

Assessing selected success factors of SMEs in the North West Province

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Mini-dissertation submitted in partial fulfilment of the requirements
for the degree *Master of Business Administration* at the
Potchefstroom Campus of the North-West University

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October 2015

It all starts here TM

ABSTRACT

The importance of job creation and increasing sustainability in South Africa has never been as imperative as in the current economic climate. The currency fluctuations, together with the increasing SME failure rates, and development concerning legislation have had increased concerns regarding the sustainability of businesses in South Africa. SMEs are the most troublesome.

SMEs are noted to be the leader in job creation in South Africa. These businesses contribute a high percentage to the GDP every year. Nine constructs have been identified which may result in having a direct impact on the business success of SMEs. The correlation between these constructs and the business success of SMEs has been quantified by distributing 200 questionnaires throughout the Northwest province of South Africa.

The research is focused on the correlation between the constructs and the perceived success of the participating SMEs. The results hereof will increase the managerial ability to make decisions regarding their strategies to increase business success.

The results of this study concluded that there are certain factors considered as important contributors to SME success. The importance of this study is the contribution of a framework which will assist in the management of SMEs to obtain future success. Further development of an SME programme and the development of government policies are very important issues to assist this commercial driver of the economy.

KEYWORDS: Business success, SMEs, South Africa, Strategy, resources, finance, products, services, business acumen

ACKNOWLEDGEMENTS

First and foremost thank you God, for giving me the talents and ability to complete this opportunity.

Thank you to my supervisor, Professor Ronald Lotriet, for his constant and invaluable support throughout a very challenging year and to enable myself to submit a mini-dissertation of which I am proud of. Your contribution in this regard was dearly appreciated.

I would like to express my gratitude to my statistician, Wilma Breytenbach, at the Statistical Consultation Services, North-West University. You were dedicated in guiding me throughout the statistical analysis of the data as well as the interpretation thereof.

A special thanks to A. Islam for his consent on behalf of the authors of the Thailand research study to enable me to conduct a structured research study.

Then I would need to thank my wife, Danelle, for her encouragement and support throughout this challenging period. You gave me the strength I needed to complete the mini-dissertation.

The Author

October 2015

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LIST OF ABBREVIATIONS

BEE:	Black Economic Empowerment
BPLSI:	Business Partners Limited SME Index
CFA:	Confirmatory Factor Analysis
CFO:	Chief Financial Officer
ETEYA:	Emerging Tourism Entrepreneur of the Year Award
GDP:	Gross Domestic Product
GEM:	Global Entrepreneurship Monitor
ICT:	Information and Communication Technology
IFC:	International Finance Corporation
IT:	Information Technology
MTEF:	Medium Term Expenditure Framework
NDP:	National Development Plan
NSBA:	National Small Business Association
PC:	Personal computers
SARS:	South African Revenue Service
SBA:	Small Business Administration of America
SBE:	Small Business and Entrepreneurship Council
SEDA:	Small Enterprise Development Agency
SME:	Small and Medium Enterprise

CHAPTER 1: NATURE AND SCOPE OF THE STUDY

1.1. Background

Small and medium enterprises (SMEs) play a vital role in the South African economy. SMEs represent over 90 percent of private businesses and contribute to more than 50 percent of employment as well as the gross domestic product (GDP) of most African countries. This explains why SMEs are so closely knit to the financial performance of a country generally and why South African SMEs' performance specifically is critical (Mahembe, 2011).

South Africa is currently at an economic crossroad. The National Development Plan (NDP) proposes measures to accelerate economic growth to deal with the country's rising social problems. The majority of the measures in the NDP is based on the assumption of a reasonably healthy economy. The country's growth rate is hovering at 1.4 percent (SME Growth Index, 2014). That is well below the minimum of 5.4 percent which the NDP strives for over the next fifteen years. Unemployment has risen to its highest levels, 25.6 percent, and, according to Statistics SA (2015), 16 million people are expected to draw social benefits over the next year at a cost of 60 percent of government spending. South Africa needs an economic ecosystem that is designed to support market-driven inclusive growth, provide quality jobs, rapid skills development, innovation, increased productive output and better means to compete in a global economy (SME Growth Index, 2014). That. The NDP sets out several ambitious goals for the SME sector. This includes a target for 90 percent of employment opportunities to be created by this sector by 2030. The NDP envisions the South African economy growing by at least 5.4 percent growth per year over the next 15 years and identifies the SME sector as an important player in driving this growth. Despite government's commitment to growing and supporting the country's SMEs, the SMEs continue to face an extremely hostile business environment, including a lack of skilled staff, stringent regulations, tough local economic conditions, lack of finance and the high costs associated with employing staff (SME Growth Index, 2014).

The South African economy is currently at a very crucial stage where the country's long-term local currency credit rating has been lowered to a BBB+ in 2014 (Standard and Poor's, 2014). The rating means that an obligation rated 'BBB' exhibits adequate

protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitment on the obligations. Standard and Poors rated South Africa based on stable electricity supply and shorter and fewer strikes. If the external influences continue, they will downgrade the rating once again in 2015 (Standard and Poor's, 2014). This creates a stressful and stringent economic climate for SMEs to operate in.

An SME is defined by using a wide range of definitions. The measurement system of an enterprise gathers information about the changes in both the environment and the performance of the enterprise. This information is used together with the values and the preferences of the enterprise and its management to produce decisions about the required actions. As a result, the outputs of the enterprise (products, services, operational performance and the financial performance) are adapted (Chittithaworn *et al.*, 2010).

The value of the SME sector is recognized in economies worldwide, irrespective of the economy's developmental stage. The contribution towards growth, job creation and social progress is valued highly and SMEs are regarded as an essential element in a successful formula for achieving economic growth (Mahembe, 2011).

The South African government is fully aware of the importance of SMEs and a framework for SME support and development has been developed. The SME sector of the economy is actively promoted by a number of initiatives. This includes the National Small Business Act number 102 of 1996 (SA, 1996). This act defines SMEs and provides for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency. The Khula Enterprise Finance has a mandate to improve the SME sector's access to finance, primarily through the provision of wholesale finance or guarantees (Bankseta, 2012).

According to the Global Entrepreneurship Monitor (GEM) report of 2013 (Turton & Herrington, 2013), the potential entrepreneurs, who are likely to start their own business ventures in South Africa, are only 10.4 percent (14 percent in 2012) of the country's total population. This is well below the 27 percent other countries achieved around the world. This figure increased since 2009 where upcoming entrepreneurs increased from 3.8 percent to 5.1 percent during 2010. Furthermore, South African established businesses, in terms of total years' in operation, are the second lowest in the world. The youth unemployment rate is set at 48 percent in 2011 and 65 percent in 2013 (Turton &

Herrington, 2013). The youth unemployment rate in Brazil is only 17 percent and 18 percent in Russia (Turton & Herrington, 2013). The role played by new and small businesses globally is increasingly being acknowledged and appreciated (Turton & Herrington, 2013).

The purpose of this study was to provide an understanding of how SME owners or managers should measure their business by looking at some of the factors affecting their business' success. This will help to reduce the risk of failure and increase chances of success and sustainability in upcoming SMEs (Philip, 2010). There is consensus among some policy makers, economists, and business experts that SMEs are the drivers of economic growth. SMEs are not only responsible for job creation; they also contribute to a high percentage of countries' GDP as set out in Table 2.2. The role SMEs played was crucial for Europe to recover after the economic crisis. SMEs' employment capacity constitutes a large share of the global economy (Muller *et al.*, 2014). A healthy SME sector contributes prominently to the economy by creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. This dynamic role of SMEs in the economies of developing countries enables them as engines through which the growth objectives of developing countries can be achieved. Bankseta (2012) estimated that SMEs represent over 90 percent of private businesses and contribute to more than 60 percent of employment and more than 50 percent of the gross domestic product (GDP) in South Africa (Bankseta, 2012).

SME performance refers to the business's success in the South African economy. Performance can be defined as a business's ability to create value for their customers and shareholders (Chittithaworn *et al.*, 2010). Success can be defined as the ability to achieve the entity's set objectives. In general, success is a key term to the entity's management. Success and failure is used to measure management's ability to manage a SME (Chittithaworn *et al.*, 2010).

1.2 Problem statement

In the current economic climate it is essential to do business as effectively as possible to achieve the maximum outputs with the minimum inputs (Turton & Herrington, 2012). This will ensure the growth of SMEs and inspire job creation in South Africa. South African SMEs have an overall annual failure rate of between 70 and 80 percent (Bruwer & Watkins, 2010:3550). Kolver (2012) mentioned that major concerns need to be addressed to prevent South Africa from moving to the second division and eventually becoming a failed state. The National Development Plan did not place any emphasis on the importance of SMEs. Mr. Trevor Manuel, South Africa's previous Finance Minister (1996-2008) said that the focus must be placed on creating one million new businesses instead of five million jobs by 2020.

SMEs contribute approximately 52 to 57 percent of the GDP of South Africa (Wiese, 2013). As for the jobs created by SMEs in South Africa, Deputy Minister of Trade and Industry, Elizabeth Thabethe, has noted that the contributing figure is 61 percent (Goldstuck, 2012:9). Apart from SME funding and access to finance, the Global Entrepreneurship Monitor (GEM) Reports (2001-2010) noted that South African SMEs also suffer from poor management skills which results from a lack of adequate training and education. This results in high failure rates of SMEs (Mahembe, 2011).

SME owners are sometimes not fully aware of the most important factors they must focus on in their businesses. Changes in the environment cause more uncertainty in SMEs than in large companies. SMEs' resources for acquiring information with regards to the market of the enterprise are more limited. The response to environmental changes is different in SMEs than in large companies. Large enterprises may even exit from one of its business areas, but this is not usually possible in an SME (Philip, 2010).

Similar studies were conducted in Thailand (Chittithaworn *et al.*, 2010) and Bangladesh (Philip, 2010) where SMEs also contribute a high percentage to the countries' GDPs. The Director-General of the Office of Small and Medium Enterprises Promotion, Mr. Patima Jeerapaet, said that there were 2.74 million SMEs in Thailand in 2013 which accounted for 98.5 percent of all enterprises in Thailand. They generate employment for 11.78 million people, representing 80.4 percent of the country's total employment (The Government Public Relations Department, 2013).

SMEs are also the engine of growth in Bangladesh. There are approximately 6.0 million SMEs in the country. About 90 percent of all industrial units in Bangladesh are SMEs which generates approximately 25 percent of the GDP and employing more than 31 million people (Abdin, 2012).

Nine of the relevant business factors will be inspected to determine the comparability between these factors and a company's business successes. This may help to assist small and medium business owners in narrowing their focus on their business, increase business success and decrease the business failure rate.

1.3 Objectives

This section will explain the primary and secondary objectives which the researcher would like to achieve.

1.3.1 Primary objective

The primary objective was to assess selected success factors of SMEs in the Northwest province of South Africa. The correlation between these constructs and the business success of the participating SMEs was determined.

1.3.2 Secondary objectives

The secondary objectives were to:

- Determine which factors have an effect on the business success of the SMEs;
- Determine the reliability and measurability of these factors;
- Conclude which are the most important factors the entity must place their focus on and which will increase their profitability and growth;
- Determine the differences in findings between the South African research study and the one conducted in Thailand;
- And, to draw conclusions and make recommendations.

1.4 Research questions

The purpose of this research study was to discover whether the nine constructs identified have an impact on the perceived business success of SMEs in South Africa. The nine research questions are:

- Do the characteristics of an SME have an impact on the perceived business success of the SME?
- Does the management of the SME have an impact on the perceived business success of the SME?
- Do the products and services of the SME have an impact on the perceived business success of the SME?
- Does the customers and market of the SME have an impact on the perceived business success of the SME?
- Does the way of doing business and the cooperation of the SME have an impact on the perceived business success of the SME?
- Does the resources and finance of the SME have an impact on the perceived business success of the SME?
- Does the strategy of the SME have an impact on the perceived business success of the SME?
- Does the external environment of the SME have an impact on the perceived business success of the SME?
- Do the internet and Information and Communication Technology (ICT) have an impact on the perceived business success of the SME?

The primary objective of this research study was to answer the above questions and to determine which factors have the most influence on the perceived success.

1.5 Research methodology

The data was analysed by the Statistical Consultation Services of the North-West University in Potchefstroom and a number of different analytical procedures were used. A reliability analysis was used to measure both consistency and internal stability of the data collected through the questionnaires. The Cronbach's Alpha was used as measurement. A Cronbach's Alpha lower than 0.6 are generally considered to be poor, those in the 0.7 range are considered to be acceptable, and those over 0.8 good (Chittithaworn *et al.*, 2010).

A descriptive analysis was also conducted to show the demographics and characteristics of the sample tested. The number of male and female participants, the average age of the group, the highest education achieved and the type of organisation they work for were descriptively analysed. A correlation analysis was conducted to determine whether the managers' characteristics, the SMEs' characteristics and the other variables correlate with one another. The multiple regression analysis was used to determine whether the variables have any significant effect on the business success of SMEs.

The researcher considered the ethical requirements for the study. The three main ethical considerations were:

- **Respect for persons:**

The research study was conducted in such a manner to ensure that every participant has a full understanding regarding what the study was about. Time and opportunity were also allowed for the participants to ask questions.

- **Beneficence:**

Thought was given into the possible benefits of the study and minimise the possible harms.

- **Justice:**

The participants were selected based on the number of employees of the SME. This resulted in an equitable selection of the participants. The participants also had the right to decline the study whereby another participant would be randomly selected.

No results or questionnaires was changed or fabricated after they were received from the participants. The questionnaires were kept in a safe place and away from any possible tampering. This ensured that there was no misconduct in the study. The North-West University's ethics forms were completed and the study was approved by the ethics committee.

The participants stayed anonymous and no personal information was discussed with anyone (CTI, 2012). An undertaking was provided by the researcher to responsibly follow the North-West University's Guidelines for Ethical Research as set out in the Manual for Postgraduate studies.

1.5.1 Literature review

In South Africa, SMEs are defined as registered businesses with less than 250 employees (IFC, 2009). A more formal definition is defined in Section 1 of the National Small Business Act no 102 of 1996 (SA, 1996) as amended by the National Small Business Amendment Acts of 2003 and 2004. An SME is a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy (Mahembe, 2011). There is no universal definition for an SME. The two contributing factors that were taken into account when determining if an entity is a SME (Mahembe, 2011):

- The number of employees: < 200
- The annual turnover: < R50 million

There are a number of variables which can be used to determine a business' success. The variables have been narrowed down in the study done in Thailand by Chittithaworn *et al.* (2010).

Success has many different aspects that drive it. Profit is one such driver as profit is necessary for a business to be sustainable, but there are also many other indicators. Understanding the key issues in an SME can help the owner decide which areas to focus on to make it more successful. This information can also assist the owner to determine whether to sell or continue the business. Other ways in which business owners have measured success include; having clients find their SME by word of mouth or by

reference, customers refer others to their SME and the SME has the ability to employ additional people. These factors indicate success for the SME and may fulfil their desire to have a positive impact on the community where they live. In the current economic climate in South Africa, an SME is categorised as successful when it has been doing business for five years or longer (Muske, 2012).

The type of data that was used in this research study is primarily answers from questionnaires distributed, journal articles and the internet. Secondary sources included textbooks. Other important sources are available in the reference list.

The data was processed using a correlational approach as the constructs in the study cannot be controlled. The data was measured and quantified using the answers obtained from the questionnaires. This determined whether the nine constructs and business success are correlated.

1.5.2 Empirical investigation

This study makes use of a literature review as well as empirical research. The analysis of the data determined to what extent relationships between the variables exist. A reliability analysis was used to measure both consistency and internal stability of the data collected through the questionnaires. A descriptive analysis was conducted to explain the demographics and characteristics of the tested sample. The correlation analysis was conducted to determine whether the managers' characteristics, the SMEs' characteristics and the other variables have a correlation with the impact on business success.

The survey was cross-sectional and conducted in the field where the data was collected at one point in time. This method was also the most cost- and time effective to complete the study. This cross sectional method is one where a sample of the population can be selected to participate in the survey (Bryman & Bell, 2007). The environment where the survey took place, the Northwest province, is not one that can be controlled and therefore an experiment was not feasible.

The target population was managers/owners who are currently located in an SME in the Northwest province of South Africa. The sample size and number of questionnaires distributed was 200. The way in which the sample was selected is to randomly select 200 SMEs in the Northwest province.

The measuring instrument was a questionnaire structured in sections. The questionnaire aimed to ask all the relevant questions to determine which factors influence the success of an SME. The 5-point Likert scale was used as the measuring scale on the questionnaire. The reason for the scale is to make the questionnaire as easy as possible for the participants to complete. This scale also provides a clear view regarding the participants' perception about the SME (Pearson, 2010).

The 5-point Likert scale ranged from strongly agree to strongly disagree. The first part of the questionnaire comprised demographic and characteristic information regarding the participants. The second part comprised all the constructs that were suspected to influence the business success of the SME. The definitions of the nine constructs are:

- The characteristics of the company include the management's leadership skills, their motivation level as well as the available capital to grow the SME.
- The management and their knowledge include the financial, marketing and human resource departments' skills of the SME. Another aspect of the management and their knowledge is the employees' level of skills and the SMEs' IT capability.
- Regarding the products and services of the SMEs: The quality of the SMEs' products or services, the amount of money spent on transport and distribution and the level of customer feedback received from existing clients.
- The customers and market construct were assessed by inspecting the customer relationship of the company, the marketing of their products and the level of searching for new and upcoming markets.
- Resources and finance: The available cash resources, the ability to obtain capital sources, the accounting system in use to accurately determine the available cash and profit.
- Strategy: The level of a developed business plan, the ability to adapt to changes.
- External environment: The reliability of the SMEs' business network, the business' support structure and the level of government support.
- The way of doing business and cooperation: The level of web page and email usage to conduct business and the accessibility of the SMEs.
- The ICT and internet usage of SMEs: This includes the technological ability and capacity of the company to do business and communicate in an effective global manner. This may include computers, printers, internet accessibility and websites.

The third section of the questionnaire determined the participants' perception of an SME's success. The responses to the Likert scale are easily quantifiable and data can be easily analysed. The question answering is also easier with a Likert scale as the participant does not have to answer yes or no, but can decide on their level of agreement or disagreement (Chittithaworn *et al.*, 2010). A detailed description of all the factors mentioned above, will be discussed in the second chapter of this study.

1.6 Scope of the study

One of the risks of a research study is the replication of data. The researcher followed the following procedure to ensure there is no replication:

Construct the hypotheses, review the questionnaire, obtained a list of all the SMEs that was included in the survey, obtained these managers' email addresses or cell phone numbers, distributed only 200 questionnaires, when the questionnaires were received, only one response per email address was allowed. This ensured that no questionnaire was duplicated. The target population were managers/owners that are currently located in an SME in the Northwest province of South Africa. The sample size and number of questionnaires were 200. The sample was randomly selected as 200 SMEs in the Northwest province. The only characteristics of the sample were that the managers/owners are employed by the SME and the SME is located in the Northwest province.

1.7 Expected contribution of the study

There are numerous studies investigating the factors affecting the sustainability of SMEs. This study aimed to narrow the research down to nine constructs and to investigate its impact on the business success of SMEs in the Northwest Province of South Africa. This study will open the possibilities of expansion into other provinces in South Africa as well as in the rest of the world. The study further aimed to identify problem areas where the SME owners, together with government agencies, can place future focus to increase the success of SMEs. This study will further raise awareness to the importance of SMEs in South Africa and the rest of the world.

1.8 Limitations of the research

While the findings of this study are clearly limited due to a moderate sample size, they do make a contribution to the understanding of the correlation between the nine constructs and the perceived business success of SMEs in the Northwest province of South Africa. This research makes a useful contribution to a key contributor of GDP and job creation in South Africa. An ideal is to approach a larger number of SMEs to ensure the validity of the study. Another limitation will be the measurement error. The reliability of the questionnaires needs to be noted.

1.9 Layout of the study

The topic of the study is very actual as the SMEs in South Africa are under a great deal of economic and financial pressure in the current climate. The SMEs in the Northwest province were surveyed to determine the correlation between the nine factors mentioned in Section 1.5.2. and the business success of SMEs. The findings may assist current and upcoming SME owners to focus on the main factors affecting their potential to grow. A similar study was conducted in Thailand by Chittithaworn *et al.* (2010). The researcher contacted Islam, one of the co-authors of the Thailand research study. He sent the researcher the questionnaire and therefore enabling the researcher to conduct a research study in the Northwest province of South Africa using the questionnaire they applied to their study in Thailand. The questionnaire addresses all the constructs of the study and it led to a clear conclusion in the Thailand survey. This is a result of a proper designed study and questionnaire. The South African study will aim to reach a valid conclusion as well and to provide a support system for SMEs.

1.10 Summary

This chapter outlined the background of the research study. The reason for conducting this study and the importance of SMEs was summarized. A detailed description of the effect of SMEs in South Africa will be discussed in the second chapter of this study. This chapter also indicated the problem statement and the necessity of the research study to SMEs in South Africa. The objectives of the study were defined. Chapter 4 will determine whether the research study was valid and successful by inspecting the objectives again

and comparing them to the work done and the analysis conducted. Chapter described the research methodology. A literature study will be conducted in the following chapter. A summarized contribution and limitations of the study were discussed. These contributions and limitations will be set out in detail in the fourth chapter of this research study. In the next three chapters the importance of SMEs in the South African and global economies will be discussed in detail. Focus will be placed on the nine identified constructs and what each construct entails. As a Thailand study was already completed on these nine constructs, a comparison between the SMEs in Thailand and those in South Africa was conducted. A comparison between the findings of the Thailand study as well as the South African study was done to determine any significant differences or comparisons.

CHAPTER 2: FACTORS AFFECTING BUSINESS SUCCESS OF SMALL AND MEDIUM ENTERPRISES

2.1 Introduction

SMEs are a global phenomenon and the growth of SMEs is a major economic driver. This is due to the fact that SMEs contribute to employment rates at a higher rate than larger businesses do (OECD, 2010). The important economic contribution of SMEs has increased interest into the matter on an international level. Governments are implementing national policies to encourage SME growth worldwide.

This chapter will define and discuss the nine constructs which will be evaluated to determine their correlation with the business success of SMEs. As there are a number of different definitions on how an SME is defined, this chapter will provide a conceptualisation of SMEs and what an SME entails. The chapter will furthermore focus on the importance of SMEs in the South African economy. A number of global economies are also inspected to determine the global importance of SMEs in the respective countries.

The contribution of SMEs between 1997 and 2014 will be inspected in order to determine whether their contribution increased during the past 17 years. In the current South African climate, SMEs are experiencing high volumes of legal and employment regulations. These factors and the impact on the SME failure rate are discussed in the following paragraphs.

The South African government realises the importance of SMEs with regards to employment rates and GDP contribution. They have set up a number of strategies and plans to assist SMEs in startup and developing stages to enhance their chances of future sustainability. Government policies and its impact on SMEs are also discussed in this chapter.

2.2 Conceptualisation of SMEs

Mahembe (2011) reported that the importance of the SME sector is internationally acknowledged, but there remains a challenge to define exactly what an SME entails. There are a number of definitions that exist to define SMEs.

In defining SMEs it is very important to distinguish between small, micro and medium-sized entities and SMEs. In South Africa, both these terms are used when describing small businesses. The upper end of SMMEs is SMEs which excludes the self-employed micro enterprise business owners. According to Megginson *et al.* (2006), entities will generally classify as an SME if two or more of the following characteristics exist in the entity:

- Management is independent because the manager usually owns the business;
- Capital is supplied and ownership is held by only a few individuals;
- The business operates primarily in the area where it is located; and
- The business is small in comparison with larger enterprises in the same industry.

SMEs are defined by the National Small Business Act (102 of 1996) (SA, 1996) as follows:

The National Small Business Act categorises the different sectors in South Africa. This means that the definition of SMEs may differ depending on the type of sector the business categorises in. Refer to Table 2.1 for the breakdown of categories as noted in the National Small Business Act. The South African context defines an SME by measuring the number of employees, the annual turnover and the gross assets of the business (Mahembe, 2011):

- A small enterprise is defined as fewer than 50 employees and a turnover of less than R2 million up to R25 million depending on the industry.
- A medium enterprise is defined as fewer than 100 employees with a turnover less than R4 million up to R50 million, depending on the industry.

Table 2.1: SME categories according to the National Small Business Act no 102 of 1996

Sector or subsector in accordance with the standard Industrial Classification	Size of class	The total fulltime equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m

(Source: The Banking Association of South Africa, 2015)

As mentioned in Chapter 1, a similar study was conducted in Thailand (Chittithaworn, 2010). In this study an SME was categorised as such according to:

a) The value of the assets of each type of enterprises:

- Production Sector: medium size not exceeding 200 million bath and small size not exceeding 50 million bath
- Service Sector: medium size not exceeding 200 million bath and small size not exceeding 50 million bath
- Trading Sector medium size: wholesale not exceeding 100 million bath and small size not exceeding 50 million bath.
- Medium size: retail not exceeding 60 million bath and small size not exceeding 30 million bath.

b) The number of full-time employees of each type of enterprises:

- Production Sector: medium size not exceeding 200 employees and small size not exceeding 50 employees
- Service Sector: medium size not exceeding 200 employees and small size not exceeding 50 employees.
- Trading Sector: wholesale medium size not exceeding 50 employees, retail medium size not exceeding 30 employees and small size not exceeding 15 employees.

The value of the assets will not be used in this study to determine an SME's size as the currency of Thailand as South Africa differs and SMEs may therefore not be correctly classified. The number of employees will be used to determine the category of a business. Across the spectrum of definitions it is noted that a small business employs approximately 10 to 50 employees, while a medium business employs between 100 and 200 employees. As mentioned above, there are many definitions regarding SMEs. In this study an SME will be regarded as an entity with employee numbers between 1 and 200.

The SME conceptualisation has been discussed in this section. As an SME is now defined, the importance of SMEs and the roles played in global economies must be inspected. The following sections will discuss the importance of SMEs in the global and South African economy. It is also necessary to compare these global economies' government interventions with each other. This may indicate future opportunities for the South African government to increase the awareness and the support of SMEs.

2.3 Importance of SMEs in some of the largest economies

The following sections will discuss the impact of global SMEs on the economy.

2.3.1 Global impact

To estimate the importance of SMEs in the global economy, it is necessary to determine its impact in the largest countries in the world. European SMEs were significantly more resilient than large enterprises during the 2008 economic crisis, particularly with regards to their employment rate. The more than 20 million SMEs in Europe play an important role in the European economy. In 2012 these entities employed approximately 86.8 million people. This is a representation of 66.5 percent of all European jobs created during 2012. The SME sector also delivered 57.6 percent of the value generated by the private sector in Europe. The role of SMEs was crucial to Europe to recover to its current status after the economic crisis in 2008. Europe's employment capacity constitutes a large share of the economy (Muller *et al.*, 2014).

SMEs have played a vital role to assist struggling economies globally that are looking for answers to recession cycles and massive unemployment. Entrepreneurs serve as an effective way of creating jobs, increasing productivity and lowering poverty. According to the Small Business Administration Office of Advocacy (SBA), SMEs represent 99.7 percent of all employers in the United States of America alone (Gilroy, 2014). The recovery of the global economy, the future of innovation and the sustainability of a growing global population, heavily rely on SMEs according to Gilroy (2014).

SMEs stimulate private ownership and entrepreneurial skills, are flexible and can adapt quickly to changing market conditions and supply situations. They generate employment; help diversify economic activity and make a significant contribution towards exports and trade. SMEs account for a large share in output and employment even in the developed economies (Philip, 2010). The importance of SMEs in the global economy can be defined by inspecting a number of countries based on a combination of its GDP and population size. The following paragraphs will discuss these last mentioned countries as well as government policies to assist the SMEs.

2.3.1.1 The United Kingdom

The Contribution of SMEs:

In the United Kingdom, SMEs accounted for 99.3 percent of all private sector businesses, 47.8 percent of the private sector's employment and 33.2 percent of the private sector's turnover. SMEs in the United Kingdom employed 15.2 million people in 2014 (Federation of Small Businesses, 2014). Refer to table 2.2 for an extract of the GDP of the country and employment contribution.

The government's policies:

The government supports the SMEs in the United Kingdom through funding and programmes to make loans available to SMEs. These programmes include a formal scheme with the Bank of England to enable banks and building societies to borrow from them at cheaper rates, so they can then lend to SMEs at lower interest rates and setting up an independent British business bank to bring together public and private sector funds, creating more effective finance markets for smaller businesses in the United Kingdom (Gov.UK, 2015).

The government is also providing funding and programmes to encourage private sector investment in SMEs. The government is working with private sector investors to provide government and private sector money to invest in SMEs. They are also investing in SMEs with government and private sector money through:

- the Startup Loan scheme;
- the Business Finance Partnership; and
- Business Angel Co-Investment Fund.

The government of the United Kingdom is funding and managing initiatives to encourage young people and providing them with skills to set up their own business. These skills include recruiting young business owners who will go into schools and talking to young people about running their own business and working with schools and colleges to encourage the use of schemes. The government is also providing support and advice to SMEs (Gov.UK, 2015).

The government introduced an Employment Allowance in 2014 for all SMEs. This entitles them to a reduction in their employer National Insurance contributions bill each year. This

will support SMEs that want to grow with the costs of employment. The government launched the 'Business in You' campaign and website in 2012, to help people understand how they could start and run their own business. In 2013 'Business in You' was introduced. This is a partnership, between private enterprise and government which supports businesses aspiring to succeed and encourages entrepreneurial spirit (Gov.UK, 2015).

There are a number of other policies developed by British government to assist SMEs. These include (Gov.UK, 2015):

- **Enterprise Village:** The Village supports teachers to set up and develop a school-based business;
- **Premier League Enterprise Academy model:** This enables football clubs to develop enterprise in young people in deprived areas;
- **Tenner:** Schoolchildren is provided with £10 to fund a business idea and earn money.
- **Enterprise Zones across England:** These zones were set up to generate businesses and jobs and encouraging local and national growth;
- **New Enterprise Allowance (NEA):** This policy offers help to unemployed people who want to start a business. The NEA is available to people aged 18 and older. It provides access to business mentoring and offers financial support;
- **The Start-Up Loans scheme:** This scheme provides loans and mentoring support to entrepreneurs aged 18 and older;
- **Business Finance Partnership:** These partnerships invest £1.2 billion in increasing lending to SMEs from sources other than banks. This money is being matched with at least an equal amount from the private sector investors and will be invested on fully commercial terms;
- **Tax incentives:** There is a range of tax incentives available to encourage individual investors to invest in SMEs. These include the new Seed Enterprise Investment Scheme (SEIS). SEIS assist SMEs in their early stages to raise equity finance by offering a range of tax reliefs to individual investors who buy new shares in those companies.

2.3.1.2 China

The Contribution of SMEs:

China is the largest country (when considering their population size) in the world. In 2012 the registered SMEs in China exceeded 4.3 million and 99 percent of the total registered businesses in the country. These SMEs contributed 58.5 percent of the GD of the country, 68 percent of their exports and 75 percent of the total employment (Ministry of Commerce People's Republic of China, 2012).

The government's policies:

Government officials are promoted based on the performance of the local economy. Every local government in China adopts pro-economic development and a pro-business approach. The promotion system enhances central monitoring and provides a counterbalance to the negative effects of fiscal federalism. The government of China exercises minimum intervention and this provides room for SMEs to grow. The SMEs' contribution to tax income is also limited. Entry barriers for SMEs have been eliminated in recent years. China has a set of reasonable laws regulating and protecting business operations (Xiangfeng, 2008).

The government tasked to oversee SMEs in China consists of four administrative departments:

1. The National Development and Reform Commission,
2. China Coordination Centre for Cooperation of SMEs with Foreign Countries,
3. China Association of SMEs, and
4. Local SMEs department in every province.

Development policies and plans of governing SMEs were issued in 2003. There are various ways by which government supports SMEs. First, the SME promotion law, enacted in January 2003, lays the groundwork for public support for SMEs. Under this law, the government protects the lawful investment of SMEs and their equity investors alongside their investment earnings. In 2005, the government issued a document titled

“State Council on Encouraging, Supporting and Guiding the Development of Private and Other Non-Public Owned Economies” which eased up market access conditions for non-public economies and providing more development opportunities (Xiangfeng, 2008).

The government published the SME Growth Project in 2006. The project aimed to promote the system building of policy and regulation for SMEs, to cultivate the social service system of SME, to facilitate SME structural adjustment, to sustain the SME reforms, to strengthen SME training, to improve innovative ability, to resolve financing difficulties affecting SMEs, to encourage SMEs to expand offshore and to improve the overall supervision of SMEs (Xiangfeng, 2008).

Government also assists SMEs to improve their market access by helping them to enhance their skills. Government encourages SMEs to expand their markets by enforcing financial policies that allow imports and exports credit and export credit insurance. It enjoins qualified SMEs to invest in foreign markets (Xiangfeng, 2008).

2.3.1.3 U.S.A

The Contribution of SMEs:

In 2011 there were 5.68 million enterprises in the United States. Enterprises with less than 500 workers accounted for 99.7 percent of these businesses, and businesses with less than 20 workers made up 89.8 percent of this figure (Small Business and Entrepreneurship Council, 2015).

A report in 2012 from the SBA's Office of Advocacy determined that SMEs were incubators of innovation and employment growth during the recovery of the economical crisis in 2009. SMEs continued to play a vital role in the economy of the United States. They produced 46 percent of the private non-agricultural GDP in 2008 (Kobe, 2012). SMEs accounted for 63 percent of new jobs created between 1993 and mid-2013. Since the end of the recession in 2009, SMEs accounted for 60 percent of new jobs. SMEs categorised within the 20 to 500 employee number category, promoted job creation (Small Business and Entrepreneurship Council, 2015).

The government's policies:

The United States has focussed on economic development as a central importance of its national security policy. Promoting local programs and global initiatives that encourage investment in SMEs and women entrepreneurs in lower-income countries will strengthen growth engines, diversify economies, improve communal well-being, stabilize societies, and accelerate progress toward international development goals (Lemmon, 2013).

*2.3.1.4 Bangladesh***The Contribution of SMEs:**

Similar studies were conducted in Bangladesh and Thailand. SMEs are also the engine of growth in Bangladesh. There are approximately 6 million SMEs in Bangladesh. SMEs constitute around 90 percent of all the industrial entities in Bangladesh and they are generating about 25 percent of the country's GDP, employing over 31 million people and providing 75 percent of household income (Abdin, 2012).

The government's policies:

Government policies attempted to provide SMEs with access to finance through targeted lending. There was a government directive that 5 percent of a Bank's loan portfolio must be set aside for SME financing. A separate bank (the Bank for Small Industries and Commerce (BASIC)) was set up in 1988 with the objective of financing the SMEs. There were provisions of a favorable debt equity ratio, special interest rates and credit guarantee schemes. The Government is committed to develop SMEs as one of the main pillars of economic growth to achieve the goal of becoming a middle income country by 2021. The SME Foundation was created with the intention to implement the SME Policy Strategies adopted by the Bangladesh Government, policy advocacy and intervention for the growth of SMEs, facilitate financial support for SMEs, providing skills development and capacity building training, facilitate adaptation with appropriate technologies and access to ICT, and providing business support services. The Foundation is intended to work as a one-stop service delivery window for SMEs. Government is currently

developing special economic zones to develop industrial plots for all kinds of enterprises (Bakht & Basher, 2015).

2.3.1.5 Thailand

The contribution of SMEs:

There were approximately 2.74 million SMEs in Thailand during 2013. This constituted 98.5 percent of all enterprises in Thailand. These SMEs generate employment to over 11 million people which represents over 80 percent of the country's total employment (Inside Thailand, 2013).

The government's policies:

Satisfactory government support has shown to be important for SMEs in developing areas. Despite governmental programs, Thailand SMEs still face many challenges, domestic and external, which could hinder their sustainability and competitiveness. The challenges include ongoing difficulties in obtaining funds from financial institutions and the government. Usually the interest charges by financial institutions on loans borrowed by SMEs are high, and this is compounded by a lack of financial transparency by SMEs (Chittithaworn *et al.*, 2010).

The government established the SME promotion fund. This fund will provide capital allocation by the government, subsidy from the government's annual budget, donation or donated assets of voluntary contribution, interest and other financial sources from the fund operation. The master plan was also implemented by the Thai government. This is an SME promotion guideline to enhance stable and continuous growth of SMEs by promoting SME competitiveness. There is also a preferential tax treatment for SMEs (Anon, 2015). The corporate income tax rate is usually 30 percent. SMEs with income of up to R1 million's tax rate are 15 percent and those with income of more than 1 million and up to 3 million are 25 percent. Special depreciation is allowed for machinery and equipment, computer and factory buildings. SMEs can depreciate 40 percent of the acquisition value of machinery and equipment on acquisition day and 20 percent every

year for the remainder. SME can depreciate 25 percent of a factory's value on the acquisition day and 5 percent every financial year for the remainder (Anon, 2015).

SME promotion measures in Thailand are implemented by some ministries and government-affiliated organisations. There are a number of other strategies implemented by government to assist SMEs in Thailand to be sustainable and to ensure growth (Anon, 2015).

2.3.1.6 Nigeria

The contribution of SMEs:

SMEs are a very important part of the Nigerian economy. Nigeria was acknowledged as being the largest economy in Africa in 2014. SMEs constitute approximately 96 percent of all Nigerian enterprises (Ariyo, 2008). A study conducted by the Federal Office of Statistics determined that 97 percent of all businesses in Nigeria employ less than 100 employees. The SME sector provides, on average, 50 percent of their industrial output (Oyelaran-Oyeyinka, 2014).

The government's policies:

For SMEs to be successful, favourable institutional frameworks are required. Their needs are often overlooked by legislators who tend to target larger corporations. SMEs are also usually left out when it comes to tax incentives or business subsidies. Only a few SMEs possess the necessary financial or human resources to deal with these burdens. Government can assist SMEs by implementing inclusive reforms. Governments need to create the necessary enabling frameworks and lower the burden of regulatory measures. Government can simplify business registration procedures and paperwork to make the process more cost effective and efficient (Etuk *et al.*, 2014).

Table 2.2: The countries' contribution to GDP and job creation 2011-2014

Country	Contribution to GDP	Percentage of Job creation	Representation of total businesses
United Kingdom	50%	47.8%	99.3%
USA	46%	60%	99%
China	58.5%	75%	99%
Nigeria	50%	50%	96%
Bangladesh	25%	56%	98%
Thailand	40%	80.4%	98.5%

(Source: Own Compilation)

SMEs represent approximately 99 percent of all businesses in the United Kingdom, the United States of America as well as in China as discussed in Section 2.3.1. The highest percentage of job creation is noticeable in Thailand with an 80.4 percent contribution rate. This is 20 percent higher than the job creation of SMEs in South Africa. Refer to table 2.3 for a layout of the SME contribution in South Africa. The South African SMEs' impact in the economy will be discussed in the next section.

2.3.2 The South African economy

SMEs are referred to as the employment multiplier, since the new jobs created by SMEs further create more jobs (Jain & Chen, 2013). There are more than 6 million SMEs in South Africa. An employment multiplier measures the amount of direct, indirect and induced jobs created in a designated area. Direct jobs relate to the specific industry, while indirect jobs are those that support the industry. Induced jobs are a result of a direct or indirect employee's spending money in the community (Cetnarski, 2011).

Table 2.3: SME economic contributions in South Africa (1997 – 2014)

Year	Contribution to the GDP	Job creation	Representation of total businesses
1997	32-42%	62%	99.3%
2001	36%	56%	97.65%
2006	40-50%	50%	91%
2012	57%	61%	91%
2014	50%	60%	90%

(Adapted from: Falkena (2001:42); Lloyd (2002:21&23); Von Ketelhodt and Wöcke (2008:4); Fatoki and Odeyemi (2010:128); Ahiawodzi and Adade (2012:39); BANKSETA (2012); SME Growth Index (2014))

Based on Table 2.2 as well as Table 2.3, it is evident that the number of SMEs in relation to all businesses in South Africa has declined since 1997, but the contribution to the country's GDP has shown a significant increase. SMEs in South Africa in relation to the total population of businesses are approximately 9 percent lower than all the other countries (as observed in Table 2.2). South Africa's SMEs contribute at a higher rate to the GDP of the country than the SMEs of the United States of America, Thailand and Bangladesh.

SMEs are classified according to their size which includes an employee head-count, asset value and financial turnover below certain limits. These limits are discussed in Section 2.2. SMEs play a crucial role in a majority of developing (and also developed) economies, enabling faster growth and economic stability. They are considered to be key engines of growth and essential for efficient and competitive markets. They are also well known to be key creators of jobs. Estimates show that SMEs accounted for around 95 percent of global businesses and contributed approximately 40 percent of the GDP in 2013 (Anon., 2013a). According to the ABSA's (Amalgamated Banks of South Africa) SME Index (2014), concern is expressed regarding the decrease in SME numbers in South Africa.

Despite the importance of the SME sector for the economy, Khalique *et al.* (2011:74) are concerned about the serious issues and threats SMEs have to face. In the globalised environment, some of the external issues include recessions, heavy regulatory burdens,

and barriers from global sourcing. Internal factors may include the lack of management skills and knowledge, the lack of financing and low productivity.

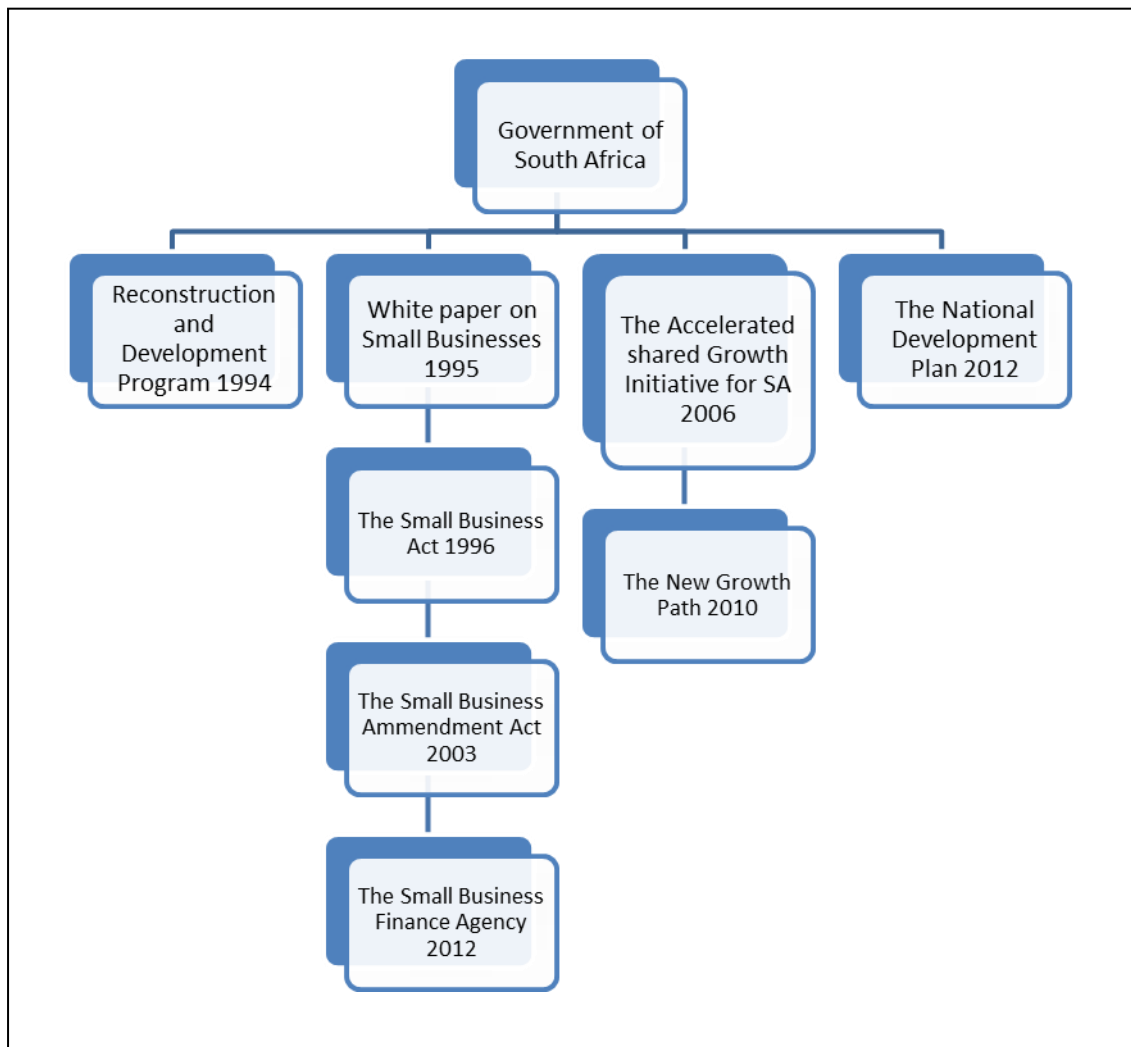
As discussed in section 2.3.1, government interventions play a vital role in the support of SME development and sustainability. The government of South Africa also implemented a number of policies and strategies to promote SMEs in South Africa. These policies and strategies will be discussed in the following sections.

2.4 National strategies and SME development

Massa and Testa (2008) acknowledged SMEs as important developers of radical innovations. Governments are seeking to provide a supportive environment for growing SMEs. An international entrepreneurship perspective is presented as a counterpoint to the established internationalisation perspectives, which may have guided governments' understanding of the needs of SMEs. A case for more balanced policy support towards SMEs is suggested that takes into account the diversity of SMEs in South Africa (Wrighta *et al.*, 2007).

The challenges at global and national levels require new strategies and tools to successfully address them. The market and the state cannot, on their own, regulate and solve all problems. Specific objectives must be set to ensure job creation by SMEs is prioritised (Wiese, 2013). The most urgent challenges for national governments as well as policy makers are therefore to help SMEs adapt to a changing environment with regards to technological changes, labour challenges, currency fluctuations and to promote sustainable economic development (OECD, 2010).

Figure 2.1: South Africa's government contributions towards SMEs



(Source: Own Compilation)

The South African Government also implemented additional policies since 1994 to enable the growth of SMEs. In 1994 the Reconstruction and Development Programme was implemented. This provided support to SMEs in order to create more jobs. In 1996 the Small Business Act number 102 of 1996 (SA, 1996) was implemented (followed by the Small Business Amendment Act in 2003). This act provided guidelines to the South African government to promote SMEs in South Africa. The Small Enterprise Development Agency came into consideration in 2004 to assist in funding SME support agencies. The Small and Medium Enterprise Development Initiative in South Africa identifies people with ability and potential, and enters into a partnership with them to provide education, training and funding. The South African government realises the importance to promote SME development by implementing certain policies (The Banking Association of South Africa, 2015).

A number of policies (Refer to Figure 2.1) assisted SMEs in their job creation and future development (Wiese, 2013):

- Accelerated Shared Growth Initiative for South Africa (2006)
- New Growth Path (2010)
- National Development Plan (2012)
- Small Enterprise Finance Agency (2012)

For the purpose of this study more recent government initiatives regarding SME development, as described in the following documents, strategies and plans will be discussed:

- The latest National Budget Speech (2015);
- 1995 White Paper for Small Businesses;
- Small Enterprise Development Agency (SEDA); and
- The National Development Plan.

2.4.1 The National budget Speech of 2015

To promote long-term economic growth and jobs in South Africa, the Minister of Finance addressed support plans for SME owners in the 2015 Budget Speech. The Minister of Finance announced in his 2015 Budget Speech that the strategic priorities for growth and development are set out in the nine strategic priorities. These priorities will be pursued this year, in partnership with the private sector and all its stakeholders. The nine points include:

- Resolving the energy challenge;
- Revitalising agriculture;
- Adding value to our mineral wealth;
- Enhancement of the Industrial Policy Action Plan;
- Encouragement of private investment;
- Reducing workplace conflict;
- Unlocking the potential of small enterprises;
- Infrastructure investment, and
- Support for implementation of the National Development Plan.

The seventh priority point on this list is to unlock the potential of SMEs. Over the Medium Term Expenditure Framework (MTEF) period, the South African government will spend approximately R3.5 billion on providing mentorship and training support to SMEs. From April 2015 and onwards, a central supplier database will be introduced in South Africa. Suppliers will only be required to register once when they do business with the state. This will significantly reduce the administrative burden for business, especially SMEs. The database will interface with SARS, the Companies and Intellectual Property Commission and the payroll system. The supplier's tax status and BEE status will be determined electronically, and enable public sector officials doing business with the state to be identified. This intervention will reduce the administrative burden for practitioners and address many of the concerns raised by the Auditor-General every year.

The 2015 Budget tax proposals aimed to increase tax revenues as required, limit the erosion of the corporate tax base and more importantly increase incentives for SMEs and promote a greener economy. Following recommendations of the Davis Committee, a more generous tax regime is proposed for businesses with a turnover below R1 million annually (Nene, 2015). Qualifying businesses with a turnover below R335 000 a year will pay no tax, and the maximum rate is reduced from 6 percent to 3 percent. To complement this relief, SARS is establishing small business desks in its revenue offices to assist in complying with tax requirements and reduce time spent on these matters so that SMEs can focus on the operational side of the businesses (Nene, 2015). According to Lundeen (2013), tax relief and reform can lead to sustainable economic growth for business sectors as well as SMEs.

2.4.2 The White Paper on SMEs

The promotion and development of SMEs is a key policy focus area in South Africa. This focus was identified in 1995 with the White Paper on Small Business and most recently in the NDP. The key rationale for the promotion of SMEs is the potential this sector offers the economy in terms of employment (Amra *et al.*, 2013).

South Africa is characterised by a high unemployment rate. Since 1994 South Africa's unemployment levels increased and remained in the region of 25 percent (refer to Section 1.1). The most recent official estimate from Statistics South Africa (2015) was an unemployment rate of 24.3. South Africa's 1995 White Paper on Small Business

emphasized the need for government to facilitate access to information and advice to small business, boost procurement from small enterprises and to improve access to finance and affordable physical infrastructure. The White Paper led to the 1996 National Small Business Act number 102 of 1996 (SA, 1996).

Since the Small Business Act was implemented in South Africa in 1996, a variety of policies and institutions were implemented to ensure the growth of SMEs in South Africa and increase job creation capacity. Some of the policies and institutions include:

- Khula Enterprise Finance Ltd to provide financial support to SMEs;
- Ntsika to provide non-financial support to SMEs;
- The Centre for Small Business Promotion to administer the aims of the national strategy;
- The Business Referral and Information Network (BRAIN) provided support to entrepreneurs online;
- Franchise Advice and Information Network (FRAIN) provided support to small business owners;
- Umsobomvu Youth Fund provided financial support to youth-run SMEs;
- Small Enterprise Development Agency to implement the government's small business development strategy; and
- Small Enterprise Financing Agency to provide financial support to SMEs.

In addition to the government's initiatives to provide support to SMEs, local municipalities, non-government organisations and the private sector also took their own initiatives to support SMEs. These innovations by public and private sectors will enhance the employment capacity of SMEs (Amra *et al.*, 2013).

2.4.3 Small Enterprise Development Agency

The Small Enterprise Development Agency (SEDA) is an agency of the Department of Small Business Development. SEDA was established in December 2004, through the National Small Business Amendment Act 29 of 2004 (SA, 2004). This act is mandated to implement government's small business strategy, design and implement a standard delivery network for SME development, and integrate government-funded SME support agencies within the government.

SEDA's mission is to develop, support and promote SMEs throughout the country, ensuring their growth and sustainability in co-ordination with various role-players, including global partners, who make international practices available to local entrepreneurs (SEDA, 2015). SEDA has a number of success stories. To mention only a few:

- Nozihle Cleaning Services: The Company currently services both private and public companies, and counts among its client list businesses such as Eskom, BMW, Emnotweni Casino, Bushbuckridge Water, Enablis and Wandima.
- Blossom Foods: SEDA's interventions have resulted in creating new job opportunities. Revenue increased from R100 000 in 2007 to over R1, 2 million in 2013.
- Mpumamanzi Laboratory Services: SEDA's intervention assisted the company to improve its financial position with turnover increasing by more than 70 percent to R8,5 million for the year ended September 2013. The company also created nine new job opportunities to bring their number of employees to 24.
- RCCH Construction: The Company experienced an increase in turnover from R7,7 million to R9,8 million. Staff numbers also increased to 76 from 59 in 2012 after SEDA's intervention.
- Back in Time photo studio and events: With the assistance of SEDA, the business' turnover increased to around R580 000 at the end of 2012.
- Die Horison: With SEDA's assistance the owner expected to create five job opportunities when the newspaper hit the streets in 2013. He also had high hopes of increasing these opportunities as more avenues are opened by the media company going into the future.
- NAM Petroleum: The entity's turnover improved from R80 550.00 in 2012 to approximately R294 300.00 in 2013. The company employs five people and these numbers will increase as the business grows.
- JO's Guesthouse and catering: The interventions by SEDA contributed to an improved room occupancy rate of 90 percent in 2012. The business' turnover also increased from R1, 577 million in 2012 to around R1, 750 in 2013. The business employs approximately 20 workers. In 2013, JO's Guesthouse won the ETEYA Provincial Award for Emerging Entrepreneurs.
- Nieuborn: SEDA's interventions had a positive impact on the business. The company has increased its turnover from R800 000 in 2010 to over R2 million

annually. At the same time eight permanent jobs have been created by the business.

- Sophia's Excellence Driving Academy: Between 2010 and 2013, the Academy's turnover increased from R61 000 to over R600 000, with six permanent employees on the payroll.

SEDA provides a five-day training course to SME owners in South Africa. These training courses empower SME owners with the necessary skills to enable them to grow their businesses to greater heights (SEDA, 2015). Entrepreneurs learn the following skills at these courses:

- How to market their business effectively;
- How to understand the importance of building a reputable business profile as a marketing tool; and
- How to maintain financial records and develop their business plans.

The training courses entail financial management, customer care, report writing and business writing skills, whilst helping entrepreneurs to identify areas of improvement for their businesses (SEDA, 2015). Other programmes include the Cooperatives And Community Public Private Partnership Programme. The mission of these programmes is to promote the establishment of rural and collectively-owned enterprises and to ensure its growth and sustainability. The programme aims to identify markets, resources, technical assistance and capacity-building opportunities that will enhance competitiveness and sustainability of enterprises. This is facilitated by promoting the use of industry tools and models to enhance efficiency and planning, implementation, monitoring and evaluation of staff and projects (SEDA, 2015). The programmes focus on four key sectors, namely:

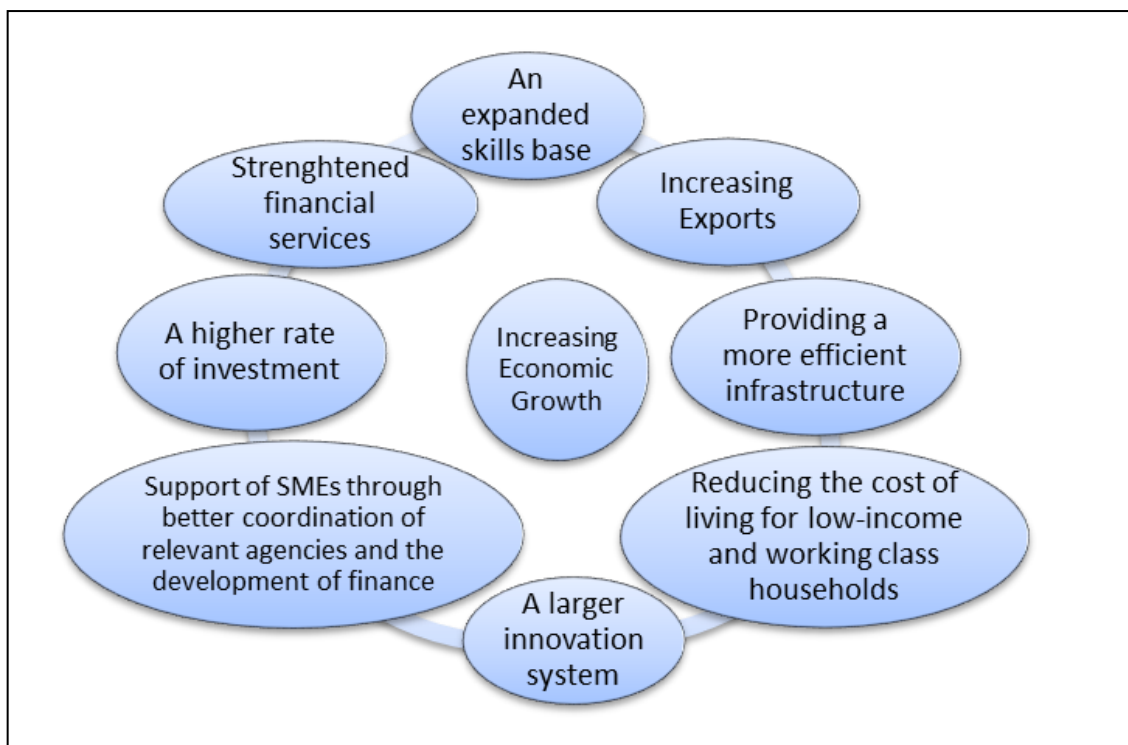
- Agro-processing;
- Community Tourism and Protected Areas;
- Mining and Mineral Beneficiation, and
- Trading and Auxiliary enterprises.

2.4.4 The National Development Plan

The NDP was developed in 2012 and is focussed on South Africa's future and therefore offering a long-term prospective. The NDP aims to lower poverty and to reduce unemployment by 2030, as mentioned in Section 1.1. According to this plan, South Africa

can realise these sets of goals by drawing on the energies of citizens, growing an inclusive economy, building capabilities, enhancing the capacity of the state and promoting leadership and partnerships throughout society. The NDP is determined to eliminate poverty and to reduce the proportion of households with a monthly income below R419 per person (in 2009 prices) from 39 percent to zero by 2030 (Kgosana & Mokgabudi, 2013). The plan also focusses on reducing inequality and lowering the Gini coefficient from 0.69 to 0.6. The Gini coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents, and is used to measure inequality. The SMEs in South Africa will help to realise this plan by 2030. The plan clearly indicates that most of the new jobs are likely to be provided by growing small- and medium-sized enterprises. Transforming the economy and creating sustainable expansion for job creation means that the rate of economic growth needs to exceed 5 percent per annum. This will be achieved through mainly an eight point plan in Figure 2.2.

Figure 2.2: Eight-point plan in increasing economic growth in South Africa



(Source: Government of South Africa, 2015).

The NDP plans to lower inequality by 2030 by following these eight steps to increase economic growth and providing opportunities to create jobs and increase wealth.

Increasing economic growth to above 5 percent per annum will require businesses and labour to share the same vision for the future (Government of South Africa, 2015). The NDP has certain focus areas which includes economy and employment; economic infrastructure; environmental sustainability and resilience; inclusive rural economy; South Africa in the region and the world; transforming human settlements; improving education; training and innovation; health care for all; social protection; building safer communities; building a capable and developmental state; fighting corruption; nation building and social cohesion (Kgosana & Mokgabudi, 2013). The following chapters will discuss the perceived success factors of an SME as well as the factors which have been researched and determined to have an impact on the business success of SMEs and lowering the economic growth.

2.5 Success factors of SMEs

2.5.1 General success factors

Business success was defined in Chapter 1. In the following paragraphs the factors affecting business success will be discussed as well as the possible factors which will be researched in this study. Business success can be defined as the ability to achieve the entity's set objectives. In general, success is a key term to an SME's management. Success and failure is used to measure a business manager's ability to manage an SME (Chittithaworn *et al.*, 2010).

Upping and Kasorn (2013) determined that SMEs' success can be measured by both financial and non-financial criteria. Traditional measures of business success have been based on either financial performance such as profit, turnover or return on investment. Business owners may want to grow their business and there are some SMEs that deliberately refrain from employing additional staff members. Therefore using employee numbers as a measure of business success is neither accurate nor applicable to all businesses (Upping & Kasorn, 2013).

Despite the huge influence of SMEs, research on the determinants of SME performance has been scanty. A number of researchers have examined the impact of individual characteristics, enterprise characteristics, and environmental characteristics on SMEs'

performance. The results of previous empirical studies on determinants of small business performance have been inconclusive (Nwachukwu & Oseghale, 2010). The efficiency of SMEs is closely associated with the efficiency of a country because an SME is defined in Chapter 1 as being a key driver of economic growth and job creation. This is why the success of an SME is of utmost importance (Upping & Kasorn, 2013). There are a number of variables that can be used to determine business success. The constructs which have been tested in previous research studies resulted in the following findings:

- Entrepreneurial knowledge and SME characteristics: In their study of Internet café entrepreneurs in Indonesia, Kristiansen et al. (2003) discovered that entrepreneurial knowledge was linked significantly to business success. They also noted that SMEs characteristics play an important role in a business's success.
- Entrepreneurial background and personal investment in the company: Duchesneau and Gartner (1990) determined that the main entrepreneurs in successful enterprises were more likely to have been raised by entrepreneurial parents and to have had a broader business experience and more prior start-up experience. They also determined that good entrepreneurs in successful enterprises worked long hours and had a personal investment in the entity with good communication skills.
- The personal need for growth and opportunity: Ghosh et al. (2001) revealed in his study that challenges, the personal need for growth, greater personal freedom and an opportunity to use knowledge ranked high on the list of reasons why entrepreneurs started their own businesses.
- Enterprise size: Larger enterprises were found to have a higher level of success (Chittithaworn et al., 2010).
- Motivation, support and gender: Qureshi et al. (2012:22) investigated the factors that influence the performance of SMEs using gender based analysis. The result revealed that both genders assume the same level of motivation and receive equal family support. The study revealed that males and females differ on the social networking, cultural influence and personal characteristics variables as males revealed a more negative approach towards these variables than women. General management, marketing, engineering and human resource management was among the main areas from which successful entrepreneurs originated. The main sources of finance seemed to be personal savings and family support. The shortage of finance, strong competition and marketing issues were cited among

the main problem areas faced by entrepreneurs. The ability to satisfy customers, good service, a good management team and good networking capabilities are among the main success factors noticed. High operation costs, the shortage of labour and a very competitive environment were cited as the main constraints to SMEs' success.

- Government policies and strong leadership: The result of a study done by Upping and Kasorn (2013) determined that key success factors consist of both internal and external factors. The main external factors were defined as government policy and networks. The internal factors included the family group management, strong leadership, professional skills of members and networking of local product development groups.
- Business culture is considered to be an important contributor of business success by approximately 89 percent of South African entrepreneurs (Dewey, 2014).
- Personal initiatives: Glaube et al. (2014) conducted a study and determined that yet another factor existed which impacted the business success of an SME. They determined that the increase in personal initiatives for small business owners will increase the success of their businesses.

The variables of previous studies can be summarised into the following categories: entrepreneurial characteristics; the knowledge of owners or managers; the way in which an SME operates; the external environment of the SMEs and the government support with regards to finance and resource provision. The variables have also been narrowed down in the study conducted in Thailand by Chittithaworn *et al.* (2010). The nine variables which will be researched therefore are:

1. the characteristics of the SME,
2. the management and acumen of the SME,
3. the products and services of the SME,
4. the customers and market of the SME,
5. the way of doing business and the cooperation of the SME,
6. the resources and finance of the SME,
7. the strategy of the SME,
8. the external environment of the SME,
9. the ITC environment.

These nine variables will be investigated as they were narrowed down from all the abovementioned studies conducted to determine the effect of constructs on business success. The following paragraphs will discuss other internal and external factors which are present in the South African economy.

2.5.2 Other influencing factors

There are a number of other factors noticeable in the current economic climate which have an impact on the decisionmaking abilities of SMEs. These factors will be discussed in the following paragraphs.

2.5.2.1 South African labour laws

The owners of SMEs in South Africa are being pressurised by stringent labour laws. According to business owners, these laws have a direct impact on the growth of businesses. As soon as an SME grows, there is higher expenditure to adhere to these regulations. The increase in minimum wages is also straining the entities' cash flows (Anon, 2013a). The constant increase in legislative regulations prevents SMEs from employing more people and results in them mechanising instead. It is established in Table 2.3 that the job creation of SMEs in South Africa will play a major role in the government's attempt to lower the unemployment figure of South Africa by 2030. The stringent impact of labour laws on SMEs was also confirmed by the SME Index by Business Partners for the first quarter of 2013 (Anon, 2013a). This trend continues during the 2015 financial year where confidence levels reached 53 percent that the South African economy will indicate business growth in the future (Edwards, 2015).

The Chief Financial Officer (CFO) of Business Partners Ltd, determined that issues facing the economy, such as the slow economic growth, rand volatility and load shedding, are impacting business owners' confidence levels (Edwards, 2015). The latest Business Partners Limited SME Index (BPLSI) revealed a mere 40 percent confidence level regarding the positive impact of labour laws on SMEs in South Africa. According to the CFO, this is a main concern of SME owners in South Africa. The drop in confidence levels is most likely related to the recent strikes in South Africa's labour market. Some SME owners perceive that the labour laws in South Africa do not favour their businesses.

The proposal is that government should review these laws and become more flexible towards companies earning less than R2 million per month. As mentioned earlier in section 2.5.2, the South African government will spend R3.5 billion on mentorship and training support. This increased SME owners' confidence slightly (Edwards, 2015).

2.5.2.2 Strikes and unions in South Africa

Except for stringent labour and other South African laws, labour strikes and South African Labour Unions also indicate an impact on the business success of an SME. According to Anon (2013b), 17 290 552 working hours were lost due to illegal or unprotected strikes during 2012. During 2012 a total of 99 strikes were recorded, of which 45 were classified as unprotected (Anon, 2013b).

The strike on the country's platinum mines in 2014 had a direct effect on SMEs, both on the platinum belt and elsewhere, as well as on sectors which supply to or feed from platinum mining activity. SMEs were negatively affected by the strike even if they did not have a direct market share in the platinum mining industry. A survey released by the South African Chamber of Commerce, revealed that business confidence levels remained low in June 2014 due to labour unrests which adversely impacted an already fragile economy. The financial impact of labour unrests had a clearly negative impact on the business success rates and SMEs had to retrench a number of employees to survive this economic decline (Admin, 2014).

2.5.2.3 Early education

The low confidence levels can be attributed to the South African education system, at both secondary and tertiary levels. Research found that 48 percent of scholars quit school at Grade 10. Only 13.6 percent of scholars who started school in 2002, passed matric with an exemption in 2013. Out of all these 2002 Grade 1 pupils, only 34.8 percent passed matric in 2013 (Rademeyer, 2014). Business owners do not believe the education system is effective in equipping people with the necessary skills (Anon, 2013c).

The 2014 GEM report indicates that primary education is a basic requirement towards effective SMEs (Singer *et al.*, 2014). Higher education in training is necessary to enhance

business success. In building an entrepreneurial culture, education plays a very important role. The report specifically indicated that the education of the South African youth at both primary and secondary levels is of utmost importance (Singer *et al.*, 2014). People who have better educational training are perceived to identify opportunities easier. The report identifies a strong correlation between the perceived skills to develop entrepreneurial competencies and education. If a country wants to be more proactive in encouraging and developing business growth, they have to implement consistent policies and programs providing education and skills training for everyone.

2.5.3 Nine variables identified to test in this study

In the following sections the nine variables which were identified to be tested in this study will be discussed and further defined in order to provide a clear indication of what each of the variables entails.

2.5.3.1 The characteristics of an SME

Different countries adopt different terminologies in terms of the characteristics of SMEs. One difference between an SME and a large enterprise stems from how the business entity is held and how it is managed. A key differentiator is the organisation structure and how strategic decisions are made. While SMEs might have a flat hierarchy and an integrated set of business-enabling divisions, large enterprises are more likely to have a complex organisation and a set of business units that focus on specific market segments or business domains. Even business ownership patterns are vastly different between the two entities. Another dimension of an SME is location and operational presence. While large enterprises might operate globally, SMEs are usually restricted to operate within a particular country (Anon, 2013a).

2.5.3.2 The availability of resources and finance to SMEs

Finance is the key in growing a business and providing more job opportunities. SMEs can feel misunderstood when seeking capital, particularly early in their business life, to prove they are worthy of a loan. According to a 2012 survey by the National Small Business

Association (NSBA), 43 percent of SMEs tried, but failed, to seek capital in the four years prior to the survey. SMEs continue to startup at a rapid pace (Grogan, 2014) but as discussed in Section 2.6 the failure rate remains high. The NSBA estimates over 700,000 businesses startup per year. While there is a 50 to 80 percent failure rate within five years of startup, those that do succeed have the following traits (Grogan, 2014):

- they know their market;
- they have a clear value proposition, and
- they seek advice to help them build skills in weak areas.

According to a study conducted by Mahembe (2011), it had to be determined whether there existed a gap in the financial resources available to the SMEs in South Africa:

Table 2.4: Financing gap in terms of SME numbers

Description	SME numbers according to FinScore Survey (2010)	SME numbers according to Stats SA LFS (2007)
Total SMEs	5 979 510	2 432 000
Registered SMEs (Formal): 17.3%	1 034 455	420 736
Average applying for a loan: 84.4%	873 080	355 101
Average loan application success rate (Formal): 33.2%	343 439	139 684
Those who receive funds after successful applications: 27.3%	93 759	38 134

(Source: Mahembe, 2011)

In Table 2.4, the total SMEs recorded in 2010 amounted to 5 979 510 (2007: 2 432 000). Of these SMEs, on average, only 17.3 percent were formally registered. The amount of loan applicants amounted to 84 percent of the registered SMEs but only 33.2% received a successful application. In effect, only 5.7 percent of the total SMEs formally recorded in 2010, received a successful loan application. The total financing gap (both formal and informal SMEs) was therefore estimated at around 45-48 percent of all formally registered SMEs in South Africa. The broad picture emerging from the various surveys of SME

financing, strongly suggest that business owners in South Africa view access to finance as a significant problem for business activity. The survey concluded that there is a possibility of sufficient credit being made available to SMEs, but the terms and conditions under which it can be accessed are not favourable for the SME sector. There are sufficient quantities of funding available to SMEs, but the quality of funding do not match the needs of the sector (Mahembe, 2011).

The importance of SMEs in the economy is noticeable in their contribution to the GDP and employment rates (refer to Table 2.3). Equity finance is important for young, high growth and potentially high-risk enterprises. For those SMEs with acceptable credit histories and sufficient collateral, access to bank credit appears to be satisfactory. For startups, micro-enterprises, entrepreneurs from previously disadvantaged communities or any other group with limited collateral or a weak credit history, access is more limited. This does not necessarily indicate weakness in the banking environment or in credit allocation.

2.5.3.3 The business knowledge of management

Financial resources, human resources as well as marketing management techniques play a very important role in an enterprise as this has a direct link with the knowledge of the company. The knowledge of managers as well as the employees of the enterprise is of utmost importance in a growing business. The skills and knowledge within the enterprise will help save costs on external consulting fees.

Management must also stay up to date with technological inventions as technology in an enterprise is of utmost importance to reduce unnecessary costs as well as staying informed. Because these businesses are an economic growth engine, they need access to the same technology as the big economy players, to level the playing field: be flexible, responsive and meet and anticipate customer needs. Innovative thinking has never been more critical to SMEs than today. SMEs are selling globally and managing more supply chains. The structure and transactions of SMEs are also increasingly becoming more complex. As a result of economic change and increasing global competition, SMEs are acknowledging the fact that they have to enable themselves to be more innovative.

In a recent global study, 2 300 senior SME executives were asked to assess key elements in how to run a successful enterprise. Almost 60 percent of respondents agreed that technology is a key element in their enterprises and over 33 percent of SMEs stated that creating a culture of innovation is a top strategic priority in driving growth. The study revealed that staying ahead of innovation is critical to establish and extend competitive advantage for SMEs, and that technology is important in innovative strategy (Gilroy, 2014).

Information technology can help reduce costs, enable more efficient development processes and bring products to market more quickly. From a practical point of view, this can mean simple things, like e-invoicing and electronic payment systems, which can make the work of engineers and architects less labour intensive. The majority of IT changes in an SME results from both internal and external pressures. In addition to these drivers, there are factors that influence the process either directly or indirectly. Businesses regularly invest in IT for activities such as payroll, human resources, accounting, supply chain management, and a host of other functions (Rao *et al.*, 2003). The benefit of additional IT implementations removes unnecessary distractions from managers' attention, providing more time for strategic growth actions, rather than being held up with day-to-day activities.

The following table drawn up by Kazanian (1998) indicates the necessary IT implementations during an entity's life cycle stages. These problems were identified in 1998 and remain relevant as the life cycles of IT development and innovation has not changed.

Table 2.5: Kazanjian's table regarding IT problems and capabilities

Life Cycle Stage	Kazanjian's Problem Factors	IT Capability Suggestions
1. Conception and development	• Product development • Resource acquisition • Sales/Marketing	• Creativity – Open source collaboration; Website • Connectivity – Website ; e-mail; • Design – Computer Aided Design/Computer Aided Management
2. Commercialization	• Strategic positioning • Recruitment and Training	• Flexibility – Project planning and scheduling software; Inventory management system • Training – Online recruitment and training system • Communication – Web-linked value chain activities
3. Growth	• Sales/Marketing • Internal Control	• Customer relations – CRM software • Market responsiveness – Blogs; e-mail; Text messaging • Marketing – Website; Social networking site
4. Stability	• Profitability • Internal control • Future growth	• Efficient Production – Web-linked value chain activities • Back-office support – Automation software for accounting, payroll, purchasing, travel, etc. • Collaboration – Website

(Source: Kazanjian, 1998)

2.5.3.4 Products and Services

SMEs vary in their interest and approach towards products and services because of differences in their sources of capital. As SMEs are used to thinking in terms of physical products, it is useful to compare these with services. Providing a product or service to existing customers builds on past relationships and increases revenue and profits from the existing customer base. This reduces cost of sales, while adding to revenues and profits.

2.5.3.5 Customers and Markets

With increasing competition, customers are becoming more discerning. Armed with more options and more choice, customers' expectations of the service they receive are constantly rising.

Great customer service is carried out by individuals who feel that they have full responsibility for resolving issues. Great customer service is characterised by a seamless experience, regardless of whether it is delivered in a shop, on a PC or on the phone (Asquith, 2014). In some industries it is difficult to search for new markets. Globalisation makes this process easier in some cases and extremely difficult in others.

In the current economic climate as well as the easy access to internet, it is important to establish a good marketing strategy. An SME cannot only rely on word-of-mouth advertisements. Advertising costs must be incurred in order to place the enterprise on a national and global platform ensuring the increase in online visibility.

The other side to this is that an inexperienced SME can attempt to do everything at once with a scattergun approach hoping that something works, rather than employing a carefully considered strategy. This can cost unnecessary money. The following steps can be taken to ensure the best possible coverage at a reasonable price (Asquith, 2014).

- Planning: E-consultancy is a good resource for marketing data, such as reports on how different consumers behave online, meaning SMEs can direct their marketing efforts to the correct areas.
- Set objectives: Give very specific timings and measurements of success. Success may be measured by how it generates inquiries or sales.
- Know the local suppliers: Local suppliers are more likely to assess and recommend alternatives better.

2.5.3.6 The way of doing business and cooperation

A business' support structure is a very important element. This support structure includes employees, suppliers, consultants, accountants and business bankers, to mention a few. In an SME, everyone wears multiple hats and requires numerous skills.

The way in which an SME performs its business activities differs. Some SMEs focus on strategy and implementation while others do not think it necessary. There are also companies which set performance measurements to measure their business' performance. The flexibility of an organisation is included in the questionnaire as this is also an indicator of the way in which a company operates. The advantages of being flexible are (Mack, 2015):

- **Competitiveness:** The organisation can adapt faster to changes such as technological developments. A flexible organisation responds to change by recognizing change as inevitable and learning to use it to maximise competitiveness.
- **Efficiency:** A flexible company is willing to try new approaches, even if the old approaches are still profitable. Continuously refining the company's policies helps to identify better ways of fostering innovation. This may increase the business's efficiency.
- **Flexible scheduling:** Flexible organisations give employees more options, making it easier for them to lead personal lives and meet their commitments. Such accommodations breed loyalty, making it easier to hold on to quality employees and increasing the knowledge and skills of the entity.
- **Effective teambuilding:** A flexible management structure capitalizes on the strengths of its workforce. No two employees are the same, but an effective manager knows how to unite people with different skills so that their differences complement one another. The result is a team that is flexible enough to handle a variety of challenges.

2.5.3.7 The strategy of the SME

A strategy is defined as a careful plan or method for achieving a particular goal usually over a long period or the skill of making or carrying out plans to achieve a goal. There are different types of business strategies (Suttle, 2015). A growth strategy requires a company to produce more products and services. An SME can use a number of business strategies, depending on its situation. New companies face different challenges than companies that are more established. The business strategies they implement may therefore be different from those of their main competitors. Four types of business strategies are (Suttle, 2015):

- **The growth strategy:** A growth strategy entails introducing new products or adding new features to existing products. An SME may in some circumstances be forced to expand the products and services they provide to have a competitive advantage and to keep up with technological development.
- **The product differentiation strategy:** SMEs will often use a product differentiation strategy when they have a competitive advantage, such as good quality products or services. This strategy will enable SMEs to build brand loyalty.
- **The price skimming strategy:** This includes charging high prices for a product especially when it is first introduced. An SME may adopt this strategy to recover costs quickly. It is very important that the product or services paid for are something special which will prompt sales.
- **The acquisition strategy:** When an SME has extra capital, the acquisition strategy may be implemented to gain a competitive advantage. The acquisition can include purchasing a product line or another small business.

The previous sections defined and discussed the nine variables researched in this study. The SME failure rate in South Africa is alarming as this is an indication of SMEs struggling to succeed in the current economic climate. This indicates that this research study is important to assist SMEs in determining which variables they can improve on to be sustainable. The failure rate was mentioned in the previous sections and will be discussed in detail in the following section.

2.6 SME failure rate

According to Wiese (2013), there are many new businesses established every year. With the increase in businesses there is also an increase in businesses closing their doors. The failure rate of SMEs is generally referred to as 80 percent of new startups that fail during the first three years (Gore & Fal, 2011).

Various other statistics of SME failures reported that three out of five businesses fail within the first few months (Bowen *et al.*, 2009:16); approximately 40 to 50 percent of SMEs cease trading within three to four years (Urwin *et al.*, 2008:29), and approximately 63 percent within the first year (Anon, 2010). The failure rate increases as the size of the business decreases, resulting in an unacceptably high failure rate for smaller businesses (Wiese, 2013).

Mbonyane (2006) reported that SMEs fail because their cash flow is not properly managed. When a business expands, more finance needs to be invested for a while and gives the business owner very little in return. The most important set of reasons for SME failure is the following (Mbonyane, 2006):

- only one person dominates employees and makes important decisions;
- a nonparticipating board exists, which reinforces the one-man rule;
- the top management, with respect to its skills base, is unbalanced;
- a weak finance function occurs; and
- a lack of management depth.

The argument regarding the failing of SMEs is that small businesses will most likely employ weak financial information and respond badly to change. There may be a lack of strategy implementation (Wiese, 2013). South African market dynamics discourage people from starting an SME and obstruct the growth potential of existing small enterprises. The dominance of the South African large businesses is considered as a key issue to this obstruction, and makes it nearly impossible for SMEs to compete with regards to the availability of products, services and price (Singer *et al*, 2014).

Financial support and government policies are considered as the top constraining factors for entrepreneurship in South Africa. Government taxes and regulations are the most limiting factors identified by SME owners. The government's role is important in helping to establish why many SMEs cease trading at an early point and should develop strategies to reduce these high failure rates. There has been considerable research into the reasons for the high failure rate of SMEs, indicating that bad budgeting, stock control, personnel relations, customer relations and a lack of staff training are the primary reasons for failure (Wiese, 2013).

2.7 Summary

In this chapter the conceptualisation of SMEs were discussed. This study focuses on SMEs in South Africa and the definition of SMEs is therefore of utmost importance. The importance of SMEs in the global economy as well as in the South African economy was determined by inspecting their contributions towards GDPs and employment rates. A literature review was conducted on the nine variables which possibly affect business

success to ensure the variables are correctly defined for possible future research purposes. Based on the chapter research and findings, SMEs play a vital role in the global economy. SMEs are also of utmost importance regarding the employment provided by them as well as the contribution to the countries' GDP.

Even though SMEs are significant in all the largest economies in the world, their failure rate remains high and a concerning factor for governments. South Africa implemented a number of strategies to assist SMEs in growing and transformation. SMEs experience financial and political pressure to comply with updated labour laws. Several factors contribute to the success of a business, and an understanding of what these factors are and how they work together can help a business succeed. The sustainability of SMEs has gained vast academic interest, but there is no single model containing the factors contributing to business success of SMEs in South Africa. The focus of this chapter was the success factors of SMEs globally. The chapter also reviewed literature of the global SME sector, focusing on the background and definition, the importance of SMEs for the economy and the relationship between government's policies and SME development. The chapter further included a review on the management theories of small businesses, paying attention to the organisational lifecycle and growth pattern of SMEs. Attention was also paid to the reasons why SMEs fail, and sustainable management and -practices were suggested to attain business success.

The next chapter will discuss the research methodology, results and statistical analysis of the research data collected.

CHAPTER 3: EMPIRICAL INVESTIGATION

3.1 Introduction

This chapter entails the empirical research study conducted in the Northwest province of South Africa. The main objective of the study was to identify factors affecting business performance of Small and Medium Enterprises (SMEs) in South Africa's Northwest province. Secondary objectives were to determine which factors have a comparability to the business success of the SMEs, to determine the reliability and measurability of these factors, to conclude which are the most important factors the entity must place their focus on and which will increase their profitability and growth, to determine the differences in findings between the research study and the one conducted in Thailand and to draw conclusions and make recommendations.

The chapter will analyse the demographics of the respondents in order to know what type of group the sample represents. The research methodology of the study will be discussed and there will also be a discussion regarding the survey instrument of the study where an outline of the construction of the questionnaire is provided. The way in which this research study's data was collected and captured is noted to understand the process of obtaining the data and the final analysis thereof.

A frequency analysis and descriptive statistics are also included in this chapter. The analysis had to determine the reliability and validity of the data collected in order for the researcher to determine whether the data can be used for further analysing. This chapter describes the statistical methods used in order to determine the reliability and validity of the constructs. An analysis of the mean and standard deviations will be included in this chapter. This is a descriptive statistic which offers a general picture of the data. Other statistical measures that will be discussed in this chapter is the correlation matrix to describe the degree of relationship between two variables, effect sizes on gender, educational achievements and tenure of the SME as well as a multiple regression. The multiple regression analysis will determine the relationship between the variables.

3.2 Objectives of the study

As discussed in section 1.3 of this study, the primary objective was to assess the nine selected success factors of SMEs in the Northwest province of South Africa. The correlation between these constructs and the business success of the participating SMEs were determined. The secondary objectives were to determine which factors have an effect on the business success of the SMEs, determine the reliability and measurability of these factors, conclude which are the most important factors the entity must place their focus on and which will increase their profitability and growth, determine the differences in findings between the South African research study and the one conducted in Thailand, and to draw conclusions and make recommendations.

In this chapter frequency analysis and descriptive statistics were used to determine the correlation between the constructs and the perceived success of SMEs. Chapter 4 will conclude on all these findings and explain the correlation between the variables. This chapter also determines the reliability and validity of the collected data which is one of the secondary objectives. Conclusions regarding the analysed data will be discussed in Chapter 4 of this research study. The Thailand study included reliability and validity measurement as well as a multiple regression table. A discussion of the differences and correlations between the two studies will be conducted to fulfil another secondary objective.

3.3 Research methodology

3.3.1 Quantitative research

A survey is a research technique in which responses are collected through instruments from a sample in some form or the behaviour of respondents is observed and described (Zikmund *et al.*, 2010). There are two main approaches when conducting a research study:

- **Quantitative:** Quantitative research is used to quantify the problem by way of generating data that can be transformed into useable statistics. Quantitative research uses measurable data to formulate facts and uncover patterns in research. Quantitative data collection methods are much more structured.

Quantitative data collection methods include various forms of surveys and questionnaires.

- **Qualitative:** This type of research is primarily exploratory research. This research is used to gain a better understanding of reasons, opinions and motivations. The research also provides insights into the problem. Qualitative research is also used to inspect the deeper underlying reasons of a problem. Qualitative data collection methods vary using unstructured or semi-structured techniques. Some common methods include group discussions, individual interviews and participation or observations. The sample size is typically small, and respondents are selected to fulfil a given quota.

The study, researching the factors impacting the business success of SMEs, identified nine possible factors which had to be researched.

3.3.2 Questionnaire design

The measuring instrument of this research study was a structured questionnaire. A questionnaire is a printed self-administered form, designed to source information for purposes of research studies. The questionnaire will aim to ask all the relevant questions to determine which factors influence the success of an SME. When using a questionnaire to gather information, it is very important that the questionnaire must be logical and understandable. The reliability and validity of the data collected in the questionnaire was determined and will be discussed in Section 3.4 of this study. The questionnaire used in this research study was obtained from a Thailand study conducted by Chittithaworn *et al.* (2010). The questionnaire has nine different constructs where factors affecting the business success of SMEs were determined. The questionnaire was used precisely as it was used in Thailand. There were no deviations.

The five-point Likert scale was used as measuring scale on the questionnaire. The reason for the usage of the scale was to make the questionnaire as easy as possible for the participants to complete. This scale also provides a clear view regarding the participants' perception about the SME (Pearson, 2010). A seven-point Likert scale was not used due to the fact that a five point scale reduces the level of frustration amongst respondents and increases the rate and quality of the responses (Fransman, 2014).

The responses to the Likert scale are easily quantifiable and data can be easily analysed. The answering is also easier with a Likert scale as the participant does not have to answer yes or no, but can decide on a level of agreement or disagreement. The questionnaire was obtained from researchers in Thailand which conducted a similar study. The questionnaire was used as it was obtained from these researchers and there were no deviations from either the sections or the questions. A detailed literature review was conducted in Chapter 2 to discuss all the relevant definitions and considerations applicable to this study. A pilot study was conducted by the researcher which refers to a trial administration of an instrument in order to identify any flaws. The pilot was conducted to determine whether the participants would be able to complete the questionnaire without any questions. The researcher piloted the questionnaire on three respondents from SMEs in the Northwest province of South Africa. The five respondents completed the questionnaire without any questions or suggestions. The questionnaire consists of 60 questions in which the respondents had to assess their business' success. The five-point Likert scale was constructed into: Strongly Agree (1), Agree (2), Neutral (3), Disagree (4) and Strongly Disagree (5). The questionnaire was also divided into three sections:

Section A: Demographics

- A1: Gender
- A2: Age
- A3: Highest Educational level
- A4: Current job position
- A5: Working experience
- A6: Duration of the organisation's operations
- A7: Number of employees in the organisation
- A8: Type of organisation

Section B: Factors affecting business success (5-point Likert Scale)

B1-B5:	Entrepreneur Characteristics and the Characteristics of the SME
B6-B10:	Management and acumen
B11-B15:	Products and services of the SME
B16-B20:	Customers and Markets
B21-B25:	The way of doing business and cooperation
B26-B29:	Resources and Finance
B30-B34:	Strategy
B35-B40:	External environment
B41-B44:	Internet and ICT

Section C: Measurement of perceived success

C1 to C8 (5-point Likert scale assessing the respondents' opinions of perceived success).

Refer to the attached *Appendix A* for the complete questionnaire. The questionnaire was developed by Chittithaworn et al. (2010) to test the effect of the nine constructs on the SMEs' business success.

3.3.3 Sample and data collection

The population and the sample used in this study will be discussed in this section. A population is any precisely defined group of people, events or things that are of interest to and under investigation by the researcher and which meets the sampling criteria for inclusion in this research (Fransman, 2014). The target population was managers or owners which are located within an SME in the geographical area of the Northwest province of South Africa.

A sample is a representation of the population that is selected for the research and consists of a selection of participants from the population (Fransman, 2014). The sampling aims to represent the population. The sampling size has an impact on how the findings would represent the population (Burns & Bush, 2010). A convenience sampling technique was used to select the 200 SMEs. A convenience sampling technique includes selecting participants who happens to be at the right place at the right time. The questionnaires were distributed to SMEs over a period of two weeks. The correct sampling size is very important as a too small or too large sampling size can have a negative influence on the statistical tests (Fransman, 2014). The data collection process will be discussed in the following paragraphs. The questionnaires were distributed by hand to selected SMEs. Only a few were sent electronically via email. The response rate was as follows:

Table 3.1. Distribution type and response rate of questionnaires

	Amount distributed	Number received	Response rate
Via Email	20	14	70%
Via Hand	180	140	78%
TOTAL	200	154	77%

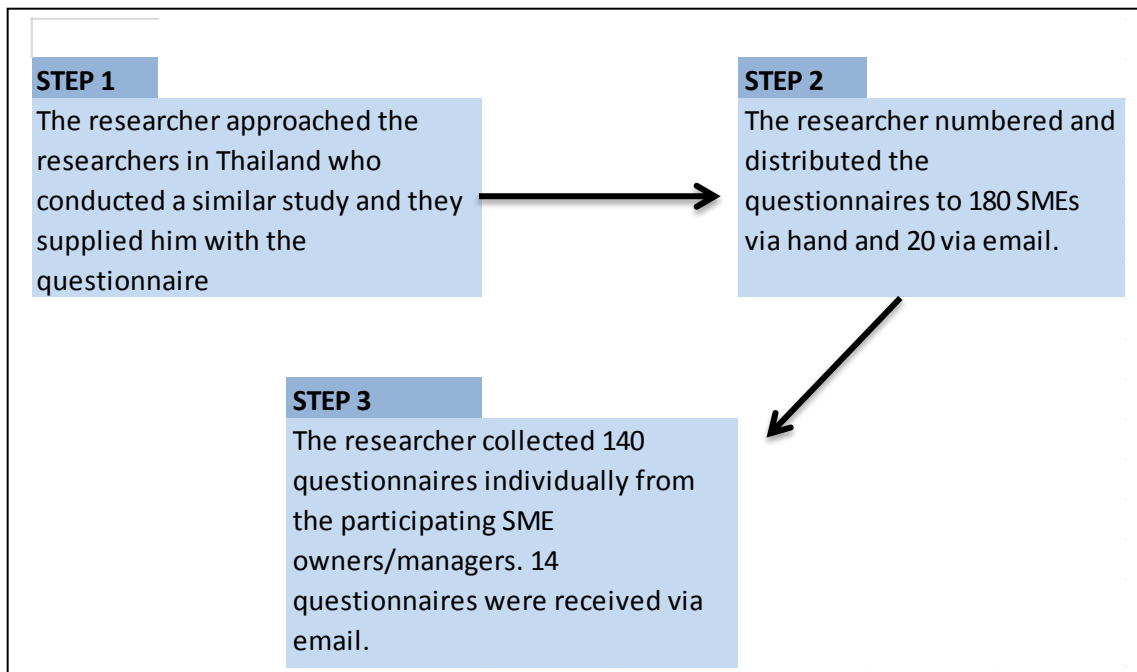
(Source: Own Compilation)

A total of 200 questionnaires were distributed and 154 were accounted for. This accounts for a 77 percent response rate which is acceptable for the research survey. Figure 3.2 to 3.8 sets out the description of the respondents' demographics. It must be noted that there were no respondents younger than 20 years of age or who obtained a highest educational level being less than secondary education.

Based on the above mentioned tables, the majority of respondents were male, between the ages of 31 and 50, the highest level of education is a certificate or diploma, self-employed or a business owner with more than 20 years' work experience and working for a company that is more than 20 years' in existence and the number of employees are between 1-50. From the above discussion the respondents indicates a well-aligned representation of the target population.

The data collection process is illustrated in Figure 3.1:

Figure 3.1: Data collection process



The researcher determined that a similar study was conducted in Thailand by Chittithaworn et al. (2010). This questionnaire was distributed mainly per hand to a convenience sample (N=200). The data was collected from 154 respondents within the geographical area of the Northwest province. The researcher collected 140 copies by hand from the respondents while receiving 14 via e-mail.

The data collecting process occurred over a period of three months as the questionnaires had to be mainly distributed and collected by hand to ensure a high response rate. The data collection process was followed by the capturing of the data as well as the processing thereof.

After the collection of the data was completed, the questionnaires were handed over to the Statistical Consultation Services at the Northwest University. The data capturing and the statistical analysis thereof was conducted by SAS (2015). The statistical analysis of the data was captured in numerical form which enabled the researcher to formulate facts and uncover patterns in research.

The following sections will provide discussions on the methods used with regards to the statistical analysis as well as an interpretation thereof.

3.4 Data and statistical analysis and interpretation of the data

A descriptive analysis method was used to analyse the captured data. The benefits of conducting descriptive analysis are that it keeps the researcher close to the data and it enables the researcher to understand the distribution of each variable (Fransman, 2014). Descriptive statistics were used to analyse and summarise the questions in Section A as these questions pertain to the demographics of the sample. The profile of the respondents is very important as this lays out the characteristics of the sample. The descriptive statistical method was also used to calculate the mean and standard deviations of the different constructs. Refer to Section 3.4.2 for a complete description of mean and standard deviation values. This offers a general picture of the data.

The demographical data was analysed by using a frequency analysis to determine the frequency of an answer by the respondents. The data in Sections B and C was also analysed by using a frequency analysis.

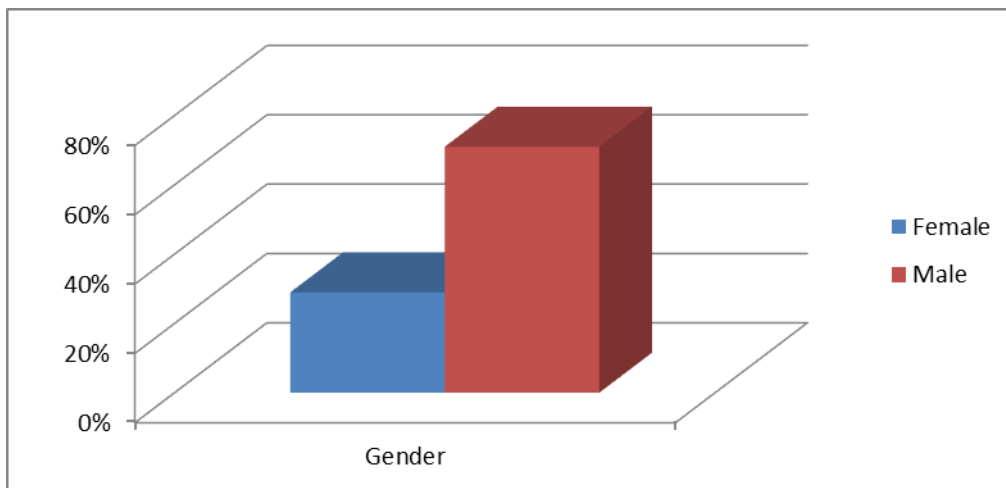
Please note that as a result of the fact that no random sampling was done in this study, the interpretation of the results were conducted on Cohen's effect sizes. P-values will be reported in this study to ensure completeness, as if random sampling was done.

The data was also analysed by using the following methods:

- Descriptive analysis;
- Reliability analysis using Cronbach's Alpha;
- Correlation matrix to determine the correlation between variables; and
- Multiple regression analysis to determine whether the independent variables have an impact on the business success of SMEs.

Approximately 1.93 percent of the respondents neglected to complete some of the demographical information. This has been neutralised by using the respondents who did respond correctly. Section A of the questionnaire had eight different sections with regards to the demographics of the sample (Section 3.3.2). Frequency statistics were used to determine the respondents' demographics and it is displayed the following figures:

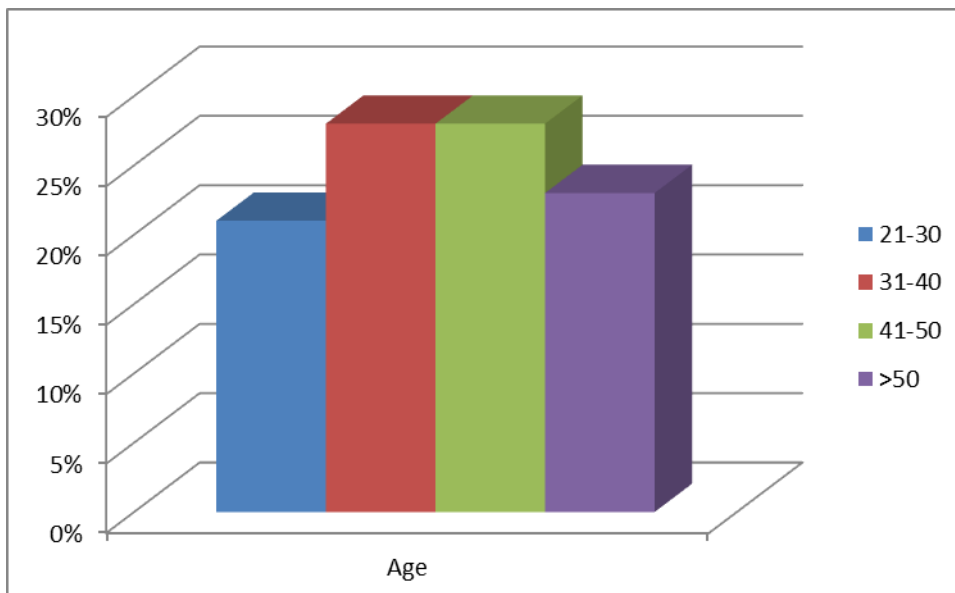
Figure 3.2: Gender of the respondents



(Source: Own Compilation)

The figure above indicates the gender of the respondents which participated in this research. From the 155 respondents, 110 (71 percent) were male. This is an indicator that female business owners remain to be fewer than males.

Figure 3.3: Age of the respondents

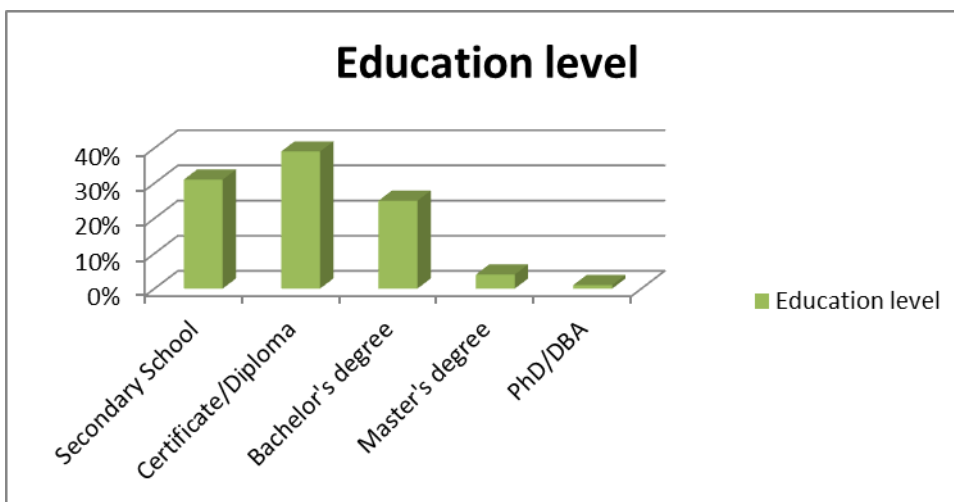


(Source: Own Compilation)

The figure above indicates the age of the respondents. From the 155 respondents, 33 (21.2 percent) were between the ages of 21 and 30, 43 (27.7 percent) were between 31

and 40 years old, 43 (27.7 percent) were between 41 and 50 years old, and 36 (23.2 percent) were older than 50 years of age. From the responses it can be concluded that the majority of the respondents were between 31 and 50 years of age.

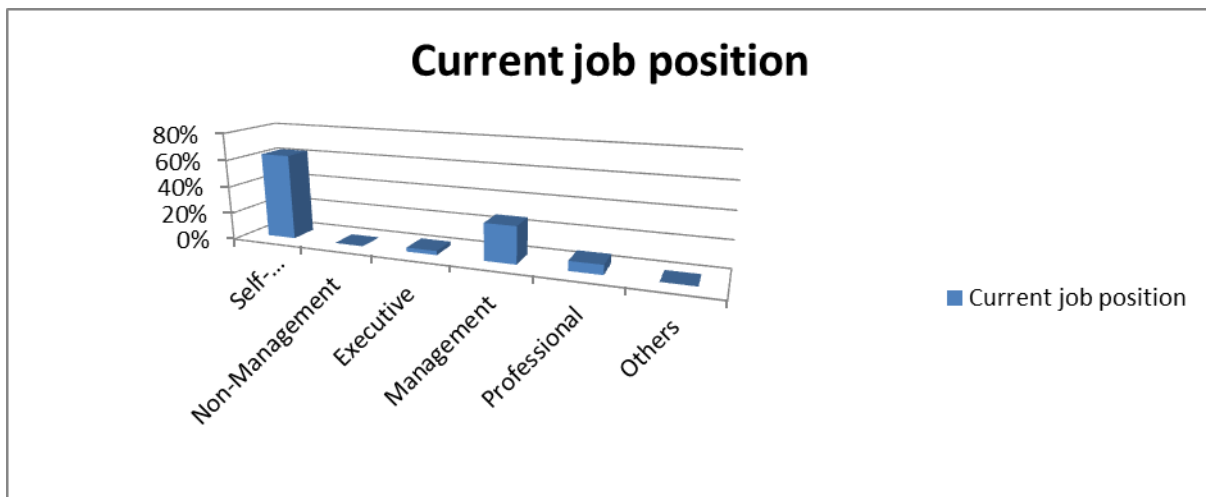
Figure 3.4: Educational level of the respondents



(Source: Own Compilation)

The figure above illustrates the level of education and qualifications of which the qualifying respondents were 153. A total of 48 (31.3 percent) only had a grade 12 or less, 60 (39.2 percent) had a certificate or a diploma, 38 (34.8 percent) obtained a degree, 6 (3.9 percent) had a Master's degree while only 1 (0.7 percent) obtained a Doctorate degree. The analysis indicates that a significant amount of the respondents achieved a formal level of higher education. It can thus be concluded that the sample represents a population with some type of formal education received.

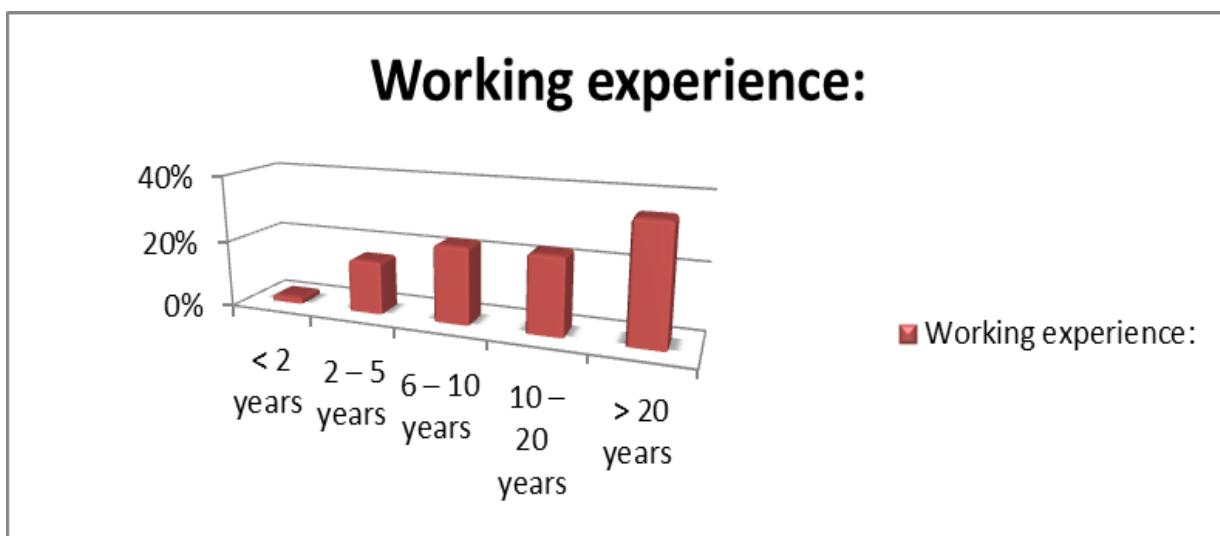
Figure 3.5: Current job position of the respondents



(Source: Own Compilation)

As discussed in Chapter 1, the target population of this study was either owners or managers of SMEs based in the Northwest province of South Africa. The profile of the participants is either management or owners of the SMEs. As indicated in Figure 3.5, out of the 144 valid responses, 93 (64.6 percent) were self-employed business owners and 51 (35.4 percent) were management staff. The other categories received a zero percent response.

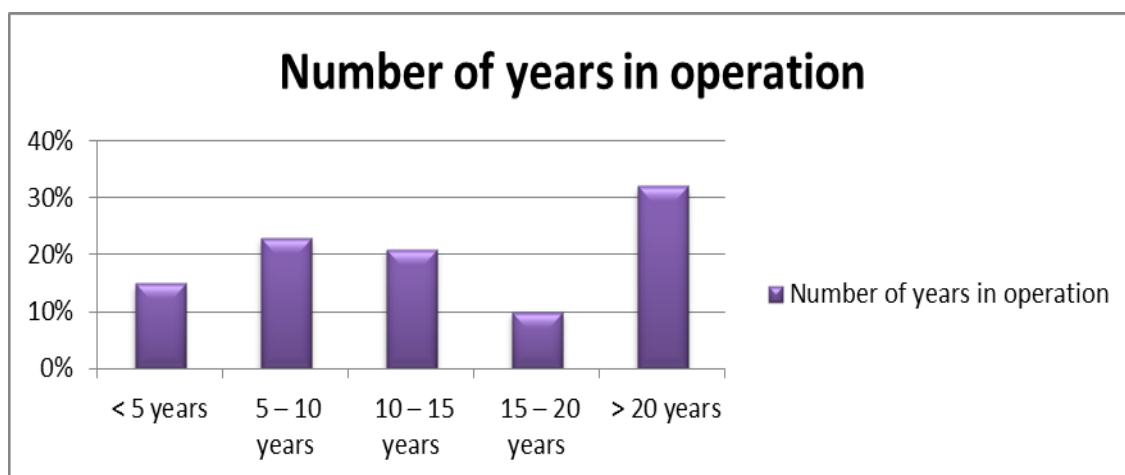
Figure 3.6: Working experience of the respondents



(Source: Own Compilation)

The figure above illustrates the tenure of the respondents. There were 154 qualifying respondents to this demographical question of which 3 participants (2 percent) had less than 2 years' experience, 25 (16.2 percent) had between 2 and 5 years' working experience, 36 (23.4 percent) obtained working experience of between 6 and 10 years, 36 (23.4 percent) had working experience of between 10 and 20 years while 54 (35 percent) had more than 20 years' working experience. The analysis indicates the majority of participants have more than 20 years' of working experience.

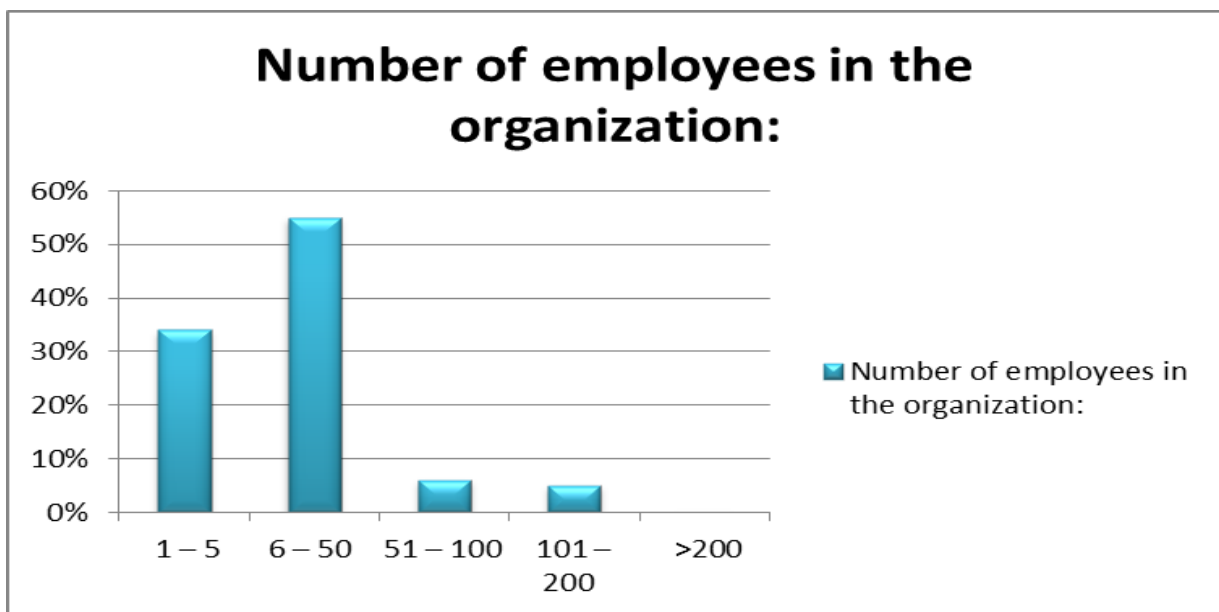
Figure 3.7: The number of years the SME is operating



(Source: Own Compilation)

The figure above illustrates the amount of years in which the SME has been operational. There were 155 respondents to this question of which 23 respondents (14.8 percent) were operating less than 5 years, 36 (23.2 percent) had been operating between 5 and 10 years, 32 (20.7 percent) had been in operation between 10 and 15 years, 15 (9.7 percent) have 15 to 20 years' of operational experience while 49 (31.6 percent) have been operational since 1995. The analysis indicates the majority of SME participants have more than 20 years' of operational experience and their opinions can therefore be taken into consideration when analysing the data of the questionnaire.

Figure 3.8: Number of employees



(Source: Own Compilation)

The figure above illustrates the number of employees in the participating SMEs. From the 152 respondents, a total of 52 (34.2 percent) employed between 1 and 5 employees, 86 (56.6 percent) had a number of between 6 and 50 employees, 8 (5.3 percent) employed between 51 and 100 employees while 6 (3.9 percent) employed between 101 and 200 employees. As indicated in Chapter 1, the SMEs who employ less than 200 employees will be approached in this study. The majority of valid respondents employed between 6 and 50 employees. The type of organisation is not discussed in this section as the study is based on SMEs as discussed in Chapter 1.

The number of employees per SME can be connected with the importance of job creation by SMEs in South Africa. Every SME employs on average of between 6 and 50 employees. By increasing the number of sustainable SMEs, the unemployment rate of South Africa will decline. The responses of the respondents were analysed in a dataset. Using SAS (2015) a frequency analysis and descriptive statistics were performed by the Statistical Consultation Services of the Northwest University.

3.4.1 Reliability and validity of constructs

The validity and reliability of a set of data is very important before the data is analysed. Reliability refers to data which is consistent. Reliability analysis was used to measure

both consistency and internal stability of data. This factor is necessary in order to evaluate whether the research provides a good measure. The Cronbach's Alpha measures the inter-item consistency and reliability measure the coefficient that reflects how well items in a set are positively correlated to one another (Chittithaworn *et al.*, 2010). Cronbach's Alpha that are less than 0.6 are generally considered to be poor, those in the 0.7 range to be acceptable, and those over 0.8 to be good; the closer the reliability coefficient gets to 1.0, the higher the reliability of the data is (Chittithaworn *et al.*, 2010). Reliability is considered to be the extent to which results are consistent over time. An accurate representation of the total population under study is referred to as reliable if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable (Fransman, 2014).

Validity determines whether the research truly measures that which it was intended to measure and indicates how truthful the research results are (Sauro, 2014). The validity in quantitative research is defined as construct validity (Wainer & Braun, 1988). The construct is the initial concept, notion, question or hypothesis that determines which data is to be gathered and how it is to be gathered. They also assert that quantitative researchers actively cause or affect the interplay between construct and data in order to validate their investigation, usually by the application of a test or other process. In this sense, the involvement of the researchers in the research process would greatly reduce the validity of a test.

Construct validity can be measured by using confirmatory factor analysis (CFA). CFA is a statistical technique used to verify the factor structure of a set of observed variables. CFA allows the researcher to test the hypothesis that a relationship between observed variables and their underlying latent constructs exists (Suhr, 2006).

3.4.1.1 Cronbach's Alpha Coefficient: Reliability

Validity and reliability are two fundamental elements in the evaluation of a measurement instrument. Validity is concerned with the extent to which an instrument measures what it is intended to measure. Reliability is concerned with the ability of an instrument to measure consistently. The reliability of an instrument is closely associated with its validity. An instrument cannot be valid unless it is reliable. However, the reliability of an instrument does not depend on its validity (Tavakol & Dennick, 2011:53). Reliability is the degree to

which an instrument's measures are free from errors and that would yield consistent results (Fransman, 2014). Research findings are reliable if such findings can be repeated (Collis & Hussey, 2009).

It was originally derived by Kuder and Richardson (1937:6) for dichotomously scored data (0 or 1) and later generalised by Cronbach (1951) to account for any scoring method. The Cronbach Alpha was developed to provide a measure of the internal consistency of a test or scale (Tavakol & Dennick, 2011:53). The Cronbach's Alpha is well suited to questionnaires that use a Likert scale (Ravid, 2011:196). The Cronbach's Alpha refers to the degree to which the measuring instrument items are homogeneous and reflect identical constructs (Pallant, 2007). The Cronbach's Alpha Coefficient uses the split-halves method of measurement scale. Once computed, the Cronbach's Alpha will calculate a value that varies between one and zero. One represents perfect internal reliability and zero representing no internal reliability. Values above 0.70 are typically indicative of high levels of internal reliability (Bryman & Belt, 2007).

When using Likert-type scales it is imperative to calculate and report Cronbach's alpha coefficient for internal consistency reliability for any scales or subscales one may be using. The analysis of the data must use these summated scales or subscales and not individual items. If one does otherwise, the reliability of the items is at best probably low and at worst unknown. Cronbach's alpha does not provide reliability estimates for single items (Bryman & Belt, 2007).

The following paragraphs will explain the reliability of the measuring instruments used in Section B and Section C of the questionnaire. Table 3.2 indicates the Cronbach's Alpha coefficient scores for the nine constructs identified in Chapter 2 as well as the scores of the perceived business success.

Table 3.2: Cronbach's Alpha Coefficient of nine constructs

Constructs	Mean	Standard Deviation	Cronbach's Alpha Coefficient	N of items in Questionnaire	Cronbach's Alpha Rating
B1	1.71	0.52	0.71	5	Acceptable
B2	2.02	0.60	0.73	5	Acceptable
B3	1.72	0.53	0.71	5	Acceptable
B4	1.97	0.55	0.71	5	Acceptable
B5	2.15	0.62	0.73	5	Acceptable
B6	2.52	0.78	0.73	4	Acceptable
B7	2.00	0.67	0.83	5	Good
B8	2.62	0.78	0.80	6	Good
B9	2.40	0.89	0.74	4	Acceptable
Success	2.06	0.65	0.89	8	Good

(Source: Own Compilation)

Bryman and Bell (2007) indicated that the following rules of thumb apply with regards to the value of Cronbach's Alpha:

- More than 0.9 is an indicator of excellent reliability;
- More than 0.8 is an indicator of good reliability;
- More than 0.7 is an indication of acceptable reliability; and
- Less than 0.7 results in questionable and unacceptable reliability measures.

From the results in Table 3.2 and using the rule of thumb indicator, three constructs indicated a good reliability measurement while the remaining seven constructs indicated an acceptable level of reliability. This indicates that all the dimensions yielded consistent results and can therefore be repeated with the probability of receiving the same results in the future.

3.4.1.2 Confirmatory factor analysis to measure the validity of Sections B and C

CFA is a statistical technique used to verify the factor structure of a set of observed variables (Suhr, 2006). CFA allows the researcher to test the relationship between the observed variables and their underlying latent constructs. To determine whether a factor analysis may be appropriate, Kaiser's measure of sample adequacy (MSA), which gives an indication of the inter correlations among variables, should be computed. This index ranges from 0 to 1, reaching 1 when each variable is perfectly predicted by the other variables. The measure can be interpreted with the following guidelines (Hair *et al.*, 1998):

- 0.80: meritorious;
- 0.70: middling;
- 0.60: mediocre; and
- 0.50: miserable
- < 0.50: unacceptable.

The following table indicates the Confirmatory factor analysis of both Section B and C to determine the validity of the constructs:

Table 3.3: Confirmatory Factor Analysis to Measure Validity

Construct	N	MSA	Factors retained	Variance explained	Communalities varies between
B1	152	0.71	1	0.50	0.35 and 0.60
B2	152	0.75	1	0.49	0.39 and 0.54
B3	153	0.74	2	0.72	0.66 and 0.82
B4	152	0.70	2	0.71	0.66 and 0.76
B5	152	0.72	1	0.49	0.27 and 0.65
B6	153	0.62	1	0.56	0.35 and 0.75
B7	152	0.79	1	0.59	0.47 and 0.74
B8	152	0.72	2	0.72	0.63 and 0.83
B9	153	0.71	2	0.58	0.39 and 0.51
Success	152	0.83	2	0.72	0.64 and 0.80

All the MSA values of the constructs are higher than 0.6 which indicates a stronger inter correlation. The business success construct indicated the highest inter correlation between variables with an MSA of 0.83.

The table above indicates that some of the constructs were not unidimensional because more than one factor were retained. But as a result of the fact that those factors still have high confirmatory analysis and that the questionnaire was already in use in other studies (Chittithaworn *et al.*, 2010) and therefore standardised, the decision was made to keep the constructs as defined by Chittithaworn *et al.* (2010). These constructs had construct validity according to peers. The MSA indicates the inter correlation amongst variables. As indicated in section 3.4.1, the questionnaire adhered to both the validity and reliability requirements. The researcher anticipates that the results are consequent and the same results will be obtained in similar future studies. The following sections will explain the results of the research study conducted and the data obtained from the participants.

3.4.2 Analysis of mean and standard deviation values

As mentioned in Section 3.4, descriptive statistical analysis was used to identify the mean and standard deviation values. The mean is known as the average of a dataset. The mean is defined by Levine *et al.* (2011) as dividing the sum of observed values by the number of observations, n . Although data points fall above, below, or on the mean, it can be considered a good estimate for predicting subsequent data points. The mean offers a general picture of the data without overwhelming the researcher with each of the observations in the data set (Fransman, 2014). The mean is therefore used to measure the central tendency of the data. The standard deviation is used to indicate the disposition of the data. This also measures the degree of deviation of the numbers from the mean.

Table 3.4: Mean and Standard deviation of the constructs

Constructs	Mean observed	Standard deviation observed	N
B1 Entrepreneurial characteristics & characteristic of SMEs	1.71	0.52	154
B2 Management and acumen	2.02	0.60	154
B3 Products and services	1.73	0.53	154
B4 Customers and markets	1.97	0.55	154
B5 The way of doing business and cooperation	2.15	0.62	154
B6 Resources and Finance	2.52	0.78	154
B7 Strategy	1.99	0.67	153
B8 External environment	2.62	0.78	153
B9 Internet and ITC	2.40	0.89	153
Success	2.06	0.65	153

(Source:OwnCompilation)

The above table indicates the mean and standard deviation values of the constructs in both Section B and Section C of the questionnaire. The constructs with the highest mean values were B6 and B8. These constructs indicated a higher tendency towards strongly disagree, but as the values are still lower than 3, the constructs still indicate a stronger tendency towards strongly agree than strongly disagree. All the constructs therefore have a mean value of less than 3 which indicates a higher tendency towards strongly agree.

3.4.3 Analysis of the correlation matrix

The Pearson correlation is one of the most common and useful statistics. A correlation is a single number that describes the degree of relationship between two variables (Pearson, 2010). The guidelines for interpreting the Pearson correlation are as follows (Cohen, 1988):

- Small effect: $p = 10.11$
- Medium effect (noticeable with the naked eye): $p = 10.31$
- Large effect (practically significant): $p \geq 10.51$

Table 3.5: Correlation matrix of the nine constructs and perceived business success results

	SME Characteristics	Management & their knowledge	Products and Services	Customers and Markets	The way of doing business and Cooperation	Resource and Finance	Strategy	External Environment	Internet and ITC	Business Success
Business Success	0.524	0.516	0.375	0.460	0.523	0.560	0.538	0.586	0.382	1.000

The statistical analysis indicated the following p-values for the nine constructs in relation to the business success:

- B1: Large effect (0.52)
- B2: Large effect (0.52)
- B3: Medium effect (0.38)
- B4: Medium effect (0.46)
- B5: Large effect (0.52)
- B6: Large effect (0.56)
- B7: Large effect (0.54)
- B8: Large effect (0.59)
- B9: Medium effect (0.38)

The results in Table 3.5 indicate that the correlation between all factors correlated at a 5 percent level. None of the p-values were higher than 0.6. The statistical results indicate that the strongest correlations occurred between perceived business success and resources and finance (Construct B6) as well as between perceived business success and the external environment (Construct B8). The results also indicates that the weakest correlation between the perceived business success and the constructs were obtained in construct B3 (Products and services) and B9 (Internet and ITC).

3.4.4 Effect sizes differences between means

The calculation of the effect sizes will assist the researcher to ascertain whether there are significant differences between two or more groups. The analysis was done by applying Cohen's *d* value. This value assumes homogeneity of population variances and uses

means and standard deviations of those groups which are being compared against each other (Cohen, 1988).

The following guidelines are used with regards to d-values regarding differences between means (Cohen, 1988):

- Small effect: $d = 0.2$;
- Medium effect (noticeable with the naked eye): $d = 0.5$; and
- Large effect (practically significant): $d \geq 0.8$.

The d-value is the difference between means. The calculation is $M1 - M2$, divided by standard deviation, s , of either group. By convention the subtraction, $M1 - M2$, is done so that the difference is positive if it is in the direction of improvement or in the predicted direction and negative if in the direction of deterioration or opposite to the predicted direction (Arthur *et al.*, 2011).

Standardized difference scores are spontaneous indices which measure the effect size between two groups and are independent of sampling size (Yang & Dalton, 2012). It is an analysis of the variance present in a research study (Fransman, 2014). Once the scores are analysed, the researcher will refer to the outcome as being of practical significance (at 5% levels) or not (at 1% levels). Three factors of the demographical information of the respondents as collected in Section A will be used to compare how the following groups responded to the effect on perceived business success:

- Effect sizes of how gender perceived the dimensions;
- Effect sizes of how the level of education of the participants perceived the dimensions; and
- Effect sizes of how the duration of the SMEs perceived the dimensions.

The years of experience was not tested in the effect sizes as the duration of the entity's effect size is determined. This will provide a clear indication of how the outcomes are affected by the number of years of the operational activities of the SME. The number of years' experience obtained by management can indicate other outcomes as the managers had experience in other industries than in the current industry of which the SME is operating.

3.4.4.1 Effect sizes of how gender perceived those dimensions

Table 3.5 illustrates the effect sizes between the amount of males and females responded to the nine constructs.

Table 3.6: Effect sizes for gender

Subtest	Gender	N	Mean	Standard deviation	P-value	d-value
B1	M	109	1.69	0.53	0.42	0.14
	F	45	1.76	0.51		
B2	M	109	1.99	0.59	0.7	0.07
	F	45	1.75	0.57		
B3	M	109	1.75	0.57	0.19	0.18
	F	45	1.65	0.39		
B4	M	109	2.00	0.57	0.25	0.19
	F	45	1.90	0.51		
B5	M	109	2.18	0.64	0.36	0.15
	F	45	2.09	0.58		
B6	M	109	2.58	0.72	0.17	0.23
	F	45	2.38	0.88		
B7	M	109	2.02	0.69	0.38	0.14
	F	44	1.92	0.60		
B8	M	109	2.74	0.76	0.0054 *	0.51 ▲
	F	44	2.34	0.78		
B9	M	109	2.46	0.90	0.17	0.22
	F	44	2.26	0.85		
▲ Constructs with <i>d</i> values higher than 0.5						
* Statistically significant 0.05 level						

From the interpretation of Cohen's *d* in the last column of Table 3.6, there is one significant difference in the manner in which males and females perceived and responded

to the various dimensions. This difference was noticed in the construct of how the external environment impacted perceived business success. Males are more negative in their responses towards the impact the external environment has on perceived business success than females with a medium effect.

3.4.4.2 Effect sizes of how education perceived those dimensions

The researcher categorised the respondents' levels of qualification as: 1: less than a degree/certificate and 2: a Bachelor's Degree or more. Table 3.7 will illustrate the effect sizes between those groups in order to provide an indication of whether there were significant differences of how those respective respondents responded to the questions of the constructs.

Table 3.7: Effect sizes of different qualifications

Subtest	Education	N	Mean	Standard deviation	P-value	d-value
B1	1	109	1.72	0.55	0.58	0.09
	2	45	1.68	0.48		
B2	1	109	2.05	0.60	0.45	0.13
	2	45	1.96	0.60		
B3	1	109	1.71	0.53	0.62	0.08
	2	45	1.76	0.51		
B4	1	109	1.96	0.54	0.65	0.08
	2	45	2.00	0.58		
B5	1	109	2.14	0.62	0.56	0.10
	2	45	2.20	0.64		
B6	1	109	2.52	0.74	0.92	0.02
	2	45	2.53	0.88		
B7	1	108	2.05	0.71	0.03	0.31
	2	45	1.83	0.52		
B8	1	108	2.60	0.80	0.57	0.09
	2	45	2.68	0.74		
B9	1	108	2.38	0.86	0.71	0.06
	2	45	2.44	0.96		

From the interpretation of Cohen's d values in the last column of the above table, there is no significant difference in the manner in which these groups perceived and responded to the various dimensions. The effect sizes concluded values lower than 0.50 which constitute small effect sizes. The highest d value was indicated by construct B7 (The strategy of the SME). The lowest d value was generated by construct B6 (The resources and finance of the SME) which indicates that the majority of the participants generally agreed in their responses to the questions of the construct. The majority of their responses indicate that the different qualifications generally agreed with all the statements within the various dimensions.

3.4.4.3 Effect sizes of how respondents with different SME operational years perceived those dimensions

The researcher categorised the respondent SMEs' number of years performing operational activities in three groups:

1. Less than 10 years;
2. Between 10 and 20 years; and
3. More than 20 years.

From the interpretation of Cohen's d , there is no significant difference in the manner in which the three different groups perceived and responded to the various dimensions. The researcher noted that the responses pertaining to all the dimensions were generally positive and agreeable with the questions.

3.5 Multiple regression

Multiple regression analysis is a powerful technique used for predicting the unknown value of a variable from the known value of two or more variables – also called the predictors (Explorable.com, 2009). The general purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. In the social and natural sciences multiple regression procedures are very widely used in research. In general, multiple regression allows the researcher to ask what the best predictor is. In this research study the researcher used

the multiple regression to determine what the best predictor is of perceived business success in SMEs in the Northwest province of South Africa. The following guidelines are used with regards to R^2 and f^2 stating the importance of the regression predictors.

Table 3.8: Conclusions from effect sizes

Effect size (f^2)	Effect	Values of R^2	Conclusions on R^2
Smaller than 0.15	Small	Smaller than 0.13	Non-significant
0.15-0.35	Medium	0.13-0.25	Significant
Larger than 0.35	Large	Larger than 0.25	Practically important

(Source: Cohen, 1988)

A multiple regression analysis was done to determine the importance of each factor affecting perceived business success

Table 3.9: Results of Regression Analysis on Business Success of SMEs

Variable	Parameter Estimate	Standard error	t value	p-value	Effect size f^2
Intercept	0.16399	0.17568	0.93	0.3522	
B1	0.35158	0.10565	3.34	0.0011	0.0786 *
B2	0.09065	0.10173	0.89	0.3744	0.0056
B3	0.07116	0.09765	0.73	0.4674	0.0062
B4	-0.08944	0.11638	-0.77	0.4435	0.0042
B5	-0.09913	0.11288	-0.88	0.3813	0.0054
B6	0.12359	0.08323	1.48	0.1398	0.0154
B7	0.25915	0.09006	2.88	0.0046	0.0581 *
B8	0.19423	0.08037	2.42	0.0169	0.0411 *
B9	0.01640	0.05252	0.31	0.7554	0.0006
R square	0.4988		Coeff Var		23.17085
Root MSE	0.47675		Dependent Mean		2.05754
Adj R-Sq	0.4673				

* Statistically significant 0.25 level

(Source: Own Compilation. See list of references)

To interpret the direction of the relationship between variables, look at the signs (plus or minus) of the regression. The R-square can be interpreted as the proportion of variation in the response variable explained by the fitted model. For R square to be of practical importance, it must be determined how much greater the value must be than zero. Multiple Regression Analysis was used to determine whether the nine independent variables have any significant effect toward perceived business success of SMEs in the Northwest Province of South Africa. The overall results of the regression analysis shows that this model is well constructed and it is well represented as reflected in the variables selected.

As noted in Table 3.9, the R-square was determined as 0.4988 which indicates practical significance. The results therefore indicated that the nine variables can explain 49.88 percent variations in the perceived business success of SMEs in the Northwest province of South Africa. This implies that R^2 is large enough and of practical importance. The significant predictors of perceived success is B1 (Entrepreneur Characteristics and the Characteristic of SMEs), B7 (Strategy) and B8 (External environment).

The effect size (f^2) is relatively small in all three instances. By taking this into consideration as well as the fact that R^2 is practically significant, the conclusion can be made that all the constructs in combination could predict perceived success. None of the predictors on its own was practically significant.

3.6 Summary

This chapter aimed to outline the research method applicable to this research study. This outline included an overview of the research methodology, the research design, and research strategy. The research measuring instrument pertaining to the population were also discussed. The data collection process as well as the capturing of the data was discussed by ways of a three step diagram. Various strategic terminology were explained which has been used in the statistical analysis.

The reliability and validity of the data were firstly determined to ensure the data is reliable and consistent. The internal reliability was measured by using Cronbach's Alpha coefficient. The validity of the data was measured by using the Confirmatory factor analysis method. The data resulted in being both valid and reliable.

This was followed by a correlation matrix analysis to determine the correlation between the nine constructs and the perceived business success of SMEs. Pearson correlation coefficient was used by the researcher to interpret the data. Cohen's effect size index was used as a method in determining how various groups, derived from the demographical data in Section A, responded to the questions in Section B and Section C of the questionnaire. The next chapter will conclude the research and will identify recommendations and limitations relevant to the research topic.

CHAPTER 4: CONCLUSION AND RECOMMENDATIONS

4.1 Introduction

This chapter will provide a summary of the research conducted and the research results obtained. Taking the current unemployment rate in South Africa into account as well as the low economic growth rate, it has become more imperative than ever to find a way in which small and medium businesses can become more successful. In the second chapter the importance of SMEs was discussed. The contribution of SMEs to the GDP of the largest countries in the world are also determined and discussed. The researcher identified nine constructs that may have an influence on the perceived business success of SMEs.

For the purpose of this research, the emphasis focussed on SMEs in the Northwest province of South Africa. The primary objective of this research study was to examine the influence of the nine constructs on the perceived business success of SMEs. This examination would assist the researcher to ascertain whether the identified nine factors had a close relationship of the perceived business success of SMEs.

The first step in achieving this objective was to conduct a literature review which would explain the nine constructs as well as the definition of perceived business success of SME owners/managers. The description of what an SME entails was also discussed. An empirical analysis based on a questionnaire distributed to a sample of SMEs in the Northwest province of South Africa was conducted. The key objective was to determine the SME owners'/managers' opinion of the impact of each of the nine constructs on their businesses success. Taking this into consideration, the next sections will provide a brief discussion and overview of all the previous chapters and how the objectives of this research were accomplished.

4.2 Main research findings

The first chapter provided an introduction to the aspects of the research and explained the concepts that would be discussed in the research study. The chapter contained a discussion of the background of this research study as well as a literature review and a research methodology. The ethical considerations regarding this research study was mentioned. The research problem was identified together with the scope and the limitations of the research. Chapter 1 included a brief overview of the objectives of this study. The chapter concluded with an overview of the research structure and design.

4.2.1 Conclusion of literature review

The second chapter explained the conceptual basis of what an SME entails. The importance of SMEs in South Africa's economy as well as in the rest of the world was discussed in this chapter. National policies were identified which assist SMEs in being successful. The SME failure rate was discussed which increases the importance of knowing what factors have an influence on an SME's success. The chapter was concluded with a summary and an explanation of the statistical analysis in the third chapter.

4.2.2 Conclusion of empirical investigation

The third chapter explained the various research methodologies which were adopted for this research study. The research methodology described the research strategy, the research design, the research method, the geographical area where the research was conducted as well as the description of the population and sample. The measuring instrument used to conduct the research was described together with the description of the data collection and capturing processes. The chapter discussed the statistical techniques which were used in the research to analyse and summarise the findings of the captured data. The empirical findings and discussions of the research were provided. These findings were derived from the responses to the questions of the questionnaire attached in Appendix A.

These empirical findings were achieved by using statistical models to determine the reliability and validity of the data, the correlations and the effect sizes of standardized differences. The conclusions with regards to these empirical findings will be discussed in the next section.

The conclusions of the empirical findings will be discussed in the following order:

- An assessment of how the respondents perceived each of the nine constructs;
- The categorisation of three biographical variables in order to compare how these groups perceived the nine constructs;
- The relationship between the nine constructs and the perceived business success; and
- The internal reliability of the nine constructs.

4.2.2.1 The characteristics of the SME

This construct was assessed according to how respondents interpreted questions B1 to B5. The interpretation of the construct mean of 1.71 indicated that the respondents were able to express an opinion which reflected a higher tendency towards agreement of the statements. The respondents agreed that they have ambitious goals and defined clear visions and missions to run their businesses. They also agreed that they have characteristics of autonomy, innovativeness, risk taking, pro-activeness, and competitive aggressiveness. The respondents came to the conclusion that they were motivated and highly confident in running their SMEs successfully. Other characteristics the respondents agreed having included leadership skills, reliable managerial skills, decisionmaking skills, and good communication skills.

4.2.2.2 The knowledge of management

This construct was assessed according to how respondents interpreted questions B6 to B10. The interpretation of the construct mean of 2.02 indicated that the respondents were able to express an opinion which reflected a higher tendency towards agreement of the statements. The respondents agreed that they have good financial, human resources and marketing management techniques to operate the SMEs. The respondents agreed that they had a good human resource management system in place.. In the demographical

information analysed from Section A of the questionnaire, the majority of respondents' SMEs had been operating since 2005 and earlier. The respondents also agreed that their SMEs have access to market and consumer technologies.

4.2.2.3 The products and services of the SME

This construct was assessed according to how respondents interpreted questions B11 to B15. The interpretation of the construct mean of 1.72 indicated that the respondents expressed an opinion which reflected a higher tendency of a positive reaction towards the questions. The respondents agreed that their SMEs have good product features and high quality products which are reliable. They also agreed that their SME has low transportation costs.

4.2.2.4 The customers and the market of an SME

This construct was assessed according to how respondents interpreted the questions B16 to B20. The interpretation of the construct mean of 1.97 indicated that the respondents reacted positively towards the five questions. They agreed that their SMEs had the necessary knowledge regarding their customers' needs. They agreed, but tended towards not being able to decide indefinitely whether the searching for new markets in South Africa is easy. This may be due to the many laws and regulations in South Africa as discussed in Chapter 2 of this research.

The respondents agreed that the marketing of their products and services are well planned actions and indicates promising opportunities. The SMEs also agreed that they were able to identify and focus on a niche market.

4.2.2.5 The way in which the SME perform business and the cooperation of the SME

This variable was assessed in accordance with the answers of the respondents to the questions ranging from B21 to B25. The sample mean analysis indicated a value of 2.15. This also indicates an overall higher tendency towards strongly agreeing to the questions in the construct. The conclusions of the individual questions were:

- They agreed as having good cooperation partners and good relations.
- They were indecisive of whether they seek public and private consulting information support services.
- They agreed that they set out performance measures to measure their SMEs' performance.
- They agreed that their SMEs were equipped with the necessary skills to operate successfully. They agreed that their SMEs were flexible and have financial intelligence.
- The last question of this construct was also answered with a positive reaction as the SME owners/managers agreed that they have a simple and flexible business.

4.2.2.6 The resources and finance of the SME

This construct was assessed according to how respondents interpreted question B26 to B29. The interpretation of the construct mean of 2.5 indicated that the respondents reacted positively towards the four questions, but also struggled to conclusively make a decision. The respondents were indecisive of whether it is easy to obtain public financial support to startup and to expand their SMEs.

The respondents did agree that their SMEs had adequate cash resources and a good accounting practice system to operate their business. Good accounting systems are readily available in South Africa. The Chartered Accountants in South Africa is also known to be among the best qualified in the world. South Africa therefore offers an adequate accounting base for SMEs. This can however be a costly resource to acquire. SMEs globally use the International Financial Reporting Standards for SMEs reporting framework. This lowers the extent of disclosure in the SMEs' financial statements, which results in lower accounting and bookkeeping fees.

4.2.2.7 The strategy of the SME

This construct was assessed according to how respondents interpreted the construct B7. The interpretation of the sample mean of 1.99 indicated that the respondents were able to express an opinion which reflected a higher tendency towards agreement of the statements. The respondents concluded that they developed a well-planned business

plan and policies to run their SMEs. They agreed that the SMEs in the sample have incremental development instead of rapid changes. They determined that their SMEs have the ability to find fast and effective solutions to adapt to their customers' changing needs. The SMEs have a strong sense of mission and shared values and they work constantly to reinforce beliefs.

4.2.2.8 The external environment of the SME

This variable was assessed in accordance with the answers of the respondents to the questions ranging from B35 to B40. The sample mean analysis indicated a value of 2.62. This is an indication of an overall higher tendency towards agreeing to the questions in the construct. The responses to the questions were as follows:

- The SME owners/managers agreed that they have a reliable business network to operate their business.
- The respondents strongly agreed that they have helpful colleagues and friends who support their businesses.
- They disagreed with the statements of the government's satisfactory support towards their SME.
- The respondents also disagreed with having no problems in corresponding with government.
- They agreed with the accessibility of business and other permits to support their business.

The respondents identified a communication problem between the SMEs in the Northwest province and local government. This is an indication of an opportunity where SMEs can obtain further support to enable their SMEs to operate successfully. This problem must be a key focus area as SMEs require the support of government to assist them in being successful and sustainable especially during the current global economic climate.

4.2.2.9 Internet and ICT

This construct was assessed according to how respondents interpreted the construct B9 of the questionnaire. The interpretation of the sample mean of 2.40 indicated that the

respondents were able to express an opinion which reflected a higher tendency towards agreeing with the statements. The respondents agreed to the fact that their SMEs uses web-pages, email or e-commerce systems for business purpose. They agreed that customers, suppliers, and other people can find their SME's information from the internet. They also agreed that all managers acknowledge the contribution of information technology towards the value of the business. They were inconclusive of whether their SMEs obtain revenue streams from across the world.

4.2.2.10 Perceived success

This construct of Section C of the questionnaire was assessed according to how the respondents interpreted questions C1 to C8. The interpretation of the construct mean of 2.06 indicated that the respondents were able to express an opinion which reflected a higher tendency towards agreeing to the statements. The respondents therefore felt that their SMEs operate successfully.

4.2.3 The categorisation of three demographical factors into groups

The research study considered demographical information such as gender, level of education and the number of years in which the SME has been in operation and compared them with the responses towards the constructs set out in Section B and Section C of the questionnaire. This comparison was established by using Cohen's effect size index (d) to illustrate if there were significant differences in the responses from the different groups. The responses of the three demographical groups will be discussed in the following sections.

4.2.3.1 Gender

The statistical analysis indicated that 71 percent of the respondents were male while 29 percent were female. The Cohen's d analysis illustrated that there was one significant difference of the manner in which males and females perceived and responded to the variables. This difference was noticed in how the external environment impacted the

perceived business success. Males seemed to be more negative in their responses towards the impact of the external environment than females.

4.2.3.2 Education

The education groups in the survey were reduced from six groups to two in order to test for Cohen's d . The two education groups were categorized as receiving a Certificate/Diploma or less and at least a Bachelor's degree. The analysis of Cohen's d did not imply any significant difference in the responses between the two groups.

4.2.3.3 Duration

The number of years the SMEs has been operating was divided into three groups instead of five. Based on the analysis of Cohen's d there were no significant differences in the respondents' answers between the three groups.

4.2.4 The relationship between the nine constructs and perceived business success

Chapter 3 describes the results which were obtained while testing the correlation between the nine constructs and the perceived business success of the SME. The analysis was done by testing the linear relationship and using the Pearson correlation coefficient. As noted in Section 3.4.3, the results indicated that there were a positive relationship between all the constructs and perceived business success. A change in attitude towards one of the constructs will influence the attitude towards the other constructs as well in the same direction. The assumption can therefore be made that any positive influence in attitude towards either of the constructs will positively influence the impact on perceived business success.

A multiple regression analysis was conducted in Chapter 3. The results of the analysis indicated that the R-square has a practical important fit which also indicates that the R-square is large enough to be of practical importance. Three constructs were identified which are significant predictors of perceived business success. The effect sizes in all

three instances were relatively small. The overall conclusion is that all nine constructs could predict perceived success in combination but none of the predictors were practically significant on their own.

4.2.5 The internal reliability and validity of the nine constructs and perceived business success

The internal reliability and validity were measured. The internal reliability was measured using the Cronbach's Alpha reliability scores. The internal validity was measured by using the Confirmatory Factor Analysis (Refer to Tables 3.2 and 3.3 for a complete layout of the results). The internal reliability values all exceeded 0.7 which indicate an acceptable to good internal reliability. The significance of these results indicated that all the questions in the constructs resulted in consistent results and can therefore acknowledge that these constructs are reliable measures.

The validity measure resulted in the conclusion that some of the constructs were not unidimensional. But as a result of the fact that those factors still have high confirmatory analysis and that the questionnaire was standardised, the decision was made to keep the constructs as defined by Chittithaworn et al. (2010). These constructs had construct validity according to peers.

4.3 Similarities and differences between the South African study and the Thailand study

A similar study was conducted in Thailand. A multiple regression analysis as well as a correlation matrix was completed in both studies. The studies both revealed overall results that this study is well constructed and it is well represented as reflected in the variables selected.

Both studies obtained results that show that all factors are correlated at 5 percent significance level. None of the p-values of either study revealed a value above 0.70. The Thailand study concluded that the variables can explain 53.3 percent variations in the business success of SMEs in Thailand. The South African study revealed that the nine

variables can explain 49.88 percent variations in the business success of SMEs in the Northwest Province.

When analysing the correlation matrix, the Thailand study displayed a strong correlation between business success and each of the different constructs while the South African study showed a medium to strong correlation between the nine constructs. The strongest correlation of the Thailand study was between business success and external environment (Chittithaworn *et al.*, 2010). The lowest correlation was obtained between business success and resource and finance. The South African study revealed that the strongest correlation was between the business success of SMEs in South Africa and the external environment as well. The lowest correlation value was obtained between the business success and products and services. The external environment factors play a very important role in SME success in Thailand (Chittithaworn *et al.*, 2010) and in South Africa. Social networks, government support, and legality, are the key strategic dimension in external environment in business success. The external environment of South Africa also plays a vital role in the business success of SMEs. A complete discussion with regards to Thailand's government policies was conducted in Chapter 2 of this research study. The government policies of South Africa were also discussed in Section 2.4.

4.4 Evaluation of the study

This section will determine whether all the objectives of the study were reached and whether a conclusive result was determined. The primary objective of this study was to assess the nine selected success factors of SMEs in the Northwest province of South Africa. This objective was reached as the study provided a clear indication of the correlation between the business success and each of the nine constructs (as discussed in Section 4.2.3).

The secondary objectives were to:

- Determine which factors have an effect on the business success of the SMEs;
- Determine the reliability and measurability of these factors;
- Conclude which are the most important factors the entity must place their focus on and which will increase their profitability and growth;

- Determine the differences in findings between the South African research study and the one conducted in Thailand;
- And, to draw conclusions and make recommendations

As noted in Chapter 3, this study conclusively determined which factors have an effect on the business success of SMEs by using a correlation matrix as well as a multiple regression analysis. The study also confirmed the reliability and validity of the data used to make these conclusions by. The research methods used in determining the reliability and validity included the Cronbach's Alpha Coefficient as well as a Confirmatory Factor Analysis. The most important factors were identified and discussed in Section 4.2.3. Section 4.4 discussed possible recommendations for SME owners as well as government. The differences and similarities between this research study and the study conducted in Thailand was defined in Section 4.3. There are a lot of similarities in these findings which indicates a reliable and conclusive study. The evaluation of this study concludes that all the objectives, both primary and secondary, were reached. The following section will discuss the conclusion of this research study.

4.5 Recommendations to SME owners/managers in the Northwest province of South Africa

This study is not representative of the whole South African population. Since the study was only conducted in the Northwest province of South Africa, further studies should be conducted to get a national and international perspective. After analysing the empirical findings, the researcher identified a few recommendations relating to SMEs in the Northwest Province of South Africa. Based on the internal consistency of the nine constructs, problems were identified which have an impact on the business success of SMEs. An early review indicates that South African SMEs account for more than 90 percent of the total registered businesses in South Africa and they contribute to more than 50 percent of the country's GDP. The evidence suggests that SMEs play a vital role in the South African economy.

Despite the governmental programs, as discussed in Section 2.4, South African SMEs still face many challenges, which could hinder their resilience and competitiveness. These challenges include ongoing difficulties in obtaining funds from financial institutions and the government as well as the poor communication between SME owners and the South

African government. Another issue which has been identified is the lack of support that SMEs experience from the government in terms of stringent laws and regulations as well as the high costs in upholding these laws.

Having identified some of the challenges facing SMEs in South Africa, the researcher identified some strategies that the government may adopt. The government should play a leading role in educating SME practitioners on the incentives available to them and how to access them. These incentives should be delivered through an establishment which values the success and sustainability of SMEs in the country. There must be legislation and public policies which provide a growing environment, support SME creation, and growth sustenance towards production. In the Caribbean region of the world an important element in the approach to public policies in the present conditions is the need to promote the development of an environment favouring inter-entrepreneurial cooperation, which encourages innovation processes and therefore contributing to strengthening the technical capabilities and improving the management capacity of enterprises. In this way, policies to support SMEs are directly aimed at creating conditions to promote a favourable local environment for productive development.

4.6 Recommendations for future research

The study was only performed in the Northwest province of South Africa. The researcher suggests that this study must be performed in the rest of the South African provinces to obtain an overall view of South African SMEs. A comparative study can also be done to compare the South African SME success factors with those of the study conducted in Thailand (Chittithaworn *et al.*, 2010).

4.7 Conclusion

In this study, the aim was to determine nine of the factors affecting the perceived business success of selected SMEs. In order to achieve the primary objectives, several secondary objectives were set and reached throughout the four chapters of this study.

The in-depth analysis of the empirical research concluded that there are direct correlations between the nine identified factors and the perceived business success of

the selected SMEs. The factor in which the participants responded negatively to, was the ability to communicate with government and to receive the government's support. This has been identified as one of the major issues which have to be further investigated and focussed on by government. The multiple regression analysis implied that R^2 is of practical importance. The significant predictors of perceived success is that of an entrepreneur's characteristics and the characteristic of SMEs, the strategy of an SME as well as the external environment of the SME. The effect size according to the multiple regression indicated to be relatively small in all three instances. By taking this into consideration as well as the fact that R^2 is practically significant, the conclusion can be made that all the constructs in combination could predict perceived success. None of the predictors on their own was practically significant.

In conclusion, business success of SMEs can be nurtured by enhancing communication channels between SMEs and local government as well as government implementing policies to assist the SMEs in their growth initiatives.

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Appendix A: Questionnaire

Code number:

FACTORS AFFECTING BUSINESS SUCCESS OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN SOUTH AFRICA

Compiled by:

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QUESTIONNAIRE

Section A: Demographic, Characteristics, & Profile of Respondents

Please only tick ☒ one answer next to the box provided.

1) Gender:

☐ Male

☐ Female

☐ 31-40 years

☐ 41-50 years

☐ >50 years

2) Age:

☐ < 20 years

☐ 21-30 years

3) Education level:

☐ Primary School

☐ Secondary School

☐ Certificate/Diploma

☐ Bachelor's Degree

☐ Master's Degree

☐ PhD/DBA

4) Current job position:

☐ Self-Employed/Business Owner

☐ Non-Management

☐ Executive

☐ Management

☐ Professional

☐ Others

5) Working experience:

☐ < 2 years

☐ 2 – 5 years

☐ 6 – 10 years

☐ 10 – 20 years

☐ > 20 years

6) Duration that your organisation has been operating:

☐ < 5 years

☐ 5 – 10 years

☐ 10 – 15 years

☐ 15 – 20 years

☐ > 20 years

7) Number of employees in your organisation:

☐ 1 – 5

☐ 6 – 50

☐ 51 – 100

☐ 101 – 200

☐ >200

8) Type of organisation:

☐ MNC (Multinational Corporation)

☐ SME (Small Medium Enterprise)

☐ Private Owned

☐ Public Listed Company

☐ Government Entity

Section B: Factors Affecting Business Success

In the following questions, please indicate your level of agreement and disagreement on the factors that affecting the Business Success of SMEs. Choose only one answer unless stated otherwise in the question.

Please tick ☐ in the box of your choice.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	2	3	4	5

Entrepreneur Characteristics & Characteristic of SMEs		1	2	3	4	5
1.	I have ambitious goals and have defined clear vision and mission statements to run my business.	☐	☐	☐	☐	☐
2.	I have characteristics of autonomy, innovativeness, risk taking, pro-activeness and competitive aggressiveness.	☐	☐	☐	☐	☐
3.	I am motivated and am highly confident in running my business well.	☐	☐	☐	☐	☐
4.	I have good leadership skills, reliable managerial skills, decision making skills, and good communication skills to operate my business.	☐	☐	☐	☐	☐
5.	Existing capital is sufficient to maintain and expand the business.	☐	☐	☐	☐	☐
MANAGEMENT AND KNOW-HOW		1	2	3	4	5
6.	I have good financial, human resources, and marketing management technique to operate my business.	☐	☐	☐	☐	☐
7.	I have a good HRM system in place in my company.	☐	☐	☐	☐	☐
8.	My company consists of loyal and skillful employees.	☐	☐	☐	☐	☐
9.	New technology to support innovativeness in the business is attainable.	☐	☐	☐	☐	☐
10.	My company has access to information on market/consumer/technologies/government regulations to support the business.	☐	☐	☐	☐	☐

PRODUCTS AND SERVICES		1	2	3	4	5
11.	My company has a good product features.	☐	☐	☐	☐	☐
12.	My company has high quality products.	☐	☐	☐	☐	☐
13.	My company has low delivery and transportation costs.	☐	☐	☐	☐	☐
14.	My company products are reliable and received good customer feedback	☐	☐	☐	☐	☐
15.	My company has a good service and delivery system to run the business.	☐	☐	☐	☐	☐
CUSTOMERS AND MARKETS		1	2	3	4	5
16.	My company has a very good customer relationship.	☐	☐	☐	☐	☐
17.	My company has a good knowledge of customers and their needs.	☐	☐	☐	☐	☐
18.	Searching for new market share for company products is not so difficult.	☐	☐	☐	☐	☐
19.	Marketing of products is well-planned and market potential of the products is promising.	☐	☐	☐	☐	☐
20.	I am able to identify and focus on a niche market.	☐	☐	☐	☐	☐
THE WAY OF DOING BUSINESS AND COOPERATION		1	2	3	4	5
21.	Good cooperation partners and relations were developed in my company.	☐	☐	☐	☐	☐
22.	I always seek for public consulting and private consulting support on all the necessary information to run my business.	☐	☐	☐	☐	☐
23.	I have identified a set of performance measurement to measure my business performance.	☐	☐	☐	☐	☐
24.	I am always equipped with all necessary skills to operate the business, such as how to get and manage the business, be rand-conscious, follow a good credit policy, have flexibility and have financial intelligence.	☐	☐	☐	☐	☐
25.	I have a simple and flexible organisation	☐	☐	☐	☐	☐

RESOURCES AND FINANCE		1	2	3	4	5
26.	My company has a good financial base and adequate cash resources.	☐	☐	☐	☐	☐
27.	It is easy to obtain sources of capital and low costs in financing to start and expand my business.	☐	☐	☐	☐	☐
28.	It is easy to obtain public financial support to start and expand my business.	☐	☐	☐	☐	☐
29.	I have a good accounting practice and system to operate my business.	☐	☐	☐	☐	☐

Strategy		1	2	3	4	5
30.	I have developed a business plan to run my business.	☐	☐	☐	☐	☐
31.	All policies chosen in my business are well-planned.	☐	☐	☐	☐	☐
32.	My company has incremental development instead of radical changes.	☐	☐	☐	☐	☐
33.	My company has high ability to find quick solutions for changing customer needs.	☐	☐	☐	☐	☐
34.	My company has a strong sense of mission and shared values and working constantly to reinforce the beliefs.	☐	☐	☐	☐	☐

EXTERNAL ENVIRONMENT		1	2	3	4	5
35.	I have reliable business network to run the business.	☐	☐	☐	☐	☐
36.	I have many helpful colleagues/friends who support the business.	☐	☐	☐	☐	☐
37.	I have professional affiliation/business association that supports the business.	☐	☐	☐	☐	☐
38.	Government support to my business is satisfactory	☐	☐	☐	☐	☐
39.	While running the business, I have no problems in having contact with government.	☐	☐	☐	☐	☐
40.	I have all the necessary business permits to easily conduct my business	☐	☐	☐	☐	☐

INTERNET AND ICT		1	2	3	4	5
41.	My company use web-pages, email or e-commerce systems for business purposes	☐	☐	☐	☐	☐
42.	Customer, suppliers, and other people can find my company information from the internet.	☐	☐	☐	☐	☐
43.	In my company, business and IT managers agree on how ICT contributes to business value.	☐	☐	☐	☐	☐
44	Partial of my business revenue are through internet streams across the world.	☐	☐	☐	☐	☐

Section C: Measurement of Perceived Success

In the following questions, please indicate your level of agreement and disagreement on the measurement of perceived success. Choose only one answer unless stated otherwise in the question.

Please tick ☒ in the box of your choice.

Perceived of Business Success		1	2	3	4	5
1.	I am happy with the current way in which my business is operating.	☐	☐	☐	☐	☐
2.	I am satisfied with the time needed to reach break event point (payback period)	☐	☐	☐	☐	☐
3.	I am satisfied with the growth of net-income of the business.	☐	☐	☐	☐	☐
4.	I consider my business successful.	☐	☐	☐	☐	☐
5.	I consider my business growing.	☐	☐	☐	☐	☐
6.	I will continue to expand my business.	☐	☐	☐	☐	☐
7.	My customers are increasing from year to year.	☐	☐	☐	☐	☐
8.	My business market shares are growing from year to year.	☐	☐	☐	☐	☐

- END OF QUESTIONNAIRE -

THANK YOU FOR YOUR VALUABLE TIME & ASSISTANCE

APPENDIX B: LETTER FROM LANGUAGE EDITOR

DLTS



27 November 2015

Tel: (018) 293-3046

TO WHOM IT MAY CONCERN

Re: Letter of confirmation of language editing

The dissertation **Assessing selected success factors of SMEs in the North West Province by RC Labuschagne (20029896)** was language, technically and typographically edited. The citations, sources and referencing technique applied was also checked to comply with university guidelines. Final corrections as suggested remain the responsibility of the student.

Antoinette Bisschoff

Officially approved language editor of the NWU since 1998
Member of SA Translators Institute (no. 100181)