measure the failure rate accurately. This is also why some confusion exists concerning the life expectancy of small businesses (Longenecker *et al.*, 1997:34-35). Research done by Kirchoff, a professor of entrepreneurship at New Jersey Institute of Technology, reported that an excess of 50% of small businesses survive for the first eight years, of which no more than 18% terminate with losses to creditors (Longenecker *et al.*, 1997:34-35).

3.7 REASONS FOR SMALL BUSINESS FAILURE

According to Wickham (2001:123,126), a business is not only seen as successful when the aspirations of its stakeholders are met, but also include a common set of factors to adhere to in order to prevent business failure, such as:

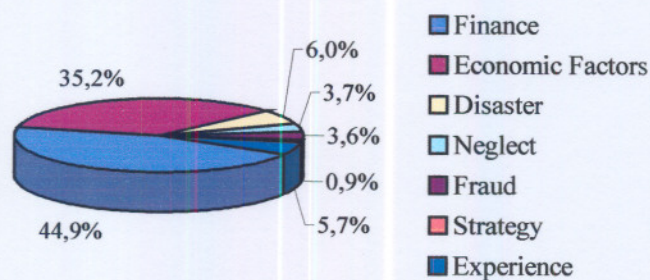
- a significant opportunity is exploited;
- the nature of the opportunity is well defined and well understood;
- the innovation behind the business venture is effective and different from the way existing businesses operate;
- the entrepreneur brought the right skills and people to the business;
- the business has a learning culture and its people a positive attitude;
- there is effective use of networks;
- financial resources are available, and
- the business has clear goals and its expectations are understood.

Moolman (1998:34) attributes small business failure to human factors, including the knowledge of internal and environmental factors that may harm the existence of the business, as well as business planning that can be done in a more efficient way. It can be assumed that 92,1% of all business failures are due to these human factors and include the lack of business and management experience within the specific field of business.

External factors that are most likely for small business failure are inadequate turnover, unsatisfactory ability to compete, inventory problems, unusually high operating costs, bad location and unusually high investment in fixed assets. Mr. Mandisi Mpahlwa, Minister of Trade and Industry, agrees with the external factor such as the unsatisfactory ability to compete by stating that the competitive environment in SA does not enhance the sustainability of the small business sector (Leuvennink, 2005c:17). Moolman (1998:35) concludes to say that the entrepreneur that knows the internal and external factors of the business will have a better change of survival.

Murphy (1996:7) states that when barriers are low for any given market, there is also a likelihood that too many businesses of a similar kind may start up. This may lead to an over-supply of products for the amount of demand available. Murphy (1996:7-9) states that the birth and death rates of businesses will show a correlation to the strength and weakness of the various barriers to survival. Longenecker *et al.* (1997:36-37) believe that the reasons for the failure rate of small businesses are difficult to specify as it forms a complex web of different causes, but if one looks at figure 3.7, it shows that finance is the greatest cause due to high operating costs.

Figure 3.7: Reasons for business failure



Source: Longenecker *et al.* (1997:36)

Figure 3.7 indicates that finance is the greatest cause for business failure (44,9%), followed by economic factors (35,2%). Fraud has the lowest impact on business failure (0,9%).

According to another survey done by Dun and Brudstreet, economic factors were the greatest reason why businesses fail in America (Corman & Lussier, 2001:1/15). Table 3.5 shows the breakdown of the seven most common factors for business failure (Corman & Lussier, 2001:1/15-1/16).

Table 3.5: Seven most common factors for business failure

Failures	Cause of failure	Due to
63,5 %	Economic	High interest rates, inadequate sales, industry weakness, insufficient profits, inventory difficulties, not competitive, poor growth prospects, poor location
24,1 %	Financial	Burdensome institutional debt, heavy operating expenses, insufficient capital
4,6 %	Disaster	
3,9 %	Neglect	Business conflicts, family problems, lack of commitment, poor work habits
2,2 %	Fraud	
1,0 %	Experience	Lack of business knowledge, lack of line experience, lack of managerial experience
1,0 %	Strategy	Excessive fixed assets, over expansion, receivables difficulties

Source: Corman and Lussier (2001:1/15-1/16)

Table 3.5 indicates that the economic factor that includes interest rates, sales, the industry, profits, inventory, competitiveness, growth prospects, and location is the most common factor for business failure.

A wide variety of factors that contributes to small business failures are mentioned. Sub-sections 3.6.1 to 3.6.7 will focus closer on factors such as management incompetence, lack of experience, poor financial control, lack of strategic management, uncontrolled growth, inappropriate location, and poor inventory control.

3.7.1 Management incompetence

According to Scarborough and Zimmerer (2003:24) management incompetence including poor decision-making is the biggest problem of most small business failures, and therefore leads to the conclusion that many managers do not have what it takes to run a small business. Something many entrepreneurs cannot do is the ability to delegate authority and to relinquish hands-on control of daily operations that often leads to managerial ineffectiveness (Scarborough & Zimmerer, 2003:24).

Corman and Lussier (2001:1/11) state that problems exist because managers cannot specialise in only one area alone, as management ability is often a skill that is gained separately from functional knowledge. The small business owner has to effectively manage every aspect of the business by means of a proper business plan that can provide assistance in resolving questions that can be associated from employee issues to business diversification. Strong management, financial-, and business skills are necessary in order to be aware of any internal or external forces that may impact upon the business operation (Corman & Lussier, 2001:1/15). "Poor management is the main reason why small businesses fail." (Moolman, 1998:37.)

3.7.2 Lack of experience

Scarborough and Zimmerer (2003:24) feel that the small business manager need to have not only experience in the field they want to start a small business in, but also have the technical ability, knowledge of the business operation, sufficient conceptual ability, the power to visualise, coordinate and integrate the various operations of the business and the skill to manage people and motivate them to higher levels of performance. Moolman (1998:37) states that lack of experience leads to the lack of management information

about the business, inefficient planning, insufficient control and dissatisfactory financial management. Van Praag (2003) states that little empirical evidence provides insight in person-oriented drivers of business survival and the success of small business owners.

3.7.3 Poor financial control

Scarborough and Zimmerer (2003:24-25) feel that many small businesses neglect to install proper financial controls as the margin for error in managing finances is relative small for small businesses. Moolman (1998:37) agrees that due to the size of small businesses, they do not have adequate financial policies and procedures in place to do proper financial planning. Corman and Lussier (2001:1/14) set the following rules that are extremely important in order to keep complete and adequate financial records that can also be used again for future planning:

- Separate personal cash from the business.
- The owner should receive a salary or “draw” in the case of partnership or proprietorship.
- Utilise a bank account for the business’ funds and to deposit cash receipts daily.
- Record incoming cash along with sources and receipt dates.
- Pay all business expenses by check to ensure a record.
- Obtain a cash receipt for all petty cash disbursements.

Corman and Lussier (2001:1/14-1/15) also state that a new business must have adequate capital in order to obtain maximum bargaining power, and include some common causes for business failure such as poor sales, high operating costs, poor credit and collection policies, too many fixed assets, too much of the wrong inventory, inflation, taxes, competition, government regulation and interest rates.

3.7.4 Lack of strategic management

Moolman (1998:37) and Scarborough and Zimmerer (2003:25) feel that many small businesses neglect the process of strategic management, as they believe it is only large

companies that can benefit from assessing the proposed business potential. Selas (2001:8) feels that successful business owners, go beyond providing routine solutions, they rather strive to offer creative solutions to unique problems. "In most instances the goals and objectives articulated by the business owner are too broad and vague to be meaningful." (Selas, 2001:8.) "As a new business owner, you must look at several factors that fall under the heading of good planning such as site analysis, good merchandising policies, through record-keeping and expense analysis and the determination of your break-even point." (Corman & Lussier, 2001:1/13.)

3.7.5 Uncontrolled growth

Sometimes entrepreneurs encourage rapid growth, but do not realise that problems tend to increase in proportion, such as changes in organisational structure, inventory and financial control procedures and personnel assignments, that can outstrip their ability to manage it (Scarborough & Zimmerer, 2003:25-26). As the activities of the business increase in volume and complexity, manual processes can start to impede the pace of operations. Enterprise resource planning (ERP) applications can be implemented to support operations and transactional systems, as well as enabling the business to significantly increase its activities (Wu, 2005:24). Kerr (2004) agrees that small business owners/managers should take more ownership of knowledge-based decision support systems.

Moolman (1998:37-38) believes that small businesses normally start off with insufficient capital, and therefore experience a lack of working capital. Profits that are made from the business gets diluted and are never been replaced again to ensure the existence of the business. Morrison *et al.* (2003:423) state that business growth is unlikely to be achieved without the variable sets of intension, ability, and opportunity. Business growth is unlikely to be achieved should one of these be missing or unduly weak. "With no opportunity, the intension cannot be applied; lacking the intent driven by entrepreneurial vision and energy opportunities will not be translated into business growth, and without the ability, the entrepreneurial intension and opportunity are unlikely to be realised." (Morrison *et al.*, 2003:423.)

3.7.6 Inappropriate location

Business locations are sometimes selected without proper investigation and planning, without the consideration of what the location costs and what it will generate in sales volume (Scarborough & Zimmerer, 2003:26). Corman and Lussier (2001:1/13) agree to say that poor location is an important reason for business failure, since each industry dictates the specifics of the location, a site analysis explores the significant aspects of the potential area in relation to the product or service that the business wishes to sell.

3.7.7 Poor inventory control

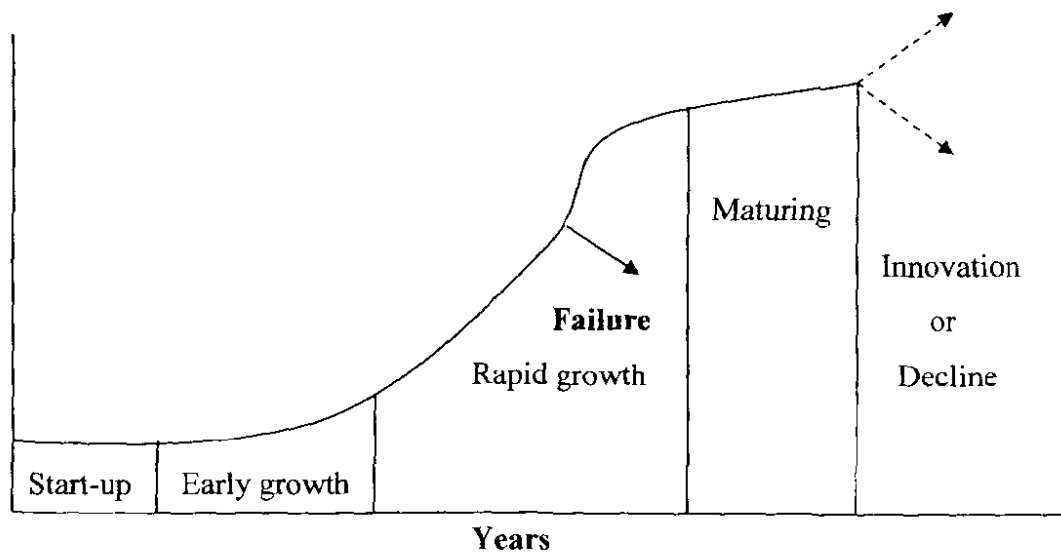
According to Scarborough and Zimmerer (2003:26), the largest investment a small business manager must make, is the inventory, and also mostly neglected of all the managerial responsibilities. Moolman (1998:37) states that the inability to control administrative issues leads to insufficient and neglected inventory control, and sometimes to business failure.

3.8 BUSINESS LIFE CYCLE AND THE COST OF FAILURE

The study already proofed that business failure is more likely to occur within the first few years after start-up (Scarborough & Zimmerer, 2000:28; Corman & Lussier, 2001:1/9). This section will cover the cost of business failure within such an early cycle of the business.

Figure 3.8 shows the typical growth cycle of a new business. The first few years of a new business shows normally relative low revenue and growth. There are some businesses like proprietorships or partnerships, home-based, family owned personal services and self employed consultants that are satisfied with little or no growth. However, entrepreneurs who do not understand growth and how to control and manage it usually run into problems, which can be serious enough to cause business failure (Hisrich, 2004:144-145).

Figure 3.8: Growth cycle of a business



Source: Hisrich (2004:144)

Figure 3.8 indicates that business failure is likely to occur just before and after the maturing cycle of the business. Hisrich (2004:144) stresses that the “early growth stage” is seen as the high-risk area for business failure.

Etemad (2004:114) mentions that according to the characteristics of the development of businesses through selected case studies, a take-off stage develops within the “rapid growth stage” (Hisrich, 2004:144), once the high-risk period is successfully overcome. The period that follows the take-off stage, is called the “resource maturity stage”, and ends before the “innovation or decline period” (Etemad, 2004:114); (Hisrich, 2004:144). Table 3.6 shows the characteristics of the development of businesses by means of five stages (Etemad, 2004:114); (Wheelen & Hunger, 2004:313-315).

Table 3.6: Characteristics of the development of businesses

Stage 1	Existence	Focus on obtaining customers, minimal to non-existent formal planning and systems.
Stage 2	Survival	Focus on ability to maintain sufficient cash flow, minimal systems and formal planning.
Stage 3	Success-Growth	Focus on getting resources for business expansion, developing formal systems, operational planning and extensive strategic planning.
Stage 4	Take-off	Focus on sustainability of growth and cash flow to satisfy demands from growth, refined and extensive systems.
Stage 5	Resource Maturity	Focus on consolidating and controlling financial gains from rapid growth while maintaining advantages of being a small business, extensive and well-developed systems.

Source: Adapted from Etemad (2004: 114); Wheelen & Hunger (2004:313-315)

From Table 3.6 it is clear that the high-risk period for business failure occurs within the first two stages. By also looking at all the activities and effort throughout each stage, it can be assumed that some sort of cost must be involved if business failure occurs. Business failure has the following negative impact:

- **Capital loss** - Longenecker *et al.* (1997:36) feel that business failure can in some cases mean the total loss of a person's lifetime savings.
- **Psychological effects** - Longenecker *et al.* (1997:34) feel that failure need not to be totally devastating to entrepreneurs, as they may recover from the failure and start again if they are still young enough.
- **Social and economic effects** - Business failure may not only mean the elimination of goods and services that the public needs and wants, but also increase unemployment that leads to a reduction in tax contribution for the support of governmental services such as schools, and police (Longenecker *et al.*, 1997:36). Lighthelm and Cant (2003:41) believe that the small business

sector experiences a high rate of business mortality, which impacts negatively on the ability to create sustainable employment opportunities in the long term.

3.9 THE SOUTH AFRICAN BUSINESS ENVIRONMENT

According to Bisseker (2004:18), the GDP shows that the economy is larger and growing faster than what was expected. Scarborough and Zimmerer (2003:11) also add that small business does not only play a vital role in the local business systems, but has also a significant impact on how smoothly the economy functions. Aspects that have an influence on small businesses within the South African business environment will be discussed in sub-sections 3.9.1 to 3.9.4.

3.9.1 The government

Horton *et al.* (2000:46) states that although it is the government's policy to promote small business development, many people get still retrenched or lose their benefits such as provident fund and medical aid which they were previously entitled to, not even to mention the losses in salaries.

The Department of Trade and Industry (1995) business support institution is called the Small Enterprise Development Agency (Seda) and will replace Nsika, the key institution through which the government provided small business support. Paton (2004:41) recons that the South African government declared in 1996, that small business are the growth engine of the economy. Paton (2004:41) also states that the entire policy infrastructure established by the National Business Act has been quietly dismantled, and a new approach has emerged. A constant assessment of the impact of laws and regulations on small business, and a far more hands-on approach by government is suppose to provide business and financial support to entrepreneurs.

In the State of the Nation Address, President Mbeki (2004) stated that South Africa must continue to focus on the growth, development and modernisation of the First Economy, to generate the necessary resources. Mbeki (2004) adds that without the necessary resources it will not be possible to confront the challenges of the Second

Economy. These resources will require further and significant infrastructure investments, skills development, scientific and technological research, development and expansion of the knowledge economy. Temtime and Chinyoka (2004) state that although entrepreneurship is seen as a vital route to economic advancement, for both developed and developing countries, their implementation is normally characterised by fragmentation and a lack of coordination.

Lowe from the Democratic Alliance mentions that the South African government should implement the following initiatives over the next three years in order to reduce unemployment (Leuvenink, 2004:1):

- Direct compensation to companies that conduct approved training.
- Excluding small businesses from tax on capital gain.
- Tax exclusion on interest-income up to 10% of taxable income, in order to enhance a saving concept.
- Tax relieve for retirement funds.
- Tax reduction for after-school education.

Orford claims that most small businesses do not use government funding or are not aware of this funding, and that the South African government must work closer with private and non-governmental institutions to establish funding programs (quoted by Janse van Vuuren, 2005a:20).

Leuvenink (2005a:20) mentions that the government should give attention to the relief of taxes for small businesses, as well as to define the term 'small business'. De Lange (2005:27) agrees by stating that the relief of taxes and other regulatory remissions for small business can put strain on bigger businesses with regard to lower compensation for employees, that will create a stronger competitive force for small businesses. De Lange (2005:27) is therefore also concerned about the question 'who will define small business?'

3.9.2 The private sector

The private sector accounted for 70% of the gross fixed capital formation (GCF), which measures fixed investment in the economy, and therefore suggests that public sector companies and the government are falling behind (Lunsche, 2004b:20).

It is not only the government that plays a role in the sustainability of small businesses in South Africa, but also the private sector. Van der Walt (2004:18) expresses his concerns regarding extra high costs that are payable for the private sector, and in particular by small businesses. He believes that nobody should know when you are in the private sector and operates a small business, for the following reasons:

- Bank costs are higher for businesses than for individuals.
- Telephone rental through Telkom is higher for businesses than for individuals.
- Businesses pay higher rates for refuse removal, water, electricity and property taxes.
- A TV licence through the SABC cost higher for businesses than for individual households. The monthly premium through Multi-Choice is also higher for businesses than for individual households.
- Insurance on vehicles are also higher for business use than for private use.

Van der Walt (2004:18) also states that extra costs for businesses include statutory costs such as unemployment insurance, compensation commissioner, manufacturing levy and district service counsel levy. For this reason Van der Walt (2004:18) believes it is impossible and less beneficial for an individual in the public sector or government to consider starting a small business.

The World Bank detected in 2004 that most developing countries could increase their yearly growth rate with 1,2 percentage points, by creating a more accommodating regulatory environment. It is mentioned that the regulating cost per employee is ten times as much for businesses with five employees than for businesses with 200 employees. Regulations that involve the most effort and cost, include tax laws, labour

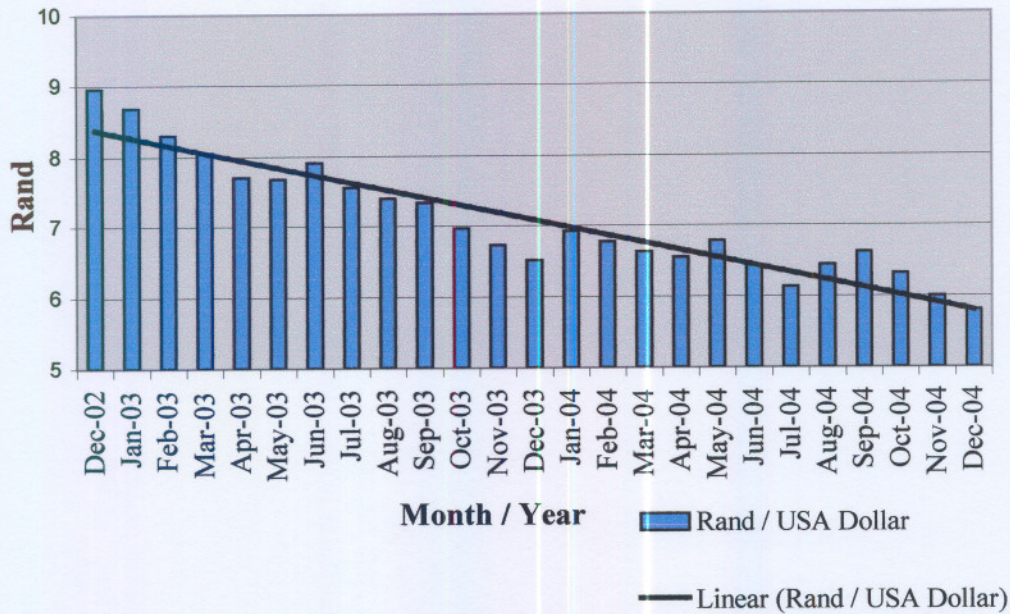
laws and skills development, black empowerment, and affirmative action. It also costs entrepreneurs an average of 4,5% of their yearly turnover (Leuvenink, 2005b:17).

The existence of local competitive markets is seen as essential in the creation of a healthy economic environment. In order to enhance competitiveness in South Africa, small business owners are protected against unfair competition by means of a competitive law. This competitive law has existed in South Africa since 1955, and can be seen as a form of protection for small businesses against large businesses. The law states that any business that is guilty of any form of unfair competitiveness, will face a fine of 10% of their annual turnover (Visser, 2005:18). The National Research Foundation (NRF) (2005) states that South Africa needs to improve its international competitiveness. With the increasing impact of globalisation on businesses, the scope for competition is no longer limited by national boundaries or by the definition of a particular industrial sector. This implies that it has become imperative to develop and maintain knowledge and skills as assets that can lead to the development and successful commercialisation of a wide variety of products and services, in order to meet the demands of the international markets (2005).

3.9.3 The exchange rate

The Rand / Dollar is an important indicator for economic development – a weak relation means price increases, whereas a stronger Rand means more stability and lower prices. Most businesses believe that better export prices are obtained as the Rand weakens, and further leads to better domestic product prices. Willemse (2004:18) believes that the Rand will strengthen below the R6/\$ level, and may even reach a level of R5/\$. Figure 3.9 shows the relation between the Rand and USA Dollar over a period of two years.

Figure 3.9: Rand / USA Dollar



Source: Willemse (2004:18)

Willemse (2004:18) further believes that a Dollar that keeps on weakening against the Rand, means that many South African businesses will not be able to have price increases, but rather further price decreases for products and export services. “The oil price is also dependant on the Dollar, and the decrease in oil price and a stronger Rand-dollar exchange rate will lead to a decrease in fuel price, as well as a further decrease in inflation.” (Willemse, 2004:18.) With the CPIX of 3,6% in South Africa, it is still premature to believe that structurally low inflation rates will be achieved. In Europe, inflation is between 2% and 2,5%; in the US, between 1% and 2,5%, and in the UK, around 2%, (Bisseker, 2005a:3).

3.9.4 Black economic empowerment (BEE)

Coles (1975:102-103) already stated thirty years ago that black businesses are not something new. Black people prospered as traders and merchants from African countries to America and Europe during the sixteen century, based largely on specialised skills such as weaving, pottery, woodworking and metallurgy. Severe

limitations to the black economic activities were imbedded, with the slavery concept that black people in America were something less than human beings, and therefore not entitled to the basic rights of human beings. During the 1700's the New York Colonial council enacted a law that no servant or slave shall give, sell or truck any commodity whatsoever. During the 1800's it was stressed that the "race problem" should be solved. Despite programs for overcoming the obstacles to moving more black businesses into the economic mainstream and providing the means whereby black businesses could make its proper contribution to black economic development, the impact of black businesses on the American economy remained negligible up to the 1970's (Coles, 1975:102-111). Coles (1975:157-165) indicated that a suggested approach towards black economic development would be to import capital to augment black capital accumulations, enhance technological progress in terms of innovation, as well as improved manpower skills by means of education and training.

Although the black middle class has shrunk tremendously compared to the growth in rich black people, it is impossible for black empowerment to take place on a big scale, as the economy has been standing still with the same value in GDP since 1994 (Gqubule, 2004:46). Gqubule (2004:46) further his statement to say that only some people are better off now, but to the expense of others. Mr. Jacques Duyver, MD of Itec, states that the corporate sector generally views BEE as counterproductive, although BEE and equal representation are seen as the only way South Africa will prosper (quoted by Milazi, 2004:27). Gqubule (2004:46) suspects that only white people are the beneficiaries of tax cuts, skills shortages and rising property prices in the new South Africa.

It is believed that black people in America have become better educated since the end of World War Two, despite the glaring disparities in black-white education thereafter. The disparity between black and white incomes further erodes the desire for education by black people. This further resulted in significant gaps between nonwhites and whites after the 1970's with respect to housing, living conditions and health (Coles, 1975:24-28). Foxcroft *et al.* (2002:60) state that addressing the situation of disadvantaged entrepreneurs, can be seen as essential to increase the pace of economic empowerment

in South Africa. Nzimande, Principle Secretary of the South African Communist Party, states that the problem with BEE is that it is mainly focused on addressing unequal race discrepancies, and not other issues that are more important to the society. Nzimande further states that BEE in South Africa is based on the American model of enhancing black management, and that it is seen as only 'window dressing' (Joubert, 2005a:4).

According to Paton (2005:21), there are black companies that are owned by one or two people that import everything from Taiwan, winning contracts away from small, white-owned companies that are producing locally. Paton (2005:21) further states that BEE is a frightening prospect as if small businesses do not become empowered they will shrink or perhaps even die. "We are the ones that took the risk 15 years ago and set up the business – now I must part with it. But if I don't, this business will close." (Paton, 2005:21.) As the South African government regards small businesses as the growth engine of the economy, conflict of interest between small businesses and BEE should be avoided. Mbeki states that empowerment laws should deliver certain results, and therefore asks the following questions (Janse van Vuuren, 2005b:16):

- Does the law help business owners in order to ease the process of obtaining capital?
- Does the law ease the process of developing new markets for products?

3.9.4.1 BEE implementation

According to research done by the Business Map-establishment, 42% of black woman in South Africa do not earn more than R 750 per month, of which 22% obtained a matric-certificate, and 8% a tertiary qualification. This is an indication of what the BEE challenge consists of in South Africa (Janse van Vuuren, 2005b:16). According to a survey done by Grant Thornton on medium size businesses, most of the businesses feel that the best BEE strategy will be to start training internal employees first (94%, against 71% in 2004). There still exists a high need for businesses to get black shareholders (67%, against 37% in 2004). Individuals from empowerment groups consist of 29% of all senior management positions in medium-size businesses, with 36% within the

services sector, and the small business sector being last with 19% (Janse van Vuuren, 2005c:22).

South Africa's economy cannot operate to its full potential because the majority of South Africans earn very low incomes and are still excluded from ownership of fixed assets and the possession of advanced skills. This is to the detriment of all South Africans and it is therefore necessary that steps are taken to increase the effective participation in the economy by the majority of South Africans. The Broad Based Black Economic Empowerment Bill (2003) is one of a number of steps being taken by the South African government to address the problem.

The BEE Bill seeks to:

- broaden the entrepreneurial base;
- extend black participation in the economy as measured in terms of ownership, management and skills development;
- develop local communities and employees, and
- reduce income inequalities and poverty.

The objectives of the BEE Bill are as follows:

- promote economic transformation;
- change the racial composition of ownership and management structures of existing and new businesses;
- increase ownership and management by communities, workers and cooperatives;
- promote investment in black owned and managed businesses, and
- empower rural and local communities.

Mr. Mpahlwa, Minister of Trade and Industry, states that it is the first choice of the South African government to see black ownership in businesses (Kok, 2004:9). De Villiers (2005b:24) states that most business owners start with a BEE strategy without understanding the BEE scorecard. Most of the businesses will earn a few points already,

without any changes to the business. It is also mentioned that the BEE objective is towards a holistic social transformation and not towards a revolution in business ownership (De Villiers, 2005a:24). Kloppers (2005a:18) suggests that businesses can start implementing their BEE strategy with equal employment.

The BEE scorecard can be seen as an instrument that assists management in the implementation of their business strategy (De Villiers, 2005b:24). McLaren (2005:25) states that it is of utmost importance for SME's to be very careful during the formulation of their BEE strategy, and recommends that the following questions be asked before the BEE strategy is formulated:

- Do you understand all tax implications of the intended transactions?
- Are you aware of new tax incentives to enhance BEE?
- Do you know what the consequent rating of the transaction on the BEE scorecard will be?
- Does the transaction consist of basic business principles?
- How will the transition be managed before the new codes become law?
- Do you know what expectations of broad based BEE the codes imply?
- Do you understand the difference between the scale of 25% and 25,1% equity?
- How will the transaction be financed?
- Will the BEE transaction add value and productivity to the business?
- Will future growth lead to potential employment opportunities for black people?
- Are you aware of presented measures and relieve for small businesses?

3.9.4.2 BEE reality

South Africa is moving away from state-led, port-substitution industrialisation towards trade liberalisation as a development strategy. Liberalisation is generally driven by the need to achieve export-led growth and attract foreign investment. Evidence favours a positive relationship between liberalisation and economic growth. The focus is on South Africa because, as elsewhere in Africa after independence, the newly elected South African government has inherited a situation where entrepreneurial skills among blacks

are less developed due to apartheid policies (McDade & Spring, 1998:298). In most cases there exists a perception that it is difficult to find qualified black managers to approach for stakeholders. There are two ways to implement effective BEE in small businesses, namely: approach employees for possible BEE candidates, or develop existing black people within the business (De Villiers, 2005d:40).

Factors that are generally associated with the underdevelopment of the black economy, include low incomes, disproportionately large concentrations in unskilled, or semi-skilled jobs, relatively lower levels of education and skills, under-utilisation of manpower, relatively low marginal productivity of labour, as well as inadequate capital accumulation. Even more important is the phenomenon that tend to freeze black people in their low socio-economic status is mainly sociopsychological in nature, and include resistance to change, an induced image of self which is retarding, powerlessness, a sense of alienation from the overall system, unproductive or compensatory consumption, as well as the many other consequences of poverty. This phenomenon is the primary result of racial discrimination (Coles, 1975:59).

As the owner of a family business is usually also the manager, there is little scope for transformation of management. It is also true that white-owned small businesses that manufacture goods locally, loose out to black-owned businesses that fully import their products (Paton, 2005:21). De Villiers (2005c:24) believes that the greatest pressure comes from bigger businesses that put pressure on their smaller counterparts in order for them to obtain BEE scorecard points, and not the government as generally perceived. De Bruin (2005:23) states that, as economic transformation is never easy, BEE implementation should be developed with regards to the different type of businesses, and not as a broad based implementation strategy. De Bruin (2005:23) further states that it is important that a BEE strategy considers the reality of the business. Mr. Moeletsi Mbeki, brother of Pres. Thabo Mbeki, states that BEE is a drive to use saving money of the private sector, in order to enrich the political elite of South Africa. Mr. Moeletsi Mbeki further states that the government should allow direct entry to international markets for small farmers, instead of forcing farmers to sell their crops to government regulated councils (Rossouw, 2005:2). The BEE policy has already resulted in the

destruction of hundreds of productive South African farms. Despite this calamitous record, the government's AgriBEE proposals have targeted 30% of the country's productive farmland to be in black hands by 2015, with another 20% targeted for partial handover and/or participation (Pretorius, 2005).

Donaldson from the University of Western Cape, states that the following information became evident from a survey that was done on 135 businesses, with 1 897 employees – 648 being white, and 1 249 being black (Leuvenmink, 2005d:24):

- 7% were against BEE, 21% neutral, and more than 60% were positive;
- only 55% were familiar with the BEE charter and scorecard;
- 54% feel that the two phases for implementation (2009 and 2014) is realistic;
- 21% feel that the ownership target is realistic towards 2009, and 35% against 2014;
- 71% showed that it is not a problem to obtain potential black qualified employees;
- 62% asked their black employees already to attend training programmes, and
- 67% established their businesses after 1997.

3.10 SMALL BUSINESS OBSTACLES

According to Corman and Lussier (2001:1/11), many disadvantages of a small business such as inability to hire qualified employees, lack of funds for expansion, tax burdens, limited or non-existent credit with suppliers, high cost for advertising and coping with competition, can be directly linked to improper planning and the misuse of funds. Corman and Lussier (2001:1/11) also state that the main factors inherent in most business failures revolve around inadequate managerial ability, inadequate financing, as well as poor competitive position.

Horton *et al.* (2000:46) explain Corman and Lussier's (2001:1/11) statement of small businesses' inability to hire qualified employees. Small businesses do not have the greatest potential to create jobs, as an examination of the U.S. manufacturing sector proved that although new and expanding small businesses create new jobs at a higher

rate than their large counterparts, they also eliminate jobs at a higher rate. Horton *et al.* (2000:45) also state that it is not the norm for small businesses to create better quality of jobs than their larger counterparts.

Walters (2002:23) states that the limitations to small businesses can often be identified as the advantages of large companies, and limitations such as distribution capacity, access in funding, breadth of services or products, as well as limitations in objectivity. Willemse (2005:32) states that not enough attention is given to the development of a business ownership spirit from the South African government.

De Groot *et al.* (2004:107) emphasise that whereas large businesses operate with special departments to look after innovation, marketing and training needs, for example, small businesses lack these resources. Tang, Burridge, and Ang (2003:289) agree that some of the weaknesses experienced by small business are the lack of internal resources to turn to when a specific issue arises, or in the case of developing a new product or service. This phenomenon also leads to a lack of opportunities for people to be trained on multi-skills and problem solving.

Exemptions from labour regulations are unlikely to address the real problems that small businesses face, as the National Labour and Economic Development Institute (Naledi), ranked labour regulations below access to finance, product demand, general state of the economy and interest rates (Horton *et al.*, 2000:45). Bisseker (2004:22) states that the biggest bottleneck in South Africa's growth performance lies in a shortage of skilled labour. Kuratko and Welsch (2004:17) stress that skilled labour shortages have negative consequences, as talented, dedicated and motivated employees often become frustrated and dissatisfied when asked to work with those without equivalent skills and commitments.

Willemse (2005:32) states that the first priority should be the correct school education, as the schooling system in South Africa still leaves many people unprepared when it comes to business insight. Paton (2004:41) agrees by stating that the level of education and skills, as well as the lack of business experience, are factors that stopped the

government's small business strategy in its tracks, as the solutions to these are long term and difficult to rectify.

According to Bisseker (2004:22), six other areas that could constrain growth are the fact that so far job creation has been tentative, that inequality is worsening, that poverty remains daunting, that the manufacturing export sector is battling a strong currency, that foreign direct investment (FDI) remains insufficient, and that the potential exchange rate volatility remains a threat. Joubert (2005b:24) states that even after ten years of democracy, poverty and unemployment are problematic issues that need serious attention. Bisseker (2005b:30) states that the government's aim to grow the economy by 4,5%/year will be possible by focussing on skills development, lower logistics costs, and labour market deregulation. "Long-term economic growth will be a function of skills development." (Bisseker, 2005b:30.)

Prof. Colin Firer from the University of Cape Town states that there exists a relation between financial skills of business owners/managers and the success of their businesses (Anon., 2005:24). Kuratko and Welsch (2004:39) state that the management of entrepreneurial growth may be the most critical tactic for the future success of business enterprises. De Groot *et al.* (2004:260-261) did an analysis of needs that were seen as problematic by start-up entrepreneurs of small businesses. Table 3.7 shows the problematic needs experienced by start-up entrepreneurs.

Table 3.7: Problematic needs experienced by start-up entrepreneurs

Problematic need	Specification	Percentage	Rank
Knowledge (skills)	Marketing knowledge	14,5%	1
	Dealing with uncertainty	13,8%	2/3
	Sales skill	12,3%	4
	Management (overload)	10,1%	5
Finance	Cash flow	13,8%	2/3
	Investment capital	6,5%	7/8
	R&D investment (development)	5,1%	10
Physical	Accommodation	5,8%	9
	Infrastructure	3,6%	11
	Distance	0,7%	12
Market	Demand	7,2%	6
Government	Regulation, bureaucracy	6,5%	7/8
Note: More than one problematic need possible per start-up entrepreneur			

Source: De Groot *et al.* (2004:261)

Table 3.7 reflects all the problematic needs for the start-up entrepreneur. The most important need is identified as the need for market knowledge and skills, followed by dealing with uncertainty. Problems associated with finance, such as cash flow and investment capital, are still rated high compared to problems associated with physical accommodation, infrastructure and distance. Arkebauer and Miller (1999:1) agree that the entrance barriers to start a new business are associated with high costs for employees, equipment and buildings required, and therefore need to be funded with a considerable amount of capital.

Naledi conducted case studies in 1999 on 27 small businesses in Gauteng, Mpumalanga and the Northern Province in South Africa, on their constraints to growth and ability to create jobs (table 3.8), with 1 being the most important, and 8 the least (Horton *et al.*, 2000:47-48).

Table 3.8: Constraints facing Gauteng micro and small businesses

Problems	Importance
Access to finance	2,69
Demand for product	3,52
General state of the economy	3,56
Interest rates	3,92
Labour regulation	4,56
Average wage levels	4,70
Skilled labour	4,73
Exchange rates	6,10

Note: Businesses who felt exchange rates were not applicable rated only the other problems on a scale of 1 to 7.

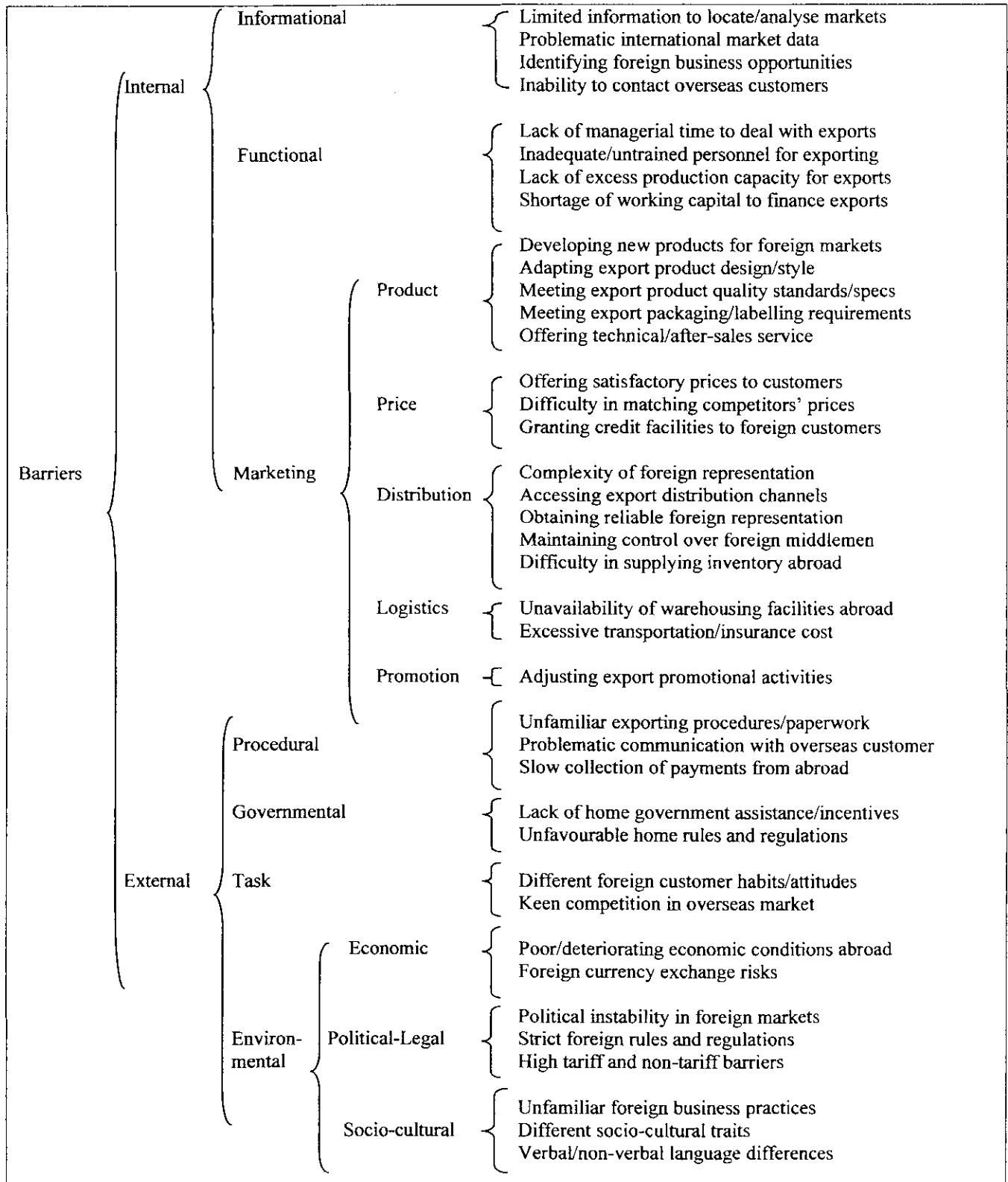
Source: Horton *et al.* (2000: 48)

Table 3.8 shows that access to finance is the biggest obstacle that micro and small businesses in Gauteng experience. The least important obstacle is exchange rates.

The Department of Trade and Industry (DTI) feels that banks tend to overestimate the risk of lending to small businesses, due to a lack of understanding of small businesses, instead of the potential profitability of the business and its ability to repay the loan (quoted by Horton *et al.*, 2000: 49). Williams (2002:11) states that late payments have re-emerged as the biggest concern among the owners of small businesses, and therefore suggests that small business owners should rather make use of a factoring company who will lend them money based on their invoices and to do follow-ups regarding late payments. Dennis (2002:17) also agrees that late or slow payments are the most significant problem, as 45% of small business owners experience difficulty in paying their bills due to late or slow payments.

Small businesses may find themselves strategically defenseless in direct competition with larger and more competitive multinational businesses, especially those whose integrated strategies were emulated in order to enter and compete in the international competitive market (Etemad, 2004:1). Leonidou (2004:281) says that barriers to the international market, especially the exporting business, refer to all those constraints that hinder the business's ability to initiate, develop or sustain operations in the overseas market, and classify export barriers into internal and external barriers (figure 3.10).

Figure 3.10: Classification of export barriers



Source: Leonidou (2004:281)

Figure 3.10 shows how export barriers can be classified into internal and external barriers. Internal barriers refer to barriers associated with organisational resources, capabilities and the approach to the business, which can be further broken down into functional, informational and marketing. External barriers stemming from the home and host the environment that the business operates in, and can be further broken down into procedural, governmental, task and environmental (Leonidou, 2004:281). Moolman (1998:35-38) categorises Small-, and Medium-Enterprise (SME) problems into internal and external problems, (table 3.9).

Table 3.9: Internal and external problems in SME's

Internal	External
Inexperienced management <ul style="list-style-type: none"> • Lack of management information • Inefficient planning • Insufficient control • Dissatisfactory financial management 	Economic environment
	Deregulation and political environment
	Demographic changes
	Changes in market trends
	Changing consumer behaviour
Shortage of capital	Buildings and physical facilities
Marketing	Discrimination against SME's
Personnel problems	<ul style="list-style-type: none"> • Higher rent • Higher acquisition price • Higher prime rate / lower credit limits

Source: Adapted from (Moolman, 1998: 35-38)

Table 3.9 shows the internal and external problems in SME's. Internal barriers refer again to barriers associated with organisational resources and capabilities of the business. External problems are associated with the environment that the business operates in.

Kuratko and Welsch (2004:261) state that various factors may define the limits of what a business can accomplish. The macroeconomic environment includes the level of economic activities, inflation, exchange rates, and interest rates. Government rules and regulations, tax policies and technology can also affect the opportunity, as well as how

resources are marshalled to exploit it. The problems that small and medium-sized businesses face can be grouped into three categories (Lighthelm & Cant, 2003:42), namely:

- Economy-based problems that are associated with economic factors such as phases in the business cycle and the exchange rate of the national currency.
- Industry-based problems that the business are associated with such as degree of competitiveness, demand and supply factors within the industry, as well as barriers to entry.
- Business-based problems that refer to internal factors such as availability of resources that include financing and entrepreneurial skills, as well as the effective use of this resources.

Lighthelm and Cant (2003:42) go further to say that these three factors can be seen as either macro-environmental (exogenous), including factors outside the business such as economy-based and industry-based problems or internal-micro (endogenous), which can be seen as business-based problems. Table 3.10 and 3.11 show the different issues, either exogenous, table 3.10, or endogenous, table 3.11, that impact negatively on the success of a business (Lighthelm & Cant, 2003:41-50). Bisseker (2005b:30) states that external factors are the greatest risk to the South African economy.

Table 3.10: Exogenous issues that impact negatively on the success of a business

Macro-environment (exogenous)	
Environmental variables	Market related
Interest rates	Limited market size
Exchange rate	Increased competition
Inflation	Low demand for product
Unemployment	Lack of knowledge of competition
Crime	Lack of knowledge of market
HIV/AIDS	Inability to identify target market
Rapidly changing technology	Ineffective marketing
New legislation	Poor location

Source: Adapted from Lighthelm and Cant (2003: 41-50)

Table 3.10 shows the exogenous issues that impact negatively on the success of a business. The exogenous issues are further classified under environmental variables and market related issues.

Table 3.11: Endogenous issues that impact negatively on the success of a business

Micro-environment (endogenous)				
Business skills	Management functions	Social variables	Human resources issues	Financial issues
Lack of technical skills	Time to plan or prioritise activities	Spend too much time at work	Inability to find suitable employees	Obtaining finance/credit
Insufficient experience and knowledge	Neglect planning due to time pressure	Social/family life suffer	Low labour productivity	Planning / budgeting
Lack of management training	Routine tasks takes up too much time	Business consumes whole life, suffer from ill health	Labour laws	Lack of financial analysis
Lack of management skills	Long-term goals and objectives		High labour turnover	Inadequate bookkeeping
	Effective time management		Poor labour relations	Insufficient knowledge in bookkeeping
	See failure as a learning experience		Poor staff planning	Over-investment in inventory
	Involve employees in planning and decision making		Poorly trained employees	Heavy operating expenses
	Delegation			Burdensome debt
Change management	Poor cash flow			
			Poor credit management	
			Bad debts	

Source: Adapted from Lighthelm and Cant (2003: 41-50)

Table 3.11 shows the endogenous issues that impact negatively on the success of a business. The endogenous issues are classified under business skills, management functions, social variables, human resources issues, and financial issues.

CIBC World Markets (2004) examined the main determinants that are most likely to differentiate small businesses with significantly higher than average revenue growth from their peers. The lack of these determinants can also be classified as obstacles, and include the following:

- **High level of education** - Education plays an important role in determining not only the level of revenues, but also the amount by which small businesses grow.
- **Use of Advisors** - Entrepreneurs definitely benefit by making use of the advice of professional advisors.
- **Corporations** - Small businesses that are incorporated can benefit from higher revenues than unincorporated sole proprietors. Small businesses that are incorporated tend to have a larger support system, often with more resources and skills available to the small business owner.
- **Outsourcing** - Outsourcing has also emerged as an important factor leading to comparatively strong growth. Small businesses that receive outsourced work from other companies are more likely to grow their revenues, than businesses that do not rely on outsourced work.
- **Technology adoption and connectivity** - Increased connectivity and the adoption of e-commerce enables technology to improve and strengthen customer relationships, enhance information availability and exchange, improve the business image, and, in some cases, level the playing field with larger businesses.
- **Internet sales** - Internet sales can be used to outperform peers in revenue growth.

Gqubule (2004:23-24) states that 26% of South Africans feel that HIV/Aids is the biggest problem in SA, as it will have a profound effect on governance and democracy. Bisseker (2004:23) states that nine Southern African countries have double-digit HIV prevalence rates, including two with nearly 40% prevalence among those aged between 15 and 49. Gqubule (2004:23) also mentions that of the 1.5 million registered SA voters who died between 1999 and 2003, nearly 50% were between the age of 30 and 49 years old, and can be explained by the impact of Aids. Gqubule (2004:23-24) goes even

further to say that in some municipalities the mortality rate has increased by over 300%, of which KwaZulu Natal is an example where 70 by-elections had to be held between 2001 and 2003 in order to replace local councilors. The South African mining sector has extremely high HIV/Aids prevalence rates, as Pile (2004:56) mention a figure of more than 30% of workers that are infected in some mining companies.

According to the Business Journal Staff (2005:47-48) small businesses repeatedly make the same mistakes when launching their dreams. Following are some of the most common mistakes small business start-ups make and how to avoid them:

- ***Develop a business plan*** - Map out the direction of the business before starting the business. A good business plan will include your mission, service or product description, marketing plans, future growth and capital expectations, and a realistic outline of start-up costs and revenues.
- ***Don't attempt to do everything*** - Pinpoint what you are really good at and focus on it. It is also crucial to understand what aspects of the business you are not good at and seek the support of professionals to assist you.
- ***Draft a budget and use it*** - Draft a realistic budget and monitor revenues and expenditures regularly to make sure you are on track. If doing your own books isn't your strong suit, enlist the help of a professional. It could save you time and money in the future to have the work done correctly the first time.
- ***Always assume there is competition*** - Too often start-up businesses fall into the trap of believing they are "the only one" providing a particular service or product. From the start assume you have competition and find creative ways to highlight the ways that the business is different from competitors.
- ***Don't put the horse before the cart*** - Don't sign a lease for a location for the business before the business plan is completed and approved for funding.
- ***Don't forget about health insurance*** - Staying insured while you launch your business can prevent unexpected health problems from destroying your plans.
- ***Set realistic goals*** - Many small business owners go from working 40 hours a week for someone else to working 80 hours a week for themselves. By

understanding the time commitment necessary to meet your goals you can set more attainable goals and avoid early burnout.

- ***Don't shop around too much when looking for a loan*** - Shopping around for the best rates on loans is always a good idea. Using a good attorney and accountant is essential when looking at a business to purchase. Make sure there's enough cash flow to handle continued growth of the business and to provide you with a living and capital to pay back your loans. Depending on the kind of business you are purchasing, an accountant can assist in setting up various entities that will divide the assets, such as real estate and equipment, to produce a better tax and accounting structure. There are different types of sale agreements that limit your risk.
- ***Find a financial institution to build a relationship with*** - When seeking funding for your business, your character is considered more heavily than for personal loans. The amount of time you have worked with a financial institution can not only improve your credit score, but also improve your chances of obtaining funding even if you have blemishes on your credit report.
- ***Take time to do long-term planning*** - Without a long-term strategic plan, many businesses get caught up in the day-to-day operations and fail to plan for the future. By spending the 8 to 10 hours necessary to establish a long-term plan you can make informed, proactive decisions.

3.11 SUMMARY

Small businesses are seen as being in the best position to stimulate economic prosperity and economic equilibrium, because of their contribution towards employment, initiative and stimulation of innovations, enhancement of healthy rivalry, and contribution towards socio-economic development. As the nature of a small business varies, small businesses for this study will include all businesses with less than 50 employees, a gross asset value with less than R15 Million, and less than R40 Million yearly gross income.

The literature from this chapter might already help to gain insight into what makes the start-up of a small business successful, by looking at the reasons for small business

failure. The failure rate for small businesses is relatively high, which can be subscribed to either internal or external factors. These factors can also be described as either macro-environmental (exogenous), or internal-micro (endogenous).

To start a business in a specific field, one has to be 100% sure, by preparing physically and mentally for the start-up phase. The first step in managing financial resources effectively, is to have enough start-up capital. The human factor also plays a critical role in the success of the business. This leads to the knowledge of business management, which can be regarded as a crucial aspect of small business development. By not being part of small business failure statistics, it is suggested that the best possible education and training in the field of business be obtained before start-up.

The shortage of skilled labour, mainly due to the schooling system, is seen as an improvement area towards small business development in South Africa. It is assumed that if banks are making loans to small businesses, more jobs and income will be created. There is also no evidence that the small business sector will be significantly helped by the government's labour regulations, in order for small businesses to grow and create jobs.

If one looks at all the possible obstacles a small business can encounter, then a well-prepared business plan is crucial in the preparation for business success. Business planning will therefore be covered in Chapter 4.

CHAPTER 4

BUSINESS PLANNING

4.1 INTRODUCTION

This chapter is aimed at doing the necessary literature study to provide an investigation into the process of business planning, in order to guide the increasing numbers of people who each year consider the option of setting up small businesses or becoming self-employed. It will outline the options for proper business planning and operating the business, as well as the risks and obstacles involved.

Butler (2000:viii) states that the biggest problem faced by small businesses is that of surviving for the first year or two, and therefore feels that a basic knowledge of the process of planning a business can substantially increase the chances of survival. Scarborough and Zimmerer (2003:37) state that entrepreneurs jump too often right into a business venture without taking time to prepare a written plan. Walters (2002:85) ask the question: "Who has the time for planning when you're so busy working?" Walters (2002:86) further his statement to mention that in small businesses the decision maker, risk taker, and investor are the one and the same, and therefore requires much less formal or stringent processes such as planning than in larger organisations. Steyn (1998:13) says that intensive investigation of opportunities and threats, as well as strengths and weaknesses, should be done in order to identify certain obstacles during the planning phase of starting a new business.

Most successful businesses operate according to some sort of a plan that uses good information and mathematical assumptions, depending on the goals, objectives, and desires of the entrepreneurs that start the business (Arkebauer & Miller, 1999:5). PlanWare (2005) states that the failure to plan can mean planning to fail.

4.2 BUSINESS PLANNING DEFINED

Honig (2004:259) states that a business plan may be defined as a written document that describes the current state and the presupposed future of a business. Honig (2004:259) also states that business planning may be seen as an activity to collect and summarise relevant information.

Wheelen and Hunger (2004:229) indicate that business planning also involves action planning, in order to state what actions are going to be taken, by whom, during what timeframe, and with what expected results. Kuratko and Welsch (2004:211) state that business planning further involves strategic planning, in order to formulate long-range plans for the effective management of environmental opportunities and threats in light of a business's strengths and weaknesses. Bachrodt and Smyth (2004:60) add that strategic business planning is an essential tool that helps businesses to focus on strategic choices within the financial realities of their environment. Bachrodt and Smyth (2004:62) feel that the business planning process can be defined with the strategic assessment and identifying of business goals, objectives, strategy formulation, the conducting of an impact analysis, and the development of an implementation plan.

4.3 THE IMPORTANCE OF BUSINESS PLANNING

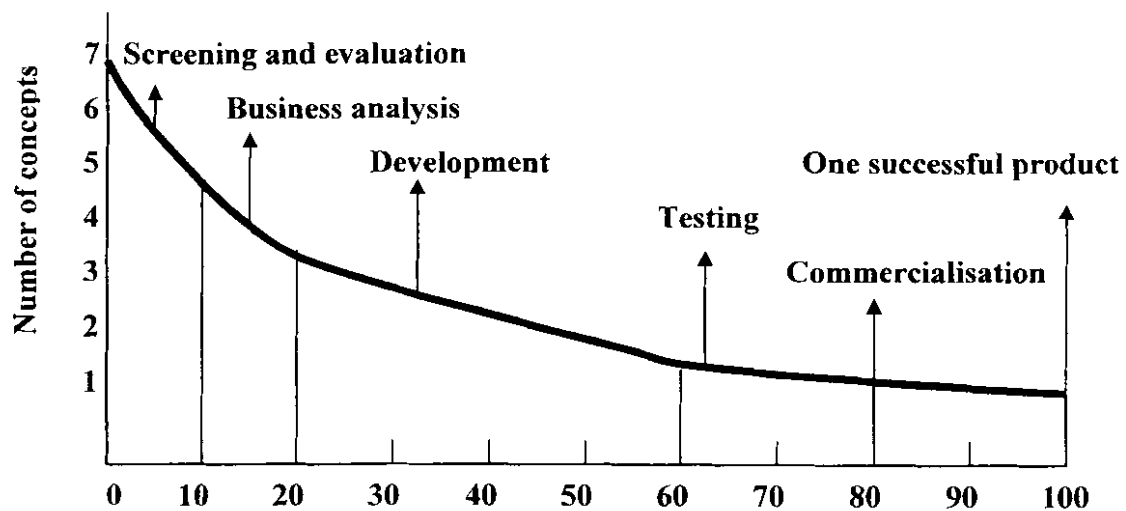
According to Honig (2004:260) a business plan is meant to be the first step toward a specific process widely known as entrepreneurship, but unlike the activity of entrepreneurship, it focuses primarily on ideas as opposed to actions. Bekker and Staude (1988:128) state that business planning can be seen as the basis in the process of goal setting towards good business management.

According to Bekker and Staude (1988:128) business planning is the process that a person has to follow, in order to think through in advance what he wants to accomplish, and how it will be done. During the business planning process, time must be taken to reflect and analyse, to consider alternatives, and to make sound, informed decisions. Bekker and Staude (1988:128) stress the importance of deciding in advance what must

be done, why it should be done, under what conditions it will be carried out, how it will be accomplished, and what will be required to get the results needed.

Kuratko and Welsch (2004:210) state that the actual need for systematic planning will vary with the nature, size, and structure of the business. PlanWare (2005) states that the planning process forces entrepreneurs to understand more clearly what they want to achieve, and how and when they can do it. Even if no financial support is needed, a business plan can play a vital role in helping to avoid mistakes or recognise hidden opportunities. Kuratko and Welsch (2004:134-135) agree by stating that as some entrepreneurs engage in formal planning, others stumble upon an idea through chance, good fortune, or unpredictable luck. The importance of planning is proved by the attrition rate of new product projects, (figure 4.1).

Figure 4.1: The attrition rate of new product projects



Source: Kuratko and Welsch (2004:135)

Figure 4.1 shows that for every seven product ideas, about four enter development, one and a half are launched, and only one succeeds.

Butler (2000:3) suggests that as financial institutions normally want to know the personal strengths and weaknesses of the potential business owner, the business plan gives the opportunity to emphasise personal strengths and weaknesses. Macieira-Kaufmann (2004) identifies the following top five aspects that financial institutions look for before lending money to small-business owners:

- ***Small-business owners should be personally in the game*** - Stay close to your customers and markets by getting out and talking to customers, assessing their needs, figuring out where they're going.
- ***Keep people in mind*** - Focus on new ways to attract and retain qualified employees, as it's believed that employees are seen as a competitive advantage.
- ***Always keep profitability and cash flow in mind*** - Small-business owners need to continually monitor their business plan to focus on sales and keep up the cash flow.
- ***Be proactive*** - Successful small-business owners are seen as people who are proactive in meeting supportive people and discussing their individual needs with them.
- ***Perseverance*** – Successful small business owners maintain financial flexibility and the entrepreneurial spirit no matter the conditions. They are agile and flexible, and they stay on the course.

Lesonsky (2004:21) states that by setting goals does not only guarantee ongoing success, but also shows the best alternatives should you need or desire a change along the way. To review your goals regularly, also helps to assess progress and gives the ability to make faster and more informed decisions, where questions such as the following can be used in setting personal goals and objectives (Lesonsky, 2004:21):

- What is the most important reason for being in business?
- What do you like best about being in business?
- Where would you like your business to be in five years?
- How do you feel about the last five years of your career?
- How do you evaluate your financial condition as of today?

- What is the next thing you have to do about your business?
- What do you perceive as the most important part of your business?
- In what area does the business really excel?

The business plan is seen as a plan, just like all other plans, to monitor the business progress at regular intervals in order to respond to any potential problems which may arise and then change or modify the business strategy if necessary (Butler, 2000:1). Tang *et al.* (2003:289) state that three areas are crucial for successful planning: effective leadership, continuous improvement, and cross-functional team effort.

Arkebauer and Miller (1999:6) state that the business plan fulfil two primary purposes namely, to obtain funding and to provide a foundation for early development. A survey of more than 1000 successful entrepreneurs showed that 89% of the respondents indicated that their plan is always used to set goals for employees and to establish rewards for management. The three top reasons for these entrepreneurs to keep a plan up to date, were to access customer needs, for competitive analysis purposes, and the continuing analysis of the economics of delivering products and services (Arkebauer & Miller, 1999:149). Butler (2000:1-2) states that the following reasons are important why people produce business plans:

- The process of a business plan is seen as an efficient method of focussing on ideas in terms of the business goals and objectives, as well as testing the feasibility of the business proposal before start-up.
- The planning process establishes specific targets in order to measure the progress and profitability of the business, and can be seen as an ongoing process after initial start-up.
- The business plan is necessary for obtaining external finance, especially for the start-up phase, but also for extra financing for expanding and growing the existent business.

PlanWare (2005) states that the preparation of a business plan will not necessarily guarantee the success of the business, although the lack of a business plan will almost certainly ensure failure. A formal business plan is not only necessary for the entrepreneur that intends to start a new business, but also for established businesses.

The business plan should be a realistic view of the expectations and long-term goals. It should provide the framework within which the business will operate, and serves the following four critical functions (PlanWare, 2005):

- Helps the entrepreneur to clarify, focus, and research the business's development and prospects.
- Provides a considered and logical framework within which the business can develop and pursue business strategies for the future.
- Serves as a basis for discussion with third parties such as shareholders, agencies, banks and investors.
- Offers a benchmark against which actual performance can be measured and reviewed.

Wu (2005:24) stresses that to start a business requires a good business model, an understanding of the market for which the goods or services are sold, and a passion to make the business succeed. Cardamone, Shaver, and Werthman (2004:40-42) state that the following essential questions should frame the evaluation and analysis of the business plan:

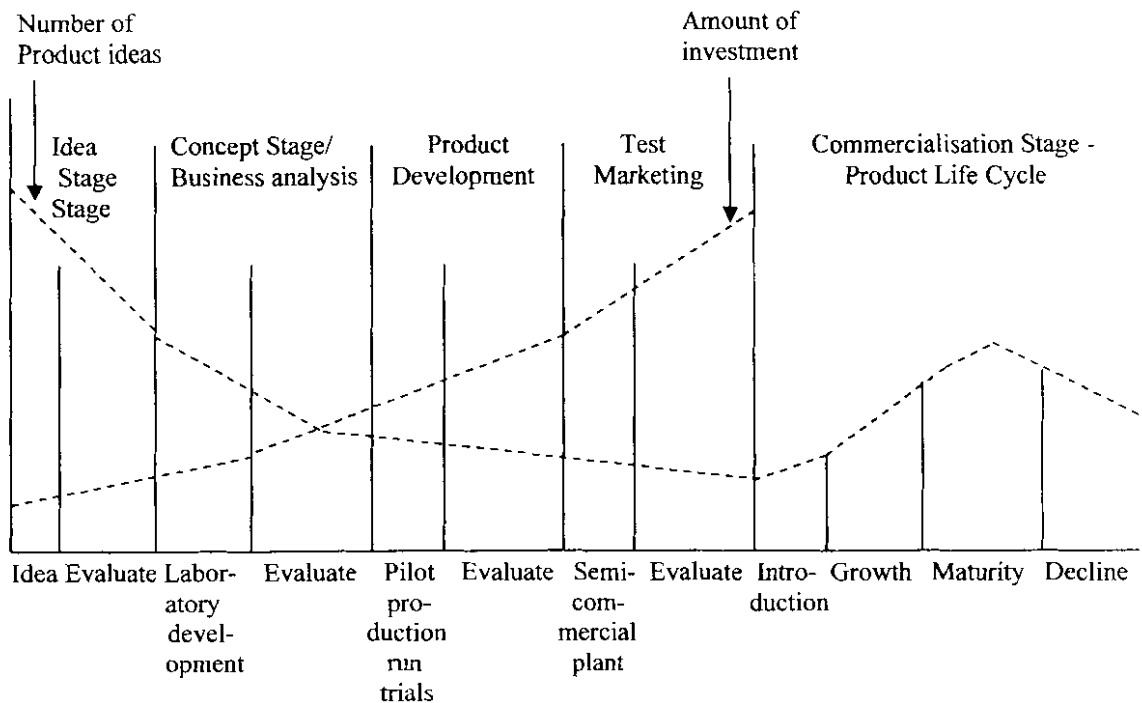
- ***Why are we doing this?*** The rationale for entering into a new or expansionary business should be clear and effectively articulated in the documentation and presentation of the plan.
- ***What services are covered, and why are they required?*** Identifying the core and ancillary services as part of the initial planning is essential. It helps to assess the supply, demand, capacity, and ability to deliver the operational requirements.

- ***Does the business have the expertise and the resources to effectively provide these services?*** The internal resources should be assessed when an external or business opportunity gets evaluated.
- ***What sources of capital funding are available?*** Identify potential sources of funds, whether from an institution, government, local agencies, outside investors, or from capital markets.
- ***How will the business be structured?*** The structure within the business should be clearly understood.
- ***Do regulatory or other restraints exist?*** The consideration of limitations and other regulatory provisions are often key elements of the planning process.
- ***What are the risks and benefits?*** All risks should be equally weighed and evaluated in addition to the presumed benefits of the business.
- ***Mission or margin?*** A key question that must be answered is how the business, regardless of its margin, contributes to the overall mission of the business.
- ***Outstanding items?*** Regardless of the quality and completeness of the business plan, some outstanding issues and items will need to be addressed during the evaluation and implementation of the plan.

4.4 THE BUSINESS PLANNING PROCESS

According to Kuratko and Welsch (2004:247) the entire business planning process forces an entrepreneur to analyse all aspects of the business and prepare effective strategies to deal with the uncertainties that will undoubtedly arise. Business planning normally starts with product planning, although the product varies from business to business. Hisrich (2004:92-95) agrees by stating that the product planning process can be divided into five major stages, namely, the idea stage, concept stage, product development stage, test marketing stage, and commercialisation stage. It is important for the business to establish goals, objectives, and milestones during the product and planning process, as it can take a long period of time and can therefore have a high cost implication. Figure 4.2 shows the product planning and development stage (Hisrich, 2004:93; Kuratko and Welsch, 2004:136).

Figure 4.2: The product planning and development stage



Source: Adapted from Hisrich (2004:93) and Kuratko and Welsch (2004:136)

Figure 4.2 shows how the product planning process can be divided into five major stages, namely, the idea stage, concept stage, product development stage, test marketing stage, and commercialisation stage. It can also be seen that the first four stages should first be completed before the introduction of a new product.

Wheelen and Hunger (2004:90-91) state that the product life cycle will make it possible to examine the marketing mix of a particular product or group of products in terms of its position in its life cycle. PlanWare (2005) mentions that the preparation of a business plan is not the end-result of the planning process, as the realisation of the plan is seen as the ultimate goal in achieving an objective. Arkebauer and Miller (1999:137) state that an objective is a clearly defined, achievable timetable, that gives measurable results.

Kuratko and Welsch (2004:153) state that a new idea can become a great success story and result in significant wealth creation if a business's resources position is strategically developed from the time of the initial launch. The process of specific steps

to be followed for the creation of a new business varies from entrepreneur to entrepreneur, as well as from business to business, but normally include the evaluation of the feasibility study on the opportunity, the development of a business plan, acquirement of resources, and the management of the business. The most prominent phases an entrepreneur follows when creating a new business is the concept phase, the planning phase, and the implementation phase (table 4.1) Vesper (1990:101).

Table 4.1: Phases an entrepreneur follows when creating a new business

Concept phase	• Become aware of self employment as an option
	• Become aware of an idea and develop the idea
	• Decide what kind of business will be applicable
	• Investigate personal strengths, weaknesses and external support
	• Get an idea of possible products or services, as well as costs
	• Identify consumers' needs and consider the right timing
	• Get an idea of the necessary lawful aspects and gather information
	• Do an impact study to proof that the idea is an opportunity
	• Start with the formal planning process
Planning phase	Develop a business plan with the following components:
	• The business, its products and services and the form of the business
	• Formal market research: customers, market size, trends, competition and
	• Economy of the business: gross and net income, fixed and variable costs,
	• Marketing plan: marketing strategy, sales tactics, price, promotion,
	• Design- and development plans: start-up schedule, costs and legal aspects
	• Operational plan: Choice of establishment and competence cycle
	• Management team: organisational structure, personnel requirement, incentive
	• Consideration of most obvious risks and expected problems
• Financial plan: income statement, balance sheet, cash flow and cost control	
Implementation phase	• Obtain capital and deploy fixed assets
	• Adhere to legal terms and test the market
	• Employ people and do a marketing campaign
	• Implement an administrative system and get enquiries
	• Buy inventory and raw material
	• Manufacture first products and deliver first order

Source: Adapted from Vesper (1990:101)

Table 4.1 shows that the concept phase ranges from the awareness of the idea to an impact study and the formal business planning process. The planning phase involves all aspects of the business plan. The implementation phase is seen as the last phase and involves the implementation of the idea according to the business plan.

4.4.1 The business idea

Kuratko and Welsch (2004:119) state that the origin of an entrepreneurial business starts with a creative idea. Kuratko and Welsch (2004:119) also say that although the origin of the idea is important, it is the role of creative thinking that is critical to the development thereof.

Creativity is the soul of entrepreneurship because it is required to spot the patterns and trends that define an opportunity. An opportunity is the chance to do something in a way that is both different from, and better than the way it is done at the moment. The business idea, namely how to exploit the identified opportunity, is refined in the business plan and executed through the processes of innovation and management (Morris & Kuratko, 2002:104). Wickham (2001:210) states that opportunity identification occurs when the entrepreneur becomes aware of a market opportunity due to an unfulfilled need within the marketplace. The first task of the entrepreneur is to scan the environment and find out where the gaps or windows are. This involves scanning the solid wall presented by existing players to find the windows and spot the gaps in what they offer to the market. The process demands an active approach to identify new opportunities.

It is important to consider if the potential entrepreneur is competent enough or has the necessary business skills in order to further develop a business idea, and if not, investigate the possibility to consult an experienced or competent business person (Butler, 2000:4). Butler (2000:14-16) also associate the business idea with the type of business proposed and services to be offered, the method of operation, the location and operating area, outline of the market and customers, as well as a statement of the business feasibility. Gudmundson *et al.* (2003:15) adds to say that organisational

support is seen as very critical in moving people to implement ideas. The focus for small businesses should also be to create systems that encourage and reward employees for implementing new ideas.

4.4.2 Identifying opportunities

According to Clark and Louw (1995:28) a business opportunity is a good idea that must be both feasible and viable. Wickham (2001:220) states that not all opportunities are equally valuable. The key decisions in screening and selecting opportunities relate to the size of the opportunity, the investment necessary to exploit it, rewards that will be gained, and the risks likely to be encountered. Pang (2004:30) states that an appropriate and reliable view of the economy should be taken, in order to reduce the risks involved in assessing investment opportunities. Etemad (2004:140) states that research indicates that one's perception of opportunities for new businesses can become increasingly credible through the process of formal business planning. Bachrodt and Smyth (2004:61) state that businesses should go beyond the generic analysis of strengths, weaknesses, opportunities, and threats, and rather assess their current situations and ability to meet future market needs. By doing this, strategic advantages, opportunities, and vulnerabilities will be addressed.

4.4.3 Decision-making

Bekker and Staude (1988:2) state that the decision to become self-employed depends if the potential entrepreneur knows what it takes, as well as having what it takes to manage a business effectively. Decision-making plays an important role when planning a business. According to Bekker and Staude (1988:2) the decision to go into business or rather earn a salary is a major decision. Longenecker *et al.* (2000:8) mention that one should look at both positive and negative aspects when deciding whether to start a business or not.

Kuratko and Welsch (2004:47) state that the decision-making process is not only a critical issue before business start-up, but also in the early growth stage of emerging

businesses. Kuratko and Welsch (2004:47-48) mention that the focus and style of decision making differ from the early and later stage the business goes through (table 4.2).

Table 4.2: Decision-making characteristics and stage of growth

	Early stage(s)	Growth stage(s)	Later stage(s)
Primary focus	<ul style="list-style-type: none"> • Product business • Definition • Acquisition of resources • Development of market position 	<ul style="list-style-type: none"> • Volume production • Market share • Feasibility 	<ul style="list-style-type: none"> • Cost control • Profitability • Future growth opportunity
Decision-making characteristics	<ul style="list-style-type: none"> • Informal • Centralised • Non-specialised • Short time horizon 	<ul style="list-style-type: none"> • Transitional 	<ul style="list-style-type: none"> • Formal • Decentralised • Specialised • Long and short term horizon

Source: Kuratko and Welsch (2004:48)

Table 4.2 shows how the focus and style of decision making differ from the early and later stages of the business. The decision-making characteristics of the early stage of business start-up are more centralised and less formal than in the later stages of the business.

Entrepreneurs should ask themselves if they could cope psychologically with the consequences of failure. Entrepreneurs should consider the following risk-reward trade-off questions before putting their personal assets and mental well-being at risk (Scarborough & Zimmerer, 2003:12):

- What is the worst that could happen if the business fails?
- How likely is the worst to happen?

- What can be done in order to lower the risk of business failure?
- What is the contingency plan for coping if the business fails?

4.4.4 Feasibility

The feasibility of a business opportunity means that it is within ones capability to transform the opportunity into a business. Questions that should be asked before deciding to pursue the idea are as follows (Clark & Louw, 1995:28-29):

- Can the required starting capital be obtained?
- Is the market for this type of product understood?
- Are there enough skills to make the product or deliver the service?
- Does the business require a formal qualification?
- Is there an appropriate site for the business? How sensitive is location to the business?
- Will there be enough space to operate the business?
- Are there any legal problems to be dealt with in starting the business?
- Will suitable employees be found and recruited? Can it be afforded?
- Is any special equipment required? Can it be obtained?
- What type of marketing will be needed? Can it be done? Can it be afforded?
- How much working capital will be needed? Can it be obtained and managed?
- Who will transport the product, the workers or the raw materials? What will be required?
- Can distributors be found for the product? Will retailers or wholesalers be willing to do business?
- Can reliable suppliers for the raw materials or components be found?
- Is the business seasonal? If so, is it still feasible?
- Will the personal interest in the business be sustainable? Will the type of work that this business involves be enjoyed?

Clark and Louw (1995:28-29) mean that these are very important questions to ask before starting a new business. If these questions can be answered with satisfaction,

there is a good chance that the idea is feasible enough for a successful business (Clark and Louw, 1995:28-29). Arkebauer and Miller (1999:11-17) explain that a business idea should be followed by a feasibility test in order to transform the idea into a vision and earn a profit. Arkebauer and Miller (1999:27-28) also state that the feasibility study approach is an excellent vehicle to determine the market potential, and include therefore the following steps to follow:

- **Step 1** - In order to determine the market segmentation, firstly ask who, within the whole market, is most likely to buy from you?
- **Step 2** - Why are these customers likely to buy from you, and which factors will affect each market segment?
- **Step 3** - How many customers within each segment are likely to buy from you, and what is the size of the market?
- **Step 4** - How many customers within each niche is the business able to reach, and what percentage of the available market can the business capture?

It can be assumed that the four steps of Arkebauer and Miller (1999:27-28) is a much more structured approach than the questions of Clark and Louw (1995:28-29) regarding the decision to pursue an idea.

Arkebauer and Miller (1999:29-45) state that the feasibility study attempts to project the revenue stream from a product or service without going through all the details necessary to write a full business plan, and therefore assume that only the following aspects would be worth investigating, namely: the potential sales, the different market segments (see table 4.3), market factors and potential size, market demand, forecasting sales and analysing costs. Wheelen and Hunger (2004:71-73) state that faulty underlying assumptions are the most frequent cause of forecasting errors, and recommend methods such as extrapolation, brainstorming, expert opinion, the Delphi technique, statistical modelling, scenario writing and an industry scenario, to be used during forecasting. Table 4.3 shows the differences that should be investigated between the characteristics of consumers and that of customers (Arkebauer & Miller, 1999:29).

Table 4.3: The characteristics of consumers and customers

	Characteristics of consumers	Characteristics of customers
Socio-economic	Age	Industry
	Sex	Size of business
	Income	Type of organisation
	Education	Knowledge or skills level
Behavioural	Hobbies	Distribution pattern
	Brands purchased	Barriers to customer
	Loyalties	Public vs. private business
Psychological	Personality	Management style
	Financial attitude	Industry payment patterns

Source: Adapted from Arkebauer and Miller (1999:29)

Table 4.3 shows the differences in socio-economic-, behavioural-, and psychological characteristics between consumers and customers. These differences should be considered throughout the feasibility study.

Arkebauer and Miller (1999:47-59) state that before starting with the business plan, the reality can be tested by means of a gap-analysis, SWOT-analysis, and key success factors. The gap-analysis will show where the business is now, where to take it in future, and the gap between them. The SWOT-analysis will measure the business' internal strengths and weaknesses compared to the industry. It will also list the opportunities and threats the industry face compared to its external environment. Key success factors are on their turn essential items that must be addressed in order to take advantage of the situation to compete successfully.

Tang *et al.* (2003:293) state that the SWOT-analysis is useful for structuring strategic thinking as it categorises pieces of information into distinct clusters. The SWOT-analysis is also seen as only fruitful if it helps to generate a sense of direction and strategic thrust. Wheelen and Hunger (2004:114-115) refers to the TOWS-matrix

(Wehrich, 1985:48-64). The TOWS-matrix is another way of saying SWOT, and illustrates how the external opportunities and threats can be matched with the internal strengths and weaknesses, to result in four sets of possible strategic alternatives (table 4.4).

Table 4.4: TOWS-matrix

Internal factors	Strengths (S) List internal strengths	Weaknesses (W) List internal weaknesses
External factors		
Opportunities (O) List external opportunities	SO strategies Generate strategies that use strengths to take advantage of opportunities	WO strategies Generate strategies that take advantage of opportunities by overcoming weaknesses
Threats (T) List external threats	ST strategies Generate strategies that use strengths to avoid threats	WT strategies Generate strategies that minimise weaknesses and avoid threats

Source: Adapted from Wehrich (1985:52)

Table 4.4 shows that the TOWS-matrix can be used in defining the feasibility of the business opportunity. Strengths must be used to take advantage of opportunities, as well as avoiding any threats. The advantage of opportunities must further assist in overcoming and minimising any weaknesses.

Wheelen and Hunger (2004:69-70) state that key success factors are those variables that can affect the overall competitive positions and feasibility of all businesses within any particular industry. Because they typically vary from industry to industry, they are usually determined by the economic and technological characteristics of the industry and by the competitive strengths on which the businesses have built their strategies. An

industry matrix can be used to summarise the key success factors within a particular industry (table 4.5), and be used to measure how well each business responds to the current and expected key success factors in the industry's environment (table 4.5).

Table 4.5: Industry matrix

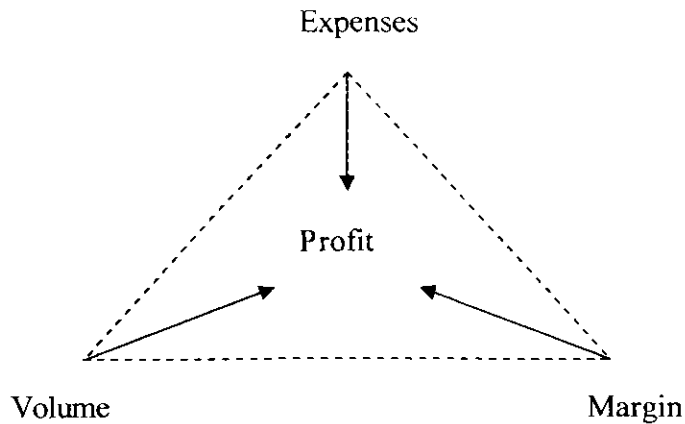
Key success factors	Weight	Business A		Business B	
		Rating	Rated score	Rating	Rated score
<i>List 8-10 expected success factors in the industry</i>	<i>Assign a weight to each factor from 1.0 (most important) to 0.0 (least important)</i>	<i>Assign a rating to each factor from 5.0 (outstanding) to 1.0 (poor)</i>	<i>Multiply the weight in column 2 with its rating in column 3</i>	<i>Examine a second business within the industry</i>	<i>Multiply the weight in column 2 with its rating in column 5</i>
Total	<u>1.00</u>		<u>Add the weighted factors</u>		<u>Add the weighted factors</u>

Source: Adapted from Wheelen and Hunger (2004:69-70)

Table 4.5 shows how the industry matrix can be used to summarise the key success factors within a particular industry. It also shows how it can be used as a feasibility test, by means of weighing up how well each business responds to the current and expected key success factors in the industry's environment.

The most important question to ask is whether this new business will make profit. In order to answer this question, three factors should be estimated, namely: margin, volume and expenses (Clark & Louw, 1995:29-31). Figure 4.3 shows the three factors, namely the profit triangle.

Figure 4.3: The profit triangle



Source: Clark and Louw (1995:31)

Figure 4.3 shows the three factors that have a great impact on the profitability of a business, namely: margin, volume and expenses. This three factors can be explained as follows (Clark & Louw, 1995:29):

- The margin is the difference between the price at which the product is sold and how much it cost to produce per unit. This cost includes raw materials, direct labour and distribution.
- The volume is the intended number of units to be sold over a given period of time. The volume can be estimated based on some market research.
- The expenses are seen as all the overhead expenses such as rental, equipment, stationary, electricity, advertising and secretarial fees that will be incurred over the same period of time as the volume.

Clark and Louw (1995:29-30) feels that the above three factors can be used in a formula to calculate whether the business idea will be profitable or not:

$$\textit{Profit} = \textit{Margin (selling price} - \textit{cost price)} \times \textit{Volume} - \textit{Expenses}$$

By considering this formula as well as the profit triangle (refer to figure 4.3), it can be seen that there are only four ways of increasing profit (Clark & Louw, 1995:30-31):

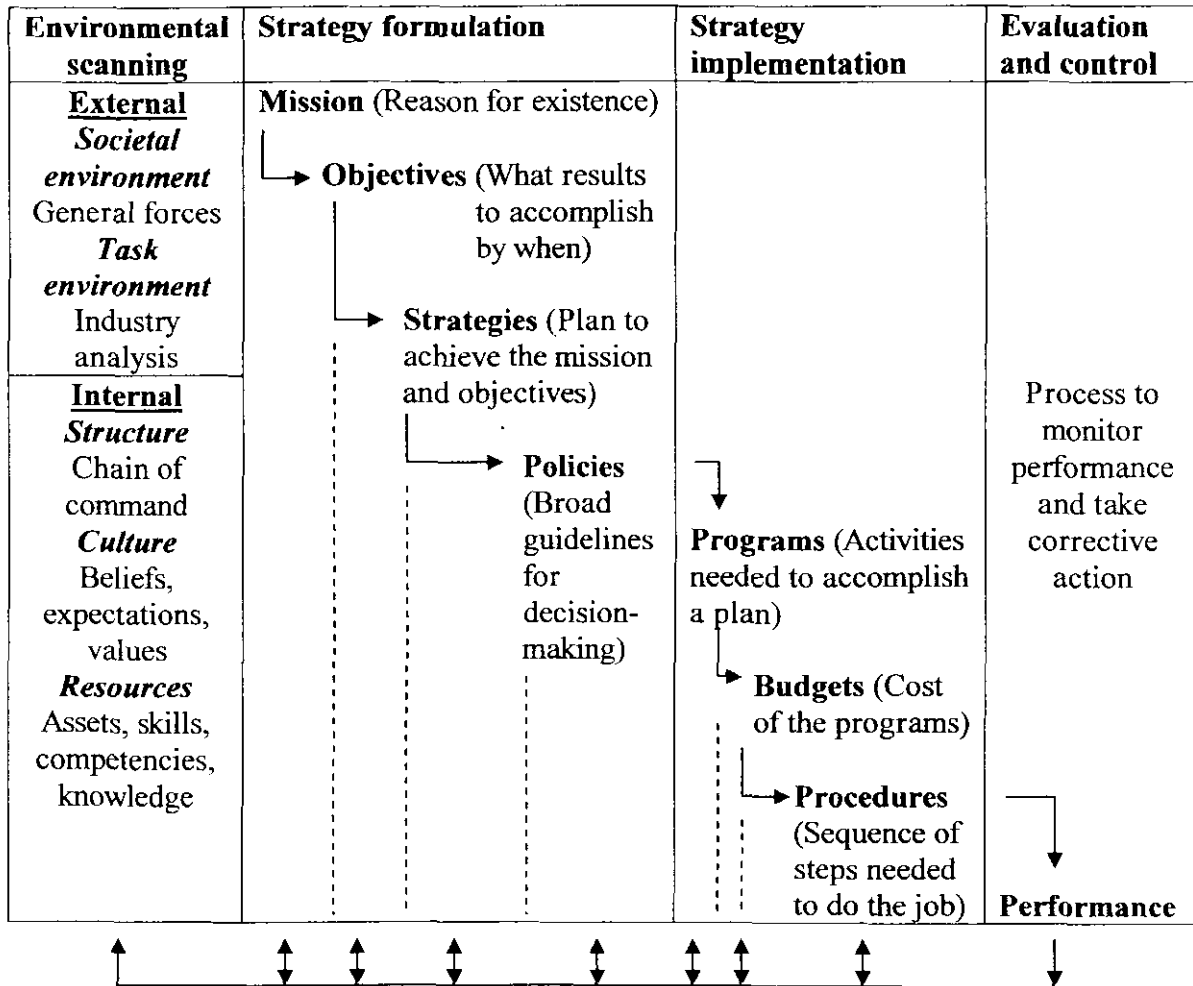
- Increase the volume (produce and sell more units of the product).
- Increase the margin by raising the selling price.
- Increase the margin by lowering the cost price.
- Decrease expenses.

In the process of evaluating the feasibility of a business idea the anticipated margins, volumes and expenses and the approximate profit figure gets examined. This level of analysis is normally sufficient in deciding whether the business idea is viable or not (Clark & Louw, 1995:31). Arkebauer and Miller (1999:19-24) add that every business starts with reasonable and trustworthy assumptions, primarily based on the entrepreneur's personal and in-depth knowledge about the products and services, industries and markets the business will operate in, but also based on information from magazines and journals, government agencies, industry insiders, reporters, online databases and the internet.

Kuratko and Welsch (2004:211) state that strategic planning is the primary step in determining the future direction of a business and can be done in five steps (figure 4.4) in order to classify the planning process as strategically, namely:

- Examine the internal and external environments of the business.
- Formulate the business's long-range and short-range strategies.
- Implement the strategic plan.
- Evaluate the performance of the strategy.
- Take follow-up action through continuous feedback.

Figure 4.4: Strategic planning model



Source: Kuratko and Welsch (2004:212)

Figure 4.4 shows the strategic planning model with five steps to follow in order to classify the planning process as strategically. It is clear that the environmental scanning includes both internal and external aspects. Internal aspects include culture and resources, whereas external aspects include general forces within the environment. The environmental scanning is followed by the formulation and implementation of a strategic plan. Figure 4.4 also shows that the evaluation of the performance and the follow-up action through continuous feedback are very important aspects within the strategic planning model.

4.5 THE BUSINESS PLAN

According to Kuratko and Welsch (2004:247) a business plan is a written document that details a proposed business, and represents the entrepreneur's roadmap for a successful business. PlanWare (2005) states that before any detailed work commences on writing a business plan, the concept and gaps in supporting the evidence and proposals need to be clearly identified. This identification includes the following:

- clearly define the target audience;
- determine its requirements in relation to the contents and levels of detail;
- map out the structure of the plan;
- decide on the likely length of the plan, and
- identify all the main issues to be addressed.

Kuratko and Welsch (2004:254) state that the business plan should not be longer than 40 pages, excluding the appendices. The business plan provides specific measurable targets against which the progress and achievement of the business can be monitored, and include the following aspects (Butler, 2000:5-6):

- Annual budgetary plans, forecasting income and expenditure on a month-by-month basis, against which actual income and expenditure can be monitored.
- Forecasts of gross profit margins and net profit margins derived from the budgetary plans, which can be monitored to pick up any problems due to rising costs, falling sales, or seasonal fluctuations in sale.
- The effect of specific sales or promotional activities on sales revenues or profit margins.
- Cash flow forecasts, and the effects of giving or taking credit.
- The need for additional working capital to sustain business, e.g. by means of short-term overdrafts or longer-term loans to facilitate expansion of the business.
- Affordability of capital investment – do we replace or repair? Do we produce components ourselves, or buy in? Do we use loans or hire purchase to buy equipment, or do we lease?

Arkebauer and Miller (1999:61-62) incorporate nine guiding principles into the business plan, and include principles such as: make it easy to read, the approach should be market-driven and not product-driven, qualify the competition, present a distribution plan, exploit the business' uniqueness, emphasise management strengths, present attractive projections, zero in on possible funding sources and close with a bang.

Clark and Louw (1995:32-36); Arkebauer and Miller (1999:61-204); Butler (2000:12-42); Timmons and Spinelli (2004:403); Wheelen and Hunger (2004:308), and Kuratko and Welsch (2004:249) describe the format of the business plan, (see table 4.6), that can be seen as a framework within which the founder/owner can construct the business, depending on the size and type of the business.

The cover page of the business plan will normally include the name of the business, address, contact numbers, the date and the securities offered. It is also advisable to include a confidentiality clause as follows: *“This business plan has been submitted on a confidential basis solely for the benefit of selected, highly qualified investors in connection with the private placement of the above securities and is not for use by any other persons. Neither may it be reproduced, stored or copied in any form. By accepting delivery of this plan, the recipient agrees to return this copy to the corporation at the address listed above if the recipient does not undertake to subscribe to the offering. Do not copy, fax, reproduce, or distribute without permission.”* (Timmons & Spinelli, 2004:410.)

Table 4.6: Format of the business plan

Section	Heading / Description
1	Executive summary - Description of the business concept, the opportunity and strategy, target market and projections, the competitive advantages, economics, profitability and harvest potential, the team, the offering
2	The industry, the business and its products - The industry, the business and the concept, products or services, entry and growth strategy
3	Market research and analysis - Customers, market size and trends, competition and competitive edges, estimated market share and sales, ongoing market evaluation
4	The economics of the business - Gross and operating margins, profit potential and durability, fixed/variable/semi-variable costs, time to breakeven, time to reach positive cash flow
5	Marketing plan - Overall marketing strategy, pricing, sales tactics, service and warranty policies, advertising and promotion, distribution
6	Design and development plans - Development status and tasks, difficulties and risks, product improvement and new products, costs, proprietary issues
7	Manufacturing and operations plan - Operating cycle, geographical location, facilities and improvements, strategy and plans, regulatory and legal issues
8	Management team – Organisation structure, key management personnel, management compensation and ownership, other investors, employment / other agreements / stock option and bonus plans, board of directors, other shareholders / rights / and restrictions, supporting professional advisors and services
9	Overall schedule
10	Critical Risks, problems and assumptions
11	The financial plan - Actual income statements and balance sheets, pro forma income statements, pro forma balance sheets, pro forma cash flow analysis, break-even chart and calculation, cost control, highlights
12	Proposed business offering - Desired financing, offering, capitalisation, use of funds, investor's return
13	Appendices

Source: Adapted from Timmons and Spinelli (2004:403)

Table 4.6 shows the typical layout of a business plan (Timmons & Spinelli, 2004:403). In the sub-sections to follow the different sections of the business plan will be discussed.

4.5.1 Executive summary

According to Kuratko and Welsch (2004:250) the executive summary is the most important section because it must convince the reader that the business will succeed. The summary, normally not more than one to two pages, articulates what the opportunity conditions are and why they exist, who will execute the opportunity and why they are capable of doing so, in order to state how it will create or add value to the buyer or end user, as well as raising or borrowing money (Timmons & Spinelli, 2004:410). Clark and Louw (1995:32) and Arkebauer and Miller (1999:75) agree that it is important to provide a brief overview of the proposed business, as well as the importance of the business goals and the market and industry it will operate within. Bachrodt and Smyth (2004:62) state that the most common categories of the business goals are market position, financial position, quality, and operations. Timmons and Spinelli (2004:410-411) include the following aspects related to the executive summary of the business plan:

- ***Description of the business concept and the business*** - The summary information should include information about any proprietary technology, trade secrets, or unique capabilities that can give the business that extra edge in the market.
- ***The opportunity and strategy*** - The opportunity should be summarised in terms of why it will be compelling, the entry strategy planned to exploit the opportunity, as well as addressing the main point or benefit.
- ***The target market and projections*** - An identification and explanation of the industry and market will include the primary customer groups, the positioning of the product or service, and how these groups will be reached and serviced. Information about the structure of the market, the size and growth rate for the market segments or niches, a sales estimate, the anticipated market share, payback period for customers and a pricing strategy can also be included.
- ***Competitive advantages*** - The competitive advantages of the business will indicate the significant competitive edges that can be enjoyed or created as a result of the innovative product, service or strategy.

- ***Economics, profitability and harvest potential*** - Key numbers to indicate the time to break even, cash flow, return on investment, and other financial projections can be summarised in a brief discussion about the economics of the business.
- ***The team*** - It is necessary to summarise the relevant knowledge, know-how, experience and skills of the entrepreneur and all other team members.
- ***The offering*** - The offering should be a brief indication of the amount of equity and/or debt for financing needed, how much of the business to offer for financing, what principle use will be made for capital, as well as how the investor/partner or lender will achieve the desired rate of return.

4.5.2 The industry, the business and its products

Kuratko and Welsch (2004:251) state that this section should provide background information about your industry, a history of your business, and a general description of your new product or service. Timmons and Spinelli (2004:411) state that the most marketing information fits into the industry, business and its products, and should therefore include a description of the industry, the business concept, the business, as well as the products or services associated with the business. Butler (2000:16) states that an explanation of the believe in the feasibility of the business should be included, and why the potential business owner thinks the business will succeed.

4.5.2.1 The industry

Timmons and Spinelli (2004:411) include the following aspects related to the industry:

- The current status and prospects for the industry in which the proposed business will operate.
- A brief discussion about the market size, growth trends and competitors.
- A discussion about any new products or developments, new markets and customers, new requirements, new entrants and exists, any national or economic trends and factors that could affect the business positively or negatively.

4.5.2.2 The business and the concept

The first point that must be explained is the nature of the business, and will normally include the defined primary and secondary activities by means of a single statement (Butler, 2000:46). It is also important to show in clear and simple terms, the type of business envisaged, the employment status of the owner, the range of services that will be offered, as well as the need therefore (Butler, 2000:14). Clark and Louw (1995:32) agree but also add the legal requirements relating to the business, as important. Timmons and Spinelli (2004:411) include the following aspects related to the business and the concept:

- The concept of the business, what the business is doing or intends to enter, what products or services it will offer, and who are or will be its principle customers.
- A background of when the new business was incorporated, a description of the identification and development of its products, and the involvement of the business's principles in that development.
- If the business has been in operation for several years and seeking expansion financing, review the history in terms of sales and profit, setbacks or losses, as well as what future efforts will be emphasised in order to prevent a recurrence and how to improve the performance of the business.

4.5.2.3 Products or services

Butler (2000:19-21) states that a skills audit and gap analysis should be done in order to first define the necessary skills for the proposed products or services, and therefore asks the following four questions prior to the actual explanation of the products and/or services:

- What skills are needed in order to achieve an efficient and profitable operation of the new business?
- What skills or experience have accrued to date or are in the process of developing?

- What gaps or differences currently exist between the skills needed and the skills available?
- How will the gap be bridged?

In order to succeed with the business, it is important to know your product or service. As customers buy solutions instead of products or services, a description of the product or service should include unique selling points, the product life cycle and growth opportunities (Arkebauer & Miller, 1999:81-90). Timmons and Spinelli (2004:411) include the following aspects related to the products or services:

- Describe in detail each product or service that will be sold.
- Discuss the application of the product or service and describe the primary end use as well as any significant secondary applications.
- Emphasise any unique features of the product or service and how it will create or add value to the customer in terms of a payback period. Also highlight any differences between what is currently on the market and what will be offered to account for market penetration.
- Include a description of any possible drawbacks of the product or service that can be expected.
- Define the present state of development of the product or service and how much time and money will be required to fully develop, test and introduce the product or service.
- Discuss any head start that would enable the achievement of a favoured or entrenched position in the industry.
- Describe any features of the product or service that might give it an advantage over the competition, such as trade secrets, patents, or other proprietary factors.
- Discuss any opportunities for the expansion of the product or service into other related products or services.

4.5.2.4 Entry and growth strategy

Bachrodt and Smyth (2004:62) state that the vision must be clear and simple, outlining the business's broad strategic direction. The first step will be to develop a realistic *vision* for the business, followed by the *mission* that indicates the purpose of the business. The third key element is to state the business's *goals* in terms of the results it wants to achieve in the medium or long term. The next element is to address the *values* that govern the operations of the business and its relationship with the society, customers, and employees. *Strategies* need to be formulated by means of rules and guidelines on how to achieve the mission and goals. There are specific *objectives* to be achieved by implementing strategies in pursuit of the business's goals. The final element is to develop *programs* which set out the implementation plans for the key strategies (PlanWare, 2005). Timmons and Spinelli (2004:412) include the following aspects related to the entry and growth strategy:

- Indicate key success variables, such as an innovative product, timing advantage and marketing approach, in the marketing plan.
- Summarise how fast and to what size the business intend to grow.
- Show how the entry and growth strategy is derived from the opportunity or other competitive advantages such as the weakness of competitors.

4.5.3 Market research and analysis

This part of the business plan should be prepared before any other part, as the other sections of the business plan depend on the market research and analyses. It is also true that most entrepreneurs seem to have difficulty in preparing and presenting market research and analyses that show if the business's sales estimates are sound and attainable (Timmons & Spinelli, 2004:412). Wheelen and Hunger (2004:53) state that an industry analysis refers to an in-depth examination of key factors within a business's task environment. Wheelen and Hunger (2004:53) further state that both the societal and task environments must be monitored, in order to detect the strategic factors that are likely to have a strong impact on corporate success or failure. Bachrodt and Smyth

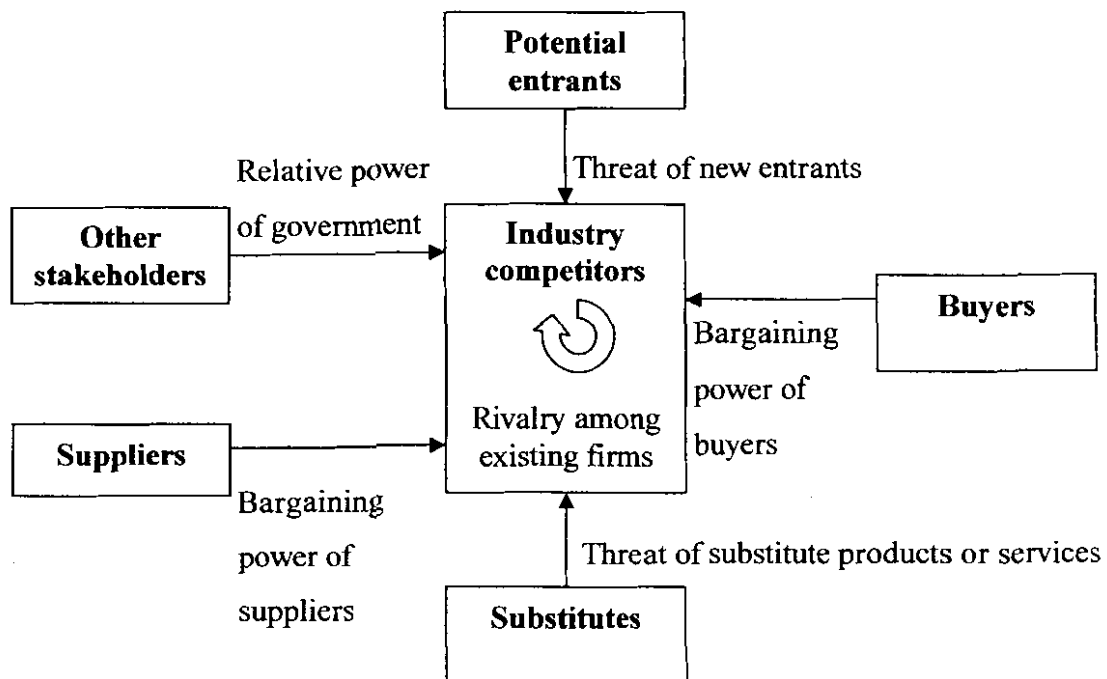
(2004:60) state that three key areas of analysis are needed: define future market scenarios, identify a financial outlook, and identify strategic advantages and vulnerabilities. Bachrodt and Smyth (2004:60) adds that the assessment stage establishes the basis for planning. Kuratko and Welsch (2004:171-173) identifies the following steps that can assist the entrepreneur in examining the industry:

- Clearly define the industry for the new business by means of a definition that describes the focus of the new business.
- Analyse the competition in order to help establish the nature of competitors.
- Determine the strengths and characteristics of suppliers in order to establish the stance of the business in relation to suppliers.
- Establish a “value added” measure in order to determine how much value gets added to the product or service by the entrepreneur.
- Project the market characteristics for the particular industry.

Butler (2000:66-67) and Clark and Louw (1995:35) suggest that a strengths-, weaknesses-, opportunities-, and threats- (SWOT) analysis is a useful element to include in a business plan. Longenecker *et al.* (2000:103) state that in order to match the assessment of the environment and organisation, a SWOT-analysis will systematically examine the macro-environment and the industry environment with the dual goals of finding opportunities that can be pursued, as well as uncovering threats against which the business should provide some sort of defence. Longenecker *et al.* (2000:104) add that the SWOT-analysis is often treated as a static summary of a business’s current situation.

Wheelen and Hunger (2004:60-61) refers to Porter’s approach (Porter, 1980:4) to industry analysis that contends that a business is most concerned with the intensity of competition within its industry. The level of intensity is determined by five basic competitive forces, which are shown in figure 4.5.

Figure 4.5: Forces driving industry competition



Source: Porter (1980:4)

Figure 4.5 shows the forces that drive industry competition. Factors that have an influence on industry competitors include potential entrants, other stakeholders, suppliers, substitutes, and buyers.

Clark and Louw (1995:33) also refers to Porter's approach (Porter, 1980:4), that a description of the industry in which the business will compete, include five aspects of the industry and indicate them as follows:

- **Competitors** - List the main competitors, estimated their relative market shares, discuss the profitability, their strategies and the intensity of competition.
- **Suppliers** - List the proposed suppliers, their bargaining power, as well as alternative suppliers.
- **Buyers** - Describe the customers, market segmentation criteria and estimation of the market growth rate.

- *Substitutes* - List possible substitute products and discuss their price and attractiveness.
- *Entry threat* - Discuss any entry barriers that will make it difficult for new businesses to enter the industry.

4.5.3.1 Customers

Butler (2000:16) states that as a more detailed analysis of the marketplace will be given in the marketing section of the business plan, only a general outline of the type of customers that will be interested in the goods and services is necessary. Arkebauer and Miller (1999:31) categorise customers within age groups of one-12, 13-18, 19-22, 23-35, 36-45, 46-55 and above 55. Timmons and Spinelli (2004:412) include the following aspects related to the customers:

- Discuss whom the customers and potential customers will be, by classifying them into homogeneous groups with identifiable characteristics.
- Show who and where the major purchasers, including national regions and foreign countries, for the products or services in each market segment are.
- Indicate whether the customers will be easily reached as well as what method will be used to buy. Also describe the basis on which they make purchase decisions and why they might change their current purchasing decisions.
- The most powerful data to provide is a list of potential customers, any orders, contracts or letters of commitment or interest in the product or service. Also explain why certain customers are not interested in the proposed product or service, as well as how to overcome negative customer reaction and how long it will take.

4.5.3.2 Market size and trends

It is important that the entrepreneur has a clear idea of the market and the physical or geographical areas in which the business will operate. Questions that should be asked about the nature and size of the market include, how easy will it be to enter, will the

product or service experience any seasonal or other influences, and how will the product or service differ from the competitors' (Butler, 2000:29-32). Entrepreneurs experience problems with the market size and trends of the business plan, as it is not clear how the business will generate revenues in the real marketplace. For this reason it is necessary to prepare an industry-, customer-, and competitive profile (Arkebauer & Miller, 1999:91-97). Timmons and Spinelli (2004:412) include the following aspects related to the market size and trends:

- Show for five years the size of the current total market and the share you will have, by market segment, and/or region, and/or country, for the product or service you will offer, in units, monetary terms, and potential profitability.
- Also describe the potential annual growth of the total market for at least the next three years for each major customer group, region or country.
- Discuss the major factors that will affect the market growth and review previous market trends, and explain any differences between the past and projected annual growth rates.

Bachrodt and Smyth (2004:60) state that answering the following questions can assist in the defining of future market scenarios, that can be modelled to establish a basis for planning:

- What will the demographics in the market look like in five to ten years?
- Will demographic shifts require the service area to be defined the same or differently in the future?
- Will utilisation rates for specific services rise, fall, or stay the same?
- Will new technology create or change the demand for specific services?
- Will current or anticipated market forces change the delivery point for products or services?

4.5.3.3 Competition and competitive edges

Butler (2000:32-33) states that the following questions about the competitors' products and services should be answered in order to produce a convincing and realistic marketing plan:

- Who is the direct and indirect competition in the market place?
- What prices are charged and how does the product or service differ?
- What geographical areas are covered and does the competition operate in the same market sector?

Timmons and Spinelli (2004:412-413) include the following aspects related to competition and competitive edges:

- Assess any substitute or alternative products or services by means of a realistic assessment of their strengths and weaknesses.
- Compare competing and substitute products or services on the basis of market share, quality, price, performance, delivery, timing, service, warranties, and other pertinent features.
- Compare the fundamental value that is added or created by your product or service, in terms of economic benefits to the customer and to your competitors.
- Discuss the current advantages and disadvantages of these products and services and say why they are not meeting customer needs.
- Indicate any knowledge of competitors' actions that could lead to new or improved products, services, or an advantageous position.
- Determine and discuss the competitors' strengths and weaknesses in terms of market share, sales, distribution methods, and production capabilities.
- Review the financial position of the competitors in terms of their resources, costs and profitability.
- Indicate who are the service, pricing, performance, cost and quality leaders, why customers buy or not buy from them, as well as an indication of any businesses that have entered or failed in recent years.

4.5.3.4 Estimated market share and sales

Timmons and Spinelli (2004:413) include the following aspects related to estimated market share and sales:

- Summarise the fundamental value added of your product or service, and why it can capture a share of the competitors' market.
- Identify any major or potential customers that will make an immediate or long-term commitment to the product or service.
- Estimate the market share and sales in units, based on the assessment of the advantages of the product or service, the market size and trends, customers, competition and their products.
- Show how the growth in sales and market share are related to the growth of the industry.

4.5.3.5 Ongoing market evaluation

Timmons and Spinelli (2004:413) state that it is important to explain how to continue and evaluate the target markets, customer needs, product improvement, pricing, new product programs and possible production expansion facilities.

4.5.4 Economics of the business

Bachrodt and Smyth (2004:66) emphasise that a full set of financial projections, including the income statement, balance sheet, and cash flow statement, will act as an impact analysis. Timmons and Spinelli (2004:413) emphasises that the economic and financial characteristics need to support the fundamental attractiveness of the opportunity, and therefore include the following economic and financial aspects:

- **Gross and operating margins** - The results of the magnitude of the gross- and operating margins for each product and/or service should be concluded by means of a contribution analysis.

- **Profit potential and durability** - Describe the magnitude and expected durability of the profit stream the business will generate, and address barriers that will have an impact on the profit potential and durability of the product or service.
- **Fixed, variable, and semi-variable costs** - Provide a detailed summary of fixed, variable, and semi-variable costs, in monetary value and as percentages of total costs, against relevant industry benchmarks.
- **Months to breakeven** - Provide an entry strategy, marketing plan, and proposed financing, and show how long it will take to reach a breakeven sales level.
- **Months to reach positive cash flow** - Show when the business will attain a positive cash flow, when cash flow problems can be expected, as well as any significant changes in cash flow during growth and added capacity.

4.5.5 Marketing plan

“Marketing is a planning and strategy-based process to satisfy the needs and wants of a customer with one or more defined competitive advantages, at a profit.” (Arkebauer & Miller, 1999:91-97.) Timmons and Spinelli (2004:414) and Kuratko and Welsch (2004:251) state that, as the marketing plan will describe how the sales projections will be attained, it should detail the overall marketing strategy that will exploit the opportunity and competitive advantages such as a discussion of sales and service policies, pricing, distribution, promotion, advertising strategies and sales projections. “The marketing plan needs to describe *what* is to be done, *how* it will be done, *when* it will be done, and *who* will do it.” (Timmons & Spinelli, 2004:414.) Butler (2000:29) includes that the marketing section of the business plan analyses the market sector in which the business will operate, as well as the problems or barriers which might be experienced in trying to break into the market. Butler (2000: 33) and Clark and Louw (1995:34-35) conclude that the marketing strategy is typically presented by means of four key headings whereby the four P’s of marketing, namely, the product, price, place and promotion, are described and include the following:

- **Product** - Description of the product or service, features, quality, brand name, packaging, warranty and product range.

- *Price* - Price of the product or service, discounts, credit terms, payment period and pricing policy.
- *Place* - Distribution channels, store location, delivery times, inventory levels and transport.
- *Promotion* - Advertising, personal selling, sales promotion, publicity (editorials), seminars, direct mail, exhibitions and trade fairs.

4.5.5.1 Overall marketing strategy

Arkebauer and Miller (1999:99) state that the marketing strategy is the process of bringing a business to the point where it can make a sale. Arkebauer and Miller (1999:99-111) also state that the marketing strategy should help to increase the customer awareness by means of targeting the market or customers by means of promotion, publicity, advertising, pricing and distribution in order to gain the expected market share. Timmons and Spinelli (2004:414) include the following aspects related to the overall marketing strategy:

- Describe the specific marketing philosophy and strategy of the business, the value chain and channels of distribution that will be pursued. Also include the features of the product or service that will emphasise the generation of sales, such as service, quality, price, delivery, warranty and training.
- Indicate any plans for the introduction of products or services, whether it will be internationally, nationally, or regionally.
- Discuss any seasonal trends that might influence the cash conversion cycle in the industry, as well as what can be done to promote sales out of season.
- Describe any plans to obtain government contracts as a means of supporting product development costs and overheads.

Butler (2000:35-36) states that a formal statement of the quality standards for products and services will constitute a simple description of the operating standards and policies against which the business can be measured, and should therefore form part of the overall marketing strategy.

4.5.5.2 Pricing

Arkebauer and Miller (1999:107) state that the pricing policy is an important part of the business plan, and should therefore include the determination of pricing for products and services. Timmons and Spinelli (2004:414) include the following aspects related to pricing:

- Discuss the pricing strategy with the focus on prices to be charged for products or services, the competitors' pricing policy, as well a payback period for the customer.
- Discuss the margin difference between the gross profit margin and manufacturing, in order to indicate whether it will be large enough to allow for sales costs and still make a profit.
- Explain how the price gets distributed to cover for product or service acceptance, the maintaining and increasing of the market share, and produce profits.
- Justify the pricing difference from the competitors in terms of economic payback and value added aspects.
- Justify a lower price than the competitors in terms of maintaining profitability, and still having a relationship of price, market share and profits.

4.5.5.3 Sales tactics

Timmons and Spinelli (2004:414) include the following aspects related to sales tactics:

- Describe the selling methods that will be used to distribute products or services.
- Discuss and compare the value chain and resulting margins to retailers, distributors, wholesalers or sales people, with these of the competitors.
- Describe how the method of distribution will be selected, the areas they will cover, as well as the expected sales.
- Show the sales expected per retailer, distributor, wholesaler or sales people, the costs involved and how it compare to the average for the industry.

- Present a selling schedule and sales budget that includes marketing- and service costs.

4.5.5.4 Service and warranty policies

Arkebauer and Miller (1999:111) state that warranties or service policies are important to the customer's buying decision. Timmons and Spinelli (2004:415) include the following aspects related to service and warranty policies:

- Indicate if the business will offer any service, warranties or training, as well as the importance of these to the customer and how it will be offered.
- Indicate the charge associated with any service, warranty or training issues.
- Compare the service, warranty or training to the competitors'.

4.5.5.5 Advertising and promotion

Arkebauer and Miller (1999:103) state that promotion is the process of advancing the information about your product or service to the customer by any means. Timmons and Spinelli (2004:415) and Arkebauer and Miller (1999:104) state any business should describe and present a cost schedule of any advertising and promotional approaches that the business will use to bring its products or services to the attention of the customers, such as trade show participation, magazine advertisements, direct mailings, product- and promotional literature or advertising agencies. Butler (2000:35) states that it is a good idea to include samples of advertising materials such as business cards, newspaper adverts or leaflets within the business plan.

4.5.5.6 Distribution

Arkebauer and Miller (1999:109) mention that when describing the distribution, it should describe the manner in which the product, and sometimes a service, is physically transported to the customer. Timmons and Spinelli (2004:415) emphasise that the

method of distribution should include an indication of any special issues or problems that may lead to potential vulnerabilities.

4.5.6 Design and development plans

Timmons and Spinelli (2004:415) state that as the development costs are normally underestimated, the nature and extend of any design and development work required before a product or service is marketable should be considered in detail, and include the following:

- ***Development status and tasks*** - Describe the current status of each product or service and explain what competence or expertise will be required to complete this development, as well as when results are expected.
- ***Difficulties and risks*** - Identify any anticipated design and development problems and define approaches and the cost involved to their solution.
- ***Product improvement and new products*** - Discuss any ongoing design and development work that is planned, as well as customers' reactions that have participated in these efforts.
- ***Costs*** - Present and discuss the design and development budget, as well as the impact on cash flow projections of underestimation of this budget.
- ***Proprietary issues*** - Describe any contractual rights or agreements to patents, trademarks, copyright or intellectual property rights and the impact of any unresolved issues or possible actions pending.

4.5.7 Operations plan

Chosen objectives and milestones that can be used to measure the progress in the business' operations must be presented in the operations plan (Arkebauer & Miller, 1999:137). The manufacturing and operations plan should include the plant location, types of facilities needed, space- and labour force requirements. For a manufacturing business, policies for inventory control, purchasing, production control and make-or-buy decisions should be included. A service business may require particular attention to

location, minimum overheads and obtaining competitive productivity from a labour force (Timmons & Spinelli, 2004:416).

Timmons and Spinelli (2004:416) also include the following aspects related to manufacturing and operations plans:

- ***Operating cycle*** - Describe the lead-time that characterise the fundamental operating cycle in the business and explain how any seasonal production loads will be handled without severe dislocation.
- ***Geographical location*** - Include any location analysis and discuss any advantages or disadvantages of the planned geographical location of the business.
- ***Facilities and improvements*** - Describe how and when the necessary facilities to start production will be acquired, and indicate the costs and timing of such actions. Also include any future equipment needs, the timing and costs to accommodate future sales projections.
- ***Strategy and plans*** - Describe the manufacturing processes involved, the make-or-buy policy and who the potential sub-contractors and/or suppliers will be. Also present a production plan and the approach to quality- and inventory control.
- ***Regulatory and legal issues*** - Discuss any regulatory or pending regulatory requirements that will be applicable to the product or service, as well as any legal or contractual obligations that are pertinent.

Clark and Louw (1995:34) state that a description of the location, rental cost, size and layout of the proposed business should accompany the stock control, quality procedures, warehousing arrangements, production and capacity processes, and distribution methods in the manufacturing and operations plan.

4.5.8 Management team

Business plan reviewers are seeking a sense of the management's strengths and weaknesses to give them a better understanding of the tasks and risks involved, as the skills and experience of the management team have more to do with the success of the business than the products or services (Arkebauer & Miller, 1999:113). Clark and Louw (1995:34); Butler (2000:63); and Kuratko and Welsch (2004:251) state that this section will contain curriculum vitae and a description of all key personnel that will be involved in setting up and running the business, including their skills and abilities that will contribute towards the success of the business. Timmons and Spinelli (2004:416-417) state that this section of the business plan includes a description of the key management personnel and their primary functions, an outline of the organisational structure for the business, a description of the board of directors and the ownership position of any other investors. Timmons and Spinelli (2004:416-417) also include the following aspects related to the management team:

- **Organisation structure** - Present the key management roles in the business and the individuals who will fill each position, and how these functions will be performed. Also discuss any current or past situations that might indicate an effective management team.
- **Key management personnel** - Describe detail career highlights, exact duties and responsibilities, or any other relevant information of the key management personnel.
- **Management compensation and ownership** - Present salaries, stock ownership and equity investment of any key member of the management team, as well as a comparison of previous compensations.
- **Other investors** - Describe any future investors, when they are required and at what price.
- **Employment, other agreements, stock option and bonus plans** - Describe any existing or contemplated employment or agreements with key members, any restrictions on stock and investments that will affect ownership, as well as any performance-dependent stock option or bonus plans for key members.

- **Board of directors** - Discuss the business' philosophy about the size and composition of the board, as well as stating each member's background and what their contribution will be.
- **Other shareholders, rights and restrictions** - Indicate any other shareholders in the business and any rights, restrictions, or obligations, such as notes or guarantees.
- **Supporting professional advisors and services** - Indicate the supporting services that will be required, their names and what services each will provide.

4.5.9 Overall schedule

An overall schedule that shows the timing and interrelationship of the major events necessary to launch the business is an essential part of the business plan. A well-presented schedule with deadlines can also be extremely valuable in convincing potential investors, such as follows (Timmons & Spinelli, 2004:417-218):

- **Step 1** - Lay out the cash conversion cycle for each product or service.
- **Step 2** - Prepare a schedule that shows the timing of the product development, market planning, sales programs, production and operations.
- **Step 3** - Show on the schedule the deadlines or milestones that will be critical for the success of the business.
- **Step 4** - Show on the schedule the number of management personnel, production and operations personnel, plant and equipment, as well as their relation to the development of the business.
- **Step 5** - Discuss what activities will be most likely to cause a schedule slippage, the impact of such a slippage on the feasibility and capital needs of the business, as well as the most likely steps to correct it.

4.5.10 Critical risks, problems and assumptions

The achievement of the business success is not only be measured by its profits, but include various other aspects that can be measured in order to detect critical risks and problems in advance, and include the following (Butler, 2000:41):

- Assess the quality of goods or services by means of customer feedback questionnaires, against the established quality standards.
- Measure the growth rate of the business as a whole, or within different product fields in comparison with previous years, or forecast figures.
- Measure customer retention rates with past performance.
- Assess growth of sales in relation to promotional activities and expenditure.
- Compare the relative sales levels of individual goods or services.
- Monitor profit margins by product or service.
- Monitor overall cash profit, and profit margins, to ensure solvency.
- Analyse aged debtors and creditors and payment terms to ensure liquidity.

Risk perceptions of entrepreneurs play key roles in the decision to enter into a new business. Potential business owners and managers perceive risk by three sets of factors: the relative level of investment needed to fund the business, the variability in the anticipated outcomes of the business, and any potential losses that may ensue (Kuratko & Welsch, 2004:180-181). A description of assumptions and potential risks, problems and consequences that the business might experience should be included in the business plan, as well as plans for minimising the impact thereof, and can include problematic aspects such as (Timmons & Spinelli, 2004:418):

- “Running out of cash before orders are secured.”
- “Potential price-cutting by competitors.”
- “Any potentially unfavourable industry trends.”
- “Design or manufacturing costs in excess of estimates.”
- “Sales projections not achieved.”
- “An unmet product development schedule.”

- “Difficulties or long lead times in the procurement of parts or raw materials.”
- “Difficulties encountered in obtaining needed bank credit.”
- “Longer-than-expected innovation and development costs.”
- “Running out of cash after orders pour in.”

4.5.11 The financial plan

The financial plan of a business is a set of documents that present a historical, current, and projected overview of key numbers, and is seen as the backbone of the operations of a business, and reviewed by all investors (Arkebauer & Miller, 1999:123). A calculation of how much money is needed for starting the business should include equipment, premises, stock and raw materials, wages and salaries, vehicles, working capital and advertising costs (Clark and Louw, 1995:35). Butler (2000:21-25) agrees that before any attempt can be made to the financial aspects of the business, it is essential to identify the capital investment requirements of the business and identify them as follows:

- inventory of the required plant, equipment and materials;
- a schedule of the available recourses;
- premises requirements, availability and any possible modifications, and
- transport-, personnel-, and insurance requirements.

The purpose of the financial plan is to indicate the business’ potential and to present a timetable for financial feasibility (Butler, 2000:26) and (Timmons & Spinelli, 2004:418). Timmons and Spinelli (2004:418) include the following financial indicators to the business plan:

- ***Actual income statements and balance sheets*** - Income statements and balance sheets are only necessary for existing business, and should be prepared for the current year and for the prior two years. “The income approach recognises that the value of an investment is equal to the present worth of the future benefits of ownership.” (Cardamone *et al.*, 2004:44.)

- **Pro forma income statements** - Pro forma income statements should be prepared for the first three years, and should reflect any potential risks to the profits of the business.
- **Pro forma balance sheets** - Pro forma balance sheets can be prepared semi-annually in the first year and at the end of each of the first three years of operation.
- **Pro forma cash flow analysis** - Project cash flows monthly for the first year of operation and then quarterly for the next two years, including any assumptions that may be sensitive to the cash flow of the business.
- **Break-even chart and calculation** - Prepare a chart that shows when breakeven will be reached, as well as any changes that might influence the breakeven point positively or negatively.
- **Cost control** - Describe who will be responsible for the control of various cost elements, and the actions associated with budget deviations.
- **Highlights** - Highlight important conclusions such as the maximum amount of cash required and when, the amount of debt and equity needed, and how fast any debts can be repaid.

Three key financial statements, covering a three-year period, must be presented and include a balance sheet, income statement, and a cash flow statement (Kuratko & Welsch, 2004:251). Bachrodt and Smyth (2004:66) state that time horizon covered by the financial projections should be at least ten years, depending on the capital expenditures that are envisioned. The plan must also be seen as a living document that requires adjustments as the situation changes. Clark and Louw (1995:28) include that it is important to do a sensitivity analysis for each of the projections, in order to test how sensitive the financial position of the business is in relation to changes in the basic consumptions. Cardamone *et al.* (2004:44) state that as projections are developed, assumptions should be tested and areas for contingency, both in expenses and in timing of implementation, should allow for some sort of conservatism.

4.5.12 Proposed business offering

Timmons and Spinelli (2004:419) state that this section of the business plan indicates the amount of capital that is needed, the nature and amount of securities offered to investors, how the raised capital will be used and a summary of how the investor is expected to achieve its targeted rate of return. Butler (2000:29) emphasises that after the various potential sources of finance is examined, the business plan should identify the chosen sources and the reason for its selection. Timmons and Spinelli (2004:419-420) include the following aspects related to the proposed business offering:

- ***Desired financing*** - Indicate how much capital will be required based on the cash flow projections, and what method of financing will be used.
- ***Offering*** - Describe the type and percentage of offering, as well as the total amount of securities that will be sold in this offering.
- ***Capitalisation*** - Present the current and proposed number of outstanding shares of common stock, as well as how many shares will remain authorised but not issued after the offering, and what is planned with it afterwards.
- ***Use of funds*** - Provide a description of how the raised capital will be used.
- ***Investor's return*** - Indicate how the valuation and proposed ownership shares will result in the desired rate of return for the investors.

Clark and Louw (1995:36) and Butler (2000:42) include that a summary of the reasons for the believe in the feasibility and potential success of the business, can be included in this last section and should take the form of a list of key points stating the reason and corresponding justification for the anticipated success of the business.

4.5.13 Appendices

According to Kuratko and Welsch (2004:252) include this section important background information that was not included in the other sections. Clark and Louw (1995:28) and Timmons and Spinelli (2004:420) state that it is important to include pertinent information as appendices that are too extensive for the body of the business

plan but also necessary. Arkebauer and Miller (1999:145-147) state that the first item in the appendix should be a glossary with definitions of all technical terms and phrases, followed by a resume, owner's financial statement, letters of intent, contracts and leases, legal documents, reference letters or any other miscellaneous documents.

4.6 IMPLEMENTATION

According to Bachrodt and Smyth (2004:66), it is essential to have a realistic, time-sensitive implementation plan that addresses timing, resource requirements, and responsibility. Wickham (2001:210) states that the implementation phase is characterised by the transformation of the idea to the reality. Opening the window represents the start-up phase of the business. Moving through the window means developing the business and delivering new value to customers. Selecting a well-defined customer segment enables the business to focus and concentrate with limited resources on its efforts and to defend it against competitors. Butler (2000:63) indicates that personal skills and capabilities are concerned with four stages, namely:

- Objectively analysing and identifying the current and foreseeable skills needs of the business, in terms of management, administrative and technical skills, and the relative importance of these.
- Identifying your own personal goals and objectives, and accurately analysing and evaluating your own skills and resources in relation to these.
- Producing a realistic personal development plan.
- Monitoring your ongoing performance as an owner-manager, and your progress in developing new skills.

Kuratko and Welsch (2004:2) state that there are two ways of building dynamic capabilities, namely internally with the utilisation of the creativity and knowledge from employees, and externally with the search for external competencies to compliment the business' existing capabilities. In the light of personal skills and capabilities, Butler (2000:63-65) emphasise the importance of drawing up a skills profile in order to identify a diverse range of expertise required, such as technical knowledge, marketing

skills, sales skills, organisational skills, decision-making skills, financial skills, customer service skills, staff management skills and management of information and computer literacy skills.

Cardamone *et al.* (2004:44) state that the effective implementation of the efficient delivery of services and/or products should be planned. The evaluation of certain key aspects include the following:

- **Construction/installation timing** - Consideration should be given to the timing of delivery, construction, and implementation of capital aspects of the plan.
- **Recruiting, staffing, and training** - The effective implementation of recruiting, staffing, and training of key personnel should be carefully evaluated and articulated as part of the plan.
- **Service delivery** - A schedule for implementation and delivery of services should help with staging services and ramping up volume.
- **Evaluation mechanism** - A mechanism is needed to allow for ongoing control, tracking results against plan goals, and modifying and re-evaluating where necessary.

Timmons and Spinelli (2004:420) state that it is recommended that another party should review the once written business plan, in order to make sure that no issues and aspects of the new business are neglected or contain any misleading statements.

4.7 BUSINESS PLANNING OBSTACLES

According to Kuratko and Welsch (2004:178), risk plays a central role in most entrepreneurial decision-making. Little empirical research has explicitly examined how the elements of risk, risk perceptions, and entrepreneurs' propensities to take risks influence choices among potentially risky entrepreneurial businesses. Kuratko and Welsch (2004:179) further express the fact that risk is a central element in a variety of decisions for entrepreneurs. Tang *et al.* (2003:289) agree by stating that many small

businesses have very little understanding of, and cannot comprehend, future technological developments.

Morrison *et al.* (2003:420) state that less than half of the small business managers/owners work according to a business plan. Walters (2002:88-94) feels that the reason why small business owners do not plan strategically, is because of the belief that detailed planning blocks opportunity, creativity, and an intuitive approach to managing the business, the inability to find the time, due to the vast demands of business ownership, and the perception that the planning process seems too cumbersome and overwhelming. McDonnell (2005:66) emphasises that planning exercises are not always linked with activities that drive value into the business. The problem might be the lack of meaningful, timely and useful information. Arkebauer and Miller (1999:8) and Timmons and Spinelli (2004:402) mention that the preparation of an effective business plan for start-up can take between 200 and 300 hours.

Wheelen and Hunger (2004:304) state that the reasons for a lack of planning in many small businesses are fourfold:

- Not enough time, as operating problems take up the time necessary for planning.
- Most small business owners/managers are unfamiliar with strategic planning.
- Small business owners/managers often lack the skills necessary for planning.
- Lack of trust and openness, as many small business owners/managers are very sensitive regarding key information about the business.

Kuratko and Welsch (2004:214) agree with the first four reasons of Wheelen and Hunger (2004:304) for the lack of planning, but add one more reason for the lack of planning, namely the perception of small business founders/owners that planning is associated with high costs. This perception may be due to insufficient training, as Honig (2004:258-260) sees the development of a business plan as one of the most important aspects of entrepreneurship / business planning education and entrepreneurship courses. Honig (2004:258) states that: “neither the teaching of business plans, nor the plans themselves, are sufficiently justified on the basis of theoretical or empirical literature.”

Butler (2000:13) states that one of the biggest problems with standardised business plans is that they restrict the individual expression because of factors of commonality that are normally included in these plans, rather than encouraging the individual to focus on factors that can make them unique and different from the competition. Butler (2000:57-61) classifies business influences into three categories, namely internal influences, influences related to the market environment and external influences. Internal influences that will impact on the feasibility of the business include staff, management skills, and available finance, whereas the market environment includes the size of the market, demand for goods, services, and competition. External influences include political influences, economic factors, social influences and trends, technological changes, legislative changes and environmental issues (Butler, 2000:57-61). Wheelen and Hunger (2004:73-74,101-102) indicate that external factors can be refined by means of EFAS (External Factors Analysis Summary), and internal factors by means of IFAS (Internal Factors Analysis Summary). EFAS and IFAS is one way to organise the external and internal factors into generally accepted categories of opportunities, threats, and strengths and weaknesses (table 4.7).

Table 4.7: External/internal factors analysis summary

External factors	Weight	Rating	Weighted score	Comments
<i>List all the opportunities, threats, strengths and weaknesses</i>	<i>Weight each factor from 1.0 (most important) to 0.0 (least important)</i>	<i>Rate each factor from 5.0 (outstanding) to 1.0 (poor) to the businesses' response</i>	<i>Multiply each factor's weight times its rating to get each factor's weighted score</i>	<i>Comment for rationale used for each factor</i>
Total scores	<u>1.00</u>		<i>Add the individual weighted scores</i>	

Source: Adapted from Wheelen and Hunger (2004:73-74,101-102)

Table 4.7 shows how the external and internal factors can be analysed and evaluated in order to weigh these factors according to their status of obstruction.

4.8 SUMMARY

From the literature, it is clear that business planning will lower the risk of business failure. It is also clear from the literature study that the reason why people do not plan is due to diverse reasons. The most important reasons include not enough time, unfamiliarity with strategic planning, lack of skills necessary for planning, and lack of trust and openness regarding key information about the business.

When one looks at the different phases within which a business evolve, it can be summarised that the business planning phase is a crucial phase to be followed after the feasibility of the opportunity is established. No structured format for the business plan exists, although certain key aspects of the business need to be stipulated, and include the following:

- ***The business*** - Products, services and the shape of the business.
- ***Formal market research*** - Customers, market size, trends, competition and expected market share.
- ***Economy of the business*** - Gross and net income, fixed and variable costs, breakeven point, and return on equity.
- ***Marketing plan*** - Marketing strategy, sales tactics, price, promotion, distribution, products, and services.
- ***Design- and development plans*** - Start-up schedule, costs, and legal aspects.
- ***Operational plan*** - Choice of establishment and competence cycle.
- ***Management team*** - Organisational structure, personnel requirement, incentive scheme, and management.
- ***Risks*** - Consideration of most obvious risks and expected problems.
- ***Financial plan*** - Income statement, balance sheet, cash flow, and cost control.

The literature that is covered in Chapter 2, 3, and 4 will be used to develop a questionnaire that will be used in Chapter 5, the empirical study on the obstacles towards small business development in the Emfuleni district.

CHAPTER 5

OBSTACLES TOWARDS SMALL BUSINESS DEVELOPMENT IN THE EMFULENI DISTRICT: EMPIRICAL FINDINGS

5.1 INTRODUCTION

This chapter analyses and processes the findings from the empirical study, and then evaluates them against the theoretical background of the literature study. The empirical research focuses on various industries within the small business sector of the Emfuleni district.

The purpose of the empirical research is to meet all the criteria in order to sustain the primary, as well as the secondary objectives. The primary objective is to identify the obstacles that are associated before and during the start-up phase of a small business, with research question 1 as follows:

Research question 1: *What are the major obstacles towards entering the small business sector in the Emfuleni district?*

The identified obstacles might help small business founders/owners, public policy makers, entrepreneurship and business educators, and entrepreneurship and business researchers to identify what initiatives should be followed to overcome these obstacles. These initiatives will therefore further assist in the development of entrepreneurship and the small business sector. The secondary objective, which correlates with research question 2, aims to identify what initiatives should be followed to overcome these obstacles.

Research question 2: *What initiatives should be followed to develop the small business sector in the Emfuleni district?*

Supportive questions to what initiatives should be followed include the following:

- What are the strengths and weaknesses of the entrepreneur in the Emfuleni district?
- How important is the level of training and development, the government and supporting institutions for small business development in the Emfuleni district?
- To what extent does business planning conquer the identified obstacles?

5.2 RESEARCH METHODOLOGY

The empirical research is based on the literature study done from Chapter 2 to 4 in a structured questionnaire and presented in the form of interviews to small business founders/owners in the Emfuleni district. A pilot study was done on five small business founders/owners within the Emfuleni district. This pilot study was done to adjust and further develop the questionnaire/interview. The pilot study was also conducted in order to ensure that respondents understand the questions well and have clarity regarding the purpose of the study. The format and content of the questionnaire/interview schedule were adjusted accordingly. The questionnaire contains the following sections in order to gather information regarding the subject:

- Section A: Demographic information regarding the profile of the business founder/owner, as well as the profile of the small business.
- Section B: Detailed questions regarding small business obstacles.
- Section C: Small business development initiatives, with the following supportive sub-sections:
 - Section C1: Information regarding entrepreneurial strengths and weaknesses.

- Section C2: Information regarding the importance of training and development, the government and supporting institutions for small business development
- Section C3: Information regarding the role that business planning plays in the successful start-up of the small business.

The above-mentioned information is collected by means of open and closed questions, as well as Likert-type statements by which the respondents had to indicate the real and ideal approach towards successful small business development. The statistical processing that resulted from these statements is identified by means of a-values for the real situation, and the b-values for the ideal situation. Not all statements will be discussed, as the questionnaire contains various statement type questions, but rather the most relevant selected statements that can add value to this study.

Personal interviews were done, due to the length of the questionnaire. Five field workers, including the author, have done interviews by appointment with different founders/owners, according to the structured questionnaire. Questionnaires were completed during late 2005 / early 2006. Telephonically appointments with founders/owners were made in advance. Completion of the questionnaire took approximately between 30 and 45 minutes.

The demographic information regarding the founder/owner of the business will follow in this section.

5.2.1 Study population of the businesses surveyed

The Emfuleni district is situated in the Vaal Triangle, and includes the following towns: Sasolburg, Vanderbijlpark, Vereeniging and Meyerton (Wikipedia, 2005). An industry register of the Emfuleni Local Municipality (2005) was obtained in order to identify the study population. This industry register contains a census of all businesses in Vanderbijlpark and Vereeniging, and consists of 6610 businesses. Small business classifications were confirmed by means of telephonic appointments. All small

businesses that are included in the industry register of the Emfuleni Local Municipality (2005), are included in this study. The small business classification is done according to guidelines of the National Small Business Act (1996).

The sample is worked out to be 384, and is determined by means of the following formulae (Steyn, Smit, & du Toit, 1998:396-397):

$$n \geq pq \left(\frac{1.96}{0.05} \right)^2$$

This implies that the estimated proportions should not differ with more than 5% from that in the population with a probability of 95%. Proportion in sample is unknown, thus $p = 0.5$ and $q = (1 - p)$.

The field workers could complete only 120 questionnaires from the 384 randomly selected businesses in the Emfuleni district, which represent an initial response rate of 31%. Some of the telephone numbers that were shown on the industry register were not in use, or have changed. It made it therefore difficult to find some of the identified respondents. Another random selection was done in order to obtain the correct sample of 384. A number of respondents did not complete the questionnaire, due to unwillingness to take part in the interviews. A few respondents did not react to the financial status of the business (Questions A2.1 and A2.2). Uncompleted questionnaires were regarded as incorrect, and followed up as far as possible. A total of 307 questionnaires were completed correctly, which represent a 20% deviation from the targeted sample.

5.2.2 Demographic information

Demographic information can be seen in figures 5.1 to 5.4, tables 5.1 to 5.11, as well as in paragraphs 5.2.2.1 and 5.2.2.2, namely the profile of the business founder/owner, and the profile of the business.

5.2.2.1 Profile of the business founder/owner

The profile of the respondents is evaluated according to their characteristics, such as management involvement (table 5.1), gender (table 5.2), age category (table 5.3), social heritage/culture (table 5.4), level of education (table 5.5), and business management experience (table 5.6).

5.2.2.1.1 Management involvement

Table 5.1 indicates whether the owner of the small business is directly involved in the management thereof.

Table 5.1: Management involvement

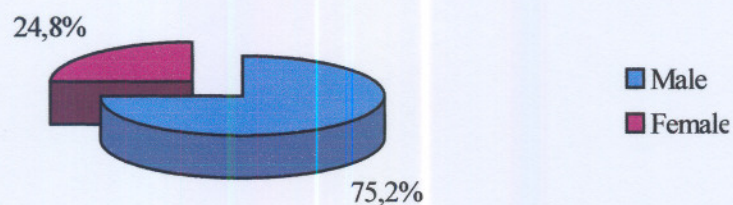
	Frequency	Percentage
Yes	307	100%
No	0	0%
Total	307	100%

The conclusion is that all small business owners in the Emfuleni district are directly involved in the management of their businesses, as the sample indicated towards a 100% management involvement.

5.2.2.1.2 Gender

Figure 5.1 indicates the distribution between gender of the respondents.

Figure 5.1: Gender

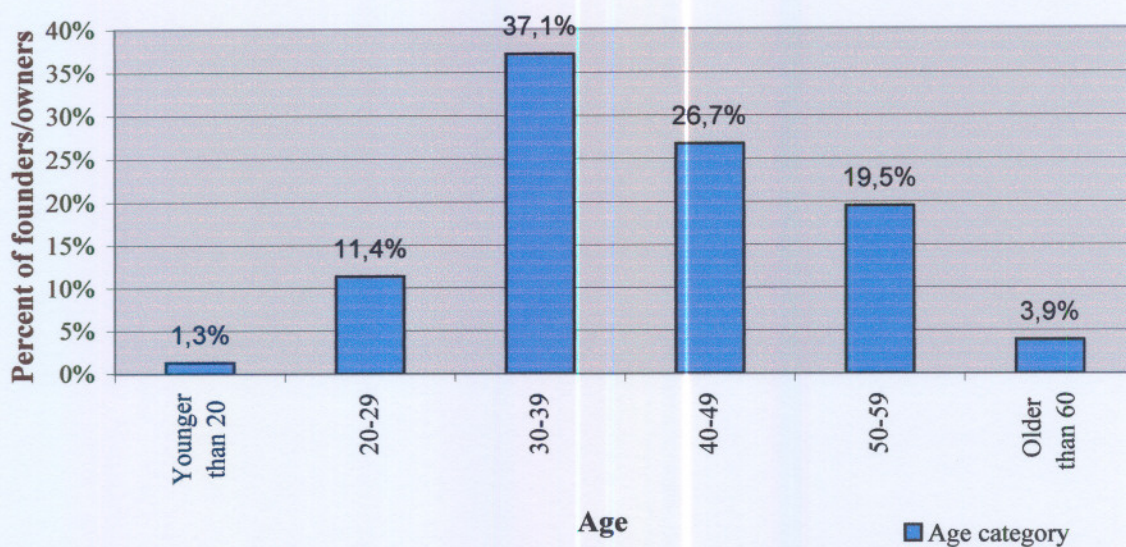


It can be assumed that 75% small businesses founders/owners in the Emfuleni district are males.

5.2.2.1.3 Age category

Figure 5.2 indicates the age category of the small business founder/owner.

Figure 5.2: Age category



Most (37,1%) of the respondents fall in the 30-39 age category, while the minority (1,3%) fall in the younger than 20 category, and (3,9%) in the older than 60 category. It can therefore be concluded that most respondents are in their mid-life, having families to care for.

5.2.2.1.4 Mother tongue

Table 5.2 indicates the distribution of the mother tongue of the respondents.

Table 5.2: Mother tongue

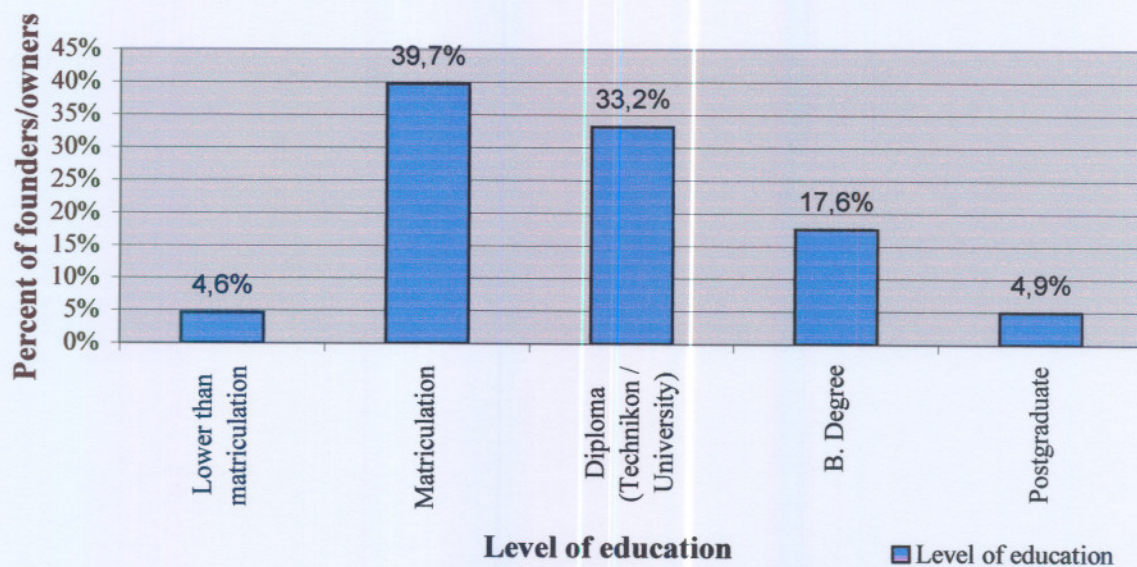
	Frequency	Percentage
Afrikaans	216	70,4%
English	58	18,9%
Sesotho	18	5,9%
Setswana	6	2%
Other	3	1%
isiXhosa	2	0,7%
Sepedi	2	0,7%
Xitsonga	2	0,7%
isiZulu	0	0%
isiNdebele	0	0%
siSwati	0	0%
Tshivenda	0	0%
Total	307	100%

The majority (70,4%) of the respondents belong to the Afrikaans mother tongue, while the second largest (18,9%) mother tongue is English. African languages represent 9,8%, with most of these speaking Sesotho. Other languages (1%) include Gujerati, Russian, and German.

5.2.2.1.5 Level of education

Figure 5.3 indicates the distribution of level of education of the respondents.

Figure 5.3: Level of education

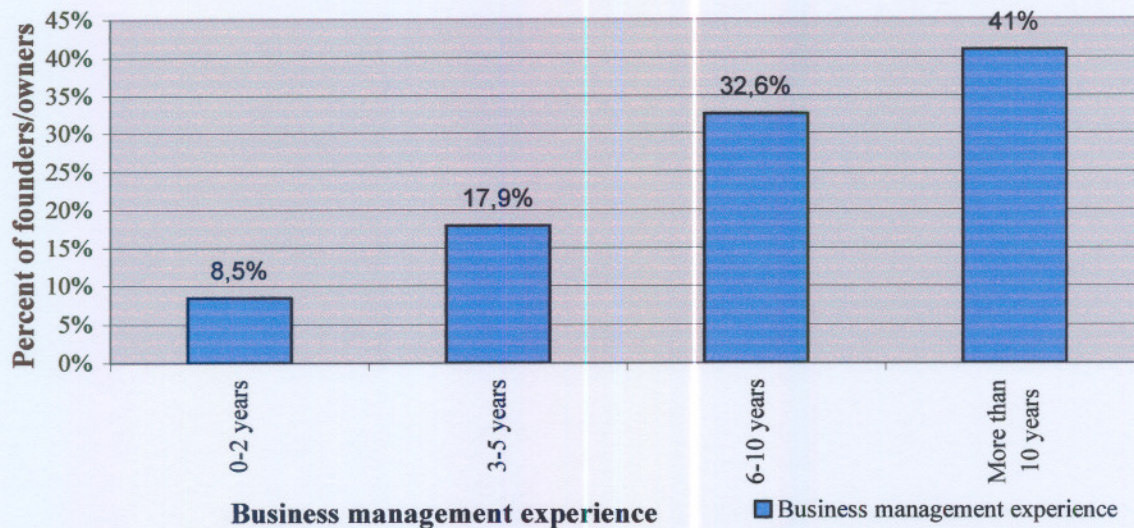


33,2% of the respondents have either a Technikon or University Diploma, while most of the respondents (39,7%) passed matriculation. It also indicates that more than half (55,7%) of respondents have a qualification higher than matriculation. Given the above it is clear that most respondents have a higher level of education, and that all respondents have basic knowledge of the business process.

5.2.2.1.6 Business management experience

Figure 5.4 indicates the level of business management experience of the respondents.

Figure 5.4: Business management experience



41% of respondents have more than 10 years of business management experience. It can therefore be assumed that most of the respondents will be familiar with obstacles within the small business sector during the start-up phase.

5.2.2.2 Profile of the small business

The profile of the small business is evaluated according to their characteristics, such as gross asset value (table 5.7), gross income (table 5.8), number of employees (table 5.9),

age of the business (table 5.10), legal status of the business (table 5.11), and business industry (table 5.12).

5.2.2.2.1 Size of the business

The size of the businesses in the study population is classified according to the Small Business Act (Act 102/1996). Information about the gross asset value (table 5.3), annual gross income (table 5.4) and the number of employees (table 5.5) is obtained.

Table 5.3: Gross asset value (Including fixed assets)

	Frequency	Percentage
Less than R 1 Million	165	53,8%
Between R 1 Million and R 2.5 Million	66	21,5%
Between R 2.5 Million and R 5 Million	52	16,9%
Between R 5 Million and R 10 Million	16	5,2%
Between R 10 and R 15 Million	8	2,6%
More than R 15 Million	0	0%
Total	307	100%

All (100%) respondents that gave information about their total asset value can be classified as small businesses according to the National Small Business Act (1996) according to their total asset value, including fixed assets (table 5.3). More than half (53,8%) of the respondents indicated that their businesses have a gross asset value less than R 1 Million. Only 2,6% of the respondents indicated that their businesses have a gross asset value between R 10 and R 15 Million.

Table 5.4: Annual gross income

	Frequency	Percentage
Less than R 1 Million	170	55,3%
Between R 1 Million and R 2.5 Million	72	23,5%
Between R 2.5 Million and R 10 Million	53	17,3%
Between R 10 Million and R 40 Million	12	3,9%
More than R 40 Million	0	0%
Total	307	100%

All (100%) respondents that gave information about their annual gross income can be classified as small businesses according to the National Small Business Act (1996)

according to their annual gross income (table 5.4). More than half (55,3%) of the respondents indicated that their businesses have an annual gross income of less than R 1 Million. Only 3,9% of the respondents indicated that their businesses have an annual gross income between R 10 and R 40 Million.

Table 5.5: Number of employees

	Frequency	Percentage
Less than 6	151	49,2%
6-20	125	40,7%
21-50	31	10,1%
51 - 100	0	0%
101 - 200	0	0%
More than 200	0	0%
Total	307	100%

Most of the respondents (49,2%) indicated that they have less than six employees (table 5.5). It is also clear that all businesses surveyed indicated that they have less than fifty employees. It might be due to the fact that most businesses operate within the wholesale and retail trade, hotels and restaurants (see paragraph 5.2.2.2.3). All (100%) respondents that gave information about their number of employees can be classified as small businesses according to the National Small Business Act (1996).

According to the National Small Business Act (1996) all the businesses surveyed in the Emfuleni district (table 5.3, 5.4, and 5.5) can be classified as small businesses.

5.2.2.2.2 Age and legal status of the business

The profile of the business is characterised by age (table 5.6) and legal status (table 5.7).

Table 5.6: Age of the business

	Frequency	Percentage
Less than 1 year	11	3,6%
1-5 years	94	30,6%
6-10 years	93	30,3%
More than 10 years	109	35,5%
Total	307	100%

65,8% of the respondents indicated that their businesses have more than five years of experience in the Emfuleni district. It can therefore be assumed that most of the

respondents will be familiar with obstacles within the small business sector. Only 3,6% of the respondents indicated that their businesses are operating for less than one year in the Emfuleni district (table 5.6).

Table 5.7: Legal status of the business

	Frequency	Percentage
Sole proprietorship	158	49,5%
Close Corporation	65	20,4%
Partnership	44	13,8%
Private Company	36	11,3%
Franchise	15	4,7%
Business Trust	1	0,3%
Other	0	0%
Total	319	100%

Most respondents (49,5%) indicated that their businesses are sole proprietorships, followed by closed corporations (20,4%), partnerships (13,8%), and private companies (11,3%), (table 5.7). Only one business (0,3%) was identified as a business trust. The frequency increased as some respondents selected more than one answer.

5.2.2.2.3 Business industry

The industry is divided into 10 categories, namely agriculture/forestry/fishing, mining/quarrying, manufacturing, electricity/water, construction, wholesale/retail trade/hotels/restaurants, transport/communication, finance/real estate/business services, community/social/personal services, general government services, and other (table 5.8).

Table 5.8: Business industry

	Frequency	Percentage
Wholesale & retail trade, hotels & restaurants	124	40,4%
Community, social and personal services	79	25,7%
Manufacturing	31	10,1%
Construction	28	9,1%
Finance, real estate, and business services	18	5,9%
Transport and communication	12	3,9%
Agriculture, forestry, and fishing	9	2,9%
Mining and quarrying	2	0,7%
Electricity and water	2	0,7%
General government services	2	0,7%
Other	0	0%
Total	307	100%

The majority (40,4%) of small businesses in the Emfuleni district operate within the sector for wholesale and retail trade, hotels and restaurants. It is followed by community, social and personal services (25,7%), manufacturing (10,1%), construction (9,1%), and finance, real estate, and business services (5,9%). The mining and quarrying (0,7%), electricity and water (0,7%), and general government services (0,7%) being the smallest within the small business sector. It can be assumed that most of the respondents will be familiar with obstacles within the small business sector for wholesale and retail trade, hotels and restaurants; community, social and personal services; manufacturing; construction; finance, real estate, and business services.

5.3 SMALL BUSINESS OBSTACLES

The primary objective of the study is to identify the obstacles that are associated before and during the start-up phase of a small business. This primary objective also acts as the first research question.

The obstacles towards small business in the Emfuleni district are tested in Section B of the questionnaire (Appendix A). Information regarding small business failures, factors that impacted negatively on the start-up of the business, and obstacles that are associated before and during the start-up phase of a small business, are tested in Section

B of the questionnaire (Appendix A). The response on the different statements and questions in this regard will be discussed.

5.3.1 Small business failure

Respondents were asked in question B1, if they have experienced small business failure in the past, and if so, how many times. Table 5.9 indicates the response to this question.

Table 5.9: Small business failure rate

	Frequency	Percentage
No	263	85,7%
Yes	44	14,3%
Total	307	100%

The majority of respondents (85,7%) indicated that they have not experience business failure in the past. From those respondents (14,3%) that experienced business failure in the past, 21 respondents experienced business failure only once, 12 respondents experienced business failure twice, and seven respondents experienced business failure three times in the past.

5.3.2 Small business obstacles

The statements 2.01 to 2.17 of Section B of the questionnaire, (Appendix A), required the respondents to indicate the extent to which the identified factors impacted negatively on the start-up of their business, on a five point scale, from a very high impact to a no impact (Table 5.10).

As a five-point scale was used, an average value higher than 3 will be interpreted as a situation where the respondent do not agree with the statement. An average of lower than 3, will be interpreted as a situation where the respondent agrees with the statement. All similar statements in the questionnaire that follows throughout the study will be handled accordingly. The mean, the median, and the standard deviation of differences are shown in table 5.10.

Table 5.10: Small business obstacles

Statement (Section B)		n	Mean	Median	Standard deviation
01	Shortage of capital	307	2,47	2,00	1,22
03	Competition	307	2,70	3,00	1,12
02	Lack of turnover	307	2,74	2,00	1,07
15	Rates and taxes	307	2,84	3,00	1,25
16	Labour regulations	307	2,89	3,00	1,25
08	Quality of employees	307	2,99	3,00	1,12
04	Crime	307	3,18	3,00	1,29
07	Government regulations and policies	307	3,18	3,00	1,21
11	Marketing of products/services	307	3,30	3,00	1,95
10	Business location	305	3,40	3,00	1,27
06	Business planning	307	3,44	3,00	1,11
14	Politics, Society and Institutions	307	3,51	3,00	1,09
09	Stock control	307	3,63	4,00	1,20
05	Insufficient information / knowledge	307	3,65	4,00	1,08
13	Personal entrepreneurial capacity	307	3,68	4,00	1,06
12	Technological change	307	3,88	4,00	1,08

From table 5.10 it is clear that shortage of capital is regarded as the biggest obstacle (mean value of 2,47), followed by competition (mean value of 2,70), lack of turnover (mean value of 2,74), rates and taxes (mean value of 2,84), and labour regulations (mean value of 2,89). Note that although competition has a lower mean value (2,70) than that of lack of turnover (2,74), the median and standard deviation indicates that lack of turnover is more important than competition. Technological change is regarded as having the least impact (mean value of 3,88). Personal entrepreneurial capacity (mean value of 3,68), insufficient information / knowledge (mean value of 3,65), and stock control (mean value of 3,63) can also be regarded as having a low negative impact.

Respondents were asked in question B3 to B7 of Section B, (Appendix A), to identify the obstacles which had a negative impact on the start-up of the business. Sub-sections 5.3.2.1 to 5.3.2.5 will cover the statements that were used to identify further obstacles.

Statements that were used to further identify obstacles include shortage of capital, competition, the informal sector, the quality of employees, and government regulations.

5.3.2.1 Shortage of capital

Table 5.11 indicates the obstacles associated with a shortage of capital.

Statement: *If a shortage of capital had a negative impact on the start-up of your business, give the reason.*

Table 5.11: Shortage of capital

	Frequency	Percentage
Availability of capital	109	37,7%
Cash flow	73	25,3%
Interest rates	42	14,5%
Too much debt	33	11,4%
Too fast growth rate	24	8,3%
Credit terms	8	2,8%
Inflation	0	0%
Total	289	100%

From table 5.11 it is clear that the availability of capital is regarded as the biggest obstacle (37,7%), followed by cash flow (25,3%), within the context of 'shortage of capital'. Interest rates (14,5%), too much debt (11,4%), too fast growth rate (8,3%), and credit terms (2,8%) were also seen as contributing factors. The aspect of inflation (0%) had no influence. A total of 289 (94,1%) of all respondents (307) reacted to the statement regarding shortage of capital.

5.3.2.2 Competition

Table 5.12 indicates the problems associated with competition.

Statement: *If competition had a negative impact on the start-up of your business, state from whom, as well as the reason why.*

Table 5.12: Competition

	Frequency	Percentage
Large businesses	175	62,7%
Small businesses	103	36,9%
Other	1	0,4%
e-business	0	0%
Total	279	100%

From table 5.12 it is clear that competition from larger businesses is regarded as the biggest obstacle (62,7%) within the context of 'competition'. Other aspects were seen as none of the above as small and large business both suffer from a lack of buying power. A total of 279 (90,9%) of all respondents (307) reacted to the statement regarding competition.

Respondents were also asked to motivate the selected answer. Table 5.13 shows the most dominant reasons given.

Table 5.13: Reason for competition

	Reason
Small businesses	Too many small businesses in the same area are seen as increasing the competition between small businesses.
Large businesses	The most prominent reason for this phenomenon is that large businesses have a price advantage above small businesses. Most respondents claim that the reason is that large businesses buy cheaper when they buy in bulk, and offer therefore lower prices.

It is clear from table 5.13 that most respondents from the small business sector feel that it is not possible to compete against large enterprises.

5.3.2.3 The informal sector

Table 5.14 indicates the problems associated with the informal sector.

Statement: *Did the informal sector in the Emfuleni district have a negative influence on the start-up of your business?*

Table 5.14: Negative influence of the informal sector

	Frequency	Percentage
No	284	92,5%
Yes	23	7,5%
Total	307	100%

Table 5.14 shows that the majority of respondents (92,5%) do not feel threatened by the informal sector. The remainder of respondents (7,5%) do feel threatened, and motivate their feelings by mainly the fact that informal businesses have an advantage as they do not have to pay taxes, infrastructure cost, or affected by any government regulations.

5.3.2.4 Quality of employees

Table 5.15 indicates the problems associated with employees.

Statement: *If the quality of employees had a negative impact on the start-up of your business, give the reason.*

Table 5.15: Quality of employees

	Frequency	Percentage
Degree of education and training	157	55,9%
Availability	59	21,0%
Ethical values	42	14,9%
Affordability	23	8,2%
Total	281	100%

From table 5.15 it is clear that the degree of education and training of employees is regarded as the biggest obstacle (55,9%) within the context of 'quality of employees'. No other aspects were seen as a contributing factor. A total of 281 (91,5%) of all respondents (307) reacted to the statement regarding quality of employees.

5.3.2.5 Government regulations

Table 5.16 indicates the problems associated with government regulations.

Statement: *If government regulations and policies had a negative impact on the start-up of your business, state the type.*

Table 5.16: Government regulations

	Frequency	Percentage
Income tax	87	32,2%
Black economic empowerment	70	25,9%
Minimum wages	48	17,8%
Legal aspects	35	13,0%
Local authority requirements	30	11,1%
Total	270	100%

From table 5.16 it is clear that income tax is regarded as the biggest obstacle (32,2%), followed by black economic empowerment (25,9%), within the context of 'government regulations'. A total of 48 (17,8%) respondents regard minimum wages as having an influence on the start-up of their businesses. There is also 13,0% that chose legal aspects, and 11,1% that chose local authority requirements. A total of 270 (87,9%) of all respondents (307) reacted to the statement regarding government regulations.

5.3.3 Problems during the start-up phase

Respondents were asked in question B8 of Section B, (Appendix A), to state the three most important problems, in sequence of importance, that small businesses in the Emfuleni district experience during the start-up phase. Table 5.17 indicates this response.

Table 5.17: Problems during the start-up phase

	Reason
No. 1	The availability of capital, in the form of finance, and insufficient cash flow
No. 2	Government regulations that impact negatively on the small business sector
No. 3	Competition from mainly larger businesses

The majority of respondents feel that the availability of capital, in the form of finance, and insufficient cash flow is the biggest problem that small businesses are experiencing during the start-up phase. Other problems include the aspect of government regulation,

such as BEE, and income tax. This question also corresponds with question B2 (table 5.10), where respondents identified the same problem.

5.3.4 Industry specific obstacles

Table 5.18 aims to indicate a significance in relationship between the business industry (paragraph 5.2.2.2.3) and small business obstacles (paragraph 5.3.2).

Statistically significance of such relationships is determined with Chi-square tests, in order to identify whether the relationship is large enough to be important. The effect size is given by $w = \sqrt{\frac{X^2}{n}}$, where X^2 is the usual Chi-square statistic for the contingency table and n the sample size. In this case a 2-way summary table is used, therefore that the effect size (w) is given by the phi (ϕ) coefficient. The interpretation of effect sizes can be seen as having a *small effect* where $w = 0.1$, *medium effect* where $w = 0.3$, and a *large effect* where $w = 0.5$ (Ellis & Steyn, 2006; Steyn, 2005).

A relationship with $w \geq 0.5$ is considered as practically significant. All similar significance in relationships that follows throughout the study will be handled accordingly. The significance in relationship between the business industry (paragraph 5.2.2.2.3) and small business obstacles (paragraph 5.3.2) is shown in table 5.18.

Table 5.18: Relationship between business industry and small business obstacles

Industry specific obstacles	Phi-coefficient (w)
Marketing of products/services	0,590
Labour regulations	0,527
Competition	0,526
Politics, Society and Institutions	0,524
Stock control	0,520
Quality of employees	0,513
Government regulations and policies	0,509
Crime	0,494
Business location	0,459
Lack of turnover	0,458
Business planning	0,456
Rates and taxes	0,448
Personal entrepreneurial capacity	0,447
Technological change	0,441
Insufficient information / knowledge	0,424
Shortage of capital	0,411

The statistical significance of the relationship between the business industry (paragraph 5.2.2.2.3) and small business obstacles (paragraph 5.3.2) is tested by means of effect sizes (w). It is confirmed that all the mentioned obstacles have a medium- to large effect on the type of business industry. Industry specific obstacles for mining and quarrying, electricity and water, and general government services will not be discussed, due to their low population (see table 5.8). The type of industry in relation to the impact of obstacles on the start-up of the business will be discussed as follows:

- **Shortage of capital** - The following industries indicated that shortage of capital had a high impact on the start-up of the business: transport and communication (83,3%); agriculture, forestry, and fishing (77,8%); construction (71,4%); finance, real estate, and business services (66,7%). The following industries reacted neutral on the impact of shortage of capital on the start-up of the business: community, social and personal services; manufacturing; wholesale & retail trade, hotels & restaurants.
- **Lack of turnover** - The following industries indicated that lack of turnover had a high impact on the start-up of the business: manufacturing (58,1%); construction

(64,3%); transport and communication (66,7%); finance, real estate, and business services (55,6%); community, social and personal services (53,2%). The following industries reacted neutral on the impact of lack of turnover on the start-up of the business: agriculture, forestry, and fishing; wholesale & retail trade, hotels & restaurants.

- **Competition** - The following industries indicated that competition had a high impact on the start-up of the business: finance, real estate, and business services (77,8%); community, social and personal services (51,9%); construction (50,0%). The following industries reacted neutral on the impact of competition on the start-up of the business: manufacturing; wholesale & retail trade, hotels & restaurants; transport and communication. The agriculture, forestry, and fishing industry (77,8%) indicated that competition had a low impact on the start-up of the business.
- **Crime** - The agriculture, forestry, and fishing industry indicated that crime had a high impact on the start-up of the business (55,6%). The following industries reacted neutral on the impact of competition on the start-up of the business: construction; wholesale & retail trade, hotels & restaurants; transport and communication. The following industries indicated that crime had a low impact on the start-up of the business: finance, real estate, and business services (66,7%); manufacturing (54,8%); community, social and personal services (40,5%).
- **Government regulations and policies** - The agriculture, forestry, and fishing industry indicated that government regulations and policies had a high impact on the start-up of the business (55,6%). The following industries reacted neutral on the impact of government regulations and policies on the start-up of the business: manufacturing; construction; wholesale & retail trade, hotels & restaurants; finance, real estate, and business services; community, social and personal services. The transport and communication industry (50,0%) indicated

that government regulations and policies had a low impact on the start-up of the business.

- **Quality of employees** - The following industries indicated that quality of employees had a high impact on the start-up of the business: agriculture, forestry, and fishing industry (77,8%); construction (50,0%). The following industries reacted neutral on the impact of quality of employees on the start-up of the business: manufacturing; wholesale & retail trade, hotels & restaurants; finance, real estate, and business services; community, social and personal services. The transport and communication industry (66.7%) indicated that quality of employees had a low impact on the start-up of the business.
- **Marketing of products/services** - The following industries indicated that marketing of products/services had a high impact on the start-up of the business: construction (57,0%); agriculture, forestry, and fishing industry (55,6%). The following industries reacted neutral on the impact of marketing of products/services on the start-up of the business: manufacturing; transport and communication; finance, real estate, and business services; community, social and personal services. The wholesale & retail trade, hotels & restaurants industry (39,5%) indicated that marketing of products/services had a low impact on the start-up of the business.
- **Rates and taxes** - The following industries indicated that rates and taxes had a high impact on the start-up of the business: transport and communication (66,7%); manufacturing (58,1%); construction (50,0%); wholesale & retail trade, hotels & restaurants (46,8%); finance, real estate, and business services (44,4%). The following industries reacted neutral on the impact of rates and taxes on the start-up of the business: community, social and personal services; agriculture, forestry, and fishing.

- **Labour regulations** - The following industries indicated that labour regulations had a high impact on the start-up of the business: transport and communication (66,7%); construction (57,1%); manufacturing (45,2%); wholesale & retail trade, hotels & restaurants (43,6%). The community, social and personal services industry reacted neutral on the impact of labour regulations on the start-up of the business. The following industries indicated that labour regulations had a low impact on the start-up of the business: agriculture, forestry, and fishing (44,4%); finance, real estate, and business services (44,4%).

From the above relationships between business industry and small business obstacles, it is clear that crime and government regulations and policies are more related to the agriculture, forestry, and fishing industry, than other industries. Although the shortage of capital is regarded as a high negative impact on the start-up of the business, it is the most important within the transport and communication industry. It is also clear that quality of employees is regarded as having the highest impact on the start-up of the business in the agriculture, forestry, and fishing industry.

5.3.5 Principle components factor analysis on factors that impact negatively on business start-up

Table 5.19 aims to indicate the principle components factor analysis with Varimax rotation on factors that impact negatively on the start-up of the business (see paragraph 5.3.2).

Table 5.19: Factor loadings on small business obstacles

Variable	The human factor	Internal business influences	External legal aspects	Potential utilisation	Communalities
B2.1	0,067	*0,844	0,077	0,122	0,737
B2.2	0,162	*0,870	0,127	0,113	0,813
B2.3	0,003	*0,531	0,243	0,141	0,361
B2.4	0,296	-0,047	*0,428	0,261	0,342
B2.5	*0,803	0,156	0,127	0,189	0,721
B2.6	*0,648	0,133	0,222	*0,431	0,672
B2.7	*0,449	-0,031	*0,589	0,043	0,552
B2.8	*0,661	0,216	0,289	-0,179	0,600
B2.9	*0,708	0,023	0,182	0,224	0,585
B2.10	0,267	0,210	0,201	*0,644	0,571
B2.11	0,081	0,180	0,119	*0,831	0,744
B2.12	0,349	-0,009	0,336	*0,479	0,464
B2.13	*0,518	0,085	0,322	*0,503	0,632
B2.14	0,214	0,112	*0,707	0,302	0,650
B2.15	0,072	0,097	*0,856	0,151	0,770
B2.16	0,256	0,247	*0,793	0,073	0,760
Variance explained	2,907	2,010	2,927	2,128	
Proportion of total variance explained	0,182	0,126	0,183	0,133	

**Marked loadings are > 0,400*

Table 5.19 shows the factor loadings that declares 62,3% of the variance. It is clear that factor 1 consists of variables B2.5, B2.6, B2.8, B2.9, and B2.13. Factor 2 consists of variables B2.1 to B2.3. Factor 3 consists of variables B2.4, B2.7, B2.14, B2.15, and B2.16. Factor 4 consists of variables B2.10 to B2.12. It is clear that the loadings correlate well with factors 1 to 4, and are therefore classified as in table 5.20.

Table 5.20 shows the reliability and internal consistency between the different factors by means of Cronbach alpha. A Chronbach alpha greater than 0,7 will be interpreted as reliable and internally consistent (SAS Institute Inc., 2005). All similar reliability and internal consistency between factors that follows throughout the study will be handled accordingly.

Table 5.20: Reliability and internal consistency between factors on small business obstacles

Factor	Description	Chronbach alpha
1	The human factor	0,818
2	Internal business influences	0,704
3	External legal aspects	0,811
4	Potential utilisation	0,678

From table 5.20 it is clear that all factors can be considered as reliable and internally consistent, except for 'potential utilisation' (0,678).

The relationship between effect sizes on small business obstacles and some demographic variables, are shown in table 5.21. Demographic information will be age (as per figure 5.2), qualification (as per figure 5.3), business management experience (as per figure 5.4), and business failure (as per table 5.9). The effects are classified according to the following questions as per questionnaire (Appendix A):

- Age (A1.3): Younger than 40 (A1.3.01 - A1.3.03)
40 and olderer (A1.3.04 - A1.3.06)
- Qualification (A1.5): Matric and less (A1.5.01 - A1.5.02)
Tertiary education (A1.5.03 - A1.5.05)
- Experience (A1.6): 5 years and less (A1.6.01 - A1.6.02)
More than 5 years (A1.6.03 - A1.6.04)
- Failure (B1): Yes (B1.01)
No (B1.02)

A natural way to comment on practical significance is to use the standardised difference between the means of two populations, i.e. the difference between the two means divided by the estimate for standard deviation, $d = \frac{|\bar{x}_1 - \bar{x}_2|}{s_{\max}}$, where $|\bar{x}_1 - \bar{x}_2|$ is the

difference between \bar{x}_1 and \bar{x}_2 without taking the sign into consideration and s_{\max} = maximum of s_1 and s_2 , the sample SD's.

Effect sizes (d) will be interpreted as follows: *small effect* ($d=0.2$), *medium effect* ($d=0.5$) and *large effect* ($d=0.8$). Data with $d \geq 0,8$ will be seen as practically significant, since it is the result of a difference having a large effect (Ellis & Steyn, 2006; Steyn, 2005). All similar effect sizes that follow throughout the study will be handled accordingly.

Table 5.21: Relationship between factors and variables on small business obstacles

Classification		Human factor			Internal business influences			External legal aspects			Potential utilisation		
		M	SD	d	M	SD	d	M	SD	d	M	SD	d
Age	< 40	3,48	0,82	-,02	2,68	0,97	-,09	2,98	0,80	0,29	3,65	0,92	-,14
	≥ 40	3,47	0,88	-,02	2,59	0,83	-,09	3,27	1,00	0,29	3,44	1,48	-,14
Qualification	\leq Matric	3,54	0,92	-,13	2,80	1,10	-,26	3,29	1,06	-,29	3,67	1,09	-,16
	$>$ Matric	3,42	0,79	-,13	2,51	0,68	-,26	2,99	0,77	-,29	3,45	1,33	-,16
Experience	≤ 5 yrs	3,42	0,81	0,09	2,61	0,83	0,03	3,30	0,87	-,27	3,69	1,84	-,11
	> 5 yrs	3,50	0,86	0,09	2,64	0,93	0,03	3,06	0,93	-,27	3,50	0,92	-,11
Failure	Yes	3,49	0,91	-,02	2,30	0,80	0,43	3,11	1,04	0,01	3,25	0,87	0,27
	No	3,47	0,84	-,02	2,69	0,91	0,43	3,12	0,90	0,01	3,60	1,27	0,27

Table 5.21 shows the relationship between factors and demographic variables, with mean (M), standard deviation (SD), and effect sizes (d) of small business obstacles. None of the variables age, qualification, experience had a practical significant effect on either human factor, internal business influences, external legal aspects, or potential utilisation. The experience of failure might have an effect on internal business influences ($d=0,43$) indicating that where failure was experienced in the past, they

consider business influences as more important (mean=2,3) as where it was not experienced (mean=2,69).

5.4 SMALL BUSINESS DEVELOPMENT INITIATIVES

Section C of the questionnaire (Appendix A) aims to determine what development initiatives should be followed for the small business sector in the Emfuleni district. Supportive sub-sections C1, C2, and C3 of the questionnaire (Appendix A) aims to answer the second research question, namely:

What initiatives should be followed to develop the small business sector in the Emfuleni district?

Sub-sections 5.4.1 to 5.4.3 include entrepreneurial strengths/weaknesses; training, development, and government support; as well as business planning. These aspects will be used to determine certain small business development initiatives.

5.4.1 Entrepreneurial strengths / weaknesses

The entrepreneurial strengths / weaknesses will be determined by means of general perceptions about entrepreneurship, entrepreneurial characteristics, the description of the term 'entrepreneur', and driving forces for starting a new business.

5.4.1.1 General perceptions

General perceptions regarding entrepreneurs are tested according to a five point Likert scale (Huysamen, 2001:133-136). Respondents were asked how they agree to certain entrepreneurial statements. The mean, median, and the standard deviation of differences, are shown in table 5.22.

Table 5.22: General perceptions

Statement (Section C)		Mean	Median	Standard deviation
1.06	Entrepreneurs work longer hours and harder than managers in big companies.	1,97	2,00	0,93
1.09	Money is the most important start-up ingredient.	2,19	2,00	0,97
1.07	Entrepreneurs experience a great deal of stress and pay a high price in consequence of their health.	2,35	2,00	1,04
1.05	Entrepreneurs are their own bosses and completely independent.	2,52	3,00	1,18
1.11	If an entrepreneur is talented, success will happen in a year or two.	2,63	3,00	1,11
1.08	Starting a business is risky and often ends in failure.	2,65	3,00	1,01
1.01	Entrepreneurs are born, not made.	2,82	3,00	1,18
1.12	Any entrepreneur with a good idea can raise venture capital.	3,06	3,00	1,24
1.03	Anyone can start a business.	3,21	3,00	1,24
1.04	Entrepreneurs are gamblers.	3,21	3,00	1,21
1.10	Entrepreneurs should be young and energetic.	3,27	3,00	1,04
1.02	Someone has to supply you with a job.	3,69	4,00	1,08

According to the literature study, the twelve statements in table 5.22 are all myths. From table 5.22 it is clear that respondents do not interpret the statements as myths. They agree that entrepreneurs work longer hours and harder than managers in big companies (mean value of 1,97), that money is the most important start-up ingredient (mean value of 2,19), and that entrepreneurs experience a great deal of stress and pay a high price in consequence of their health (mean value of 2,35). Respondents mainly disagree to the fact that someone has to supply you with a job (mean value of 3,69). A large amount of respondents reacted neutral on the rest of the statements. All respondents (307) reacted to each question.

5.4.1.2 Entrepreneurial characteristics

Statements C1.2.01 to C1.2.06 of Section C of the questionnaire, (Appendix A), required the respondents to evaluate the statements according to a five point Likert scale (Huysamen, 2001:133-136). Respondents were asked to comment on both (a) the current situation, and (b) the ideal situation. The average values of differences, the standard deviation of differences, and the d-values (effect sizes), are shown in Table 5.23.

The differences between the a- and b-values are calculated by means of subtracting the b-values from the a-values. The a-value shows the current situation, and the b-value shows the ideal situation. As a five-point scale is used for both the a- and b-values, a zero would indicate that both the a- and b-values scored on average the same. Positive differences show that the current situation differs from the ideal situation, and are therefore not on the same level.

Table 5.23: The effect sizes of respondents on statements regarding entrepreneurial characteristics

Statement (Section C)	Average values of differences	Standard deviation of differences	Effect size (d-value)
Commitment and determination	0,27	0,56	**0,48
Leadership ability	0,49	0,72	**0,68
Opportunity obsession	0,55	0,83	**0,66
Tolerance of risk and uncertainty	0,55	0,70	***0,79
Creativity, self-reliance, and ability to adapt	0,52	0,76	**0,68
Motivation to excel	0,41	0,73	**0,56

*** indicates a medium effect*

**** indicates a large effect*

Table 5.23 shows the average values of differences, standard deviation of differences, and the effect sizes. All respondents (307) reacted to each question. The effect sizes of respondents on statements regarding entrepreneurial characteristics will be discussed in

sub-sections 5.4.1.2.1 to 5.4.1.2.6. The same guidelines for interpretation of effect sizes as in section 5.3.5 can be used.

5.4.1.2.1 Commitment and determination

According to table 5.23, an effect size of 0,48 is obtained. This value indicates a medium effect and might indicate a practical significance difference between the ways respondents feel statement C2.01 is currently applicable to them, and the ideal way in which they think this statement should be applicable to an entrepreneur. The average response on the a-section of the statement was 1,78 that indicates that they do agree to the statement that commitment and determination are synonym to entrepreneurs. The average response to the b-section of the statement was 1,50. The respondents are thus of the opinion that entrepreneurs should show commitment and determination, although they are currently not as committed and having determination as ideally.

5.4.1.2.2 Leadership ability

According to table 5.23, an effect size of 0,68 is obtained. This value indicates a medium effect and might indicate a practical significance difference between the ways respondents feel statement C2.02 is currently applicable to them, and the ideal way in which they think this statement should be applicable to an entrepreneur. The average response on the a-section of the statement was 1,98 that indicates that they do agree to the statement that entrepreneurs should have leadership ability. The average response to the b-section of the statement was 1,49. The respondents are thus of meaning that entrepreneurs should have a higher leadership ability than their current leadership ability.

5.4.1.2.3 Opportunity obsession

According to table 5.23, an effect size of 0,66 is obtained. This value indicates a medium effect and might indicate a practical significance difference between the ways respondents feel statement C2.03 is currently applicable to them, and the ideal way in

which they think this statement should be applicable to an entrepreneur. The average response on the a-section of the statement was 2,20 that indicates that they do agree to the statement that entrepreneurs should be obsessed with opportunity. The average response to the b-section of the statement was 1,65. The respondents are thus of the opinion that entrepreneurs should show opportunity obsession, although they are currently not as opportunity driven as ideally.

5.4.1.2.4 Tolerance of risk and uncertainty

According to table 5.23, an effect size of 0,79 is obtained. This value indicates a large effect and indicates a practical significance difference between the ways respondents feel statement C2.04 is currently applicable to them, and the ideal way in which they think this statement should be applicable to an entrepreneur. The effect size can also be seen as practical meaningful. The average response on the a-section of the statement was 2,28 that indicates that they do agree to the statement that entrepreneurs have tolerance of risk and uncertainty. The average response to the b-section of the statement was 1,74. The respondents are thus of the opinion that entrepreneurs should ideally have a relatively higher tolerance of risk and uncertainty than currently.

5.4.1.2.5 Creativity, self-reliance, and ability to adapt

According to table 5.23, an effect size of 0,68 is obtained. This value indicates a medium effect and might indicate a practical significance difference between the ways respondents feel statement C2.05 is currently applicable to them, and the ideal way in which they think this statement should be applicable to an entrepreneur. The average response on the a-section of the statement was 2,12 that indicates that they do agree to the statement that entrepreneurs should be creative, have self-reliance, and the ability to adapt. The average response to the b-section of the statement was 1,60. The respondents are thus of the opinion that entrepreneurs should be creative, have self-reliance, and the ability to adapt, although they are currently not demonstrating these characteristics.

5.4.1.2.6 Motivation to excel

According to table 5.23, an effect size of 0,56 is obtained. This value indicates a medium effect and might indicate a practical significance difference between the ways respondents feel statement C2.06 is currently applicable to them, and the ideal way in which they think this statement should be applicable to an entrepreneur. The average response on the a-section of the statement was 1,93 that indicates that they do agree to the statement that entrepreneurs should be motivated. The average response to the b-section of the statement was 1,52. The respondents are thus of the opinion that entrepreneurs should ideally show motivation to excel, although they are seen as motivated.

5.4.1.3 Description of the term 'entrepreneur'

Respondents were asked in question C1.3 of Section C, (Appendix A), to describe the term 'entrepreneur' in their own words. The majority of respondents indicated that an entrepreneur is a person that takes the necessary initiatives in order to achieve financial freedom, with other descriptions as follows:

- Someone who has the ability to identify an opportunity and start a business.
- A person with commitment and determination to achieve the goals they set.
- Someone who takes calculated risks in exploiting feasible opportunities.

Some respondents indicated that although the term 'entrepreneur' is generally known and is used often, they are not familiar with the correct description of the term 'entrepreneur'.

5.4.1.4 Driving forces for starting a small business

Statements 1.4.1 to 1.4.9 of Section C of the questionnaire, (Appendix A), required the respondents to categorise the statements regarding the driving forces for starting a small business from very important to not at all important (table 5.24).

Table 5.24: Driving forces for starting a small business

Statement (Section C)		Mean	Median	Standard deviation
1.4.03	To have more satisfaction in work	1,50	1,00	0,75
1.4.01	To be independent	1,57	1,00	0,77
1.4.02	To use own creative skills	1,67	2,00	0,80
1.4.04	To be the decision maker	1,77	2,00	0,87
1.4.06	To meet a service or need of society	1,77	2,00	0,86
1.4.05	To exploit market opportunities	1,86	2,00	0,91
1.4.07	To make a lot of money	1,90	2,00	0,98
1.4.08	To supply work for relatives	3,20	3,00	1,25
1.4.09	To be able to work at home	3,81	4,00	1,14

From table 5.24 it is clear that the greatest motive (mean value of 1,50) for starting a small business is to have more satisfaction in work, followed by the fact to be independent (mean value of 1,57). To be able to work at home is regarded as having the least impact (mean value of 3,81), followed by the need to supply work for relatives (mean value of 3,20), when deciding whether to start a small business or not. Three respondents indicated to 'other' driving forces that include the fact that they were forced to start a small business as it was seen as the only relief. All respondents (307) reacted to each question.

Table 5.25 aims to indicate the principle components factor analysis with Varimax rotation on driving forces for starting a small business.

Table 5.25: Factor loadings on driving forces for starting a small business

Variable	Factor 1	Factor 2	Communalities
C1.4.01	*0,701	-0,128	0,507
C1.4.02	*0,722	-0,197	0,560
C1.4.03	*0,709	-0,123	0,518
C1.4.04	*0,744	0,023	0,553
C1.4.05	*0,772	0,214	0,642
C1.4.06	*0,688	0,220	0,521
C1.4.07	*0,565	0,074	0,325
C1.4.08	-0,062	*0,740	0,552
C1.4.09	0,068	*0,794	0,635
Variance explained	3,465	1,349	
Proportion of total variance explained	0,385	0,150	

**Marked loadings are > 0,400*

Table 5.25 shows the factor loadings that declares 53,5% of the variance. It is clear that factor one consists of variables C1.4.01 to C1.4.07. Factor two consists of variables C1.4.08 and C1.4.09. It is clear that the loadings correlate well with factors one to four, and are therefore distributed as follows:

- Factor one (1): The entrepreneurial motive
- Factor two (2): The non-entrepreneurial motive

Table 5.26 shows the reliability and internal consistency between the different factors by means of Chronbach alpha.

Table 5.26: Reliability and internal consistency between factors on driving forces for starting a small business

Factor	Description	Chronbach alpha
1	The entrepreneurial motive	0,823
2	The non-entrepreneurial motive	0,420

From table 5.26 it is clear that factor 1 (the entrepreneurial motive) is reliable and internally consistent. The non-entrepreneurial motive is not reliable, and will therefore not be discussed.

The relationship between effect sizes on entrepreneurial driving forces and some demographic variables, are shown in table 5.27. Effect sizes will be age (as per figure 5.2), qualification (as per figure 5.3), business management experience (as per figure 5.4), and business failure (as per table 5.9).

Table 5.27: Relationship between factors and variables on entrepreneurial driving forces

Classification		The entrepreneurial motive		
		M	SD	<i>d</i>
Age	< 40	1,76	0,62	-0,13
	≥40	1,68	0,56	-0,13
Qualification	≤ Matric	1,69	0,59	0,08
	> Matric	1,74	0,59	0,08
Experience	≤ 5 yrs	1,79	0,64	-0,15
	> 5 yrs	1,70	0,57	-0,15
Failure	Yes	1,78	0,58	-0,11
	No	1,71	0,60	-0,11

Table 5.27 shows the relationship between factors and variables on business planning, with mean (M), standard deviation (SD), and effect sizes (*d*) of entrepreneurial driving forces. None of the variables age, qualification, experience, and failure had a practical significant effect on the entrepreneurial motive.

5.4.2 Training, development, and government support

The training, development, and government support for small businesses will be determined by means of the services that may benefit small businesses, entrepreneurship training, government support, and black economic empowerment regulations.

5.4.2.1 Services that may benefit small businesses

Question 2.1 of section C, (Appendix A), were asked in order to identify certain services (table 5.28) that will be beneficial to the small business sector.

Table 5.28: Beneficial services to the small business

	Frequency	Percentage
In-service training for employees	134	43,6%
Business consultancy / advisory services	111	36,2%
Business management training for owners	61	19,9%
Other	1	0,3%
Total	307	100%

The majority respondents (43,6%) indicated that small businesses might benefit most from in-service training for employees, followed by business consultancy / advisory services (36,2%). Almost 20% of respondents indicated that they would benefit from business management training for themselves (19,9%). Only one respondent (0,3%) felt that all three services will be beneficial and equally important.

5.4.2.2 Entrepreneurship training

Statements 2.2.01 to 2.2.06 of Section C of the questionnaire, (Appendix A), required the respondents to indicate to what extent they will benefit from entrepreneurship training from very important to not at all important (Table 5.29).

Table 5.29: Entrepreneurship training

	n	Mean	Median	Standard deviation
Sustainable business growth and development	307	1,55	1,00	0,81
How to run the business effectively	307	1,60	1,00	0,90
To better understand personal strengths and weaknesses	307	1,88	2,00	1,02
The management of internal and external relations	307	1,95	2,00	1,03
The entrepreneurial environment and networks	307	2,00	2,00	1,05
Other	1	1,00	1,00	-

From table 5.29 it is clear that the majority of respondents will benefit from training on sustainable business growth and development (mean value of 1,55), followed by how to run the business effectively (mean value of 1,60). Only one respondent (0,3%) felt that training in the field of inventory management and the management of technological

change will be beneficial. It is also clear that all the aspects of entrepreneurship training can be regarded as important.

Table 5.30 indicates the principle components factor analysis with Varimax rotation on entrepreneurship training.

Table 5.30: Factor loadings on entrepreneurship training

Variable		Factor 1
C2.2.01	To better understand personal strengths and weaknesses	<i>*-0,813</i>
C2.2.02	Sustainable business growth and development	<i>*-0,741</i>
C2.2.03	The entrepreneurial environment and networks	<i>*-0,775</i>
C2.2.04	How to run the business effectively	<i>*-0,854</i>
C2.2.05	The management of internal and external relations	<i>*-0,704</i>
Variance explained		3,038
Proportion of total variance explained		0,608

**Marked loadings are > 0,400*

Table 5.30 shows the factor loadings that declares 60,8% of the variance. The loadings correlate well with factor 1, and are therefore seen as 'benefits from entrepreneurship training'.

Table 5.31 shows the reliability and internal consistency of the factor, 'benefits from entrepreneurship training', by means of Chronbach alpha.

Table 5.31: Reliability and internal consistency between factors on entrepreneurship training

Factor	Description	Chronbach alpha
1	Benefits from entrepreneurship training	0,833

From table 5.31 it is clear that factor 1 (benefits from entrepreneurship training) is reliable and internally consistent.

The relationship between effect sizes on entrepreneurship training is shown in table 5.32. Effect sizes will be age (as per figure 5.2), qualification (as per figure 5.3),

business management experience (as per figure 5.4), and business failure (as per table 5.9).

Table 5.32: Relationship between factors and variables on entrepreneurship training

Classification		Benefits from entrepreneurship training		
		M	SD	<i>d</i>
Age	< 40	1,83	0,74	-0,08
	≥40	1,77	0,76	-0,08
Qualification	≤ Matric	1,85	0,66	-0,12
	> Matric	1,75	0,81	-0,12
Experience	≤ 5 yrs	1,89	0,84	-0,16
	> 5 yrs	1,76	0,71	-0,16
Failure	Yes	1,92	0,74	-0,19
	No	1,78	0,75	-0,19

Table 5.32 shows the relationship between factors and variables on business planning, with mean (M), standard deviation (SD), and effect sizes (*d*) of entrepreneurship training. None of the variables age, qualification, experience, and failure had a practical significant effect on entrepreneurship training.

5.4.2.3 Government support

In question 2.3 of Section C of the questionnaire, (Appendix A), respondents were asked to state whether government support contributes positively towards small business development in the Emfuleni district. Table 5.33 indicates the response.

Table 5.33: Government support

	Frequency	Percentage
No	266	86,6%
Yes	41	13,4%
Total	307	100%

Table 5.33 shows that the majority of respondents (86,6%) do not feel that government contributes positively towards small business development in the Emfuleni district.

Respondents were also asked to motivate their answer. The following motivations were the most dominant in the 'no' category:

- Very little to no government support for small businesses, such as tax relief, reduced interest for start-up capital, and training and/or advisory services.
- Too many legal constraints during small business start-up, such as business registration, and labour regulations.
- Government support is seen as race driven, referring to BEE.

The only motivation in the 'yes' category is where respondents indicated that their businesses comply with the requirements for 'black economic empowerment', and simplifies the process of obtaining capital, and the development of new markets for products.

5.4.2.4 Black economic empowerment regulations

Respondents were asked in question 2.4 of the questionnaire (Appendix A) if their businesses comply with the requirements for 'black economic empowerment'. Table 5.34 indicates the compliance with 'black economic empowerment' in the Emfuleni district.

Table 5.34: Compliance with 'black economic empowerment'

	Frequency	Percentage
No	176	57,4%
Yes	79	25,7%
Don't know	52	16,9%
Total	307	100%

Table 5.34 indicates that only 25,7% of small businesses in the Emfuleni district comply with 'black economic empowerment' regulations. More than half (57,4%) do not comply with 'black economic empowerment' regulations. The remaining 16,9% respondents indicated that they don't know if their businesses comply with the necessary regulations for 'black economic empowerment'.

Respondents were asked in question C2.5 to indicate to what extent do BEE (black economic empowerment) regulations impact positively on their business, from very high, to no impact (table 5.35).

Table 5.35: Impact of black economic empowerment regulations

	Mean	Median	Standard deviation
Simplifies the process of obtaining capital	4,33	5,00	1,213
Simplifies the process of developing new markets for products	4,35	5,00	1,209

Table 5.35 indicates that black economic empowerment regulations do not have a positive impact on the small business sector in the Emfuleni district (mean values of more than 4, for both aspects). All respondents (307) reacted to both questions.

Table 5.36 is applicable to the 25,7% respondents from table 5.34 that indicated that their businesses comply with 'black economic empowerment' regulations.

Table 5.36: Impact on BEE small businesses

	Frequency	Percentage
Simplifies the process of obtaining capital		
• Very high impact	8	10,1%
• High impact	23	29,1%
• Average impact	14	17,7%
• Low impact	8	10,1%
• No impact	26	32,9%
Simplifies the process of developing new markets for products		
• Very high impact	10	12,7%
• High impact	17	21,5%
• Average impact	16	20,3%
• Low impact	10	12,7%
• No impact	26	32,9%

Table 5.36 indicates that 43% of respondents that comply with ‘black economic empowerment’ regulations, experience a low- to no-impact on the simplification of obtaining capital. 35,6% respondents experience a low- to no-impact with the development of new markets for products.

5.4.3 Business planning

Information regarding the role that business planning plays in the success of the business, as well as detailed questions regarding business planning obstacles in the Emfuleni district are tested in Section C3 of the questionnaire (Appendix A). The response on the different statements and questions in this regard will be discussed.

5.4.3.1 Business planning statements

Statements 3.1.01 to 3.1.08 of Section C required the respondents to evaluate the statements according to a five point Likert scale (Huysamen, 2001:133-136). The response on the different statements and questions in this regard will be discussed. The mean, median, and the standard deviation, are shown in table 5.37.

Table 5.37: The effect sizes of respondents on statements regarding business planning

Statement (Section C)	n	Mean	Median	Standard deviation
3.1.01	307	1,40	1,00	0,69
3.1.02	307	1,43	1,00	0,65
3.1.07	307	1,54	1,00	0,73
3.1.04	307	1,55	1,00	0,78
3.1.06	307	1,57	1,00	0,77
3.1.03	307	1,59	1,00	0,72
3.1.05	307	1,77	2,00	0,83
3.1.08	307	1,92	2,00	0,92

According to table 5.37, respondents agree most (mean value of 1,40) with the statement that sufficient time must be spent on business planning before business start-up. Respondents also feel strong about the statement that business planning provides focus and direction in the business (mean value of 1,43). It can be seen that respondents agree to all the mentioned general statements regarding business planning.

Table 5.38 indicates the principle components factor analysis with Varimax rotation on business planning.

Table 5.38: Factor loadings on business planning

Variable	Factor 1
C3.1.03	*-0,897
C3.1.06	*-0,866
C3.1.01	*-0,862
C3.1.02	*-0,858
C3.1.07	*-0,853
C3.1.05	*-0,796
C3.1.08	*-0,783
C3.1.04	*-0,765
Variance explained	5,592
Proportion of total variance explained	0,699

*Marked loadings are > 0,400

Table 5.38 shows the factor loadings that declares 69,9% of the variance. The loadings correlate well with factor 1, and are therefore seen as ‘the importance of business planning’.

Table 5.39 shows the reliability and internal consistency of the factor, ‘the importance of business planning’, by means of Chronbach alpha.

Table 5.39: Reliability and internal consistency between factors on the importance of business planning

Factor	Description	Chronbach alpha
1	The importance of business planning	0,935

From table 5.39 it is clear that factor 1 (the importance of business planning) is reliable and internally consistent.

The relationship between effect sizes on business planning, is shown in table 5.40. Effect sizes will be age (as per figure 5.2), qualification (as per figure 5.3), business management experience (as per figure 5.4), and business failure (as per table 5.9).

Table 5.40: Relationship between factors and variables on business planning

Classification		The importance of business planning		
		M	SD	<i>d</i>
Age	< 40	1,62	0,67	-0,08
	≥40	1,57	0,60	-0,08
Qualification	≤ Matric	1,65	0,68	-0,13
	> Matric	1,56	0,60	-0,13
Experience	≤ 5 yrs	1,79	0,73	-0,36
	> 5 yrs	1,53	0,59	-0,36
Failure	Yes	1,51	0,60	0,15
	No	1,61	0,64	0,15

Table 5.40 shows the relationship between factors and variables on business planning, with mean (M), standard deviation (SD), and effect sizes (*d*) of business planning. None

of the variables age, qualification, and failure had a practical significant effect on the importance of business planning. Experience can be regarded as having a medium effect on the importance of business planning. Respondents having more than 5 years business management experience, tend to regard business planning as more important (mean value of 1,53) than those having less than 5 years business management experience (mean value of 1,79).

5.4.3.2 Business planning responsibility

Question 3.2 of Section C of the questionnaire, (Appendix A), asks who is responsible for the business plan, the founder/owner, the business manager, the marketing manager, no specific person, or somebody else. Table 5.41 indicates the response to this question.

Table 5.41: Responsible person for business planning

	Frequency		Percentage	
	'Yes'	'No'	'Yes'	'No'
Founder/owner	283	24	92,2%	7,8%
Business manager	65	242	21,2%	78,8%
Marketing manager	18	289	5,9%	94,1%
No specific person	16	291	5,2%	94,8%
Other	1	306	0,3%	99,7%

The majority of respondents (92,2%) indicated that the founder/owner is responsible for the business plan. A small percentage (5,2%) indicated that no specific person is responsible for this function. One respondent (0,3%) indicated to 'other', and state that an independent financial advisor is responsible for business planning in the business.

5.4.3.3 Business plan existence and re-evaluation

Respondents were asked whether business planning was performed before the start-up phase of the business or not (table 5.42), if the business currently has a formal, written business plan (table 5.43), as well as how often the plan is re-evaluated (table 5.44).

Table 5.42: Business planning before start-up

	Frequency	Percentage
Yes	222	72,3%
No	85	27,7%
Total	307	100%

Table 5.42 indicates that the majority of respondents (72,3%) performed business planning before the start-up phase of the business.

Table 5.43: The existence of a formal written business plan

	Frequency	Percentage
Yes	154	50,2%
No	153	49,8%
Total	307	100%

Table 5.43 indicates that almost the half of small businesses (49,8%) do not have a formal written business plan. The other 50,2% of respondents indicated that their businesses work according to a formal written business plan.

Table 5.44: Re-evaluation of the business plan

	Frequency	Percentage
Annually	64	41,6%
Biannually	47	30,5%
Seldom	23	14,9%
Monthly	18	11,7%
Never	2	1,3%
Total	154	100%

Table 5.44 indicates that the majority (41,6%) of all respondents re-evaluate their plan annually. Very few (1,3%) respondents never re-evaluate their plan. These figures only represent the 50,2% of respondents that indicated that their businesses work according to a formal written business plan (table 5.43). The rest (49,8%) do not have a formal written business plan (table 5.43).

5.4.3.4 Relationship between business planning and level of education

Table 5.45 indicates a significance in relationship between business planning (paragraph 5.4.3.3) and the level of education of respondents (paragraph 5.2.2.1.5).

Table 5.45: Relationship between business planning and level of education

	Phi-coefficient (w)
Business planning versus level of education	0,249

The statistical significance of the relationship between business planning (paragraph 5.4.3.3) and the level of education of respondents (paragraph 5.2.2.1.5) are tested by means of effect sizes (w). It is confirmed that the level of education has a small effect on business planning, and can be seen as practically not significant. This question also corresponds with paragraphs 5.4.3.3 and 5.2.2.1.5.

The relationship between business planning and level of education also indicated that the existence of a formal business plan correlates well with the higher qualification categories. The same apply for the non-existence of a formal business plan and the lower level qualification category. An example for this phenomenon is as follows:

- 85,7% respondents with a qualification lower than matriculation, and 59% with matriculation, indicated that their businesses do not currently have a formal written business plan.
- 61,1% respondents with a B-degree, and 73,3% postgraduates, indicated that their businesses do currently have a formal written business plan.

5.4.3.5 Business performance

In question 3.6 and 3.7 of section C of the questionnaire, (Appendix A), respondents were asked whether the business planning process is related to business performance (table 5.46), as well as to indicate the reasons why business planning contributes to

successful business start-up (table 5.47). Table 5.48 indicates the relationship between business planning and business performance.

Table 5.46: Business planning related to business performance

	Frequency	Percentage
Yes	158	51,5%
No	57	18,6%
Don't know	92	30,0%
Total	307	100%

Table 5.46 indicates that most respondents (51,5%) believe that the business planning process can be positively related to the business performance. A large number (30,0%) of respondents do not know if the business planning process can be positively related to the business performance.

Table 5.47 indicates the response to what benefits the business planning process had on their businesses.

Table 5.47: Benefits from the business planning process

	Frequency	Percentage
Unexpected problems can be dealt with	96	31,2%
Not applicable	80	26,1%
The business can benefit from promising opportunities	70	22,8%
Business planning relieves market uncertainty	57	18,6%
Other	4	1,3%
Total	307	100%

The majority of respondents (31,2%) believe that the greatest benefits from the business planning process, is that unexpected problems can be dealt with. A large number, (22,8%), respondents feel that the business planning process relieves market uncertainty. A small number of respondents (1,3%) indicated other aspects such as financial management and the marketing of their products and services. 26,1% respondents use the 'not applicable' option. It is clear that almost three quarters (73,9%) of the respondents believed that business planning contributes towards successful business start-up.

Table 5.48: Relationship between business planning and business performance

	Phi-coefficient (w)
Business planning versus business performance	0,302

The statistical significance of the relationship between business planning before the start-up phase of the business (paragraph 5.4.3.3) and business performance (paragraph 5.4.3.5) are tested by means of effect sizes (w). It is confirmed that business planning before the start-up phase of the business has a medium effect on business performance. This question also corresponds with paragraphs 5.4.3.3 and 5.4.3.5.

The majority of respondents (60,4%) who indicated that business planning are performed before the start-up phase of the business believes that the business performance is directly related to the fact that business planning was performed.

5.4.3.6 The reason for not planning

Respondents were asked in question 3.8 of section C of the questionnaire, (Appendix A), what the most common reason is why business planning, in general, is not performed (table 5.49).

Table 5.49: Reasons for not planning

	Frequency	Percentage
Lack of skills	137	44,6%
Lack of time	108	35,2%
The environment is too unpredictable	62	20,2%
Total	307	100%

Table 5.49 indicates that the most prominent reason why small business founders/owners do not plan is due to the lack of skills (44,6%). The lack of time is also rated fairly high (35,2%). No other reasons were given.

5.4.3.7 Solution to small business obstacles

Respondents were asked in question 3.9 of section C, (Appendix A), to state the appropriate solution to address small business obstacles. The majority of respondents indicated that government and financial assistance are seen as the major solution to address small business obstacles, followed by entrepreneurship training and development for potential entrepreneurs, business owners, and employees. Other solutions to obstacles include proper business planning before the start-up phase, and business consultancy services.

5.4.3.8 What to do differently

Respondents were asked in question 3.10 of section C, (Appendix A), to state what they would do differently if they had the opportunity to start the business all over. The majority of respondents indicated that they would better plan in order to take a calculated risk. Other aspects would be to have better financial control, more start-up capital, and to employ better qualified people. Some respondents also indicated that they should have entered the small business sector earlier in their life. A few respondents indicated that they would have done nothing differently.

5.5 PROBLEMS ASSOCIATED WITH THE RESEARCH

During the study the following problems were experienced:

- ***Unwillingness of respondents*** - Some of the respondents were unwilling to take part in the interviews. Some respondents were also not willing to supply all the information needed in the interviews.
- ***Length of the questionnaire*** - The detail regarding all obstacles that can be experienced during the start-up phase of a small business could not be included in the questionnaire, as it would impede the interview meeting with respondents. Some respondents already felt that the questionnaire was too long.

- ***Obsolete telephone numbers*** - Some of the telephone numbers that were shown on the industry register were not in use, or have changed. It made it therefore difficult to find some of the identified respondents.

5.6 SUMMARY

The research has indicated that there is a large number of small businesses in the Emfuleni district that agree with the identified obstacles from the literature study. The research has also indicated that small businesses can benefit from various support services, in order to ensure their sustainability, as well as for small business development in the Emfuleni district.

From the contents of this chapter, it is clear that it could be beneficial to small businesses to discuss their concerns with knowledgeable specialists within this field. It would also be beneficial to potential small business founders/owners to learn and gain knowledge from established small businesses. The South African government should focus on certain criteria to assist the small business sector, as certain governmental regulations such as BEE are mostly perceived as obstacles towards small business development rather than an incentive.

This chapter analysed the findings of the empirical study. The next chapter, Chapter 6, will evaluate the collected data against the theory that was discussed in the previous chapters. The analysis of the empirical study can be seen as successful in determining the major obstacles towards entering the small business sector in the Emfuleni district.

The question to what initiatives should be followed to develop the small business sector in the Emfuleni district became clear, and will be discussed in the chapter to follow. Supportive information regarding entrepreneurial strengths and weaknesses, the importance of training and development, the government and supporting institutions, as well as the role that business planning plays in the successful start-up of the small business is obtained.

Recommendations for further research will be given in the chapter to follow.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

This study was done in order to identify the obstacles that are associated with the development of entrepreneurship and small businesses in the Emfuleni district. Chapter 1 was the introduction to the study. Chapter 2 and 3 investigated the entrepreneur and the small business, as well as the obstacles associated with it. Chapter 4 discussed the role that business planning plays in the success of the entrepreneur and the small business. Obstacles towards small business development in the Emfuleni district was empirical tested with entrepreneurs with small businesses in the Emfuleni district, and were covered in Chapter 5. This chapter, Chapter 6, contains the conclusion and recommendations of the study on obstacles towards small business development in the Emfuleni district.

The necessity of change is upon South Africa if there is wished to maintain a sustainable competitive advantage and survive in the 21st century. Entrepreneurship has been identified as the key element to a successful future. One of the major challenges in South Africa is to create a more entrepreneurial climate and to provide effective and targeted support for each group of entrepreneurs so that South Africa can reap increasing economic benefit from them. Entrepreneurship is needed in South Africa to create employment and improve the living standard of the nation. In order to achieve sustained growth and address the economic development challenges of the country, more entrepreneurs are needed to enhance the small business sector in South Africa.

With an unemployment figure as high as 49% in the Vaal Triangle, it is decided to identify the obstacles that are associated with the development of entrepreneurship and

small businesses in the Emfuleni district. It is important that such a study was conducted to establish an approach to overcome the identified obstacles, in order to ensure sustainable small business development in the Emfuleni district. This study investigated the major obstacles that entrepreneurs in the Emfuleni district face when starting a small business.

6.2 CONCLUSION

This study holds implications for the entrepreneur, the entrepreneurial business, government, and educators in this field. This study has also clearly indicated that entrepreneurship and small businesses in the Emfuleni district are not excluded from obstacles of variable severity and significance. Some of these obstacles are associated with internal weaknesses, such as a lack of entrepreneurial characteristics, and a shortage of working capital, while others relate to external factors, such as economic factors. More-over, there are also problems that arise within the development of entrepreneurship and small business, such as a lack of government support, and the education system.

In general, internal obstacles seem to be more controllable and easier to manage than the identified external obstacles. The study has also shown that the frequency, intensity, or importance of obstacles can vary according to the different industry sector. This highlights the fact that the impact of obstacles is situation specific, and largely depending on the managerial, business and environmental background of the business. Irrespective of the influence of these factors, certain obstacles have a systematically strong obstructing effect on the sustainability of entrepreneurship and small business development in the Emfuleni district, and might be assumed applicable to the rest of South Africa.

6.2.1 Characteristics of small businesses in the Emfuleni district

Information from the empirical study showed that small businesses in this study can be described as:

- a sole proprietorship owned business with less than six employees that exists for more than 10 years;
- managed by the owner, in his late thirties, that consists of a medium-level qualification, with more than 10 years of business management experience;
- operate mainly in the ‘wholesale & retail trade, hotels and restaurants’, and the ‘community, social and personal services’ business industry, and
- with a gross asset value and annual gross income of each less than R 1 Million.

6.2.2 Conclusions concerning small business obstacles

It is confirmed that all the mentioned obstacles have a medium- to large effect on the type of business industry (see paragraph 5.3.4). Information from the empirical study showed that all respondents can be regarded as small business founders/owners in the Emfuleni district, and the following obstacles were identified:

- A shortage of capital is regarded as the biggest obstacle, as the availability of capital is a great concern (see paragraphs 5.3.2 and 5.3.2.1).
- Larger businesses are regarded as the biggest obstacle within the context of ‘competition’, because of the price advantage above small businesses (see paragraph 5.3.2.2).
- The quality of employees, due to their level of education and training (see paragraph 5.3.2.4).
- Respondents need more support from the government, as they perceive government regulations as a great obstacle. The reason includes aspects such as income tax, black economic empowerment, labour regulations, and legal requirements (see paragraph 5.3.2 and 5.3.2.5).

- The human factor, internal business influences, external legal aspects, and potential utilisation show all small effects and not practically important on age, qualification, experience and failure.

6.2.3 Conclusions concerning small business development initiatives

Information from the empirical study included initiatives that can positively influence the development of small businesses in the Emfuleni district. The sub-sections to follow will identify initiatives concerning entrepreneurial strengths and weaknesses; training, development, and government support; and business planning.

6.2.3.1 Conclusions concerning entrepreneurial strengths and weaknesses

Respondents indicated in the empirical study that they have certain entrepreneurial characteristics that can be regarded as either strengths or weaknesses. None of the variables age, qualification, and experience had a practical significant effect on either the entrepreneurial or non-entrepreneurial motive (see paragraph 5.4.1.4). Entrepreneurial strengths include the following:

- Respondents mainly agreed that an entrepreneur should display certain entrepreneurial characteristics. These characteristics include commitment and determination, leadership ability, opportunity obsession, tolerance of risk and uncertainty, creativity, self-reliance, and ability to adapt, and the motivation to excel (see paragraph 5.4.1.2).
- Commitment and determination is currently applicable to all respondents, as no practical significance between the way respondents feel ‘commitment and determination’ is currently applicable to themselves, and the ideal way in which they think it should be applicable to an entrepreneur (see paragraph 5.4.1.2.1).
- The majority of respondents indicated that they are familiar with the term ‘entrepreneur’, and gave a detailed description of it (see paragraph 5.4.1.3).
- The majority of respondents indicated that their motive for starting a small business is to have more satisfaction in work, use creative skills, and exploit

market opportunities, which can be regarded as an entrepreneurial strengths (see paragraph 5.4.1.4).

The following entrepreneurial weaknesses were identified:

- General entrepreneurial perceptions that are seen as myths were mainly regarded as not being myths (see paragraph 5.4.1.1).
- Respondents indicated towards a large effect between the way they feel ‘tolerance of risk and uncertainty’ is currently applicable to them, and the ideal way in which they think it should be applicable to an entrepreneur (see paragraph 5.4.1.2.4).
- Some respondents were not familiar with the correct description of the term ‘entrepreneur’ (see paragraph 5.4.1.3).

6.2.3.2 Conclusions concerning training, development, and government support

Information from the empirical study indicated that small businesses in the Emfuleni district might benefit by means of the following initiatives:

- In-service training for employees, as the quality of employees is seen as a great obstacle towards small business development. Business consultancy / advisory services is also regarded as an initiative from which small businesses might benefit (see paragraph 5.4.2.1).
- Training on sustainable business growth and development, as well as how to run the business effectively (see paragraph 5.4.2.2).
- Very little to no government support is given to small businesses such as tax relieve, and reduced interest for start-up capital. Respondents experience too many legal constraints during small business start-up, such as business registration, and labour regulations. Government support is seen as race driven, as black economic empowerment regulations benefit only a certain group of small businesses. BEE businesses also indicated towards a low- to no-impact on

the simplification of obtaining capital, and the development of new markets for products (see paragraph 5.4.2.3).

- None of the variables age, qualification, experience, and failure had a practical significant effect on entrepreneurship training (see paragraph 5.4.2.2).

6.2.3.3 Conclusions concerning business planning

Information from the empirical study regarding the role that business planning plays in the success of the business, as well as detailed questions regarding business planning obstacles in the Emfuleni district, are as follows:

- The majority of respondents indicated that business planning was performed before the start-up phase (see paragraph 5.4.3.3).
- Although respondents agree most with the statement that sufficient time must be spent on business planning before business start-up, and that business planning provides focus and direction in the business, a lack of business planning is recorded. Respondents indicated that the founder/owner is mainly responsible for business planning (see paragraph 5.4.3.1 and 5.4.3.2).
- The majority of respondents performed business planning before the start-up phase of the business (see paragraph 5.4.3.3). Although the majority of respondents believe that the business planning process can be positively related to the business performance, only half of the businesses do not currently have a formal written business plan (see paragraph 5.4.3.4). It is confirmed that business planning before the start-up phase of the business has a medium effect on business performance (see paragraph 5.4.3.5).
- The most prominent reason why small business founders/owners do not plan is due to the lack of skills and time (see paragraph 5.4.3.5). It is confirmed that the level of education has a small effect on business planning, and can be seen as practically not significant (see paragraph 5.4.3.4). The relationship between business planning and the level of education indicated that the existence of a formal business plan correlates well with the higher qualification categories. The

same applies to the non-existence of a formal business plan and the lower level qualification category (see paragraph 5.4.3.4).

- None of the variables age, qualification, and failure had a practical significant effect on the importance of business planning. Experience can be regarded as having a medium effect on the importance of business planning. Respondents having more than five years business management experience, tend to regard business planning as more important than those having less than five years business management experience (see paragraph 5.4.3.1).
- The majority of respondents (60,4%) who indicated that business planning was performed before the start-up phase of the business believed that the business performance is directly related to the fact that business planning was performed (see paragraph 5.4.3.5).

6.3 RECOMMENDATIONS

This section contains the recommendations regarding obstacles towards small business development in the Emfuleni district.

6.3.1 Recommendations concerning small business founders / owners

Small business founders/owners can develop a proactive perspective in order to overcome or minimise obstacles, by means of the following initiatives:

- approach successful businesses in the same industry and sector and learn from their experience;
- understand each aspect of the business planning process, in order to prepare a detailed business plan for the new business;
- identify and understand any problems that may hinder the business from successful start-up;
- prioritise these problems according to their impact on the achievement of goals based on such parameters as persistence, difficulty, and importance;

- diagnose the cause of each problem, and establish the degree to which it can be resolved and the means required to do so;
- take corrective measures to accommodate these problems, using both internal and external means and beginning with those that are more urgent, intense, and critical, and
- monitor the progress of the problem resolution by setting up feedback mechanisms.

6.3.2 Recommendations concerning government support

Public policymakers should assist companies in reducing the inhibiting effect of these problems, since entrepreneurship and small business development can lead to economical growth, can reduce unemployment levels, and can improve standards of living in the country. This can be achieved by preparing special programs for entrepreneurship and small business development, namely:

- **Educational** – Offer seminars, workshops, and lectures aiming to improve entrepreneurial skills.
- **Operational** - Supply small businesses with information about local markets such as technical standards, customer lists, and commercial legislation.
- **Promotional** - Help small businesses with start-up capital by using tools such as subsidies, financial assistance, and expert consultation.

6.3.3 Recommendations concerning entrepreneurship and business educators

Entrepreneurship and business educators should design special courses in their curricula that would expose students to entrepreneurship and small business realities. Academic training can consist of factual (lectures, books and briefings), analytical (training and case studies), and experiential (small business role plays, field trips, simulation exercises) methods. Vocational training should also be offered to managers of small businesses, focusing on the mechanics of the business process, such as administration

techniques. Most importantly, educators should cultivate an aggressive, proactive, and determined spirit among current and potential small business owners.

It is recommended that the business planning process should be followed by potential small business founders / owners in the Emfuleni district in order to identify potential obstacles before business start-up, and therefore increase the potential sustainability and development of the small business sector.

6.4 SUGGESTIONS FOR FURTHER RESEARCH

The obstacles towards small business development in the Emfuleni district were identified within this study, in order to reduce and/or overcome these obstacles. These obstacles were identified to develop entrepreneurship and the small business sector in the Emfuleni district, in order to enhance a sustainable economic growth within this region. Entrepreneurship and business researchers should capitalise on the findings of this study by means of the following research actions:

- assess concurrently the frequency, intensity, and importance of each item in the list of obstacles compiled in this study and determine its impact on small business development decisions;
- identify the role of individual background factors – managerial, organisational, and environmental - on obstacle perceptions, as well as their interactive effects;
- evaluate the individual and cumulative impact of obstacles on each stage of small business development;
- conduct multi-cultural studies that would capture the variations in small business obstacles due to racial differences, and
- conduct a longitudinal study that evaluates the effect of the economic climate on the development of entrepreneurship and the small business sector.

6.5 ACHIEVEMENT OF OBJECTIVES

The aim of this study was to lay a thorough theoretical foundation by means of a literature study, on which the rest of the study could be build. The main focus in

studying the theory of entrepreneurship, small business, and business planning was to identify the obstacles towards small business development. Chapter 2 established what entrepreneurship intend to accomplish and why it is necessary. Chapter 2 also considered the resources necessary for entrepreneurship, such as training and government support, in order to build capacity and capability in the small business sector. This part of the literature study bridged the gap between the theoretical and practical situation, with the limitations of entrepreneurship, and also presented adequate background knowledge about the components that are usually included in the decision of entering a small business.

The relevant theory concerning small business was studied in the third chapter, as well as certain obstacles that may obstruct the sustainability thereof. The fourth chapter covered the business planning process that acted as a measurement in small business development. An evaluation was also conducted to determine what business planning initiatives should be followed to overcome certain obstacles.

The fifth chapter investigated the relevant obstacles towards small business development, and included the results of the empirical research.

The primary objective of this study, (see paragraph 1.3), was to identify the obstacles associated during the start-up phase of small businesses in the Emfuleni district, in order to identify what initiatives should be followed to overcome these obstacles. This chapter, (chapter 6), contains the conclusion regarding the results of the empirical research, as well as recommendations on how to address obstacles towards small business development in the Emfuleni district.

It is recognised that this study proved the theory on obstacles towards small business development to correlate with the practice. This study therefore proved to be successful in its objectives.

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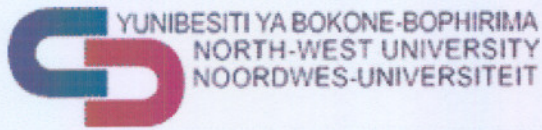
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Appendix A



Questionnaire number

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Questionnaire/interview: Entrepreneurial obstacles towards small business development in the Emfuleni district

Dear small business founder/owner

Small business development is imperative in South Africa to create employment and improve the quality of life of the nation. Many South Africans are facing the frustration of not being able to enter the small business arena, for various reasons.

To determine the major obstacles towards small business development in the Emfuleni district, I am currently conducting a survey. The survey is being given to a select number of small business founders/owners, like yourself. As the response of every person in the population is important, I would greatly appreciate it if you would assist me in the interview that will be represented by the enclosed survey questionnaire. Any further comments to the scheduled interview will be seen as highly important.

The interview questionnaire is specifically designed to obtain information about the obstacles that small business founders/owners experienced **before** and **during the start-up phase** of the business. Almost all questions can be answered by making a cross in the appropriate column. You can choose the column that best matches the description of how you feel about the item. The time duration for completion of the questionnaire/interview will be approximately 30 minutes.

The survey will be used as the basis for a research project; however, your answers will be treated as strictly confidential.

I thank you in advance for your participation.

Yours sincerely

Guillaume de Swardt
Ph.D. candidate
North-West University
Cell: 083 651 4573

Promotor: Dr. Stephan van der Merwe
North-West University
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Section A: Demographic information

Instructions for completion:

- *Please answer all questions as accurately and objectively as possible.*
- *Mark the appropriate box (only one) with an X that reflects your answer most appropriately.*

A1. Profile of the business founder/owner

A1.1 Is (are) the founder/owner (s) directly involved in the management of the business?

Yes		01
No		02

A1.2 Please indicate your gender.

Male		01
Female		02

A1.3 In which age group do you fall?

Younger than 20		01
20-29		02
30-39		03
40-49		04
50-59		05
Older than 59		06

A1.4 What is your mother tongue?

Afrikaans		01
English		02
isiNdebele		03
isiXhosa		04
isiZulu		05
Sepedi		06
Sesotho		07
Setswana		08
siSwati		09
Tshivenda		10
Xitsonga		11
Other (specify):		12

A1.5 Which statement best describes your level of education?

Lower than matriculation		01
Matriculation		02
Diploma (Technikon / University)		03
B. Degree		04
Postgraduate		05

A1.6 Indicate how many years of business management experience you have.

0-2 years		01
3-5 years		02
6-10 years		03
More than 10 years		04

A2. Profile of the business

A2.1 Gross asset value of the business (*including fixed assets*).

Less than R 1 million		01
Between R 1 million and R 2,5 million		02
Between R 2,5 million and R 5 million		03
Between R 5 million and R 10 million		04
Between R 10 and R 15 million		05
More than R 15 million		06

A2.2 What is the annual gross income of your business?

Less than R 1 million		01
Between R 1 million and R 2,5 million		02
Between R 2,5 million and R 10 million		03
Between R 10 million and R 40 million		04
More than R 40 million		05

A2.3 How many employees do you have, including yourself?

Less than 6		01
6-20		02
21-50		03
51 - 100		04
101 - 200		05
More than 200		06

A2.4 How long has your business in the Emfuleni district been in operation?

Less than 1 year		01
1 – 5 years		02
6 – 10 years		03
More than 10 years		04

A2.5 Please indicate the legal status of your business.

	Yes	No	
Sole proprietorship			01
Partnership			02
Close Corporation			03
Private Company			04
Business Trust			05
Franchise			06
Other (specify):			07

A2.6 In which industry does the business operate? (*Choose only one*)

Agriculture, forestry, and fishing		01
Mining and quarrying		02
Manufacturing		03
Electricity and water		04
Construction		05
Wholesale & retail trade, hotels & restaurants		06
Transport and communication		07
Finance, real estate, and business services		08
Community, social and personal services		09
General government services		10
Other (specify):		11

Section B: Small business obstacles

B1. Have you experienced small business failure in the past?

Yes		01
No		02
If "yes", how many times:		03

B2. Please indicate the extent to which the following factors impacted negatively on the start-up of your business, where (1) = Very high, (2) = High, (3) = Moderate, (4) = Low, and (5) = No impact.

		<i>Very high Impact</i>			<i>No impact</i>	
		←————→				
		1	2	3	4	5
01	Shortage of capital					
02	Lack of turnover					
03	Competition					
04	Crime					
05	Insufficient information / knowledge					
06	Business planning					
07	Government regulations and policies					
08	Quality of employees					
09	Stock control					
10	Business location					
11	Marketing of products/services					
12	Technological change					
13	Personal entrepreneurial capacity					
14	Politics, Society and Institutions					
15	Rates and taxes					
16	Labour regulations					
17	Other (specify):					

B3. If a shortage of capital had a negative impact on the start-up of your business, give the reason. *(Choose only one)*

Availability of capital		01
Too fast growth rate		02
Too much debt		03
Credit terms		04
Interest rates		05
Inflation		06
Cash flow		07
Other (specify):		08

- B4. If competition had a negative impact on the start-up of your business, state from whom, as well as the reason why. (*Choose only one*)

Small businesses		01
Large businesses		02
e-business		03
Other (specify):		04

Please motivate:

- B5. Did the informal sector in the Emfuleni district have a negative influence on the start-up of your business?

Yes		01
No		02

If "yes", please motivate:

- B6. If the quality of employees had a negative impact on the start-up of your business, give the reason. (*Choose only one*)

Availability		01
Affordability		02
Degree of education and training		03
Ethical values		04
Other (specify):		05

- B7. If government regulations and policies had a negative impact on the start-up of your business, state the type. (*Choose only one*)

Minimum wages		01
Local authority requirements		02
Black economic empowerment		03
Income tax		04
Legal aspects		05
Other (specify):		06

- B8. State the three most important problems, in sequence of importance, that small businesses in the Emfuleni district experience during the start-up phase.

- 1) _____
- 2) _____
- 3) _____
- _____

Section C: Small business development initiatives

C1. Entrepreneurial strengths / weaknesses

C1.1 Evaluate the following statements regarding general perceptions about entrepreneurs, where (1) = Strongly agree, (2) = Agree, (3) = Neutral, (4) = Disagree, and (5) = Strongly disagree.


		<i>Strongly agree</i> ← → <i>Strongly disagree</i>				
		1	2	3	4	5
01	Entrepreneurs are born, not made.					
02	Someone has to supply you with a job.					
03	Anyone can start a business.					
04	Entrepreneurs are gamblers.					
05	Entrepreneurs are their own bosses and completely independent.					
06	Entrepreneurs work longer hours and harder than managers in big companies.					
07	Entrepreneurs experience a great deal of stress and pay a high price in consequence of their health.					
08	Starting a business is risky and often ends in failure.					
09	Money is the most important start-up ingredient.					
10	Entrepreneurs should be young and energetic.					
11	If an entrepreneur is talented, success will happen in a year or two.					
12	Any entrepreneur with a good idea can raise venture capital.					

C1.2 Evaluate the following entrepreneurial characteristics with regard to: (a) the extent to which each statement is currently applicable to yourself, and (b) the ideal way in which you think each statement should be applicable to an entrepreneur, where (1) = Strongly agree, (2) = Agree, (3) = Neutral, (4) = Disagree, and (5) = Strongly disagree.

<i>(a) Currently</i>						<i>(b) Ideally</i>							
		<i>Strongly agree</i>		<i>Strongly disagree</i>				<i>Strongly agree</i>		<i>Strongly disagree</i>			
		1	2	3	4	5			1	2	3	4	5
01	Commitment and determination												
02	Leadership ability												
03	Opportunity obsession												
04	Tolerance of risk and uncertainty												
05	Creativity, self-reliance, and ability to adapt												
06	Motivation to excel												

C1.3 What does the term 'entrepreneur' mean to you?

C1.4 Please indicate the extent to which the following **driving forces** for starting a small business, describes you best, where (1) = Very important, (2) = Somewhat important, (3) = Neutral, (4) = Not very important, (5) = Not at all important.

		<i>Very Important</i> <i>Not at all important</i> 				
		1	2	3	4	5
01	To be independent					
02	To use own creative skills					
03	To have more satisfaction in work					
04	To be the decision maker					
05	To exploit market opportunities					
06	To meet a service or need of society					
07	To make a lot of money					
08	To supply work for relatives					
09	To be able to work at home					
10	Other (specify):					

C2. Training, development, and government support

C2.1 From which of the following services will small businesses in your area benefit the most? (*Choose only one*)

Business management training for owners	01
In-service training for employees	02
Business consultancy / advisory services	03
Other (specify):	04

C2.2 Please indicate to what extent you will benefit from the following entrepreneurship training, where (1) = Very important, (2) = Somewhat important, (3) = Neutral, (4) = Not very important, (5) = Not at all important.

		<i>Very Important</i> ← → <i>Not at all important</i>				
		1	2	3	4	5
01	To better understand personal strengths and weaknesses					
02	Sustainable business growth and development					
03	The entrepreneurial environment and networks					
04	How to run the business effectively					
05	The management of internal and external relations					
06	Other (specify):					

C2.3 Do you feel that government support contributes positively towards small business development in the Emfuleni district?

Yes		01
No		02
Please motivate:		03

C2.4 Does your business comply with the requirements for 'black economic empowerment'?

Yes		01
No		02
Don't know		03

C2.5 Please indicate to what extent does black economic empowerment regulations impact your business positively, where (1) = Very high, (2) = High, (3) = Average, (4) = Low, en (5) = No impact.

		<i>Very high impact</i> ← → <i>No impact</i>				
		1	2	3	4	5
01	Simplifies the process of obtaining capital					
02	Simplifies the process of developing new markets for products					
03	Other (specify):					

C3. Business planning

C3.1 Evaluate the following general statements regarding **business planning** where (1) = Strongly agree, (2) = Agree, (3) = Neutral, (4) = Disagree, and (5) = Strongly disagree.

		<i>Strongly agree</i> \longleftrightarrow <i>Strongly disagree</i> <i>Neutral</i>				
		1	2	3	4	5
01	Sufficient time must be spent on business planning before business start-up.					
02	Business planning provides focus and direction in the business.					
03	Continuous innovation regarding business planning contributes to the sustainability of the competitive advantage of the business.					
04	The business must have contingency plans if the circumstances should change.					
05	Management understands the business planning process.					
06	Thorough implementation of a business plan is necessary for success.					
07	Continuous control is necessary to monitor results.					
08	All business activities are business planning orientated.					

C3.2 State who is responsible for business planning in your business.

	Yes	No	
Founder/owner			01
Business manager			02
Marketing manager			03
No specific person			04
Other. Specify:			05

C3.3 Was business planning performed before the start-up phase of your business?

Yes		01
No		02

C3.4 Does your business currently have a formal, written business plan?

Yes		01
No (If "no", go to question C3.6)		02

C3.5 If the business has a formal, written business plan, how often is the plan re-evaluated?

Monthly		01
Biannually		02
Annually		03
Seldom		04
Never		05

C3.6 Do you believe that the business performance is directly related to the fact that business planning was / was not performed?

Yes		01
No		02
Don't know		03

C3.7 If business planning contributes towards successful business start-up, what is the most likely reason? (*Choose only one*)

Business planning relieves market uncertainty.		01
The business can benefit from promising opportunities.		02
Unexpected problems can be dealt with.		03
Other. Specify:		04
Not applicable		05

C3.8 What would you say is the most common reason why business planning is, in general, not performed? (*Choose only one*)

Lack of time		01
Lack of skills		02
The environment is too unpredictable		03
Other. Specify:		04

C3.9 What would you say is the solution for obstacles that small businesses experience during the start-up phase?

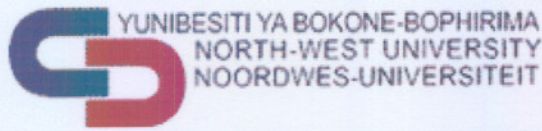
- 1) _____
- 2) _____
- 3) _____

C3.10 If you had the opportunity to start your business all over, what would you do differently?

- 1) _____
- 2) _____
- 3) _____

Thank you

Appendix B



Vraelys nommer

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Vraelys/onderhoud: Entrepreneuriese hindernisse vir kleinsake-ontwikkeling in die Emfuleni-distrik

Kleinsake-stigter/eienaar

Kleinsake-ontwikkeling is nodig in Suid Afrika om werkskepping en die lewensgehalte van die nasie te verbeter. Baie Suid-Afrikaners ondervind die frustrasie om nie tot die kleinsakesektor toe te tree nie vanweë verskeie faktore.

Ek is tans besig met 'n studie om te bepaal wat die vernaamste hindernisse is ten opsigte van kleinsake-ontwikkeling in die Emfuleni-distrik. Die vraelys is gegee aan 'n geselekteerde groep kleinsake-stigters/eienaars, soos uself. Aangesien die terugvoering van elke persoon in hierdie studie belangrik is, sal ek dit waardeer as u my sal help om die aangehegte vraelys/onderhoudskedule te voltooi. Kommentaar sal waardeer word en as belangrik beskou word.

Die onderhoudskedule is spesifiek ontwerp om die nodige inligting in te samel rakende die hindernisse wat u ondervind het **voor** en **gedurende** die **beginfase** van die totstandkoming van u onderneming. Byna al die vrae kan beantwoord word deur 'n kruis [x] te trek in die ooreenstemmende kolom. Kies die kolom wat die beste pas by die beskrywing van u gevoel. Die vraelys/onderhoudskedule sal ongeveer 30 minute duur.

U respons sal gebruik word vir die basis van 'n navorsingsprojek, maar die antwoorde sal streng vertroulik hanteer word.

Ek bedank u by voorbaat vir u deelname.

Die uwe

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Afdeling A: Demografiese inligting

Instruksies vir voltooiing:

- *Antwoord die vrae so akkuraat en objektief as moontlik.*
- *Merk die ooreenstemmende kolom (slegs een) wat die geskikte antwoord reflekteer, met 'n X.*

A1. Profiel van die besigheidstigter/eienaar

A1.1 Is die stigter/eienaar(s) direk betrokke by die bestuur van die besigheid?

Ja		01
Nee		02

A1.2 Dui asseblief u geslag aan.

Manlik		01
Vroulik		02

A1.3 In watter ouderdomsgroep val u?

Jonger as 20		01
20-29		02
30-39		03
40-49		04
50-59		05
Ouer as 59		06

A1.4 Wat is u moedertaal?

Afrikaans		01
Engels		02
isiNdebele		03
isiXhosa		04
isiZulu		05
Sepedi		06
Sesotho		07
Setswana		08
siSwati		09
Tshivenda		10
Xitsonga		11
Ander (spesifiseer):		12

A1.5 Watter stelling pas die beste by u vlak van akademiese opleiding?

Laer as matrikulasie		01
Matrikulasie		02
Diploma (Technikon / Universiteit)		03
B. Graad		04
Nagraads		05

A1.6 Dui aan oor hoeveel jaar besigheidsondervinding u beskik.

0-2 jaar		01
3-5 jaar		02
6-10 jaar		03
Meer as 10 jaar		04

A2. Profiel van u onderneming

A2.1 Onderneming se huidige bruto bate waarde (*insluitend vaste bates*).

Minder as R 1 miljoen		01
Tussen R 1 miljoen en R 2,5 miljoen		02
Tussen R 2,5 miljoen en R 5 miljoen		03
Tussen R 5 miljoen en R 10 miljoen		04
Tussen R 10 miljoen en R 15 miljoen		05
Meer as R 15 miljoen		06

A2.2 Wat is die huidige jaarlikse bruto inkomste van u besigheid?

Minder as R 1 miljoen		01
Tussen R 1 miljoen en R 2,5 miljoen		02
Tussen R 2,5 miljoen en R 10 miljoen		03
Tussen R 10 miljoen en R 40 miljoen		04
Meer as R 40 miljoen		05

A2.3 Wat is die aantal werknemers in u diens, insluitend uself?

Minder as 6		01
6-20		02
21-50		03
51 - 100		04
101 - 200		05
Meer as 200		06

A2.4 Hoe lank word u onderneming reeds in die Emfuleni-distrik bedryf?

Minder as 1 jaar		01
1 – 5 jaar		02
6 – 10 jaar		03
Meer as 10 jaar		04

A2.5 Dui asseblief die regstatus van die besigheid aan.

	<i>Ja</i>	<i>Nee</i>	
Alleeneienaar			01
Vennootskap			02
Beslote Korporasie			03
Privaat Maatskappy			04
Besigheidstrust			05
Konsessie-onderneming (Franchise)			06
Ander (spesifiseer):			07

A2.6 In watter industrie opereer u besigheid? (*Kies slegs een*)

Landbou, bosbou en visserye		01
Mynbou en uitgrawings		02
Vervaardiging		03
Elektrisiteit en water		04
Konstruksie		05
Groot- en kleinhandel, hotel- en restaurantwese		06
Vervoer en kommunikasie		07
Finansiële-, eiendoms- en besigheidsdienste		08
Gemeenskap-, sosiale- en persoonlike dienste		09
Algemene staatsdienste		10
Ander (spesifiseer):		11

Afdeling B: Kleinsake-hindernisse

B1. Het u mislukking ervaar met 'n kleinsake-onderneming in die verlede?

Ja		01
Nee		02
Indien "ja", hoeveel keer:		03

B2. Dui asseblief aan tot watter mate die volgende faktore u besigheid negatief beïnvloed het tydens die beginfase van die onderneming, waar (1) = Baie hoog, (2) = Hoog, (3) = Matig, (4) = Laag, en (5) = Geen invloed.

		<div style="display: flex; justify-content: space-around; align-items: center;"> <i>Baie hoë invloed</i> ↔ <i>Geen invloed</i> </div>				
		1	2	3	4	5
01	Tekort aan kapitaal					
02	Gebrek aan omset					
03	Mededinging					
04	Misdaad					
05	Ongenoegsame bestuurskennis/-inligting					
06	Besigheidsbeplanning					
07	Regeringsregulasies en beleid					
08	Kwaliteit van werknemers					
09	Voorraadbeheer					
10	Besigheidsligging					
11	Bemaking van produkte/dienste					
12	Tegnologiese verandering					
13	Persoonlike entrepreneuriese kapasiteit					
14	Politiek, samelewing en instellings					
15	Heffings en belasting					
16	Arbeidswetgewing					
17	Ander (spesifiseer):					

B3. As 'n tekort aan kapitaal 'n negatiewe invloed gehad het tydens die beginfase van u onderneming, gee die rede daarvoor. (*Kies slegs een*)

Beskikbaarheid van kapitaal		01
Te vinnige groei		02
Te veel skuld		03
Krediet termes		04
Rentekoerse		05
Inflasie		06
Kontantvloei		07
Ander (spesifiseer):		08

- B4. As mededinging 'n negatiewe invloed gehad het tydens die beginfase van u onderneming, meld wie die grootste bedreiging was, sowel as die rede hoekom. **(Kies slegs een)**

Kleinsake-ondernemings		01
Groot ondernemings		02
e-handel		03
Ander (spesifiseer):		04

Motiveer asseblief:

- B5. Het die informele sektor in die Emfuleni distrik 'n negatiewe invloed gehad tydens die beginfase van u onderneming?

Ja		01
Nee		02

Indien "ja", motiveer asseblief:

- B6. As die kwaliteit van werknemers 'n negatiewe invloed gehad het tydens die beginfase van u onderneming, gee die rede. **(Kies slegs een)**

Beskikbaarheid		01
Bekostigbaarheid		02
Vlak van onderrig en opleiding		03
Etiese waardes		04
Ander (spesifiseer):		05

- B7. As regeringsregulasies 'n negatiewe invloed gehad het tydens die beginfase van u onderneming, kies een van die onderstaande:

Minimum lone		01
Plaaslike owerheidsvoorskrifte		02
Swart ekonomiese bemagtiging		03
Inkomstebelasting		04
Regsaspekte		05
Ander (spesifiseer):		06

- B8. Lys die drie belangrikste probleme, in volgorde van belangrikheid, wat kleinsake-ondernemings in die Emfuleni-distrik ondervind tydens die beginfase.

- 1) _____
- 2) _____
- 3) _____

Afdeling C: Kleinsake-ontwikkelingsinisiatiewe

C1. Entrepreneuriese sterkpunte / swakpunte

C1.1 Evalueer die volgende stellings rakende u algemene persepsie oor entrepreneurs, waar (1) = Stem beslis saam, (2) = Stem saam, (3) = Neutraal, (4) = Verskil, en (5) = Verskil sterk.

		<i>Stem</i> ←————→ <i>Verskil</i> <i>beslis saam</i> <i>Neutraal</i> <i>sterk</i>				
		1	2	3	4	5
01	Entrepreneurs word gebore en nie gemaak nie.					
02	Iemand moet jou van 'n werk voorsien.					
03	Enigiemand kan 'n besigheid begin.					
04	Entrepreneurs is dobbelaars.					
05	Entrepreneurs is hul eie base en is onafhanklik.					
06	Entrepreneurs werk langer ure en harder as bestuurders in groot maatskappye.					
07	Entrepreneurs ondervind 'n groot mate van spanning en betaal 'n hoë prys t.o.v. hul gesondheid.					
08	Om 'n besigheid te begin is riskant en eindig dikwels in 'n mislukking.					
09	Geld is die belangrikste bestanddeel in die totstandkoming van 'n nuwe besigheid.					
10	Entrepreneurs moet jonk en energiek wees.					
11	As 'n entrepreneur talentvol is, sal sukses binne 'n jaar of twee behaal word.					
12	Enige entrepreneur met 'n goeie idee kan beginkapitaal verkry.					

C1.2 Evalueer die volgende entrepreneuriese eienskappe met betrekking tot: (a) die mate waartoe elke stelling tans **van toepassing is op uself**, en (b) die **ideale manier** waarop u glo elke stelling verwant **behoort te wees** aan entrepreneuriese eienskappe, waar (1) = Stem beslis saam, (2) = Stem saam, (3) = Neutraal, (4) = Verskil, en (5) = Verskil sterk.

(a) Huidig van toepassing

Stem Verskil
beslis saam sterk



01	1	2	3	4	5		<i>(b) Ideaal</i>				
							<i>Stem</i>	<i>Verskil</i>	<i>Stem</i>	<i>Verskil</i>	<i>Stem</i>
							↔				
01	1	2	3	4	5	Verbondenheid en vasberadenheid	1	2	3	4	5
02						Leierskapsvermoë					
03						Geleentheidsobsessief					
04						Toleransie vir risiko en onsekerheid					
05						Kreatiwiteit, selfvertroue en aanpasbaarheid					
06						Ambisie					

C1.3 Wat beteken die term 'entrepreneur' vir u?

C1.4 Dui asseblief aan tot watter mate die volgende **dryfkragte** u laat toetree het tot die kleinsakesektor, waar (1) = Baie belangrik, (2) = Redelik belangrik, (3) = Neutraal, (4) = Nie baie belangrik nie, (5) = Glad nie belangrik nie.

		<i>Baie Belangrik</i>			<i>Glad nie belangrik nie</i>	
		←→				
		1	2	3	4	5
01	Om onafhanklik te wees					
02	Om eie kreatiewe vaardighede te gebruik					
03	Om beter werkstevredenheid te hê					
04	Om die besluitnemer te wees					
05	Om markgeleenthede te benut					
06	Om 'n diens of in 'n behoefte te voorsien					
07	Om baie geld te maak					
08	Om vir familie werk te verskaf					
09	Om van die huis af te kan werk					
10	Ander (spesifiseer):					

C2. Opleiding, ontwikkeling en regeringshulp

C2.1 Watter van die volgende dienste behoort kleinsake-ondernemings in u area die meeste by baat te vind? (*Kies slegs een*)

Bestuursopleiding vir eienaars		01
Indiensopleiding vir werknemers		02
Besigheidskonsultasie / adviserende dienste		03
Ander (spesifiseer):		04

C2.2 Dui asseblief aan tot watter mate u sal baat vind by opleiding in die volgende entrepreneursiese onderwerpe, waar (1) = Baie belangrik, (2) = Redelik belangrik, (3) = Neutraal, (4) = Nie baie belangrik nie, (5) = Glad nie belangrik nie.

		<i>Baie</i> <i>Glad nie</i> <i>Belangrik</i> <i>belangrik nie</i>				
		1	2	3	4	5
01	Om persoonlike sterk- en swakpunte beter te verstaan					
02	Volhoubare groei en ontwikkeling van die besigheid					
03	Die entrepreneursiese omgewing en netwerke					
04	Effektiewe beheer binne kleinsake-bestuur					
05	Die bestuur van interne en eksterne verhoudings					
06	Ander (spesifiseer):					

C2.3 Voel u dat staatsondersteuning 'n positiewe bydrae lewer tot kleinsake-ontwikkeling in die Emfuleni distrik?

Ja	01
Nee	02
Motiveer asseblief:	03

C2.4 Voldoen u besigheid aan die vereistes vir 'swart ekonomiese bemagtiging'?

Ja	01
Nee	02
Weet nie	03

C2.5 Dui asseblief aan tot watter mate swart ekonomiese bemagtigingswetgewing 'n positiewe invloed het op u besigheid, waar (1) = Baie hoog, (2) = Hoog, (3) = Matig, (4) = Laag, en (5) = Geen invloed.

		<i>Baie hoë</i> <i>Geen</i> <i>invloed</i> <i>invloed</i>				
		1	2	3	4	5
01	Vergemaklik die beskikbaarheid van kapitaal					
02	Vergemaklik die ontwikkeling van nuwe markte en produkte					
03	Ander (spesifiseer):					

C3. Besigheidsbeplanning

C3.1 Evalueer die volgende algemene stellings rakende **besigheidsbeplanning**, waar (1) = Stem beslis saam, (2) = Stem saam, (3) = Neutraal, (4) = Verskil, en (5) = Verskil sterk.

		<i>Stem</i> <i>beslis saam</i> ← → <i>Verskil</i> <i>sterk</i> <i>Neutraal</i>				
		1	2	3	4	5
01	Genoegsame tyd moet spandeer word aan besigheidsbeplanning alvorens die besigheid begin word.					
02	Besigheidsbeplanning voorsien fokus en rigting in die besigheid.					
03	Voortdurende innoovering ten opsigte van besigheidsbeplanning dra by tot die volhoubaarheid van die mededingende voordeel van die besigheid.					
04	Die onderneming moet beskik oor opvolgplanne as omstandighede sou verander.					
05	Bestuurslui verstaan die besigheidsbeplanningsproses.					
06	Die deeglike implementering van 'n besigheidsplan is noodsaaklik vir sukses.					
07	Voortdurende beheer is nodig om resultate te monitor.					
08	Alle besigheidsaktiwiteite is besigheidsbeplanning georiënteerd.					

C3.2 Spesifiseer wie verantwoordelik is vir besigheidsbeplanning in u besigheid.

	<i>Ja</i>	<i>Nee</i>	
Stigter/eienaar			01
Besigheidsbestuurder			02
Bemarkingsbestuurder			03
Geen spesifieke persoon nie			04
Ander (spesifiseer):			05

C3.3 Was daar besigheidsbeplanning gedoen voor die aanvang van u besigheid?

Ja		01
Nee		02

C3.4 Beskik die besigheid tans oor 'n formele, geskrewe besigheidsplan?

Ja		01
Nee (Indien "nee", gaan na vraag C3.6)		02

C3.5 As die besigheid oor 'n formele, geskrewe besigheidsplan beskik, hoe gereeld vind herevaluasie van die plan plaas?

Maandeliks		01
Sesmaandeliks		02
Jaarliks		03
Selde		04
Nooit		05

C3.6 Is die besigheid se prestasie verwant aan die feit dat besigheidsbeplanning gedoen is / nie gedoen is nie?

Ja		01
Nee		02
Weet nie		03

C3.7 As besigheidsbeplanning bygedra het tot die suksesvolle totstandkoming van die besigheid, wat is die vernaamste rede? (*Kies slegs een*)

Besigheidsbeplanning verlig markonsekerheid.		01
Die besigheid kan voordeel trek uit belowende geleenthede.		02
Onvoorsiene probleme kan hanteer word.		03
Ander (spesifiseer):		04
Nie van toepassing		05

C3.8 Wat is volgens u mening die vernaamste rede waarom besigheidsbeplanning in die algemeen nie uitgevoer word nie? (*Kies slegs een*)

Gebrek aan tyd		01
Gebrek aan kundigheid		02
Die besigheidsomgewing is te onvoorspelbaar		03
Ander (spesifiseer):		04

C3.9 Wat sou u dink is die oplossing vir hindernisse wat kleinsake-ondernemings gedurende die beginfase ondervind?

- 1) _____
- 2) _____
- 3) _____

C3.10 Wat sou u anders gedoen het as u die geleentheid gehad het om u besigheid weer oor te begin?

- 1) _____
- 2) _____
- 3) _____

Dankie